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Retiree Pension and Health Benefits

Costs in the Healthcare Industry

Value in, Volume out



How do the costs compare with the outcomes achieved?

How are costs analyzed and aggregated?

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Determining Costs



Are common costs

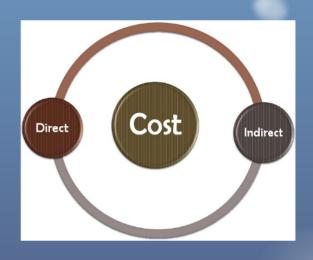
-Act as internal "tax

ed using absorption cost systems

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Indirect Costs

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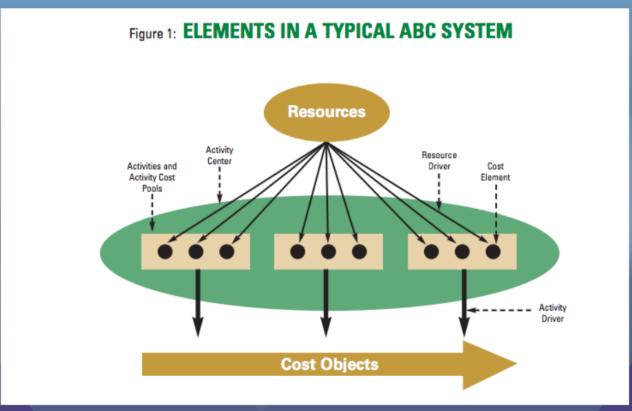


-Are common costs

-Act as internal "tax"

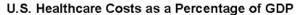
-Are allocated using absorption cost systems

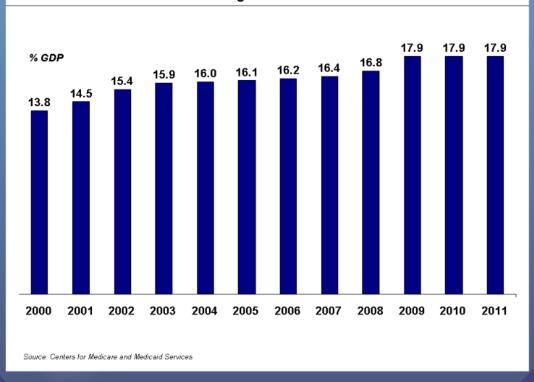
Activity Based Costing Systems



Retrieved from

Costs in the Healthcare Industry





The Problem



How much does it cost to deliver patient care? How do the costs compare with the outcomes achieved?

How are costs analyzed and aggregated?

Repercussions of Poor Costing Systems

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-Efficient providers go unrewarded

-Gives inefficient providers little incentive to improve

- Prevents identification of areas for cost reduction

The Time-Driven Activity Based Costing System





Time Driven ABC system (TDABC)

Unit Cost Estimate

 $Capacity Cost Rate (CCR) = \frac{\text{cost of capacity supplied}}{\text{Practical capacity of resources supplied}}$

Unit Time Estimate

Activity costdriver = Time for activity × Unit cost of capacity

Redefining the Cost Objects

Value in, Volume out

-Allows reallocation of spending among services

-Eliminates non-value adding services

-Enables better use of capacity