LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6393 **DATE PREPARED:** Feb 9, 2001
BILL NUMBER: HB 1381 **BILL AMENDED:** Feb 8, 2001

SUBJECT: Health Insurance Coverage of Substance Abuse Treatment.

FISCAL ANALYST: Jim Landers
PHONE NUMBER: 232-9869

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) The bill includes services for the treatment of substance abuse and chemical dependency under the coverage of services for mental illness that must have similar treatment limitations or financial requirements (parity) as other medical or surgical conditions for purposes of the state employees health plans. Therefore, the bill requires that the state employees health plans provide for parity of coverage for substance abuse and chemical dependency treatment, if mental health benefits are offered as part of the insurance coverage. (The introduced version of this bill was prepared by the Indiana commission on mental health.)

Effective Date: July 1, 2001.

Explanation of State Expenditures: (Revised) The bill requires the state employees health plans to provide for parity of coverage for substance abuse and chemical dependency treatment. The bill also specifies that the parity requirement applies to contracts for health services or health insurance entered into, delivered, or renewed after June 30, 2001. As a result, the bill is expected to impact the cost of the state's indemnity plan beginning January 1, 2002, and the cost of HMO contracts entered into by the state as of January 1, 2003.

Research suggests that parity requirements lead to an estimated 0.3% increase in premiums of Preferred Provider Organizations (PPO) and traditional indemnity plans and an estimated 0.04% increase in premiums of Health Maintenance Organizations (HMO). Based on this research, the premium cost incurred by the state in providing health insurance benefits to state employees could increase by approximately $78,000 in FY 2002 and $205,000 in FY 2003. Potentially, however, the impact of the parity requirement for the state health plans could be less than what is estimated by researchers. The state health plans currently provide coverage for substance abuse treatment that is in some cases superior to the baseline coverage that was employed by researchers in estimating the impact of a change from that baseline coverage to a condition of parity with coverage for other illness.

Background: The bill requires the state employees health plans to provide for parity of coverage for substance abuse and chemical dependency treatment. Presently, there are seven health plans available for state employees. One of these health plans is a traditional indemnity plan and the remainder are HMOs. While the state health plans generally provide some coverage for substance abuse and chemical dependency treatment, it appears that they generally do not provide for parity in coverage for such treatment with treatment of other illnesses. The parity requirement of the bill could, as a result, have an impact on future costs faced by health plans providing health benefits to state employees. These additional costs would presumably be passed through to the state and state employees via higher premiums and enrollment fees.

The bill also specifies that the parity requirement applies to contracts for health services or health insurance entered into, delivered, or renewed after June 30, 2001. The current 3-year contracts with the HMOs providing health benefits to state employees were entered into on January 1, 2000. Thus, the parity requirement would not impact the benefits provided by HMOs until the next contract period beginning January 1, 2003. Presumably, however, the bill could impact the cost of the state's indemnity plan beginning as early as January 1, 2002, when the next open enrollment period is completed. As a result, any increase in premium cost during FY 2002 would be attributable to changes in coverage under the state's indemnity plan. Cost increases in FY 2003 would be attributable both to changes in coverage under the state's indemnity plan and in coverage under the new HMO contracts.

Research by the U. S. Substance Abuse and Mental Health Services Administration (SAMHSA) suggests that requiring health plans to provide for parity in coverage for substance abuse treatment will lead to an estimated 0.3% increase in premiums of Preferred Provider Organizations (PPO) and traditional indemnity plans and an estimated 0.04% increase in premiums of Health Maintenance Organizations (HMO). The price effects estimated by (SAMHSA) were based on the following benefit changes:(1) For inpatient hospital treatment of substance abuse, a change from the baseline benefits of up to 30 covered days and 20% coinsurance to full parity benefits of unlimited covered days and 20% coinsurance; and (2) for outpatient treatment of substance abuse, a change from the baseline benefits of up to 20 treatment visits and 50% coinsurance to full parity benefits of unlimited treatment visits and 20% coinsurance. It is important to note that the estimated price effects of the research may overstate the impact that the parity requirement in the bill will have on the costs of the state employee health plans. A review of the substance abuse treatment benefits of the state health plans reveals that some of the plans currently exceed the baselines used in the research for covered treatment days, covered treatment visits, and/or coinsurance levels.

The total costs of the state health plans <u>without the substance abuse treatment parity requirement</u> are estimated to be as follows: For the traditional indemnity plan, \$55.86 M in FY 2002 and \$59.38 M in FY 2003; and for the HMO's, \$187.57 M in FY 2002 and \$199.39 M in FY 2003. These estimates are based on November 2000 enrollment levels for each state health plan and the CY 2001 premium levels for each health plan. The estimates assume that enrollment during FY 2002 and FY 2003 will remain the same in terms of the total count of enrollees and the distribution of enrollees among the plans. As well, the estimates assume a 3.15% inflation rate in plan costs from January 1, 2001, to July 1, 2001; and a 6.3% inflation rate in plan costs from FY 2002 to FY 2003. The average annual inflation rate for medical care services since 1990 is equal to 6.3%.

As imposed under the bill, <u>the substance abuse treatment parity requirement</u> would increase total premium costs for the state health plans by an estimated \$83,793 in FY 2002 and \$219, 463 in FY 2003. The increase in FY 2002 is attributable only to the state's indemnity plan. Also, this assumes the price effects estimated by SAMHSA will occur in full. By agreement with the state employees, the state agrees to pay 93.5% of any increase in the total premiums for both single and family coverage during the life of the agreement.

Employees will pick up the remaining 6.5% of any increase. Consequently, the state share of the increase in premium cost is estimated to be $78,346 in FY 2002 and $205,198 in FY 2003.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: The Costs and Effects of Parity for Mental Health and Substance Abuse Insurance Benefits, Substance Abuse and Mental Health Services Administration, U.S. Department of Health and Human Services, March 1998. Keith Beesley, State Department of Personnel, 233-9342.