The Insidious Costs of Providing Choice

by Fred Gluck

Choice is endemic in healthcare insurance infecting all private and public insurance except for Medicare Part A. Administering these many thousands of choices is responsible for a spider web of complexity not only within the insurance companies but also within every single health care provider in the United States. A detailed analysis by The U.S. National Library of Medicine (NLM) estimated that the resulting billing, insurance and reimbursement (BIR) costs were $471 Billion in 2012. This total includes $70 billion in physician practices, $74 billion in hospitals, $94 billion in settings providing other health services and supplies, $198 billion in private insurers, and $35 billion in public insurers. After adjusting for increases in premium prices and other costs, the total cost projects to over $600 Billion today. The NLM further estimates that 80%, ~ $500 Billion, could be eliminated by bypassing the insurance companies[1]. Importantly these estimates do not include the dollars spent by businesses, educational institutions, eleemosynary organizations and other employers to administer insurance programs for their employees. Nor do they reflect the substantial time, energy and money expended by families and individuals to manage their coverage.

Notwithstanding the rough nature of the calculations and estimates above, spending $500 Billion in administrative costs to avoid $110 Billion (as noted in the previous section) by denying the most effective categories of outpatient care to our middle- and lower-income families defies common sense.

Eliminating these enormous unproductive costs would provide the financial flexibility for the US to provide guaranteed access to our world class health care providers for all Americans. Moreover, reductions in the complexity of choice will also shine a light on some of the inexplicable cross subsidies which plague the system - e.g. significant differences in price of as much as 8 to 1 for exactly the same procedure or drug both from hospital to hospital as well as within individual hospitals depending on who's paying. Exposing these pernicious cross-subsidies would enormously simplify the problems of controlling costs at the hospital level as well as understanding variations in the cost of care among hospitals and across regions and controlling the costs of overutilization and fraud.

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[1] These detailed studies are also consistent with common sense observations - for example the average BIR cost per physician calculated from the finding of this study would be about $65,000. If anything, this seems low. Similarly, analysis indicates that unproductive BIR costs in US hospitals average about 6.4%. Eliminating these costs would bring the US just below the top of the range in other developed countries but still almost double the low end of the range.