

# The State of the Alaska Workers' Compensation System

June 17, 2013

Mike Monagle, Director

Division of Workers' Compensation

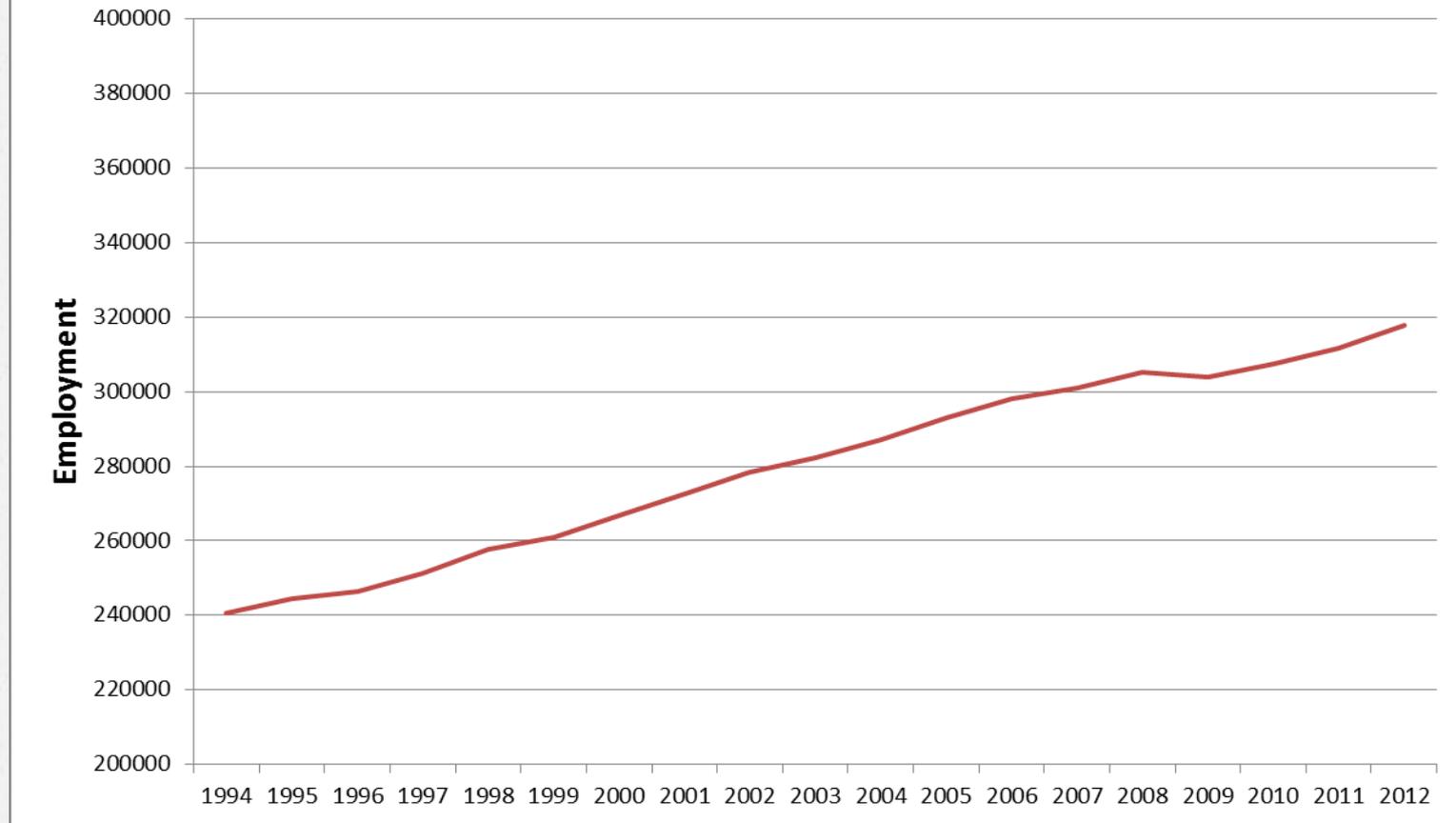
Prepared by the Alaska Department of Labor and Workforce Development



The Good News....

Prepared by the Alaska Department of Labor and Workforce Development

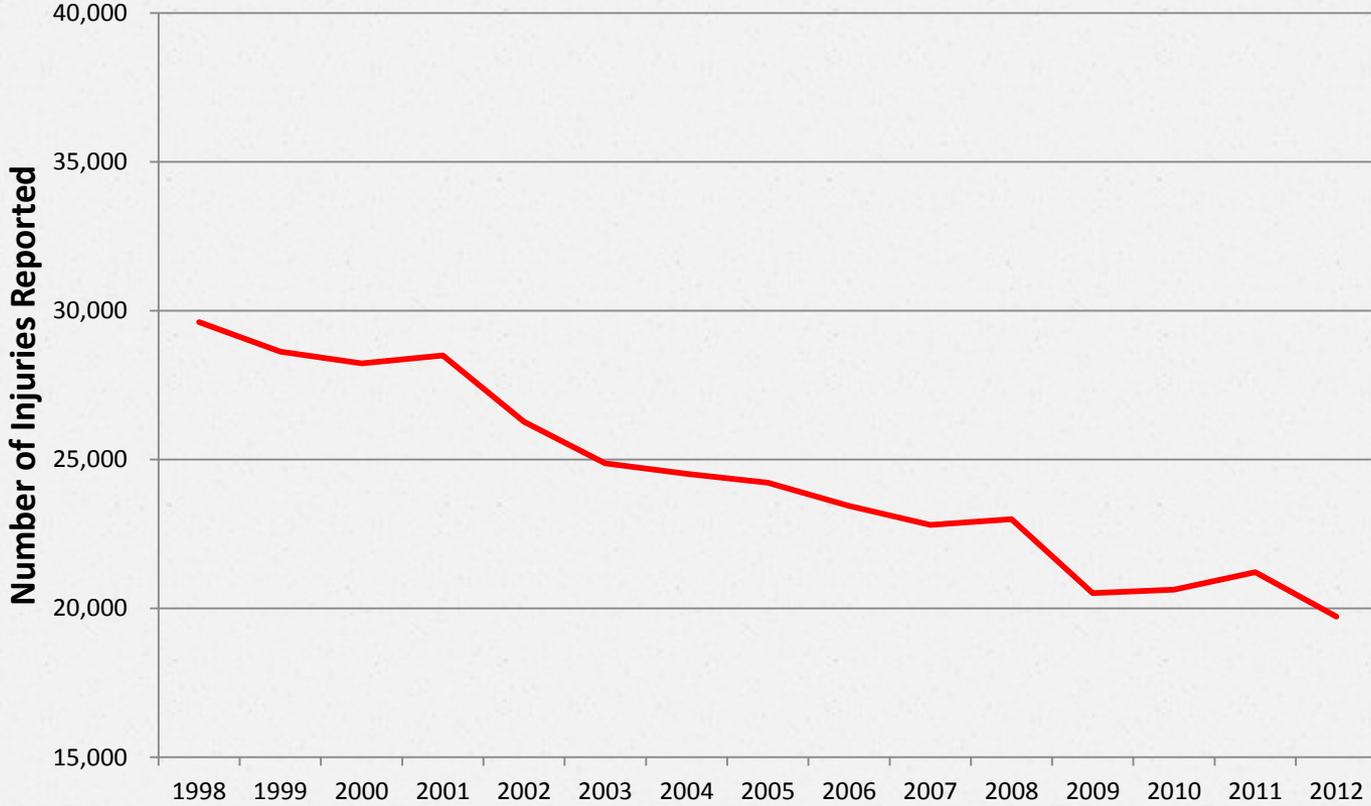
## Employment in Alaska



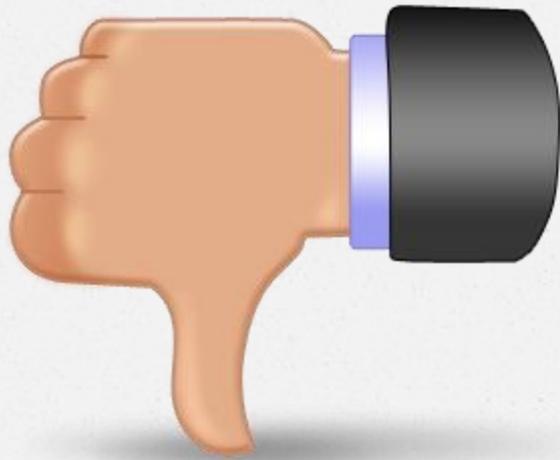
Alaska Department of Labor Research and Analysis

Prepared by the Alaska Department of Labor and Workforce Development

# Alaska Injury Frequency



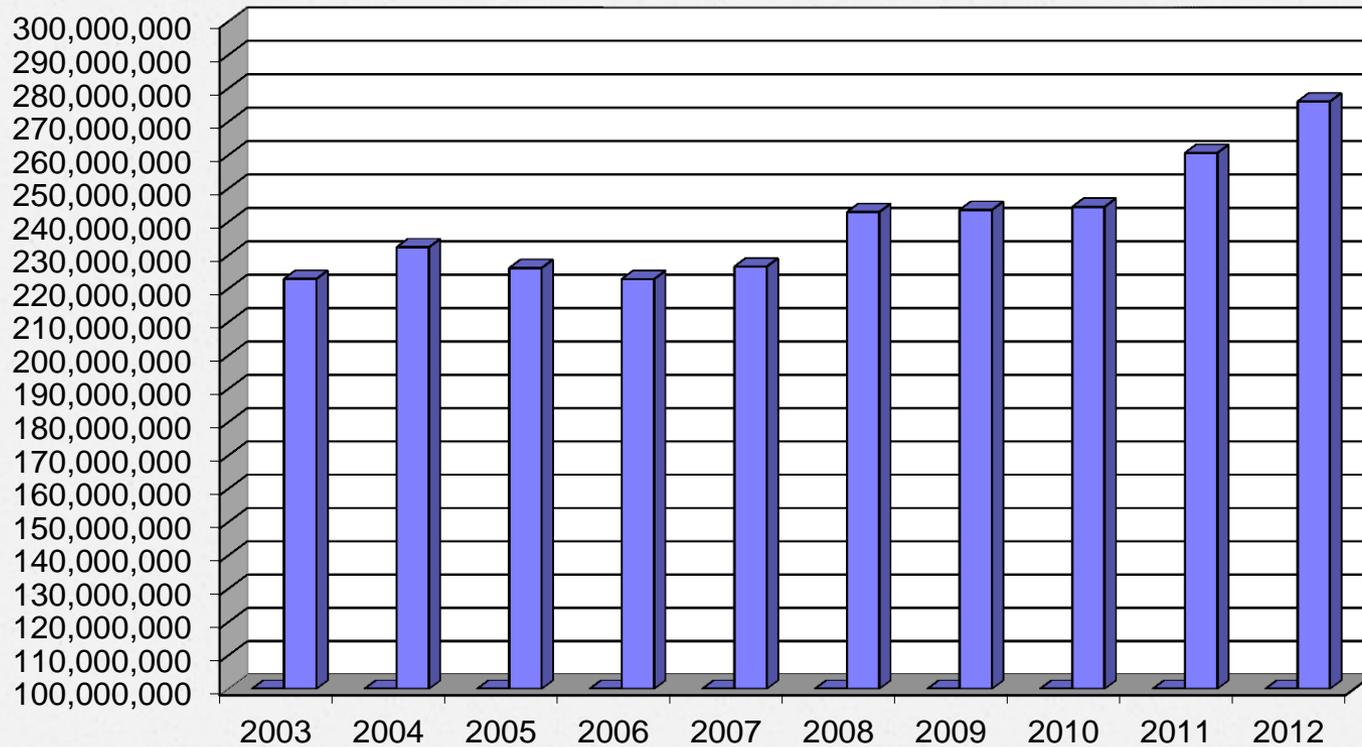
2012 Workers' Compensation Annual Report



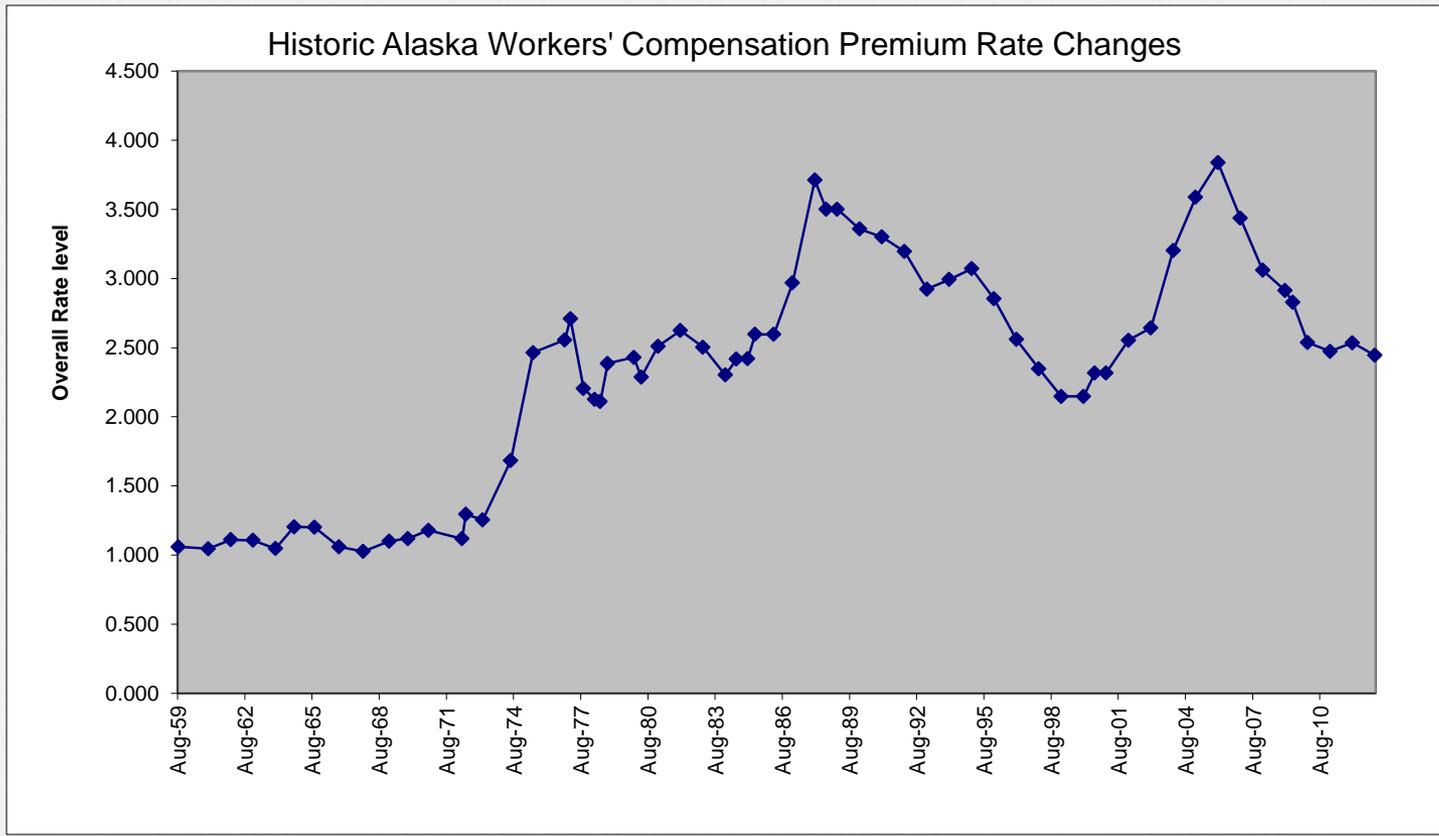
# The Bad News....

Prepared by the Alaska Department of Labor and Workforce Development

## Total Compensation Payments



2012 Workers' Compensation Annual Report



## 2011 Workers' Compensation Annual Report

# How do Alaska's Premium Rates Compare?

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

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

- 
- o Calendar Year 2000 – 28<sup>th</sup> in the nation...
  - o Calendar Year 2002 – 15<sup>th</sup> in the nation...
  - o Calendar Year 2004 – 2<sup>nd</sup> in the nation...
  - o Calendar Year 2006 – 1<sup>st</sup> in the nation...
  - o Calendar Year 2008 – 1<sup>st</sup> in the nation...
  - o Calendar Year 2010 – 2<sup>nd</sup> in the nation...
  - o Calendar Year 2012 – 1<sup>st</sup> in the nation...

## What's Driving Premium Costs?

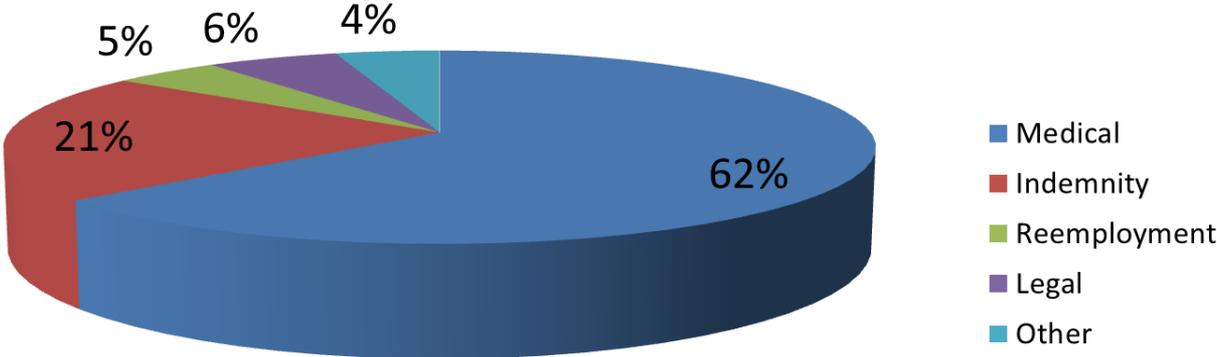
# Cost Drivers

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

# Medical Costs

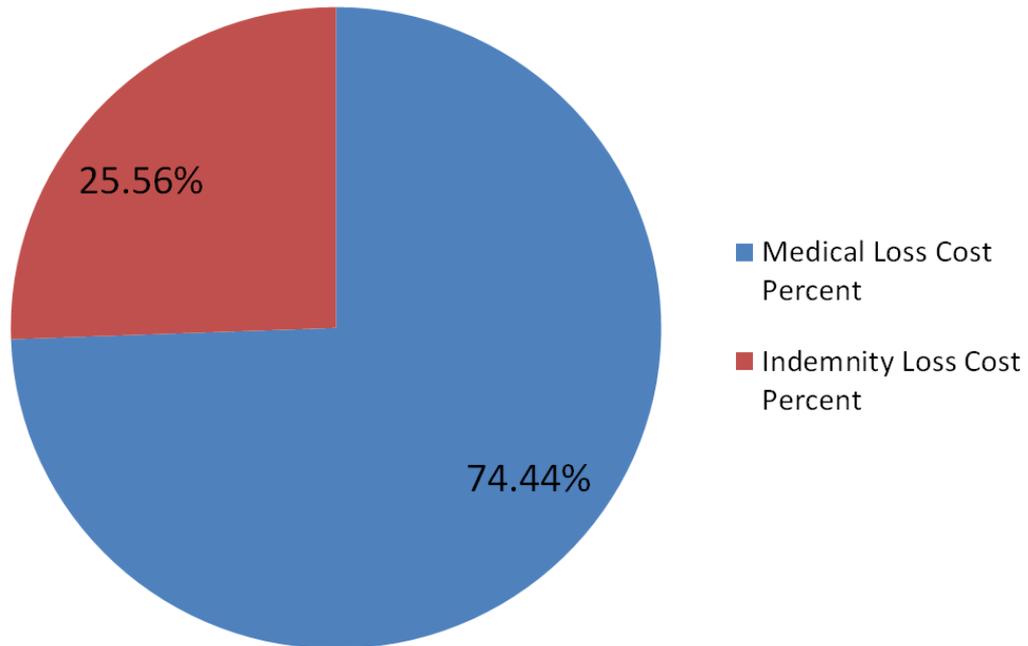
- o Fees for Services
- o Over Utilization
- o Prescription Drug Use
  - Use of opioid narcotics
  - Physician Dispensing

# Benefit Distribution



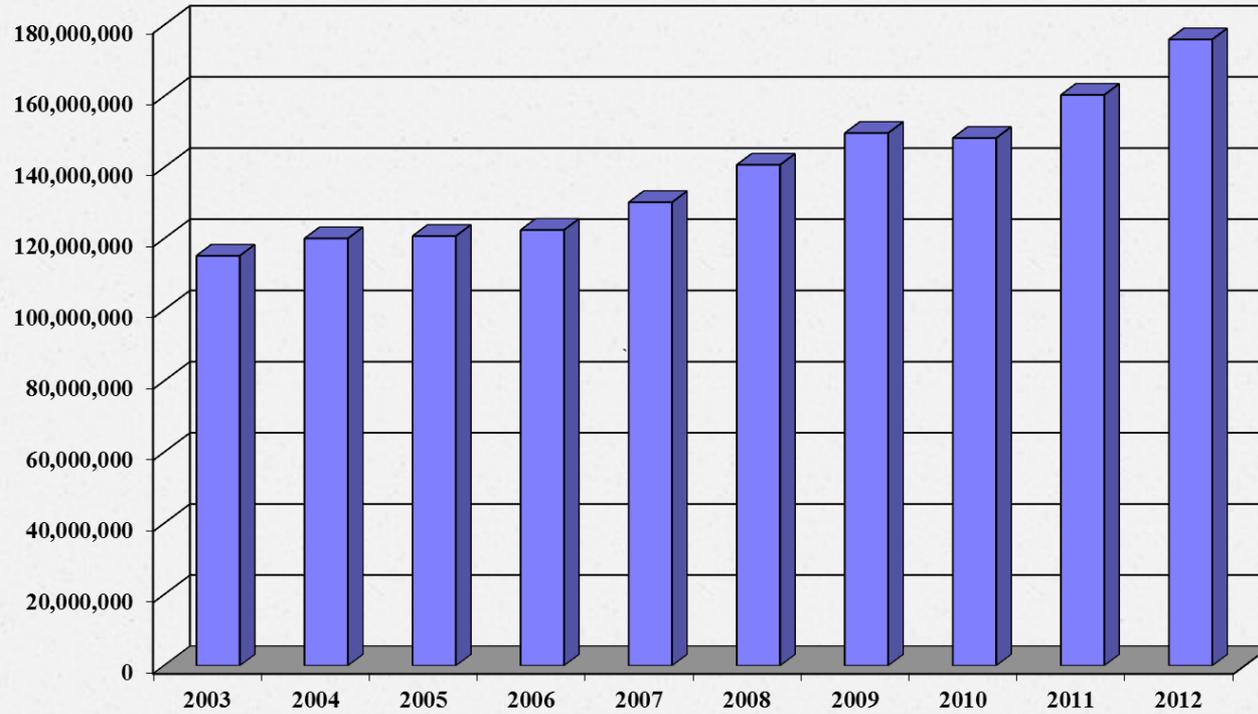
Division of Workers' Compensation 2012 Annual Report

## Loss Cost Distribution



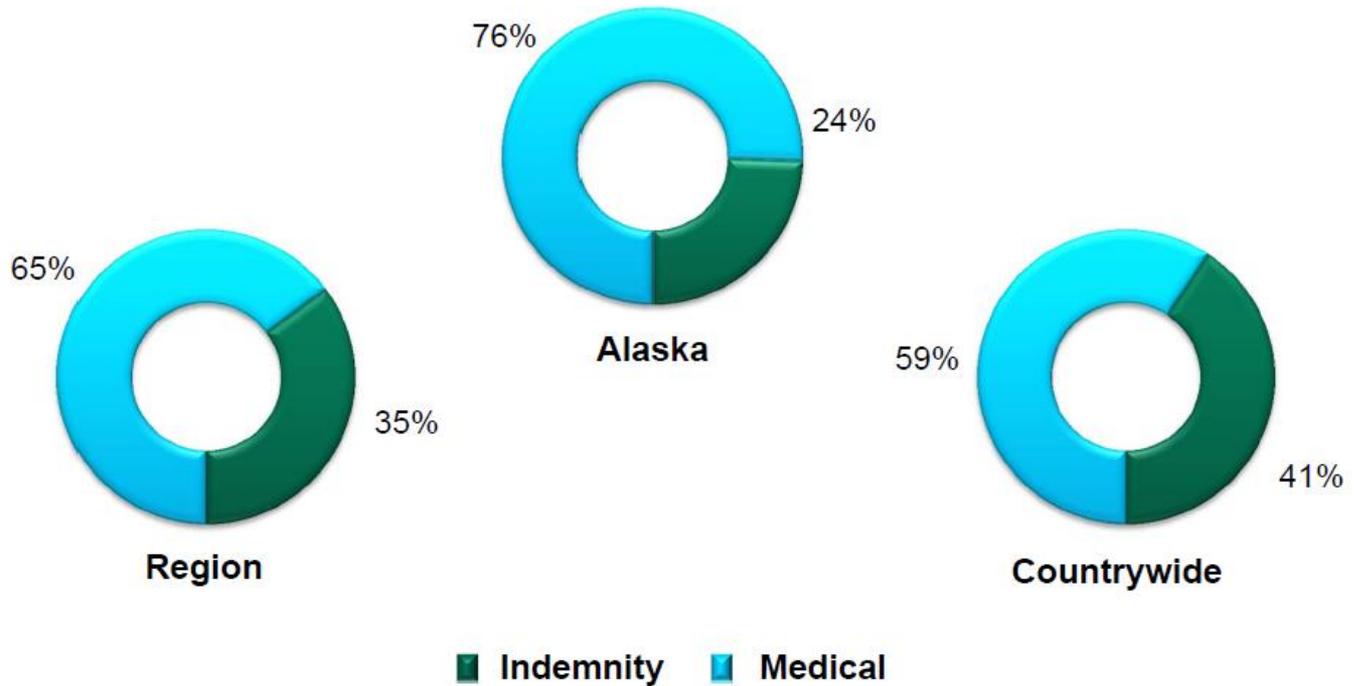
Division of Workers' Compensation 2012 Annual Report

## Medical Payments



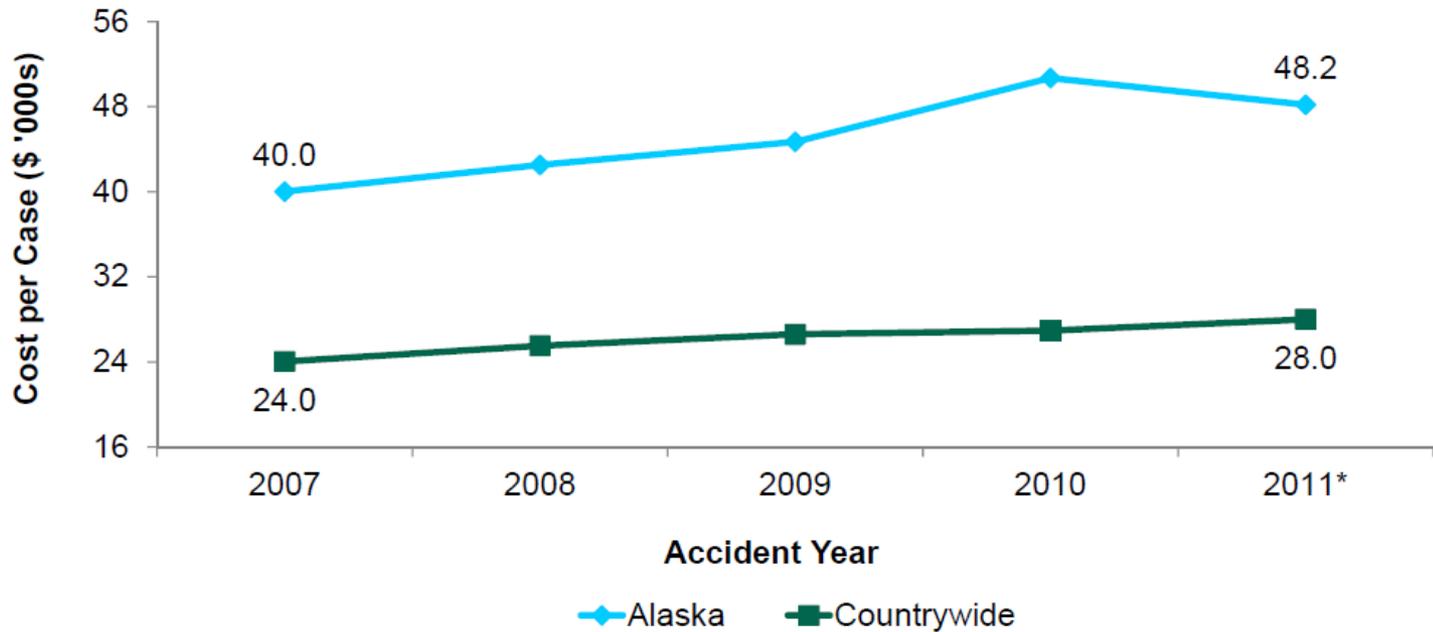
Alaska Workers' Compensation Division 2012 Annual Report

# Medical Benefits Constitute the Majority of Total Benefit Costs in Alaska



2012 NCCI State Advisory Forum

# Alaska vs. Countrywide Average Medical Claim Severity



2012 NCCI State Advisory Forum

**Medical Claim Cost (000s)**

**Average Medical Cost per Lost-Time Claim**

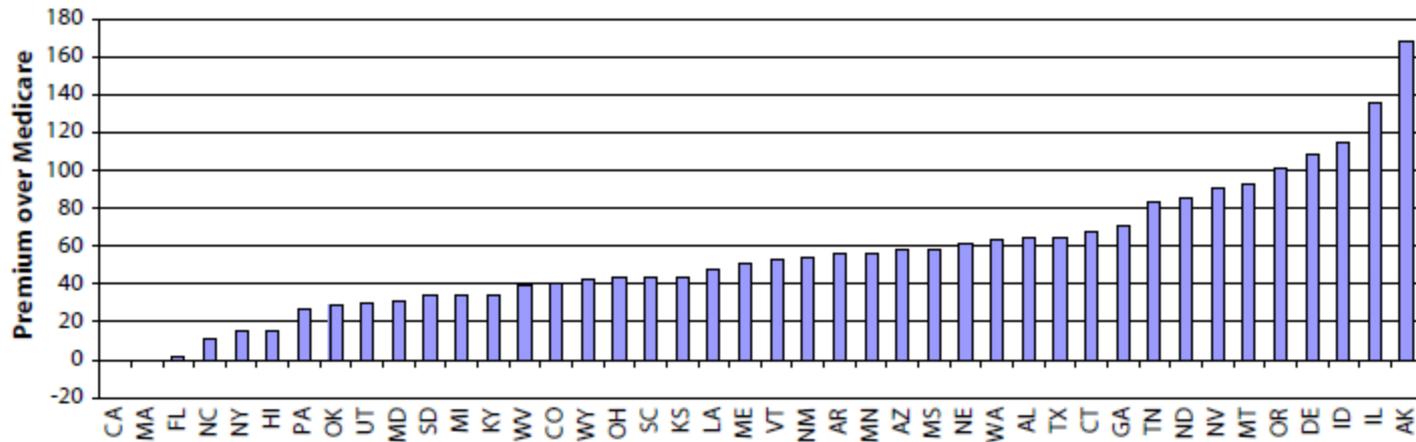


2011p: Preliminary based on data valued as of 12/31/2011  
 1991–2010: Based on data through 12/31/2010, developed to ultimate  
 Based on the states where NCCI provides ratemaking services, including state funds  
 Excludes high deductible policies

NCCI 2012 State of the Line Report

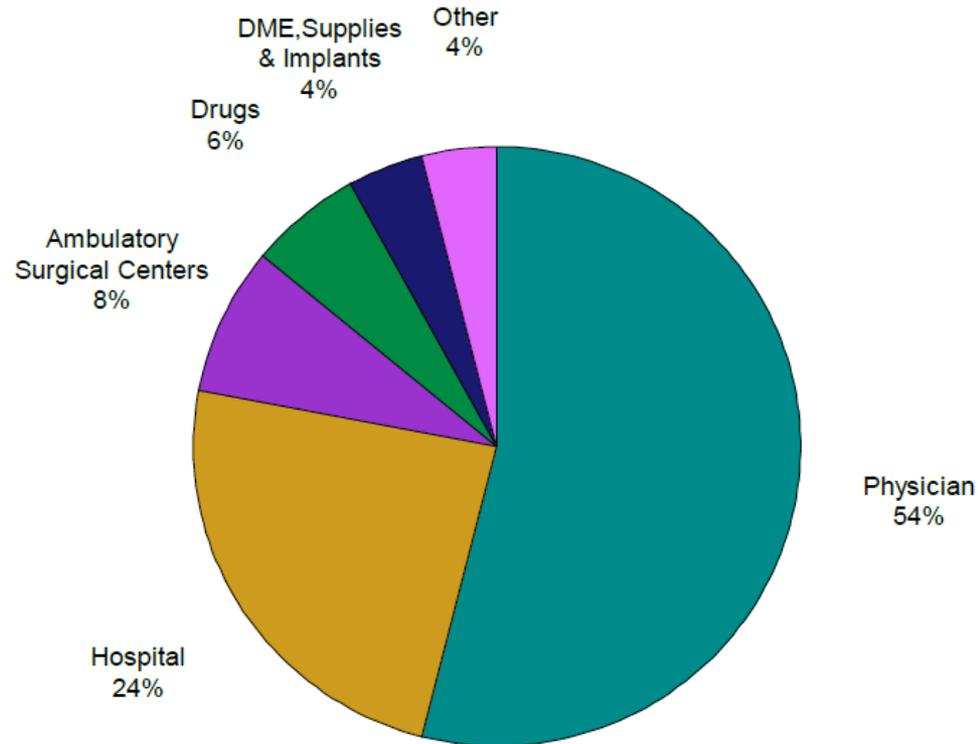
Prepared by the Alaska Department of Labor and Workforce Development

**Figure 1 Workers' Compensation Premium over Medicare, July 2011**



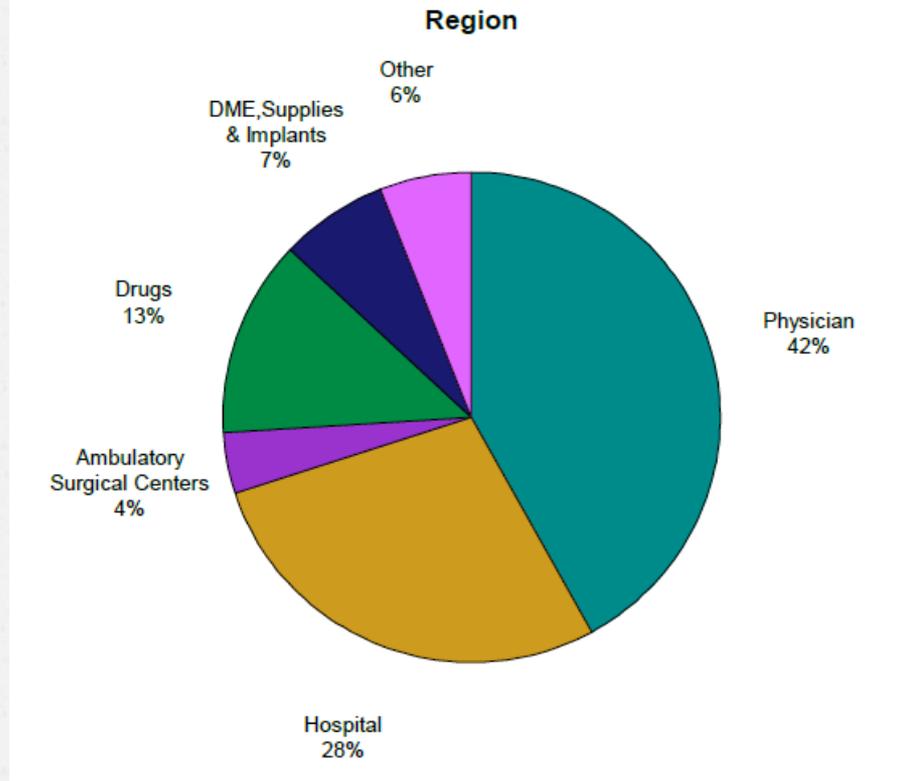
*Designing Workers' Compensation Medical Fee Schedules*  
Workers' Compensation Research Institute, June 2012

### Distribution of Medical Payments Alaska



*NCCI Medical Data Report for Alaska*  
January 2013

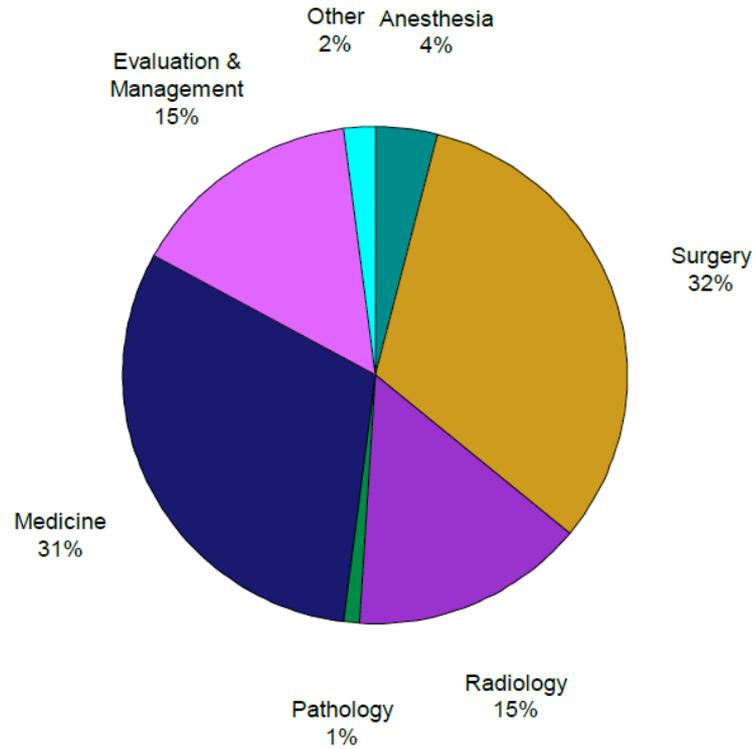
## Distribution of Medical Payments



*NCCI Medical Data Report for Alaska*  
January 2013

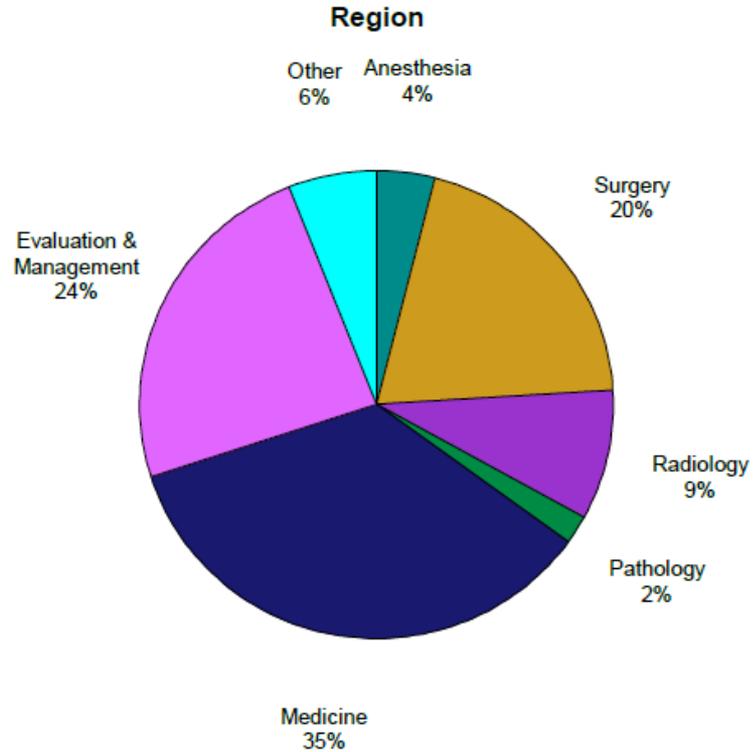
**Distribution of Physician Payments by AMA Service Category**

**Alaska**



*NCCI Medical Data Report for Alaska*  
January 2013

## Distribution of Physician Payments by AMA Service Category



*NCCI Medical Data Report for Alaska*  
January 2013

# Medical Costs

- Fees for Services

## No FS Or Charge-Based FS: Higher Facility Outpatient Costs Per Surgical Episode



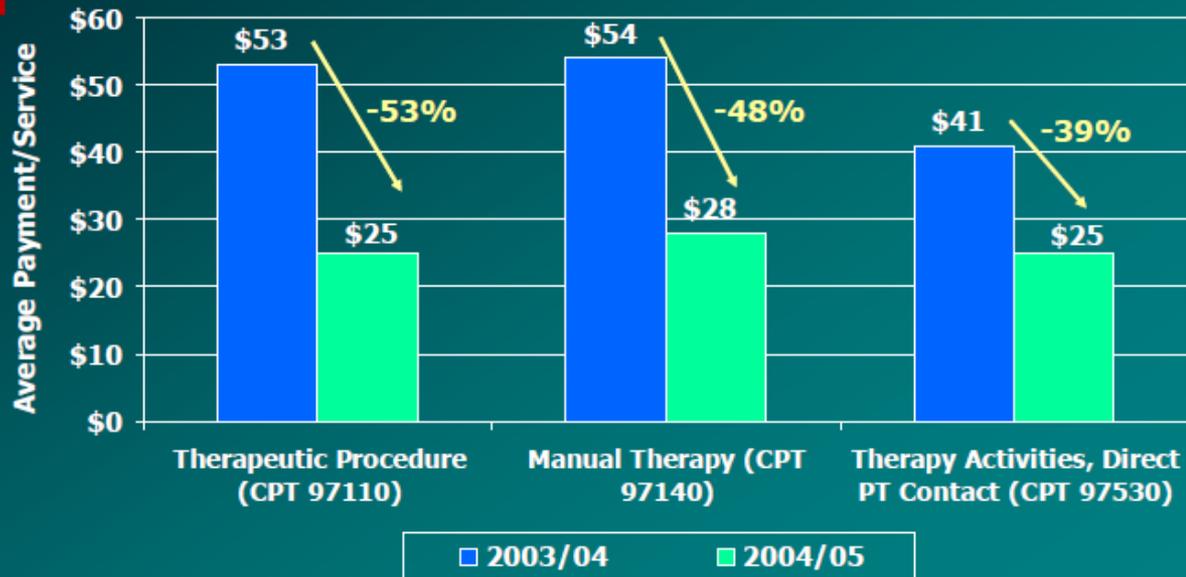
\* In September 2011, Illinois enacted 30% reduction in fee schedule rates

Source: *Hospital Outpatient Cost Index For Workers' Compensation, 2nd Ed. (2013)*

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



# FL Fee Schedule Change Slashed Prices For Outpatient PM Services



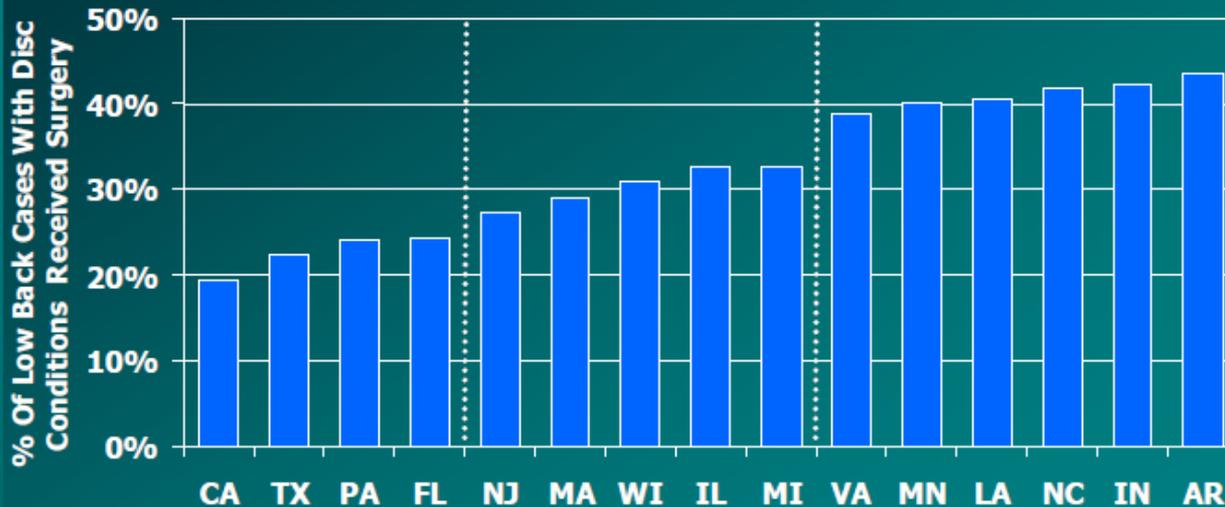
Hospital Outpatient Physical Medicine (PM) Services

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

# Medical Costs

- Over Utilization

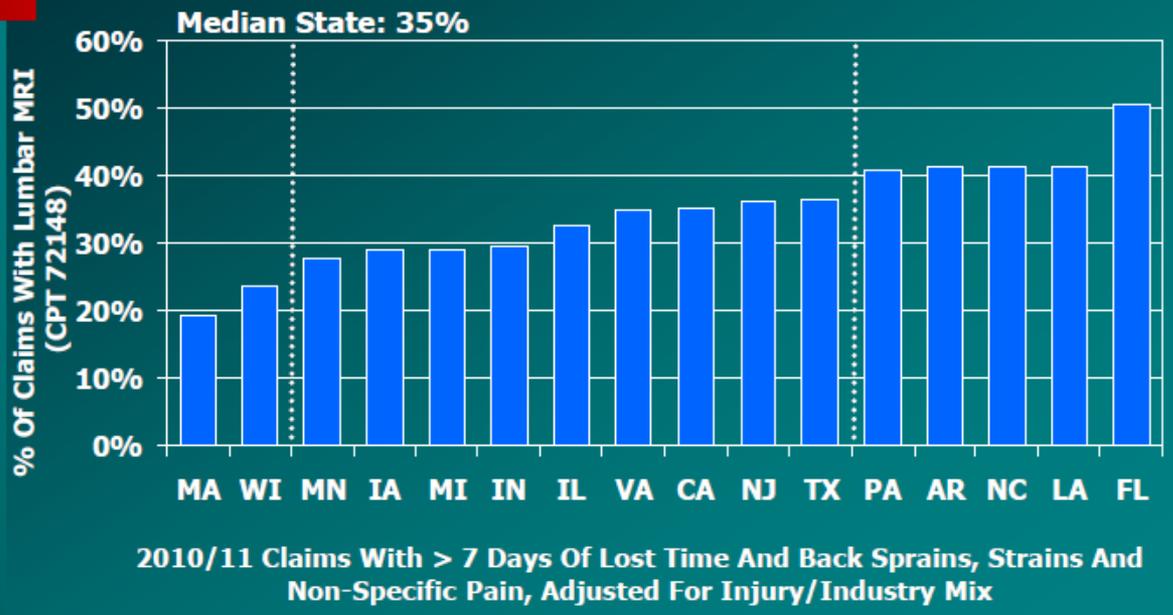
## Surgery Rate In Disc Cases: Higher Group Of States 20 Points More Than Lower Group



RI 2009/11 Claims With > 7 Days Of Lost Time, Adjusted For Injury/Industry Mix

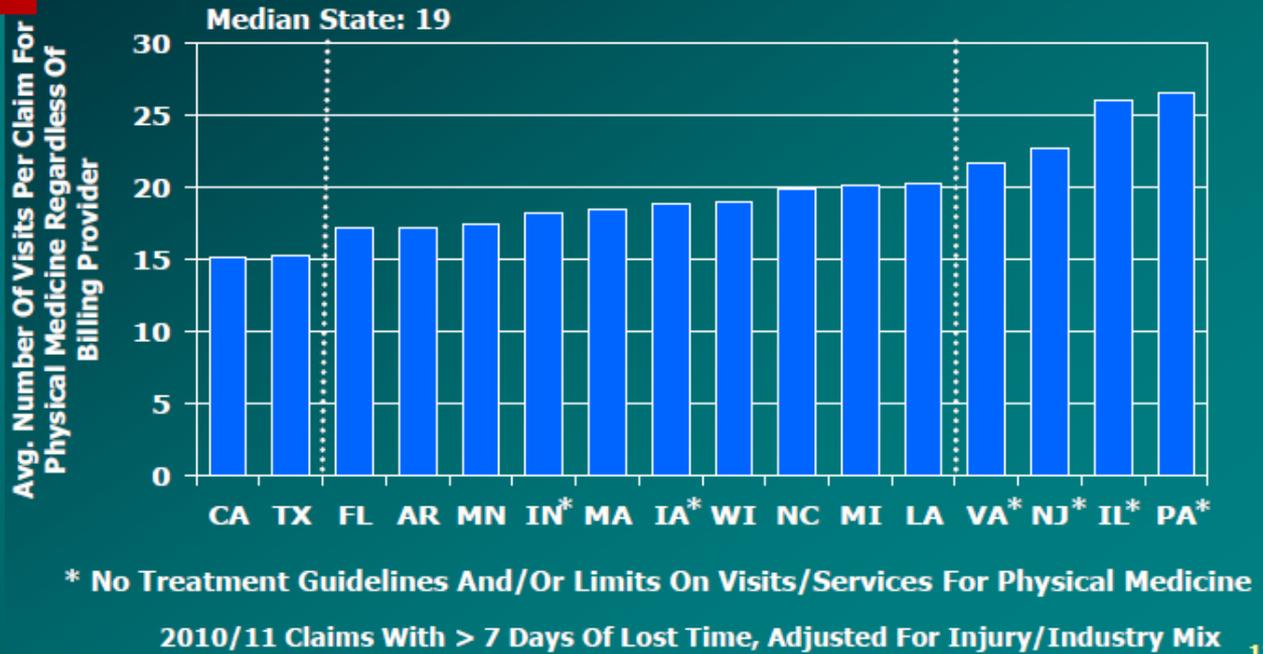
*Interstate Variations in Utilization of Workers' Compensation Medical Care*  
Workers' Compensation Research Institute – February 2013

## Lumbar MRI Used Twice As Often In Higher Group Of States Than Lower Group



*Interstate Variations in Utilization of Workers' Compensation Medical Care*  
Workers' Compensation Research Institute – February 2013

# Higher Group Of States Had 3–8 More Physical Medicine Visits/Claim Than Typical



*Interstate Variations in Utilization of Workers' Compensation Medical Care*  
Workers' Compensation Research Institute – February 2013

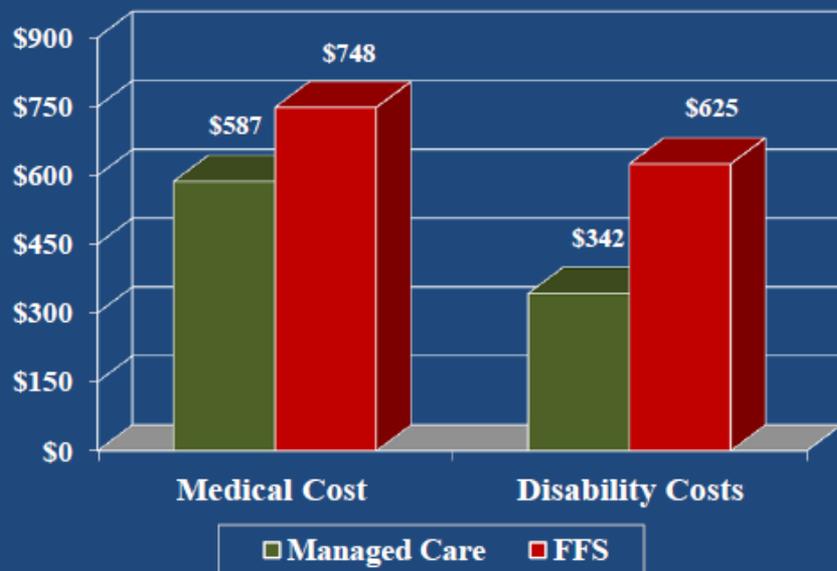
### Healthcare Utilization Results – Utilization per 1,000 (2011)

State	Utilization per 1,000 people (2011)							
	Inpatient bed days		ER Visits		Office/home physician		Prescription Drug Scripts	
	Days	Relative to Comparison States	Visits	Relative to Comparison States	Visits	Relative to Comparison States	Scripts	Relative to Comparison States
Washington	202	87%	190	99%	2,828	104%	8,558	100%
Idaho	206	88%	205	106%	2,548	94%	9,034	105%
Oregon	206	88%	205	106%	2,800	103%	8,083	94%
Wyoming	237	102%	214	111%	2,744	101%	8,748	102%
Hawaii	266	114%	135	70%	2,884	106%	7,797	91%
North Dakota	283	121%	206	107%	2,492	92%	9,224	108%
Alaska - Anch/Frbnk/Mat-Su	193	82%	221	115%	2,772	102%	8,273	96%
Alaska - Non-MSA	467	200%	224	116%	2,884	106%	8,843	103%
<b>Alaska</b>	<b>283</b>	<b>121%</b>	<b>221</b>	<b>115%</b>	<b>2,800</b>	<b>103%</b>	<b>8,463</b>	<b>99%</b>
Comparison State Average	233	100%	193	100%	2,716	100%	8,574	100%
National Average	283		178		2,800		9,509	

*Drivers of Health Care Costs in Alaska and Comparison States*  
 November 2011 Milliman report to Alaska Health Care Commission

## WA State MC Pilot: Differences in Medical and Disability Costs (n=2,217)

Cost per claim



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

Data based on 9-month follow up.

Cheadle, Wickizer, Franklin et al. Medical Care 1994.

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*Impact of Medical Treatment Guidelines*

Dr. Thomas Wickizer, College of Public Health, Ohio State University

February 2013

## 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.

Measure	Baseline Year (COHE Patients n = 33,787)	Outcome Year
Disability Days	19.2	12.3*
Disability Costs	\$1,030	\$646*
Medical Costs	\$2,218	\$1,846

Wickizer et al. Medical Care, 2011.

\* P < .01

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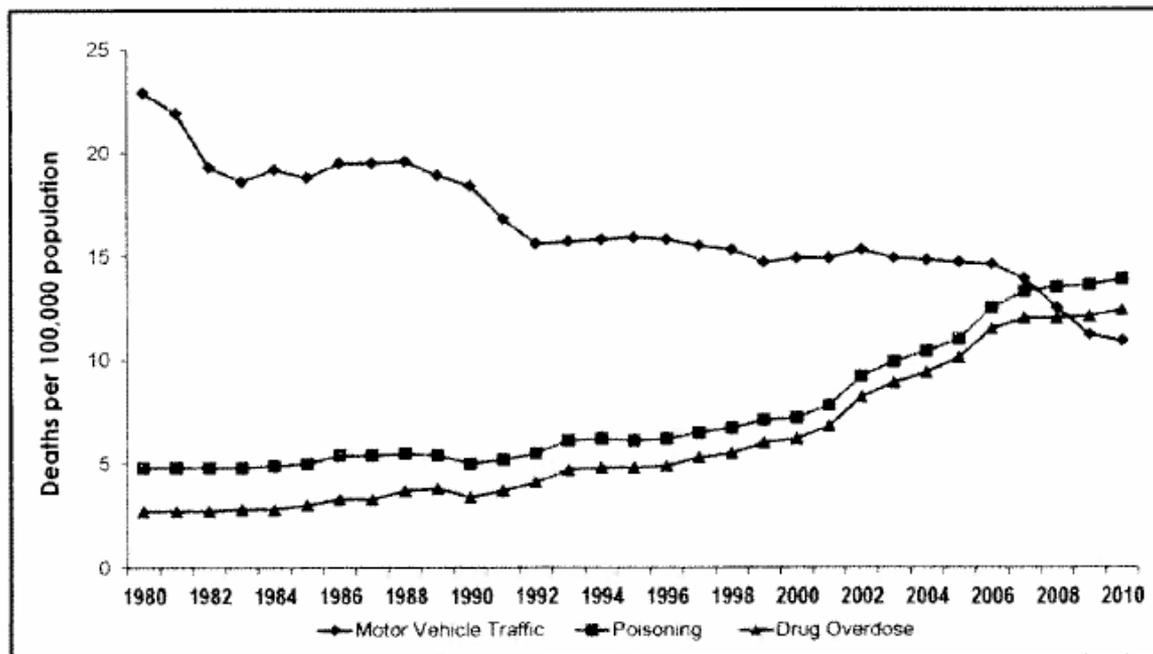
*Impact of Medical Treatment Guidelines*

Dr. Thomas Wickizer, College of Public Health, Ohio State University  
February 2013

# Medical Costs

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

## Motor vehicle traffic, poisoning, and drug overdose death rates US, 1980-2010

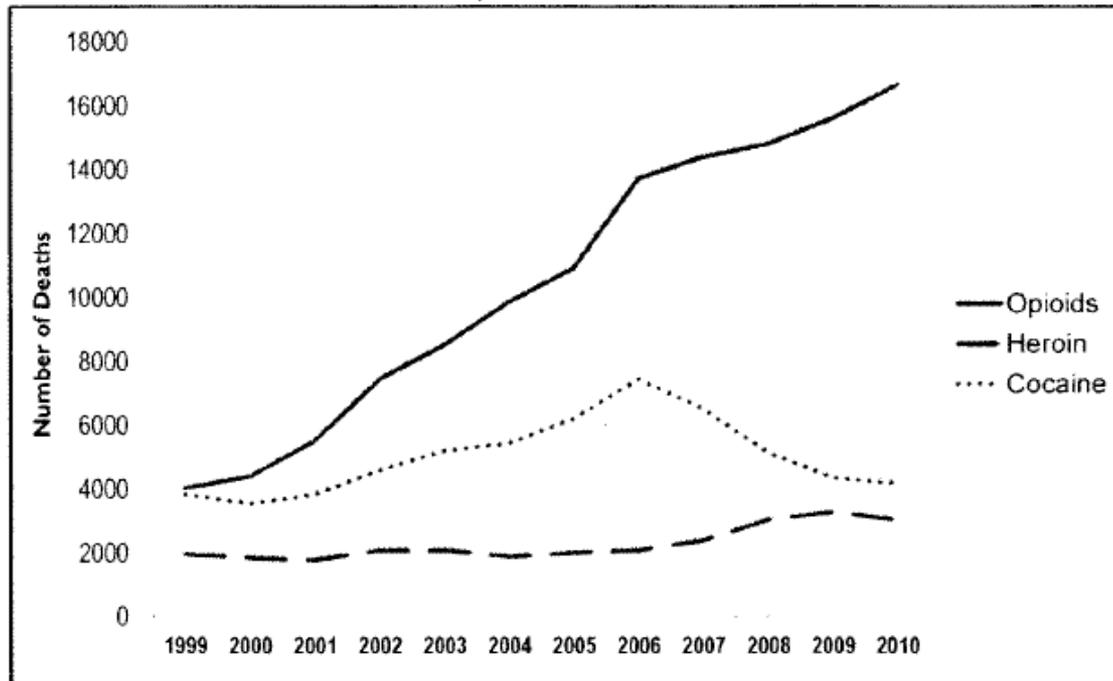


Source: NCHS Data Brief, December, 2011, updated with 2010 mortality data.

*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

## Drug overdose deaths by selected drug type US, 1999-2010



Source: CDC/NCHS National Vital Statistics System, CDC Wonder

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

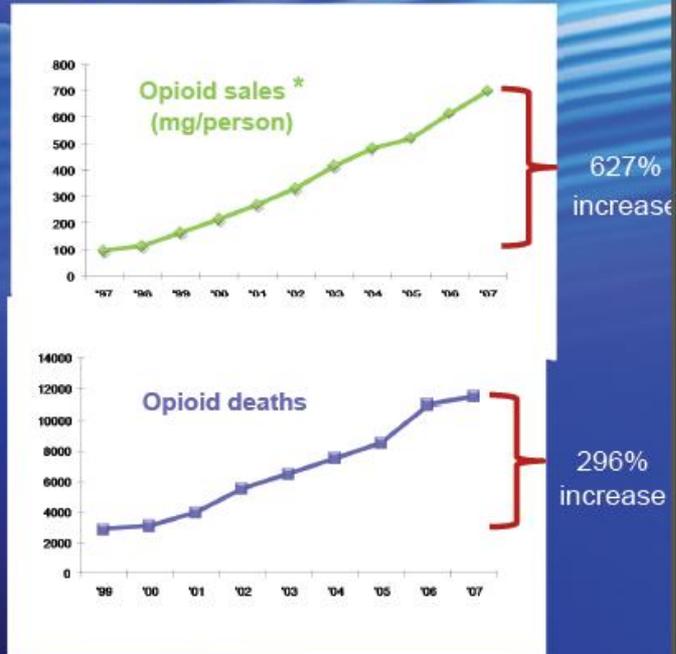
## Unintentional Overdose Deaths Involving Opioid Analgesics Parallel Opioid Sales United States, 1997–2007

### □ 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



National Vital Statistics System, multiple cause of death data set, and Drug Enforcement Administration ARCOS system; 2007 opioid sales figure is preliminary 13

NCCI Report on Opioid Use  
November 2011

## Economic Costs

- ❑ **\$72.5 Billion in healthcare costs<sup>1</sup>**
- ❑ **Opioid abusers generate, on average, annual direct health care costs 8.7 times higher than nonabusers<sup>2</sup>**

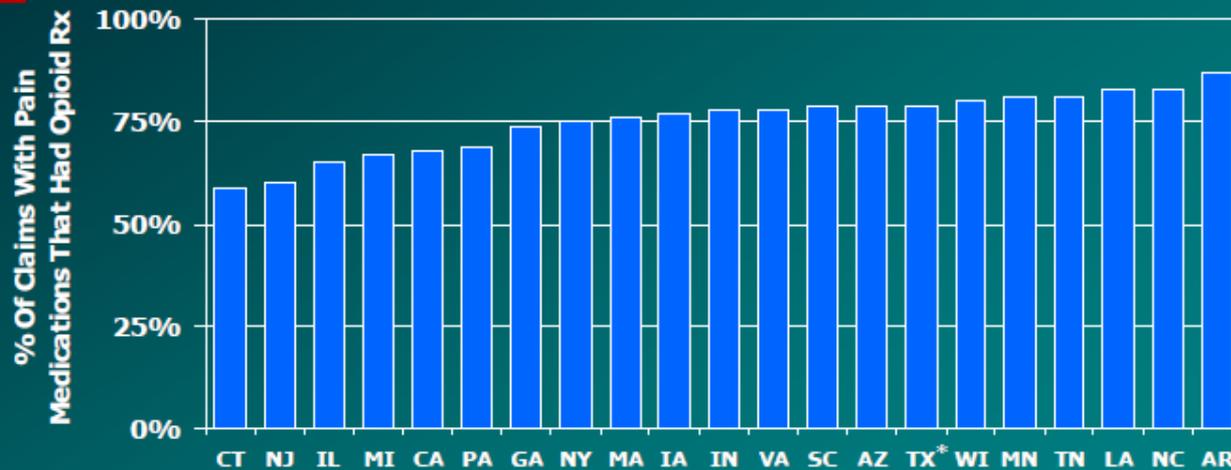


1. Coalition Against Insurance Fraud. Prescription for peril: how insurance fraud finances theft and abuse of addictive prescription drugs. Washington, DC: Coalition Against Insurance Fraud; 2007.

2. White AG, Birnbaum HG, Moreva MN, et al. Direct Costs of Opioid Abuse in an Insured Population in the United States. *J Manag Care Pharm.* 11(6):469-479. 2005.

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

# Most Injured Workers With Pain Medications Received Opioids



Nonsurgical Claims With > 7 Days Of Lost Time, Injuries From October 2008 To September 2009, Prescriptions Filled Through March 2011

\* Texas Closed Formulary Went Into Effect On September 1, 2011, Which Is Expected To Reduce Use And Longer-Term Use Of Opioids

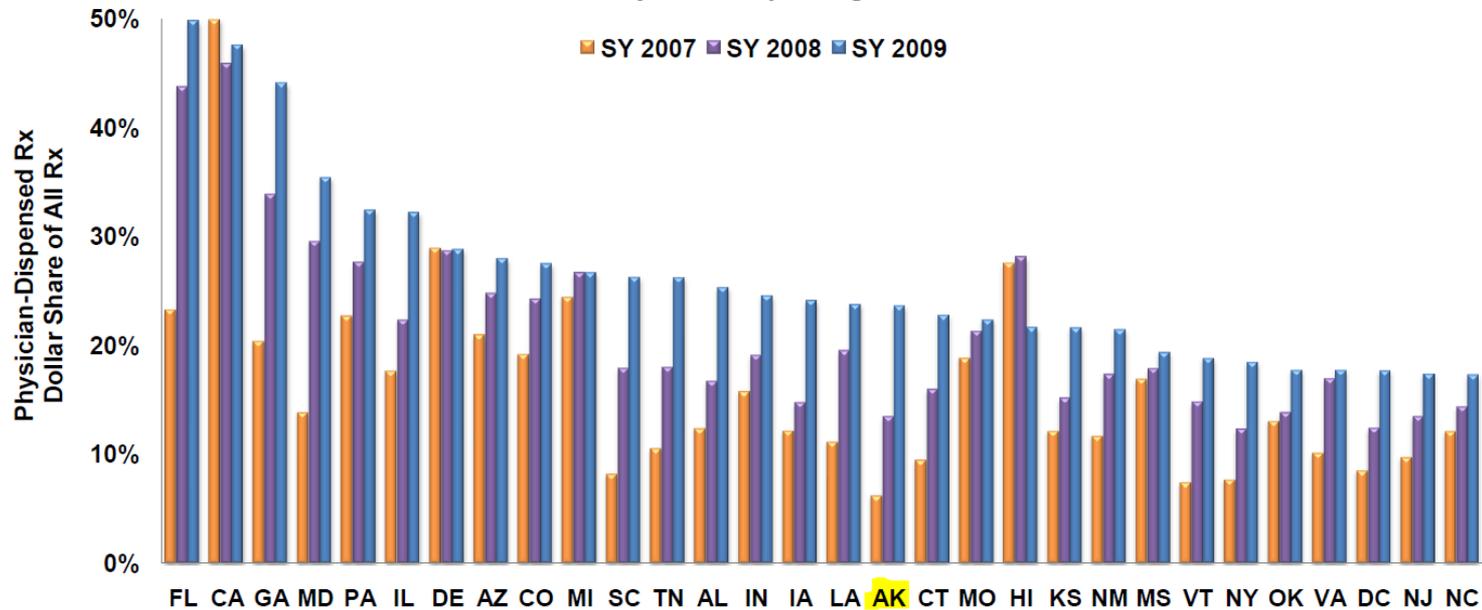
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*Opioids in Workers' Compensation*  
Workers' Compensation Research Institute – February 2013



## Physician Dispensing Is on the Rise in Most States

States With Physician Dispensing in 2009 ≥ 15.5%

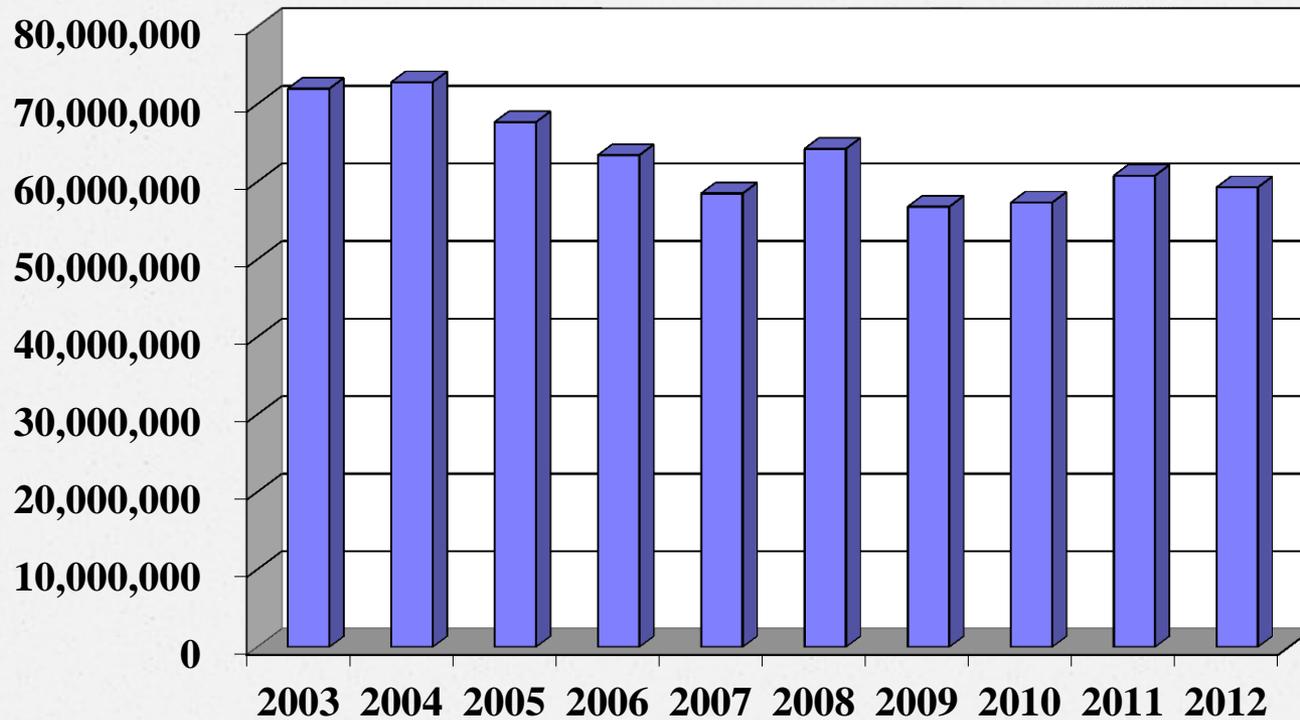


*Workers' Compensation Prescription Drug Study*  
 National Council on Compensation Insurance – August 2011

# Indemnity Costs

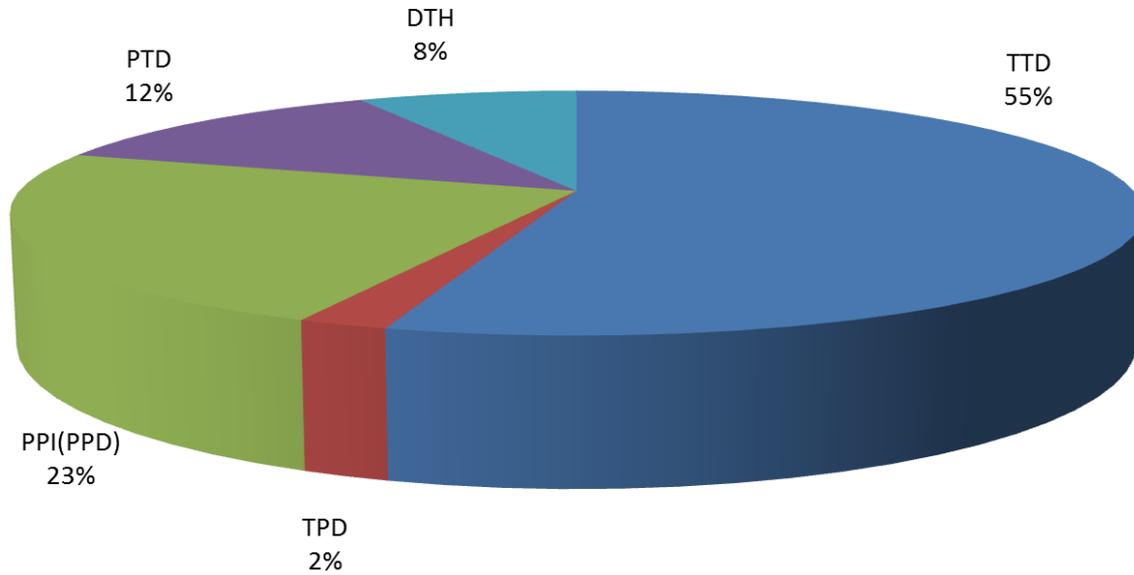
- o Indemnity Distribution
- o Indemnity Frequency
- o Indemnity Costs

## Indemnity Payments



Alaska Workers' Compensation Division 2012 Annual Report

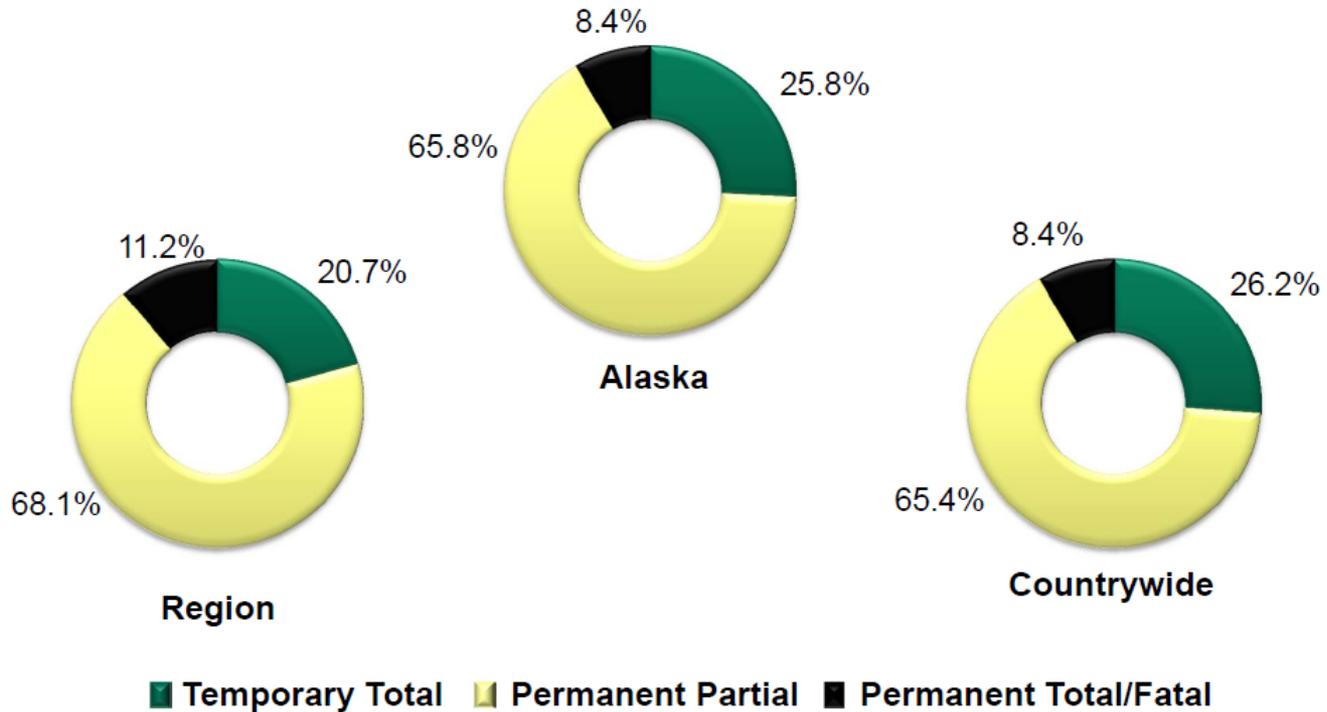
## Indemnity Benefit Distribution



Alaska Workers' Compensation Division 2012 Annual Report

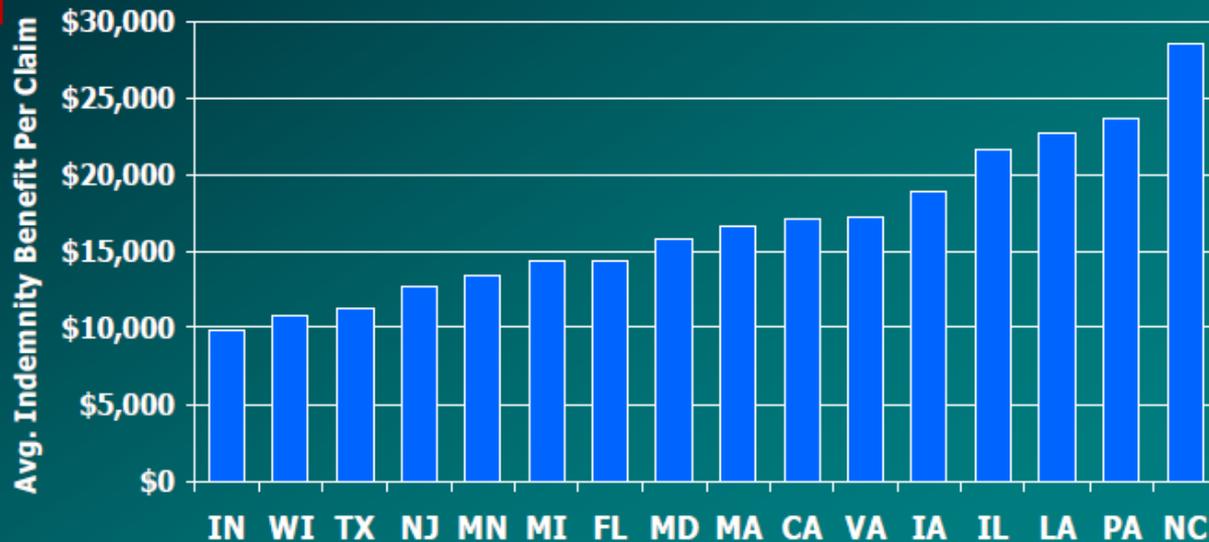
Prepared by the Alaska Department of Labor and Workforce Development

# Alaska's Indemnity Loss Distribution by Injury Type



2012 NCCI State Advisory Forum

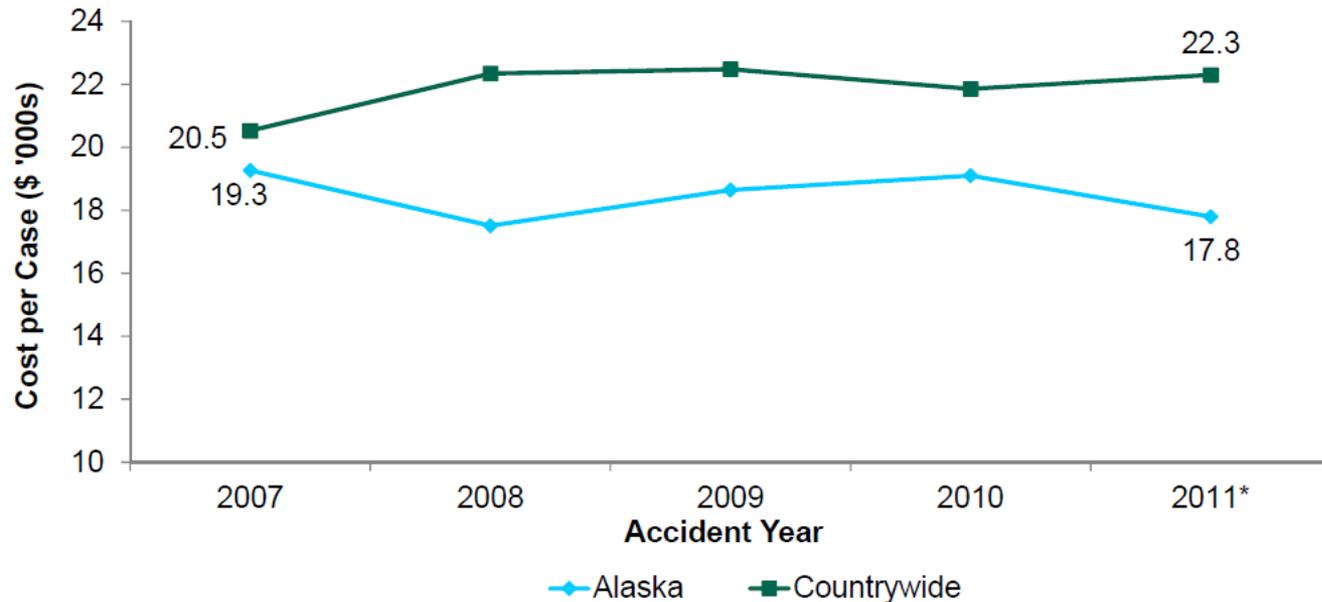
## Indemnity Benefits Per Claim Vary Significantly Across Study States



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

## Alaska vs. Countrywide Average Indemnity Claim Severity

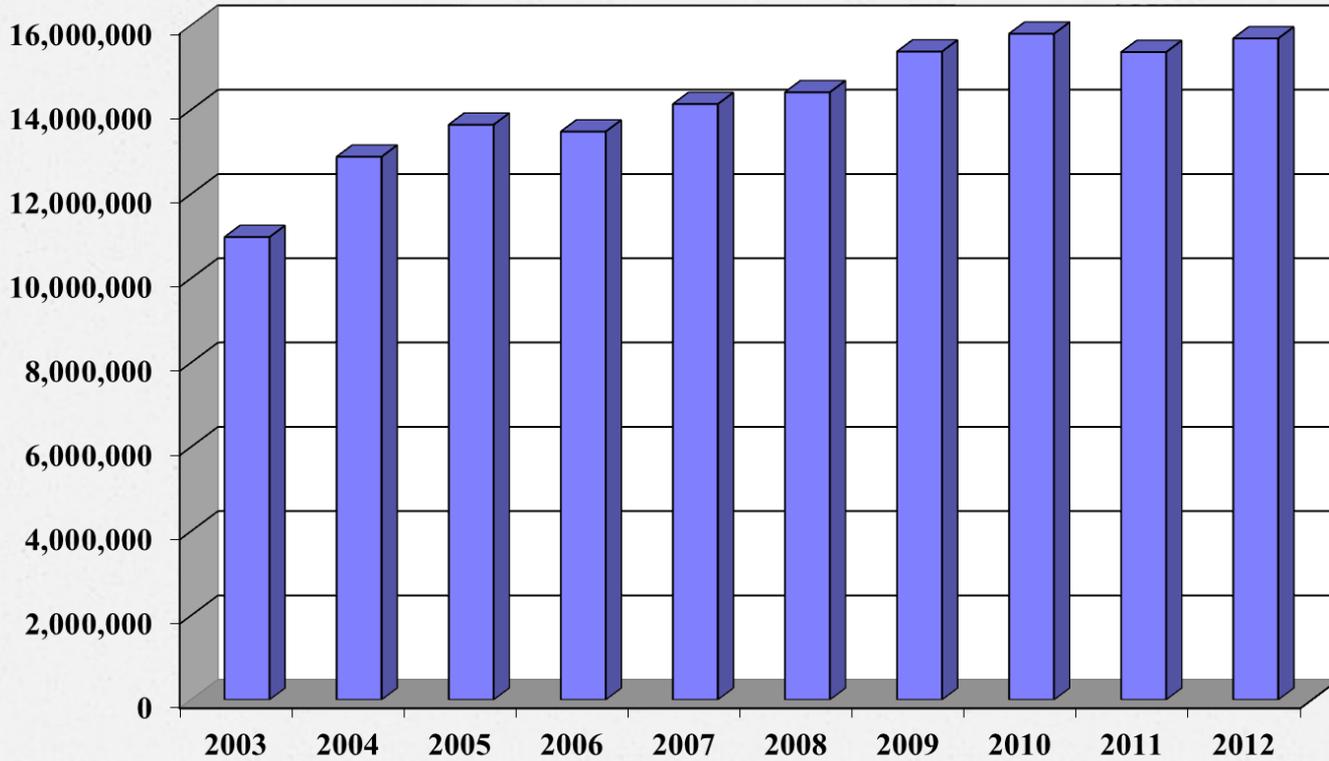


National Council on Compensation Insurance  
State Advisory Forum - October 2012

# Legal Costs

- o Legal Costs
- o Dispute Litigation
- o Formal Proceedings

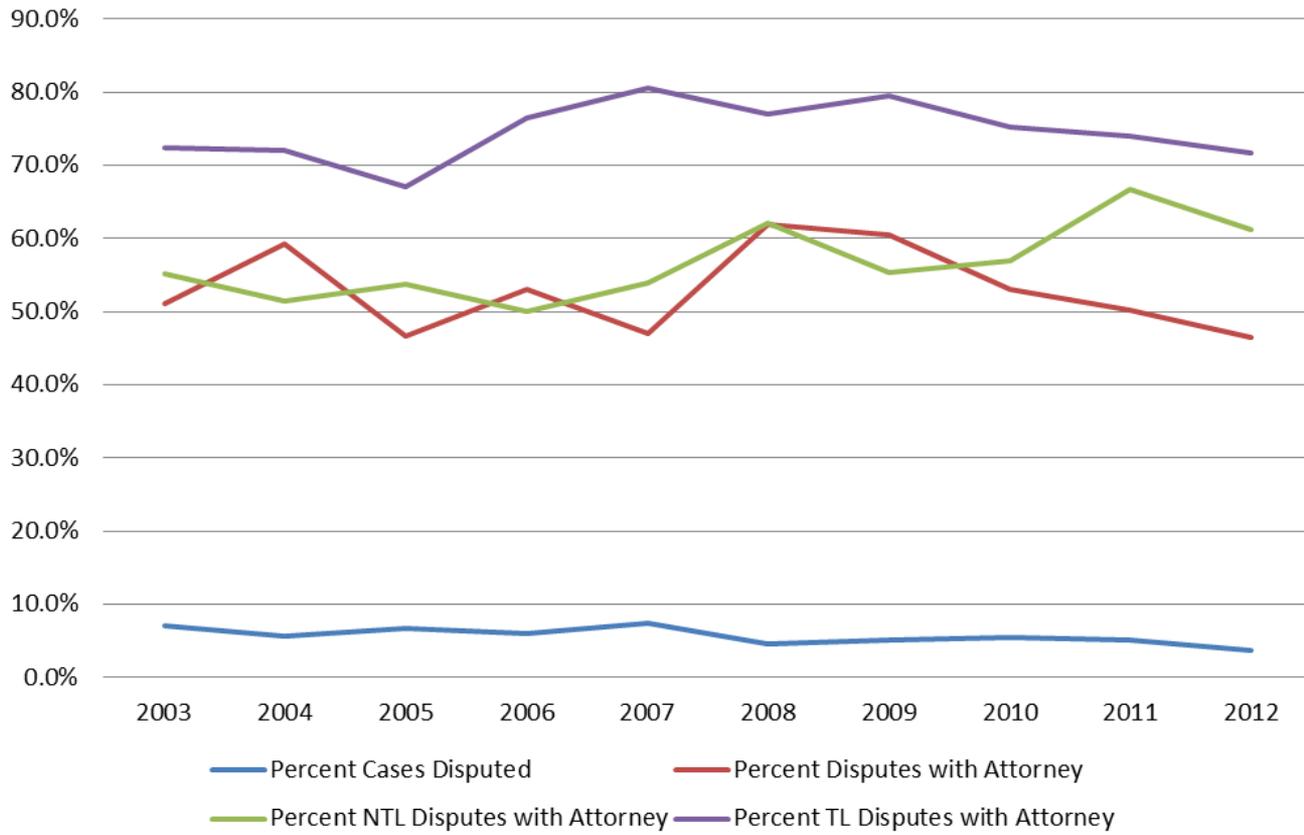
## Legal Payments



Alaska Workers' Compensation Division 2012 Annual Report

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## Dispute Litigation



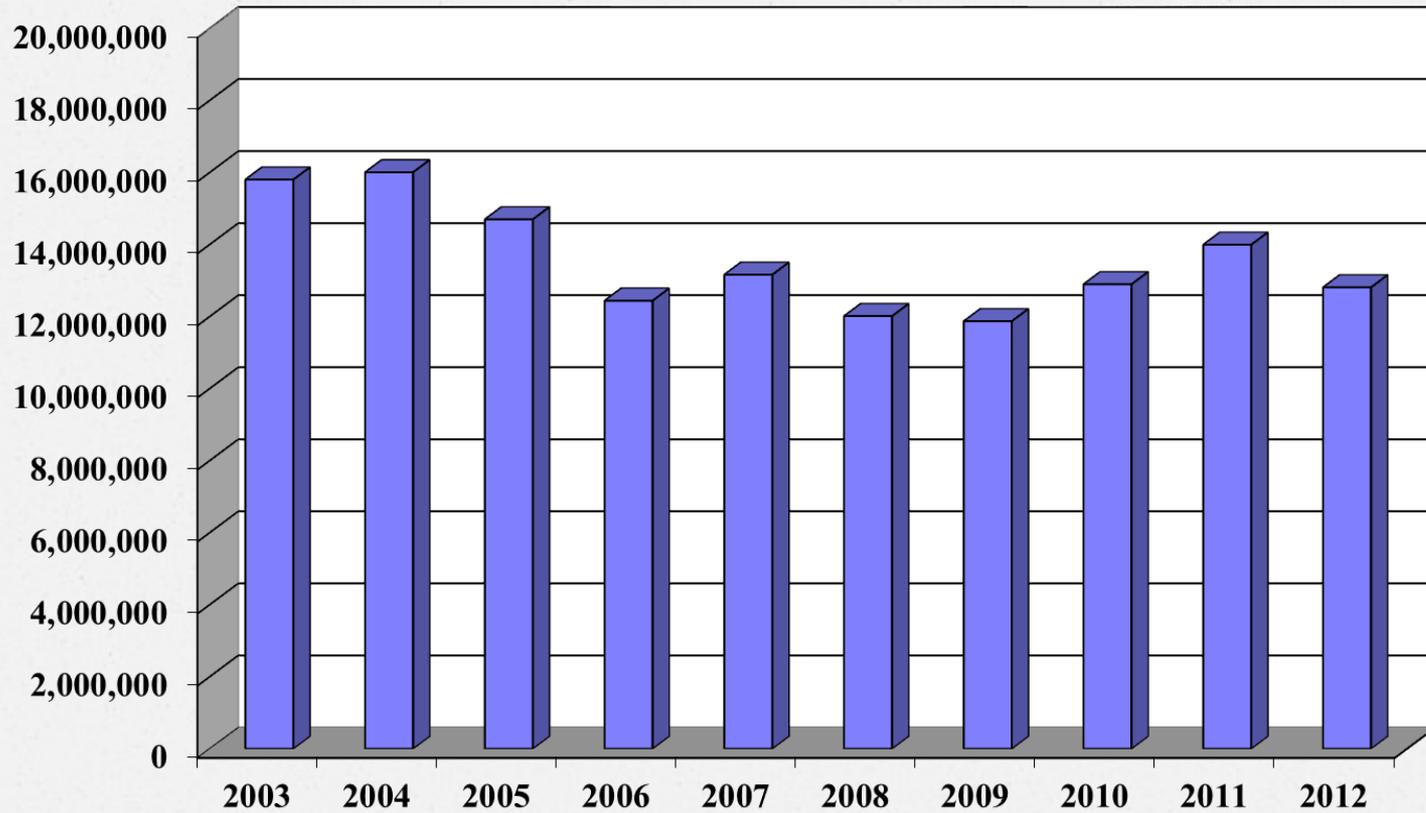
Alaska Workers' Compensation Division 2012 Annual Report

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# Reemployment Costs

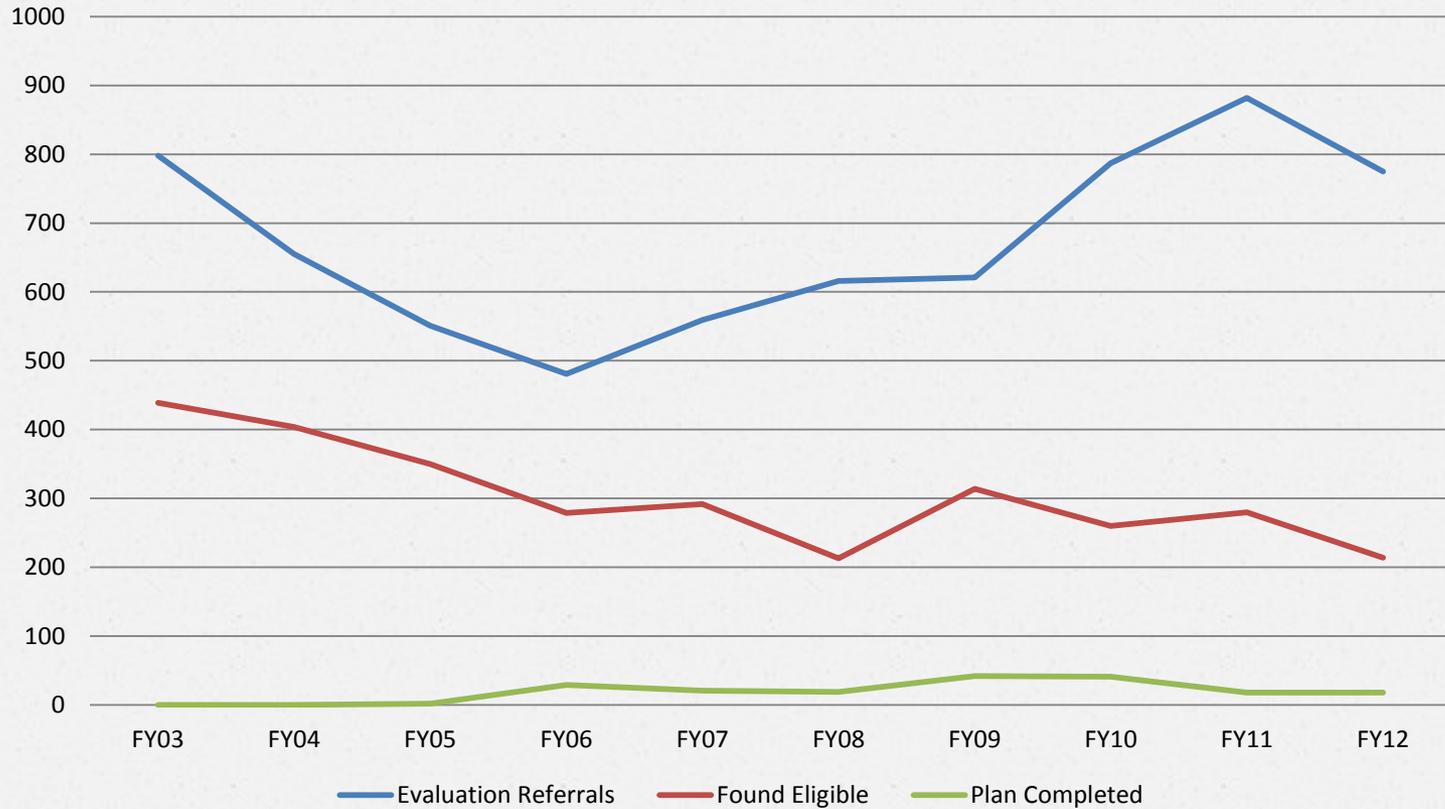
- o Reemployment Costs
- o Plan Completion

## Rehab Payments



Alaska Workers' Compensation Division 2011 Annual Report

## Reemployment Outcomes



# Take Away...

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



Questions?