



NEWS RELEASE

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New Report: Private and Public Insurance Choices Would Help Reduce Administrative Health Care Costs by \$265 Billion Over 10 Years; Help Pay for National Reform

New York, NY, July 16, 2009—As lawmakers debate how to pay for an overhaul of the nation’s health care system, a new report from The Commonwealth Fund projects that including both private and public insurance choices in a new insurance exchange would save the United States as much as \$265 billion in administrative costs from 2010 to 2020. Congressional leaders are attempting to keep 10-year federal budget costs of health care reform legislation under \$1 trillion.

“Health reform can help pay for itself, but both private and public insurance choices are critically important,” said Commonwealth Fund President Karen Davis, who coauthored the new report. “A public insurance plan can help drive new efficiencies in the system that will produce large cost reductions. Without a public plan, much of those potential savings will be lost.”

The Commonwealth Fund Commission on a High Performance Health System has put forward a comprehensive set of policy options to achieve near-universal health insurance coverage while reforming the U.S. health care system to achieve nearly \$3 trillion in savings by 2020. Central to this proposal is the creation of a national insurance exchange that would largely replace the individual and small-group insurance markets, offering families and business a choice of private or public plans with a benchmark standardized-benefit package.

The new report, *How Health Care Reform Can Lower the Costs of Insurance Administration*, says that it is possible to achieve near-universal coverage, improve health care quality and efficiency, and lower the trajectory of health care costs through a comprehensive private-public approach to health reform. A Commonwealth Fund analysis of three paths to reform found that an approach that includes a public plan in the exchange that would pay providers at Medicare rates would save about \$265 billion in administrative costs over 2010-2020. On the other hand, an insurance exchange that provided a choice of private plans only would increase administrative costs by \$32 billion over the same period.

Savings from the mixed private-public reform approach would be realized through less marketing and underwriting, reduced costs of claims administration, less time spent

negotiating provider payment rates, and fewer or standardized commissions to insurance brokers.

“A public plan would create an incentive for competitive private plan premiums with streamlined operations,” said Davis. “Savings from these new efficiencies can be used to extend health insurance to people who can’t afford it and to improve benefits.”

The United States leads all other industrialized countries in the share of national health care expenditures devoted to administration. The cost of administering the U.S. health care system totaled nearly \$156 billion in 2007, and that figure is expected to double—reaching \$315 billion—by 2018. In addition, costs incurred by physicians in their transactions with health plans are estimated to be as high as \$31 billion a year.

About 12.4 percent—or \$96 billion—of the \$775 billion in privately insured health care spending went for administrative costs in 2007. That \$96 billion—representing what insurance companies received in premiums, minus what was paid in medical claims—included claims processing, advertising, sales commissions, underwriting, and other administrative functions; net additions to reserves; rate credits and dividends; premium taxes; and profits. By contrast about 6.1 percent—or \$60 billion—of the \$974 billion in public program health care spending went for administrative costs in 2007. That includes federal, state, and local governments’ administrative costs for public health programs such as Medicare, Medicaid, and the State Children’s Health Insurance Program. Medicare prescription drug coverage, provided by private plans, has high administrative costs but is included in public program administration figures. Private Part D plans averaged 11.3 percent in administrative costs as a share of total drug spending.

The absence of underwriting and profits has kept the administrative costs of public insurance programs relatively low. However, between 2005 and 2006, Medicare’s annual administrative costs jumped from \$12 billion to \$20 billion, largely because of increased payments to cover the administrative costs of private health and drug plans participating in the program. By contrast, administrative costs in traditional fee-for-service Medicare actually declined slightly over the same period.

“Health care reform represents a significant opportunity to reduce administrative complexity in the current system,” said Sara Collins, a vice president at The Commonwealth Fund and a coauthor of the new report. “These findings indicate that such simplification will help lower premiums and reduce the cost of extending affordable coverage to everyone.”

The Commonwealth Fund is a private foundation supporting independent research on health policy reform and a high performance health system.