

MENTAL HEALTH PARITY:

Summary of Costs and Savings



**WASHINGTON COALITION
for
INSURANCE PARITY**

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January 30, 2007

OVERVIEW

The mission of the Washington Coalition for Insurance Parity is to end discrimination in mental health insurance by pursuing legislation providing full mental health parity in Washington State. Thirty-eight states have enacted some form of parity legislation.

On March 9, 2005, Washington State Governor Christine Gregoire signed a landmark mental health parity bill into law. The law accomplishes three goals in Washington State: (1) extends comparable mental health insurance to almost **1.5 million** residents; (2) reduces insurance discrimination against people living with a mental illness; and (3) helps hundreds of thousands of people with a mental illness and their families overcome the stigma of mental illness. Unfortunately, the current law excludes the small group (small business) and individual insurance markets – about **540,000** Washington residents.

Many studies and other materials document the minimal costs and substantial benefits associated with implementing mental health parity. The information in this *Summary of Costs and Savings* – based on direct quotes from federal/state government, private business, and professional consulting sources – provides substantial documentation of the following conclusions:

- ***Parity results in minimal increases in premiums.*** With appropriate care management, mental health parity results in ***less than a one percent*** increase in premiums. The nine states of California, Maine, Maryland, Minnesota, North Carolina, Pennsylvania, Rhode Island, South Carolina, and Vermont have ***actual documented experience*** that implementing parity increased insurance premiums by ***less than one percent***. Nine million employees of the federal government have been provided parity since January 2001 at a premium increase of ***less than one percent***.
- ***Mental health parity saves money and improves health.*** Providing appropriate and effective mental health treatment can reduce total health care expenditures for persons with a mental illness. Mental health treatment reduces the need for costly medical services (such as emergency room services) and improves health outcomes for people with heart disease, diabetes, cancer, and other chronic diseases.
- ***Businesses benefit from mental health parity.*** The cost to businesses of absenteeism, lost productivity, and claims for disability and unemployment insurance due to untreated mental illness is ***greater*** than the cost of mental health parity. In 1999, the U.S. Surgeon General reported that the indirect costs of mental illness imposed an estimated \$79 billion loss on the U.S. economy in 1990. According to the U.S. Department of Labor, the \$79 billion would be worth more than ***\$123 billion*** today.
- ***Parity reduces costs to society.*** Mental health parity will help reduce social costs such as imprisonment, homelessness, hospitalization, and public assistance.

If you would like more information about the coalition or additional copies of this summary, please contact Chelene Alkire at chelenea@wsha.org or at (206) 216-2545.

DOCUMENTATION

The Washington Coalition for Insurance Parity has collected substantial information documenting the minimal health insurance premium increases and significant benefits to businesses and individuals resulting from mental health parity (listed in chronological order):

- ***“The cost of effective depression treatment is more than outweighed by the benefits of reduced disability.*** Across several studies, the added cost of effective depression care is typically \$300 to \$600 over six to twelve months. More recent studies find that this increased cost is balanced by medical care savings over 18 to 24 months. The cost is also balanced against increased employment, decreased absenteeism, and increased productivity while at work. Estimates of these savings and benefits range from \$50 to \$100 per month – equal to or greater than the cost of improved depression treatment.” *Business Case for Mental Health Parity*, Dr. Greg Simon, January 18, 2007.
- An actuarial analysis published in December 2006 by Milliman Consultants and Actuaries shows that extending mental health parity to the individual and small group markets in Washington State will minimally increase insurance premiums. The analysis concluded the legislation would produce ***“premium increases between 0.5 and 0.9 percent for the small group plans and between 1.2 and 1.5 percent for individual plans.”*** (Emphasis added.) These estimates do not take into account the many benefits and financial savings from parity. *An Actuarial Analysis of Legislation to Extend Mental Health Parity to Individual and Small Group Plans in the State of Washington*, Stephen Melek and Jonathan Shreve, Milliman Consultants and Actuaries, December 28, 2006.
- “The main argument against enacting a comprehensive federal parity law of this kind is that generous coverage would drive up mental health spending, increase premiums, and expand the number of people unable to afford coverage. Old ideas about the cost of parity die hard. In our view, the relevant research implies that parity implemented in the context of managed care would have little impact on mental health spending and would increase risk protection. *** The bottom line is that ... ***opposition to parity on the basis of increased total spending no longer constitutes an evidence based objection.***” (Emphasis added.) *The Costs of Mental Health Parity: Still an Impediment?* Colleen Barry, Richard Frank, and Thomas McGuire, Health Affairs, May/June 2006.
- “When coupled with management of care, implementation of parity in insurance benefits for behavioral health care can improve insurance protection without increasing total costs. *** The primary concern has been that the existence of parity would result in large increases in the use of mental health and substance-abuse services and spending on these services. With respect to the seven FEHB [Federal Employees Health Benefits] plans we studied, these fears were unfounded. *** These findings suggest that parity of coverage of mental health and substance-abuse services, when coupled with management of care, is feasible and can accomplish its objectives of greater fairness and improved insurance protection without adverse consequences for health care costs.” *New England Journal of Medicine, Behavioral Health Insurance Parity for Federal Employees*, Howard H. Goldman et al., March 30, 2006.
- “The compelling evidence presented [in the foregoing Goldman study] suggests that in today’s environment, parity in health insurance coverage is both economically feasible and socially desirable. *** The results of this study ought to pave the way toward broader acceptance of parity on the part of employers, insurers, and legislators. Parity improves the

well-being of insured people by reducing their financial risk, and it does not distort the market for mental health services. Insurance for mental health care should enter the mainstream of coverage.” Editorial, *New England Journal of Medicine*, *Better Behavioral Health Care Coverage for Everyone*, Sherry Glied, Ph.D. and Alison Cuellar, Ph.D, March 30, 2006.

- “Study co-author Richard Frank, a health care economist from Harvard University, estimated the potential increase in health insurance premiums at less than half of 1%.” *Baltimore Sun*, March 30, 2006. “Ralph Ibson, president of the National Mental Health Association, said, ***‘This study, which is certainly enormous and robust, very decisively puts to rest some of the major myths that opponents have brought to this debate, the principal myth being that to enact and implement parity is to increase health care costs.’***” (Emphasis added.) *Washington Post*, March 30, 2006.
- “Helen Darling, president of the National Business Group on Health, notes, ‘Mental health and substance abuse disorders currently cost U.S. employers billions of dollars annually in lost worker productivity. All will benefit if we reduce the terrible burden of depression and other serious mental health problems that sap strength, productivity and a decent quality of life out of employees and their families.’” *Mental Illness Exact a High Financial, Human Toll*, Leah Carlson Shepard, *Employee Benefit News*, February 2006.
- “Indeed, workers with depression have been found to lose 5.6 hours a week of productivity as compared to 1.5 for workers without depression.” Institute of Medicine, *Improving the Quality of Health Care for Mental Health and Substance-Use Conditions: Quality Chasm Series*, 2006, page 33.
- “Opponents of [mental health parity] legislation argue that the combined pressures of general cost increases and a need to pay fully for mental health care will make it impossible for employers to continue offering affordable coverage, often citing initial estimates that placed resulting premium increases from full parity between 3.2 percent and 8.7 percent. However, as actual experience has emerged, it has become clear that these estimates were conservatively high. In fact, with implementation of mental health parity at the same time as managed behavioral health care, ***many states have discovered that overall health care costs increased minimally and in some cases were even reduced.***” (Emphasis added.) *The Costs of Mental Health Parity*, Medical Benefits, Stephen Melek, Milliman, December 15, 2005.
- In 2000, PricewaterhouseCoopers reported that ***“to date there are no examples where mental health parity has been enacted in a state and costs have dramatically increased,”*** and that there “are no examples where mental health parity has been enacted in a state and a measurable increase in the uninsured has been detected.” (Emphasis added.) *The Costs of Mental Health Parity*, Medical Benefits, Stephen Melek, Milliman, December 15, 2005.
- Since January 2001, mental health parity has been provided to about nine million employees of the federal government. According to Ronald Bachman, a nationally recognized health care actuary, “...the cost of the FEHBP implementation of mental health parity only ranges between 0.24 percent and 0.87 percent.” *Evaluation of Parity in the FEHBP: Final Report*, Ronald Bachman, FSA, MAAA, Healthcare Visions, Inc., November 2005.
- Terri Webster, Human Resource Manager of Ben Bridge Jewelers Inc., testified in support of mental health parity. She stated that after the implementation of parity in 1999, the

company's mental health expenses actually *declined* as opposed to increasing. *Statement of Ben Bridge Jewelers*, Washington State Senate Health and Long Term Care Committee, Olympia, February 21, 2005.

- “A number of parity studies have found that equalizing specialty behavioral health and general medical benefit structures will either not increase total healthcare expenses at all, or will increase them by a very modest amount, unusually between 0.2%-0.9% of total healthcare premium. The largest study of parity to date was a four-year study of the Federal Employees Health Benefits Program (FEHB). The study concluded that when parity mental health and substance abuse were implemented and managed, total healthcare costs for most of the plans did not increase beyond the increases over the same period that were observed in a matched group of health plans that did not have a parity benefit *** *The FEHB study is the largest evaluation of the addition of a behavioral health parity benefit ever conducted and one of the few studies in behavioral healthcare utilization that compared parity plans with similar non-parity plans over a defined period of time. The fact that this study was conducted with the largest employer in the United States, gives even greater significance to its findings.*” (Emphasis added.) *An Employer's Guide to Behavioral Health Services: A Roadmap and Recommendations for Evaluating, Designing, and Implementing Behavioral Health Services*, R.A. Finch and K. Phillips, National Business Group on Health, 2005.
- In November 2004, a nationally recognized health care actuary, Ronald Bachman of PricewaterhouseCoopers, published a detailed cost analysis of the mental health parity legislation proposed by the Washington Coalition for Insurance Parity. The analysis concluded that enacting mental health parity in Washington State would increase insurance premiums by *less than one half of one percent* in the large group insurance market. Bachman believes his estimates are conservative, and the actual costs of parity will be lower. *An Actuarial Analysis of Comprehensive Mental Health Parity for the State of Washington*, Ronald Bachman, Principal, PricewaterhouseCoopers LLP, November 2004.
- **“Parity Did Not Cause Employers to Drop Coverage or Switch to Self-Insured Products** *** Of the employers offering insurance coverage when parity went into effect (January 1, 1998), just 0.3 percent (accounting for 0.07 percent of Vermont employees) reported dropping coverage because of parity. *** Similarly, there was no evidence that a significant number of employers chose to self-insure to avoid the parity mandate.” *Effects of the Vermont Mental Health and Substance Abuse Parity Law*, Margo Rosenbach, et al., Mathematica Policy Research, 2003.
- “DuPont, Dow, Federal Express, Xerox, and other major corporations reported reduced costs of 30 to 50% over one or two years after eliminating restrictive mental health coverage limits.” *Equal Mental Health Benefits Good for Families – AND – Good for Businesses*, New York City Centro Affiliate of the National Alliance for the Mentally Ill, 2003.
- Stanford J. Alexander, Chairman of Weingarten Realty Investors, stated the following about mental health parity: “As a business leader, and as a father, a husband and an employer, I have witnessed for many years the deplorable inequity in health insurance coverage for mental illness. This inequity doesn't make good business sense. It doesn't make good human sense. It doesn't save money. It doesn't, more importantly, save lives.” *Statement of Sanford J. Alexander*, Committee on Education and the Workforce, Subcommittee on Employer-Employee Relations, U.S. House of Representatives, March 13, 2002.

- James T. Hackett, Chairman and Chief Executive Officer of Ocean Energy, Inc., testified as follows: “Today, more than ever, managers of every corporation have the opportunity to support their employees while, at the same time, reducing the cost to their company of mental health-related productivity losses. I do believe that in time, most business leaders will realize, as I have, that providing mental health benefits on par with physical health benefits is good for the bottom line.” *Statement of James T. Hackett*, Committee on Education and the Workforce, Subcommittee on Employer-Employee Relations, U.S. House of Representatives, March 13, 2002.
- Henry Harbin, chairman of Magellan Health Services, the nation’s largest managed mental health firm, said that parity can reduce costs by getting mental health patients back to work. Harbin also noted that Magellan has yet to see an increase in premiums greater than one percent in any of the states that have enacted similar mental health parity laws. Committee on Education and the Workforce, Subcommittee on Employer-Employee Relations, U.S. House of Representatives, March 2002.
- “In terms of ‘costing too much’ for mental health parity (MHP); here are some of the numbers: The myth still being promulgated by unfriendly lobbyists is that parity will increase costs by 10%. So much for myth and spin. The reality is as follows: 1) a recent independent RAND study estimated the cost of MHP at <1%; 2) a Congressional Budget Office estimate of the senate 2001 MHP bill for cost increases was 0.9%;...” *Mental Health Parity Why Not? Why Not!* Al Herzog, M.D., President, Connecticut State Medical Society, 2002.
- At least nine states – California, Maine, Maryland, Minnesota, North Carolina, Pennsylvania, Rhode Island, South Carolina, and Vermont – have **actual documented experience** that adding a mental health parity requirement, including cost controls through managed care, resulted in lowered costs and lowered premiums (or at most, very modest cost increases of less than one percent) within the first year of parity implementation. *Mental Health Parity “Just the Facts,”* Ronald Bachman of PricewaterhouseCoopers LLP, 2000.
- Employers such as American Airlines, AT&T, Delta Airlines, Eastman Kodak, General Motors, IBM, the Massachusetts Group Insurance Commission, and Pepsico voluntarily provide mental health and substance abuse benefits. “**Perhaps the most important finding of this project is that employers provide generous mental and substance abuse benefits to their employees and families because they are convinced that doing so is essential to the corporate bottom line.**” (Emphasis added.) The companies describe how they were able to provide generous mental health and substance abuse benefits, contain and in some cases reduce costs, and at the same time improve their employees’ access to quality mental health and substance abuse care. *Report to the Office of Personnel Management*, Washington Business Group on Health, 2000.
- “In summary, evidence of the effects of parity laws shows that their costs are minimal. Introducing or increasing the level of managed care can significantly limit or even reduce the costs of implementing such laws. Within carve-out forms of managed care, research generally shows that parity results in **less than a 1 percent increase** in total health care costs. In plans that have not previously used managed care, introducing parity simultaneously with managed care can result in an actual **reduction** in such costs.” (Emphasis added.) *Mental Health: A Report of the Surgeon General*, David Satcher, M.D., Ph.D., 1999.