California Health Care Foundation

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Policy Opportunities to Reduce Administrative Waste and Complexity

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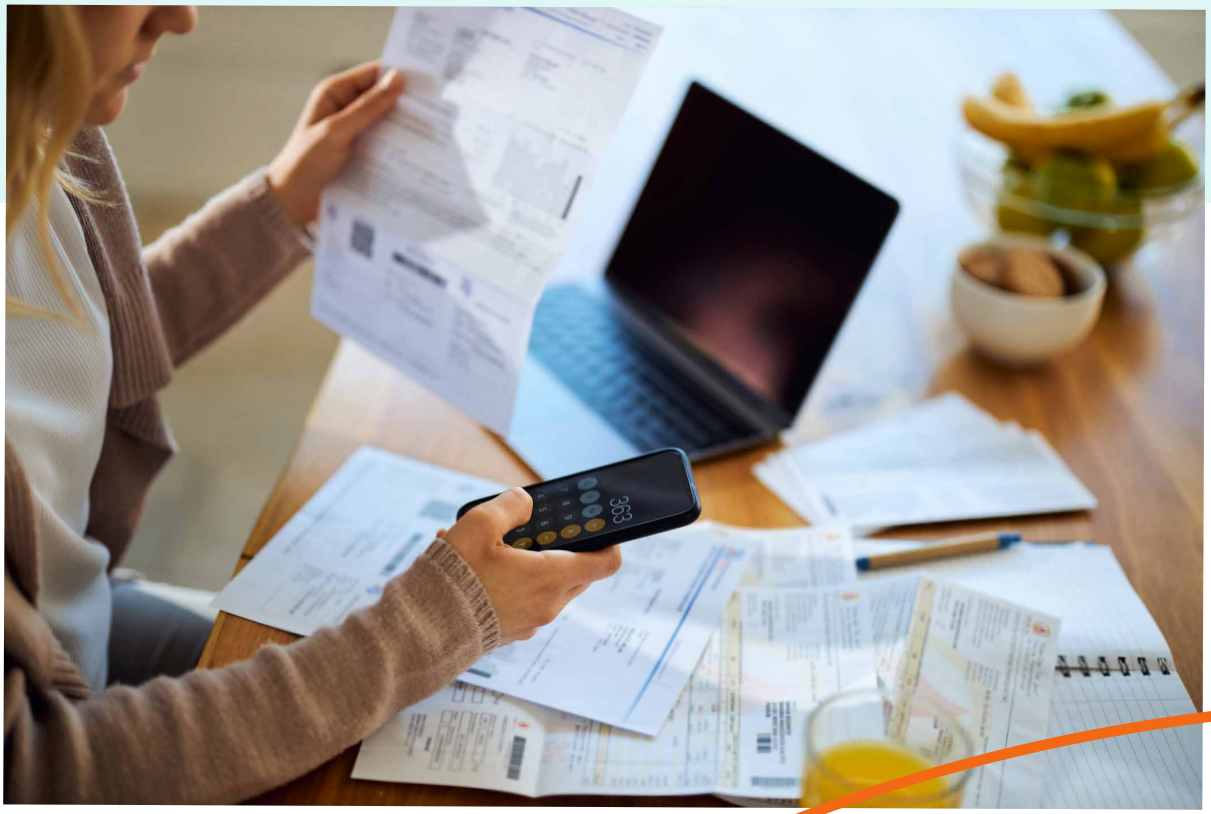

Issue Spotlight

For years, California's health care costs have grown faster than wages, leaving individuals and families under mounting pressure. Unsurprisingly, Californians across the political spectrum want health care affordability to be a top priority for policymakers.[1]

California enters this health care affordability reform moment from a position of relative strength — with established institutions, significant market influence, and a track record of meaningful policy action. *Policy Options to Improve Health Care Affordability: What California Can Learn from Other States* examined state activity across the United States to control health care costs over the past five years and identified policy opportunities for California in four priority areas. This issue spotlight summarizes opportunities to reduce administrative complexity and waste.

Administrative costs account for as much as one quarter of all health care spending in the United States — a significantly higher proportion than is found in other developed nations.[2] A major driver of these costs is the complexity and fragmentation of the health care system, which requires providers, health plans, and other stakeholders to navigate duplicative processes, varying requirements, and inefficient administrative workflows. California has already taken steps to address these problems. Now, the state can build on that foundation.

1) Standardize and Automate Billing Practices and Electronic Transactions

While HIPAA (Health Insurance Portability and Accountability Act) established national standards for the electronic handling of health care transactions, it left substantial room for variation in how health plans implement them. In fact, each plan publishes its own "companion guide" explaining how it implements the standard. As a result, a provider billing five different payers must comply with the standards outlined in five different guides, even though all payers use the same HIPAA transaction standard.

California could eliminate this variation by requiring all payers and providers to standardize electronic eligibility, claims, payment, and acknowledgment transactions within a single companion guide.

2) Standardize Administrative Provisions in Contracts Between Payers and Providers

Administrative provisions like submission timelines, clean claim definitions, timely payment obligations, appeal rights and procedures, amendment notification requirements, and termination notice periods currently vary widely across payer contracts, creating ongoing legal and operational complexity for providers maintaining multiple contracts.

California could reduce this burden by creating a model administrative contract template and requiring health plans and providers to use the standardized provisions in their contracts. This could reduce contracting overhead without constraining payment negotiation. Plans and providers could still negotiate rates, prior authorization lists, and quality incentives, but the administrative framework would be uniform.

3) Standardize Credentialing Forms and Processes

Starting in January 2028, every full-service health care service plan and health insurer, or their delegates, will be legally required to use the most recent Council for Affordable Quality Healthcare (CAQH) credentialing form.[3] The mandate streamlines the collection of credentialing information, but not its verification.

An opportunity for further streamlining is to require plans to accept a credentialing decision already made by another plan licensed by the California Department of Managed Health Care (DMHC) or the California Department of Insurance (CDI). Plans could be required to accept another licensed plan's credentialing decision if it was made within a defined lookback window, such as 12 months, using CAQH processes.

4) Establish Measurement, Transparency, and Accountability for Billing Complexity

No state has built a formal system to measure administrative burden and hold plans accountable for billing complexity. California could develop and publish an annual billing complexity index, tracking measures for each DMHC- and CDI-regulated plan.

Plans with high billing complexity index scores could face regulatory scrutiny, be held to higher oversight requirements, or be required to file an administrative simplification plan describing how they will reduce their index score within a defined period. This creates a continuous improvement obligation rather than a one-time compliance check and generates publicly comparable data that purchasers, including Covered California and CalPERS, could use when selecting plans to contract.

5) Reform Prior Authorization Processes

Prior authorization can play a crucial role in ensuring Californians can access safe, evidence-based, and cost-effective care. At the same time, prior authorization processes are fundamentally flawed.[4] Other states have taken the following steps to reform prior authorization that California can consider adopting:

Shorter response times. California could consider adopting shorter timelines than the current five days for standard requests and 72 hours for urgent requests.

Minimum authorization durations for chronic conditions. California could establish a minimum authorization duration for stable chronic conditions to reduce recurring administrative burden.

Same-specialty clinical review. A same-specialty reviewer requirement for denials and appeals could reduce inappropriate denials and subsequent appeals work, improve administrative efficiency, and enhance quality of care.

Prohibitions against retroactive denials. Prohibiting retroactive denials in California could reduce administrative burdens for providers associated with reopening completed claims and reconstructing documentation months after care was delivered.

Electronic prior authorization standards. California gave DMHC and CDI authority to require prior authorization standards aligned with CMS FHIR-API requirements, but neither department has exercised that authority.[5] DMHC and CDI could exercise this authority, extend equivalent requirements to commercial plans, and leverage infrastructure investments already underway at major payers.

6) Ensure Consumers Benefit from Administrative Simplification

A final cross-cutting challenge in administrative simplification is ensuring that savings flow through to the parties that bear the costs of health care — that is, employers, public programs, and ultimately patients. If administrative savings benefit only insurers or providers without lowering premiums or cost sharing, these reforms offer no affordability benefit for the people they are intended to serve. California could address this by requiring regulated plans to demonstrate, through rate filings and actuarial documentation, that administrative cost reductions are reflected in premium rates.

Learn More

Read *Policy Options to Improve Health Care Affordability: What California Can Learn from Other States* for more information or explore the issue spotlights on the other three priority areas:

Preventing medical debt and providing consumer relief

Controlling unreasonable hospital prices

Addressing consolidation and anti-competitive market practices

About the Authors

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Caitlin Otter, MPH, is a consultant at Bailit Health. She supports states in their commercial health care affordability initiatives and quality measurement. Caitlin previously worked at AcademyHealth with the Evidence-Informed State Health Policy Institute to increase the use of relevant, timely, and translatable evidence in state health policymaking.

Anna Rothenberg, MPH, is a consultant at Bailit Health. Anna supports states in their efforts to advance commercial health care affordability. Her work also focuses on Medicaid and supporting state Medicaid agencies, managed care organizations, and nonprofit partners with evaluations, quality strategies, and procurements. Anna previously conducted qualitative and quantitative clinical research at Boston Children's Hospital.

Michael Bailit, MBA, is founder and president of Bailit Health, where he focuses on how purchasers and regulators can influence health care markets to operate as effectively and efficiently as possible. He has worked with state agencies and employer purchasing coalitions in more than 30 states.

Bailit Health is a health policy consulting firm that assists state agencies and their partners with strategy development and implementation, program design, multistakeholder process management, project management, and health policy research and analysis.

About the Foundation

The **California Health Care Foundation** is dedicated to advancing meaningful, measurable improvements in the way the health care delivery system provides care to the people of California, particularly those with low incomes and those whose needs are not well served by the status quo. We work to ensure that people have access to the care they need, when they need it, at a price they can afford. CHCF informs policymakers and industry leaders, invests in ideas and innovations, and connects with changemakers to create a more responsive, patient-centered health care system.

Endnotes

1. The 2026 CHCF California Health Policy Survey
2. *Nikhil R. Sahni et al., "*Administrative Simplification and the Potential for Saving a Quarter-Trillion Dollars in Health Care," *JAMA* 326, no.17 (2021):1677-1678; Nikhil R. Sahni et al., "Administrative Simplification: How to Save a Quarter-Trillion Dollars in US Healthcare," McKinsey & Company, October 20, 2021; and William H. Shrank et al., "Waste in the US Health Care System: Estimated Costs and Potential for Savings," *JAMA* 322, no.15 (2019):1501-1509.
3. A.B. 1041, 2025–26 Leg., Reg. Sess. (Cal. 2025).
4. Lauren Bedel and Wendy Warring, *Improving the Prior Authorization Process: Recommendations for California*, CHCF, July 2024.
5. S.B. 1419, 2021–22 Leg., Reg. Sess. (Cal. 2022).