Findings on Health Care Cost, Pricing and Reimbursement in Alaska[1]

Excerpted from Annual Reports of the Alaska Health Care Commission

2011 Findings on Cost of Health Care in Alaska *(2011 Annual Report)*[i]

- **Health care spending in Alaska continues to increase faster than the rate of inflation.**
  - 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.
  - By comparison, the wellhead value of oil produced in Alaska was $16.4 billion in 2010, and is projected to be $18.6 billion in 2020.
  - Also by comparison, total wages earned by Alaskan employees was $15.4 billion in 2010.

- **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.
  - 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.
  - Since 1982 the Anchorage Consumer Price Index increased 95%, while the CPI for medical care in Anchorage over that time period increased 320%.
  - 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.
  - 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.
    - The percentage of small employers offering coverage dropped from 35% to 30% during that same period.
  - 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.
  - The average cost of a health care premium increased 51% for single coverage and 35% for family coverage between 2003 and 2010.
  - The average annual premium cost for family coverage in Alaska was $14,230 in 2010.

- **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.
  - 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.

[1] Note that "Findings" Statements are vetted through public comment and commission members vote to approve Findings in final form for inclusion in Annual Reports

- 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.**

- **Alaska's health care utilization rates do not appear to be a major driver behind higher premium rates relative to comparison states 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.
  - Alaskan Medicare enrollees have fewer hip replacement surgeries and roughly the same number knee and shoulder replacement surgeries (rate per 1,000 enrollees).
  - 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.

- **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 69% 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 37% 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) 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 38% higher overall and 86% higher for Alaska's private sector rural hospitals. Higher operating costs in Alaska for hospitals and physician practices are driven by:

        - The cost of living, which is 20-30% higher in Alaska than in comparison states (overall, not accounting for rural/urban differences).
        - Medical salaries for health care workers, which are 0% - 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 hospital system include:
            - RN staffing ratios, which average 29% higher than comparison states.
            - Occupancy rates, which on average are lower at 49.9% in Alaska relative to 58.1% in comparison states.
    - In 2010 the average all-payer operating margin for Alaska's private sector hospital system was 13.4% compared with the average of comparison states' hospital systems of 5.7%. Operating margins for individual Alaska facilities vary widely within these averages, ranging from -9.2% to 29.4%. For Medicare patients, the operating margin is 2.6 percentage points less than the comparison state average, at -11.5% in Alaska compared to -8.9% in the comparison states, causing upward pressure on commercial premiums in order to offset hospital losses.
    - Physician discounts are low in Alaska relative to the comparison states, an indication that physicians in Alaska have more market power relative to pricing.

- **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.
    - Lower physician discounts in Alaska can be at least partly explained by the relative lack of competition among providers, particularly for specialty care. In many areas, including Anchorage, there are a limited number of providers in any given specialty (sometimes only one provider group). As a result, physicians can largely dictate the fees they are paid by commercial payers.
    - Relative provider leverage may be further exacerbated by Alaska's regulation requiring usual and customary charge payment to be at least equal to the 80th percentile of charges by geographic area. Since many providers have over 20% of their market share, this implies that those providers can ensure that their charges are below the 80th percentile and therefore, receive payment for their full billed charges.

- A separate state law 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.** DME consists of non-pharmaceutical items ordered by a provider for a patient. 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)

2012 Findings on Cost of Health Care in Alaska – *Pharmaceuticals (2012 Annual Report)*[ii]

- Prices for pharmaceuticals do not appear to be a significant driver of higher health care costs in Alaska relative to the comparison states of Idaho, Washington, Oregon, Wyoming, and North Dakota.[2]

- Worker's Compensation payment rates for pharmaceuticals are higher in Alaska than the average of the Worker Compensation rates of the five comparison states by approximately 17%.[3]

- Medicare and Medicaid dispensing fees for Alaska are higher than Medicare and Medicaid dispensing fees in all the comparison states.

- There is significant variation in reimbursement levels between payers within Alaska. For example, Medicaid pays 15% more on average than the all-payer average within Alaska, while TRICARE pays 7% less on average.

- Price, while similar in Alaska on average relative to comparison states, and utilization of pharmaceuticals are critically important factors to consider in containing cost growth and improving quality of care and health outcomes.

[2] Milliman, Inc., *Pharmaceutical Reimbursement in Alaska and Comparison States*, October 16, 2012.

[3] Workers' compensation reimbursement for pharmaceuticals is estimated to be 0.4% of total reimbursement by all payers combined based on national prescription drug expenditure data.

2013 Findings on Cost of Health Care in Alaska – *Workers' Compensation (2013 Annual Report)*

- **Workers' compensation costs in Alaska are the highest in the nation, primarily due to high medical benefit costs.** The number of occupational injuries in Alaska has declined by 4-5% per year over the past 15 years, most recently decreasing 7% between 2011 and 2012; however, Alaska's worker's compensation premiums have been increasing and were the highest in the U.S. in 2012.[4]

    - Alaska's workers' compensation premiums ranked 28th highest in the U.S. in 2000 and had increased to second highest in the nation by 2004. Since 2004 Alaska has ranked either first or second every year for the highest workers' compensation premium cost in the U.S.

    - At 76% of total claim costs, the proportion of medical claims costs is substantially higher in Alaska than the national average of 59%. Alaska's average medical claim cost is $48,200 per case compared to the national average of $28,000.

    - Alaska's allowable workers' compensation medical fees are the highest in the nation, according to a 2012 survey of workers' compensation medical fee schedules conducted by the Workers' Compensation Research Institute.

    - Alaska's workers' compensation medical fee schedule demonstrates an inefficient allocation of resources. The current fee schedule based on usual and customary billed charges is inherently inflationary and interferes with market function that might otherwise contain cost growth.

    - Prescription drug costs comprised 19% of total workers' compensation medical claims costs in Alaska in 2011. A 2011 National Council on Compensation Insurance report on Alaska's workers' compensation program identified over-prescription of opioid narcotics and drug repackaging by physicians as the primary cost drivers of pharmaceutical costs.

    - Application of medical treatment guidelines has demonstrated improved patient outcomes and cost reduction in other state workers' compensation programs that have adopted this practice.

[4] "Alaska Division of Workers' Compensation 2012 Annual Report," Department of Labor & Workforce Development; National Council on Compensation Insurance 2012 Alaska State Advisory Forum; "2012 Workers' Compensation Premium Rate Ranking Summary," Oregon Department of Consumer and Business Services, October 2012.

Background information on Commission Health Care Cost & Pricing Studies and Findings

[i] **2011 Studies:** 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 a 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 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 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, published in August, is included as Appendix A of this report and is available on the Commission's website at: http://www.hss.state.ak.us/healthcommission/2011commissionreport.htm.

The financial analysis of physician payment rates conducted by Milliman, Inc. compares health care prices for the top 25 utilized procedure codes for each of 17 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 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. and are included in Appendix B of this report (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.

[ii] **2012 Studies:** The Commission began an in-depth analysis of the cost of health care in Alaska during 2011 to better understand cost drivers and inform policy recommendations aimed at improving affordability and access to care. These studies began with an economic analysis conducted by the Institute of Social & Economic Research (ISER)/MAFA of health care spending in the state, including estimates of total spending levels by payer and types of services. That same year Milliman, Inc., an international health care actuarial consulting firm, conducted an analysis comparing prices paid for hospital and physician services and for durable medical equipment in Alaska with a number of other states.

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. These are also the two main components of spending for acute medical care. The commission continued the price comparison analysis of acute medical spending this year with a study (also conducted by Milliman) of prescription drug reimbursement levels.

The 2012 actuarial analysis of pharmaceutical payment rates compares average prices paid for the top 50 prescribed (on a per-unit basis) generic drugs, top 50 brand named drugs, and a select group of 20 specialty drugs in Alaska with five other states: Washington, Oregon, Idaho, Wyoming, and North Dakota. The analysis includes a comparison of allowed charges for commercial payers and fees for Medicare, Medicaid, Workers' Compensation, the Veteran's Health Administration, and TRICARE. The following findings statements are based on the Milliman analysis, which concluded that for all payers combined, Alaska's pharmaceutical reimbursement is 1% higher on average than the comparison state average. The Milliman analysis is included as Appendix B in this report.