

# Single-payer healthcare is far more expensive than advocates claim

BY GARY GALLES, OPINION CONTRIBUTOR - 06/15/17 07:00 AM EDT [154](#)

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In the roughly quarter-century since then-First Lady [Hillary Clinton](#)'s health care plan hit the headlines, advocates of expanded government control have asserted that single-payer systems such as Medicare have far lower administrative costs than private insurance. So moving toward "Medicare for all," they said, would generate vast sums to increase access to health care. [Paul Krugman](#), for example, argued that ObamaCare administrative cost savings would pay for its expanded coverage.

But the cost claim is alchemy, not actuality.

Early in the ObamaCare fight, one [literature review](#) found private insurance administrative costs estimated at 11-14 percent of premiums, while direct Medicare administrative outlays were estimated at 3 percent of total costs. Considering how large the health care sector is, cutting private administrative costs to Medicare's presumed level would indeed provide a huge chunk of money to finance expanded promises. Unfortunately, those estimates involve multiple misrepresentations, leaving them unable to support the conclusions typically drawn.

The usual measurement of efficiency—administrative costs as a percentage of total costs—is highly misleading. Medicare patients are far older and less healthy than the rest of the population, making health care costs far higher per person. But nonmedical administrative costs largely depend on the number of persons insured, not on medical expenditures. So the usual measure grossly exaggerates [Medicare's administrative efficiency](#) and distorts the comparison with private insurance. Before ObamaCare, medical expenditures per Medicare recipient were more than double that per younger insured person, making Medicare look less than half as expensive as it would look if costs were computed per person. In fact, Medicare's reported administrative cost per beneficiary has been consistently higher than for private health insurance.

Another bias, as several studies have found, is that [many of Medicare's administrative costs do not show up in its budget](#). For example, the IRS collects the taxes; Social Security helps collect

Medicare premiums: and Health and Human Services helps with accounting and related concerns, as well as paying for building and marketing costs. Including those costs roughly doubles Medicare's administrative costs.

Simply computing costs in per-person terms and including administrative costs that appear in other agencies' budgets, Medicare's reported four-to-one administrative cost advantage over private insurers disappears, taking the promise of a treasure trove of single-payer "found money" with it.

But these are not the only biases.

Typically, private insurance administrative costs have been defined as premiums paid in minus claims paid out, implying that everything but claims paid is administrative. However, many states impose a premium tax (averaging about 2 percent) on health insurers (but not on Medicare), and those tax payments are counted—erroneously—as administrative costs. Also, many insurers offer disease-management and on-call nurse consultation services, which do not result in claims, so the costs of those services are counted as administrative. Ironically, by limiting private insurers' administrative costs, ObamaCare requires more precision in defining nonmedical costs, markedly improving the estimates.

Other private administrative costs are misrepresented as waste or inefficiency. Consider fraud, a major issue for Medicare. If Medicare spends less to combat fraud, it looks more efficient since its administrative costs will be lower and its other costs will be counted as medical expenses rather than waste. But \$1 of fraud prevention has been estimated to reduce fraud costs by \$15. So when insurance companies invest more in fraud prevention, they benefit their customers, but their administrative cost percentage appears worse than Medicare's.

In addition, the taxpayer-funded parts of Medicare (which are the vast majority since premiums cover only a small proportion) impose another substantial but unrecorded cost, which economists call "excess burden." Taxes impose wedges between what buyers pay and what sellers receive, destroying opportunities for gains from trade as money is diverted to the government. One study found that even the "lowest plausible assumption about the excess burden engendered by the tax system raises the true costs of delivering Medicare benefits to about 20-25 percent of its Medicare outlays," far higher than private insurance administrative costs.

Thus what everyone "knows" about the lower administrative costs of single-payer systems is false.

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