



Glossary: Administrative Spending in Healthcare

All agree that some administrative spending is valuable to the operation of the U.S. health system, but *wasteful* administrative spending has been the subject of fierce debates for years. Most agree that there is waste to be trimmed, although strategies for addressing waste vary depending on whether our current multi-payer insurance system is retained or replaced with a simplified, unified payment system. This mini-glossary lists terms that may be encountered in policy discussions related to excess administrative costs.

Term	Acronym	Definition
Administrative Spending		Costs incurred by insurers, hospitals, doctors' offices, patients and other entities to conduct the business side of healthcare. This spending includes both <i>Billing and Insurance Relating (BIR)</i> spending and <i>Other Administrative</i> spending.
Administrative Waste		Administrative spending that exceeds that necessary to achieve the overall goals of the organization or the system as a whole.
Billing and Insurance Related Activities	BIR	Insurance-related activities incurred by healthcare stakeholders such as: claims processing, reimbursement activities, treatment pre-authorization, credentialing, maintaining certifications, managed care administration, grievances and appeals, etc. See also: <i>Other Administrative Activities</i> .
Enrollment Churn		When individuals move between different coverage sources or between having coverage and being uninsured.
Excess Administrative Spending		See <i>Administrative Waste</i> .
Marketing Costs		Costs related to market research, plan/product information, design, campaigns, public relations and outreach costs.
Medical Loss Ratio	MLR	The portion of premium revenues spent on clinical services and quality improvement. The federal government and some states have requirements that private health insurers meet minimum MLR standards.
Other Administrative Activities (Non-BIR Activities)		Non-BIR administrative activities incurred by healthcare stakeholders, including: enrollment, eligibility, underwriting, communications, customer services, marketing, quality assurance, legal compliance and filing services, licensing, admitting, insurance coverage and selection, and navigation of provider networks.
Profit		Profit is an example of non-clinical costs associated with for-profit healthcare stakeholders but would not typically be included in a definition of <i>Administrative Spending</i> .
Surplus		Surplus is the excess of an insurance company or hospital's assets over liabilities. While surplus is an example of non-clinical costs associated with nonprofit healthcare stakeholders, it would not typically be included in a definition of <i>Administrative Spending</i> .

For background and a discussion of policy options for reducing excess administrative spending, please see [Excess Administrative Spending in Healthcare: Significant Savings Possible](#), Research Brief No. 30 (November 2018).