

RESPONSE TO QUESTIONS:

ANALYSIS OF POTENTIAL EFFECTS ON ALASKA OF PROPOSED HEALTH-CARE REFORM LEGISLATION

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We think the health-care reform legislation passed in the House and introduced in the Senate could, as it stands, pose substantial risks for Alaska's health-care system and economy. We want to emphasize that we support health-care reform: we believe changes are vital.

But our preliminary analysis—which relies on recent reports by the Congressional Budget Office (29 October) and the Center for Medicare and Medicaid Services (13 November) as starting points—finds that the proposed expansion of Medicaid and the public-option insurance pool would not be a good fit for Alaska. Circumstances are different in Alaska than in many other states.

We hope those with a stake in seeing effective health-care reform for Alaska will consider amendments to the proposed legislation. For example, it may be useful to consider an “opt-out” provision—not only for Alaska but for any state—that, at the very least, would enable continued federal funding for Medicaid, Medicare, and TriCare, as well as the subsidies for those with private insurance, under the proposed “exchanges.”

Such a provision would explicitly allow states to design simpler, locally appropriate systems of federal and state health-care payments to providers.

One example of this approach is the Maryland “all-payer” reimbursement system for hospital services, under which all payers—private or public—pay the same for the same service. That allows local health-care providers to focus on delivering care, rather than dealing with the complicated interplay of the disparate payment systems of Medicaid, Medicare, other government programs, and private health insurance.

Potential Effects on Alaska Health-Care System

• *Provisions of the House bill that explicitly aim to reduce geographic disparities in Medicare reimbursements could make a bad situation worse for Alaska's Medicare patients.* (See §1158 of HR 3962.)

Doctors in Alaska have historically been paid more than the U.S. average for seeing Medicare patients, because of Alaska's higher costs. (Medicare is the federal insurance program for Americans 65 and older.) But even so, those payments have not kept up with the rest of the Alaska market, and Medicare patients here already have big problems getting primary-care doctors to see them.

Share of Primary-Care Doctors in Anchorage and U.S. Accepting New Medicare Patients



Sources: ISER/UAA survey of Alaska primary-care doctors, 2008/2009; Community Tracking Survey, 2004/2005

A recent ISER survey found that only 17% of primary-care doctors in Anchorage—where 40% of Alaskans over 65 live—will see new Medicare patients. By contrast, nearly two-thirds of primary-care doctors nationwide will accept new Medicare patients.

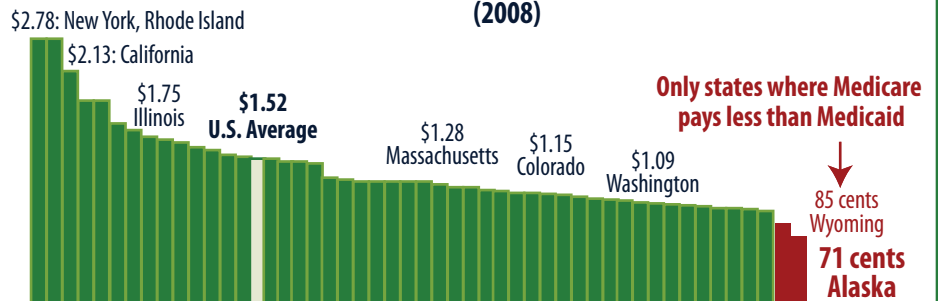
• *The proposed Medicaid expansion could also exacerbate access problems for older Alaskans.* That's because Alaska is one of only two states where Medicaid pays substantially better than Medicare. (Medicaid is the joint federal-state insurance program for low-income people.)

As the figure below shows, in almost all other states, Medicare pays considerably better than Medicaid, so an expansion of Medicaid is less likely to have significant effects on Medicare patients' access to health care.

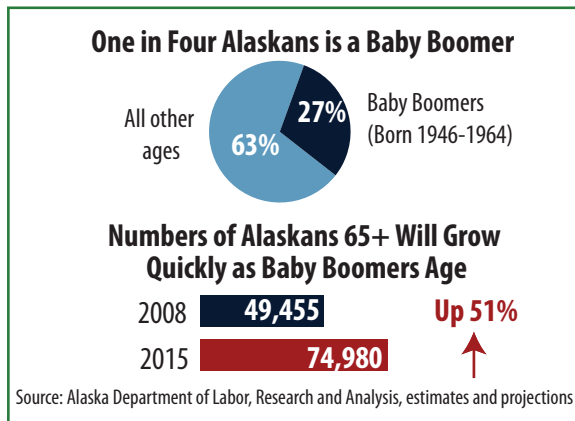
But in Alaska, if the proposed Medicaid expansion and public-option are available to previously uninsured (or underinsured) Alaskans, thousands of additional Alaskans will essentially move ahead of Medicare beneficiaries in the line for health care—because both will pay doctors more than Medicare does.

And in the next few years there will be a lot more Medicare enrollees in Alaska. The number of Alaskans 65 and older has been growing fast for 20 years—and that number is expected to increase 50% between now and 2015, less than a decade away. That's in large part because baby boomers (the big generation of Americans born between 1946 and 1964) are starting to hit Medicare age—and one in four Alaskans is a baby boomer.

If Medicaid Pays \$1.00 for Primary Care, How Much Does Medicare Pay? (2008)



Source: Medicare to Medicaid Fee Index for Primary Care, Urban Institute, 2008 Medicaid Physician Survey



As the figure above shows, the number of Alaskans 65 and older is expected to increase from less than 50,000 to nearly 75,000 as the boomers age.

Already, the few primary-care providers who will accept new Medicare patients are seeing big increases. Numbers of patients 65 and older at the Anchorage Neighborhood Health Center and Anchorage's VA facilities have jumped on the order of 50% within a few years. There is also substantial evidence that independent nurse practitioners are taking on a growing share of primary-care for older Alaskans.

And just recently older Alaskans have also been visiting the emergency room at Providence Hospital in growing numbers. Through early 2008, visits by older residents were growing just slightly—less than 3% a year over the past five years. But from May 2008 to September 2009, the number of visits increased at an annualized rate of 12%—and we're hearing that the longer wait times at the emergency room are starting to frustrate patients.

Potential Effects on Health-Care Costs

Other potential effects of the proposed legislation on Alaska's health-care system have to do with their effect on costs. Costs of medical care in Alaska have been increasing at 5% above the rate of basic inflation and population growth. Both public and private insurers have reacted by shifting costs to others or limiting coverage.

The proposed expansion of Medicaid and the establishment of public-option insurance pools are likely to increase medical costs even faster. What might that mean for Alaska?

- *Alaska could be exposed to misguided policies that attempt to control geographic cost differentials across the country by focusing narrowly on cost per enrollee.* Alaska's geography makes it expensive to provide basic services—like water and sanitation—and to buy medical equipment and build and maintain facilities. Alaska would be better served by measures that attempt to increase effectiveness and efficiency by taking into account both population risk factors and local market conditions.

- *Alaska is in many ways still a remote, frontier environment, and it has to pay a premium to attract and retain a health-care workforce.* If costs for health personnel grow and reimbursement is squeezed, Alaska might not be able to keep the health-care professionals we currently have or attract the many more we will need to treat Alaska's growing population. That could translate into long lines for service and very frustrated patients.

Potential Economic Effects

The currently proposed reform legislation could also have effects on Alaska beyond the health-care system.

- *Alaska's economy could be hurt—compared with economies of other states—if we have to pay more and get less back.* The increased taxes to pay for the new programs could fall more heavily on higher income states like Alaska. Also, Alaska has a relatively young population, and the subsidies going into the proposed insurance "exchanges" favor an older demographic.

- *Alaska's many small employers could find it hard to comply with a mandate for employer health insurance, if it applied to those with annual payrolls of \$500,000.* Nearly 40% of Alaska workers are employed by firms with fewer than 50 employees, and under the Senate bill those employers would not be subject to the employer insurance mandate. But the House bill would apply to firms with annual payrolls of \$500,000—which many Alaska businesses with fewer than 50 employees might have, given Alaska's high cost-structure. The House provision, if enacted, could be especially disruptive to Alaska, compared with states that have lower costs and fewer small employers.

- *Insuring seasonal workers will pose special challenges—and Alaska has the highest share of seasonal workers in the country.* Many of the thousands who work in the seafood, tourism, and other seasonal industries in Alaska are currently uninsured. Designing and administering an insurance plan for this mobile, heterogenous group will be difficult. That's true regardless of whether it's public or private insurance, or self-insured employers using third-party administrators.

Overall, we believe Alaska would be better served if it had the option of designing health-care reforms that are a better fit for Alaska. We hope policymakers will be willing to give Alaska—and other states, if they choose—that option.