The State of the Alaska Workers’ Compensation System

June 17, 2013

Mike Monagle, Director
Division of Workers’ Compensation

Prepared by the Alaska Department of Labor and Workforce Development
The Good News....
Employment in Alaska

Alaska Department of Labor Research and Analysis

Prepared by the Alaska Department of Labor and Workforce Development
Alaska Injury Frequency

Number of Injuries Reported


15,000 20,000 25,000 30,000 35,000 40,000

2012 Workers’ Compensation Annual Report

Prepared by the Alaska Department of Labor and Workforce Development
The Bad News....
Historic Alaska Workers' Compensation Premium Rate Changes

Overall Rate level


2011 Workers’ Compensation Annual Report

Prepared by the Alaska Department of Labor and Workforce Development
How do Alaska’s Premium Rates Compare?

<table>
<thead>
<tr>
<th>2012 Ranking</th>
<th>2010 Ranking</th>
<th>State</th>
<th>Index Rate</th>
<th>Percent of Study Median</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>Alaska</td>
<td>3.01</td>
<td>160%</td>
<td>January 1, 2012</td>
</tr>
<tr>
<td>2</td>
<td>6</td>
<td>Connecticut</td>
<td>2.99</td>
<td>159%</td>
<td>January 1, 2012</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>California</td>
<td>2.92</td>
<td>155%</td>
<td>January 1, 2012</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
<td>Illinois</td>
<td>2.83</td>
<td>151%</td>
<td>January 1, 2012</td>
</tr>
<tr>
<td>5</td>
<td>13</td>
<td>New York</td>
<td>2.82</td>
<td>150%</td>
<td>October 1, 2011</td>
</tr>
<tr>
<td>6</td>
<td>4</td>
<td>Oklahoma</td>
<td>2.77</td>
<td>147%</td>
<td>11/1/11 State Fund, 1/1/12 Private</td>
</tr>
<tr>
<td>7</td>
<td>7</td>
<td>New Jersey</td>
<td>2.74</td>
<td>146%</td>
<td>January 1, 2012</td>
</tr>
<tr>
<td>8</td>
<td>1</td>
<td>Montana</td>
<td>2.50</td>
<td>133%</td>
<td>July 1, 2011</td>
</tr>
<tr>
<td>9</td>
<td>10</td>
<td>New Hampshire</td>
<td>2.40</td>
<td>128%</td>
<td>January 1, 2012</td>
</tr>
<tr>
<td>10</td>
<td>8</td>
<td>Maine</td>
<td>2.24</td>
<td>119%</td>
<td>January 1, 2012</td>
</tr>
<tr>
<td>12</td>
<td>14</td>
<td>Pennsylvania</td>
<td>2.15</td>
<td>114%</td>
<td>April 1, 2011</td>
</tr>
<tr>
<td>12</td>
<td>19</td>
<td>Wisconsin</td>
<td>2.15</td>
<td>114%</td>
<td>October 1, 2011</td>
</tr>
<tr>
<td>13</td>
<td>26</td>
<td>Washington</td>
<td>2.11</td>
<td>112%</td>
<td>January 1, 2012</td>
</tr>
<tr>
<td>14</td>
<td>18</td>
<td>Vermont</td>
<td>2.07</td>
<td>110%</td>
<td>April 1, 2011</td>
</tr>
<tr>
<td>15</td>
<td>25</td>
<td>Louisiana</td>
<td>2.06</td>
<td>110%</td>
<td>October 1, 2011</td>
</tr>
</tbody>
</table>

Source: 2012 Oregon Workers’ Compensation Premium Ranking Survey
State of Oregon, Department of Consumer and Business Services

Prepared by the Alaska Department of Labor and Workforce Development
Calendar Year 2000 – 28th in the nation...
Calendar Year 2002 – 15th in the nation...
Calendar Year 2004 – 2nd in the nation...
Calendar Year 2006 – 1st in the nation...
Calendar Year 2008 – 1st in the nation...
Calendar Year 2010 – 2nd in the nation...
Calendar Year 2012 – 1st in the nation...

What’s Driving Premium Costs?

Prepared by the Alaska Department of Labor and Workforce Development
Cost Drivers

- Medical Costs
- Indemnity Costs
- Legal Costs
- Reemployment Costs

Prepared by the Alaska Department of Labor and Workforce Development
Medical Costs

- Fees for Services
- Over Utilization
- Prescription Drug Use
  - Use of opioid narcotics
  - Physician Dispensing

Prepared by the Alaska Department of Labor and Workforce Development
Medical Benefits Constitute the Majority of Total Benefit Costs in Alaska

- Region: 65% Medical, 35% Indemnity
- Alaska: 76% Medical, 24% Indemnity
- Countrywide: 59% Medical, 41% Indemnity

2012 NCCI State Advisory Forum

Prepared by the Alaska Department of Labor and Workforce Development
Alaska vs. Countrywide Average Medical Claim Severity

Cost per Case (\$'000s)

2007 2008 2009 2010 2011*

40.0 48.2

24.0 28.0

Accident Year

Alaska vs. Countrywide

2012 NCCI State Advisory Forum

Prepared by the Alaska Department of Labor and Workforce Development
NCCI 2012 State of the Line Report

Prepared by the Alaska Department of Labor and Workforce Development
Designing Workers’ Compensation Medical Fee Schedules
Workers’ Compensation Research Institute, June 2012

Prepared by the Alaska Department of Labor and Workforce Development
Distribution of Medical Payments

Region

- Physician: 42%
- Hospital: 28%
- Ambulatory Surgical Centers: 4%
- Drugs: 13%
- DME, Supplies & Implants: 7%
- Other: 6%

NCCI Medical Data Report for Alaska
January 2013

Prepared by the Alaska Department of Labor and Workforce Development
Distribution of Physician Payments by AMA Service Category

Region

- Medicine 35%
- Surgery 20%
- Radiology 9%
- Pathology 2%
- Evaluation & Management 24%
- Anesthesia 4%
- Other 6%

NCCI Medical Data Report for Alaska
January 2013

Prepared by the Alaska Department of Labor and Workforce Development
Medical Costs

- Fees for Services
No FS Or Charge-Based FS: Higher Facility Outpatient Costs Per Surgical Episode

Fee Schedules – Cost Savings and Unintended Consequences
Workers’ Compensation Research Institute - February 2013

* In September 2011, Illinois enacted 30% reduction in fee schedule rates
Source: Hospital Outpatient Cost Index For Workers’ Compensation, 2nd Ed. (2013)
Tremendous Variation In Nonhospital Fee Schedule Levels

Source: Designing Workers’ Compensation Medical Fee Schedules (2012)

Fee Schedules – Cost Savings and Unintended Consequences
Workers’ Compensation Research Institute - February 2013

Prepared by the Alaska Department of Labor and Workforce Development
Fee Schedules – Cost Savings and Unintended Consequences
Workers’ Compensation Research Institute - February 2013
Medical Costs

- Over Utilization
Interstate Variations in Utilization of Workers’ Compensation Medical Care
Workers’ Compensation Research Institute – February 2013

Prepared by the Alaska Department of Labor and Workforce Development
Interstate Variations in Utilization of Workers’ Compensation Medical Care
Workers’ Compensation Research Institute – February 2013
Interstate Variations in Utilization of Workers’ Compensation Medical Care
Workers’ Compensation Research Institute – February 2013
### Healthcare Utilization Results – Utilization per 1,000 (2011)

<table>
<thead>
<tr>
<th>State</th>
<th>Inpatient Bed Days</th>
<th>Relative to Comparison States</th>
<th>ER Visits</th>
<th>Relative to Comparison States</th>
<th>Office/home Physician</th>
<th>Relative to Comparison States</th>
<th>Prescription Drug Scripts</th>
<th>Relative to Comparison States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington</td>
<td>202</td>
<td>87%</td>
<td>190</td>
<td>99%</td>
<td>2,828</td>
<td>104%</td>
<td>8,558</td>
<td>100%</td>
</tr>
<tr>
<td>Idaho</td>
<td>206</td>
<td>88%</td>
<td>205</td>
<td>106%</td>
<td>2,548</td>
<td>94%</td>
<td>9,034</td>
<td>105%</td>
</tr>
<tr>
<td>Oregon</td>
<td>206</td>
<td>88%</td>
<td>205</td>
<td>106%</td>
<td>2,800</td>
<td>103%</td>
<td>8,083</td>
<td>94%</td>
</tr>
<tr>
<td>Wyoming</td>
<td>237</td>
<td>102%</td>
<td>214</td>
<td>111%</td>
<td>2,744</td>
<td>101%</td>
<td>8,748</td>
<td>102%</td>
</tr>
<tr>
<td>Hawaii</td>
<td>266</td>
<td>114%</td>
<td>135</td>
<td>70%</td>
<td>2,884</td>
<td>106%</td>
<td>7,797</td>
<td>91%</td>
</tr>
<tr>
<td>North Dakota</td>
<td>283</td>
<td>121%</td>
<td>206</td>
<td>107%</td>
<td>2,492</td>
<td>92%</td>
<td>9,224</td>
<td>108%</td>
</tr>
<tr>
<td>Alaska - Anch/Frbnk/Mat-Su</td>
<td>193</td>
<td>82%</td>
<td>221</td>
<td>115%</td>
<td>2,772</td>
<td>102%</td>
<td>8,273</td>
<td>96%</td>
</tr>
<tr>
<td>Alaska - Non-MSA</td>
<td>467</td>
<td>200%</td>
<td>224</td>
<td>116%</td>
<td>2,884</td>
<td>106%</td>
<td>8,843</td>
<td>103%</td>
</tr>
<tr>
<td>Alaska</td>
<td>283</td>
<td>121%</td>
<td>221</td>
<td>115%</td>
<td>2,800</td>
<td>103%</td>
<td>8,463</td>
<td>99%</td>
</tr>
<tr>
<td>Comparison State Average</td>
<td>233</td>
<td>100%</td>
<td>193</td>
<td>100%</td>
<td>2,716</td>
<td>100%</td>
<td>8,574</td>
<td>100%</td>
</tr>
<tr>
<td>National Average</td>
<td>283</td>
<td>100%</td>
<td>178</td>
<td>100%</td>
<td>2,800</td>
<td>100%</td>
<td>9,509</td>
<td>100%</td>
</tr>
</tbody>
</table>

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**Drivers of Health Care Costs in Alaska and Comparison States**

November 2011 Milliman report to Alaska Health Care Commission

Prepared by the Alaska Department of Labor and Workforce Development
WA State MC Pilot: Differences in Medical and Disability Costs (n=2,217)

Fewer workers went on disability (19% vs 14%) and cost per disabled worker was less.

Data based on 9-month follow up.

Impact of Medical Treatment Guidelines
Dr. Thomas Wickizer, College of Public Health, Ohio State University
February 2013

Prepared by the Alaska Department of Labor and Workforce Development
Adoption of Best Practices

Patients treated by COHE physicians who adopted best practices, based on guidelines, achieved better outcomes compared to patients treated by COHE physicians who adopted best practices less often.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Baseline Year</th>
<th>Outcome Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>(COHE Patients n = 33,787)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disability Days</td>
<td>19.2</td>
<td>12.3*</td>
</tr>
<tr>
<td>Disability Costs</td>
<td>$1,030</td>
<td>$646*</td>
</tr>
<tr>
<td>Medical Costs</td>
<td>$2,218</td>
<td>$1,846</td>
</tr>
</tbody>
</table>

Wickizer et al. Medical Care, 2011. * P < .01

Impact of Medical Treatment Guidelines
Dr. Thomas Wickizer, College of Public Health, Ohio State University
February 2013
Medical Costs

- Prescription Drug Use
  - Use of opioid narcotics
  - Physician Dispensing

Prepared by the Alaska Department of Labor and Workforce Development
Motor vehicle traffic, poisoning, and drug overdose death rates US, 1980-2010

Opioids: The Problem and the Urgency
Dr. Karin Mack, Centers for Disease Control
February 2013

Prepared by the Alaska Department of Labor and Workforce Development
Opioids: The Problem and the Urgency
Dr. Karin Mack, Centers for Disease Control
February 2013

Prepared by the Alaska Department of Labor and Workforce Development
Unintentional Overdose Deaths Involving Opioid Analgesics Parallel Opioid Sales
United States, 1997–2007

- **Distribution by drug companies**
  - 96 mg/person in 1997
  - 698 mg/person in 2007
    - Enough for every American to take 5 mg Vicodin every 4 hrs for 3 weeks

- **Overdose deaths**
  - 2,901 in 1999
  - 11,499 in 2007

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*National Vital Statistics System, multiple cause of death data set, and Drug Enforcement Administration ARCOS system. 2007 opioid sales figure is preliminary.*

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**NCCI Report on Opioid Use**
November 2011

Prepared by the Alaska Department of Labor and Workforce Development
Economic Costs

- $72.5 Billion in healthcare costs

- Opioid abusers generate, on average, annual direct health care costs 8.7 times higher than nonabusers"}

Opioids: The Problem and the Urgency
Dr. Karin Mack, Centers for Disease Control
February 2013

Prepared by the Alaska Department of Labor and Workforce Development
Physician Dispensing Is on the Rise in Most States
States With Physician Dispensing in 2009 ≥ 15.5%

Workers’ Compensation Prescription Drug Study
National Council on Compensation Insurance – August 2011

Prepared by the Alaska Department of Labor and Workforce Development
Indemnity Costs

- Indemnity Distribution
- Indemnity Frequency
- Indemnity Costs

Prepared by the Alaska Department of Labor and Workforce Development
Indemnity Payments

Alaska Workers’ Compensation Division 2012 Annual Report

Prepared by the Alaska Department of Labor and Workforce Development
Indemnity Benefit Distribution

- TTD: 55%
- TPD: 2%
- PPI(PPD): 23%
- PTD: 12%
- DTH: 8%

Alaska Workers' Compensation Division 2012 Annual Report

Prepared by the Alaska Department of Labor and Workforce Development
Alaska’s Indemnity Loss Distribution by Injury Type

2012 NCCI State Advisory Forum

Prepared by the Alaska Department of Labor and Workforce Development
Indemnity Benefits Per Claim Vary Significantly Across Study States

2008/11 Claims With > 7 Days Of Lost Time, Adjusted For Injury/Industry Mix And Wages

Exploring Interstate Variations in Income Benefits
Workers’ Compensation Research Institute – February 2013

Prepared by the Alaska Department of Labor and Workforce Development
Alaska vs. Countrywide Average Indemnity Claim Severity

National Council on Compensation Insurance
State Advisory Forum - October 2012

Prepared by the Alaska Department of Labor and Workforce Development
Legal Costs

- Legal Costs
- Dispute Litigation
- Formal Proceedings

Prepared by the Alaska Department of Labor and Workforce Development
Legal Payments

Alaska Workers’ Compensation Division 2012 Annual Report

Prepared by the Alaska Department of Labor and Workforce Development
Reemployment Costs

- Reemployment Costs
- Plan Completion

Prepared by the Alaska Department of Labor and Workforce Development
Take Away...

- Alaska’s workers’ compensation premium rates are among the highest in the nation.
- Alaska’s declining claim frequency rate has kept loss costs down, but the rate of decline has slowed.
- Medical costs are the largest workers’ compensation cost driver in Alaska and continue to rise.
- Despite the declining number of disputes, legal costs continue to rise.
- Very few injured workers complete a reemployment benefits retraining plan.

Prepared by the Alaska Department of Labor and Workforce Development
Questions?