

Alaska's \$7.5 Billion Health Care
Industry –
What is the outlook?
Where are the opportunities to
improve value?

Prepared for: State of Alaska Department of Health and Social Services, Alaska Health Care Commission

MAFA/ISER, June 23, 2011

Foreword

- ▶ This work was conducted by MAFA in consultation with UAA ISER to update our March 2006 research summary “Alaska’s \$5 Billion Health Care Bill – Who’s Paying?” and to supplement the update with new information on what drives the cost of health care. Funding was provided by the State of Alaska Department of Health and Social Services.
- ▶ This chartbook updates our estimate of health care spending in Alaska based on National Health Expenditure Accounts (NHEA) in 2010 and is based on currently available data. While every effort has been made to develop a comprehensive and accurate estimate, we note that in the absence of a statewide all claims database, the information developed relies upon a variety of sources and may reflect both gaps and double counting.
- ▶ The most recent CMS National Health Expenditure estimates by State is from 2004. While we use the CMS definitions for national health expenditure accounts, we note that the CMS methodology to estimate State expenditures is a top down methodology that allocates costs to States. We believe the CMS methodology may underestimate Alaska’s health care spending as it may underestimate public health, military, Indian Health Service, and administrative overhead in the Alaska market.
- ▶ The information and analysis presented herein has been independently developed by MAFA in consultation with UAA ISER and does not necessarily reflect the views of any of our clients.
- ▶ Any errors of omission, commission remain the responsibility of the primary author, Mark A. Foster. Please direct any questions or comments to mafa@gci.net

Study Overview

- ▶ We start with the CMS National Health Expenditure Accounts and State by State estimates (2004; scheduled to be updated by CMS to 2009 in the 4th quarter of 2011). The official National Health Expenditure Accounts (NHEA) do not capture all health-related spending. Please see “The hidden costs of U.S. health care for consumers: A comprehensive analysis”, Deloitte Center for Health Solutions, Washington, D.C. (March 2011) for a current industry estimate of what’s excluded from NHEA (+14.7%).
- ▶ We have attempted to develop estimates for the period 2005-2010 using Medicaid, Medicare and publicly available information, including Hospital and Skilled Nursing Home CMS cost reports, & audited financials (2009), most recent federal and state expenditures in the public record, Consolidated Federal Funds Report, U.S. Census Bureau, U.S. Bureau of Labor Statistics, CMS Office of the Chief Actuary, CBO, Medical Expenditure Panel Survey (MEPS, 2009), and a variety of industry surveys and sources (AHA, AMA, Deloitte, Ingenix, MGMA, UBA, United Health Foundation, among others).
- ▶ In developing our estimates for what is driving the cost of health care, we have consulted economics of health care texts, the peer review literature and industry publications.
- ▶ In addition, we have developed high level trend analysis based on available data and relied upon our work in Alaska health care sector over the past several years to inform judgments about whether and how any particular data and analysis may be more useful than another in an attempt to estimate costs and cost drivers. We continue to look for more detailed data to enable us to drill down into particular segments to better understand the particular factors that may be driving the proverbial balance between cost, access, quality and efficiency/effectiveness.
- ▶ We would like to thank the Alaska Health Care Commission, Deborah Erickson, Dr. Ward Hurlburt, and Commissioner Streur for their support of this work.

Health Care Costs

What's included/excluded from HE accounts

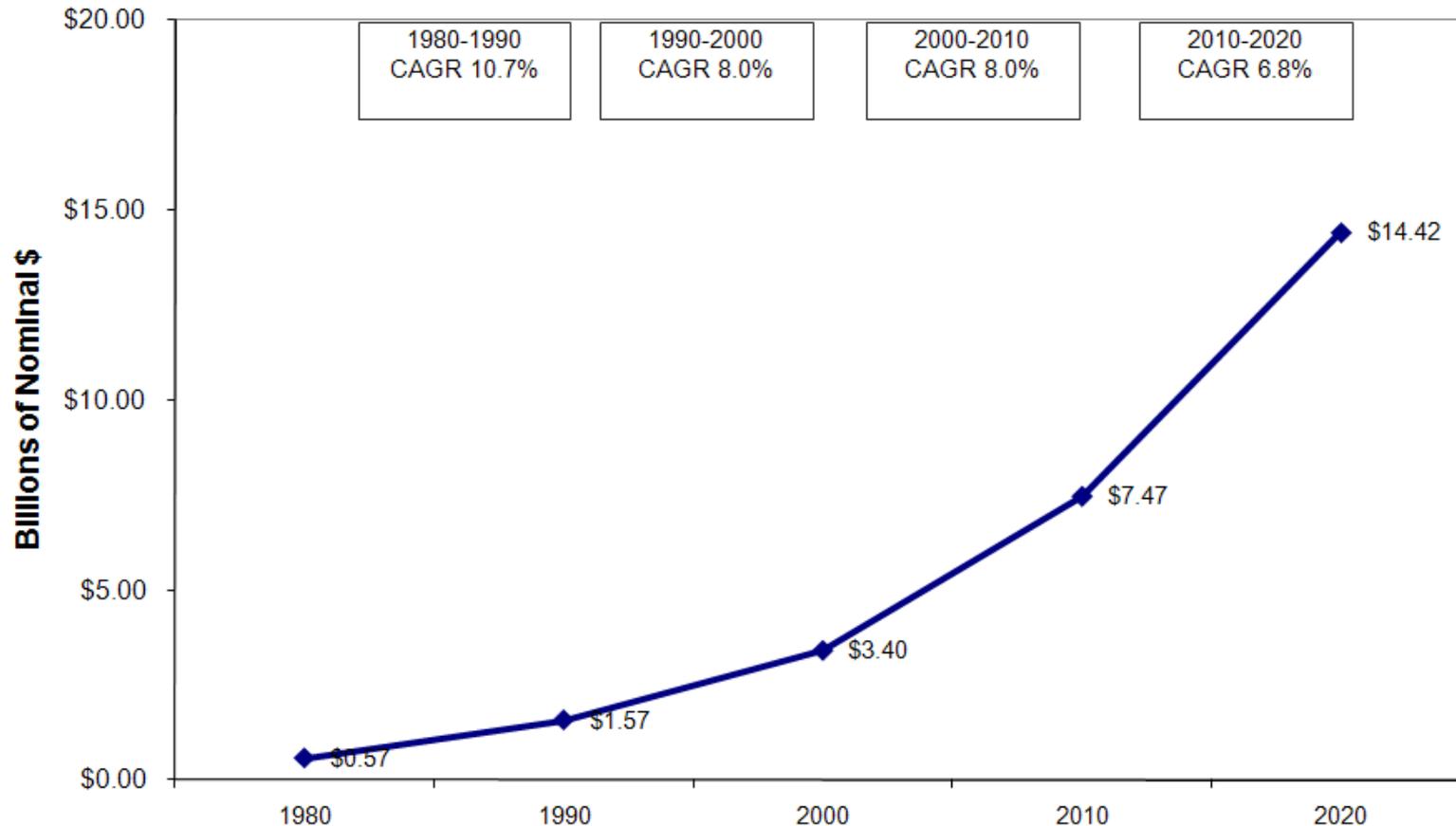
National Health Expenditure Accounts (NHEA) (CMS)	Other health related expenditures not included in this study
Hospital Care	Fitness and recreational sports centers
Physician & clinical services	Herbs and botanicals
Other professional services	Spas, baths, saunas
Dental services	Meal supplements
Other personal health care*	Natural and organic food
Home health care*	Natural and organic personal products
Nursing care facilities & continuing care retirement communities	Sports nutrition
Prescription Drugs	
Durable medical equipment	
Non-durable medical products	
Government administration & net cost of private health insurance	
Government public health activity	
Research structures and equipment	

Overview

- ▶ How much do we spend on health care?
- ▶ How fast are health care costs growing?
- ▶ What's driving the growth?
- ▶ Who pays for health care?
- ▶ What factors drive health outcomes?
 - ▶ Behavior, genetics, social, access to quality medical care, environmental exposures
- ▶ Opportunities to improve value in health care
 - ▶ McKinsey Global Institute, Commonwealth Fund, RAND, Kelley & Fabius
- ▶ Alaska Context

Cost of Health Care in Alaska Next Ten Years - Baseline Projection

Alaska Health Care Expenditures History & Outlook



Cost of Health Care in Alaska

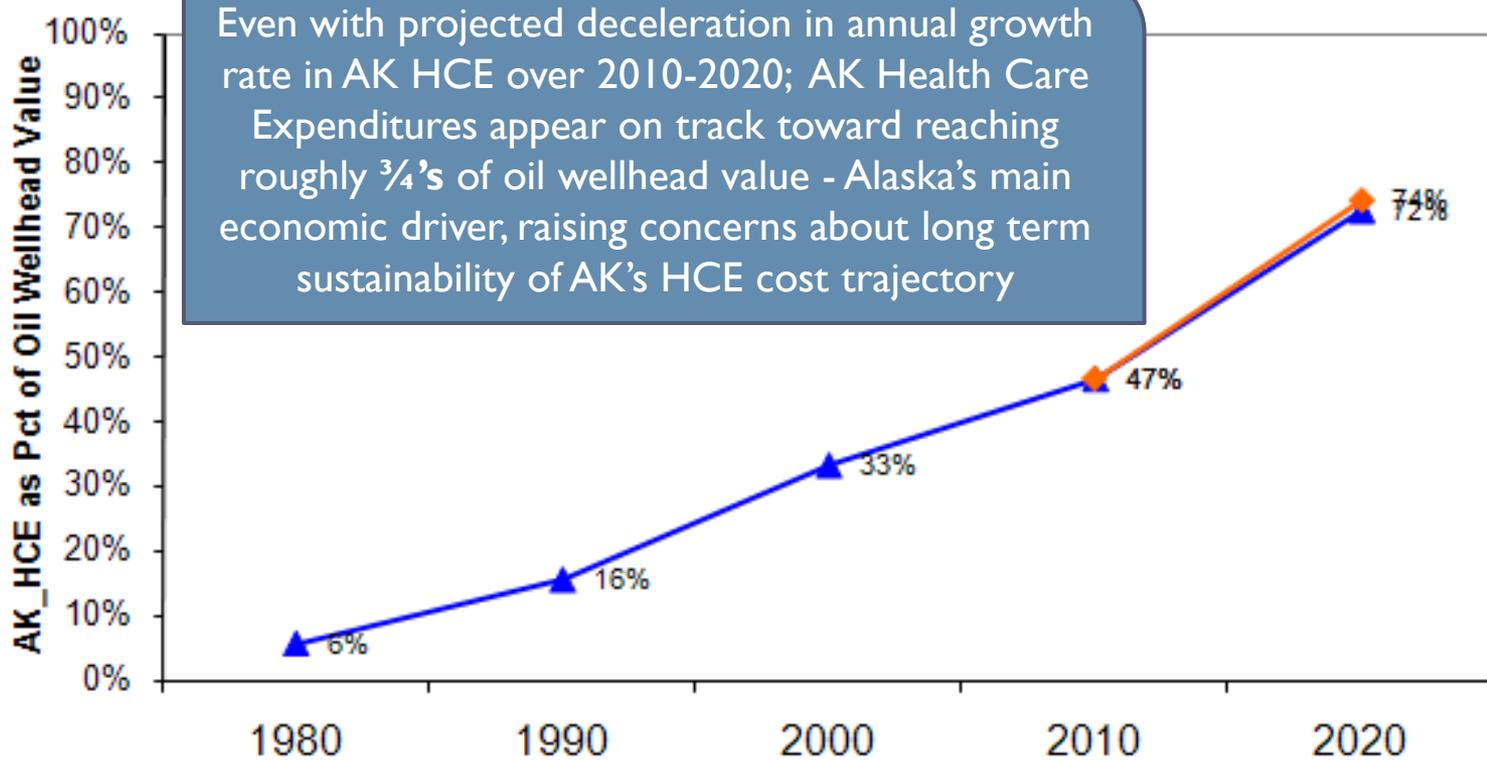
Next Ten Years – Baseline + PPACA Increment

Alaska Health Care Expenditures as Pct of Oil Value at Wellhead

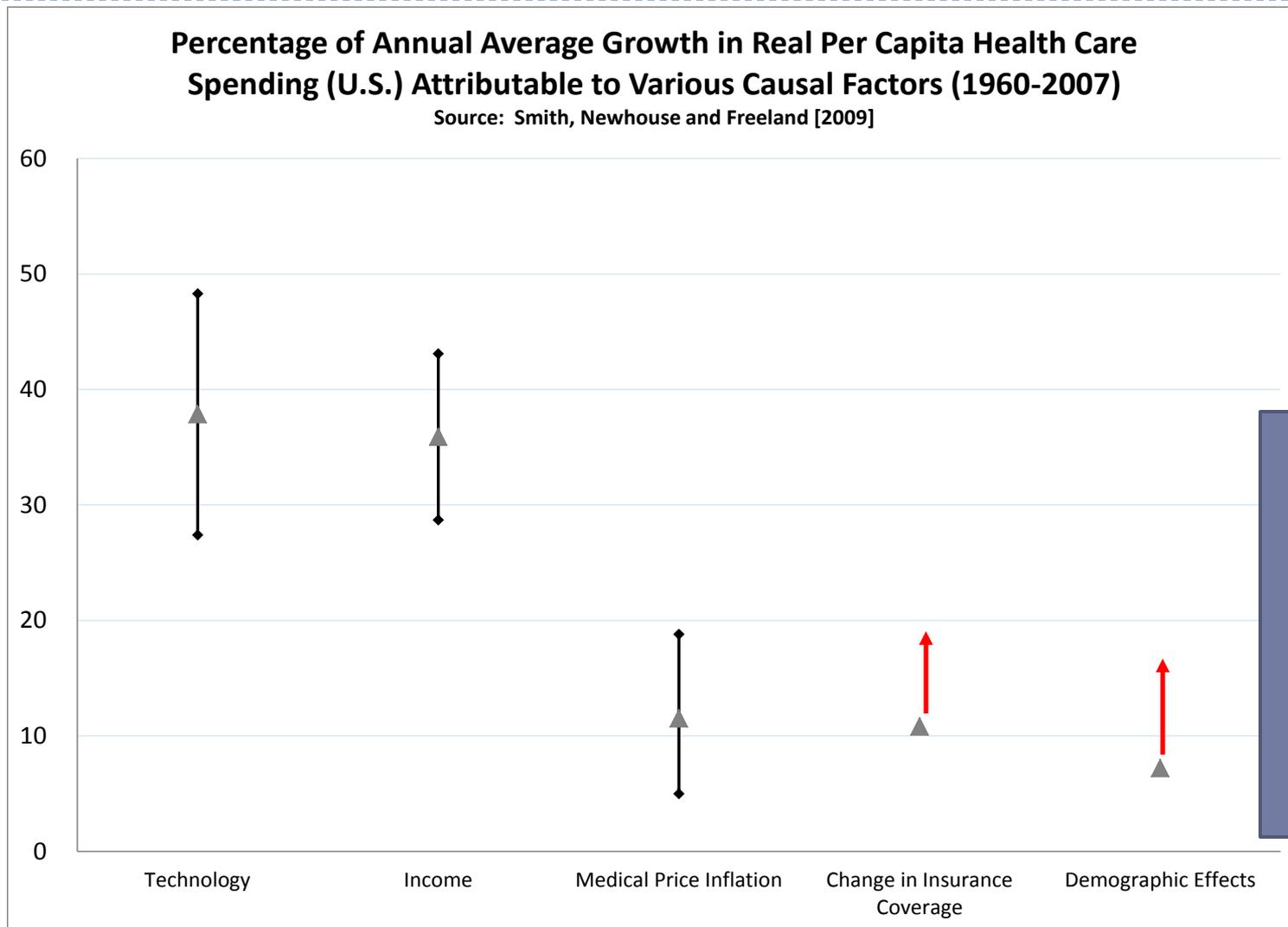
State of Alaska Spring 2011 Revenue Forecast

With & Without PPACA

MAFA Alaska Health Care Expenditure Projection



Factors contributing to annual growth in health spending (U.S. 1960-2007)



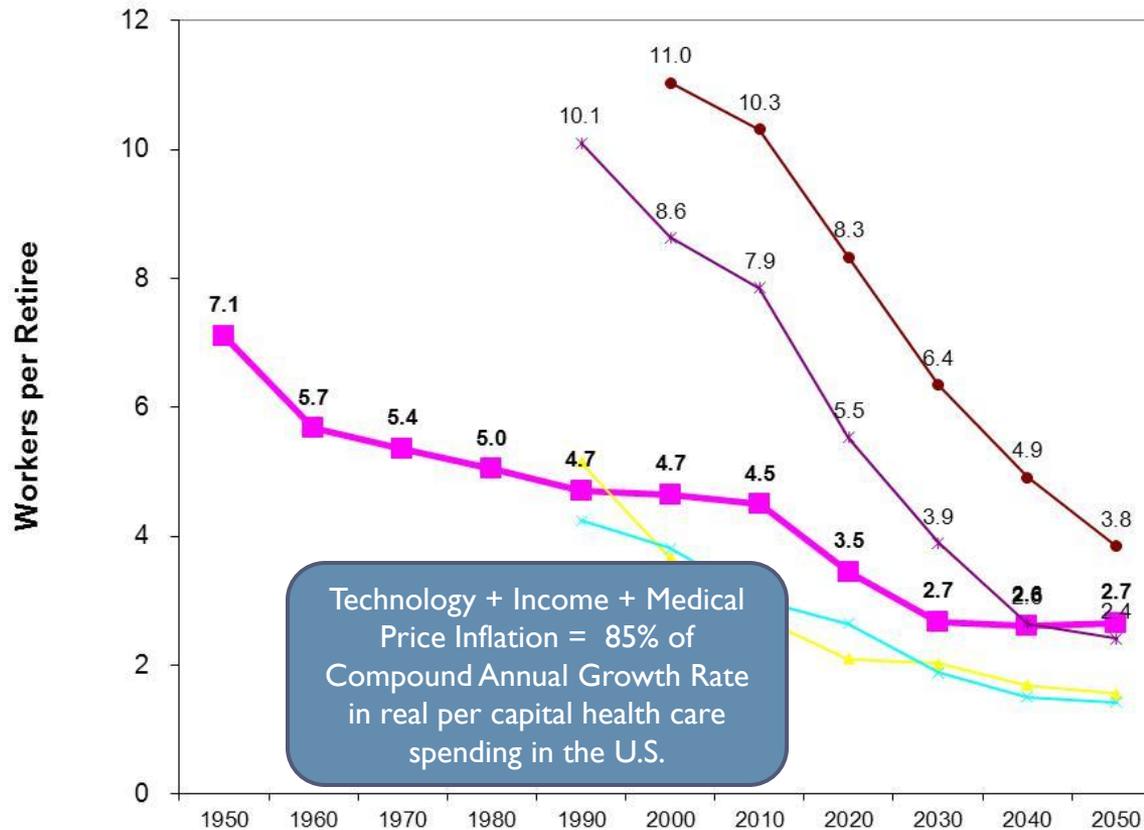
Outlook to 2020 is for an increase in insurance coverage + demographic effects. How much will other effects moderate?

Cost of Health Care

Outlook – Demographic Transitions Present Challenges

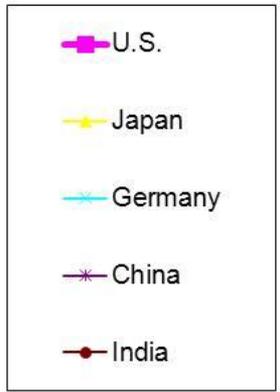
Workers Per Retiree - International Comparisons

Source: U.S. Bureau of the Census, International Data Base (2010)



Technology + Income + Medical Price Inflation = 85% of Compound Annual Growth Rate in real per capita health care spending in the U.S.

US: Long demographic moderation (1960-2010) followed by boomer retirement wave (2010-2030)

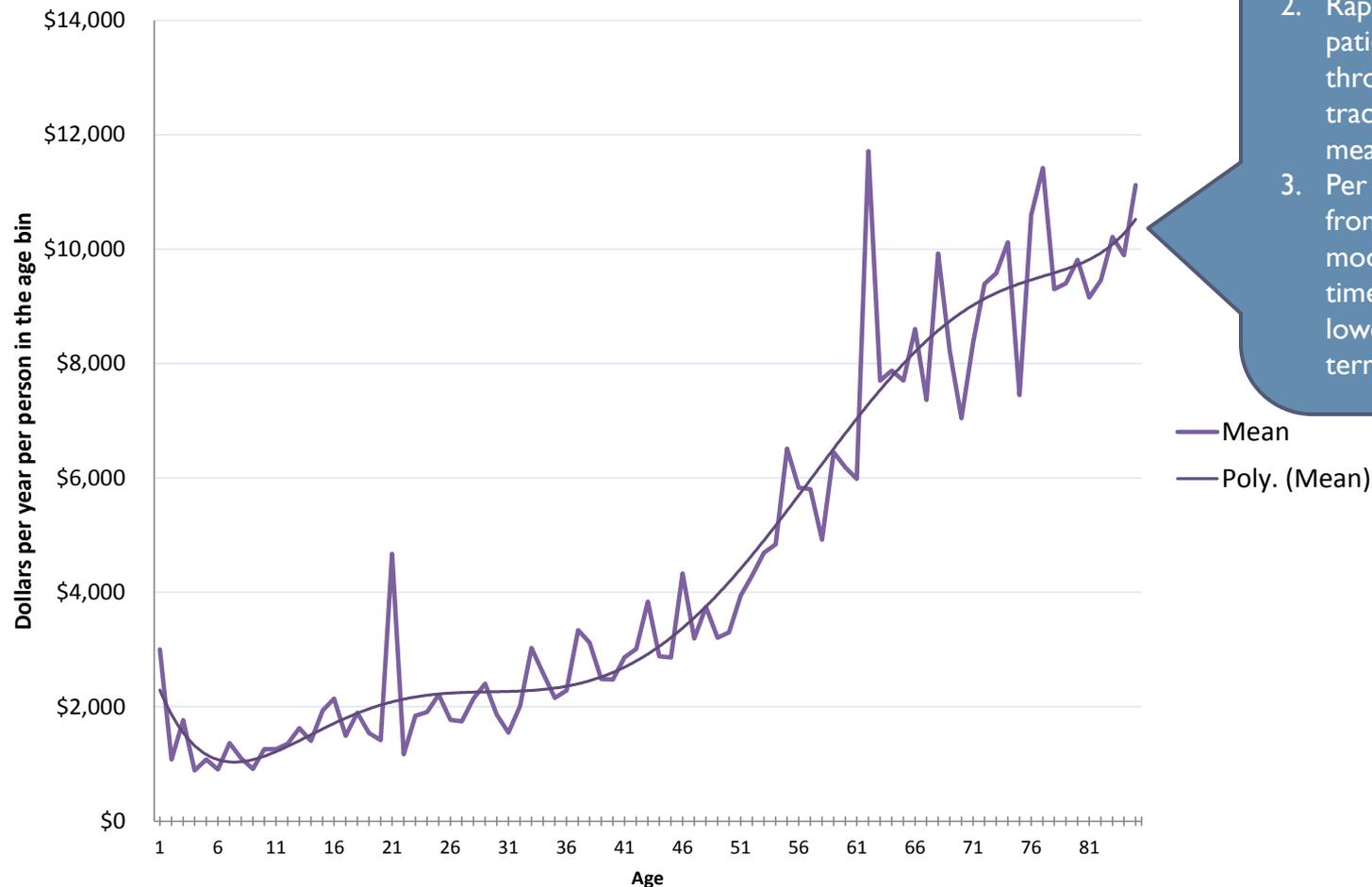


Health Expenditures by Age

Annual Snapshot of Mean cost per patient by age

Distribution of Total Health Care Expenses by Age, U.S

Source: Medical Expenditure Panel Survey, Household Component, 2008 data



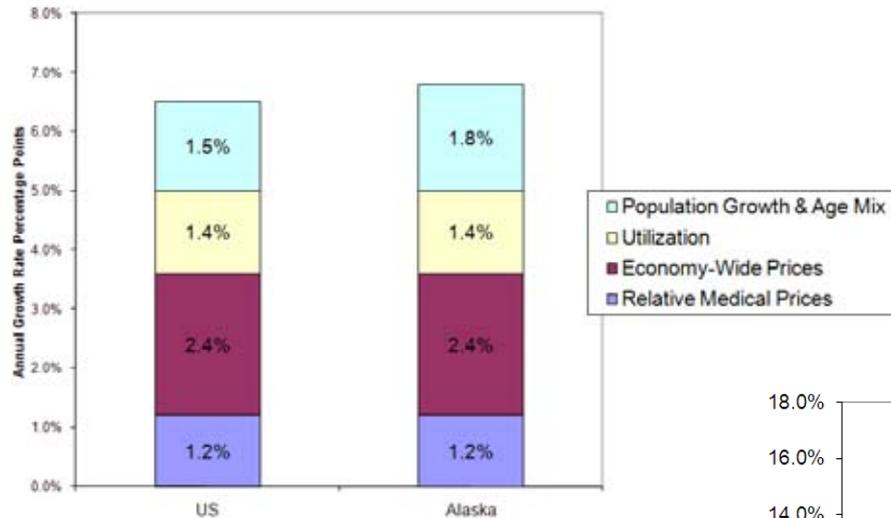
Notes on Age Mean vs. Population Mean:

1. Birth and first year costs are increasing faster
2. Rapid growth in per patient cost from 40's through 65 roughly tracks overall population mean
3. Per patient cost growth from 65+ has moderated slightly over time with shift toward lower intensity long term care

Cost of Health Care In Alaska

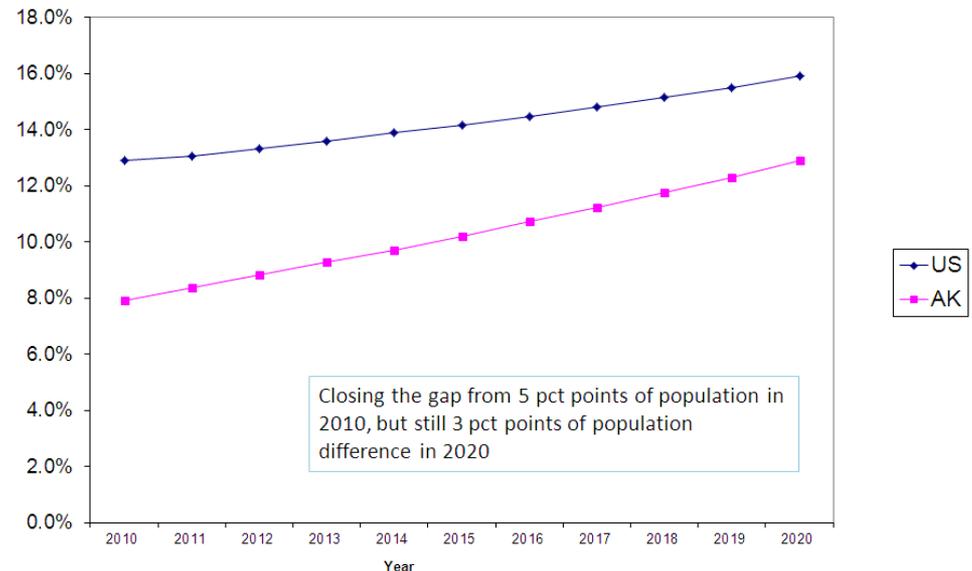
Next Ten Years – Basic Cost Growth Drivers

Factors Contributing to Projected Baseline Growth In Health Care Expenditures, 2010-2020



>65 population in Alaska is growing more rapidly than U.S.

Alaska & U.S. Demographic Outlook - Percentage of Population 65 and older



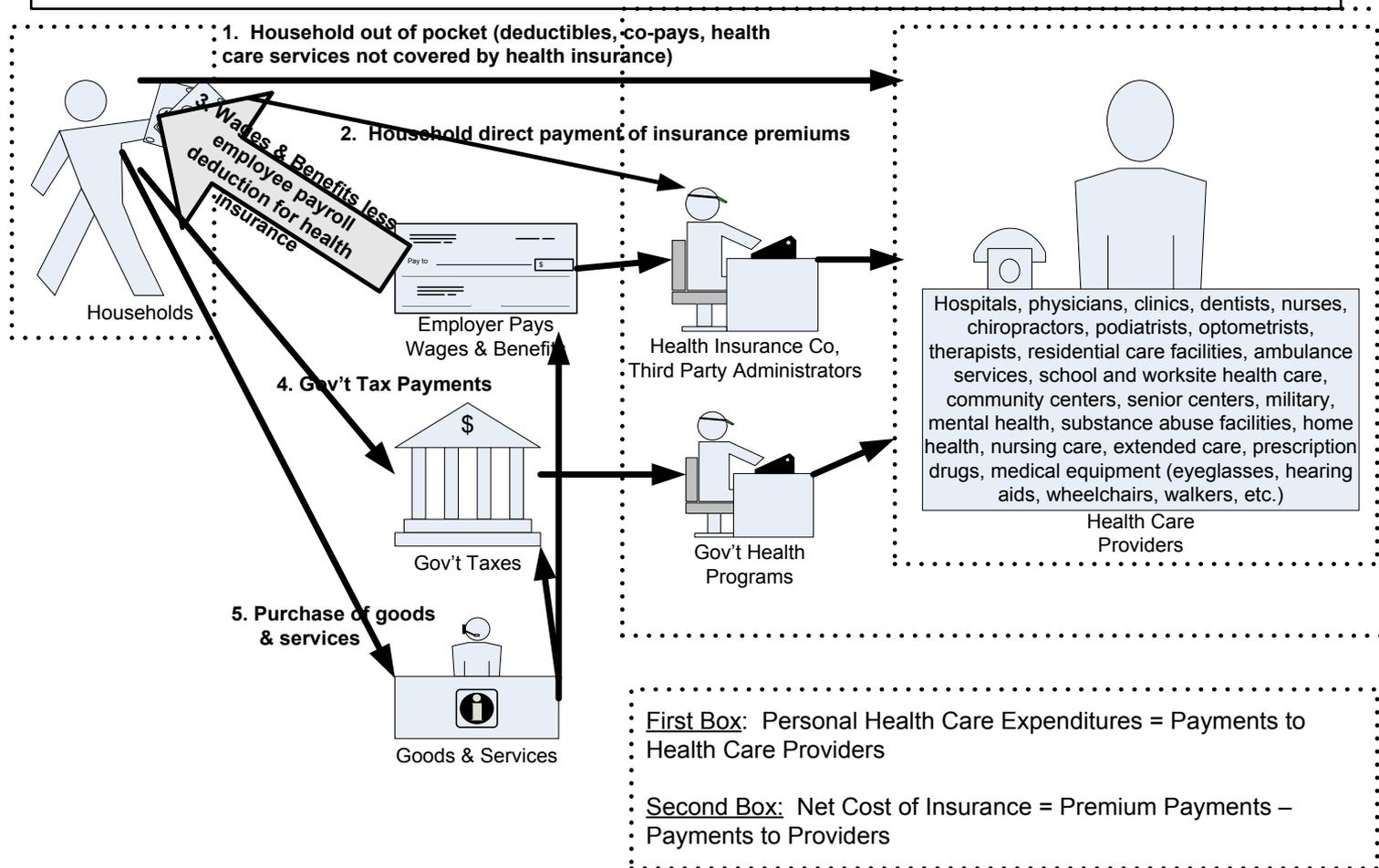
Closing the gap from 5 pct points of population in 2010, but still 3 pct points of population difference in 2020

U.S.: Population and age mix contribute roughly 1/4 of health care cost growth in next 10 years

Health Care Costs

Who pays? In the end, households pay. But there are a lot of intermediaries and potential for cost shifting.

Figure 1: The Health Care Expenditure Map

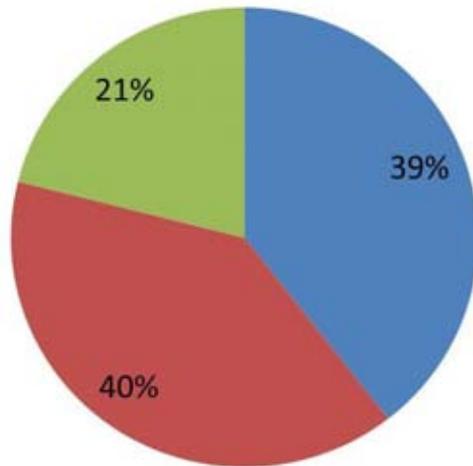


Health Care Costs

Who pays?

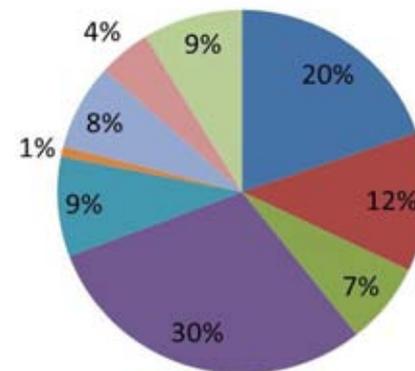
Alaska Health Care Expenditures - Who Pays?
2010

■ Employers ■ Government Programs ■ Individuals



Alaska Health Care Expenditures - Who Pays? (2010)

■ Employer - Business ■ Employer - State/Local Gov't
■ Employer - Federal Gov't ■ Gov't Program - Federal
■ Gov't Program - State ■ Gov't Support - Local
■ Individuals - Out of Pocket ■ Individuals - Direct Purchase
■ Individuals - ESI Payroll



Opportunities to Improve Health Care Value

Overview

- ▶ What drives health outcomes?
- ▶ What do we mean by “value” in health care?***
 - ▶ Achieving high value for patients must be the overarching goal of health care delivery
 - ▶ Value defined as “health outcomes achieved per dollar spent”
 - ▶ Rigorous disciplined measurement and improvement of value is the best way to drive system progress
 - ▶ Value should always be defined around the customer
- ▶ Selection of quantitative assessments of opportunities to improve value in health care
 - ▶ McKinsey, Commonwealth Fund, RAND, Kelley & Fabius
- ▶ Alaska Context

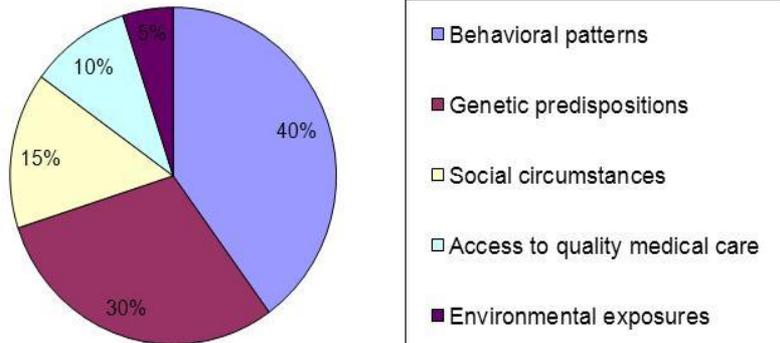
***See also Michael E. Porter, “What is Value in Health Care?” NEJM, December 23, 2010

What drives health outcomes?

Two Illustrative slices through historic data (c. 2002, 2010)

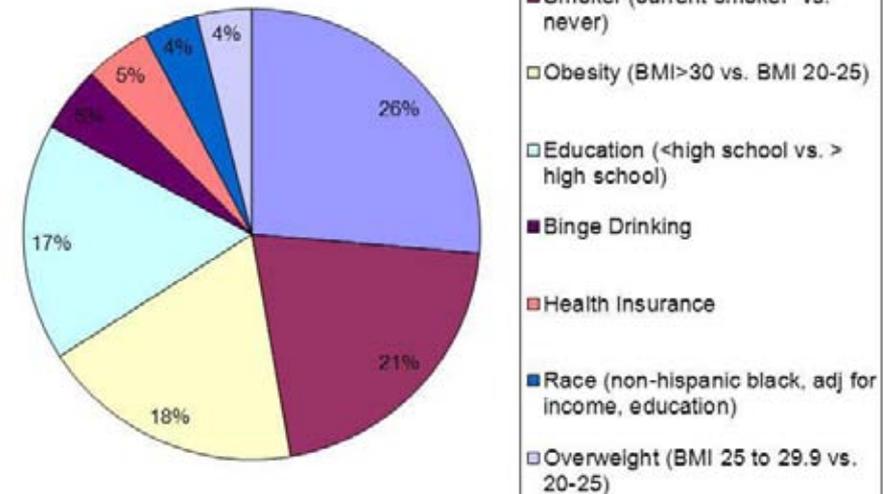
Factors Contributing to Early Death (U.S.)

McGinnis, et al., Health Affairs, March/April 2002



QA Life Years Lost by Age 65 (U.S., 2002)

Muenning, et al., Am J. Public Health, Sept 2010



MAFA Notes:

1. What you look for and when you look may have a material impact on the results.
2. Technical innovations aimed at changing behavioral patterns are being developed and sold across medical care and complementary care and direct to consumer channels. Scientific research continue to push the frontier of knowledge about genetic predispositions and technical innovations in genetic medicine are emerging involving somatic stem cells, gene transfer, and RNA modification [Nature, 2006].

Opportunities to Improve Health Care Value

McKinsey Global Institute, illustrative intervention matrix (2008)

	Awareness	Incentives	Mandates	Direct Action
Prevention	Educate public on diet, exercise, smoking, safe sex	Contribute to HSAs based on lifestyle changes	Restrict air pollution that is harmful to public health	Create public water and sewage systems
Value Consciousness	Publish hospital quality metrics on the Internet	Tier benefit designs to encourage use of select providers	Exclude coverage for high-cost providers for procedures	n/a
Capacity	Conduct public needs assessments to inform private investment	Forgive loans for physicians practicing in underserved areas	Require regulatory approval based on demonstration of need	Build public hospitals in underserved communities
Quality, safety and service	Publish guidelines for evidence-based medicine	Pay bonuses to providers for implementing EBM	License/credential providers based on minimum standards	Improve the quality of publicly run hospitals
Cost competitiveness	Document and demonstrate best practices in lean operations	Negotiate preferred vendor agreements with low-cost providers	Impose standard pricing for all MDs, set at low level to drive cost reductions	Increase the efficiency of publicly run hospitals
Financing	Educate consumers about the need to save for long-term care	Offer tax subsidy for purchase of employer-sponsored coverage	Mandate insurance coverage for all not covered by public entitlement programs	Offer tax-financed entitlement program

Source: MGI, "Accounting for the cost of US Health Care: A new look at why Americans spend more," p. 113, Exhibit 81 (2008)

Opportunities to Improve Health Care Value

Commonwealth Fund “Bending the Curve” (December 2007)

Policy Options	Net Cumulative Savings in Health Expenditures Billions \$ (10 years)	Pct. Net Cumulative Impact on HE (10 Years)
Center for Medical Effectiveness & Health Care Decision Making	\$368	1.10%
Public health: reducing obesity	\$283	0.80%
Episode-of-care payment	\$229	0.70%
Public health: reducing tobacco use	\$191	0.60%
Strengthening Primary Care & Care Coordination	\$194	0.60%
Limit payment updates in high-cost areas	\$158	0.47%
Limit federal tax exemptions for premium contributions	\$131	0.40%
All-payer provider payment methods and rates	\$122	0.37%
Competitive bidding	\$104	0.31%
Promote Health Information Technology	\$88	0.20%
Reset benchmark rates for Medicare Advantage Plans	\$50	0.15%
Negotiated prescription drug prices	\$43	0.13%
Hospital pay-for-performance	\$34	0.10%
Positive incentives for health	\$19	0.06%
Patient Shared Decision Making	\$9	0.03%
TOTAL	\$2,023	6.02%

Opportunities to Improve Health Care Value

RAND Health COMPARE (2005-2011)



Published on RAND Health COMPARE (<http://www.randcompare.org>)

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Analysis of Options

Explore the effects of commonly proposed health care reforms. Click on the links to understand how changes in insurance coverage, benefit design, payment rules, and other policy options will affect overall spending, consumer financial risk, health, and other dimensions of performance.

	Spending	Consumer Financial Risk	Waste	Reliability	Quality Experience	Health	Coverage	Capacity	Operational Feasibility
Change Insurance Coverage									
Individual Mandate	No Effect	No Effect	Uncertain	No Effect	Improve	Improve	Increase	No Effect	Difficult
Employer Mandate	No Effect	No Effect	No Effect	No Effect	Uncertain	Improve	Increase	No Effect	Moderate
Purchasing Pools	No Evidence	Uncertain	Uncertain	Uncertain	Improve	No Evidence	Uncertain	No Evidence	Difficult
Refundable Tax Credit	No Effect	No Effect	Uncertain	No Effect	Uncertain	Improve	Increase	No Effect	Moderate
Medicaid/SCHIP Eligibility	No Effect	Decrease	Uncertain	No Effect	Uncertain	Improve	Increase	No Effect	Easy
Open Access to Government Employee Program	No Effect	Uncertain	No Evidence	No Effect	Uncertain	Improve	Increase	Uncertain	Uncertain
Change Benefit Design									
High Deductible Health Plans	Decrease	Uncertain	Uncertain	Uncertain	Uncertain	Uncertain	Uncertain	No Effect	Easy
Change Payment Rules									
Physician Pay for Performance	Uncertain	Not Applicable	No Evidence	Uncertain	Uncertain	Uncertain	Not Applicable	Not Applicable	Difficult
Hospital Pay for Performance	Uncertain	Not Applicable	No Evidence	Increase	Uncertain	Uncertain	Not Applicable	Not Applicable	Difficult
Bundled Payment	Decrease	Decrease	No Evidence	No Evidence	Uncertain	Uncertain	Not Applicable	Not Applicable	Difficult
Comparative Effectiveness	Uncertain	Uncertain	Uncertain	Uncertain	Improve	Uncertain	Not Applicable	No Evidence	Moderate
Change Health Services Delivery									
Health IT	Uncertain	No Evidence	Uncertain	Uncertain	Uncertain	Uncertain	Uncertain	Uncertain	Difficult
Disease Management	Uncertain	No Evidence	No Evidence	Increase	Uncertain	Uncertain	Not Applicable	No Evidence	Easy
Change Legal Environment									
Medical Malpractice	Decrease	Decrease	No Evidence	No Evidence	Uncertain	Uncertain	No Evidence	Uncertain	Easy

Source URL (retrieved on 06/26/2011 - 23:02): <http://www.randcompare.org/analysis-of-options>

Options with evidence that points to the potential to Decrease Waste

Bundled Payment

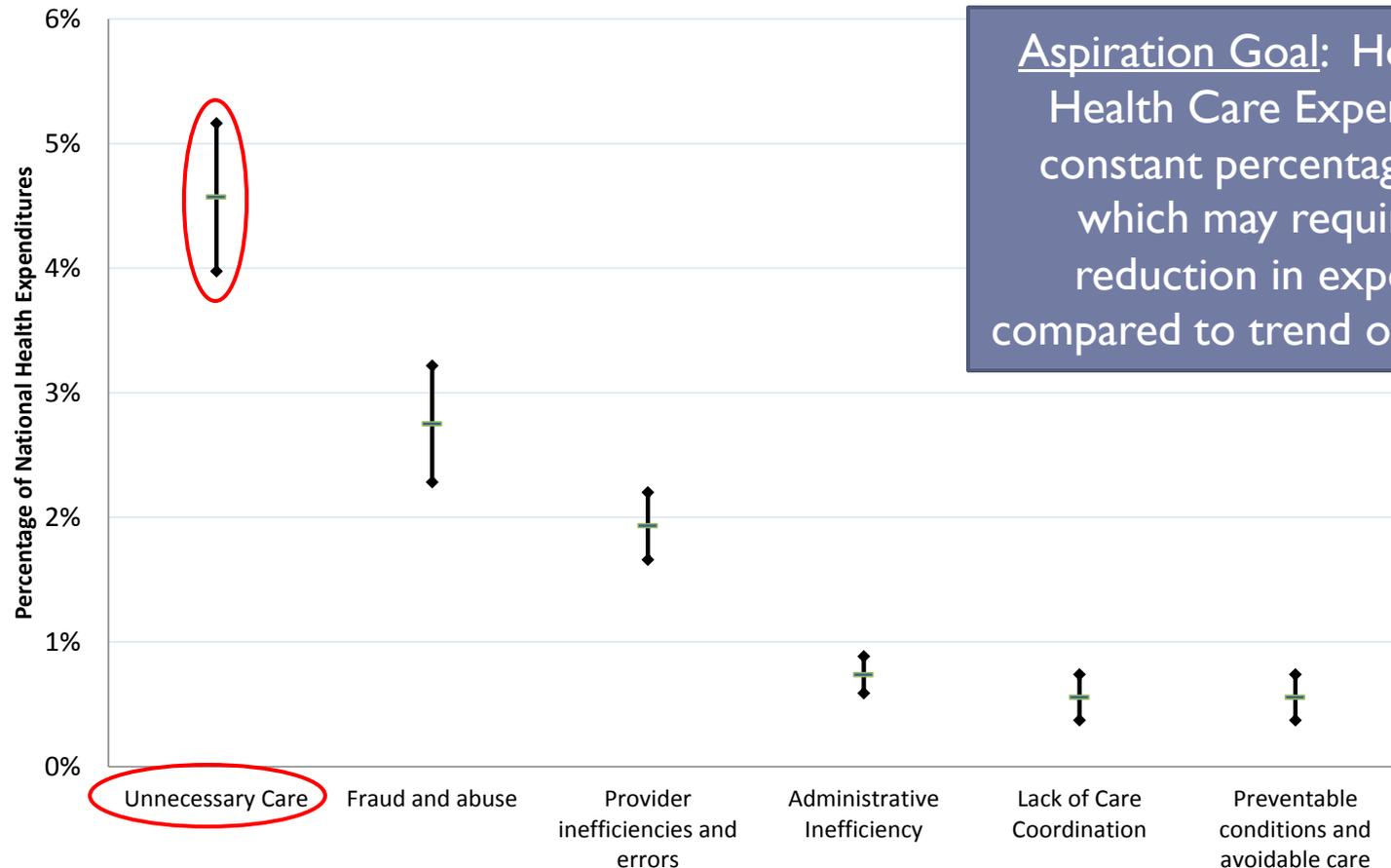
Medical Malpractice

Opportunities to Improve Health Care Value

Kelley & Fabius, "Path to Eliminating Wasteful Health Care Spending" (2010)

Potential Savings from Eliminating Wasteful Healthcare Spending Over Ten Years (2010-2020)

Source: Kelley & Fabius, 2010



Aspiration Goal: Hold National Health Care Expenditures at constant percentage of GDP* which may requires ~10% reduction in expenditures compared to trend over ten years.

Opportunities to Improve Health Care Value

Kelley & Fabius, “Path to Eliminating Wasteful Health Care Spending” (2010)

Strategies to reduce unnecessary care: ~4-5% of National Health Expenditures

1. Consumer Activism & Transparency

- ▶ Encourage patients to become better consumers of health care
- ▶ Better information on alternative treatment and its comparative effectiveness
- ▶ Evidence based benefits designs; reward beneficiaries for taking care of themselves

2. System Improvements & Care Coordination

- ▶ Build Electronic Medical Record (EMR) systems with connectivity among providers
- ▶ Provide care management programs
- ▶ Develop centers of excellence
- ▶ Promote integrated delivery systems that put the patient at the center of the process

3. Medical Home & Culture of Health

- ▶ Ensure that patients are actively engaged, along with their clinicians, in managing their own health through attention to personal behavior, disease prevention, early detection, and appropriate care for chronic disease
- ▶ Promote healthy workplaces and environments that make wellness a priority
- ▶ Patients must take responsibility for their own health
- ▶ Medical home emphasizes the partnership and the specific roles of patients and care teams (care coordinator, therapists, nurses, nutritionists, psychologists and pharmacists)

4. Patient Safety & Quality Improvement

- ▶ Encourage and support quality improvement initiatives and a “culture of performance improvement”

5. Simplify Reimbursement & Reduce Opportunities for Fraud & Abuse

- ▶ Engage the community, including patients and providers, in programs that make the billing process easier and eliminate opportunities for fraud and abuse. Provide recognition for excellent payment integrity.

Opportunities to Improve Health Care Value

Alaska Coverage & Care Context (2010)

