



## A Comparison of Hospital Administrative Costs in Eight Nations: U.S. Costs Exceed All Others by Far

### Synopsis

Administrative costs account for 25 percent of total U.S. hospital spending, according to a new study that compares these costs across eight nations. The United States had the highest administrative costs; Scotland and Canada had the lowest. Reducing U.S. per capita spending for hospital administration to Scottish or Canadian levels would have saved more than \$150 billion in 2011.

### The Issue

Even as all nations struggle with rising health care costs, the United States remains an outlier. Several factors help explain higher costs in the U.S., among them, higher physician fees, a focus on specialist services at the expense of primary care, and greater use of advanced technology in medicine. Some studies also have noted the substantial administrative costs incurred by U.S. health insurers and providers, including costs associated with coding, billing, and similar activities. In this Commonwealth Fund-supported study, researchers sought to compare hospital administrative costs in the U.S. with those in Canada, England, Scotland, Wales, France, Germany, and the Netherlands, using data obtained for 2010 or 2011.

### Key Findings

- Administrative costs accounted for 25 percent of hospital spending in the United States, more than twice the proportion seen in Canada and Scotland, which spent the least on administration. Administrative costs were notably higher in the Netherlands (20%) than in other European nations.

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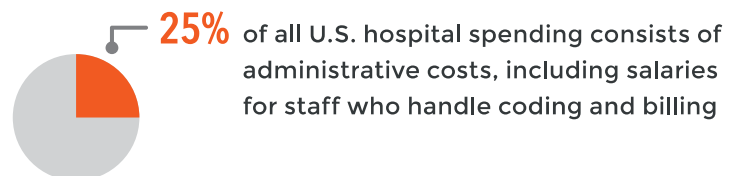
Authors David U. Himmelstein, Miraya Jun, Reinhard Busse, Karine Chevreul, Alexander Geissler, Patrick Jeurissen, Sarah Thomson, Marie-Amelie Vinet, and Steffie Woolhandler

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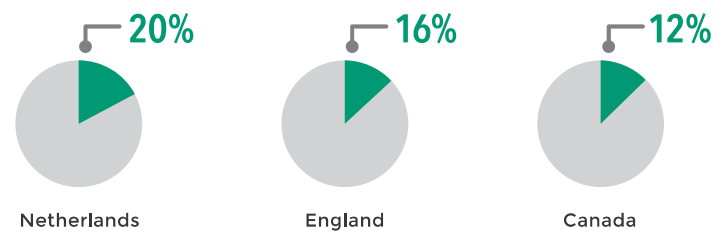
Contact David U. Himmelstein, M.D., Professor, City University of New York, [dhimmels@hunter.cuny.edu](mailto:dhimmels@hunter.cuny.edu), or Mary Mahon, Assistant Vice President, Public Information, The Commonwealth Fund, [mm@cmwf.org](mailto:mm@cmwf.org)  
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## U.S. HOSPITALS HAVE THE HIGHEST ADMINISTRATIVE COSTS

According to a study of 8 countries



This compares with hospital administrative spending of



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- In the U.S., the share of costs devoted to administration were higher in for-profit hospitals (27%) than in nonprofit (25%) or public (23%) hospitals. Teaching hospitals had lower-than-average administrative costs (24%), as did rural facilities.
- U.S. hospital administrative costs rose from 23.5 percent of total hospital costs (\$97.8 billion) in 2000 to 25.3 percent (\$215.4 billion) in 2011. During that period, the hospital administration share of national gross domestic product (GDP) rose from 0.98 percent to 1.43 percent.
- Reducing U.S. spending on a per capita basis to Canada's level would have saved \$158 billion in 2011.
- There was no apparent link between higher administrative costs and better-quality care.

### The Big Picture

In countries where hospitals receive global, lump-sum budgets, garnering operating funds requires little administrative work. Per-patient billing, on the other hand, requires additional clerical and management staff and special information technology systems. In countries where there are multiple payers, as in the United States, billing is even more complex, since each hospital must negotiate payment rates separately with each payer and conform with a variety of requirements and billing procedures. Also factoring into administrative costs is how hospitals obtain their capital funds.

"[H]ospital administration costs ranged from 1.43 percent of gross domestic product (GDP) in the United States (\$667 per capita) to 0.41 percent of GDP (\$158 per capita) in Canada."

The combination of direct government capital grants and separate global operating budgets—the approach taken in Canada and Scotland—was associated with the lowest administrative costs.

### About the Study

The research team obtained official accounting data for 2010 or 2011 that covered most or all hospitals in each of the eight nations. A detailed study methodology can be found in the article.

### The Bottom Line

Administrative costs accounted for 25 percent—or more than \$200 billion—of total hospital spending in the United States. In the other nations included in this study, these costs accounted for between 12 percent of spending (Canada and Scotland) and 20 percent of spending (the Netherlands).

D. U. Himmelstein, M. Jun, R. Busse et al., "A Comparison of Hospital Administrative Costs in Eight Nations: U.S. Costs Exceed All Others by Far," *Health Affairs*, Sept. 2014 33(9):1586–94.

*This summary was prepared by Deborah Lorber.*