

Health care paperwork cost US \$812 billion in 2017, 4 times more per capita than Canada

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A study published today (January 6) in the *Annals of Internal Medicine* finds that health care bureaucracy cost Americans \$812 billion in 2017. This represented more than one-third (34.2%) of total expenditures for

doctor visits, hospitals, long-term care and health insurance. The study estimated that cutting U.S. administrative costs to Canadian levels would have saved more than \$600 billion in 2017.

Health administration costs were more than fourfold higher per capita in the U.S. than in Canada (\$2,479 vs. \$551 per person) which implemented a single-payer Medicare for All system in 1962. Americans spent \$844 per person on insurers' overhead while Canadians spent \$146. Additionally, doctors, hospitals, and other [health](#) providers in the U.S. spent far more on administration due to the complexity entailed in billing multiple payers and dealing with the bureaucratic hurdles insurers impose. As a result, hospital administration cost Americans \$933 per capita vs. \$196 in Canada. The authors note that in Canada hospitals are financed through lump-sum "global budgets" rather than fee-for-service, much as fire departments are funded in the U.S. Physicians' billing costs were also much higher in the U.S., \$465 per capita vs. \$87 per capita in Canada.

The analysis, the first comprehensive study of health administration costs since 1999, was carried out by researchers at Harvard Medical School, the City University of New York at Hunter College, and the University of Ottawa. The authors, who also performed the 1999 study, analyzed thousands of accounting reports that hospitals and other [health care providers](#) filed with regulators, as well as census data on employment and wages in the health sector. They obtained additional data from surveys of physicians and government reports.

The researcher found that administration's share of overall U.S. health spending rose by 3.2 percentage points between 1999 and 2017, from 31.0 % to 34.2%. Of the 3.2 percentage point increase, most (2.4 percentage points) was due to the expanding role that [private insurers](#) have assumed in tax-funded programs such as Medicaid and Medicare. Private managed care plans now enroll more than one-third of Medicare

recipients and a majority of those on Medicaid; Medicare and Medicaid now account for 52% of private insurers' revenues. Private insurers' increasing involvement has pushed up overhead in those public programs; private Medicare Advantage plans take 12% or more of premiums for their overhead, while traditional Medicare's overhead is just 2%, a difference of at least \$1,155 per enrollee (per year).

The authors cautioned that their estimates probably understate [administrative costs](#), and particularly the growth since 1999. Their 1999 study included administrative spending for some items such as dental care for which no 2017 data were available. Additionally, private insurance overhead has increased since the study's completion, rising by 13.2% between 2017 and 2018 according to official health spending figures released in December.

"Medicare for All could save more than \$600 billion each year on bureaucracy, and repurpose that money to cover America's 30 million uninsured and eliminate copayments and deductibles for everyone," said study senior author Dr. Steffie Woolhandler, a distinguished professor at the City University of New York (CUNY) at Hunter College and lecturer in Medicine at Harvard Medical School, where she previously served as a professor. "Reforms like a public option that leave private insurers in place can't deliver big administrative savings," Dr. Woolhandler added. "As a result, public option reform would cost much more and cover much less than Medicare for All."

According to Dr. David Himmelstein, the study's lead author who is an internist in the South Bronx, a distinguished professor at CUNY's Hunter College and lecturer in Medicine at Harvard, "Americans spend twice as much per person as Canadians on health care. But instead of buying better care, that extra spending buys us sky-high profits and useless paperwork. Before their single-payer reform, Canadians died younger than Americans, and their infant mortality rate was higher than ours.

Now Canadians live three years longer and their infant mortality rate is 22% lower than ours. Under Medicare for All, Americans could cut out the red tape and afford a Rolls Royce version of Canada's system."

More information: David U. Himmelstein et al, Health Care Administrative Costs in the United States and Canada, 2017, *Annals of Internal Medicine* (2020). [DOI: 10.7326/M19-2818](https://doi.org/10.7326/M19-2818)

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