

**BRIEF ANALYSIS**

No. 297

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## Do We Need Mental Health Parity?

In 1996 Congress passed “mental health parity” legislation that required employers who had more than 50 employees and who included mental health coverage in their health insurance benefits to offer the same annual and lifetime benefits for mental health care as for standard health care such as surgery and physician visits. The law went into effect in 1998.

However, mental health proponents, including many Republicans and Democrats both at the state and federal levels, along with the White House and Second Lady Tipper Gore, believe that the Mental Health Parity Act of 1996 is not working as intended. They are supporting more comprehensive mental health parity legislation.

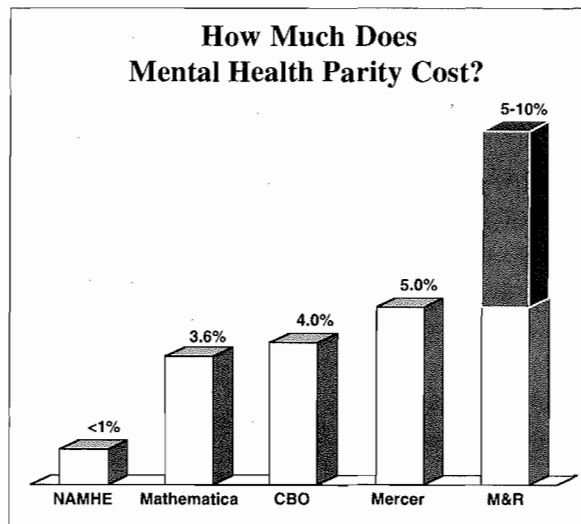
**Do We Need Another Mental Health Parity Law?** One reason for the Mental Health Parity Act’s limited impact is that it contains a provision exempting employers for whom compliance would increase health care expenses by more than 1 percent. In addition, proponents believe many employers are escaping by imposing limits not specifically addressed in the law. For example, under the law employers can still hold down costs by limiting the number of inpatient or outpatient care days and by imposing higher copayments for mental health services. Finally, employers with 50 or fewer employees are exempted from the legislation.

But would another mental health parity “mandate” be good for patients, the uninsured and the mental health industry? While it could help some patients, it would drive up the cost of health insurance and force more people into the ranks of the uninsured. Mental health care also has been subject to widespread abuse over the years, causing state and federal officials to exclude or close down a number of mental health facilities. So before acting, Congress needs to consider whether new

mental health parity legislation would do more harm than good.

**Who Needs Mental Health Parity?** The vast majority of insurers and health plans cover at least a limited amount of mental health care. According to a recent employer survey published in the journal *Health Affairs*:

- 91 percent of small firms (10-499 employees) and 99 percent of large firms offer mental health and substance abuse coverage in their most used medical plans.
- Mental health and substance abuse coverage was included in 87 percent of indemnity plans, 88 percent of HMOs, 97 percent of Point of Service (POS) plans and 93 percent of Preferred Provider Organizations (PPOs).



Thus most employees who have employer-based health insurance have access to mental health coverage, and many of the employees who don’t have coverage choose not to join an employer’s plan that includes mental health care.

But what about small employers who were exempted from the Mental Health Parity Act? Most of them come under state law rather than federal law — because they are too small to self-insure — and most states have a mental health mandate of some sort. In addition,

the National Conference of State Legislatures reports that by the end of last year 14 states had passed comprehensive mental health parity laws and 14 more had passed legislation similar to the more limited federal bill.

Mental health parity proponents’ primary complaint today isn’t that insured employees don’t have *any* access to mental health benefits, only that they don’t have the same limits on mental health care as on traditional medical care. But there is a reason why most employers limit mental health coverage: cost.

**How Much Would Mental Health Parity Cost?** Estimates of the cost of mental health parity legislation vary widely.

## BRIEF ANALYSIS

No. 297

Page 2

- A 1998 study sponsored by National Advisory Mental Health Council (NAMHC) Parity Workgroup, a division of the federal National Institute of Mental Health, estimated that mental health parity would add less than 1 percent to the cost of a health insurance policy for an HMO.
- A 1998 study by Mathematica estimated a 3.6 percent increase across all plans, with a range of 0.6 percent increase for HMOs up to a 5 percent increase for fee-for-service plans.
- A 1997 analysis by the actuarial firm Milliman & Robertson for the National Center for Policy Analysis, examining the cost of a typical mental health mandate (not specific legislation), concluded that mental health parity legislation tends to drive up costs by 5 percent to 10 percent.

But perhaps the most important estimate comes from those already providing mental health benefits. According to an employer survey by the benefits consulting firm William A. Mercer published in *Health Affairs*, “the median amount spent on mental health and substance abuse services across all plan types in 1997 was 5 percent of total plan costs.”

One reason for the discrepancy in cost estimates is increased utilization. Some estimates multiply the cost of care times the estimated number of people with mental health needs and spread those costs over the population. Others such as the Milliman & Robertson estimate factor in the increased use of mental health services once people are insulated from the cost of care.

In addition, estimates that include a heavy dose of managed care are usually lower than those with less managed care involvement. One reason is overuse of mental health services.

**Overuse and Fraud.** When Medicare looked for fraud in the community mental health centers last year, it barred 80 of them in nine states from participating in the program.

The Health Care Financing Administration (HCFA), which administers Medicare, knew something was amiss when the average yearly cost for each senior getting mental health services jumped from \$1,642 in 1993 to more than \$10,000 by 1997.

Medicare administrator Nancy-Ann DeParle contended at the time that 90 percent of the patients had no mental illness serious enough to qualify for special treatment. “You walk into these places and people are playing bingo and eating lunch,” DeParle said.

**The Unintended Consequences of Mental Health Parity.** At a time when a record 43.4 million people are uninsured — and most of the uninsured say the reason is health insurance is too expensive — the last thing Congress should do is make health insurance *more* expensive. Yet actuaries agree that is precisely what mental health parity does.

In order to avoid these increases, employers often alter their health insurance plans. For example, according to a Mercer survey of more than 4,000 employers, 34 percent of the employers switched from annual and lifetime cap restrictions prohibited under the federal legislation to day or visit limits to hold down costs.

Employers who self-insure are not required to cover mental health benefits at all, though the vast majority do. If Congress passes more expensive mental health legislation, those employers may drop their mental health coverage. Thus, an attempt to provide greater mental health coverage may result in fewer people having mental health benefits.

**Conclusion.** Mental health care has become an important part of the total health care picture, with millions of Americans benefiting from mental health services delivered by skilled providers. But insurers recognize that it is a lot easier to know when a bone is healed than when a mind is healed. A blank check drawn on the insurer’s bank account may produce a lot of mental health care services with little patient benefit.

Congress and the state legislatures can override insurers’ limits, but that action comes at a price: more expensive health insurance, more uninsured and more opportunities for abuse. Until society finds a way to balance the need for mental health services and the potential for abuse, it may be best to let the insurers decide how much to cover.

*This Brief Analysis was prepared by NCPA Vice President of Domestic Policy Merrill Matthews Jr.*