State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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October 16, 2001

The Honorable Chuck Chvala
State Senator
Senate Majority Leader
Room 211 South, State Capitol
P.O. Box 7882
Madison, WI 53707-7882

The Honorable Scott Jensen
State Representative
Speaker of the Assembly
Room 211 West, State Capitol
P.O. Box 8952
Madison, WI 53708

RE: Social and financial impact report – Senate Bill 157

Dear Senator Chvala and Representative Jensen:

SB 157 expands coverage for services related to mental health and AODA treatment in group health insurance plans and certain individual health benefit plans. As required in s. 601.423, Wis. Stats., I am submitting a social and financial report on the proposed health insurance mandate.

Current Wisconsin Law

Current Wisconsin law mandating minimum coverage for mental health and AODA applies only to group health insurance policies. The services covered under current law are inpatient services, outpatient services and transitional services. The law specifies minimum coverages for each of the three previously mentioned services. A group policy that provides coverage for inpatient hospital services must annually cover:

- At least expenses for the first 30 days as an inpatient in a hospital; or

  At least $7,000 minus a copayment of up to 10% or actuarially equivalent benefits measured in services rendered.

- At least $3,000 minus a copayment of up to 10% for transitional treatment or actuarially equivalent benefits measured in services rendered.

A group policy that provides coverage for outpatient services must annually cover:

- At least $2,000 of services minus a copayment for up to 10% or equivalent benefits measured in services rendered.

- At least $3,000 minus a copayment of up to 10% for transitional treatment or equivalent benefits measured in services rendered.

However, total coverage for inpatient, outpatient, and transitional treatment services need not exceed $7,000 or equivalent benefits per year. Coverages are also subject to deductibles and copayments that are generally applicable to other conditions covered under the policy.

A federal mental health parity requirement was adopted in 1998. The federal law required that any health insurance policy that offered mental health services could not impose limits on mental health services, expressed as dollar limits, that were different from limits applied to other medical services. Federal mental health parity did not prohibit insurers from applying limits that were expressed as number of visits of days of treatment. It also allowed employers who could demonstrate a premium increase of more than 1% as a result of parity to not cover the benefit. The federal mental health parity law sunset on September 30, 2001.

Proposed Coverage Changes

SB 157 prohibits all group health policies offered in Wisconsin from including limitations on mental health or alcohol or other drug abuse treatment (AODA) that are not applied to other medical services.

More specifically, SB 157 would:

a. Permanently suspend annual dollar thresholds for inpatient, outpatient and transitional mental health services.

b. Remove annual dollar thresholds for AODA treatment.

c. Eliminate any annual day or hourly limits for inpatient mental health services.

Impact of Mandates

Wisconsin has long benefited from a healthy and competitive insurance market. The state currently has among the lowest uninsured rates in the country, according to the U.S. Census Bureau. Increasing the number of mandated coverages could have an adverse effect on our current health insurance market. Traditionally, as the number of benefit mandates increase, the cost of coverage rises, and as costs rise, fewer and fewer individuals and businesses can afford to insure.

It is difficult to project the actual impact of any mandate because of the factors involved. The structure of a benefit will affect, either positively or negatively, the level of consumer demand or utilization of service. For example, a limited benefit may lead consumers to decide not to seek treatment that is not vitally necessary. On the other hand, an overly generous benefit could lead to overutilization for a specific treatment simply because payment is available. Taking these two factors into account, OCI's survey and analysis projects the following impacts of this mandate.

- **The mandate will add approximately $7 to $57 million per year to premium costs for group health insurance consumers, borne mostly by small businesses.**

- **Individuals who remain covered under group policies will have an increased access to care for certain treatments as specified.**

- **The increase in costs will increase the disparity between insured plans and non-state regulated self-insured plans, decreasing the effectiveness and protections afforded by state regulation.**

Social Impact Factors

Fully insured group health insurance products cover approximately 2.5 million state residents. This mandate will expand coverage for those individuals. However, individuals who are members of groups whose benefit plans are self-funded are exempt from state regulation by the Employee Retirement and Income Security Act of 1974 (ERISA) and will not be affected by the mandates.

Because self-funded plans do not have to offer state-mandated benefits, this option offers self-funded plans the opportunity to save as much as 10% to 15% on premium costs, or choose which benefits to offer. Anytime mandates are added to insurance products, it will increase the propensity of employer groups to switch to self-funding.

Self-funding of health benefits has historically been used mostly by larger employers, however; over the last decade, the number of medium employers shifting from fully insured to self-funded products has increased. Larger employers are able to spread these costs over a larger base when self-funding and typically do not experience the same impact.

Protections passed in 1991 for small employer groups were aimed at protecting small employers from the tremendous adverse effects on costs in the event a group has unhealthy members. By switching to self-funding, small and medium employers have in many cases unknowingly foregone the protections available to them and their employees, a fact they do not realize until it is too late.

Increasing the disparity between insured and self-funded plans costs will only increase the incidence of such switching. The potential of this occurring through mandated mental health treatment is very possible.

Financial Impact Factors

In estimating the costs of the coverage proposed in SB 157, OCI reviewed data from states that have implemented parity legislation and the results of state employee health plans that have instituted mental health parity for state employees. This information was contained in reports compiled by PriceWaterhouseCoopers, LLP and the University of South Florida.

- **.12% to 1%, or $7 to $57 million increase in insurance premiums resulting from the modifications to existing mental health requirements.**

The above mentioned increase is based on the following assumptions:

- The states listed in the studies showed per member/per month premium costs increased from a low of $.06 in Maryland and California to $.33 per member/per month in Rhode Island. Other states list percentage increases rather than per member/per month costs. For those states the percentage changes in premium costs vary from .08 percent in Maine to 3% in Vermont and Connecticut.

- Other states such as Colorado, North Carolina and the Texas State Employee health plan experienced declines in premium costs related to mental health parity. Also, individual insurers in Maryland, Minnesota and New Hampshire also experienced declines in premium costs related to mental health parity.

- These studies and others have established a link between the level of managed care market penetration and the level of increases in premium costs for mental health and substance abuse (MHSA). In the examples above, states that have high levels of managed care market penetration experienced low levels of premium increases, or even premium decreases, due to MHSA. In states where there was less managed care market penetration, premium increases were greater. Also, other factors, such as minimal or inadequate regulation of MHSA in the examples of Vermont and Connecticut also contributed to higher premium increases. Wisconsin has substantial market penetration by managed care insurance plans. Nearly 70% of employees and their dependants are enrolled in managed care plans in 2001.

- Characteristics of managed care for MHSA include declines in average inpatient stays, decreased outpatient visits and decreases in costs for both inpatient and outpatient visits. This trend is evident in a survey of Wisconsin insurers that was compiled by OCI in January 2001. That survey showed decreases in outpatient utilization of .2% and decreases in costs per service of 9.2%. Together these factors contributed to a –1.3% effect on overall insurance premiums for the period surveyed. Increases in other elements, however, outweighed the decline in MHSA and no actual decrease in health insurance premiums was experienced. A copy of the OCI survey results is attached.

These assumptions were based on data collected from the experiences of others states during times of both economic prosperity and relative peace. After the terrorist attacks of September 11, 2001 and the resulting military response by the United States, those two variables changed significantly. The State of Wisconsin was already experiencing an economic slowdown prior to the attacks and it is theorized that the attacks will cause a recession. How the current economic conditions will affect employers in their health insurance purchasing decisions remains to be seen and is not estimable at this time. There have also been media reports of expected increases in the demand for MHSA services for conditions like post traumatic stress disorder and increased levels of depression stemming from these events. It is not possible to determine what effects this will have on insurance premiums for MHSA.

Since the enactment of the federal Mental Health Parity Act (MPHA) 1996, the state health program adheres to most of the requirements proposed in SB 157, with the exception of AODA coverage. The Department of Employee Trust Funds prepared a fiscal estimate for the effect that this change would have on costs to state employee coverage as well. That estimate stated that for the 157,000 employees covered by the state, the changes would increase costs between $461,600 and $3.87 million. Once again, this increase shows costs significantly lower than that of private industry costs, primarily because the state health insurance program currently covers mental health services consistent with the federal Mental Health Parity Act.

Impact on the Uninsured

According to Congressional Budget Office estimates - for every 1% increase in premiums, approximately 200,000 persons nationally could become uninsured. While it would be difficult to predict the number of persons affected, it is reasonable to assume that an increase in premium costs to small and medium-sized employers certainly will have a negative impact on the number of people insured in Wisconsin.

Please contact Eileen Mallow at 266-7843 or Jim Guidry at 264-6239 if you have any questions regarding this report.

Sincerely,

Connie L. O'Connell
Commissioner