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Changes in Health Care Financing & Organization (HCFO)

findings brief

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Financial Relief: The Effect of State Mental Health Parity Laws on Families of Children with Mental Health Care Needs

key findings

Families of children with mental health care needs who live in states with mental health parity laws have lower out-of-pocket spending and are more likely to view their spending as reasonable compared with those living in non parity states. This suggests that mental health parity laws provide important financial benefits to families of children with mental health care needs.

Historically, if health insurers have offered mental health benefits, it has often been at a lower level than benefits for other health care. To help overcome this disparity in coverage, Congress passed the Mental Health Parity Act (P.L. 104-204) in 1996. This law barred health insurers from imposing annual or lifetime dollar caps on coverage for mental health care, but did not address other differences in coverage.[1] Due to its limited scope, this policy was viewed largely as a symbolic change. Federal efforts to expand it have stalled over the intervening decade. Inaction at the federal level spurred 37 states to pass their own parity laws. These state initiatives range from mimicking the federal law to broad reform efforts mandating comprehensive mental health parity.

In 2006, HCFO funded Susan Busch, Ph.D., and Colleen Barry, Ph.D., at Yale University to examine the impact of state mental health parity laws on children and their families. While a number of prior studies investigated the effects of state mental health parity laws, previous studies focused on the adult population. Children with mental health care needs, Busch argues, have significantly different needs and characteristics than their adult counterparts. Over 18 months, Busch and Barry studied the impact of state parity laws on out-of-pocket spending of families with children needing mental health care. The research team considered a sample of children needing mental health care and compared out-of-pocket spending and other measures of financial burden for families in parity and non-parity states.

Results indicate that state mental health parity laws lowered the risk that families with children needing mental health care would incur large out-of-pocket costs. Those living in parity states were less likely to have out-of-pocket spending greater than $1,000. These results highlight the value of parity laws as a tool for protecting against the risk of particularly high out-of-pocket costs for families with children needing mental health care.

Robert Wood Johnson Foundation

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AcademyHealth

Description of the Project

Data

The researchers used data from the State and Local Area Integrated Survey's National Survey of Children with Special Health Care Needs, a large nationally representative sample of children whose parents report that they had more health care needs or disability than other children, and that the their condition is expected to last for at least 12 months. The sample was limited to children with only private insurance coverage, since Medicaid programs are not affected by parity laws. Due to data limitations, the authors were unable to identify families in self-insured plans, which are exempt from state parity laws under the Employee Retirement Income Security Act (ERISA).[2]

Data on state parity laws were obtained from the National Alliance for the Mentally Ill website and validated through other sources.[3] The researchers used moderately strict criteria to define parity states. For example, they do not include those states with parity laws that only applied to state employees or states with laws that mirror the federal law as parity states in this study. Twenty-three states had mental health parity laws that fit the authors' criteria and corresponded to the time period covered in their data. The authors used instrumental variable estimation controlling for detailed information on a child's health and functional impairment. They compared those in parity and non-parity states and those needing mental health care with other special needs children.

Variables

Busch and Barry measured financial protection in four ways (all self-reported by families):

1) Whether total out-of-pocket medical spending exceeded $1,000 (yes or no);
2) Whether the child's health care caused financial problems (yes or no);
3) Whether a family required additional income to cover the child's medical expenses (yes or no); and
4) Whether a family considered out-of-pocket spending for care reasonable (never/sometimes or usually/always).

Utilization was measured based on whether the families reported that the child received all necessary mental health care. While this provides some measure of utilization, it is limited in that it provides no information on the relative need for care, the level of utilization, or whether care was provided in the primary care setting or in the specialty mental health setting.

Researchers controlled for child and family characteristics unrelated to state mental health parity laws. These characteristics included the child's age, gender, race, whether the interview was conducted in a language other than English, whether the mother had only a high school education or less, and the number of adults in the household. Disease severity and disease characteristics were also controlled for. Disease severity was based on responses to several survey questions.[4]

Findings

Approximately half of the children with special health care needs in the sample lived in a state with a mental health parity law, and more than 20 percent reported needing mental health care.[5] Fourteen percent of families spent more than $1,000 annually out-of-pocket on their child's care; 28 percent found out-of-pocket spending on their child's care "never or rarely reasonable." More than 17 percent of families reported financial problems due to their child's health care, and more than 14 percent needed additional income to care for their child. [6]

Busch and Barry found that families of children needing mental health care had greater financial burden than those with children needing other types of special health care. This burden was significantly less for families living in states with a mental health parity law compared with families in non parity states.[7] Parity laws reduced all four measures of financial burden. For example, in parity states about 30 percent of families with children needing mental health care report that out-of-pocket spending was never or rarely reasonable. This number increased to 41 percent in non parity states. Minimal differences in whether the child received needed mental health care were observed between parity states and non-parity states.

- Estimates show that the probability that a family with a child needing mental health care would have annual out-of-pocket spending that exceeds $1,000 is 21 percent for families living in parity states, as compared to 28 percent for those in non-parity states.
- Parity reduces out-of-pocket spending: Families with a child needing mental health care are more likely to have out of pocket expenses exceeding $1000 in states without parity laws.
- Families in parity states are ten percentage points less likely to report that their child's mental health care has caused financial problems compared with families in non-parity states (35 versus 25 percent).
- Parity reduces reports of financial problems: Families in states without parity laws (35 percent) are more likely than those living in parity states (25 percent) to report that their child's illness has caused financial problems.

Policy Implications

Evidence from this study indicates parity laws are beneficial to those in need of mental health care. The reduction in the economic burden of having a child with mental health care needs is substantial. For example, the authors estimate that parity laws can reduce the share of families in this population spending greater than $1000 out-of-pocket on their child's care by 33 percent.

The authors did not find that these laws affected mental health care utilization. Yet, Busch cautions that the definition of utilization in this study provides little detail, and may not be an adequate representation of actual service use.

This study's finding that parity laws may ease a family's financial burden is important given evidence of the substantial economic toll of having a mentally ill child. In other work, Busch and Barry have found that families with children with mental health care needs are more likely to cut work hours, to quit work, and to spend more time arranging their child's care, compared to families with a child with other special health care needs.[8] Developing policies to address the economic burden on such families should be a priority for policymakers.

Endnotes

1 Public Law 104-204. "Mental Health Parity Act." September 29, 1996. Also see: http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=104_cong_public_laws&docid=f:publ204.104.pdf.

2 Busch and Barry explore the effect of ERISA exemptions on state parity laws in a separate article, "New Evidence on the Effects of State Mental Health Mandates," Yale University working paper, 2007.

3 Validation sources included the American Psychiatric Association, National Mental Health Association, and the National Council of State Legislatures. For more detailed information on these sources, please see the original article, Barry, C. L., and S. H. Busch. "Do State Parity Laws Reduce the Financial Buren on Families of Children with Mental Health Care Needs?" *HSR*, Vol. 42, No. 3, Part I, June 2007.

4 For specific information on the severity variable, please see Barry, C. L., and S. H. Busch. "Do State Parity Laws Reduce the Financial Buren on Families of Children with Mental Health Care Needs?" *HSR*, Vol. 42, No. 3, Part I, June 2007.

5 Ibid.

6 Ibid.

7 Ibid.

8 Busch, S.H. and C.L. Barry. "Mental Health Disorders in Childhood: Assessing the Burden on Families," *Health Affairs*, Volume 26 No 4, July August 2007.