

Administrative Waste in the U.S. Health Care System in 2003: The Cost to the Nation, the States and the District of Columbia with State-Specific Estimates of Potential Savings

David U. Himmelstein, M.D., Steffie Woolhandler, M.D., M.P.H., and Sidney M. Wolfe, M.D. From the Department of Medicine, The Cambridge Hospital and Harvard Medical School, Cambridge, MA and Public Citizen Health Research Group, Washington, DC *New England Journal of Medicine*, 8/21/03

Executive Summary

U.S. administrative expenses will consume at least \$399.4 billion out of total health expenditures of \$1,660.5 billion in 2003 (almost 25%). Streamlining administrative overhead to Canadian levels (16.7%) would save approximately \$286 billion in 2003, \$982 per capita, an \$6,940 for each of the 41.2 million Americans who were uninsured as of 2001.

The report calculates the cost of excess bureaucracy in each of the 50 states and the District of Columbia, contrasting state administrative costs with potential savings of a single payer, universal health care program similar to Canada's. Each state's savings on each component was calculated as the product of 2003 projected state spending in each of six areas—insurance overhead, employers' costs to administer health benefits, hospital administration, nursing home administration, practitioners' overhead, and home care agency administration. Excluded are administrative costs of health sectors for which administrative cost data were unavailable, e.g., drug stores, ambulance companies and medical equipment suppliers. Whereas in 1999, Canada spent \$47 per capita on health insurance overhead, the U.S. spent \$259. Because this report does not include the savings that national health insurance would generate by controlling non-administrative health inflation, the estimates represent a lower bound of what could be achieved with a single-payer national health program.

Conclusion: Since the Urban Institute estimates that coverage of all uninsured Americans with an "average" private insurance policy would cost \$69 billion annually (Hadley and Holahan, *Health Affairs*, May/June 2003), administrative savings through adoption of a Canadian-type single-payer system could cover all of the uninsured, with \$217 billion left over to upgrade coverage for under-insured Americans.

Spending per capita (U.S. dollars 1999)

Cost category	United States	Canada
Insurance overhead	\$259	\$47
Employers' costs to manage health benefits	\$57	\$8
Hospital administration	\$315	\$103
Nursing home administration	\$62	\$29
Administrative costs of practitioners	\$324	\$107
Home care administration	\$42	\$13
Total	\$1,059	\$307

Pooled resources - Projected savings

	Projected expenditures (2003) (in millions)	Administration (in millions)	Potential administrative savings (in millions)	Uninsured residents in 2001 (in thousands)	Administrative savings per uninsured resident
Colorado	\$19,568	\$5,231	\$3,802	687	\$5,534
Utah	\$8,567	\$2,241	\$1,607	335	\$4,798
Wyoming	\$2,019	\$534	\$376	78	\$4,814
Arizona	\$21,673	\$5,848	\$4,296	950	\$4,522
New Mexico	\$7,745	\$2,108	\$1,500	373	\$4,022

Factors of Inflated Private Insurance Costs

- ▶ Underwriting, marketing and corporate services are functions (absent in public insurance) that account for about two-thirds of private insurers' overhead.
- ▶ Incentives of private insurers tend to complicate/stall payment so they can boost their interest income by holding premiums longer, thus, discouraging some patients and providers from pursuing claims.
- ▶ A fragmented insurance risk pool, built around thousands of different insurance plans and payment structures, each with its own regulations regarding coverage, eligibility and documentation, results in duplication of claims processing facilities and inflates overhead costs in the U.S.
- ▶ Fragmentation raises costs for providers who deal with multitudes of different insurance plans, forcing them to determine patient eligibility for different services, and keep track of varying co-payments, referral networks, approval requirements and formularies. By contrast, Canadian physicians send virtually all bills to a single insurer using a simple billing form or computer program; they are free to refer patients to any colleague or hospital.
- ▶ A multiplicity of insurers precludes paying hospitals on a lump sum, or global-budgeted basis, as in Canada. Canadian global budgets eliminate most billing, and simplify internal accounting, since costs and charges need not be tracked to individual patients and insurers.
- ▶ Incremental reforms necessarily preserve the current fragmented and duplicative payment structure; therefore, they cannot achieve significant bureaucratic savings.

Advantages of Single-payer Health Care

- ▶ The single-payer health system is better at controlling system-wide inflation.
- ▶ Health expenditures in the U.S. are rising three times as rapidly as the U.S. Gross National Product; in Canada, they are rising at a rate only slightly greater than growth in the Gross National Product.