



Research Summary

R.S. No. 53

December 1992

The Cost of Health Care in Alaska

Health care in Alaska cost an estimated \$1.6 billion in fiscal 1991. That's 50 percent more than it cost to operate Alaska's public schools in 1990 (\$1 billion). It's close to what the military spent for its bases and personnel and equipment in Alaska in 1989 (\$1.9 billion). It equals one-third of the money on deposit in Alaska banks and credit unions in 1990 (\$4.8 billion). It's nearly half of what Alaskans spent at grocery stores, restaurants, and other retail establishments in 1987 (\$3.6 billion).

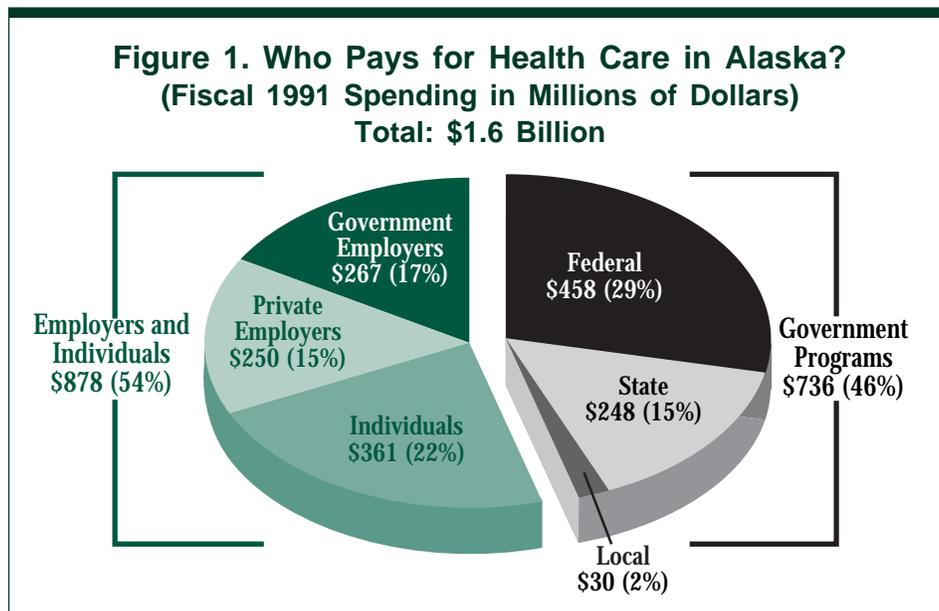
This *Research Summary* details fiscal 1991 health care spending in Alaska. It also looks at why health care costs have escalated and how spending in Alaska compares with the national average. We define health care spending to include all spending for personal care, program administration, and public health programs. We did not estimate spending for construction of health facilities and for medical research. (A more detailed definition is on page 4.) The information presented here was developed by Alexandra Hill and Scott Goldsmith of ISER and the state's Health Resources and Access Task Force.

Exact figures on total health care spending are impossible to get because much goes unreported. In particular, data are unavailable on spending by individuals and by employers that *self-insure*—those who provide health care benefits for their employees, but pay all or part of their employees' medical bills themselves, rather than paying insurance premiums. In recent years, more and more governments and businesses have calculated that it's cheaper to pay medical bills than to pay insurance premiums. Nationwide, more than 50 percent of employers now self-insure.*

The pie in Figure 1 shows that employers and individuals paid slightly over half of total health care costs. The federal, state, and local governments spent nearly as much to fund large health programs like Medicaid, the Indian Health Service, and Medicare, as well as many smaller programs. Table 1 inside shows more detail. We can see that in Alaska in fiscal 1991:

- **Employers (government and private) paid \$517 million themselves and an additional \$78 million in employee contributions for insurance premiums or direct medical costs of current and former employees.** The \$517 in employer costs was 32 percent of total spending.

- **Government employers spent an estimated \$267 million for health care for their workers and retirees.** Those payments by the federal, state, and local governments (including the military) in Alaska amounted to 17 percent of total health care spending.



*Our estimate of how much self-insured employers spent for health care in 1991 is based on information from the 1980s and may be conservative if Alaska has conformed to national trends.

- **Private employers paid about \$250 million** for health care for their employees and retirees and for workers' compensation. This was 15 percent of total spending. However, it's possible they spent more, if our estimate of payments by businesses that self-insure is low.

- **Individuals spent about \$361 million**, or 22 percent of total health care costs, for both employer-based and individual insurance premiums, as well as for medical costs not covered by insurance—out-of-pocket costs.

- **The federal government was the largest source of money for health programs.** It paid out more than one-quarter (29 percent) of all health care dollars—nearly \$458 million—for programs including the Indian Health Service (\$206 million); Medicaid (\$115 million for the federal share); Medicare (\$90 million); and veterans' medical care (\$47 million).

- **The state government was the source of \$248 million for health programs**, or about 15 percent of total health care costs. The biggest state costs were \$100 million for its share of Medicaid and \$62 million in grants to local governments and non-profit organizations. The state also administers a number of other health programs, including programs for the elderly, the mentally ill, and the poor not covered by Medicaid as well as state nursing and maternal and child health.

- **Alaska's local governments were the source of nearly \$30 million** to help support public health programs and community hospitals. That was close to 2 percent of total spending.

- **Private employers and individuals together paid about \$611 million for health care**—or more than one-third of total health care spending.

- **The federal government as an employer and as a provider of health care programs was by far the largest single source of health care spending.** Its employee coverage (including military personnel) and health program spending combined amounted to \$549 million, or a third of total Alaska health care spending.

- **The state government as an employer and as a provider of health programs was also a large health care spender.** The state's expenses totalled \$332 million, or about 21 percent of total spending. If we include the federal share of Medicaid, which the state administers, the amount passing through state government was \$447 million. That figure excludes the state's indirect funding of health care for local government employees through the municipal assistance and school foundation programs.

Biggest Government Programs

1. **Medicaid** cost the federal and state governments (which roughly split the costs although the state administers the program) \$215 million in Alaska in 1991 and accounted for 13 percent of total health care spending. Medicaid pays medical costs for poor Alaskans who meet income and asset criteria.
2. **The Indian Health Service** in Alaska cost the federal government \$206 million, or more than 13 percent of total spending in 1991. The IHS provides medical care for Alaska Natives and for other Native Americans.
3. **Medicare** in Alaska cost \$91 million in 1991, or 6 percent of total health care spending. Medicare is the federal government's health insurance program for older Americans; recipients pay a portion of costs through premiums.
4. **State health care grants** of more than \$60 million went to local governments and non-profit organizations in Alaska in 1991. Those grants are intended to help improve the physical or mental health of Alaskans.
5. **Veterans' health care** cost the federal government \$47 million in Alaska in 1991. The federal government pays primarily for service-connected health problems of veterans.

There is no consistent historical information that allows us to track changes over time in who pays for health care in Alaska. Nationally, the proportion paid by individuals has declined over the past 30 years while the government and employer shares have grown. Nor is there comprehensive information on what the \$1.6 billion in Alaska health care spending bought in fiscal 1991—how much went to hospitals and doctors and for other purposes. Nationally, hospital care is the largest single category.

How do the percentages of health care spending by individuals and employers and by governments differ in Alaska and in the U.S. as a whole? In many ways, the composition of spending is similar, with individuals and employers paying roughly the same percentage of health care costs in both Alaska and the entire U.S. But government spending for public programs differs in two ways because of the composition of Alaska's population:

- **Medicare spending nationwide is three times larger than in Alaska**—17 percent as compared with 6 percent. That's because the percentage of Alaskans over 65 is much smaller than the national average—just over 4 percent as compared with 12 percent nationally.

- **Government spending for health programs other than Medicare and Medicaid** makes up a much larger share in Alaska than elsewhere. Other public health care

Table 1. Alaska Health Care Spending in FY 1991
(In Millions of Dollars)

WHO PROVIDES COVERAGE?	WHO PAYS?					Total
	Individuals	Business	Local	State	Federal	
Individuals	283					\$283
Out-of Pocket	253					
Individual Policies	29					
Employer Based (includes retiree coverage)	78	250	92	84	91	\$595
Insurance Premiums	51	110	60	73	35	
Self-Insured Costs	27	92	32	11		
Military Medical Expenses					56	
Workers' Compensation		48				
Government Health Programs			30	248	458	\$736
Medicare	*			1	90	91
Medicaid				100	115	215
Other Public						430
Federal: Alaska Area Native Health Service					206	
Veterans' Affairs					46	
State: Grants to local governments & private groups				62		
API, Harborview, Pioneers' Homes				32		
Other state administered				28		
Elementary & secondary schools, corrections				17		
General Relief Medical				8		
Fishermen's Fund				1		
Local: Health and hospital spending			30			
Total	\$361	\$250	\$122	\$332	\$549	\$1,614

*Those covered by Medicare pay a premium for this coverage. The Alaska numbers are not available at this time.

spending in Alaska accounts for 27 percent of total spending, as compared with 14 percent nationwide. One of the main reasons for Alaska's higher spending for other health programs is the federal government's spending for the Indian Health Service in Alaska. Natives make up a much bigger share of Alaska's population than do indigenous people elsewhere in the country—nearly 16 percent as compared with less than 1 percent.

Alaska's Higher Costs

To get a reliable picture of how Alaska's per capita health care spending compares with the national average, we need to look at both the differences in living costs and the differences in the Alaska and the U.S. populations.

Alaska's per capita *personal* health care expenditures in fiscal 1991 were about \$2,800—24 percent above the national per capita average of \$2,255. Cost-of-living studies published within the past decade put Alaska's overall living costs roughly in the range of 15 to 35 percent above living

costs elsewhere in the U.S. So if we simply consider differences in living costs, Alaska's real health care costs seem near the national average.

But only 4 percent of Alaskans are over 65; nationally, the percentage of Americans over 65 is three times higher. Older people have medical costs nearly four times the average. If the population of the entire U.S. had the same percentage of residents over 65 as Alaska has, the national average per capita cost would have been only about \$1,800. Looked at another way, Alaska's per capita health spending, once we adjust for age, is about 54 percent above the national average—more than just higher living costs would account for.

This higher differential could partly be due to Alaskans' using the medical system more. But evidence from cost-of-living studies, the health insurance industry, and the American Hospital Association suggests that Alaska's per capita costs are higher because the price of medical care is higher. We don't know precisely why Alaska's prices are higher, but clearly the small size of Alaska markets contributes. These small markets can preclude economies of scale,

create difficulties in attracting and keeping skilled workers, and allow suppliers to hold monopoly control. Other partial explanations could be high construction costs and inefficient public service delivery.

Growth in Health Care Spending

Health care spending in Alaska tripled over the past decade. Although some unique factors contribute to Alaska's higher costs, our big spending on health care and the growth in spending result from the same forces at work nationwide. We know that growth and aging of the population and general price inflation push up medical costs. But medical costs have risen much faster than those factors can account for.

Analyses have found that Americans tend to go to the doctor more often, and to get more medical attention for the same problem, than they would have a couple of decades ago. Also, we often see specialists for illnesses that general practitioners could handle, or doctors for problems technicians could deal with. Our health care system doesn't spend enough on preventing illnesses—which would be less expensive. Doctors often order more tests and treatments than are necessary, to cover all possible contingencies and to guard themselves against malpractice suits. More sophisticated and expensive medical technology has also contributed to rising prices. Health care providers pass on the costs of the uninsured to the insured, adding to the price of care.

And at today's high prices, many employers and individuals in Alaska—as elsewhere—can't afford health insurance, and insurance companies are declining to insure more and more people they consider high risk. Government costs for Medicaid and other health care programs are soaring.

Contributing to the problem in Alaska is that the state government's revenues will be dropping in the coming years as oil production (its main source of income) declines. Even if we succeed in holding down growth in medical costs, they will absorb an increasing share of a shrinking state budget.

Alaskans have a direct and significant interest in better understanding the factors that are driving our soaring health care expenses and in getting a healthier result for our money. But despite the enormous size of health care spending in Alaska, few dollars are spent tracking health care costs—or analyzing those costs or policies that might help contain them and contribute to a healthier population.

Note: Both ISER and the Health Resources and Access Task Force are continuing to refine the Alaska health care spending estimates, so they are subject to revision.

What Health Care Spending Includes

Our estimate follows the Health Care Financing Administration (HCFA) definition of **health services and supplies**:

Personal health care—treating or preventing specific conditions or diseases in individuals

Government public health activity—preventing and controlling health problems

Program administration—administering government health programs and private health insurance

This definition does not include research and construction spending related to health care. Had we included these, our definition would have been equal to the HCFA definition of **total health care expenditures**. Our per capita figure is for **personal health care only** and excludes administration and public health expenditures. Our estimate does not measure actual expenditures in Alaska, since Alaskans spend some time in hospitals outside the state. Likewise, our estimate is not a measure of total expenditures on health care for the benefit of Alaskans, because it excludes some expenditures that benefit Alaskans but are made elsewhere (such as activities of the Center for Disease Control in Atlanta).

Our data comes from state and federal government sources. Data on employer-based and individual spending is largely estimated, based on national data, and is subject to error. We have attempted to avoid double counting of expenditures. Comprehensive information on spending by provider (hospitals, doctors, and others) is not available for Alaska. If it were, it would provide a useful cross-check of our spending estimate.

Research Summary (No. 53)

Institute of Social and Economic Research
University of Alaska Anchorage
E. Lee Gorsuch, Director
3211 Providence Drive
Anchorage, Alaska 99508
(907) 786-7710

Non-Profit Organization
U.S. Postage
PAID
Anchorage, Alaska
Permit No. 540