

The Healthy Alaska Plan: A Catalyst for Reform

Healthy Alaskans – Healthy Economy – Healthy Budgets



Alaska Department of Health and Social Services
February 2015

“This evening there are tens of thousands of Alaskans with no health insurance who could be covered at no cost to the state. These are mothers and fathers, sons and daughters; entire families who will go to bed tonight in fear. Fear that despite their best efforts, they are just one injury or diagnosis away from losing everything. That’s wrong. It’s unacceptable. And we’re going to put an end to that on my watch.”

Governor Bill Walker, *State of the State address*, January 2015



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

**Department of
Health and Social Services**

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February 6, 2015

Dear Alaskans,

Governor Walker and I have heard from so many Alaskans about their inability to get the health care they need. We all have an interest in ensuring that Alaskans are as productive as possible and can contribute to our communities and economy. But people can't work, hunt, or fish when they are not healthy.

Medicaid expansion is our opportunity to invest in the health of Alaskans and the health of our economy. Over 41,000 of our family members, friends and neighbors have the opportunity for health coverage.

Medicaid expansion will serve as a catalyst for meaningful Medicaid reform. Leveraging the federal resources that come with expansion is our biggest opportunity to finance our reform efforts.

I look forward to working with Alaskans to redesign our Medicaid system to meet our current fiscal challenges while ensuring that our most vulnerable Alaskans have access to wellness and prevention programs.

Quyana (thank you).

A handwritten signature in blue ink, appearing to read "Valerie Davidson".

Valerie Davidson
Commissioner
Department of Health & Social Services

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Table of Contents

The Healthy Alaska Plan:

I. Healthy for Alaskans.....	2
II. Healthy for the Economy.....	6
III. Healthy for the State Budget.....	7
IV. Catalyst for Reform.....	9
<i>End Notes</i>	12

GOALS FOR IMPROVING HEALTH CARE IN ALASKA

The Walker/Mallott Transition Team recommended the following goals for improving health care in Alaska¹:

- Implement Medicaid expansion without delay as a catalyst for Medicaid reform
- Maximize federal revenue and minimize unrestricted general fund expenditures
- Recognize that those eligible for Medicaid through expansion can move to self-sufficiency
- Engage interagency and interdepartmental collaborations to leverage human and financial resources
- Ensure the transparency of data and information
- Decrease the percent of state residents without health insurance
- Hold increases in the cost of healthcare to the rate of inflation in Alaska
- Increase the number of healthcare providers in Alaska

The Healthy Alaska Plan: A Catalyst for Reform, serves as the path to Medicaid expansion and the reform efforts for the State's current Medicaid program. This report outlines how Medicaid expansion functions as the catalyst for meaningful Medicaid reform. This report includes the benefits for our fellow Alaskans who would gain access to health care coverage with expansion, as well as the positive impacts to Alaska's economy and the associated savings to the State budget.

I. Healthy for Alaskans

Many low-income Alaskan adults will be able to access health coverage through Medicaid expansion. Currently, adult Medicaid is limited to residents who must not only be low-income, but also be in a certain category such as disabled, pregnant or caretakers of dependent children. The importance of access to health care cannot be understated.

Access to health care means improved health outcomes and increased productivity and independence. With Medicaid expansion:

- The number of uninsured Alaskans would be reduced by half;ⁱⁱ
- More Alaskans would receive preventative and primary care, including behavioral health services and help in managing costly chronic diseases;
- Business owners would benefit because of less turnover and fewer lost work days due to employees with unattended illnesses and injuries; and,
- Alaska's statewide mortality rate would drop.ⁱⁱⁱ

The bottom line is — **health care coverage saves lives**. A recent analysis of the impacts of health insurance coverage was conducted by health economists at Harvard University comparing mortality rates for adults in Massachusetts for the five years prior to and five years following the date health reform took effect in that state, versus a control group with similar demographics and economic conditions. The analysis found that for every 830 adults who gained health insurance, one death per year was prevented.^{iv}

Access to health care coverage means Alaskans will receive more preventative and primary health care that can prevent death, disability and costly health services.^{v, vi}

- Uninsured adults are less likely than insured adults to receive preventive services or screening, such as mammograms, Pap smears, or prostate screening.
- Inadequate prevention and screening increase the likelihood of preventable illness, missed diagnoses and delays in treatment.
- Chronic diseases — such as cancer, heart disease, stroke, arthritis, asthma, diabetes, and behavioral health conditions — are among the most prevalent, costly, and preventable or controllable of all health problems.

- The five most common causes of death in Alaska are cancer, heart disease, unintentional injuries, stroke and chronic lower respiratory disease. Of those, four are either preventable or treatable if caught early (cancer, heart disease, stroke, COPD).
- In 2014, diabetes was the seventh leading cause of death in Alaska — 106 Alaskans died from diabetes mellitus.

Health care access also helps address some of Alaska’s most pressing social issues.

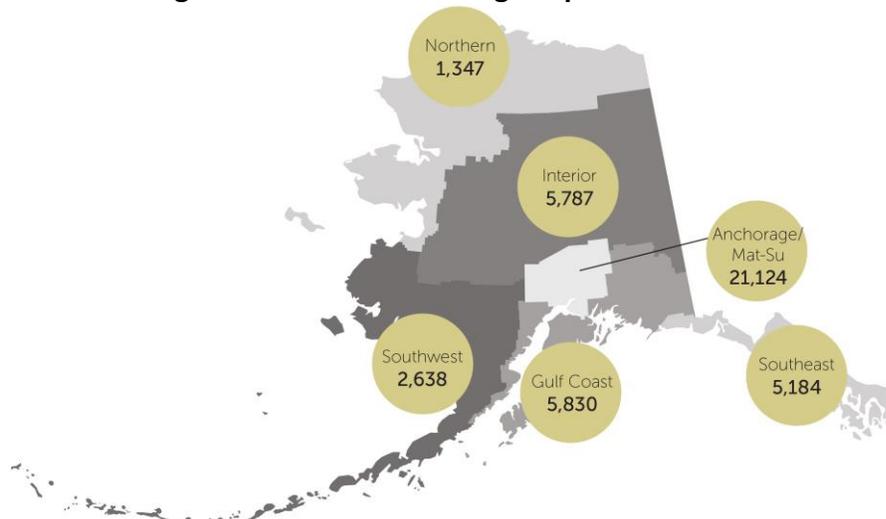
- For our prisoner and parole population, access to behavioral health care, including substance abuse treatment and mental health services, reduces offender recidivism.^{vii}
- Alaska leads the country in high rates of domestic violence and sexual assault. Many survivors do not have health coverage, or lose it when they leave their abuser. Improved health care access through insurance coverage will make a positive difference in health behaviors and outcomes for victims of domestic violence and sexual assault in Alaska.
- Access to Medicaid coverage is already showing a positive difference for the homeless population in other states. According to a recent Kaiser Family Foundation report, Medicaid expansion is contributing to improved access to care as well as broader benefits for homeless individuals, such as the improved capability to gain employment.^{viii}

Access to health care and insurance coverage impacts everything from prevention of disease and disability, quality of life, life expectancy, and the ability of people to work and become self-sufficient.

WHO WILL BE ELIGIBLE FOR COVERAGE THROUGH EXPANSION?

Medicaid expansion will increase access to health insurance for an estimated 41,910 low-income Alaskans.^{ix} These are adults from 19 to 64 years of age who are currently not eligible for Medicaid — those not caring for dependent children, not disabled or pregnant, and who earn at or below 138% of the Federal Poverty Level (FPL) for Alaska. The Alaskans who will be eligible for Medicaid through the expansion live in all areas of the state.

Geographic Distribution of Alaskans Eligible for Medicaid through Expansion

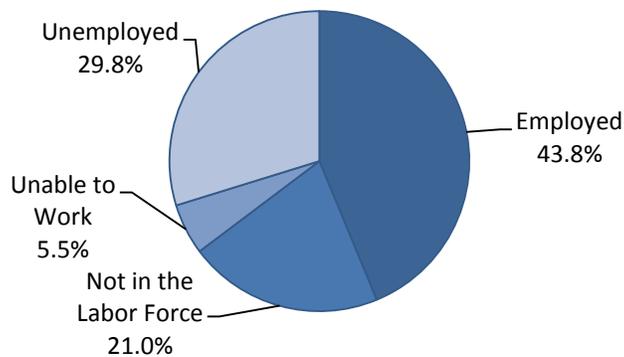


Those in the expansion population include individuals who are not currently offered affordable health insurance coverage by their employer, may not be eligible for subsidized plans on the Health Insurance Marketplace, and cannot afford to purchase an individual health insurance plan on their own.

Expansion will benefit single Alaskans without dependent children earning up to \$20,314 a year, and married couples without dependent children earning up to \$27,490 per year. Once these Medicaid recipients in the expansion population achieve a higher income they will be able to transition to the Health Insurance Marketplace and receive a subsidy to help afford coverage until their income reaches 400% FPL.

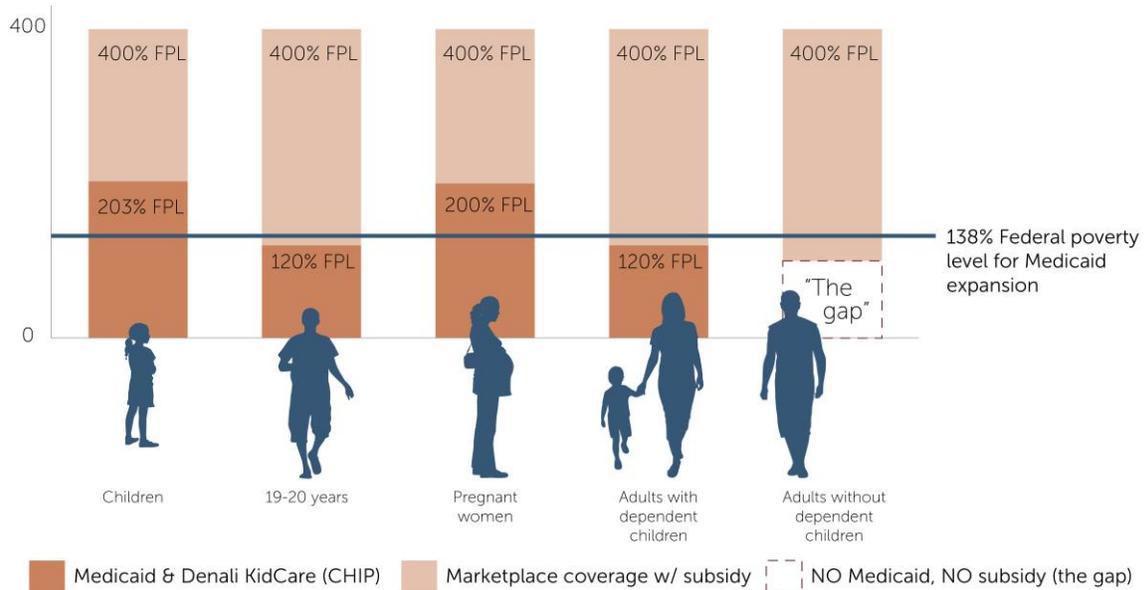
Nearly 20,100 of those eligible are expected to enroll in the first year of expansion, increasing to over 26,500 by the year 2021. Many are employed. Those who are unemployed are Alaskans who are not currently working but are looking for work, and include seasonal employees not currently working. Those identified as not in the labor force have no job and are not currently seeking employment because they are retired, in school, have family responsibilities, are incarcerated, or have other circumstances that preclude them from seeking employment.

Employment Status of Alaska's Medicaid Expansion Population



Approximately 24,000 of Alaskans (55% of the expansion population) have an annual income below 100% FPL. People earning less than 100% FPL do not qualify for a subsidy to purchase health insurance through the Health Insurance Marketplace and fall in “The Gap” for access to coverage.

Income Eligibility for Health Coverage



The Affordable Care Act limits eligibility for subsidies to those with incomes between 100% and 400% FPL. The Act as passed by Congress in 2010 required states to expand Medicaid eligibility as a condition of participation in the Medicaid program, providing guaranteed access to coverage for these lowest income Americans. However, a ruling by the U.S. Supreme Court in 2012 made Medicaid expansion optional for states. The result of this court decision left low-income Americans earning less than 100% FPL who live in states that did not expand Medicaid eligibility in “The Gap.” This means they are not eligible for Medicaid and are also not eligible for a subsidy to purchase health insurance.

II. Healthy for the Economy

Alaska is currently facing a serious fiscal challenge. The rapid and steep decline in oil prices not only affects state government revenue levels, but has a ripple effect throughout our petroleum-dependent economy. At this time, when our state economy is particularly threatened with a potential recession, additional federal revenue and the accompanying job creation could help cushion the blow until oil prices begin climbing again and our economy stabilizes.

Medicaid expansion will bring more than one billion new federal dollars into Alaska's economy over the first five years, and create 4,000 new jobs.^x The benefits of expansion will affect all populations, regions and sectors as measured in improved health, job opportunities and short and long term medical care cost savings. By expanding Medicaid, the state will make a vital investment in Alaskans and Alaska while paving the way to meaningful Medicaid reform.

Studies project that over the next seven years Medicaid expansion in Alaska would likely yield:^{xi, xii}

- 40,000 uninsured Alaskans eligible for basic health care coverage
- \$1.1 Billion in new federal revenue for Alaska
- 4,000 new jobs
- \$1.2 Billion more in wages and salaries paid to Alaskans
- \$2.49 Billion in increased economic activity throughout the state

Moreover, accessing these federal funds that our economy needs and Alaskans are due corrects an inequity in federal policy. The federal Medicaid expansion policy benefits Americans living in certain states, the expansion states, at the expense of those Americans living in non-expansion states. Expansion will bring Alaska tax dollars back to Alaska and drive needed economic activity across the state.

Expanding Medicaid also helps reduce State general Fund expenditures because the federal funds will cover certain health services the state currently provides with general fund dollars. For example, the Alaska Department of Corrections is obligated to provide health care for incarcerated individuals and does so with State general fund dollars. Under expansion, federal Medicaid funds would pay for some of those services and save the state an estimated \$4.1 million the first year and about \$7 million each year following. This and additional areas of state savings are explained further in the next section.

Another challenge for Alaska's economy and Alaskan employers is the high price of health insurance premiums and the underlying prices for medical services in our state. One driver of higher prices is uncompensated care, which is care provided for individuals who are unable to or otherwise do not pay their medical bills. These unpaid bills translate into higher prices for commercially purchased health insurance and for self-insured employers. Arizona hospitals reported a decrease in uncompensated care of 31% during the first four months after Medicaid expansion was implemented there.^{xiii} In 2011, Alaska non-tribal hospitals provided \$91 million in uncompensated care. A significant drop in the level of uncompensated care similar to Arizona's experience could assist in controlling health care cost growth in our state.

III. Healthy for the State Budget

It may seem counterintuitive that giving more people health care will result in state budget savings, but the new federal revenue that comes with expansion enables savings of state general fund dollars currently obligated in other programs. These savings completely offset the state’s share of the associated administrative costs **and** enable additional general fund reductions.

MEDICAID EXPANSION GENERATES NEW REVENUE AND SAVES STATE MONEY

Providing access to health care for more Alaskans will both improve the quality of life for thousands of Alaskans while increasing state revenues and generating savings to the state general fund.

In FY 2016, the State of Alaska has the opportunity to provide access to health care coverage for over 41,000 Alaskans while reducing the general fund budget by \$6.1 million.

Not all 41,000 potentially eligible Alaskans are expected to enroll in Medicaid. People don’t enroll for a number of reasons: they don’t think they will need health care; don’t want to sign up with the government; or just never get around to it. During the first year of expansion, over 20,000 people are expected to enroll, with the number increasing each year before leveling at about 63% of eligible Alaskans, or nearly 27,000 enrollees.^{xiv}

Increase in Enrollees and Revenue

Currently, the federal government funds 50% of most Medicaid expenses. Under expansion, the federal government will pay Alaska 100% of the health care expenses associated with the newly covered population for calendar years 2015 and 2016. The federal government will then transition its match over several years to 90% of health care expenses for the new population. Starting in 2020, the federal match remains at 90%. The state is not required to continue the expansion coverage beyond the 90% match.

	2016	2017	2018	2019	2020	2021
New Enrollees	20,066	23,273	26,492	26,535	26,580	26,623
Cost Per Enrollee	\$7,248	\$7,495	\$7,752	\$8,018	\$8,293	\$8,433

-----Costs Below are in Thousands of Dollars-----

Total Health Care Spending for New Enrollees	\$145,435	\$174,438	\$205,368	\$212,747	\$220,433	\$224,514
Federal Share	\$145,435	\$170,633	\$195,514	\$200,683	\$204,087	\$204,928
State Share	\$0	\$3,804	\$9,854	\$12,064	\$16,346	\$19,587

Source: Analysis by Evergreen Economics^{xv}

Savings to State General Fund

While the federal government is obligated to pay the state for the vast majority of costs associated with covering the Medicaid expansion population, the state will still bear some new costs. However, the state will be able to offset those costs by reducing or eliminating general fund contributions to programs that provide health care to the newly eligible people in Medicaid. Initial offsets include:

- The Chronic and Acute Medical Assistance program (CAMA) that provides limited state funded coverage for the lowest income Alaskans for certain serious medical conditions. A large portion of this population will qualify for and be covered under the expanded Medicaid program, which means that the state can immediately cut \$1 million in state general fund payments.
- The state is required to provide health care for incarcerated individuals in the corrections system. In Alaska, these services are currently provided with state general fund dollars. Incarcerated inmates are not eligible for Medicaid when inside the correctional institution. However, when receiving inpatient hospital services outside the institution, those services can be covered by Medicaid if the individual is otherwise eligible. The Department of Corrections has estimated savings based on what they paid for these inpatient services in 2014 and the projected in-state population. An additional benefit of expansion is many of these people will be eligible for Medicaid upon release and thus able to access health services, including substance abuse treatment, which is expected to reduce recidivism.
- Savings are expected in behavioral health grants as the number of Medicaid eligible Alaskans they serve is increased through expansion. While Medicaid will not replace all of the cost of these services, a significant amount can be refinanced.
- Similar cuts will occur in other Department of Health & Social Services programs as well as other state agencies as additional potential savings are identified. These cuts will significantly increase year after year as expansion enrollment ramps up to full capacity.

GENERAL FUND COSTS AND OFFSETS IDENTIFIED TO DATE:

	2016	2017	2018	2019	2020	2021
----- General Fund Costs -----						
Health Care Costs	\$0	\$3,804	\$9,854	\$12,064	\$16,346	\$19,587
Administrative Costs for Medicaid expansion	\$0*	\$1,392	\$1,478	\$1,499	\$1,600	\$1,625
----- General Fund Offsets -----						
Chronic & Acute Medical Assistance (CAMA)	\$1,000	\$1,300	\$1,400	\$1,500	\$1,500	\$1,500
Corrections	\$4,100	\$7,000	\$7,000	\$7,000	\$7,000	\$7,000
Behavioral Health Grants	\$1,000	\$5,000	\$9,000	\$13,000	\$16,000	\$16,000
TOTAL SAVINGS	(\$6,100)	(\$8,104)	(\$6,068)	(\$7,937)	(\$6,554)	(\$3,288)

* FY16 Administrative Cost is being funded by the Alaska Mental Health Trust Authority

IV. Catalyst for Reform

Alaska's Medicaid program is unsustainable as currently designed and needs reform in order to best serve the health of Medicaid beneficiaries, operate more efficiently for Medicaid providers, turn the cost curve, and improve value. Medicaid expansion is required to provide the federal funding and the flexibility needed to facilitate fundamental reform. As demonstrated in Section III, expanding Medicaid eligibility even without enacting reforms will save the State of Alaska general fund dollars. Greater savings and improved quality and outcomes in the program can be achieved with meaningful Medicaid reforms.

As private health insurance becomes increasingly expensive in our state, Medicaid expansion provides opportunities to decrease employer health benefit costs and private insurance premiums. Medicaid reform can jump-start private sector health care reform.

According to the Alaska State Hospital & Nursing Home Association, non-tribal hospitals¹ in our state provided \$91 million in uncompensated care in 2011.^{xvi} Based on the experience in other states that have already expanded Medicaid, an estimated reduction in uncompensated care of 20% - 30% could be achieved in Alaska, which could amount to a decrease of between \$18 and \$27 million in lost revenue at non-tribal hospitals and translate into lower hospital prices for private payers.

New, innovative models of care and other reforms can create efficiencies in the health care delivery system and reduce waste in the form of unnecessary or ineffective services. Reforms aimed at ensuring Medicaid patients are receiving the right care, at the right time, in the right place and at the right price will improve patient satisfaction and outcomes and free up capacity in the health care system.

The building blocks for achieving meaningful Medicaid Reform for our state will include:

- I. **Payment Reform:** Reimbursement methodologies from fee-for-service payment structures that incentivize higher service volume and rewards inefficiencies in the delivery system, to alternative payment mechanisms that can drive improved value.
- II. **Strengthened Primary Care:** A high-performing health care system rests on a foundation of access to primary care providers who are adequately supported to manage and coordinate care for their patients.
- III. **Care Management:** Improvements in medical management of Medicaid services will ensure appropriate utilization of services.
- IV. **Workforce Innovation:** Design of new provider types that can work as members of health care teams and allow clinicians to work at the top of their licenses and function more efficiently with more support for patient care.

¹ Differences in cost reporting requirements between tribal and non-tribal hospitals make calculations and comparisons between the two difficult.

- V. Maximizing federal matching fund opportunities:** Medicaid waiver opportunities that allow delivery and payment for services outside of the traditional Medicaid program will be thoroughly explored. Those identified as saving state general funds and improving care will be pursued. Working with other state agencies and with systems such as the statewide community health centers may provide support to leverage federal financing. Partnerships with the tribal health system and our ability to receive 100% federal reimbursement for Medicaid services provided in that system could result in additional state general fund savings.
- VI. Improved Telehealth Capability:** Identification of barriers to service delivery through telehealth to improve access, address health care system capacity, and reduce travel requirements for rural Alaskans.

These reforms will strengthen and incorporate program improvements already underway in Alaska's Medicaid Program, which include:

- An initiative to control overutilization of hospital emergency room services;
- Increased fraud and abuse prevention and control efforts;
- Activities to reduce waste, i.e., unnecessary or ineffective services, through improved medical management;
- Home and community-based service improvements for seniors and Alaskans with disabilities with a focus on person-centered planning and conflict-free services;
- Coordination with Patient-Centered Medical Home initiatives;
- Coordination with the Alaska tribal health system to increase community resources and strengthen systems of care across the state; and,
- Investigating methods for refinancing Medicaid through waiver options.

The reform effort will also evaluate potential strategies for increasing prevention and shared responsibility, for example through:

- Cost-sharing requirements for certain enrollees, such as those between 100% and 138% FPL;
- Cost-sharing for certain services, such as non-emergency use of hospital emergency department services;
- Support for Health Savings Accounts (HSAs) for certain enrollees;
- Choice restrictions for certain enrollees and services to direct patients to the appropriate level of care;
- Incentives for healthy behaviors;

- Increased access to preventative services shown to improve health outcomes and decrease health care costs; and,
- Work assistance benefits for the expansion group, such as access to job search websites, resume assistance and skills-to-job matching services, job training, vocational rehabilitation and other work supports.

The Medicaid reform plan will be based in part on recommendations from the Alaska Health Care Commission and the Medicaid Reform Advisory Group. The department will be supported in this effort with funding from the Alaska Mental Health Trust Authority for a technical assistance contract. The contractor will assess and recommend various options for reform, and support the department to draft the plan with input from national and local experts and feedback from the public. Their work will include an in-depth analysis of different types of benefit packages, and will consider the applicability of innovations from other states to Alaska's Medicaid program and health care market.

End Notes

ⁱ Walker/Mallott Transition Team Reports: <http://gov.alaska.gov/Walker/transition-2014.html>

ⁱⁱ *Medicaid in Alaska Under the ACA*. Health Policy Center, the Urban Institute. February 2013. Available on <http://dhss.alaska.gov/healthyalaska/>

ⁱⁱⁱ Sommers, BD, Long, SK, Baicker, K. Changes in Mortality after Massachusetts Health Care Reform. *Ann Intern Med*. 2014; 160(9):585-593. Doi:10.7326/M13-2275.

^{iv} *Ibid.*

^v *Medicaid in Alaska Under the ACA*. Health Policy Center, the Urban Institute. February 2013. Available on <http://dhss.alaska.gov/healthyalaska/>.

^{vi} *Chronic Disease in Alaska: 2014 Brief Report*. Alaska Department of Health & Social Services. http://dhss.alaska.gov/dph/Chronic/Documents/Publications/assets/2014_CDBriefReport.pdf

^{vii} DiPietro, B., & Klingenmaier, L. (2013). Achieving Public Health Goals through Medicaid Expansion: Opportunities in Criminal Justice, Homelessness, and Behavioral Health with the Patient Protection and Affordable Act. *American Journal of Public Health*, 25-29.

^{viii} *Early Impacts of the Medicaid Expansion for the Homeless Population*. Kaiser Family Foundation. Nov 2014. <http://kff.org/uninsured/issue-brief/early-impacts-of-the-medicaid-expansion-for-the-homeless-population/>

^{ix} *Projected Population, Enrollment, Service Costs and Demographics of Medicaid Expansion Beginning in FY 2016*. Evergreen Economics analysis for the Alaska Department of Health & Social Services. February 4, 2015. Available on <http://dhss.alaska.gov/healthyalaska>.

^x *Ibid.* And, *Fiscal and Economic Impacts of Medicaid Expansion in Alaska*. Northern Economics. February 2013. Both reports are available on <http://dhss.alaska.gov/healthyalaska>.

^{xi} *Projected Population, Enrollment, Service Costs and Demographics of Medicaid Expansion Beginning in FY 2016*. Evergreen Economics analysis for the Alaska Department of Health & Social Services. February 4, 2015. Available on <http://dhss.alaska.gov/healthyalaska>.

^{xii} *Fiscal and Economic Impacts of Medicaid Expansion in Alaska*. Northern Economics. February 2013. Available on <http://dhss.alaska.gov/healthyalaska>.

^{xiii} *Impact of Insurance Expansion on Hospital Uncompensated Care Costs in 2014*. Office of the Assistant Secretary for Planning & Evaluation, US Department of Health & Human Services. http://aspe.hhs.gov/health/reports/2014/uncompensatedcare/ib_uncompensatedcare.pdf

^{xiv} *Projected Population, Enrollment, Service Costs and Demographics of Medicaid Expansion Beginning in FY 2016*. Evergreen Economics analysis for the Alaska Department of Health & Social Services. February 4, 2015. Available on <http://dhss.alaska.gov/healthyalaska>.

^{xv} *Ibid.*

^{xvi} <http://d2vx0b949pmiku.cloudfront.net/wp-content/uploads/2012/11/Uncompensated-care-Talking-Points-Final-1-29-15.pdf>