

# *The Astonishingly High Administrative Costs of U.S. Health Care*

Hidden from view: The complexity of the system comes with costs that aren't obvious but that we all pay.



Medical records at a health center in Rogersville, Pa., last year. American health administrative costs are largely hidden from view of the public.

It takes only [a glance at a hospital bill](#) or at [the myriad choices](#) you may have for health care coverage to get a sense of the bewildering complexity of health care financing in the United States. That complexity doesn't just exact a cognitive cost. It also comes with administrative costs that are largely hidden from view but that we all pay.

Because they're not directly related to patient care, we rarely think about administrative costs. They're high.

[A widely cited](#) study published in The New England Journal of Medicine used data from 1999 to estimate that about 30 percent of American health care expenditures were the result of administration, about twice what it is in Canada. If the figures hold today, they mean that out of the average of [about \\$19,000](#) that U.S. workers and their employers pay for family coverage each year, \$5,700 goes toward administrative costs.

Such costs aren't all bad. Some are tied up in things we may want, such as creating a quality improvement program. Others are for things we may dislike — for example, figuring out which of our claims to accept or reject or sending us bills. Others are just necessary, like processing payments; hiring and managing doctors and other employees; or maintaining information systems.

That New England Journal of Medicine study is still the only one on administrative costs that encompasses the entire health system. Many other more recent studies examine important portions of it, however. The story remains the same: Like the overall cost of the U.S. health system, its administrative cost alone is [No. 1 in the world](#).

Using data from 2010 and 2011, [one study](#), published in Health Affairs, compared hospital administrative costs in the United States with those in seven other places: Canada, England, Scotland, Wales, France, Germany and the Netherlands.

At just over 25 percent of total spending on hospital care (or 1.4 percent of total United States economic output), American hospital administrative costs exceed those of all the other places. The Netherlands was second in hospital administrative costs: almost 20 percent of hospital spending and 0.8 percent of that country's G.D.P.

At the low end were Canada and Scotland, which both spend about 12 percent of hospital expenditures on administration, or about half a percent of G.D.P.

Hospitals are not the only source of high administrative spending in the United States. Physician practices also devote a large proportion of revenue to administration. [By one estimate](#), for every 10 physicians providing care, almost seven additional people are engaged in billing-related activities.

It is no surprise then that a majority of American doctors say that generating bills and collecting payments is [a major problem](#). Canadian practices spend [only 27 percent](#) of what U.S. ones do on dealing with payers like Medicare or private insurers.

[Another study](#) in Health Affairs surveyed physicians and physician practice administrators about billing tasks. It found that doctors spend about three hours per week dealing with billing-related matters. For each doctor, a further 19 hours per week are spent by medical support workers. And 36 hours per week of administrators' time is consumed in this way. Added together, this time costs an additional \$68,000 per year per physician (in 2006). Because these are administrative costs, that's above and beyond the cost associated with direct provision of medical care.

[In JAMA](#), scholars from Harvard and Duke examined the billing-related costs in an academic medical center. Their study essentially followed bills through the system to see how much time different types of medical workers spent in generating and processing them.

At the low end, such activities accounted for only 3 percent of revenue for surgical procedures, perhaps because surgery is itself so expensive. At the high end, 25 percent of emergency department visit revenue went toward billing costs. Primary care visits were in the middle, with billing functions accounting for 15 percent of revenue, or about \$100,000 per year per primary care provider.

"The extraordinary costs we see are not because of administrative slack or because health care leaders don't try to economize," said Kevin Schulman, a co-author of the study and a professor of medicine at Duke. "The high administrative costs are functions of the system's complexity."

Costs related to billing appear to be growing. [A literature review](#) by Elsa Pearson, a policy analyst with the Boston University School of Public Health, found that in 2009 they accounted for about 14 percent of total health expenditures. By 2012, the figure was closer to 17 percent.

One obvious source of complexity of the American health system is its multiplicity of payers. A typical hospital has to contend not just with several public health programs, like Medicare and Medicaid, but also with many private insurers, each with its own set of procedures and forms (whether electronic or paper) for billing and collecting payment. [By one estimate](#), 80 percent of the billing-related costs in the United States are because of contending with this added complexity.

“One can have choice without costly complexity,” said Barak Richman, a co-author of the JAMA study and a professor of law at Duke. “Switzerland and Germany, for example, have lower administrative costs than the U.S. but exhibit a robust choice of health insurers.”

An additional source of costs for health care providers is chasing patients for their portion of bills, the part not covered by insurance. With deductibles and co-payments on the rise, more patients are facing cost sharing that they may not be able to pay, possibly leading to rising costs for providers, or the collection agencies they work with, in trying to get them to do so.

Using data from Athenahealth, the Harvard health economist Michael Chernew computed the proportion of doctors’ bills that were paid by patients. For relatively small bills, those under \$75, over 90 percent were paid within a year. For larger ones, over \$200, that rate fell to 67 percent.

“It’s a mistake to think that billing issues only reflect complex interactions between providers and insurers,” Mr. Chernew said. “As patients are required to pay more money out of pocket, providers devote more resources to collecting it.”

A distinguishing feature of the American health system is that it offers a lot of choice, including among health plans. Because insurers and public programs have not coordinated on a set of standards for pricing, billing and collection — whatever the benefits of choice — one of the consequences is high administrative burden. And that’s another reason for high American health care prices.