

## Medicare Administrative Costs vs. Private Insurance Administrative Costs

We hear estimates of Medicare administrative costs ranging from 1.5% to 12%. We also hear bloviations of private insurance companies' administration costs ranging from 10% to 50%. Definitions of what constitutes administration, and what does not, vary widely. Some activities are considered administration for private insurers but not for government programs.

So what exactly is administration? More importantly, where can we find true numbers to make an intelligent comparison? With more and more people screaming for Government medicine, wouldn't accuracy in comparing systems lead to a much more sound decision?

**At the end of the day, isn't the purest measure of administrative costs the dollars allocated to the program less what is spent on patient care, less any taxes?**

The Medicare and Medicaid (CMS) website contains an analysis of costs between private insurers, Medicare, and Medicaid. According to their tables, private insurers have one line item entitled "Government Administration and Net Cost of Private Health Insurance". This is the line item so often quoted in isolation when proponents of government medicine are trying to understate the costs of administration. For private insurers, this one line item includes administrative costs, marketing, research, premium taxes, facilities, equipment, insurance and reinsurance losses, as well as profit. Perhaps the reason that these charges were all lumped in to one line item is because different private companies report differently, or maybe private carriers did not want their competitors to know how much they spend on any particular line item?

The 2 main government programs; Medicare and Medicaid, have additional line items which fall below the administration line. These are; Government Public Health Activities, Research, and Structures and equipment. Information on taxpayer funded public programs is more readily available, non-patient care costs are easy to break down into 4 separate categories. Medicare administration is also very different in that they actually don't pay any claims themselves. These activities are delegated to private insurers.

Table 1

|  | Private Insurance | Medicare | Medicaid |
|--|-------------------|----------|----------|
| <b>Non Patient Care costs</b>                                      |                   |          |          |
| Government Administration and Net Cost of Private Health Insurance | X                 | X        | X        |
| Government Public Health Activities                                |                   | X        | X        |
| <b>Investment</b>  |                   |          |          |
| Research   |                   | X        | X        |
| Structures and Equipment   |                   | X        | X        |

Statistics, unfortunately are like a lamp post for a drunk; they are used more for support than illumination. What is illuminating, however is the actual per capita cost in absolute dollars of administering government programs versus the per capita cost of administering private programs. Using Table 2 below, if we compare administrative costs of 4.02% for Medicare to 14.07% for private insurance, we may mistakenly believe that Medicare has lower administration costs. However, when we look at the percentage of costs for activities not directly related to patient

care (in other words the reciprocal of the medical loss ratio), we see that Private insurers non-patient care costs are 14.07% vs. 11.68% for Medicare and 31.12% for Medicaid.

Table 2

| Costs as percentage of expenses                                    | Private Insurance | Medicare | Medicaid | Government Sub Total | Grand Total |
|--|-------------------|----------|----------|----------------------|-------------|
| Number of enrollees  | 201,600           | 40,185   | 38,134   | 78,319               | 291,091     |
| Total cost in millions   | 694               | 644      | 259      | 903                  | 1,988       |
| Cost per Capita  | 3,444             | 16,018   | 6,792    | 11,526               | 6,765       |
| Patient care costs in millions                                     | 597               | 569      | 178      | 747                  | 1,661       |
| Medical Loss Ratio   | 85.93%            | 88.32%   | 68.88%   | 82.74%               | 83.58%      |
| Non Patient Care cost ratios                                       | 14.07%            | 11.68%   | 31.12%   | 17.26%               | 16.42%      |
| Government Administration and Net Cost of Private Health Insurance | 14.07%            | 4.02%    | 6.95%    | 4.86%                | 7.19%       |
| Government Public Health Activities                                |                   | 1.66%    | 17.68%   | 6.27%                | 2.85%       |
| Investment   |                   |          |          |                      |             |
| Research   |                   | 4.86%    | 1.93%    | 4.02%                | 2.01%       |
| Structures and Equipment   |                   | 1.13%    | 4.56%    | 2.12%                | 4.37%       |

When we look at costs in dollars per capita in Table 3 however, we come to a much different conclusion---the truth, which has been purposely hidden from us by the proponents of government medicine. Even if we look at the one line item entitled Government Administration and Net Cost of Private Health Insurance in isolation, we quickly see that the NET costs of administering Medicare are 33% higher than private insurers. When we include ALL non-patient care costs Medicare is 386% the cost of private administration and Medicaid is 435% the cost. Combined government administrative costs are more than 4 times the cost of private insurers.

Anyone who has been inside the government will not be surprised by this honest assessment of government efficiency. It is due to these inefficiencies, that government projections are always low. They use the percentages in Table 2 to project, then they spend closer to the actual figures in Table 3 and end up having to ration care to compensate.

Table 3

| Per capita in absolute dollars   | Private Insurance | Medicare | Medicaid | Government Totals | Grand Total |
|--|-------------------|----------|----------|-------------------|-------------|
| Number of enrollees  | 201,600           | 40,185   | 38,134   | 78,319            | 291,091     |
| Total cost in millions   | 694               | 644      | 259      | 903               | 1,988       |
| Cost per Capita  | 3,444             | 16,018   | 6,792    | 11,526            | 6,765       |
| Patient care costs per capita  | 2,960             | 14,147   | 4,678    | 9,537             | 5,707       |
| Non Patient Care costs per capita  | 485               | 1,871    | 2,114    | 1,989             | 1,121       |
| Government Administration and Net Cost of Private Health Insurance per cap | 485               | 645      | 472      | 561               | 491         |
| Government Public Health Activities per cap                                | -                 | 266      | 1,201    | 723               | 194         |
| Investment per cap   |                   |          |          |                   |             |
| Research per cap   | -                 | 779      | 131      | 463               | 137         |
| Structures and Equipment per cap   | -                 | 182      | 309      | 244               | 298         |

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Source <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf>

Source [http://pubdb3.census.gov/macro/032006/health/h09\\_000.htm](http://pubdb3.census.gov/macro/032006/health/h09_000.htm)