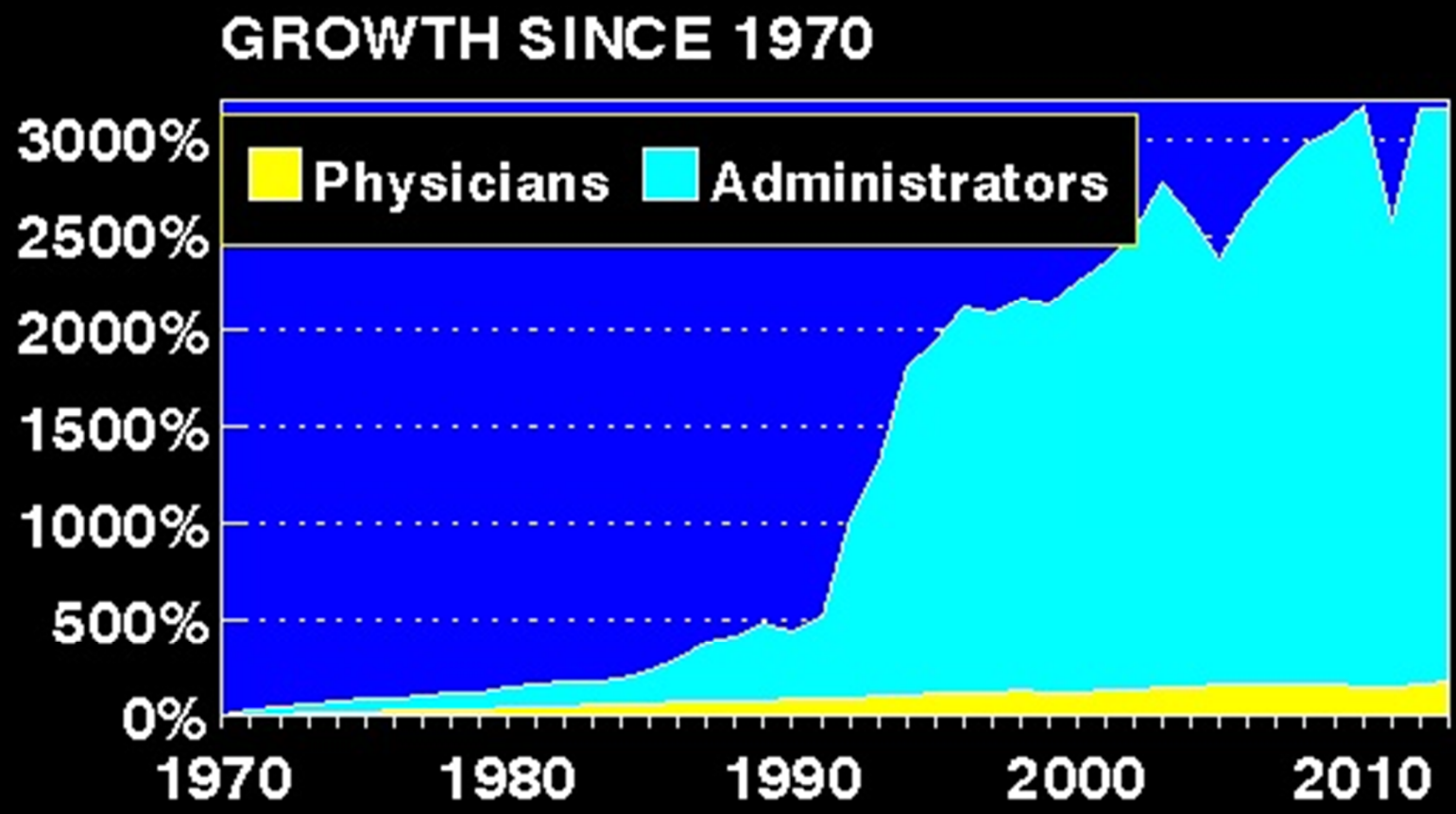
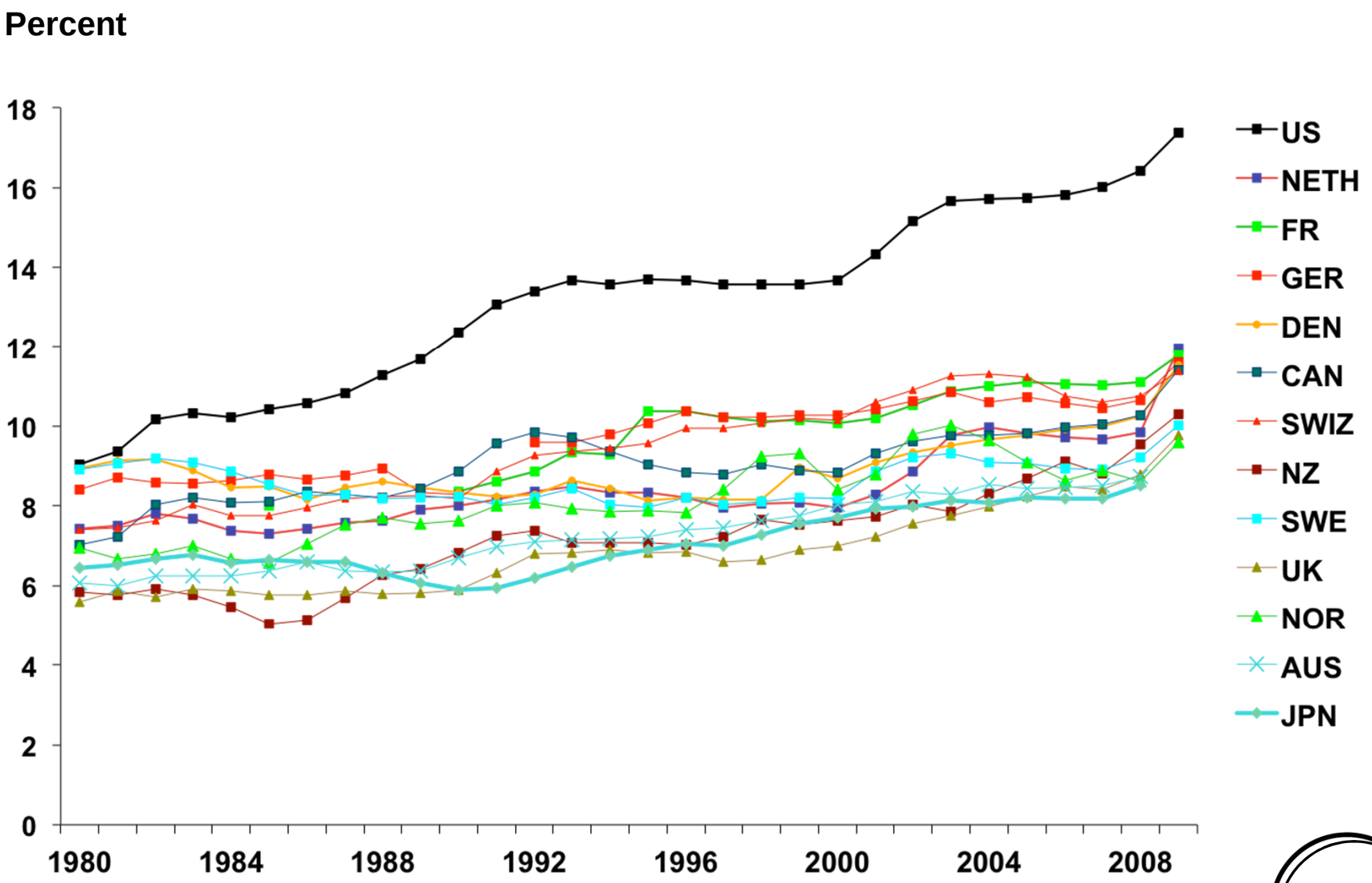
Growth of Physicians and Administrators 1970-2013



Source: Bureau of Labor Statistics; NCHS; and Himmelstein/Woolhandler analysis of CPS

Health Care Spending as a Percentage of GDP, 1980–2009



GDP refers to gross domestic product.
Source: OECD Health Data 2011 (June 2011).

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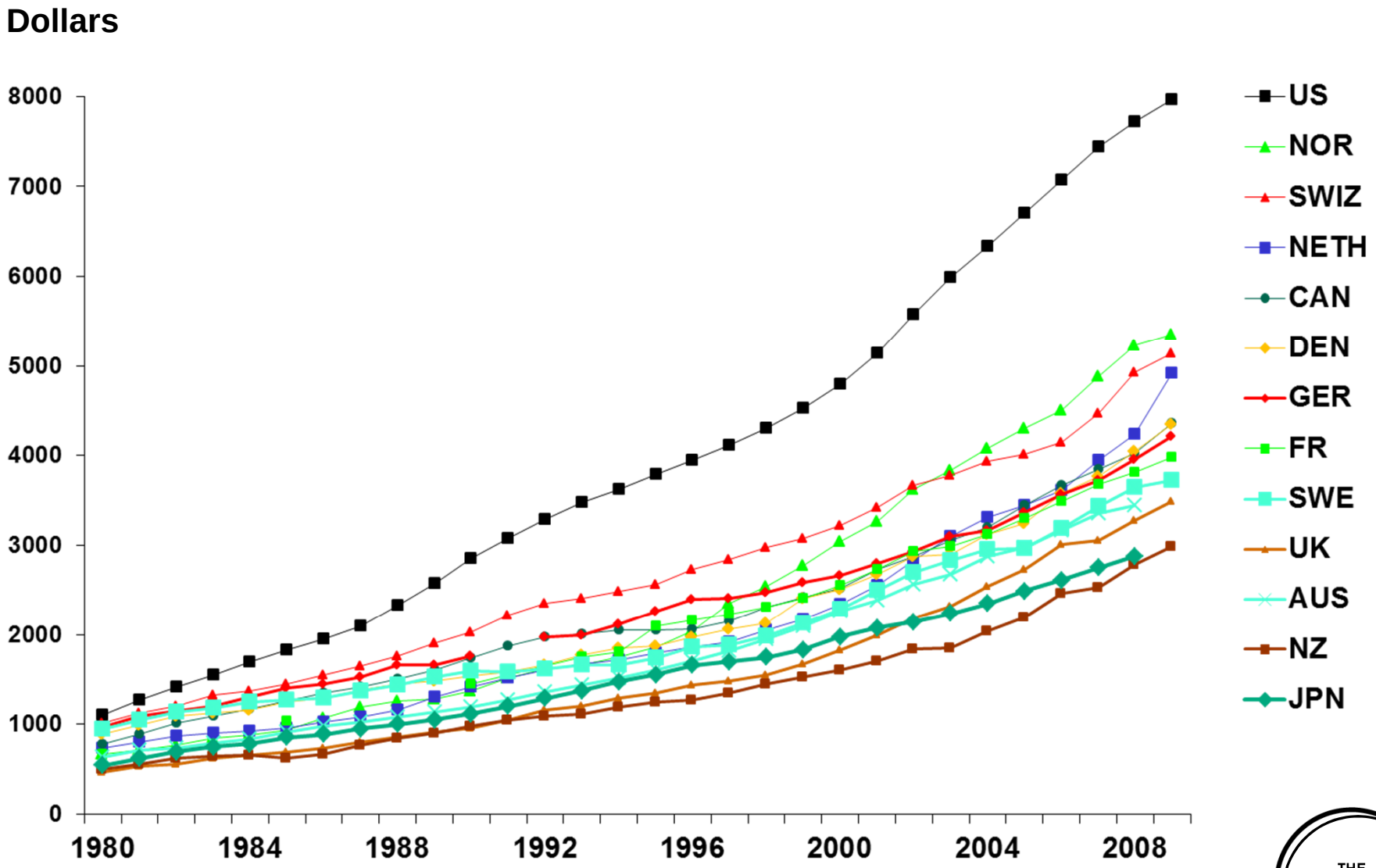
Average Health Care Spending per Capita, 1980–2009

Adjusted for differences in cost of living



Source: OECD Health Data 2011 (June 2011).

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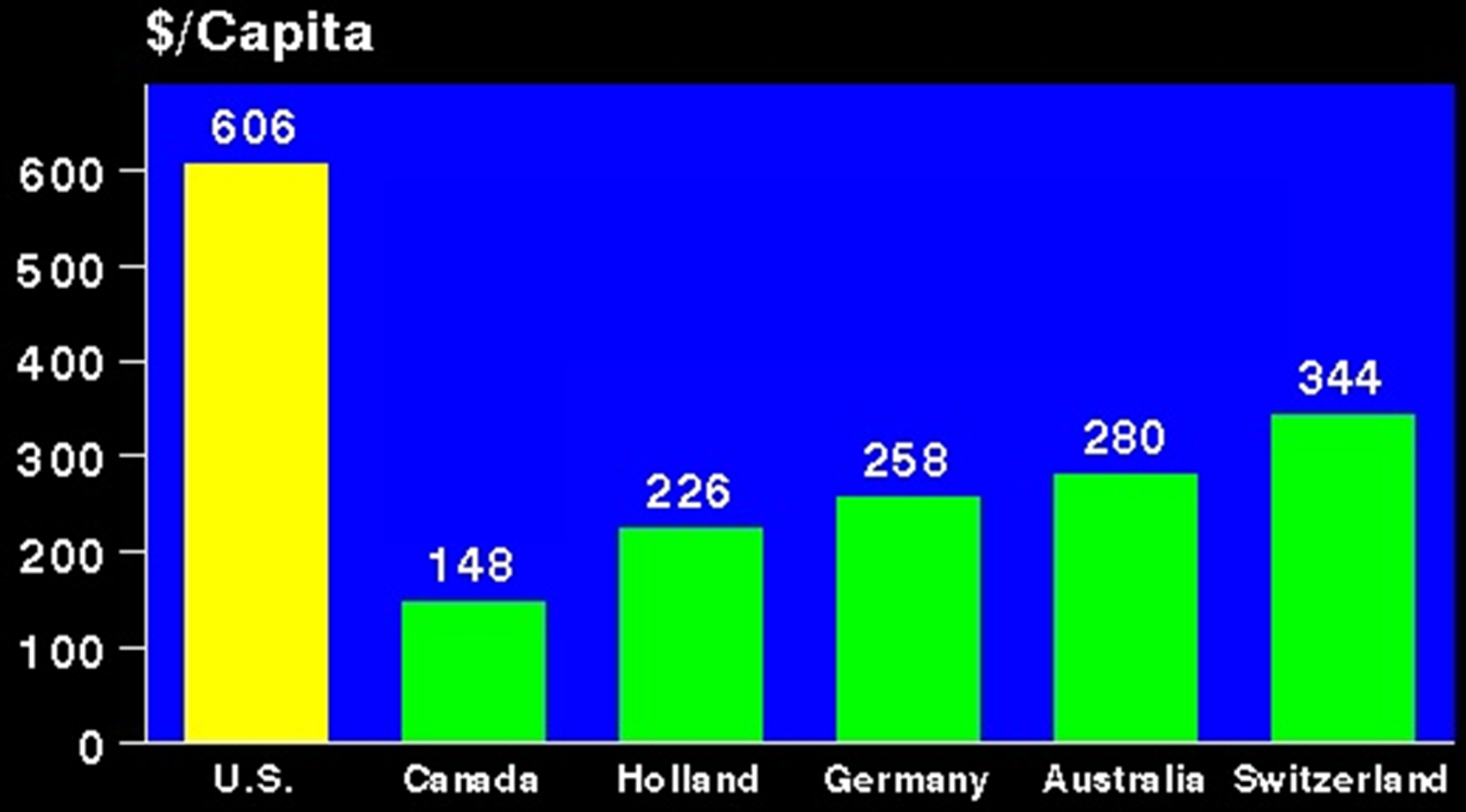
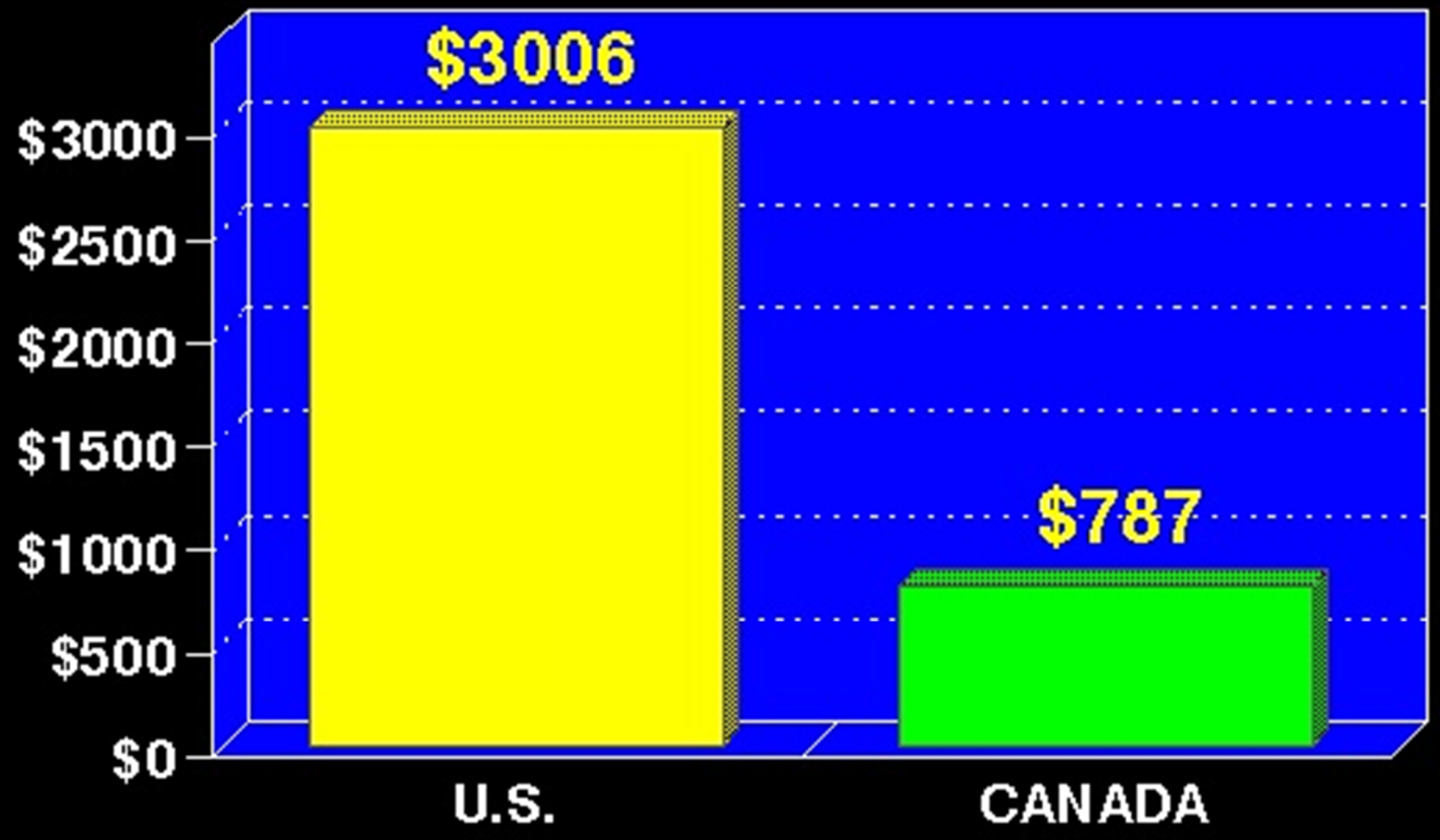
Insurance Overhead



Source: OECD, 2013

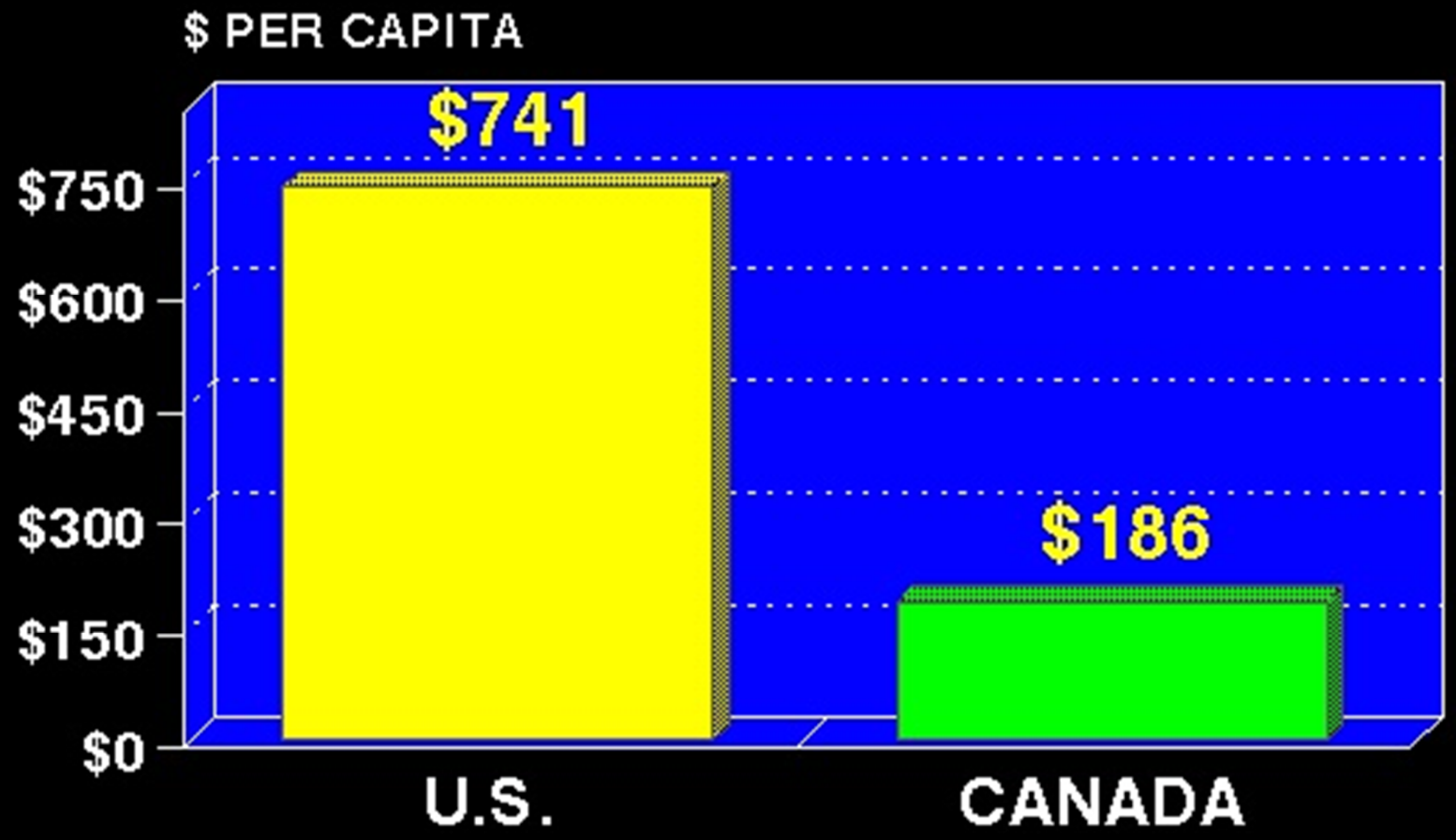
Note: Figures adjusted for Purchasing Power Parity; data are for 2011 or most recent available

Overall Administrative Costs United States & Canada, 2014



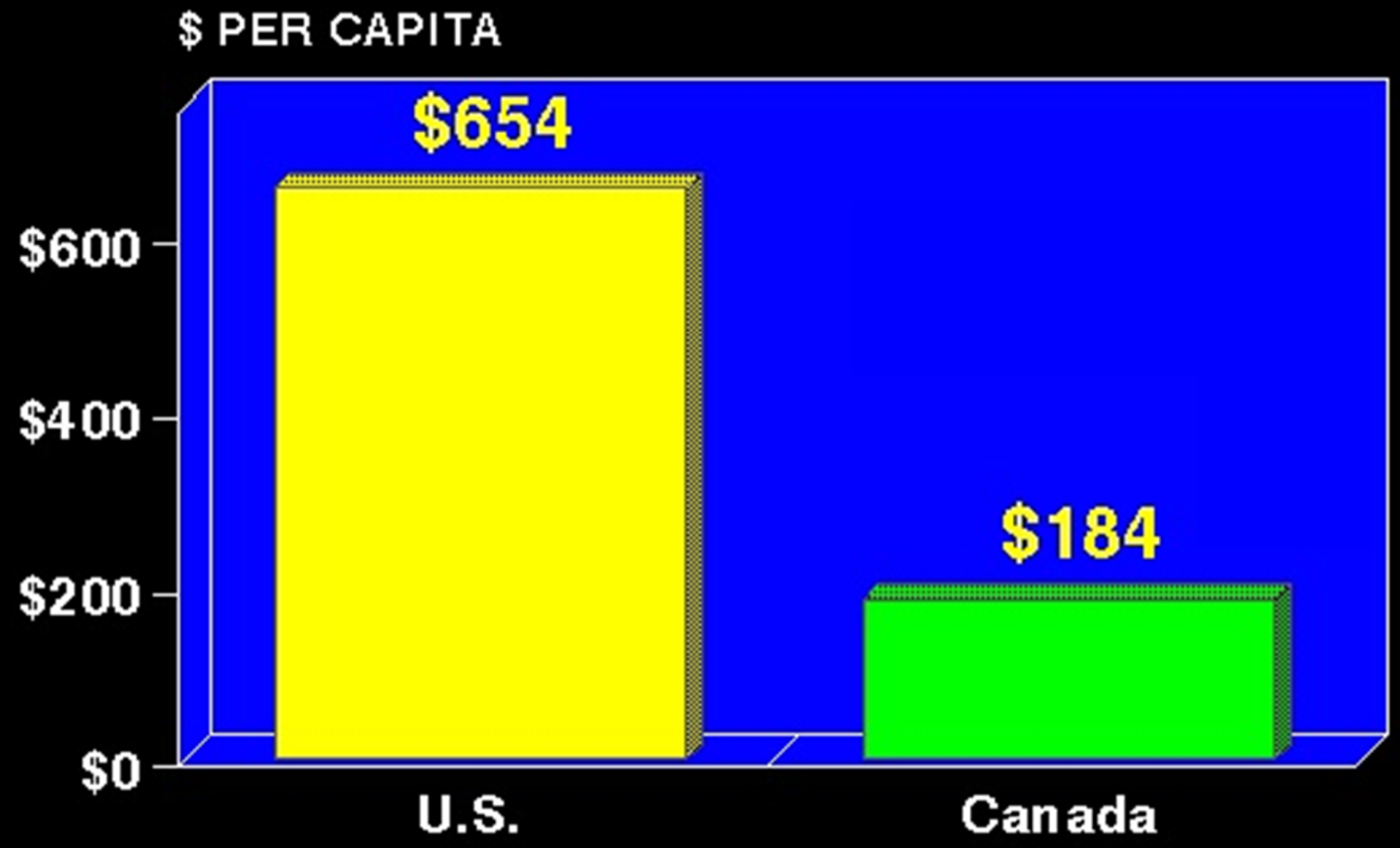
Source: Woolhandler/Himmelstein/Campbell NEJM 2003; 349:768 (updated)

Hospital Billing & Administration United States & Canada, 2014



Source: Woolhandler/Himmelstein/Campbell NEJM 2003; 349:768 (updated)

Physicians' Billing & Office Expenses United States & Canada, 2014

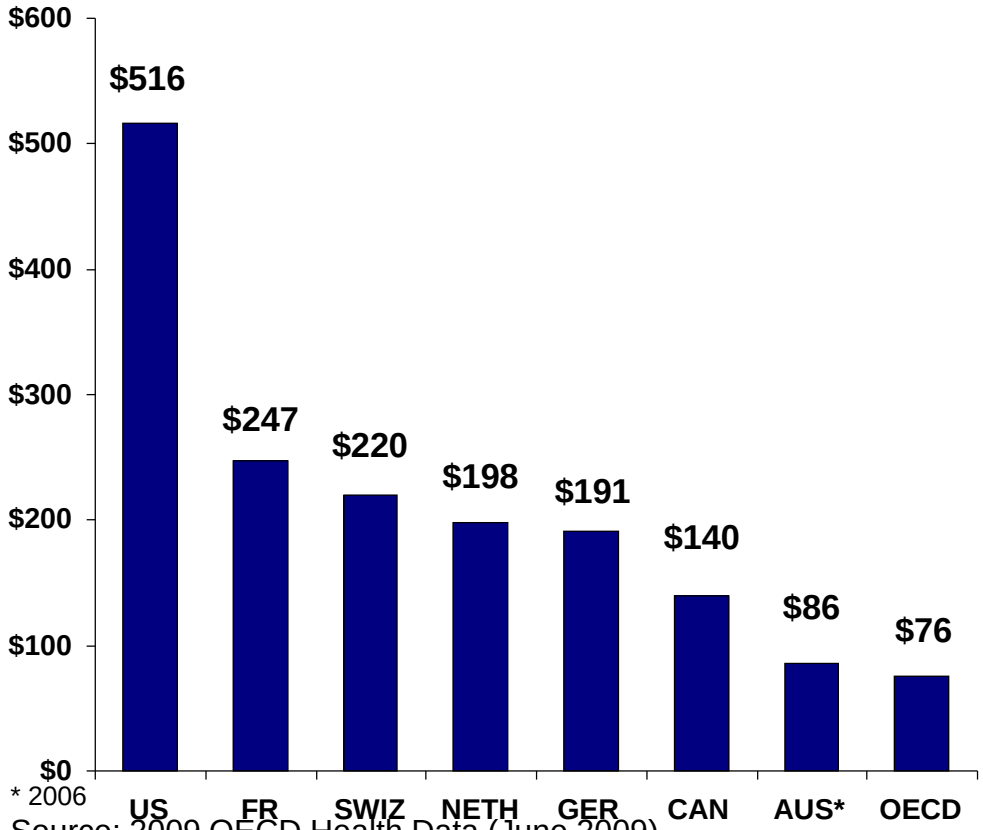


Source: Woolhandler/Himmelstein/Campbell NEJM 2003;349:768 (updated)

High U.S. Insurance Overhead: Insurance-Related Administrative Costs

- **Fragmented payers + complexity = high transaction costs and overhead costs**
  - **McKinsey estimates adds $90 billion per year***
- **Insurance and providers**
  - **Variation in benefits; lack of coherence in payment**
  - **Time and people expense for doctors/hospitals**

Spending on Health Insurance Administration per Capita, 2007

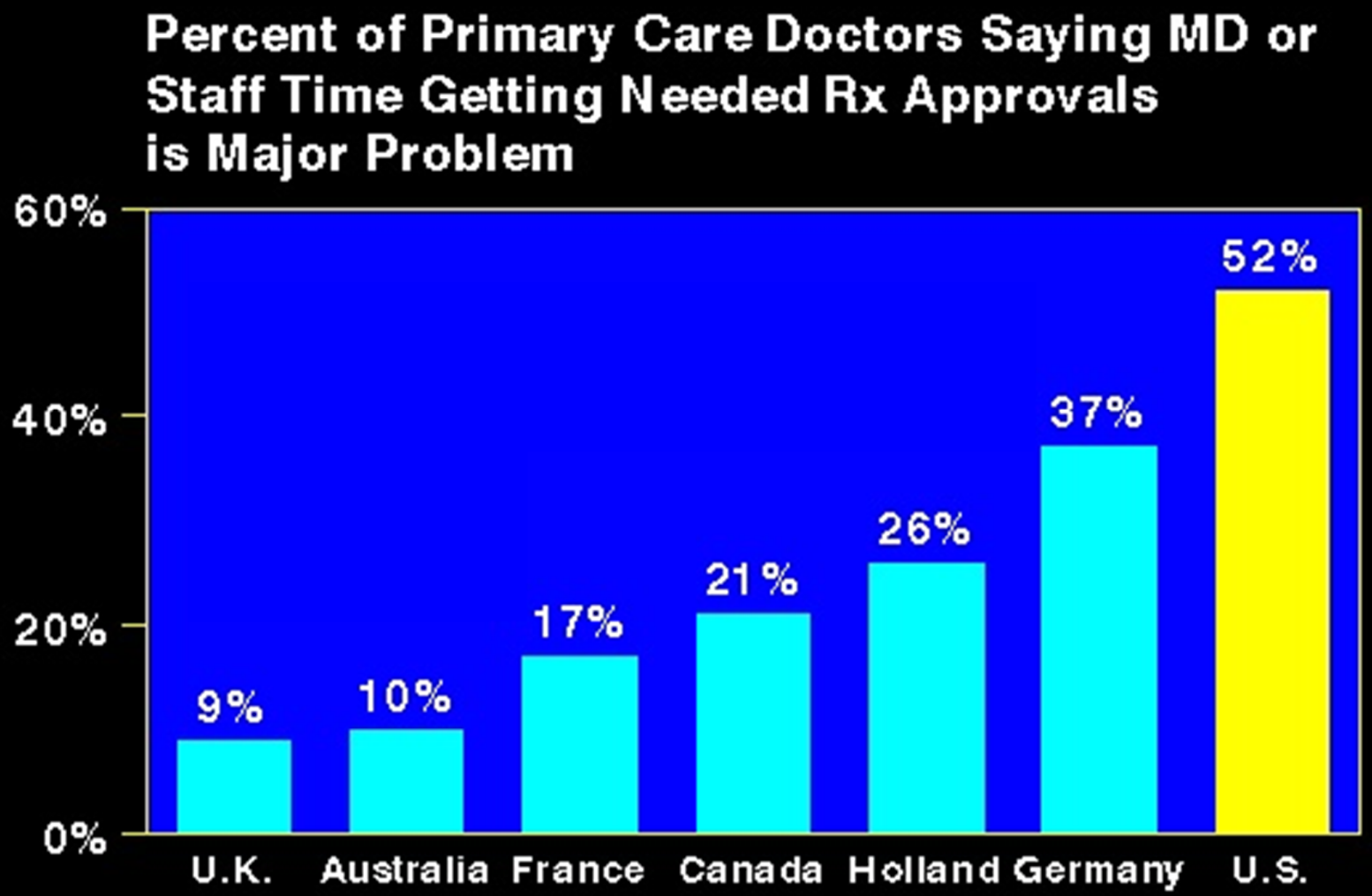


* 2006

Source: 2009 OECD Health Data (June 2009).

* McKinsey Global Institute, *Accounting for the Costs of U.S. Health Care: A New Look at Why Americans Spend More* (New York: McKinsey, Nov. 2008).

U.S. Doctors Face Biggest Rx Hassles



Source: Commonwealth Fund Survey of Primary Care Physicians, November, 2012
Note: Rx indicates prescribed drug or treatment

Quality Indicators in Select OECD Countries, 2009

	Asthma mortality among ages 5 to 39 per 100,000 population	Diabetes lower extremity amputations per 100,000 population	In-hospital fatality rate within 30 days of admission per 100 patients[c]		
			Acute myocardial infarction	Ischemic stroke	Hemorrhagic stroke
Australia	0.13	11.0	3.2	5.7	17.2
Canada	0.17[b]	9.5	3.9	6.3	20.6
Denmark	0.08	18.1	2.3	2.6	16.4
France	—	12.6[b]	—	—	—
Germany	0.17[b]	33.7	6.8	4.0	13.8
Japan	—	—	9.7[a]	1.8[a]	9.7[a]
Netherlands	0.09[a]	12.0[b]	5.3[b]	5.7[b]	22.5[b]
New Zealand	0.43[b]	7.0	3.2	5.4	21.1
Norway	0.27	9.9	2.6	2.8	11.6
Sweden	0.01[a]	5.7	2.9[b]	3.9[b]	12.8
Switzerland	—	7.4[a]	4.5[a]	—	14.8[a]
United Kingdom	0.27	4.8	5.2	6.8	19.3
United States	0.40[b]	32.9[a]	4.3[a]	3.0[a]	21.0[a]
OECD Median	***0.09***	***9.9***	***4.6***	***4.9***	***19.3***

Note: Rates are age–sex standardized.
[a] 2008.
[b] 2007.
[c] Figures do not account for death that occurs outside of the hospital, possibly influencing the ranking for countries, such as the U.S., that have shorter lengths of stay.
Source: OECD Health Data 2011 (Nov. 2011).

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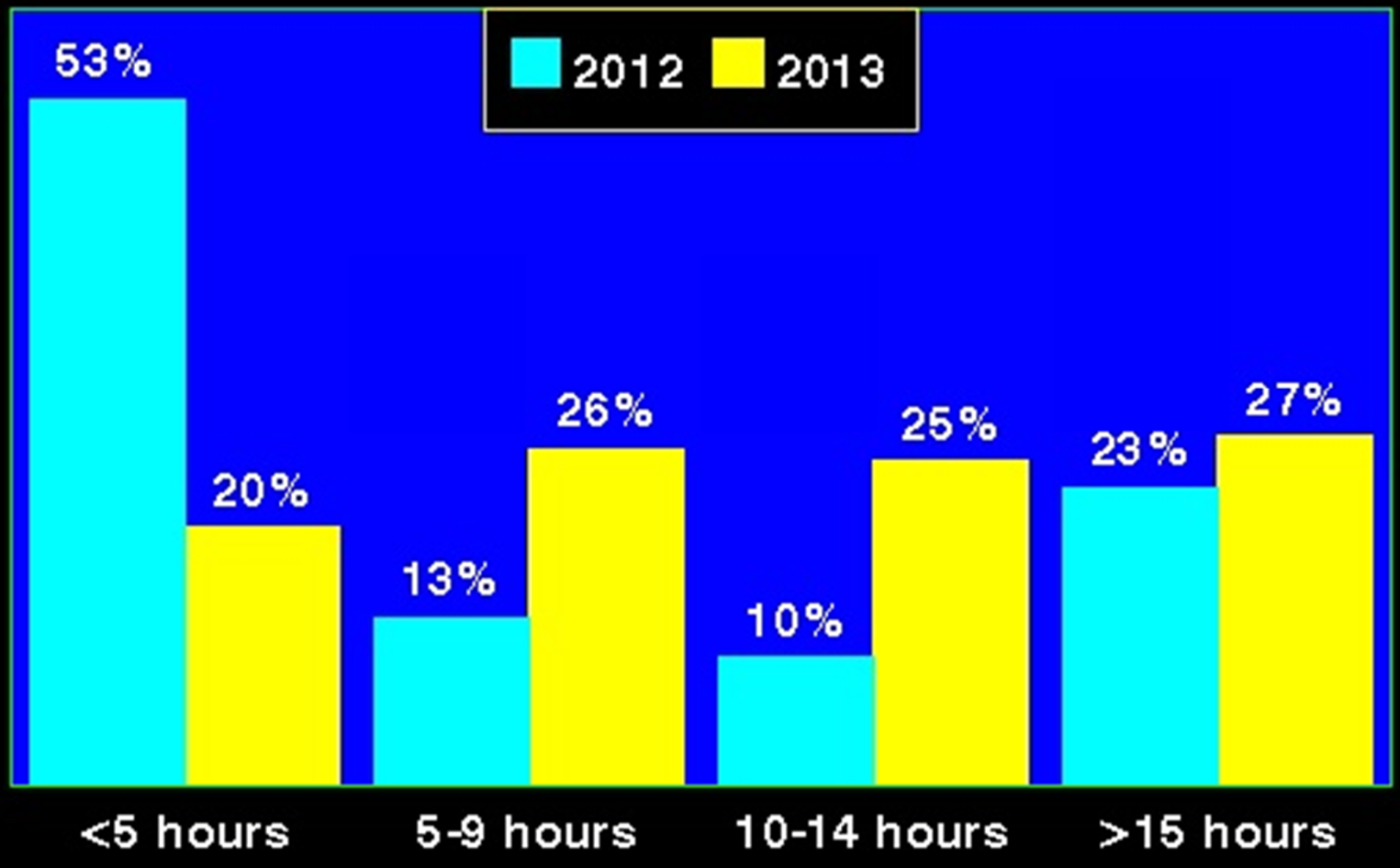
Doctors' Paperwork Increasing

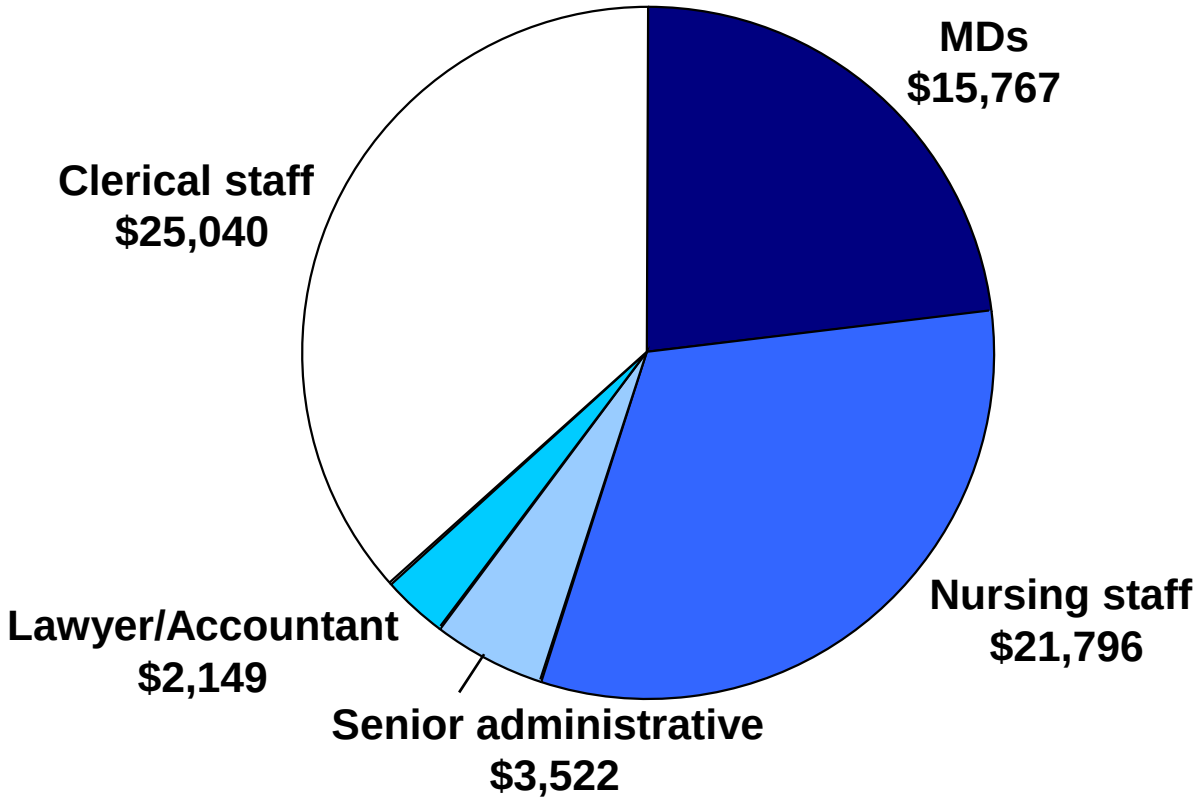


Hours/Week Spent on Paperwork and Administration

Source: Medscape - Physician Compensation Report

Total Annual Cost to U.S. Physician Practices for Interacting with Health Plans Is Estimated at $31 Billion[1]

Mean Dollar Value of Hours Spent per Physician per Year on All Interactions with Health Plans



Total Annual per Practice Cost per Physician: $68,274

[1] Based on an estimated 453,696 office-based physicians.

Source: L. P. Casalino, S. Nicholson, D. N. Gans et al., "What Does It Cost Physician Practices to Interact with Health Insurance Plans?" *Health Affairs* Web Exclusive, May 14, 2009, w533–w543.

TABLE 4-2 Synthesis of Estimates from Presentations on Excess[a] Administrative Costs

		Billing and Insurance-Related Administrative Costs		Method		
Setting	Roundtable Presenter	Total	Excess*	Data Source(s)	Types of Costs Included	Basis for Estimating Excess
Private Insurers	Jensen	n/a	$63 billion	OECD	All administration & profits	Comparison U.S vs. other OECD, adjusted for wealth
	Kahn	$105 billion	$75 billion	U.S. national health expenditures	All administration & profits	Difference in overhead for private vs. public payers
	Synthesis	$105 billion	$63-75 billion	See above	All administration & profits	Range from above
Physicians	Casalino	$65 billion	$32 billion	U.S. representative survey, applied to NHE	6 major activities. No service coding.	Ratio based on Canadian survey (preliminary, potentially conservative)
	Kahn	$70 billion	n.s.	Two California studies, applied to NHE	All BIR tasks (with half of service coding), all payers & cost	None available
	Heffernan	n.s.	$26 billion	Mass. General Phys. Org, applied to NHE	All BIR tasks, for private payers only, for 2009	Micro-costing of current private payers vs. Medicare
	Synthesis	$65-70 billion	$32-35 billion	As above	Similar to Kahn: all payers and BIR tasks	Use of Casalino preliminary ratio for physician practices

TABLE 4-2 Continued

Setting	Roundtable Presenter	Billing and Insurance-Related Administrative Costs: Total	Billing and Insurance-Related Administrative Costs: Excess[a]	Method: Data Source(s)	Method: Types of Costs Included	Method: Basis for Estimating Excess
Hospitals	Kahn	$67 billion	n.s.	One California study, applied to NHE	All BIR activities	None available
	Synthesis	$67 billion	$34 billion	As above	As above	Use of Casalino preliminary ratio for physician practices
Other providers	Kahn	$77 billion	n.s.	NHE, with assumed BIR	Assumed 10% BIR, based on physicians and hospital data	None available
	Synthesis	$77 billion	$39 billion	As above	As above	Use of Casalino preliminary ratio for physician practices
TOTAL[b]			$168-183 billion			

NOTE: BIR = billing-and-insurance related; n/a = not applicable; NHE = national health expenditures; n.s. = not significant; OECD = Organisation for Economic Co-operation and Development.

[a] By "excess" we mean spending above the indicated benchmark comparison. We make no judgment on whether that excess spending brings value.

[b] Estimates of provider BIR excess rely on the preliminary U.S.:Canada ratio used by Casalino for physicians. As this ratio is finalized, the estimates will evolve.

Ways to Reduce Administrative Costs in Health Care

- **National Single Payer (studies)**

All studies conducted at the national level show net system savings while expanding coverage to all Americans

Ways to Reduce Administrative Costs in Health Care: What can we do at the state level?

- **Uniform Benefit Package**
- **One set of payment rules**
- **Single Formulary**
- **All Payer Rates**
- **Single Administrator at state level**
- **making all standard interactions electronic;**
- **using a single credentialing process;**
- **using a single quality measurement process;**
- **automated verification at the point of care of patient eligibility for health insurance benefits.**

TABLE 4-7 How Could Administrative Complexity Burden Be Reduced if a Single Set of Rules Were Used?

Group Practice Management
- Time to research and understand payer rules/guidelines would be reduced
- Time reviewing and analyzing rejections would decrease
- Work flow could be more streamlined and efficient
- Time saved working transaction edits

Third Party
- Reduction in rejection claim follow-up time
- Reduction in effort to maintain different formats for scrubbed claims
- Reduction in overall billing effort due to easily accessible online EOB information

Coding
- Reduction in time working payer-specific TES edits and PCS work files
- Reduction in time dedicated to Radiology bundling edits and Radiology local policy review edits

Production
- Elimination of all manual processing of paper checks and EOBs
- Elimination of resources required to scan paper EOBs

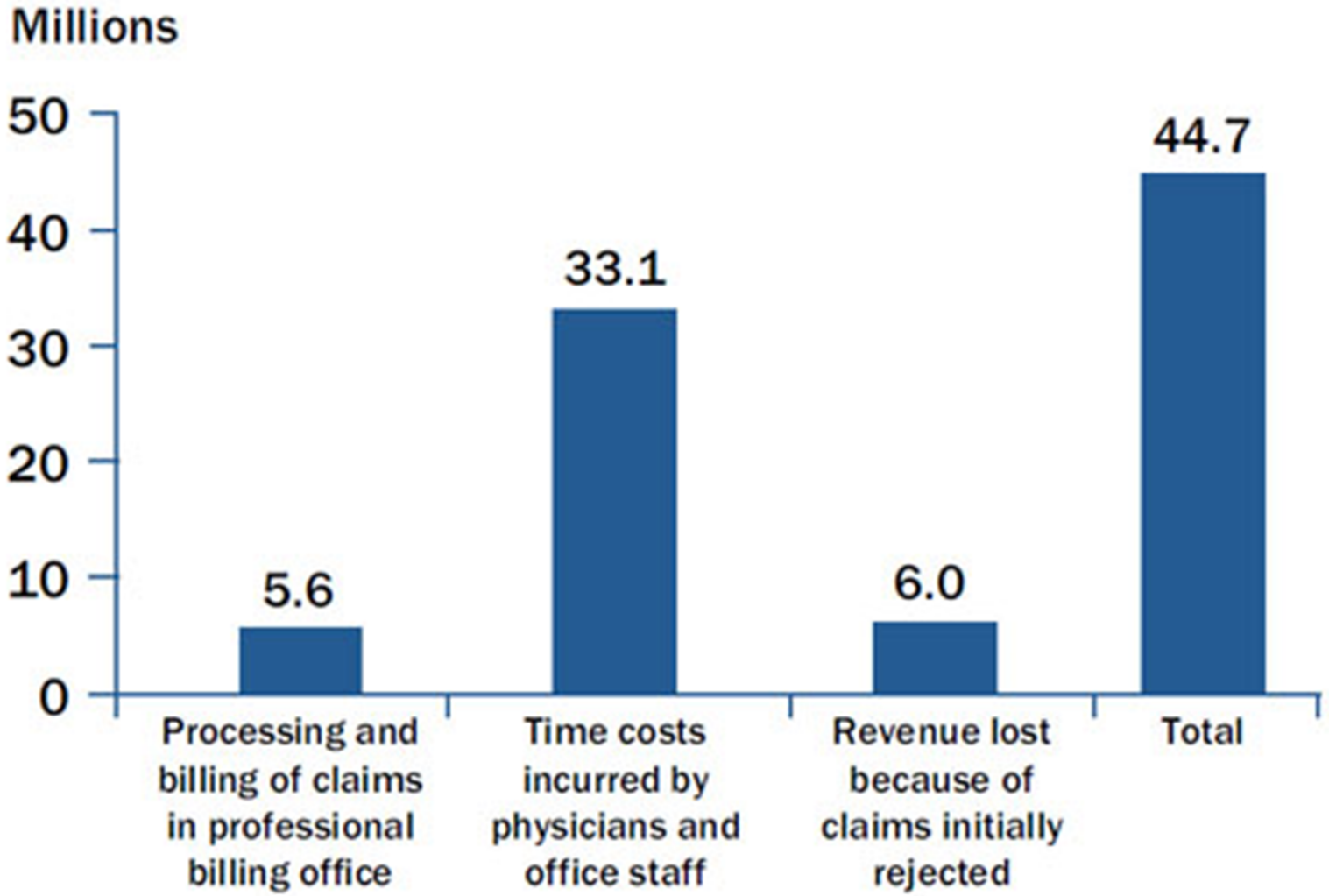
Management Information Systems
- Elimination of referral manager queues
- Elimination of open referral module maintenance
- Elimination of payer-specific dictionary fields
- Reduction in time to implement 835 receipt files
- Reduction in PCS work file compile routines

Customer Service
- Reduction in volume of insurance-related questions

Payer Relations
- Reduction in time related to the research of payer policies

NOTE: EOB = explanation of benefits; PCS = paperless collection system; TES = transaction-editing system.
SOURCE: Prepublication data prepared by the authors for research funded by the Robert Wood Johnson Foundation.

Financial Cost of Administrative Complexity Burden in a Physician Organization



Source: Adapted from B. B. Blanchfield et al., "Saving Billions of Dollars—and Physicians' Time—by Streamlining Billing Practices," *Health Affairs* Web First, April 29, 2010.

State studies find as much as 25% waste compared with Canadian administration

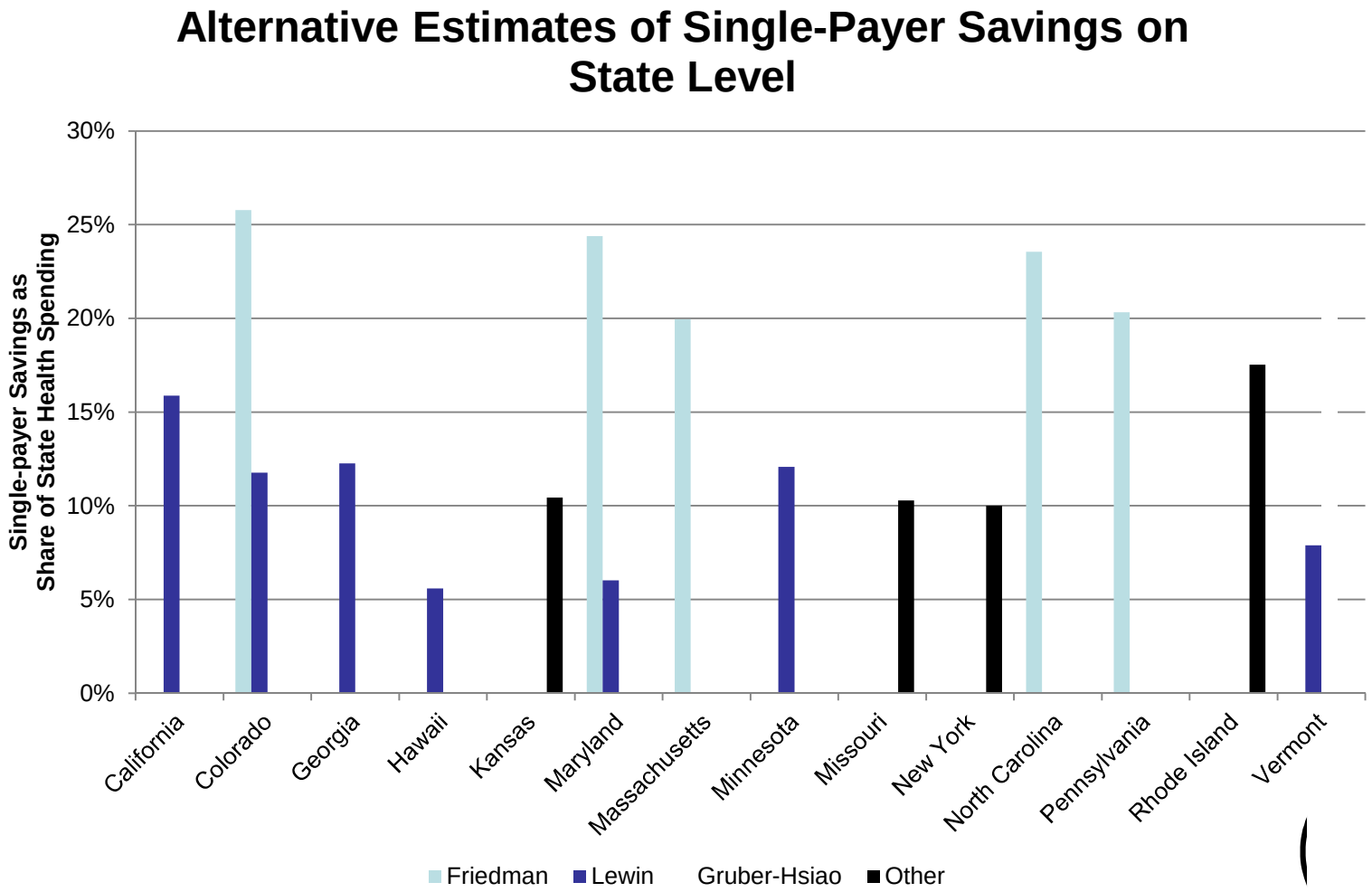


TABLE 4-1 Estimate of Billing and Insurance-Related (BIR) Costs in the U.S. Healthcare System in 2009

	Annual NHE (in billions)	Percentage for BIR Costs	Annual BIR Costs (in billions)
Physician care	$539	13	$70
Hospital	$789	8.5	$67
Subtotal			$137
Other providers	$771	10	$77
Cumulative subtotal			$214
Private insurers	$854	12.3	$105
Public programs	$1,191	3.5	$42
Cumulative total			$361

NOTE: NHE = national health expenditure.
SOURCE: CMS, 2007.

TABLE 4-3 U.S. Physician Practices' Costs of Interacting with Health Plans (2009 dollars)

	Interacting with Health Plans		Interacting with Health Plans, Billing Traditional Medicare/ Medicaid and Obtaining Patient Appointments	
	Costs per Physician	National Costs (billions of dollars)	Costs per Physician	National Costs (billions of dollars)
Mean	$72,036	$33.2	$88,855	$40.8*
Median	$53,856	$24.9	$66,641	$30.6

*If overhead costs, costs for physicians and their staff not in office-based practice, and costs of the time spent by nurse practitioners and physician assistants are included; $23.9 billion would be added to this $40.8 billion, for a total cost of $64.7 billion. See Addendum.

Administrative Cost in Health Care Compared with Other Economic Sectors

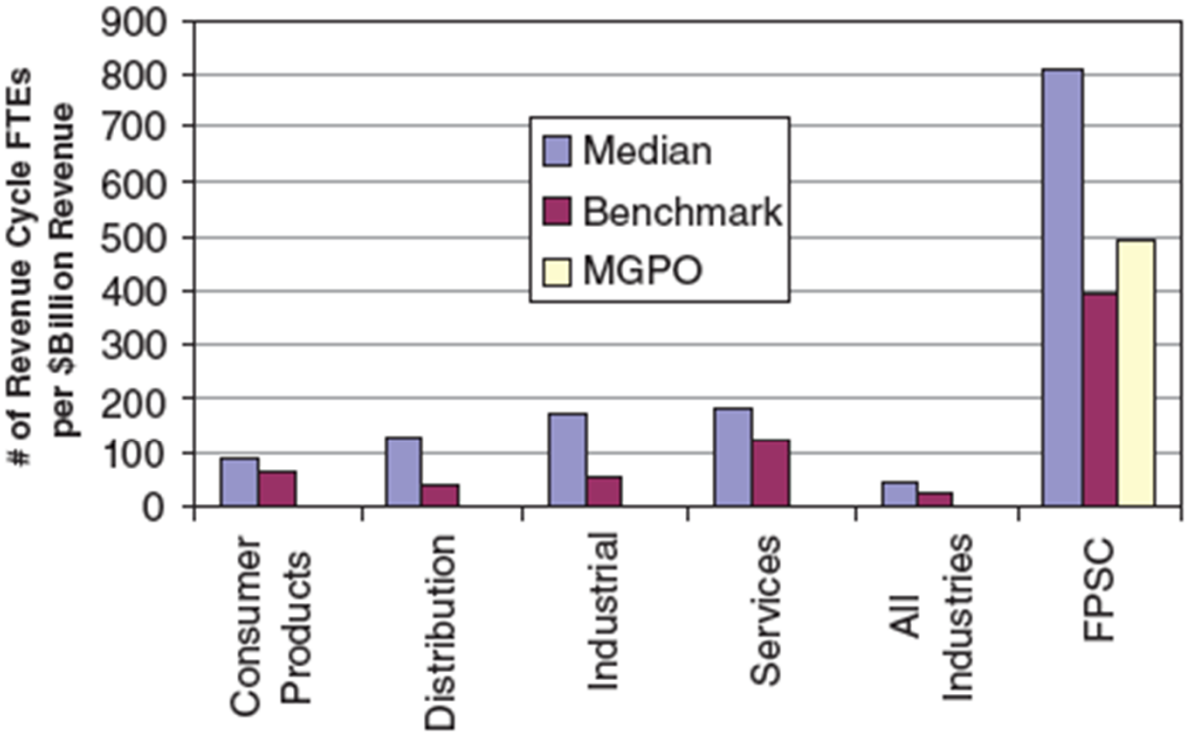
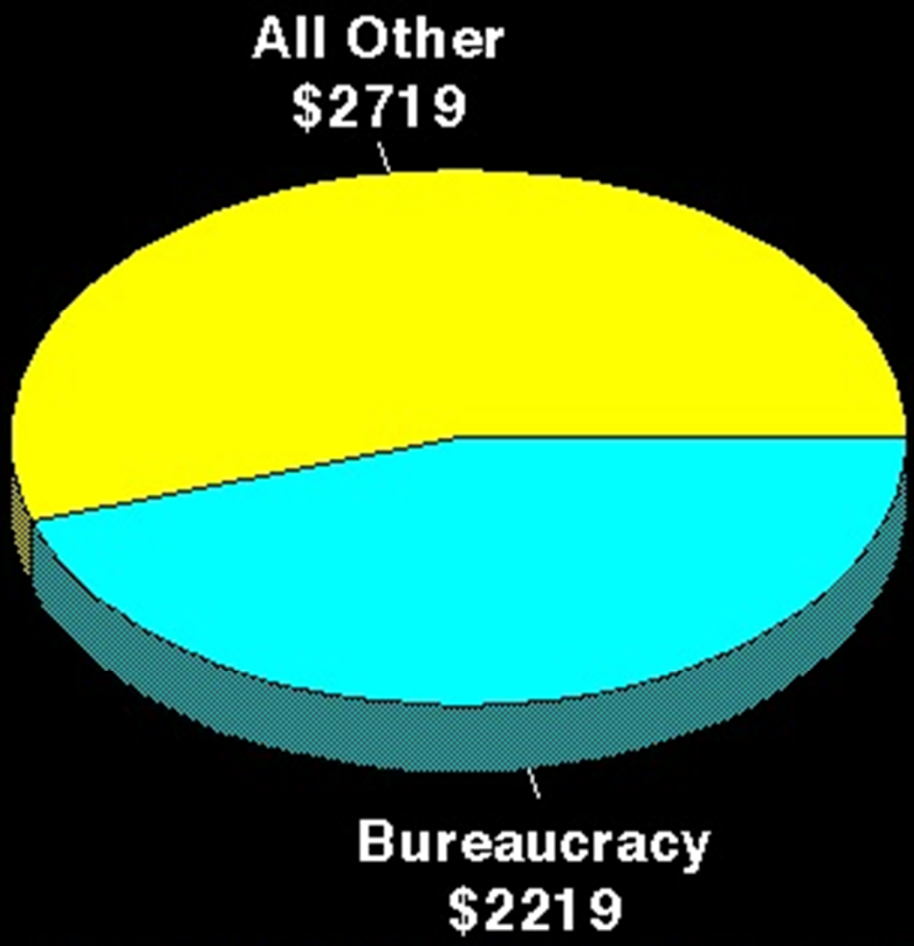


FIGURE 4-1 Physician billing staffing compared to other industries.
NOTE: FPSC = Faculty Practice Solution Center; FTE = full-time equivalent; MGPO = Massachusetts General Physicians Organization.

Difference in Health Spending Per Capita, U.S. vs Canada, 2014



Source: Woolhandler/Himmelstein/Campbell NEJM 2003; 349:768 (Updated); NCHS & CIHI