

The ACA Increased, Rather Than Decreased, Administrative Costs Of Health Insurance



[Robert Book](#) Contributor
[The Apothecary](#) Contributor Group
[Policy](#)

I analyze news and do research on health care policy

Anyone who's worked with government agencies and regulatory bodies – even just by filing taxes returned or getting a driver's license – might find this hard to believe, but during the “health reform” debate that produced the Affordable Care Act (ACA), many proponents argued that the increased government involvement in health care would reduce administrative costs for the entire industry. This would either reduce premiums or get more health care for the same money.

Paul Krugman made [this argument in the *New York Times*](#), and three single-payer advocates [made a similar argument in the *New England Journal of Medicine*](#). The argument was partly based on the assumption that government is inherently superior at administration, and partly based on the idea that having a single “exchange” would eliminate the need for insurers to incur “wasteful” marketing expenses. [Advocates also claimed](#) that requiring a minimum [Medical Loss Ratio](#) (MLR) and [reduction of executive pay](#) through limits on the deductibility of compensation ([Section 9014](#)) would [limit the unrestrained pursuit of profit](#). The predicted impact was that reducing administrative costs would lead to lower premiums and lower national spending on health care without having to reduce the quantity or quality of actual health care delivered.

Now we know – from actual data – that this did not happen. The ACA made administrative costs of private health insurance go up, not down. While insurance companies did actually reduce administrative costs in the individual market, the amount spent by the federal government to establish and operate the exchanges vastly exceeded that savings. So, the ACA ended up providing government-subsidized administrative services to health insurance companies – surely the opposite result than the ACA advocates (no friends of insurance companies) would have wanted. And the “subsidy” was inefficient: The government spent, on average, \$1,539 per person enrolled in exchange coverage, and saved the insurance companies an average of \$149 per enrollee by doing so. Overall, the government spent \$10.32 for every dollar they saved the insurance companies. (If you average in off-exchange enrollment as well, the government expenditure comes to \$628 per covered person.)

Not only is that not “savings” – that's about the most inefficient subsidy imaginable.

Overall, insurance companies had an average administrative cost of \$414 per covered person in 2013, before the exchange provisions of the ACA when into effect. Insurers' cost dropped to \$265 per covered person in 2014, but the government spent \$9.75 billion to enroll 6.34 million

people on exchanges. The total administrative cost (government plus insurers) works out to \$893 per person for 2014 – a 215% increase.

Now, in principle, some of those costs for building the exchanges ought not to have to be repeated in subsequent years. In reality, the exchange was such a disaster that much of it ends up being rebuilt every year. Furthermore, not all of the government administrative cost was setting up the exchanges. Some it was, believe it or not – marketing. The government ran a lot of ads and sent a lot of direct mail to promote healthcare.gov. When the government does marketing it's called "public awareness," but it's basically the same thing. Those expenses continue every year.

Still, suppose, for the sake of the argument, that we can separate out some expenses that stand a chance of not being repeated. The easiest part is the ACA's grants to states to initiate their own exchanges or their participation in the federal exchange. If we assume that those grants will not be repeated and have effects spread over three years, the government's administrative cost per person in the exchanges is reduced to \$895. If we spread *all* of the first-year costs over three years – something surely unrealistic (even though we don't have all the subsequent numbers yet, surely they exceed zero), the federal cost is \$513. Adding the \$265 incurred by insurers, and the total is \$778 per person. That's still 88% higher than the pre-ACA cost.

Anyway you look at it, the promise of reduced administrative cost by involving the government was a total failure. It produced the opposite result.

(For more details, see my [study of administrative costs](#) published in December by the American Action Forum.)



[Robert Book](#)

I am a health economist and Senior Research Director at Health Systems Innovation Network LLC, a health policy research and consulting firm, and serve as a Health Care and Economics Expert for the American Action Forum. I work primarily on ACA and other health care reform issues, and Medicare policy. I like working with real data to measure the effects of various policies. I've also taught at National Defense University, George Mason University, and Loyola University-Chicago, and served as Senior Research Fellow in Health Economics at The Heritage Foundation. I have a Ph.D. in economics and an M.B.A. from the University of Chicago, Booth School of Business, an M.A. in computational and applied mathematics from Rice University, and a B.S. in mathematics and history from Duke University.