

Researchers chart path to drastically lower administrative costs of health care

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A new analysis by Stanford researchers suggests the health care industry can reap many of the economic benefits of a "Medicare for All" program through incremental changes to the private health care market.

Researchers at the Stanford School of Medicine have developed a novel

framework that can be used to lower [health care administrative costs](#) so they're the same, or even less than, those of a single-payer system.

The researchers say this can be done without disrupting the United States' private, multipayer health care market.

The findings come as the Biden administration focuses on maintaining the structure of the [Affordable Care Act](#) rather than overhauling the country's health-financing system. The new analysis by Stanford researchers suggests the [health care industry](#) can reap many of the economic benefits of a "Medicare for All" program through incremental changes to the private health care market.

The researchers found that the complexity of the U.S. health care system drives up administrative costs for everyone in the market. This has been one of the central arguments for proponents of a single-payer system. The researchers found that complexity drives costs in three ways: through architectural complexity, or the requirements for each health plan to contract separately with each provider in the system; contract complexity, or the detailed service terms included in each of the agreements; and compliance costs, or the costs of ensuring the integrity of the billing process. Addressing each of these categories by standardizing contracts and other reforms could lead to a reduction in billing and insurance-related costs of 27%-63%, the researchers found.

"With Medicare for All seemingly off the table, our paper suggests we can still tackle administrative costs through structural changes to the payment process," said Kevin Schulman, MD, MBA, professor of medicine and director of industry partnerships and education at the Clinical Excellence Research Center, or CERC, at Stanford. "When we looked at the market through our cost framework, we were able to better understand the drivers of cost related to the complexity in the market. Most other service markets with similar levels of complexity have

adopted standardized contracts to reduce transaction costs for buyers and sellers. It seems that only in health care do we continue to tolerate this lack of standardization in transactions. In sum, our work suggests that billing and insurance-related costs can be meaningfully reduced without abandoning a multipayer system."

High cost of administrative complexity

It's widely accepted that for health care, billing and insurance-related administrative costs are higher in the United States than in nearly every other industrialized country. Estimates suggest that the country wastes more than \$265 billion annually due to this administrative complexity, and that the rate of increase in administrative costs has outpaced that of overall health care expenditures. Yet despite the substantial research on wasted spending in health care administration, scant practical wisdom exists on precisely the cause of these high costs and how to tame them.

The researchers' model is designed to address those challenges. The results of the study were published March 31 in *Health Services Research*. Schulman is the senior author. The lead author is mathematician David Scheinker, Ph.D., clinical associate professor of pediatrics and director of system utilization research for Stanford Medicine.

The study builds on earlier research by Schulman and others that documented the significant resources American physicians expend to file a bill and receive payment from health insurers. The earlier study found that it costs a primary care physician on average \$20.49 to submit a bill for a visit, or almost \$100,000 per year per physician for billing and insurance-related costs.

To estimate how incremental reforms could generate savings, the researchers first developed a model of physician billing and insurance-

related costs based on structural elements of the payment process: For each provider, the model considers the number of health plan contracts, the number of features in each health plan, the clinical and nonclinical processes required to submit a bill for payment, and the compliance costs associated with medical billing. The model also estimates fixed and variable costs of the billing process for the different types of businesses.

The researchers then modeled three types of reforms to simplify the process based on the current market: one that simplifies individual contracts; one that standardizes contracts across the [market](#); and one that both simplifies and standardizes contracts, thereby reducing regulatory and compliance costs to the greatest extent.

"The root of the problem is that [health care](#) administrative costs are so complex that few people understand them well enough to propose solutions," Scheinker said. "Our study builds on an incredibly detailed analysis of administrative costs to lay out a blueprint for how private reforms, based on successful reforms in the financial contracting industry, could reduce these [costs](#)."

More information: David Scheinker et al. Reducing administrative costs in US health care: Assessing single payer and its alternatives, *Health Services Research* (2021). [DOI: 10.1111/1475-6773.13649](https://doi.org/10.1111/1475-6773.13649)

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