

Part II: Understanding Alaska's Health Care System Challenges

A. Summary of Prior Year Findings

Concerns regarding the current condition of Alaska's health care system described in detail in past years' reports include the following. Please see the Commission's 2009 and 2010 reports for more detailed findings and discussion.

- The high and rising cost of health care in Alaska is unsustainable.
- Health insurance coverage in Alaska is inadequate.
- Providers and patients experience logistical challenges in the delivery of and in accessing health care services.
- Fragmentation and duplication in Alaska's health care system creates inefficiencies.
- Alaska suffers from shortages and maldistribution of health care workers.
- Health status, health risk behaviors and changing demographics contribute to high utilization of health care services.
- Use of modern health information technology is taking hold in Alaska, but much remains to be done.
- Alaskan Medicare enrollees living in urban areas have trouble accessing primary care.

B. 2011 Study: Cost of Health Care in Alaska

The commission contracted for two studies this year to learn more about the cost of health care in Alaska. One was an economic analysis conducted by the Institute for Social & Economic Research (ISER)/MAFA on spending for health care services in Alaska, including estimates of total spending levels by payer and types of services. The other was an actuarial financial analysis conducted by Milliman, Inc., an international health care actuarial consulting firm, on health care pricing for hospital and physician services.

The purpose of these studies was to provide information regarding health care cost drivers in Alaska to inform future policy recommendations aimed at improving affordability and access to care. Hospital and physician services were the first two areas selected for actuarial study because they represent the highest proportion of spending for health care in Alaska at 31.5% and 28% (respectively), compared to 9% for prescriptions and equipment, 3% for nursing home and home health care services, 5.5% for dental services, 10% for administrative costs, and 13% for all other services. The commission plans to study pricing for skilled nursing facility care and prescription medication during the coming year.

The economic analysis conducted by ISER/MAFA identified trends in levels of spending, who is paying the bills and how cost shifting occurs between payers, the services Alaskans are buying, the numbers of Alaskans with health insurance, and the proportion of employers offering health care coverage to their employees. This study was published in August and is available on ISER's web site at:

<http://www.iser.uaa.alaska.edu/Publications/RevisedHealthcare.pdf>

The actuarial financial analysis of physician payment rates conducted by Milliman compares health care prices for the top 25 utilized procedure codes for each of 17-18 physician specialties in Alaska with five other states: Washington, Oregon, Idaho, Wyoming, and North Dakota. This analysis includes a comparison of billed and allowed charges for commercial payers, and fees for Medicare, Medicaid, Workers' Compensation, the Veteran's Health Administration, and TRICARE. The report on physician

payment rates also includes a comparison of the average reimbursement level for durable medical equipment (DME) overall and by payer.

The hospital payment rate analysis compares payment levels in Alaska's non-federal facilities with non-federal facilities in the same five comparison states plus Hawaii. Hawaii was added at the request of the state hospital association because it has logistical challenges somewhat similar to Alaska's, such as those associated with transportation costs, and because of the similarly high cost-of-living. This analysis was restricted to non-federal hospital facilities due to data limitations, and because federal facilities serve a defined beneficiary population, have unique federal funding streams, and operate under differing rules than non-federal facilities. Additionally, the commission's recommendations are primarily targeted at state government policy leaders and will have more limited influence on federal and tribal policies.

The hospital analysis includes 100% of the non-federal acute care facilities and 74% of licensed acute care beds in Alaska (federal tribal and military hospitals support 19% and 7% respectively of total licensed beds). The commission may choose to conduct a separate analysis of price reimbursement levels and cost drivers for federal tribal and military hospital services at some point in the future if analysis of potential strategies related to affordability, cost of care and sustainability of the health care system require this additional information.

The analyses of hospital and physician payment rates and cost drivers are presented in three reports from Milliman, Inc., available on the commission's website at: <http://www.hss.state.ak.us/healthcommission/2011commissionreport.htm>. Note that these reports are systems-level analyses and are not intended to be utilized as an evaluation of individual facilities or physician practices. Statistics for individual facilities vary widely within the systems-level averages presented, and conclusions should not be drawn about specific facilities from these data without review of each individual facility's financial and cost reports.

The commission's findings on the cost of health care described below are based on the ISER reports, as well as other studies published in peer review journals, as well as preliminary data from the Milliman reports. The Milliman reports will be published and available to the public by early December.

Findings

- **Health care spending in Alaska continues to increase faster than the rate of inflation, and consumes a growing share of Alaska's wealth.**
 - Total spending for health care in Alaska reached \$7.5 billion in 2010, a 40% increase from 2005. At current trends it is projected to double to more than \$14 billion by 2020.
 - Health spending in 2010 was roughly 50% of the value of oil produced at the wellhead that year. By comparison, this measure of health care spending against petroleum industry production (the major driver of Alaska's economy since statehood) was 6% in 1980, 16% in 1990, 33% in 2000, and is projected to reach between 72-74% by 2020.ⁱ

- **Health care is becoming increasingly unaffordable for U.S. and Alaskan employers and families.**
 - The cost of health insurance premiums in the U.S. increased by 160% between 1999 and 2011, compared to an overall rate of inflation of 38% during that same period.ⁱⁱ
 - American workers' contributions to health insurance premiums increased 168% between 1999 and 2011, compared to a 50% increase in workers' earnings during that same period.ⁱⁱⁱ

- Since 1982 the Anchorage Consumer Price Index increased 95%, while the CPI for medical care in Anchorage over that time period increased 320%.^{iv}
 - Alaska is number one in the nation for the cost of employee health benefits based on a newly released survey by United Benefits Advisors, which found that Alaska employers are paying an average of \$11,926 per employee each year for health insurance – nearly twice as much as the least expensive state.^v
 - Fewer Alaskan employers are offering employee health benefits in 2010 than in 2003.
 - The percentage of large employers in Alaska (those with more than 50 employees) offering coverage dropped from 95% in 2003 to 93% in 2010.^{vi}
 - The percentage of small employers offering coverage dropped from 35% to 30% during that same period.^{vii}
 - Alaskan employees' share in the cost of their insurance premiums increased from 11% to 14% for single coverage and from 17% to 22% for family coverage between 2003 and 2010.^{viii}
 - The average cost of a health care premium increased 51% for single coverage and 35% for family coverage between 2003 and 2010.^{ix}
 - The average annual premium cost for family coverage in Alaska was \$14,230 in 2010.^x
- **Cost shifting occurs between commercial and public payers.** Cost per unit of service is significantly higher for commercial payers relative to provider operating costs and compared to the two largest public payers, Medicaid and Medicare. For example, commercial reimbursement rates are 110% higher than Medicare reimbursement for hospital services in Alaska. Also, as spending has increased over time for all payers in Alaska, it increased at a higher rate for individuals and private employers compared to government employers and public programs.^{xi}
 - Because of the cost shifting that occurs through rate disparities, rate reductions by public payers may result in higher rates charged to commercial insurers and translate into higher premiums for individuals who purchase private insurance and for employers who provide employee health benefits.
 - While the major public payers appear to under-reimburse providers compared to private payers, they provide additional financial support for health care through other mechanisms. For example, Medicare subsidizes physician residency training, Medicare and Medicaid provide Disproportionate Share Hospital (DSH) payments to hospitals that see a high proportion of Medicare and Medicaid patients, and the federal government through the Indian Health Service and Alaska Tribal Health System has funded much of the development of the rural health infrastructure in Alaska.
 - The existence of public insurance programs helps spread health care system fixed costs among more payers and beneficiaries.
 - **Commercial insurance premiums in Alaska are roughly 30% higher relative to five comparison states, which are higher than the national average. Commercial insurance premiums are primarily a factor of utilization and price for health care services.**^{xii}
 - **Alaska's health care utilization rates do not appear to be a major driver behind higher premium rates based on financial analysis of the private health care system. Utilization of health care services in Alaska is roughly in line with comparison states, and is lower than the nationwide average.**
 - Alaska uses 13% fewer services than the nationwide average to treat a similar Medicare patient.^{xiii}

- Alaskan Medicare enrollees have fewer hip replacement surgeries and roughly the same number knee and shoulder replacement surgeries (rate per 1,000 enrollees).^{xiv}
- For the commercially covered population, inpatient bed days are higher overall in Alaska, but lower in urban Alaska than the comparison states. Emergency room visits are higher, outpatient visits are about the same, and medication prescriptions are lower.^{xv}
- Relative to national averages, in 2009 Alaska had:
 - 29% fewer hospital admissions
 - Alaska: 82/1,000 population
 - US: 116/1,000 population
 - 23% fewer inpatient bed days
 - Alaska: 485/1,000 population
 - US: 628/1,000 population
 - 2% more emergency room visits
 - Alaska: 425/1,000 population
 - US: 415/1,000 population
 - 21% more hospital outpatient visits
 - 2,530/1,000 population
 - 2,091/1,000 population.^{xvi}
- **Health care prices paid in Alaska are significantly higher than in comparison states.**
 - Reimbursement for physician services in Alaska is 60% higher than in comparison states for all payers based on a weighted average; and 7069% higher for commercial (private insurance) payers.
 - The difference in reimbursement for physician services varies significantly depending on the specialty. For example, pediatricians in Alaska are reimbursed at rates 43% higher on average than pediatricians in the comparison states, and cardiologists in Alaska are reimbursed at rates 83% higher than cardiologists in the comparison states.
 - Commercial reimbursement for private sector hospital services is 3537% higher in Alaska than in the comparison states. Medicare fees paid for private sector hospital services are 36% higher in Alaska than in the comparison states.
- **Medical prices are driven by two components: 1) operating costs associated with delivering medical services, and 2) profit operating margins. Following are attributes of medical prices in Alaska's private health care sector:**
 - Operating costs for health care providers are higher in Alaska relative to the comparison states. There is insufficient data available to fully analyze and compare physician practice operating costs, but analysis of publicly available hospital cost reports found Alaska private sector hospital operating costs are 4038% higher overall and nearly 80% 86% higher for Alaska's private sector rural hospitals. Higher operating costs in Alaska for both hospitals and physician practices are driven by:
 - The cost of living, which is 15-20-30% higher in Alaska than in comparison states (overall, not accounting for rural/urban differences).
 - Medical salaries for health care workers, which are 20% - 10% higher in Alaska (excluding self-employed physicians).
 - Health benefit costs for hospital and physician practice employees, which in Alaska are higher than any other state in the nation.

- 11% - 15% utilization of “travelling” temporary staff, who typically are paid at a higher rate and whose employment results in other inefficiencies in delivery of health care services;
 - Administrative burdens associated with government regulation and compliance with payer requirements, including documentation requirements, fraud and abuse audits, licensing and certification requirements, and employee background checks.
 - Drivers of higher operating costs in Alaska specific to the private sector hospitals system include:
 - RN staffing ratios, which are average 28 29% higher than in comparison states.
 - Occupancy rates, which are lower at on average are lower at approximately 50 49.9% in Alaska relative to approximately 60 58.1% in comparison states.
 - The average operating margins for Alaska’s private sector hospitals are system is 133% higher than the average operating margin for the comparison states’ private sector hospital systems. , especially for Alaska’s urban hospitals which make on average profits approximately three times higher than the average of the comparison states’ hospitals and also the national average for all hospitals. The average profit margin for Alaska’s private sector rural hospitals is slightly higher than the comparison states’ average.
 - Physician discounts are low in Alaska relative to the comparison states, an indication that physicians in Alaska have more market power in Alaska relative to pricing.
- **Private Sector Hospital reimbursement in Alaska is high relative to comparison states driven by:**
 - High operating costs in rural Alaska, the average of which is 86% higher than the comparison state average, and
 - High operating margins in urban Alaska, the average of which is 184% higher than the comparison state average.
 - **Non-facility based physician service reimbursement by commercial payers in Alaska is very high relative to comparison states driven by:**
 - High operating costs, and
 - Significant negotiating leverage relative to payers.
 - **Utilization for health care services in Alaska, while similar to the comparison states and low relative to the U.S. and other industrialized nations, is still a critically important factor to consider in containing cost growth and improving quality of care and health outcomes.** Utilization of health care resources is highly inefficient. The estimated level of wasted health care spending in the U.S. is between 30% and 50%, leaving significant room for improvement in the effectiveness and efficiency of health care delivery.
 - **Market forces affecting pricing for health care services are impacted by state laws and regulations in Alaska.** There are state laws and regulations in place that influence the market in such a way as to drive prices higher for the consumer. For example, Milliman notes a state regulation requiring that claims be paid at the 80th percentile of charges by geographic area, limiting private payers’ ability to negotiate rates and imposing a legal mandate to reimburse providers with more than 20% market share in a region for the full amount of billed charges regardless of the rate. Milliman also notes as an example a state law that requires payers to reimburse non-contracted providers directly instead of through the patient, removing incentives typically used by payers to encourage providers to join their networks.

- The average payment for durable medical equipment (DME) in Alaska is 21% higher for all payers relative to the average comparison state payment level. By payer, the average reimbursement for DME is:
 - 23% higher for commercial payers in Alaska relative to the average across commercial payers in the comparison states
 - The same in Alaska for Medicare and TRICARE as the comparison states' Medicare and TRICARE average
 - 180% higher for the VA in Alaska relative to the average VA payment across the comparison states
 - 55% higher for the Alaska Medicaid program relative to the average Medicaid program payment across the comparison states (excluding N. Dakota)
 - 98% higher for the Alaska Workers' Compensation program relative to the average of N. Dakota and Washington states' Workers' Comp payment level (Idaho, Oregon and Wyoming not available)