ISSUE BRIEF

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TRENDS IN INSURANCE COVERAGE

Mental Health and Substance Abuse Parity in Vermont: Employer Perspectives

by Margo Rosenbach

This brief is based on Mathematica's study of Vermont's mental health and substance abuse 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. It applied to all employers, regardless of size. The study examined both large and small employers' responses to and attitudes toward the law. The findings provide important insights into designing and implementing parity laws at the state and national levels.

Parity Faced Employer Opposition

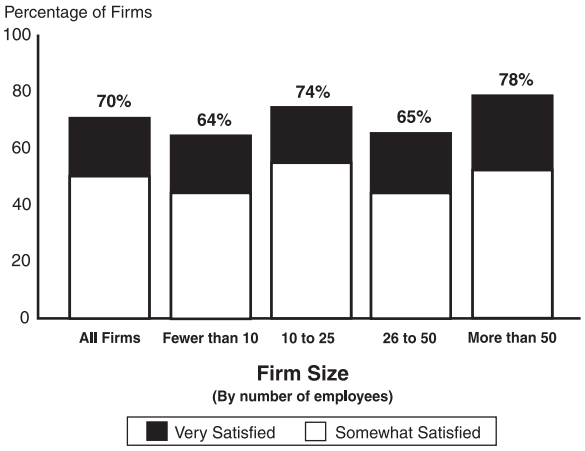
Across the nation, employer groups typically have opposed mental health and substance abuse parity laws. Their reasons have included concerns about the cost of expanding coverage and possible limitations on their ability to tailor health insurance coverage to their employees' needs.

Small businesses are especially concerned about the effects of parity because they tend to pay higher premiums than larger firms. They also have faced larger premium increases over time.

Most Vermont Employers Satisfied

Mathematica's study shows that most employers in the state of Vermont were satisfied with the parity law overall. Although two-thirds of those surveyed

Overall Satisfaction with the Vermont Parity Law, by Firm Size



reported that they were concerned about parity's effect on health care costs, they did not drop coverage or self-insure after the law took effect. This is consistent with evidence that Vermont's parity law had a negligible impact on health care costs during the first couple of years after it was enacted.

Perhaps the most striking finding to emerge from the study is the limited knowledge Vermont employers have about the parity law and its effects. Nearly half of the fully insured employers in Vermont had not heard of parity. Most employers want more information and increased education about parity.

Implications for States

Vermont's experience provides the following lessons for other states to consider as they design similar initiatives:

- **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.

- **Factors other than parity drove increases in health care costs.** Only 12 percent of the employers surveyed thought parity was a significant factor in rising health insurance premiums in the state. Most employers reported that recent increases were driven primarily by higher use of medical/surgical and pharmacy services.
- **Many employers were unaware of the new law**. Almost half of the state's fully insured employers had not heard about the new law, although very small businesses had the highest awareness. Many employers who had heard about parity reported they did not understand it very well.
- **Employers who knew about the new law were generally satisfied with it.** Two-thirds of those who knew about parity were satisfied with it. Many valued parity's potential to improve care and had seen firsthand their employees' need for this type of coverage. Some also thought parity might make employees more productive.
- **More information about the law is needed.** When asked for their suggestions about improving parity, employers expressed a need for more information, both for employers and employees.

Reflections on the Experience

Employers reported several areas that could be improved. First, they clearly wanted to know more about parity. Many had a limited understanding of the law's effects and wanted information about costs, administration of benefits, access to care, and other areas. Second, they saw a need to raise the public's awareness of parity and felt that many employees remained unaware of the law and the expanded benefits.

Employer satisfaction with the parity law was relatively high in Vermont, especially among the larger firms (more than 50 employees). Employers were particularly satisfied with the prospect of parity to increase their employees' access to treatment for addictions and psychiatric conditions.

Parity did not result in changes in the availability of employer-sponsored insurance in Vermont, as some had predicted, largely because the costs attributable to parity were small. But the recent managed care environment introduces new issues and challenges for the state, employers, and employees that will require continued education and monitoring.

ABOUT THE EMPLOYER SURVEY

From August to November 2000, Mathematica conducted telephone interviews with over 800 Vermont employers. The survey examined:

- Awareness of the law
- Assessment of its effects
- Satisfaction with the law
- Recommendations for improving the law in the future

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.

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