

ALASKA STATE LEGISLATURE

HOUSE LABOR & COMMERCE COMMITTEE

REP. KURT OLSON

Chairman
State Capitol, Room 124
Juneau, AK 99801-1182
(907) 465-2693 FAX 465-3835

Rep Mark Neuman, V-Chair Rep. Mike Chenault
Rep. John Coghill Rep. Bob Lynn
Rep. Lindsey Homes Rep. Bob Buch

MEMORANDUM

TO: Senator Joe Paskvan, Chair
Senate Labor & Commerce

FROM: Rep. Kurt Olson

DATE: February 16, 2009

RE: HB 104 Workers Compensation: Medical Treatment Fees

I respectfully request a hearing for HB 104 before the Senate Labor & Commerce Committee. HB 104 is a stop gap measure intended to give the Legislature and the Medical Services Review Committee time to find a permanent solution to the medical service fee schedule.

This bill is very time sensitive as the current cap on fee schedules expires on March 31, 2009.

Attached please find the following material:

- HB 104
- Sponsor Statement
- Fiscal Note - DOLWD (zero)
- NCCI Analysis of sunset
- NCCI Medical component chart

Please contact my staff, Konrad Jackson 465-4954 should you have any questions.

Thank you for your consideration of this request.



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Sponsor Statement House Bill 104

"An Act adjusting certain fees for treatment or services under the Alaska Workers' Compensation Act to reflect changes in the Consumer Price Index; and providing for an effective date."

At the time of passage in 2005 of the revisions to the workers' compensation system, it was contemplated that the interested stakeholders, including the Workers' Compensation Legislative Task Force and the Medical Services Review Committee, would propose legislation acceptable to the various stakeholders before August 1, 2007. This proposal was to replace the repealed Usual, Customary and Reasonable (UCR) methodology for setting maximum fees for medical treatment and services under the Alaska Workers' Compensation Act. A replacement methodology was not proposed and thus in 2007, the Alaska Workers' Compensation Act was amended to prevent the existing system of controlling fees for medical treatment and services from being repealed. Repeal would have resulted in fees for medical treatment and services in workers' compensation matters going uncontrolled until such time as the law was changed to remedy the situation.

HB 104 would again amend existing law to allow additional time to adopt permanent methods for establishing medical fees. This bill would extend the time period for using nationally recognized inflationary indices (United States Department of Labor, Bureau of Labor Statistics' Medical Care Component of the

Consumer Price Index) for adjusting workers' compensation fees for medical treatment and services until December 31, 2010.

The existing medical fee schedule will expire on March 31, 2009. The National Council on Compensation Insurance estimated that the elimination of the fee schedule would result in an overall workers' compensation system cost increase in Alaska. HB 104 will provide for an extension of the medical fee schedule on the same terms as the 2007 extension and ceiling on medical fees.

HOUSE BILL NO. 104

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SIXTH LEGISLATURE - FIRST SESSION

BY THE HOUSE LABOR AND COMMERCE COMMITTEE

Introduced: 1/30/09

Referred: Labor and Commerce

A BILL

FOR AN ACT ENTITLED

1 "An Act adjusting certain fees for treatment or services under the Alaska Workers'
2 Compensation Act to reflect changes in the Consumer Price Index; and providing for an
3 effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * **Section 1.** AS 23.30.097(a) is amended to read:

6 (a) All fees and other charges for medical treatment or service are subject to
7 regulation by the board consistent with this section. A fee or other charge for medical
8 treatment or service may not exceed the lowest of

9 (1) the usual, customary, and reasonable fees for the treatment or
10 service in the community in which it is rendered, for treatment or service

11 (A) provided before August 1, 2007, not to exceed the fees in
12 the board's fee schedule [SPECIFIED BY THE BOARD IN ITS
13 PUBLISHED BULLETIN] dated December 1, 2004;

14 (B) provided on or after August 1, 2007, but before March 31,

1 2009, not to exceed the fees otherwise applicable in (A) of this paragraph
2 adjusted by the percentage change from 2004 to 2006 in the medical care
3 component of the Consumer Price Index for all urban consumers compiled by
4 the United States Department of Labor, Bureau of Labor Statistics;

5 (C) provided on or after March 31, 2009, but before
6 December 31, 2010, not to exceed the fees otherwise applicable in (A) of
7 this paragraph adjusted by the percentage change from 2004 to 2008 in
8 the medical care component of the Consumer Price Index for all urban
9 consumers compiled by the United States Department of Labor, Bureau of
10 Labor Statistics;

11 (2) the fee or charge for the treatment or service when provided to the
12 general public; or

13 (3) the fee or charge for the treatment or service negotiated by the
14 provider and the employer under (c) of this section.

15 * **Sec. 2.** This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

STATE OF ALASKA
2009 LEGISLATIVE SESSION

Fiscal Note Number:

Bill Version:

HB 104

() Publish Date:

Identifier (file name):

HB104-DOLWD-WC-02-02-09

Dept. Affected: Labor and Workforce Development

Title

Workers Comp. Medical Treatment Fees

RDU

Workers' Compensation

Component

Workers' Compensation

Sponsor

House L&C

Requester

House L&C

Component Number

344

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
OPERATING EXPENDITURES							
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES							
----------------------	--	--	--	--	--	--	--

CHANGE IN REVENUES ()							
------------------------	--	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
1157 Worker Safety Account							
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2009) cost:

None

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

There is no anticipated financial impact to the department as a result of this legislation.

Prepared by: Trena Heikes, Director

Division: Workers' Compensation

Approved by: Click Bishop, Commissioner

Agency: Department of Labor and Workforce Development

Phone 465-6059

Date/Time 2/2/09 9:25 AM

Date 2/2/09



ANALYSIS OF THE SUNSET OF THE ALASKA PHYSICIAN FEE SCHEDULE EFFECTIVE MARCH 31, 2009

If there is no change to the current law, the existing physician fee schedule will sunset on March 31, 2009, with no replacement. NCCI estimates that the elimination of the physician fee schedule would result in an overall workers compensation (WC) system cost increase in Alaska of +5.2%.

Background

Alaska House Bill 228, effective August 1, 2007, increased the maximum reimbursement allowances (MRAs) from the December 1, 2004 physician fee schedule by the change in the medical care component of the U.S. Consumer Price Index for all urban consumers from 2004 to 2006. The current fee schedule applies to services provided on or after August 1, 2007 but before March 31, 2009. At this time, there is no fee schedule effective after March 31, 2009.

Actuarial Analysis

The methodology used to price the sunset of the Alaska physician fee schedule is as follows:

The payments and charges by procedure code are obtained from a sample of Alaska's WC medical transaction data for service years 2005 and 2006. These payments are adjusted to reflect changes from past price levels to the price levels projected to be in effect on March 31, 2009. The trend factors used for the projections are based on the U.S. and Western region professional components of the medical consumer price index (MCPI), along with the U.S. and Anchorage MCPI (all medical components) for the period 2003-2007, as shown in the following table:

Year	U.S. MCPI (Prof. Component) Percentage Change	Western Region MCPI (Prof. Component) Percentage Change	U.S. MCPI (All Medical Components) Percentage Change	Anchorage MCPI (All Medical Components) Percentage Change
2003	2.9%	3.3%	4.0%	N/A
2004	4.0%	4.2%	4.4%	N/A
2005	3.8%	3.6%	4.2%	N/A
2006	2.7%	2.6%	4.0%	3.5%
2007	4.0%	4.2%	4.4%	3.0%

Source: Economy.com; N/A = Not Available

Based on the changes in the above indices, an annual trend factor of +3.25% was applied to medical transaction data (billed charges and payments) for physician services performed in 2005-2006 to project the price levels that would be in effect on March 31, 2009.



ANALYSIS OF THE SUNSET OF THE ALASKA PHYSICIAN FEE SCHEDULE EFFECTIVE MARCH 31, 2009

Trended Current Reimbursement

For each procedure,

Trended current reimbursement = Min (Payments x Trend Factor, MRA from 8/1/2007 Fee schedule)

Expected Reimbursement after March 31, 2009

For each procedure,

Expected Reimbursement = Max [discounted (Charges x trend factor), (Payments x Trend Factor)]

The payments and billed charges are obtained from Alaska's WC medical transaction data for service years 2005 and 2006 and adjusted by an annual trend of 3.25% to reflect changes from past price levels to the price levels projected to be in effect on March 31, 2009. The lesser of the projected payments and the current MRA was used to determine the current cost level for each procedure. To determine the expected reimbursement after March 31, 2009, NCCI assumes that carriers would pay providers at negotiated rates or contract rates, which are likely discounted from billed charges. NCCI also assumes that the payment for each procedure would not be less than the current trended payment. Therefore, NCCI used the larger of the discounted charge and the current trended payment to determine the expected cost level for each procedure.

The amount of discount applied to the trended charges is based on actuarial judgment. To arrive at our selection, NCCI analyzed the amount of discounts observed in other states where there is no fee schedule. In this analysis, NCCI selected a discount of 15% based on surveys from Alaska carriers.

The estimated impact on physician costs was determined to be an increase of +12.2%. This was calculated as the ratio of the total projected costs of procedures under no fee schedule to the total trended current reimbursements of procedures under the current fee schedule.

The impact by category is as follows:

Service Category	Impact using 15% Discount
Anesthesia	0.0%
Surgery	+12.7%
Radiology	+1.6%
Pathology	+12.9%
Medicine	+23.1%
Evaluation & Management	+2.2%
Total Physician Costs	+12.2%

The above impact of +12.2% was then multiplied by the ratio of physician costs to medical costs in Alaska (58.2%)¹ to yield an increase on medical costs of +7.1%. The impact on medical costs

¹ Based on Alaska workers compensation data licensed to NCCI for service years 2005 & 2006. The original ratio of 63% was adjusted by 92.4% to reflect only those Common Procedural Terminology (CPT) codes present in the Fee Schedule.



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**ANALYSIS OF THE SUNSET OF THE ALASKA PHYSICIAN FEE SCHEDULE
EFFECTIVE MARCH 31, 2009**

was then multiplied by the projected ratio of medical costs to total benefit costs in Alaska (72.6%)² to yield an overall increase of +5.2%.

The results are summarized in the table below:

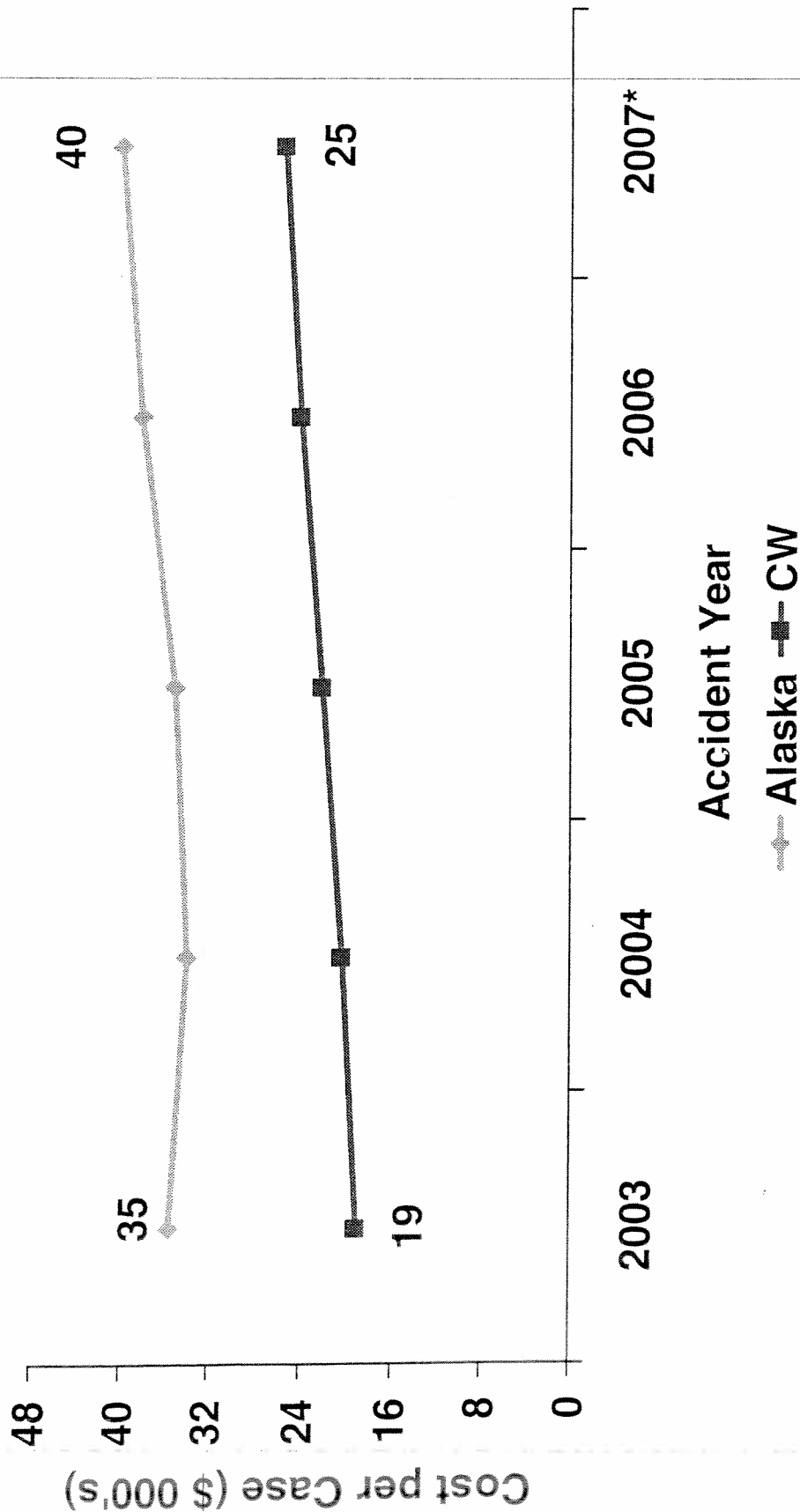
	Impact
(1) Impact on Physician Costs in Alaska	+12.2%
(2) Physician Costs as % of Medical Costs in Alaska ¹	58.2%
(3) Impact on Medical Costs in Alaska = (1) x (2)	+7.1%
(4) Medical Costs as % of Total System Costs in Alaska ²	72.6%
(5) Impact on Overall Workers Compensation System Costs in Alaska	+5.2%

¹ Based on Alaska workers compensation data licensed to NCCI for service years 2005 & 2006. The original ratio of 63% was adjusted by 92.4% to reflect only those Common Procedural Terminology (CPT) codes present in the Fee Schedule

² Based on policy years 2004, 2005, & 2006 Financial Call data projected to March 31, 2009.

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Alaska Medical Average Cost per Case vs. Countrywide



* Countrywide figure is preliminary
Source: NCCI Financial Call data valued as of 12/31/07

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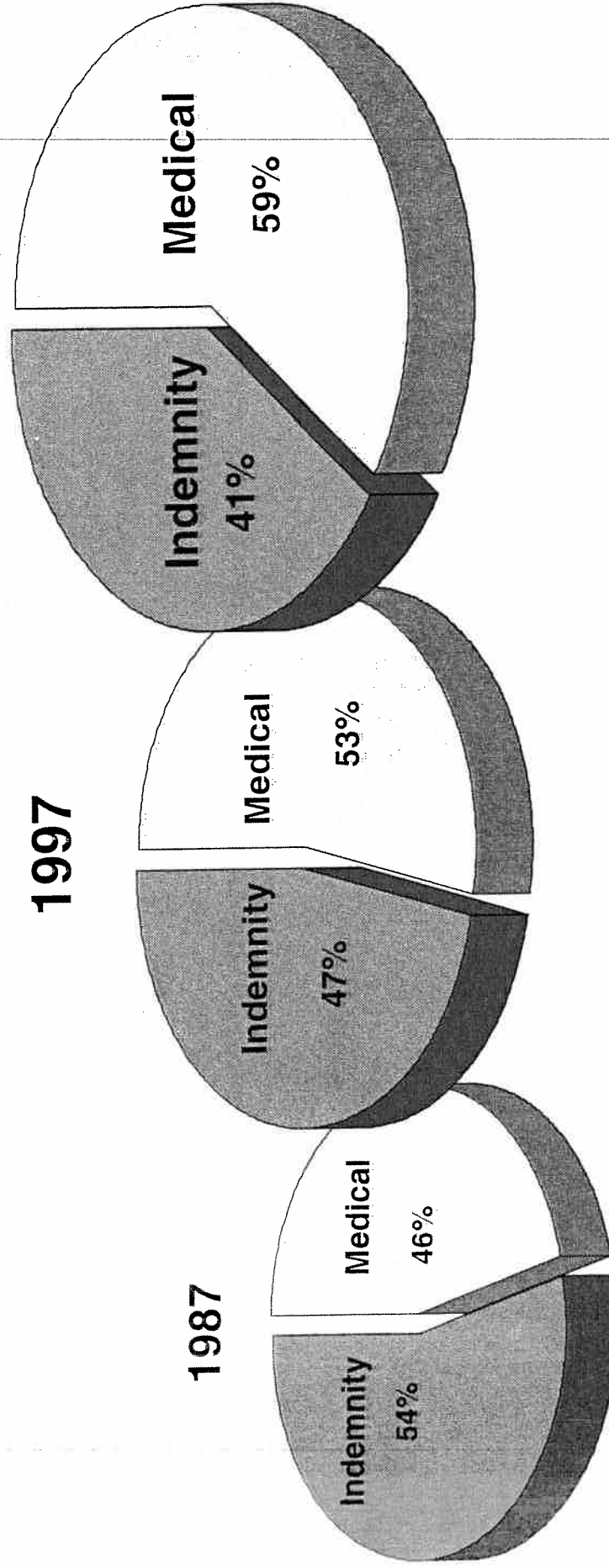
Workers Compensation Medical Losses Are More Than Half of Total Losses

All Claims—NCCI States

2007p

1997

1987



Accident Year

2007p: Preliminary based on data valued as of 12/31/2007
1987, 1997: Based on data through 12/31/2006, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

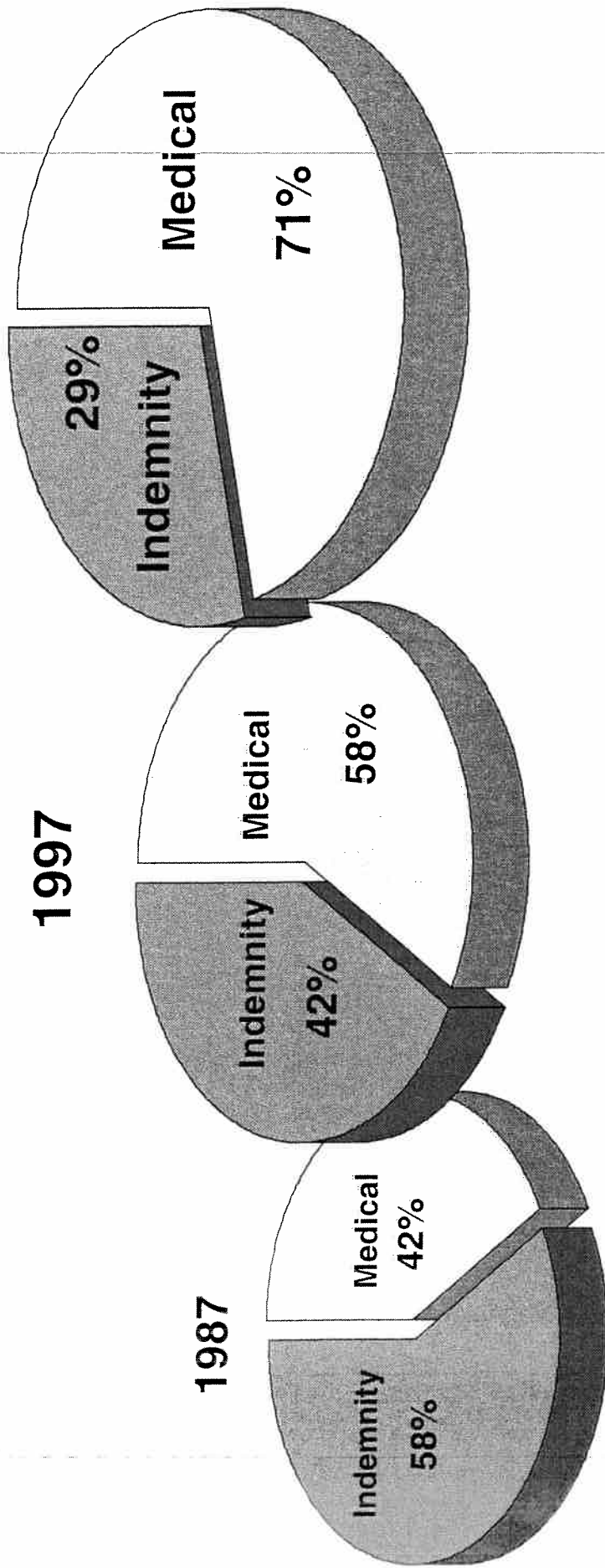
Workers Compensation Benefit Split in Alaska

All Claims—Alaska

2007p

1997

1987



2007p: Preliminary based on data valued as of 12/31/2007
1987, 1997: Based on data through 12/31/2006, developed to ultimate
Excludes the effects of deductible policies

Consumer Price Index, Medical Care Component - All Urban Consumers; U.S. City Average

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	% Change
2003	292.6	293.7	294.2	294.6	295.5	296.3	297.6	298.4	299.2	299.9	300.8	302.1	297.1	
2004	303.6	306	307.5	308.3	309	310	311	311.6	312.3	313.3	314.1	314.9	310.1	4.4%
2005	316.8	319.3	320.7	321.5	322.2	322.9	324.1	323.9	324.6	326.2	328.1	328.4	323.2	4.2%
2006	329.5	332.1	333.8	334.7	335.6	336	337	337.7	338.3	339.3	340.1	340.1	336.2	4.0%
2007	343.5	346.5	347.2	348.2	349.1	349.5	351.6	353	353.7	355.7	357	357.7	351.05	4.4%
2008	360.5	362.2	363	363.2	363.4	363.6	364	364.5	365	365.7	366.6	367.1	364.07	3.7%

Source: U.S. Bureau of Labor Statistics.

Prepared by: Alaska Department of Labor and Workforce Development, Research and Analysis Section, February 3, 2009.

February 25, 2009

Senator Joe Paskvan, Chair
Senate Labor & Commerce Committee
Alaska State Capitol
Juneau, AK 99801

Mr. Chairman and members of the Senate L&C Committee,

The Alaska State Chamber of commerce strongly supports HB 104, temporarily capping medical costs for worker's compensation. The Alaska State Chamber of Commerce has been working towards lowering the costs associated with worker's compensation insurance for many years. Until fundamental changes occur, passage of HB104 is paramount to controlling costs.

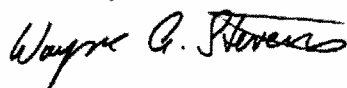
Medical costs are the largest cost driver in the Alaska workers compensation system. Substantive reforms are needed to get at the quality of medical utilization and other factors such as frequency, severity of accidents and costs associated with particular accidents. When SB 130 passed in 2005, two committees were appointed, the Workers Compensation Legislative Taskforce and the Department of Labor and Workforce Development Medical Review Committee. Two important tasks of the committees were to look at program design problems and to study underlying reasons for medical cost increases. The committees were to have completed their work by February of 2006 and the original medical rate freeze would sunset in August of 2007, replaced with a newly recommend rate fee.

The State Legislature is still waiting for the medical review committee to finish its work as the worker's comp task force is now defunct. We appreciate any encouragement the legislature may provide to the Dept. of Labor to encourage the medical review committee to complete its assigned work.

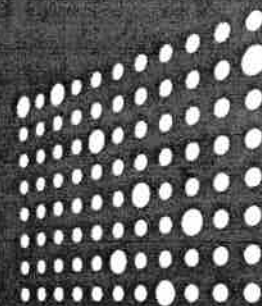
In a recent study, Alaska's employers are paying the highest premium rates in the nation- more than twice the national median rate. Without substantive reforms, Alaska businesses will continue to struggle to meet the high-costs associated with worker's compensation insurance. HB 104, may only be a stop-gap measure, without it Alaska's employers may be forced to lay off employees or close their doors altogether.

We are hopeful the legislature can move this bill quickly through the legislative process.

Sincerely,



Wayne A. Stevens
President/CEO



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