ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS
February 1, 2022
11:38 a.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Adam Wool, Vice Chair
Representative Andy Josephson
Representative Calvin Schrage
Representative Andi Story
Representative Mike Prax
Representative David Eastman

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

PRESENTATION(S): BUDGET COST DRIVERS AND METHODS OF COST CONTAINMENT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

SANDRA HEFFERN, PhD, President
Effective Health Design;
Project Coordinator
Alaska Healthcare Transformation Project
Anchorage, Alaska
POSITION STATEMENT: Provided a PowerPoint presentation, titled "Healthcare Costs and Cost Drivers."

RALPH TOWNSEND, PhD, Professor of Economics
Institute of Social and Economic Research
University of Alaska Anchorage
Anchorage, Alaska
POSITION STATEMENT: Provided a PowerPoint presentation, titled "What do we know (and not know) about healthcare costs in Alaska?"

ACTION NARRATIVE

11:38:03 AM

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 11:38 a.m. Representatives Eastman, Prax, Josephson, and Spohnholz were present at the call to order. Representatives Schrage, Wool, and Story arrived as the meeting was in progress.

PRESENTATION(S): Budget Cost Drivers and Methods of Cost Containment

11:38:48 AM

CHAIR SPOHNHOLZ announced that the first order of business would be a presentation on budget cost drivers and methods of cost containment.

11:39:22 AM

SANDRA HEFFERN, PhD, President, Effective Health Design; Project Coordinator, Alaska Healthcare Transformation Project, provided a PowerPoint presentation, titled "Healthcare Costs and Cost Drivers" [hard copy included in the committee packet]. She described the Alaska Healthcare Transformation Project as a cross sector collaboration of payers, providers, policy makers, and patient advocates working together to transform Alaska's healthcare system. She listed the following goals of the project: reducing the overall per capita healthcare cost growth rate to 2.25 percent or to the consumer price index, whichever is greater; increasing the percentage of Alaskans with a standard source of primary care; and aligning all public and private payers towards value-based primitive payment models with streamlined administrative requirements. She stated that Alaska's healthcare cost in 2011 was at $7.5 billion and climbing. She added that when this value is adjusted for today, it would be closer to $9.3 billion, or $12,500 per Alaskan. In response to Chair Spohnholz, she answered that inflation for healthcare costs in Alaska is over 49 percent. She suggested that Alaska has some of the highest healthcare costs in the world.

11:44:28 AM

DR. HEFFERN pointed out the figures from the Center for Medicare and Medicaid Services, Office of the Actuary, on slide 4, and clarified that the graph represents these figures in the millions. She stated that health spending increased by $6.4 billion from 1994 to 2014, which equates to a 371 percent increase. She said that during this period, as Alaska's population increased, healthcare services became more accessible throughout the state, with more available primary care and specialist services. She advised that health spending has increased because of changes in medical technology, administrative expenses resulting from the complexity of the health-finance system, pharmaceuticals, low-value care, chronic disease, health disparities, and social determinants of health. In response to Representative Prax's inquiry about low-value care, she referred to a study conducted by Milliman, from MarketScan data. In response to Representative Josephson, she referred him to Emily Richie with the Department of Administration.

12:02:02 PM

RALPH TOWNSEND, PhD, Professor of Economics, Institute of Social and Economic Research (ISER), University of Alaska Anchorage, provided a PowerPoint presentation, titled "What do we know (and not know) about healthcare costs in Alaska?" [hard copy included in the committee packet]. He explained that the key driver of Alaska's high cost of healthcare is the high compensation for clinicians, physicians, and specialists. Alaska's higher costs are not driven by higher utilization in the state, compared to the rest of the country. He noted that the data in Alaska is disjointed, incomplete, and untimely. He concluded that data deficiencies currently make studying healthcare costs in Alaska difficult. He suggested that an all-payer claims database would improve the economic understanding of Alaska's healthcare costs. To determine future policy decisions, he advised establishing an ongoing process to analyze and understand the state's healthcare data.

12:09:05 PM

DR. TOWNSEND, pointing out slide 2 and slide 3, stated this data confirms that Alaska has the most expensive healthcare in the country. He stated that professional services drive this cost, as physician rates in Alaska stand out as being disproportionately high. While all physicians' rates have a high ratio relative to the rest of the country, orthopedists and cardiologists have the highest rates. According to Milliman

MarketScan data from 2009, Medicare utilization rates in Alaska are comparable to Idaho, Washington, Hawaii, North Dakota, Oregon, and Wyoming. Commercial utilization in state's urban areas is also comparable to these other states, while commercial utilization in non-urban areas is higher in Alaska. Salaries for healthcare professionals, except for those who are self-employed, were 100 percent to 110 percent of the comparison states. Hospital occupancy rates were lower in Alaska in general. He stated that ISER does not have the capacity to provide an ongoing examination of the data sets. He explained that a study performed in 2018 found the 80th percentile rule has impacted Alaska's healthcare expenditures. The results of the study showed that the rule "jarred" the financial change. Prior to 2004, before the rule was implemented, health expenses in Alaska had been comparable to other places in the country; however, after the enactment of the 80th percentile rule, a divergence occurred, and healthcare costs in the state grew 1.5 percent to 2 percent more than the rest of the nation. He explained that the 80th percentile rule was enacted with the intent of preventing surprise legislation.

12:30:30 PM

DR. TOWNSEND stated that there are some problems with the data used in the study. He emphasized the difficulty in acquiring adequate data for research purposes. In response to Representative Eastman, he mentioned that prescription drug prices are comparable to those in the Lower 48. Also, Alaska spends considerably less on nursing home care because of the relatively young population. He suggested to Representative Schrage that an all-payer claims database is the most obvious way to create an ongoing, consistent, and comprehensive series. With an all-payer claims database, Alaska would be able to better understand and plan for healthcare costs and quality. He stated that consistent data over time will help researchers calculate the impacts of legislative changes.

12:43:26 PM

DR. TOWNSEND cautioned the committee that there are numerous cost drivers creating more than one issue. Moving to slide 8, he discussed options, including integration of data for comprehensive analytics and policy recommendations, models of care delivery, structured collaboration between clinicians and hospitals, clinically integrated networks, and alternative payment structures. The data suggests that better-coordinated

care can lead to efficiencies and improve the experience for both the clinician and the patient.

DR. TOWNSEND stated that passed legislation provided for coordinated-care demonstration projects to be implemented around the state. One model created a network of providers with a per-member fee. Another model is a clinically integrated network, which is a structured collaboration between physicians and hospitals. This creates clinical initiatives designed to improve the quality and efficiency of healthcare services by removing barriers to patient care coordination, allowing providers to share infrastructure while maintaining their independence, and rewarding quality. He stated that there are two integrated networks developing in Anchorage.

DR. TOWNSEND stated that alternative payment structures use a reference price developed either from a trend analysis or Medicare reimbursement rates. He explained that, for reference-based pricing, health plans determine providers' reimbursement, while, for an all-payer rate setting, payers agree to common prices and price increases set administratively through an all-payer model. He stated that reimbursement rates would mitigate price discrimination and reduce the administrative overhead associated with rate negotiations, while maintaining consumer choice. He stated that data analysis to understand policy impacts is a key to sustainable reform, as healthcare reform is a long road which involves continuity and focus.

12:52:40 PM

DR. TOWNSEND concluded that understanding costs and drivers is complicated and healthcare reform is an ongoing process. In response to Representative Wool, he deferred the question to the Director of Insurance, Lori Wing-Heier, and mentioned that the 80th percentile rule helped to drive up costs of healthcare in Alaska with out-of-network providers. Over the last few years more providers have been brought in-network, which has helped to moderate costs.

DR. TOWNSEND confirmed that the negotiations between providers and health insurance networks are influenced by the 80th percentile rule which applies to commercial insurance and does not apply to employer self-insured programs. Self-insured programs have increasingly negotiated network terms that are not marked by the 80th percentile rule.

1:04:00 PM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 1:04 p.m.