



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Tommy G. Thompson**  
Governor

**Connie L. O'Connell**  
Commissioner

March 23, 2000

121 East Wilson Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: [information@oci.state.wi.us](mailto:information@oci.state.wi.us)  
[http://badger.state.wi.us/agencies/oci/oci\\_home.htm](http://badger.state.wi.us/agencies/oci/oci_home.htm)

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

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

RE: Social and financial impact report - Senate Bill 308

Dear Senator Chvala and Representative Jensen:

SB 308 expands coverage for services related to mental health and AODA treatment in group health insurance 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

Wisconsin's current mental health parity law applies only to group health insurance policies. The services covered under current law are; inpatient services, outpatient services and transitional services.

There are certain 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.

### Proposed Coverage Changes

SB 308 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 308 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 health insurance premiums, and 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 \$27 to \$54 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 308, OCI surveyed health insurers' estimates of coverage costs. Actuarial projections provided indicate approximately a:

- **.6% to 1.2%, or \$27 to \$54 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 Mental Health Parity Act of 1996 mandated that group health insurance policies would no longer be allowed to set annual or lifetime dollar limits on mental health benefits. However, the MHPA's provisions do not apply to benefits for substance abuse or chemical dependency (i.e. AODA).
- According to MHPA, only the group health plans that offer mental health benefits must provide mental health coverage in their benefits package. In Wisconsin, according to s. 632.89, Wis. Stats., all group health plans in Wisconsin are required to provide mental health benefits.
- Since the enactment of federal MHPA (this did not include AODA coverage) health care premiums for group health insurance in Wisconsin increased approximately .4% or \$18 million.
- With the potential inclusion of AODA coverage in SB 308, average group health insurance premiums would increase an additional .2% - .8% or \$9 - \$36 million.

Since the enactment of the federal Mental Health Parity Act (MHPA)1996, the state health program adheres to most of the requirements proposed in SB 308, 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 150,000 employees covered by the state, the changes would increase costs between \$345,600 and \$3 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 become uninsured. (Currently, the federal MHPA includes an exemption if the cost of parity exceeds the 1% threshold) 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 George Klaetsch at 264-6239 if you have any questions regarding this report.

Sincerely,

Randy Blumer  
Deputy Commissioner