

MUNICIPALITY OF ANCHORAGE



Office of the Mayor

Mayor Dan Sullivan

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April 8, 2014

The Honorable Kurt Olson
State Capitol, Room 24
Juneau, Alaska 99501

Dear Representative Olson,

I would like to start by extending my appreciation and applaud your efforts in taking on the issue of workers compensation costs and the incredible impacts those expenses have on employers across the state.

In 2002 Alaska's workers' compensation premium rates ranked fifteenth in the nation. Every year since 2004, Alaska has been ranked first or second for the highest workers' compensation premiums in the nation. In 2012, our rates were 170% above nationwide median costs. Alaska's rates are currently 1/3 higher than those of Washington, double those of Oregon and triple those of North Dakota. High premiums mean Alaskan businesses cannot compete with those of our sister states causing Alaskan employers to lose contracts and Alaskan labor to lose jobs. Because medical costs for workers' compensation injuries in Alaska now comprise nearly .75 of every dollar paid in workers' compensation benefits, medical cost control is critical to our economic future.

In 2005 the legislature sought to contain rising medical costs in workers' compensation through adoption of a medical fee schedule outlined in AS 23.30.197. The average medical cost per time loss injury at that time was \$29,000.00. Despite adoption of a fee schedule, the average medical cost per time loss injury had climbed to \$48,000.00 by 2011. A new fee schedule was adopted in 2011 in a further effort to control rising medical costs. Nevertheless, in 2012 the average medical cost per time loss injury jumped to \$54,076 compared to a nationwide average of just \$28,500.00.

Under the new fee schedule, the daily cost of a hospital stay for work related injuries more than doubled between 2010 and 2011 from \$8,906.12 in 2010 to \$19,650.00 in 2011. Private health insurance on the other hand pays between \$995.00 and \$1,768.00 plus itemized costs for the same stay. As the attached table prepared by the State Department of Labor illustrates, medical costs in workers' compensation are at rates 2 to 5 times greater than private health insurance for the *same procedures*. Not surprisingly, although the Municipality of Anchorage realized 28 fewer work injuries in the first nine months of 2012, our total workers' compensation costs increased by over \$1.5 million above those experienced for the same nine months in 2011 when 28 more work injuries were reported.

The medical fee schedule is simply not controlling medical costs. The failure of the fee schedule is in part due to its structure. The schedule allows payment at the 90th percentile of what is charged for the procedure in the treatment of work injuries *only*. Thus, the fee schedule spirals upwards as the 90th percentile rises and, worse, never captures fees for *all* user groups such as private health which would undoubtedly "level the playing field" in the medical cost arena. As a result, the majority of medical costs in Alaska are placed squarely on the backs of employers and their carriers who must pay for medical treatment at level 2 to 5 times greater than those paid in any other arena.

I urge the legislature to support HB 316 and undertake serious changes this session along the lines of those recommended by the Medical Services Review Committee in their November 2009 report to contain these out of control costs. [See link below]. A statutory scheme which allows for medical cost containment and treatment guidelines through the regulatory process with input from the Medical Services Review Committee appears to be the best answer so all parties can come to the table to resolve this serious problem. Unless drastic measures are taken, medical costs will only continue to climb while the ability of Alaskan businesses to compete for contracts and jobs will only continue to diminish. I would like to thank you and your fellow lawmakers for your time and consideration. Please feel free to contact me or my office if you have any questions or require additional information.

Sincerely,

A handwritten signature in blue ink, appearing to read "Dan Sullivan", is written over a horizontal line.

Dan Sullivan
Mayor

Enclosure: DOL Top 25 Surgery Procedure Codes

Link: http://www.labor.state.ak.us/wc/forms/2009-11-MSRC_Final_Report.PDF

Top 25 Surgery Procedure Codes Ranked by Paid Amounts for Alaska (47% of total payments)						
Rank	Procedure Code	Description	AK WC Fee Schedule	Medicare Fee	Washington WC Fee	AK Average Healthcare
1	29881	Arthroscopy Knee w/ Meniscus Repair	\$ 5,158.02	\$ 673.11	\$ 912.56	\$ 2,531.85
2	23412	Repair of Rotator Cuff	\$ 7,725.78	\$ 1,063.39	\$ 1,421.68	\$ 3,980.57
3	29826	Arthroscopy shoulder surgical w/ decompression	\$ 5,436.83	\$ 224.46	\$ 288.87	\$ 853.41
4	63030	Laminotomy w/ decompression	\$ 10,391.15	\$ 1,186.95	\$ 1,605.97	\$ 4,450.70
5	29807	Arthroscopy shoulder surgical; labral tear	\$ 6,621.79	\$ 1,292.78	\$ 1,724.95	\$ 4,833.41
6	29888	Arthroscopic ligament repair	\$ 8,782.58	\$ 1,239.28	\$ 1,648.03	\$ 4,637.14
7	64483	Injection anesthetic agent/steroid epidural	\$ 2,364.74	\$ 274.82	\$ 392.91	\$ 1,070.73
8	29880	Arthroscopy knee surgical; with meniscus	\$ 5,576.24	\$ 700.17	\$ 947.42	\$ 2,642.16
9	22551	Arthrodesis anterior interbody; cervical	\$ 13,973.36	\$ 2,113.35	\$ 2,827.87	\$ 7,981.69
10	23430	Tenodesis of tendon	\$ 5,837.26	\$ 931.43	\$ 1,252.34	\$ 3,463.72
11	62311	Injection of diagnostic/therapeutic substance	\$ 1,295.28	\$ 248.65	\$ 371.33	\$ 920.00
12	23120	Claviclectomy; partial	\$ 2,704.02	\$ 722.91	\$ 983.95	\$ 2,679.98
13	22612	Arthrodesis posterior; lumbar	\$ 12,952.83	\$ 1,979.87	\$ 2,635.84	\$ 7,437.21
14	29827	Arthroscopy shoulder surgical w/ cuff repair	\$ 7,318.82	\$ 1,346.27	\$ 1,789.14	\$ 5,050.22
15	29877	Arthroscopy w/ debridement	\$ 4,879.21	\$ 774.76	\$ 1,045.37	\$ 2,881.03
16	29806	Arthroscopy shoulder surgical; capsulorhaphy	\$ 6,970.30	\$ 1,326.86	\$ 1,768.67	\$ 4,964.70
17	49505	Repair initial inguinal hernia	\$ 3,461.14	\$ 655.21	\$ 863.30	\$ 2,430.13
18	64415	Injection anesthetic agent; brachial plexus	\$ 1,182.37	\$ 149.52	\$ 202.54	\$ 576.26
19	64721	Neuroplasty and/or transposition	\$ 5,187.82	\$ 525.08	\$ 724.40	\$ 1,946.17
20	29822	Arthroscopy shoulder surgical; debridement	\$ 4,739.80	\$ 714.19	\$ 965.13	\$ 2,660.81
21	20610	Arthrocentesis aspiration and/or injection	\$ 382.66	\$ 74.60	\$ 100.72	\$ 318.33
22	23420	Reconstruction of complete shoulder	\$ 9,871.83	\$ 1,208.38	\$ 1,616.48	\$ 4,516.47
23	63650	Percutaneous implantation of neurostimul	\$ 6,791.60	\$ 564.80	n/a	\$ 2,082.27
24	12001	Simple repair of superficial wounds	\$ 489.30	\$ 109.18	\$ 154.95	\$ 415.91
25	63042	Laminotomy with decompression	\$ 11,681.55	\$ 1,609.81	\$ 2,154.94	\$ 6,040.11

Prepared by the Department of Labor and Workforce Development