

SEPTEMBER 2003
NUMBER 1

TRENDS IN INSURANCE COVERAGE

Mental Health and Substance Abuse Parity in Vermont: What Did We Learn?

by Margo Rosenbach and Tim Lake

This brief is based on Mathematica's study of Vermont's mental health parity law enacted in 1998. The law, widely viewed as one of the most comprehensive in the nation, extended full parity to mental health and substance abuse services and required equal terms and conditions for dollar limits, service limits, and cost sharing. The study sought to determine how the implementation of parity affected major stakeholders: health plans, employers, providers, and consumers. Much of the analysis focused on the experiences of two health plans—Kaiser/Community Health Plan and Blue Cross Blue Shield of Vermont. Together, these plans covered nearly 80 percent of the privately insured population at the time parity was implemented. The findings reflect experiences during the first two to three years after implementation.

Parity: The Need and the Controversy

Historically, health insurers have been reluctant to cover mental health and substance abuse services on the same basis as general medical and surgical services. During the 1980s, many states required insurers to provide coverage for mental health services and to offer freedom of choice among providers. However, concerns about the adequacy of this coverage persisted because insurers imposed increased cost sharing or restrictive benefit limits.

In 1996, the federal government enacted the Mental Health Parity Act—a limited parity law that prohibited different dollar limits for mental and physical illnesses.

Thirty-three states passed parity laws that go beyond the federal mandate, including 19 that require full parity for mental health benefits (that is, dollar limits, service limits, and cost sharing). This parity legislation holds promise for improving access to care for many people with addictions or psychiatric conditions.

The adoption of full parity remains a controversial issue, however. Employers and insurers are concerned that a more generous benefit package for these services may significantly increase health insurance costs. Health care providers and consumers are concerned that the introduction of parity may accelerate the trend toward increased management of behavioral health services. To make sound decisions, legislators require more definitive information on the effects of parity on health care access, utilization, and spending.

Does Parity Work?

Before parity, Blue Cross Blue Shield of Vermont provided mental health and substance abuse services primarily through indemnity contracts; after parity, most members received services through a managed care carve-out. In contrast, Kaiser/Community Health Plan had a managed care system prior to parity; following parity, the health plan implemented programs that increased the use of partial hospitalization treatment and group therapy and reduced the use of inpatient treatment.

Vermont's experience provides the following lessons for policymakers to consider:

- **Employers did not drop coverage.** Less than one percent of the employers offering insurance coverage when parity went into effect 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.

- **Access to outpatient mental health services improved.** The percentage of users per 1,000 members increased six to eight percent across the two health plans.
- **Access to substance abuse treatment declined.** The percentage of users per 1,000 members decreased by 16 to 29 percent.
- **Consumer spending declined.** Consumers paid a smaller share of the total amount spent on mental health and substance abuse services following implementation of parity. For example, the share paid out-of-pocket by Blue Cross Blue Shield of Vermont members fell from 27 percent to 16 percent of total mental health/substance abuse spending. Among those with serious mental health conditions, the proportion spending more than \$1,000 out-of-pocket annually fell by more than half.
- **Health plan spending did not rise substantially.** Spending by Blue Cross Blue Shield of Vermont increased four percent following implementation of parity. In other words, the amount spent increased 19 cents per member per month.
- **Managed care controlled costs.** Both health plans relied on managed care to contain costs. They approved only a limited number of outpatient sessions at one time and required prior approval and concurrent review for inpatient/partial treatment. To receive approval for more sessions, providers had to set goals and document progress.
- **Consumers were largely unaware of benefit changes.** The low level of consumer awareness may have affected growth in access, utilization, and spending. Stakeholders felt that communication and education could have been better during the first year.

Reflections on the Experience

Stakeholders identified two areas in which early implementation could have been improved. First, they recommended proactive education campaigns about parity to raise awareness and avoid confusion.

They also suggested proactive—rather than reactive—strategies to ensure smooth transitions of care when health plans shift to more tightly managed provider networks.

By all accounts, parity in benefit design has been achieved in Vermont. But increased use of managed care for mental health and substance abuse services accompanied parity's implementation, introducing new issues related to service delivery. State officials have now turned their attention to monitoring the performance of health plans in delivering these services.

In this new environment, many now feel that obtaining parity in insurance benefits is only the first step toward improving coverage of mental health and substance abuse treatment.

STATES REQUIRING FULL PARITY AS OF AUGUST

Arkansas	Montana
California	New Hampshire
Colorado	New Jersey
Connecticut	New Mexico
Delaware	Oklahoma
Hawaii	Rhode Island
Louisiana	South Dakota
Maine	Vermont
Maryland	Virginia
Massachusetts	

Note: Full parity laws mandate that mental health benefits be included in all group plans and require parity in all respects.

The Substance Abuse and Mental Health Services Administration (SAMHSA) funded this evaluation, which included an implementation case study, an employer survey, and claims/encounter data analysis. For more information, contact Margo Rosenbach at (617) 491-7900, ext. 227, mrosenbach@mathematica-mpr.com. The full report is available at www.mathematica-mpr.com/PDFs/redirect.asp?strSite=vermontparity.pdf.

Mathematica® is a registered trademark of Mathematica Policy Research, Inc.

Visit our web site at www.mathematica-mpr.com

To Find Out More:
Communication Services
Phone: (609) 799-3535
Fax: (609) 799-0005

Princeton Office
PO Box 2393
Princeton, NJ 08543-2393
Phone: (609) 799-3535
Fax: (609) 799-0005

Washington Office
600 Maryland Ave., SW, Suite 550
Washington, DC 20024-2512
Phone: (202) 484-9220
Fax: (202) 863-1763

Cambridge Office
50 Church St., 4th Floor
Cambridge, MA 02138-3726
Phone: (617) 491-7900
Fax: (617) 491-8044