



A healthy Colorado
includes everyone.

October 1, 2015

Dear Colorado Commissioners on Affordable Health Care,

We are pleased that the cost commission has asked for input from the Colorado organizations that have been studying the cost drivers of health care. Our mission is to promote universal health care and develop proposals for universal health care. As the 208 Commission¹ results made apparent and numerous studies have confirmed, the pathway to universal health care requires cutting costs to make such care affordable. Consequently, our Foundation has built on the 208 Commission results and what these results showed to be cost drivers. Any realistic proposal to expand to universal health care is interwoven with the evaluation of cost savings and methods for reducing cost drivers.

Our nonprofit has conducted extensive studies into a proposal to operate a cooperative business that can provide coverage for everyone in Colorado, eliminating waste and reducing costs. We commissioned an economic analysis from Dr. Gerald Friedman, and as a Foundation, we have twice updated this economic analyses with projections for the years 2016 and 2019. These analyses address the issue of eliminating waste and confronting cost drivers, and consequently should be of interest to the Colorado Commission on Affordable Health Care.

Response to the questions from the Colorado Commission on Affordable Health Care

Colorado Commission on Affordable Health Care: Written answers to questions to be submitted electronically:

Date: 9/30/15 (We were not notified of the request for information until 9/27/15.)

Name of the respondent: Ivan J. Miller, Executive Director, Colorado Foundation for Universal Health Care,

Affiliation/Organization: We are affiliated with the Colorado Consumer Health Initiative (CCHI), and we are submitting independently as well as through CCHI.

Email and phone number: IJMiller@couniversalhealth.org 303-499-3888

1. What do you think are the fundamental cost drivers and why?

Our approach has been to seek out cost drivers that meet the following criteria:

1. The cost driver needs to be one that can be changed without harming the quality of health care.
2. The cost driver must be one for which there is an effective method to achieve a cost reduction for health care.
3. The cost driver must contribute substantially to the cost of health care.

We have found that the main cost driver that meets these criteria is the tremendous administrative cost of U.S. health care. In 1999, Woolhandler, Campbell, and Himmelstein estimated total administrative expenses in the U.S. to be at least 31% of National Health Expenditures (NHE). They also found that the growth of administrative health care jobs from 1969 to 1999 was 0.3%/year.ⁱ A Harvard Business review analysis supported their analysis by finding that between 1990 and 2012 a 75% growth took place in the health care work force with all but 5% of that growth occurring in administrators. This yields a job ratio of one doctor/six other health care professionals/ten administrators (ratio = 1/6/10)ⁱⁱ. Subsequent analysis by the Foundation of the growth of administrative costs projects that in 2019, the broadly defined administrative costs noted by Woolhandler, Campbell, and Himmelstein would grow to 37% of NHEⁱⁱⁱ. In addition, in 2012 the Institute of Medicine found a quarter of the \$765 billion of identified waste in U.S. health care was the result of unnecessary administrative costs.^{iv}

The administrative waste clearly fits our criteria for a target for cost reduction. Being the fastest growing portion of health care and consuming 37% of the health care dollar, it is both a driver and one that, if changed, could substantially impact the cost of health care. In addition, there is probably no one who would defend as valuable the U.S. health care system's overwhelming administrative costs.

There are also other drivers of health care costs that can be addressed by universal health care. These include a reduction in fraud due to a unified billing system, and the ability of the market power of a universal health care system to contain some of the excessive costs of pharmaceuticals, durable medical equipment, or charges that result from dominance in a local market. Estimates for these expense reductions are in all of the Foundation analyses.

The reductions in cost projected to the year 2019 are as follows:

- ColoradoCare reduces administrative expenses by \$6.2 billion. These savings come from removing redundant insurance-industry administration and from decreasing bureaucracy and paperwork in providers' offices.
- Prices for durable medical equipment and pharmaceuticals can be reduced by \$1.2 billion using bulk purchasing market power.
- A unified billing system would reduce fraud by \$0.6 billion.
- Over time — with a unified system supporting innovation, practical efficiencies, and integrated health delivery — savings are projected to increase^v.

2. What are the barriers to reducing cost?

The multi-payer system is the essential cause of excessive administrative costs in U.S. health care. As over twenty economic analyses, as well as international studies, have confirmed,

the multi-payer system creates administrative waste by the continuous effort to isolate risk pools and types of treatments available to each risk pool.

3. Can you list up to three things that you are doing to address cost that are unique?

The 208 Commission reports indicate a universal health care proposal can eliminate the administrative waste. Our nonprofit has continued to study universal health care proposals and commissioned Dr. Gerald Friedman to report on a proposal that was not in the 208 Commission study, the Colorado Health Care Cooperative. Our Foundation has continued these economic analyses with the purpose of informing the public. We are pleased that there is another organization, ColoradoCareYES, that has been able to use this analysis to help promote a ballot initiative, ColoradoCare that would greatly reduce the administrative waste.

4. Is there any supporting data that demonstrates a reduction in cost?

Extensive data comes from all of the developed democracies in the world indicates that a single risk pool system saves administrative costs compared to a multi-payer system. In fact, there is more data substantiating this than most other health care economic issues. In addition, there have been over 20 economic analyses of state and federal plans for universal health care that substantiate the ability of universal health care to contain some of the cost drivers of health care, particularly the growth of administrative costs^{vi}. Please let me know if you need some of this documentation.

5. Where do you see waste in the system?

We have identified the majority of waste in administrative costs. As noted above, in addition, a universal health care system could obtain better prices for pharmaceuticals and durable medical equipment, contain excessive costs in areas where local market dominance results in excessive and unreasonable prices, and reduce fraud through a unified billing system. There is future potential to decrease duplication and increase efficiency through a records system that allows one provider's medical record system to communicate with all others. However, these savings and cost reductions are difficult to predict and require careful implementation that the current system does not facilitate.

6. What are the principal barriers to transparency?

The multi-payer system, in which each provider's costs and expenses are proprietary, is a barrier. A universal health care system, properly designed, can mandate transparency.

7. What would you change to make things better related to cost?

Our analysis points toward the obvious solution, transition from the multi-payer system to a universal health care system. Our Foundation is a nonprofit research foundation, and as such limits its political advocacy. However, our work has been used to develop Initiative #20, ColoradoCare, which we anticipate being on the ballot in 2016. As our work analyzing this proposal in its formative stages shows, ColoradoCare addresses the administrative waste effectively, eliminating \$6.2 billion of administrative costs. It is notable that this huge savings does not come from clinical care or a reduction in health care quality. There are few that would claim that the \$6.2 billion that can be eliminated is what is currently making the U.S. health care system great.

Cite or provide electronic hyperlinks to any data sources referenced.

In addition to the endnotes, the Colorado Foundation for Universal Health Care has the following relevant resources:

- Executive Summary of Economic Analysis of the ColoradoCare Proposal Addendum with 2019 projections, Prepared by Ivan J. Miller, Ph.D. 8.3.15
<http://www.couniversalhealth.org/wp-content/uploads/2015/08/addendumwith2019projections,exsum8.3.15v4.2.pdf>
- Economic Analysis of the ColoradoCare Proposal Including addendum with 2019 projections Prepared by Ivan J. Miller, Ph.D. for the Colorado Foundation for Universal Health Care April 10, 2015 with Addendum added 8.3.15,
<http://www.couniversalhealth.org/wp-content/uploads/2015/09/addendumwith2019projectionsplusappendixv5.0,8.3.15.pdf>
- Three Possibilities for Colorado’s Future Health Care Financing and Delivery, Dr. Gerald Friedman, Department of Economics, University of Massachusetts at Amherst, Amherst MA 01003, April 8, 2013
<https://docs.google.com/viewer?url=http%3A%2F%2Fwww.couniversalhealth.org%2Fwp-content%2Fuploads%2F2013%2F04%2Ffriedmancolohealth.pdf>

Almost universal agreement among patients and providers indicates that there is too much administration in our current system, and the situation continues to worsen. Because administrative costs compose such a large portion of Colorado’s health care costs, and evidence reveals that these administrative costs are wasteful, we encourage your inquiry to explore containing these costs. We would be pleased to answer further questions and/or present testimony based on our research.

Sincerely,
Ivan J. Miller, Ph.D.
Executive Director, Colorado Foundation for

ⁱ Woolhandler, S., Campbell, T., & Himmelstein, D.U. (2003) Costs of Health Care Administration in the United States and Canada. *N Engl J Med* (349), 768-75.

ⁱⁱ Kocher, R. (2013). The Downside of Health Care Job Growth. *Harvard Business Review*, 9/23/13.

ⁱⁱⁱ Miller, I.J. (2015) Economic Analysis of the ColoradoCare Proposal, Including addendum with 2019 projections, Colorado Foundation for Universal HealthCare.

^{iv} Institute of Medicine (2012). We spend \$750 billion on unnecessary health care. Two charts explain why.

Wonkblog, 9/7/12. *Washington Post*, Washington, DC.

www.washingtonpost.com/blogs/wonkblog/wp/2012/09/07/we-spend-750-billion-on-unnecessary-health-care-two-charts-explain-why/.

^v Miller, I.J. (2015) Executive Summary of Economic Analysis of the ColoradoCare Proposal Addendum with 2019 projections, Colorado Foundation for Universal HealthCare.

^{vi} Miller, I.J. (2015) Personal communication with Dr. Gerald Friedman in 2013 with the addition of studies conducted since 2013.