



# Alaska Common Ground

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## HEALTH CARE COSTS IN ALASKA

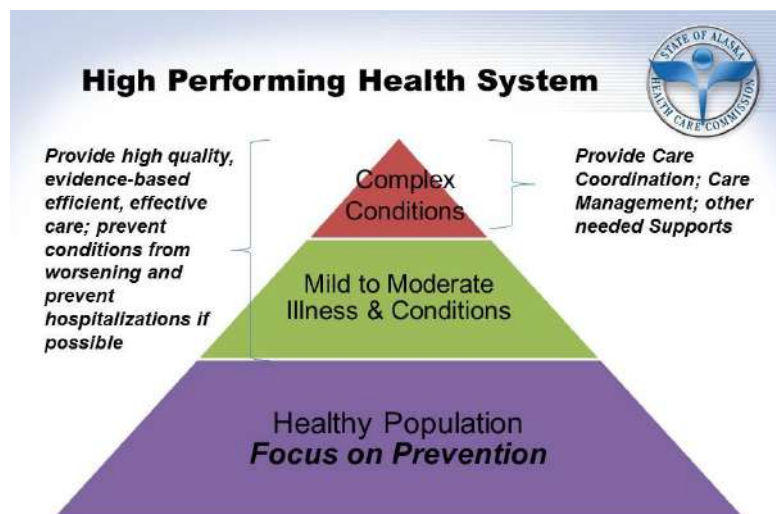
Alaska Common Ground sponsored a two-hour forum on health care costs in Alaska on May 9, 2015. Co-sponsors were UAA's Institute of Social and Economic Research, the League of Women Voters of Anchorage, the Anchorage Public Library, and AARP Alaska.<sup>1</sup> The event was organized as follow-up to an all-day fiscal policy forum held the previous fall, which identified the cost of health care as a top concern.

The following is a summary of major points raised by speakers at the forum. Additional information, including a recording of the event and PowerPoint presentations, is available on Alaska Common Ground's website at [www.akcommonground.org](http://www.akcommonground.org).

## BACKGROUND

- The United States spends more on health care than any other industrialized country. The U.S. Department of Health and Human Services calculates that total health expenditures in the U.S. reached \$2.9 trillion in 2013, or an average of \$9,255 per year for every man, woman, and child. Among the states, only Massachusetts exceeds Alaska in per capita spending on health care.
- The U.S. Department of Health and Human Services projects that national health spending will grow at an average rate of 5.8 percent from 2012 to 2022, a rate greater than the expected annual growth in the Gross Domestic Product (GDP).
- Despite high levels of health care spending, Americans do not live as long as people in most other industrialized nations. According to the C.I.A.'s "World Factbook," U.S. life expectancy at birth in 2014 was 79.56 years. This ranked only #42 in the world, almost 5 years less than Japan.

- The U.S. health care system has a great deal of associated waste due to factors such as unnecessary services and inefficient care delivery. The Institute of Medicine estimates that waste accounts for a staggering total of about \$750 billion per year – 30 percent of all health care spending. It is an obvious area where changes in policy designed to increase quality and efficiency could bring about major savings.
- Over half of all health expenditures in the U.S. in 2013 were for hospital care and physician/clinical services.
- Five percent of the population accounts for half of all health care spending. By contrast, half of the U.S. population accounts for a mere 3 percent of total health care spending. This imbalance indicates that policies supporting prevention for the healthiest half of the population and improved care for the sickest 5 percent could make a big difference in overall spending. (See *High Performing Health System diagram below.*)



- The percentage of the U.S. population with employer-sponsored health insurance has been declining for many years, from 71 percent in 1980 to 55 percent in 2012 (the same proportion of Alaska’s population covered by an employer in 2012). The cost of health

insurance premiums and workers' contributions to those premiums over the past 15 years has outpaced increases in overall inflation and workers' earnings by a margin of four to one.

## **ALASKA COST DRIVERS**

Factors affecting health care costs that are specific to or more prevalent in Alaska include:

- Geography and distance. Alaska is physically remote from the Lower 48. Our population is relatively small and is scattered across a vast geographic area, much of which is accessible only by air.
- Alaska's health care market is also small, with little competition among health care providers. In particular, there are few competing specialist practices.
- Alaska has a fragmented health delivery system served by three distinct sectors – Veterans Affairs/military, tribal, and private –with little integration.
- A high percentage of Alaskans are either uninsured or under-insured.
- Significantly higher reimbursement rates are paid by private and public insurers to hospitals and doctors than can be justified by higher Alaska living costs.
- Certain State laws and regulations contribute to the market power imbalance between insurers and providers.
- Higher spending on hospital care in rural Alaska relative to other states is due to high operating costs, while in urban Alaska it is due to high operating margins.

## **ALASKA HIGH COST EXAMPLES**

Health care costs in Alaska versus five Western states were evaluated in the Milliman report, *"Drivers of Health Care Costs in Alaska and Comparison States,"* prepared for the Alaska Health Care Commission in 2011. Key findings were:

- On average, physician costs for 17 specialties averaged 60 percent higher than the five Western states. This disparity was higher for

some specialties than others, e.g. 43 percent higher for pediatricians vs. 83 percent higher for cardiologists.

- Average hospital costs were 38 percent higher in Alaska.
- Hospital operating margins in Alaska in 2010 averaged 13.4 percent, or 233 percent of those in the comparison states. However, while margins in rural areas were similar to those Outside, margins in Alaska urban areas were 16.2 percent.
- By contrast, the cost of prescription drugs in Alaska was only 1 percent higher than in the five Western states studied.

More recent specific recent examples of private insurance reimbursements for high cost medical procedures in Alaska include:

- Total joint replacement (hip and knee). The average allowed cost in Alaska is about \$65,000, 73 percent higher than in the state of Washington. However, while the average allowed facility cost in Alaska is about 48 percent higher than in Washington, the average surgeon allowed cost is about 289 percent higher.
- Echocardiography (sonogram of the heart). The average allowed cost in Alaska is \$1,525, 282 percent higher than in Seattle.
- Catheter placement in coronary artery. The average allowed cost in Alaska is \$11,471, 458 percent higher than in Seattle.

## **SOLUTIONS**

There is no single or simple solution for reducing health care costs in Alaska. Highlights of recent developments and suggested legislative improvements include:

- The Alaska Health Care Commission recommended eight core strategies and about 75 specific State policies designed to help improve the cost and quality of health care in Alaska. The Commission's recommendations emphasize the importance of increasing value in health care spending by (1) reducing waste by basing medical testing and treatment decisions on the best available evidence of effectiveness and (2) changing the way we pay for care to move away from payment for individual services to payment for outcomes. They also provide an approach for improving quality and

efficiency of care by strengthening primary care, care coordination, and end-of-life care. Additionally, the recommendations stress the importance of prevention and support for health choices, and the need to empower individuals and decision-makers with easily accessible information on health care prices, quality, utilization, and health outcomes.

- Insurers, employers and providers are responding to Alaska’s high and rising costs in several ways. For example, providers are creating new coordinated care models to improve quality and reduce waste. The Southcentral Foundation has drawn national attention for its “Nuka” model of care that focuses on a coordinated approach to wellness. A physician group in Anchorage recently launched a new care management business, Alaska Innovative Medicine, and the Ketchikan and Soldotna hospitals have pilot projects underway. Insurers and employers are working to reduce health care costs through medical tourism, on-site clinics, limited provider networks, telemedicine, and new pricing and payment mechanisms.
- The Alaska State Legislature has many policy levers that it could pull to help stabilize and even reduce health care prices and overall health spending in our state. New laws that would help increase access to prices and other information include price transparency requirements and creation of an “All-Payer” claims database. Modernization of state insurance laws is needed to provide flexibility for new payment models. Examples of existing statutes and regulations that could be revised to remove legislative restrictions which limit competition in the health care market include:
  - AS 23.50.010, which permits anti-competitive collective action by physicians to negotiate fees and other actions typically prohibited by the Federal Trade Commission.
  - AS 21.54.020, which requires insurers to reimburse non-contracted providers directly, instead of through the patient.
  - AS 08.64.364, which restricts telemedicine access by requiring prescribing physicians to be physically present in the state.
  - 3 AAC 26.110, which requires insurers to reimburse providers at the 80<sup>th</sup> percentile of usual and customary billed charges.

## **SUGGESTED FURTHER READING**

Alaska Health Care Commission. *“Transforming Health Care in Alaska: Core Strategies and Policy Recommendations.”* January 2015.

Milliman, Inc. *“Drivers of Health Care Costs in Alaska and Comparison States.”* November 29, 2011.

University of Alaska Anchorage, Institute of Social and Economic Research. *“Alaska’s Health-Care Bill: \$7.5 Billion and Climbing,”* by Mark A. Foster and Scott Goldsmith. UA Research Summary No. 18, August 2001.

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<sup>i</sup> The Forum was held at the BP Energy Center in Anchorage and featured four panelists: Dr. Mouhcine Guettabi, Assistant Professor of Economics, Institute of Social and Economic Research, University of Alaska Anchorage; Deborah Erickson, Executive Director, Alaska Health Care Commission; Greg Loudon, Insurance Broker and Health Benefits Consultant, Parker, Smith & Feek; and Doug Eby, Vice-President of Medical Services, Southcentral Foundation. Mark Foster, Chief Financial Officer, Anchorage School District, acted as moderator. This summary was prepared by former Alaska Common Ground board member Gillian Smythe with the assistance of Deborah Erickson and Alaska Common Ground board members Janet Bidwell and Cliff Groh.