



## NEWS RELEASE

Embargoed for release:  
12:01 a.m. ET  
Thursday, August 4, 2011

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## **Physician Practices in the U.S. Spend Nearly \$83,000 Annually Per Physician on Administrative Costs, Nearly Four Times as Much as Canadian Practices Spend**

*The U.S. Could Save Almost \$27.6 Billion in Annual Health Spending if Administrative Costs Were Similar to Those in Canada*

New York, NY, August 4, 2011—Physician practices in the U.S. spend significant amounts of time and labor interacting with multiple health plans on claims and billing, obtaining prior authorization for patient services, and dealing with pharmaceutical formularies. The physician and staff time spent on these interactions is estimated to cost at least \$82,975 per physician annually in the U.S., compared with \$22,205 in Ontario, Canada, according to a study published in the July issue of *Health Affairs*. The study was partially supported by The Commonwealth Fund.

The amount spent on these activities by practices in the U.S. was nearly four times that spent by their counterparts in Ontario interacting with Canada's single-payer system, according to estimates by lead author Dante Morra of the Department of Medicine at the University of Toronto and colleagues, based on surveys of physicians and administrators. If U.S. physician practices had administrative costs similar to those in Ontario, the total savings for U.S. health spending would be about \$27.6 billion per year.

In the U.S. multipayer insurance system, physician practices interact with multiple health plans with different insurance products, each of which may have its own formulary of approved drugs and its own rules for prior authorization, billing, submitting claims, and determining payment. Canadian physicians generally interact with a single payer with a single product.

“The U.S. spends nearly twice as much per person on health care as any other country, and high administrative costs due to our inefficient and fragmented insurance system are a contributing factor,” said Commonwealth Fund President Karen Davis. “Greater continuity of insurance coverage and insurance administrative simplification reforms in the Affordable Care Act can begin to streamline health care administration and reduce the time medical staff must spend on billing and authorization issues.”

Additional findings from the study, “U.S. Physician Practices Spend Nearly Four Times As Much Money Interacting With Health Plans And Payers Than Do Their Canadian Counterparts”:

- U.S. physicians spend 3.4 hours per week interacting with health plans, significantly more than the 2.2 hours per week Ontario physicians spend interacting with the Canadian single payer plan. Most of the difference comes from one hour per week that U.S. physicians spend obtaining prior authorizations.
- Nurses and medical assistants spend 20.6 hours per physician per week on administrative tasks related to health plans, nearly 10 times the time spent by Canadian practices. More than 13 of these hours per week are spent obtaining prior authorization for medical services that physicians believe are needed by patients.
- U.S. clerical staff spend 53.1 hours per physician per week on administrative tasks related to insurance, compared to 15.9 hours in Ontario. Most of the difference comes from the time U.S. clerical staff spend on billing (45.5 hours) and obtaining prior authorizations (6.3 hours).
- Senior administrators of physician practices in the U.S. spend much more time per physician than their Canadian counterparts on overseeing claims and billing tasks: 163.2 hours a year in the U.S. compared to 24.6 hours a year in Ontario.
- Physician practices spent very little time submitting quality data to health plans in either the United States or Ontario.

The authors note that per capita health spending in the U.S. is 87 percent higher than in Canada—\$7,290 vs. \$3,895 annually—saying that “many factors contribute to the high cost of health care in the United States, but there is broad consensus that administrative costs are high and could be reduced.” They also note that “Section 1104 of the Affordable Care Act of 2010 instructs the Secretary of Health and Human Services to take steps to simplify interactions between providers and health plans.” In addition, the reform law’s emphasis on new payment methods such as bundled payments and pay-for-performance, and new ways of organizing health care delivery—like accountable care organizations—could move U.S health care away from fee-for-service payment, and “reduce the administrative costs involved in producing, reviewing, and processing claims for each service provided.”

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