

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.

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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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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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