

# High Health Care Costs in Alaska: Facts, Causes, Consequences, and Remedies

Alaskans are used to superlatives, but when it comes to health care costs we have really outdone ourselves.

The United States has the world's highest health care costs, and it sure looks like Alaska has the highest health care costs in the U.S. as well as the fastest-rising costs.

The Last Frontier's sky-high costs show up in various ways. The Kaiser Family Foundation's data from 2014 (the most recent year released) has Alaska as highest among the states in per capita health expenditures, with only the District of Columbia higher. Relying on data collected from 264 areas around the U.S., the Anchorage Economic Development Corporation reported that in 2016 the three cities with the highest health care costs in the nation were Juneau, Fairbanks, and Anchorage. And the story is the same regarding health insurance, as the premiums for Alaskans on the exchanges for 2017 are at the top among the states.

No other state has experienced higher annual percentage growth in health care costs since 1991, according to the federal government's Centers for Medicare & Medicaid Services. In the old lingo of the popular music charts, Alaska is No. 1 with a bullet.

What are the causes of Alaska's extremely high health care costs? What are the consequences of this "Alaska premium" in the prices of health care? Do remedies exist for the Great Land's great costs for health care?

## Causes

Observers have offered more than half a dozen explanations for Alaska's extra-high health care costs. The list includes:

- Our state's relatively small population and isolation from larger markets
- Distribution of a substantial percentage of Alaskans in a variety of remote areas, including off the road system
- Limited numbers of providers of medical services
- Limited competition among providers, especially specialty physicians
- Particularly high compensation for providers, especially specialty physicians who perform procedures (such as orthopedic surgeons, cardiologists, and neurosurgeons)
- Hospital profit margins in urban Alaska that are higher than national averages
- Particularly risky and/or antisocial behavior by patients
- Regulation by the State of Alaska, particularly the "80<sup>th</sup> percentile rule"
- Absence in Anchorage—the state's largest community—of government-operated and/or teaching hospitals that are open to all patients

There is insufficient space allowed for this column to explore all these potential factors, but a few points are highlighted below.

Dr. Alan Gross, an Alaska orthopedic surgeon, has written that Alaska doctors often charge and collect 500 percent—or more—than the costs for obtaining the same service outside the state. These higher fees appear to be mostly charged by specialty physicians. Lori Wing-Heier, the Director of the Alaska Division of Insurance, told *Alaska Dispatch News* columnist Charles Wohlforth in 2016 that some specialist procedures cost 10 times as much in Anchorage as they do in Seattle.

Other observers have cited particularly risky and/or

antisocial behavior by patients on the Lost Frontier that could increase health care costs. Along with Alaska's well-known problems with domestic violence and alcohol abuse, doctors point to what they see as a tendency of Alaskans to present their medical problems later than other Americans. Alaskans, however, do not on average have higher rates of utilization of medical services than other Americans.

## **Consequences**

Alaska's extremely high costs for health care and health insurance have generated some individual sad stories, including lost opportunities to start businesses and forced departures from the state.

It's becoming increasingly clear that these high costs are having big impacts on Alaska's economy and fiscal circumstances as well.

Two reports issued this year by the Anchorage Economic Development Corporation provide a window on the contortions health care introduces into economic discussions. The most recent outlook by AEDC celebrates job growth in the health care sector while noting declines in employment in oil and gas, construction, professional and business services, and state government.

Another AEDC report gives quite a different picture, however. A survey of more than 300 Anchorage businesses and organizations identified health insurance as one of the two top barriers to their organization's growth, behind only the condition of the state economy.

Mark Foster, a long-time financial analyst and former Chief Financial Officer of the Anchorage School District, has even argued that the high costs of medical services in Alaska serve as a significant deterrent to the long-held dream of bringing natural gas on Alaska's North Slope to market. His contention is that other expensive petroleum projects

competing for investment dollars around the globe benefit from locations with much lower health care costs, a significant factor to consider for those deciding where to put in big money.

Whatever effect high health care costs might have on the prospects for monetizing Alaska North Slope natural gas, those costs are a giant driver in Alaska's fiscal challenge. Thirty-five percent of the total state budget is now devoted to health care, according to an estimate by Dr. Gross, the Alaska orthopedic surgeon mentioned above (who also holds a master's degree in public health). This figure appears to cover all the ways the State of Alaska spends in this area, including on employees of departments, teachers, University of Alaska employees, retirees, Medicaid, and prisoners. Health care expenditures for the State of Alaska have also increased as the overall budget has fallen for the fifth straight year.

## **Remedies**

Alaska health care costs appear to be unsustainable, as even those who some observers would perceive as the system's winners are recognizing. Dr. Stanley Watkins, an Anchorage interventional cardiologist, told Alaska Public Media's Annie Feidt in 2016 that "The prices are probably going to have to go down up here."

A useful data point is that Alaska did not always stand alone on top of the health care costs mountain. An article by Natasha von Imhof (now a Republican State Senator from Anchorage) in *Alaska Business Monthly* in 2014 pointed out that the health care costs in Alaska and Wyoming were the same in 1990. Two decades later, Alaska's costs had doubled, while Wyoming's grew a quarter of that.

Dr. Robert Hall, an Anchorage orthopedic surgeon, was nodding to the same facts when he wrote in 2017 that medical fees in Alaska were "much more aligned with the rest of the country"

20 years or so ago. Dr. Hall observed that every other state has been undergoing “a gradual process of reduction,” and added that “Alaska will have to do this reduction more quickly but it cannot be done all at once if the system is to withstand the process.”

Whatever the pace of this reduction, there are a lot of ideas out there about how Alaska’s costs could be cut (or at least made to go up more slowly). With suggestions drawn from articles by Natasha von Imhof, Charles Wohlforth, and Columbia University economist Jeffrey Sachs, here’s a list roughly set out in order from smaller-scale proposals to more thoroughgoing changes in the system. (Note that an idea’s appearance on this list does not imply an endorsement of it.)

- Telemedicine, which allows doctors, nurses, local health aides, and patients to communicate about diagnosis and treatment through electronic means, avoiding the cost of travel
- Expanded home visits for community-based health care, which could combat obesity, opioids, and mental illness as well as follow up on patients’ compliance with instructions following hospital discharge
- Increased communication among employers regarding costs of health insurance and ways to encourage employee wellness
- Medical travel/“medical tourism,” which provides patients opportunities to seek lower-cost and high-quality care outside of Alaska
- Required transparency of fees and outcomes, which would allow patients to have important information before making decisions on their health care
- Government-operated clinics for employees, employees’ dependents, and maybe others
- Facilitation of “task shifting” from doctors to lower-cost health workers or health care teams for routine procedures

- Greater use of foreign-born and/or foreign-trained doctors
- Customer-driven whole person care, in which health care providers engage their patients to take control of their wellness and providers' efforts are coordinated with each other
- Capping of compensation for hospital CEOs and other top managers
- Movement away from traditional fee-for-service medicine to various forms of value-based reimbursement. As laid out by Michael E. Porter and Robert S. Kaplan in the *Harvard Business Review*, alternative methods could include capitation (where a health care organization receives a fixed payment per year per covered life and must meet all the needs of a broad patient population) and a bundled payment system (where providers are paid for the care of a patient's medical condition across the entire care cycle).
- Creation of a single health care plan in Alaska for all government employees, with companies and individuals allowed to buy in at cost, that could negotiate with providers to produce more reasonable fees and prices as well as models of medical care that increased value
- Adoption of a single-payer health care system in which the government, financed by taxes, covers basic health care costs for all residents, thereby eliminating for-profit health insurance

Alaska Common Ground is holding a series of events in Anchorage on Alaska's health care costs over the next 6-12 months. This series will cover in more detail the costs and trends, the causes, the consequences, and potential remedies. Speakers will include a variety of experts, including doctors, on this critical topic.

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the volunteer Chair of Alaska Common Ground, a non-profit organization that focuses on helping Alaskans understand and reach consensus on the major issues facing our state.