

25% of U.S. Health Care Spending Is Waste. Here's Where to Find It.

Approximately 25 percent of spending in the U.S. health care system can be characterized as waste. That's between \$760 billion and \$935 billion annually.

A [study published today](#) in the Journal of the American Medical Association (JAMA) by researchers from health insurance provider Humana Inc. and the University of Pittsburgh School of Medicine links the waste to six areas of the health care system identified by the Institute of Medicine: failure of care delivery; failure of care coordination; over-treatment or low-value care; pricing failure; fraud and abuse, and administrative complexity.

For their analysis, the authors identified government-based reports, articles and peer-reviewed publications from 2012 to 2019 that focused on estimates of costs or savings related to these six areas of waste. There were 71 estimates from 54 publications and those estimates were combined into ranges or totaled.

The U.S. spends more on health care than any other country, with costs approaching \$3.6 trillion, or 18 percent of the gross domestic product (GDP). The authors highlight the sources of inefficiencies in the U.S. health care system, cite opportunities to address those inefficiencies, and underscore several key ways to make health care more affordable.

For each domain, available estimates of waste-related costs and data from interventions shown to reduce waste-related costs were recorded, converted to annual estimates in 2019 dollars for national populations where necessary, and combined into ranges or summed as appropriate.

Computations yielded the following estimated ranges of total annual cost of waste and estimated annual savings from interventions:

Waste domain	Estimated range of total annual cost of waste	Estimated annual savings from interventions
Failure of care delivery	\$102.4 – \$165.7 billion	\$44.4 – \$93.3 billion
Failure of care coordination	\$27.2 – \$78.2 billion	\$29.6 – \$38.2 billion
Overtreatment or low-value care	\$75.7 – \$101.2 billion	\$12.8 – \$28.6 billion
Pricing failure	\$230.7 – \$240.5 billion	\$81.4 – \$91.2 billion
Fraud and abuse	\$58.5 – \$83.9 billion	\$22.8 – \$30.8 billion
Administrative complexity	\$265.6 billion	*

** No studies were identified that focused on interventions targeting administrative complexity. The savings do not include interventions for the area identified as the largest waste area, administrative complexity.*

“This research is so important because our industry is wasting money that could be used to improve the care experience so people can lead healthier lives,” said Bruce D. Broussard, Humana’s president and chief executive officer. “Each of the domains studied may require a different kind of action, and the drive toward data interoperability and value-based care payment models can reduce this wasteful spending. But if we collaborate as health plans and providers, in conjunction with the government, we can deliver more effective care and improve health.”

Several findings can be drawn from this study:

- The greatest source of waste, at over a quarter trillion dollars annually, is administrative complexity. Some of this waste is due to a fragmented health care system. More seamless data interoperability, as is currently being driven by Centers for Medicare & Medicaid Services, will produce new savings, according to the study. The movement to value-based care – which focuses on alignment of incentives and increased collaboration between payor and provider – could meaningfully reduce this source of waste as many of the administrative tools used by payers to reduce waste (such as prior authorization) can be discontinued or delegated to the clinicians, reducing administrative complexity for all stakeholders.
- Pricing inefficiency, in particular drug pricing, represents the second greatest source of waste. According to the authors, these inefficiencies have arisen in a highly regulated market-based system, and suggest that policies that systematically promote competition and price transparency should foster substantial savings.
- Approximately \$300B in waste results from failure of care delivery, failure of care coordination, and over-treatment. However, if proven, effective clinical strategies to improve care available today were scaled nationally, approximately 50 percent of that waste could be avoided, the study concludes.

“This study highlights the opportunity to reduce waste in our current health care system,” said lead author William Shrank M.D., Humana’s chief medical and corporate affairs officer. “By focusing on these opportunities, we could make health care substantially more affordable in this country. In the national debate about health reform, we do not need to start over. We can build on the strengths in today’s system to deliver higher quality care and reduce costs, while also producing the necessary savings to expand coverage to all Americans.”

The study is: Shrank WH, Rogstad TL, Parekh N. [Waste in the US Health Care System: Estimated Costs and Potential for Savings. JAMA. Published online October 07, 2019.](#)

The study notes that much of the research on waste and improvement that was reviewed has been conducted in Medicare populations. While estimates from cohorts of Medicare enrollees were translated to the broader national Medicare population, data derived from analyses of waste and waste reduction interventions in traditional Medicare or Medicare Advantage may not have been fully generalizable to the entire Medicare population. Importantly, there was no attempt in these analyses to generalize Medicare costs or savings to other insurance populations, rendering the

findings conservative, the authors note.

Both Shrank and Rogstad reported received funding from Humana and Parekh reported employment from UPMC Health Plan.

The study is a follow up to a 2012 JAMA [study](#) – “Eliminating Waste in US Health Care,” by Donald M. Berwick, MD, MPP and Andrew D. Hackbarth, MPhi.