**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** House Bill 713

**SHORT TITLE:** Mental Health/Chemical Dependency Parity.

**SPONSOR(S):** Representative Martha Alexander.

**ENTITIES AFFECTED:** Local governments within North Carolina providing health benefits to their employees, and retired employees when applicable, through fully insured group programs underwritten by commercial insurers, hospital and medical service corporations, and health maintenance organizations (HMOs). Local governments include counties, cities and towns, as well as other units of local government such as alcoholic beverage control boards, soil and water conservation districts, libraries, county hospitals, councils of government, airport authorities, water and sewer districts, waste management commissions, economic development commissions, housing authorities, area mental health boards, health departments, jail commissions, welfare departments, sanitary districts, planning commissions, tourism boards, auditorium commissions, fire departments, transportation authorities, ambulance services, and recreation authorities. The North Carolina County Commissioners Association, the North Carolina League of Municipalities, and Electricities of North Carolina could also be affected by the bill.

**FUNDS AFFECTED:** Local government expenditures to the extent that local government employers provide group health benefits for their employees and retired employees and their covered spouses and dependent children on a non-contributory or partially contributory basis. Local government employees and retired employees would also be affected to the extent that they provide health benefits for themselves and their covered spouses and dependent children on a fully or partially contributory basis.

**BILL SUMMARY:** The bill requires commercial insurers, hospital and medical service corporations, and health maintenance organizations (HMOs) underwriting group health benefits to cover the necessary care and treatment of mental illness and chemical dependency under no less favorable conditions than benefits for physical illnesses and injuries. Mental health and chemical dependency benefits would consequently be subject to the same deductibles, copayments, coinsurance rates and limits, annual and lifetime limits, and any other financial limitations that are applicable to physical illness.

**EFFECTIVE DATE:** When the bill becomes law. The bill applies only to contracts issued, delivered, or renewed on or after January 1, 2000.

**ESTIMATED IMPACT ON ENTITIES:** In accordance with G. S. 120-30.45 of the Local Government Fiscal Information Act, no reliable dollar estimate of the fiscal effect of the bill upon local governments is currently available. Such a finding is based upon the fact that Part 4 (Personnel) of Article 5 of Chapter 153A of the General Statutes pertaining to county administration and Part 4 (Personnel) of Article 7 of Chapter 160A of the General Statutes pertaining to city and town administration do not require local government employers to offer health benefits to their employees and retired employees. In addition, there is no statutory requirement that local government employers pay any part of the cost of health benefits that they do provide for their employees and retired employees. A further complicating factor in arriving at a dollar estimate of the impact of the bill upon local governments is that for those local employers that currently provide all or any part of the cost of health benefit coverage for their employees, and retired employees when applicable, there is no requirement that such

employers continue the same financing percentage if enactment of House Bill 713 were to substantially increase their health benefit costs. In like manner, these same employers would not be required to keep in tact their existing level of health or any other benefits other than retirement if enactment of the bill were to substantially increase the cost of health benefits for their employees and applicable retired employees.

An additional factor affecting the fiscal impact of House Bill 713 is that local governmental employers providing health benefit coverage for their employees and retired employees on a self-insured basis are not covered by the provisions of the bill. Using the latest census of the North Carolina Local Governmental Employees' Retirement System as the only available comprehensive baseline data representing most all local government employees and retired employees, there are over 107,000 employees of the state's 839 counties, cities and towns, and other local governmental employers. There are an additional 25,000 retired employees from the same local governmental employers. Although there is no existing information compiled on how many of all of these employers provide health benefits to their employees and retired employees, information furnished by the North Carolina Association of County Commissioners indicates that 57 counties and related other county employers provide health benefits to some 22,800 of their employees and retired employees on a self-insured basis through a shared health insurance risk pool. Another 12,200 employee spouses and dependent children are also covered by this self-insurance arrangement. The North Carolina League of Municipalities has also furnished information that 399 cites, towns and related municipal employers provide health benefits to some 13,900 of their employees and retired employees on a self-insured shared health insurance risk pool basis. An estimated additional 11,600 employee spouses and dependent children are also provided health benefits through this shared risk pool. None of these 456 local government employers include the state's largest counties, municipalities, and related local governmental employers, which should be able to self-insure health benefits for their own employees without having to join a shared risk pool with other local government employers. Although the shared self-insured health benefit risk pools sponsored through the County Commissioners Association and the League of Municipalities covers 54% of the total number of assumed local government employers within North Carolina, only about 27% of the number of employees and retired employees of these employers is covered by the self-insured arrangements. The remaining 46% of local government employers and more importantly the remaining 73% of local governmental employees and retired employees are either not covered by employer-sponsored health benefits, or have their health benefits self-insured without sharing risks with other local government employers and not covered by the bill, or have their health benefits underwritten by commercial insurers, hospital and medical service corporations, and health maintenance organizations (HMOs) which are covered by House Bill 713. Comprehensive health benefit information on these remaining employers and their employees and retired employees is not currently available.

Aside from the foregoing reasons why a reliable dollar estimate is not currently available for the bill's impact upon local governments, other mental health cost circumstances further complicate a reliable estimate. Using the latest census of the Local Governmental Employees' Retirement System as assumed baseline data reveals that some 48% of the employees in the System are female. For retired employees, 45% of the total number of retirees is female. Average age for employees in the System is 41 years and 68 years for retired employees. In comparison, the census from the State Employee Health Benefit Plan, covering some 267,000 employees and 98,000 retired employees indicates that more than 60% of these enrollees are female with an average age of 43 years for employees and 69 years for retired employees. Data published by the U.S. Public Health Services' Agency for Health Care Policy and Research, by the National Institute of Mental Health, and by the Archives of General Psychiatry reveal that females are the most frequent users of mental health services. Such data shows that depression, phobias, anxiety, panic disorders, and other mood disorders are almost twice as common among females than males. Substance abuse and antisocial personality disorders are, on the other hand, more common among males. The published data further shows that the use of mental health services increases with age for both females and males. Such findings would generally indicate that mental health costs for local government employees as a whole should be less than are mental health costs under the State Employee Health Benefit Plan given the larger female and older population of the State Employee Plan. The State Employee Plan implemented mental health parity as generally contained in House Bill 713 for its indemnity program in 1992, along with a

mental health case management program which is also contained in the bill. For the four years preceding the Plan's implementation of mental health parity and case management for its indemnity program, mental health claim costs averaged of 6.5% of the program's total gross claims. For the five years since the Plan's indemnity program implemented mental health parity and case management, mental health claims have averaged only a little more than 3.5% of the program's total gross claims. Average per capita mental health claims dropped approximately 19% in the Plan's indemnity program between the two periods of time. Average total per capita gross claim costs for the Plan's indemnity program increased some 50% between the two time periods. However, since all local government employers are not covered in one comprehensive plan like the State Employee Plan, all local government employers would not be expected to have the same favorable claims experience regarding mental health costs as has the State Plan. In fact, some adverse claims experience could be expected for the smallest local government employers who do not choose to pool their employees' health benefit risks with other local government employers. Effective October 1, 1997, the State Employee Plan further implemented chemical dependency parity as generally contained in House Bill 713, along with case management as is also contained in the bill. Doing so removed the Plan's limits on the payment of substance abuse claims ($200 per day except for medical detoxification, $8,000 per year, and $25,000 lifetime). The 1998-99 fiscal year will be the first year in which the financial effects of chemical dependency parity, along with case management, are expected to be realized. For the four years preceding the change, however, substance abuse claim payments only averaged a little more than 0.3% of the Plan's total annual gross claim payments.

**ASSUMPTIONS AND METHODOLOGY:** Upon receiving a request for a fiscal note under the Local Government Fiscal Information Act for proposed mental health and substance abuse parity legislation in June, 1997, discussions were held between the Fiscal Research Division and officials of the North Carolina Association of County Commissioners and the North Carolina League of Municipalities. These discussions pointed out that comprehensive information concerning local governmental employers' health benefits for their employees and retired employees was not currently available. It also became apparent during these discussions that a survey of all local government employers would be necessary to gather the data needed for the preparation of a local government fiscal note on the bill. Consequently, a 10-page survey was prepared by the Fiscal Research Division and sent to the Executive Directors of the County Commissioners Association and the League of Municipalities. The survey for each unit of local government included requested information on each fee-for-service indemnity plan, health maintenance organization (HMO), preferred provider organization (PPO), and point-of-service plan (POS) offered by local government employers, whether the plans were self-insured or fully insured through a commercial insurer, a hospital and medical service corporation, or a health maintenance organization (HMO). For self-insured plans using stop-loss insurance for large claims, details of the insurance contracts were requested together with an identification of all third party administrators, consultants, and consulting actuaries. Requested survey information included annual deductibles, coinsurance, and copayments paid by plan members within and outside of selected provider networks. Coinsurance, lifetime, and other benefit limits, including those on mental health and substance abuse, were also requested in the survey. Each plan's membership data was requested for employees, retired employees, former employees covered by the federal Consolidated Omnibus Budget Reconciliation Act of 1989 (COBRA), and enrolled spouses and dependent children of each of these categories of employees. Age and gender information of enrolled plan members was also requested, along with the number of contracts by type (individual only, individual and spouse, individual and child, individual and children, and individual and family) for both primary Medicare-eligible plan members and plan members who were not eligible for Medicare to be the primary payer of health benefits. Monthly premiums for each of the separate contract types were requested in the survey in addition to the percentages of the premiums paid by local government employers. A final piece of information requested in the local governmental employer survey included mental health and substance abuse utilization statistics, including the number of patients, admissions, and lengths-of-stay for all inpatient admissions and the number of patients and visits for all outpatient utilization. Billed charges, allowed charges, and paid charges for mental health care were also requested along with the methods by which mental health care utilization was being managed.

In response to the requested survey, the Executive Directors of the County Commissioners Association and League of Municipalities, maintained that the proposed legislation "…does not impose a requirement on local governments that triggers the statutory fiscal note requirement." Additional concerns over timeliness and accuracy of survey results were also noted. Consequently, further action on a health benefit survey of all local government employers did not appear to be warranted.

Assumptions used in the preparation of this fiscal note come from a March, 1999, census of membership in the North Carolina Local Governmental Employees' Retirement System. This census reveals:

| Number of Employees | Cities & Counties | Other Towns | Local Employers | Total |
|---|---|---|---|---|
| General Employees | 45,339 | 30,011 | 12,730 | 88,080 |
| Law Officers | 5,743 | 9,400 | 122 | 15,265 |
| Total | 51,082 | 39,411 | 12,852 | 103,345 |

| Number of Retirees | Cities & Counties | Other Towns | Local Employers | Total |
|---|---|---|---|---|
| General Employees | 9,824 | 10,953 | 2,610 | 23,387 |
| Law Officers | 1,364 | 2,608 | 73 | 4,045 |
| Total | 11,188 | 13,561 | 2,683 | 27,432 |
| Number of Employers | | | | |
| General Employees | 99 | 373 | 347 | 819 |
| Law Officers | 100 | 338 | 19 | 457 |

The latest actuarial valuation of the Local Governmental Employees' Retirement System as of December 31, 1997, provides the following age and gender characteristics for the System's membership:

| Age | Employees | Retirees | Total |
|---|---|---|---|
| 29 & Under | 17.0% | 0.0% | 13.8% |
| 30-44 | 45.9% | 2.7% | 37.5% |
| 45-54 | 25.7% | 8.8% | 22.5% |
| 55-64 | 10.1% | 23.6% | 12.7% |
| 65 & Over | 1.3% | 64.9% | 13.5% |
| Gender | | | |
| Male | 51.7% | 55.2% | 52.3% |
| Female | 48.3% | 44.8% | 47.7% |

**SOURCES OF DATA:**

(1) Report on the Actuarial Valuation of the North Carolina Local Governmental Employees' Retirement System Prepared as of December 31, 1997, by Buck Consultants;

(2) Active Employee and Retired Employee Membership Files of the North Carolina Local Governmental Employees' Retirement System as of March, 1999, Prepared by the Department of State Treasurer, Retirement Systems Division;

(3) 1998-99 Membership Data from the North Carolina Association of County Commissioners Health Insurance Trust Prepared by Marsh, Inc.;

(4) 1998-99 Health Insurance Membership Data from the Municipal Insurance Trust Administered by the North Carolina League of Municipalities;

(5) Mental Health Claim Cost Reports from the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan Prepared by Blue Cross and Blue Shield of North Carolina;
(6) Claims Experience Reports and Membership Reports from the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan Prepared by Blue Cross and Blue Shield of North Carolina;
(7) Use and Expenditures for the Treatment of Mental Health Problems from the National Medical Expenditure Survey, Research Findings 22, Agency for Health Care Policy and Research, Public Health Service, U. S. Department of Health and Human Services, 1994;
(8) Lifetime and Twelve Month Prevalence of Psychiatric Disorders in the United States from the National Comorbidity Survey, Archives of General Psychiatry, American Medical Association, January, 1994;
(9) Survey Sketches New Portrait of the Mentally Ill, Wall Street Journal, January 14, 1994;
(10) Focus on Behavorial Benefits, Employee Benefit Plan Review, Charles D. Spencer & Associates, December, 1996; and
(11) Women and Mental Health:Issues for Health Reform, Commonwealth Fund Commission, March, 1995.

**TECHNICAL CONSIDERATIONS:** None.

**FISCAL RESEARCH DIVISION 733-4910**
**PREPARED BY:** Sam Byrd

**APPROVED BY**: Tom Covington

**DATE:** Monday, April 19, 1999


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