

Estimated Administrative Savings from Single Payer Financing in California

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Overview

- Findings on health insurance-related administrative costs in California
- Application of findings to current health care spending
- Range of potential savings

The Cost Of Health Insurance Administration In California: Estimates For Insurers, Physicians, And Hospitals

Quantifying how much to attribute to billing and insurance-related expenses, to move the debate forward.

by James G. Kahn, Richard Kronick, Mary Kreger, and David N. Gans

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Data

- *Private insurers:* Milliman USA 129 plans
- *Physician groups:* Medical Group Management Association survey 94 practices; & 11 practice visits / interviews
- *Hospitals:* OSHPD financial reporting 392 hospitals

Analysis

- *Administrative costs classified by task*, e.g., sales & marketing; claims billing / payment; medical library. Per source or interview.
- *Billing and insurance-related (BIR)* = portion needed for obtaining payment for medical services.
- *BIR assessed by task* – 0%, 100%, partial.

	Multispecialty		
	Admin. % of total revenue	% BIR	BIR % of total revenue
Total	26.7%		13.9%
Broad admin	8.0		2.5
General admin.	3.3	15%	0.5
Other admin. support	0.4	43	0.2
Contracted services	1.5	44	0.6
Admin. supplies & services	2.8	43	1.2
Claims billing/ payment	3.9		3.5
Bus. office	3.9	89	3.5
Other specific admin.	8.9		3.9
Medical receptionists	3.4	33	1.1
Managed care admin.	1.2	82	1.0
Information technology	4.1	41	1.7
Mgmt. fees paid to MSO	0.2	43	0.1
Major clinical element	5.9		4.0
Med. secretaries/ transcribers	0.7	8	0.1
Medical records	1.5	21	0.3
Providers (BIR component)	3.7	100	3.7

EXHIBIT 4

Summary Of Administrative Costs For Private Insurers, Physician Groups, And Hospitals

	Private insurers (commercial plans)		Physician groups (multispecialty)		Hospitals	
	Admin. % of total revenue	BIR % of total revenue	Admin. % of total revenue	BIR % of total revenue	Admin. % of total revenue	BIR % of total revenue
Total	9.9%	8.4%	26.7%	13.9%	20.9%	6.6–10.8%
Broad administrative	0.9	0.8	8.0	2.5	9.7	2.2–6.5
Claims billing or payment	1.6	1.6	3.9	3.5	2.7	2.7
Other specific administrative	5.6	5.1	8.9	3.9	5.2	0.6
Major clinical element	1.8	0.8	5.9	4.0	3.3	1.1

(Insurer profits excluded.)

Table 4. Administrative costs in private insurance, physician groups, hospitals (summary)

	Private insurers (Commercial plans)		Physician groups (Multi-specialty)		Hospitals		
	Adminis- tration % of total revenue	BIR, % of total revenue	Adminis- tration % of total revenue	BIR, % of total revenue	Adminis- tration % of total revenue	BIR, % of total revenue	
TOTAL	9.9%	8.4%	26.7%	13.9%	20.9%	6.6%	10.8%
Broad admin	0.9%	0.8%	8.0%	2.5%	9.7%	2.2%	6.5%
Claims billing / payme	1.6%	1.6%	3.9%	3.5%	2.7%	2.7%	
Other specific admin	5.6%	5.1%	8.9%	3.9%	5.2%	0.6%	
Major clinical element	1.8%	0.8%	5.9%	4.0%	3.3%	1.1%	

(Insurer profits excluded.)

EXHIBIT 5

Allocation Of Spending For Hospital And Physician Care Paid Through Private Insurers

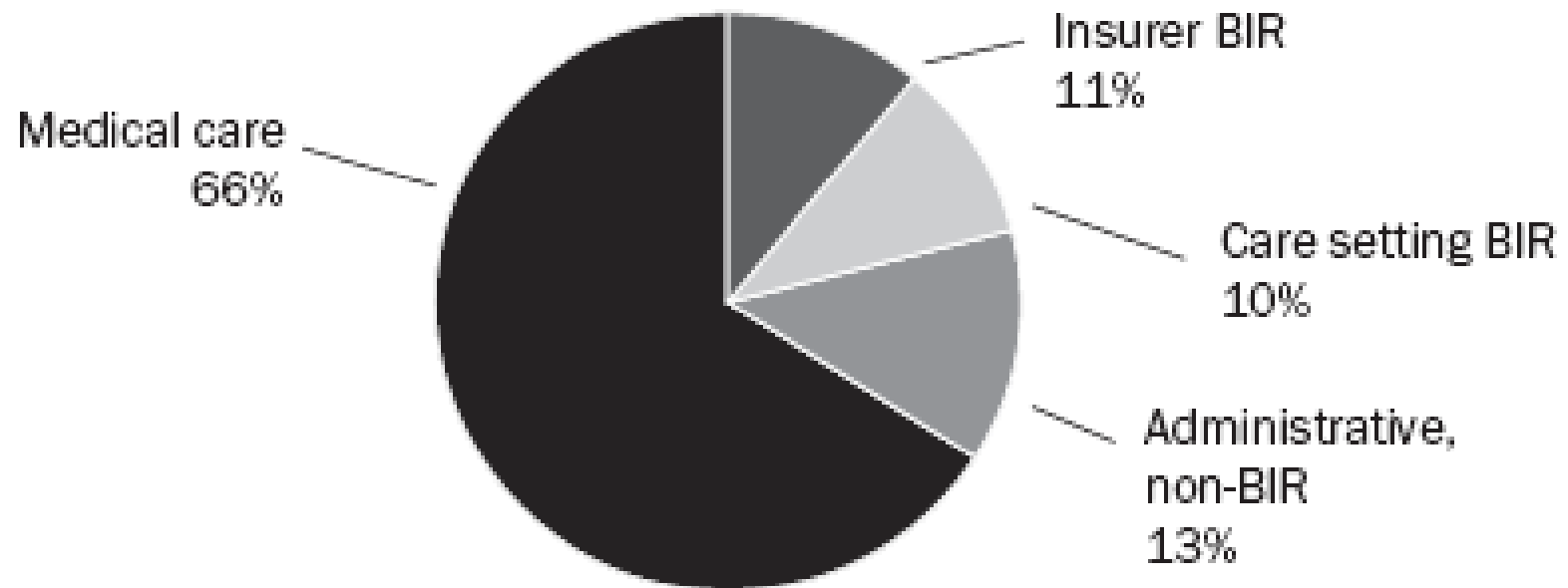
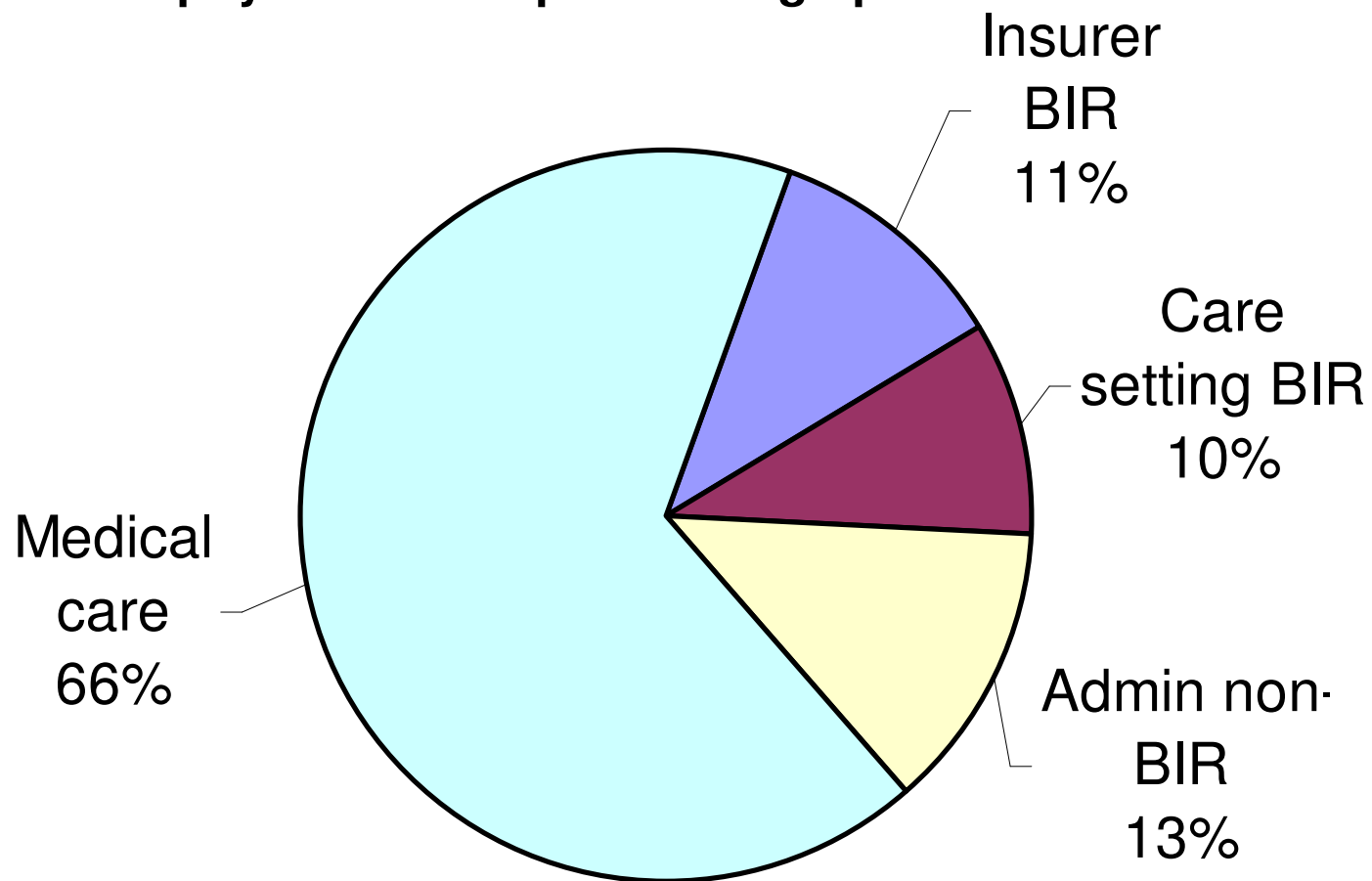


Figure 1. Allocation of spending hospital and physician care paid through private insurers



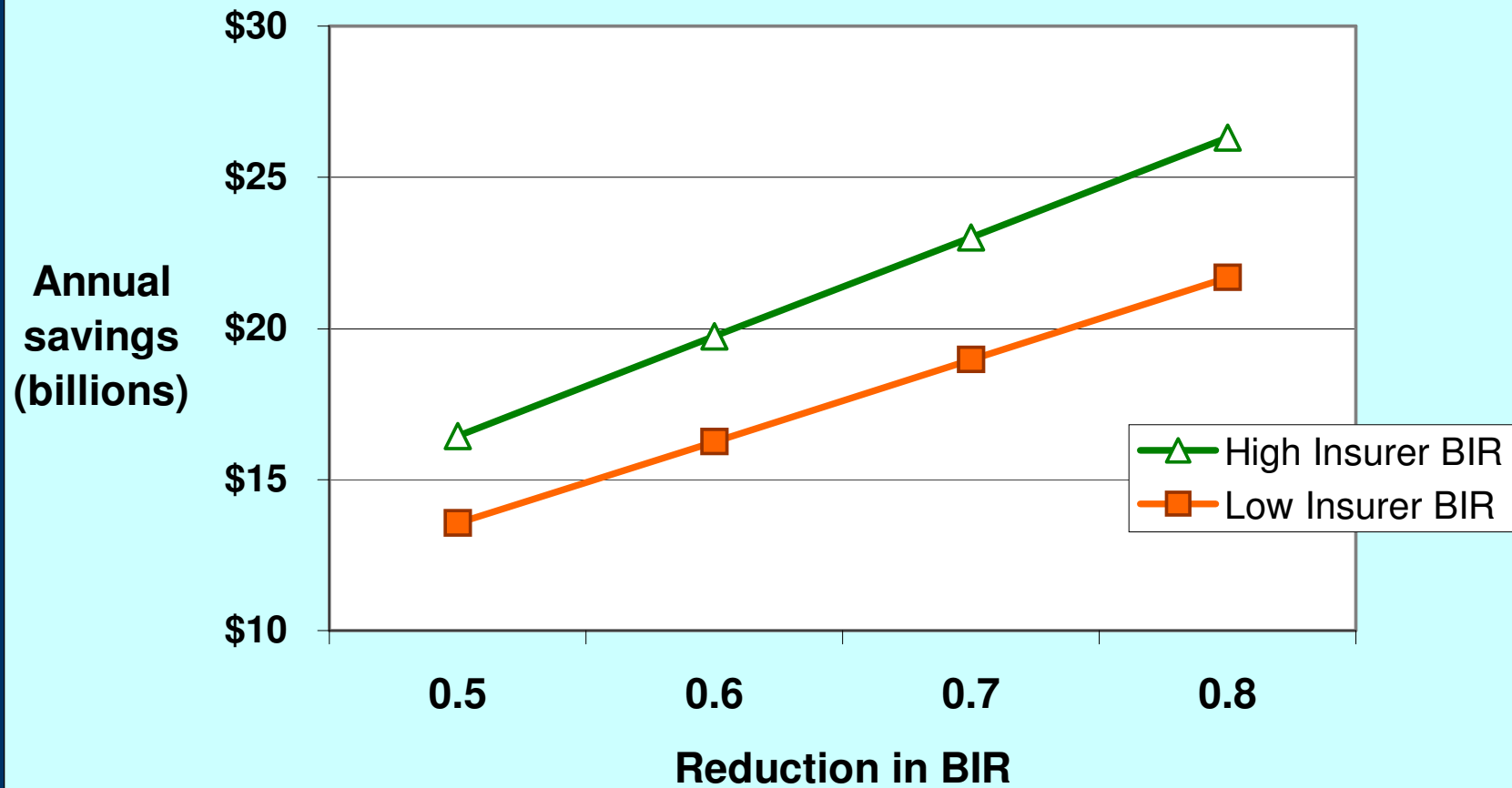
Potential Savings - 1

- Approach:
Current spending * BIR % * reduction
- E.g., private insurers:
 $\$57.1 \text{ billion} * 11\% * 0.7 = \4.4 billion
- E.g., MD groups (all payers):
 $\$57.2 \text{ billion} * 14\% * 0.7 = \5.6 billion
- E.g., hospitals (all payers):
 $\$57.5 \text{ billion} * 9\% * 0.7 = \3.6 billion

Potential Savings - 2

- Private insurers, hospitals, MD groups - \$13.6 billion (at 0.7 reduction)
- Most (two-thirds) of savings at providers
- Extrapolated to other services (pharmacy, long-term care, dental, etc) - \$19.0 billion
- Major sources of uncertainty: Insurer BIR (new data ~17%), magnitude of reduction.

Potential Administrative Savings from Single Payer in California



Discussion of estimate

- Consistent with Lewin Group \$19 billion annual savings (SB 921 analysis).
- Omits administrative costs to employers, individuals.
- BIR data from 2000-2; discussions with providers suggests stable BIR.
- Omits other single payer savings (e.g., bulk discounts for drugs and equipment).

Summary

- Based on available data, the potential savings from single payer in California can be estimated at \$20 billion per year (range \$14 – 26 billion).
- Ultimate savings will be a function of refined understanding of current BIR spending and payment simplicity under single payer.