Ensuring Solutions to Alcohol Problems
THE GEORGE WASHINGTON UNIVERSITY MEDICAL CENTER

Policy Brief 1

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This is the first in a series of policy briefs issued by Ensuring Solutions to Alcohol Problems.

Improving Private Insurance Alcohol Treatment Benefits Can Save States Money

Problem drinking exacts a $9.2 billion toll on state budgets each year – greater than the costs of either illicit drugs or tobacco.[1] Studies in 11 states show that this high fiscal burden can be substantially reduced by bringing private insurance coverage for alcohol problems in line with coverage for other illnesses.

Although 80 percent of people who have alcohol use disorders work, and most individuals who seek treatment for addiction have health insurance through their employers, their health plans cover treatment for only a few. Parity – health insurance that provides coverage of treatment for mental illnesses and substance abuse equal to coverage for other illnesses – could enable many more people to recover from their alcohol problems while resulting in significant savings to states and businesses.

IMPACT OF PARITY

An extensive Ensuring Solutions analysis of 11 state studies on parity shows that its cost to insurers is negligible – *raising annual premiums just 0.2 percent*.

"The cost of parity is comparatively small when compared to overall health expenditures and when spread out over all enrolled members," concluded California's State Legislative Analyst's Office after reviewing health insurance coverage of substance abuse treatment.[2] Mandating parity would not place an undue burden on businesses[3] that offer health insurance to their employees.[4] The analysis shows that:

- Equitable coverage reduces pressures on financially distressed states' budgets (and the tax burden to states' citizens and businesses). Oregon, for example, found the state saves $5.62 in tax-supported health, corrections and welfare costs for every state dollar spent on people who complete treatment.[5]
- Parity increases the number of people who receive treatment, thereby reducing their long-term cost to the state. In addition, more get treatment as outpatients and inpatients, while the length of (more expensive) hospital stays is sharply reduced.
- The benefits of mandatory employment-based insurance parity are substantial. A North Carolina legislative report concludes: "Studies from several states have consistently shown that appropriate treatment of chemical dependency results in a significant reduction in medical claims, absenteeism, and disability; an increase in productivity; and a healthier and safer environment for all employees."[6]
- According to a PricewaterhouseCoopers actuarial analysis, the cost of parity to individual businesses goes down sharply when all or most businesses in a state are required to have equal coverage.[7]

BURDEN ON STATES

Without parity, states and taxpayers pick up the costs of untreated alcohol problems. A 2001 study by the National Center on Addiction and Substance Abuse (CASA) of the impact of substance abuse nationally found that "the brunt of failure to prevent and treat substance abuse and the cost of coping with the wreckage of this problem falls most heavily on the backs of governors and state legislatures across America." As the New Jersey chapter of the National Council on Alcohol and Drug Dependence has pointed out, limits on alcohol treatment, "combined with the fact that drug abuse is a chronic, recurrent condition, cause insurance benefits to be easily exhausted. The result is that privately insured individuals end up turning to the public sector for treatment which increases costs to federal, state, and local governments."[9] Citizens and businesses pay $9.2 billion in taxes annually to pay for alcohol-related problems.[10] This public burden is difficult for states and taxpayers to bear in these times of distressed state budgets.

THE PARITY STUDIES

In recent years, many states have taken steps to require businesses that offer health insurance for their employees to cover treatment equitably. Thirty-eight states require equitable coverage for some or all mental illnesses. Seven states also require equal coverage for treatment of alcohol-related problems.[11] To aid their consideration of substance abuse parity legislation, 11 states conducted studies of the costs and impact of equitable coverage of treatment for alcohol and other drug problems.[12]

The parity reports recognize that states have a significant financial, social and political interest in preventing and treating the disease of alcoholism and other alcohol-related problems.[13] Overall, the parity studies recommended including substance abuse in parity. "A state requirement is the only real option that will accomplish the objective of improved mental or nervous coverage at a reasonable premium cost," concluded Ronald E. Bachman, Principal, PricewaterhouseCoopers.[14] The experts found it is more cost-efficient and is easy to include with mental health coverage, resulting in increased productivity, saving tax dollars, fewer hospitalizations, shorter inpatient stays and the use of less expensive outpatient services.

CREATING BALANCE

CASA reports that each American pays $227 per year in state taxes to deal with the burden of substance abuse and addiction.[15] By removing financial barriers to getting treatment, states have found a better balance: improving private insurance alcohol treatment benefits would even out the public-private distribution of costs incurred by alcohol problems, thereby saving tightly stretched taxpayer dollars.

"Parity creates a level playing field for all insurers and provides adequate risk-sharing over a large population to minimize any premium increase due to the claims experience of any one group," concluded the New Jersey task force.[16]

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RIPPLE EFFECT

Minnesota found that almost 80 percent of the costs of substance abuse treatment were offset in the first year following treatment due to decreased use of hospital, emergency room and detoxification services and reduced arrests.[17] California found that criminal activity declined by 66 percent, drug and alcohol use declined by 40 percent, and hospitalizations declined by 33 percent following treatments.[18]

THE STATES' REPORTS ON INSURANCE PARITY

Alaska: Alaska Mental Health Parity Task Force. 1999. *Mental Health Parity Task Force Report: Final Report*. Anchorage, AK.

California: Legislative Analyst's Office, California State Legislature. Unpublished. Review of Health Insurance Coverage of Substance Abuse Treatment, Pursuant to Chapter 305, Statutes of 2000 (SB 1764, Chesbro). Sacramento, CA.

Delaware: Giesa, K., Podeschi, D., Hajek, M., & Sternback, K. 2001. *Assessment of Delaware Mental Health Parity*. Delaware Health Care Commission. William M. Mercer, Inc.

Hawaii: Mental Health Task Force. 2000. *Report of the Mental Health Task Force to the Twenty-First Legislature. Submitted Pursuant to Act 243, Session Laws of Hawaii*. Honolulu, Hawaii.

Maine: Maine Bureau of Insurance. 2002. *A Report to the Joint Standing Committee on Banking and Insurance of the 120th Maine Legislature. Review and Evaluation of LD 1627, an Act to Ensure Equality in Mental Health Coverage*. Augusta, ME.

New Jersey: Bachman, R.E. 2001. *An Actuarial Analysis of Full Parity for Mental Health and Substance Abuse Benefits in the State of New Jersey*. Atlanta, GA: PricewaterhouseCoopers L.L.P.

New York: Bachman, R.E. 2002. *An Actuarial Analysis of Comprehensive Mental Health and Substance Abuse Benefits for the State of New York*. Atlanta, GA: PricewaterhouseCoopers L.L.P.

North Carolina: North Carolina Legislative Research Commission. 2000. *Mental Health and Chemical Dependency Parity: Report to the 2000 Session of the 1999 General Assembly of North Carolina*. Raleigh, NC: Legislative Research Commission.

Ohio: Ohio Department of Alcohol and Drug Addiction Services. 1996. *Ohio Cost Effectiveness Study*. Columbus, OH: Ohio Department of Alcohol and Drug Addiction Services.

Oregon: Oregon Legislative Administration Committee Services. 2000. *Joint Interim Task Force on Mental Health and Chemical Dependency Treatment: Final Report*. Salem, OR.

Vermont: Bachman, R.E. 1997. *An Actuarial Analysis of Comprehensive Mental Health and Substance Abuse Parity and Other Options for Improved Coverages in the State of Vermont*. Atlanta, GA: Coopers & Lyband L.L.P.

The Ohio Department of Alcohol and Drug Addiction Services found that one year after participants completed treatment, "absenteeism was reduced by 61 percent, incomplete work by 37 percent, and mistakes in work by 36 percent," according to Director Luceille Fleming.[19]

A HEALTHIER APPROACH

The report by the Alaska task force explicitly recognizes the connections between mental illnesses and addictions: "There is a high incidence of substance abuse among the mentally ill, and unless both disorders are treated, positive outcomes for either are unlikely." CASA, moreover, reports that only $10 of the per capita state tax payment funds alcohol treatment or prevention programs.[20] Establishing parity, however, puts greater emphasis on treatment and prevention. The graphs on the following page show CASA's findings indicate that allocations for treatment and prevention of alcohol problems in California and New Jersey are a significantly small portion of overall state alcohol-related spending. Furthermore, the majority of substance abuse funding is spent dealing with the effects of substance abuse, such as the demands on the legal system, rather than on treatment and prevention.

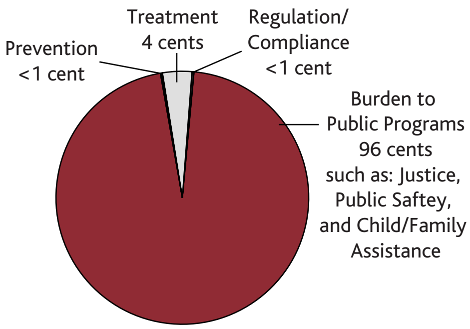
As the director of the Ohio Department of Alcohol and Drug Addiction Services observed, improving access to treatment effects change measured by "real numbers, real people, [and] real benefits to the employer, to the employee, and to ... taxpayers."[21]

Improving Private Insurance Alcohol Treatment Benefits Can Save States Money

California State Taxes and Substance Abuse

(State population: 32.2 million)

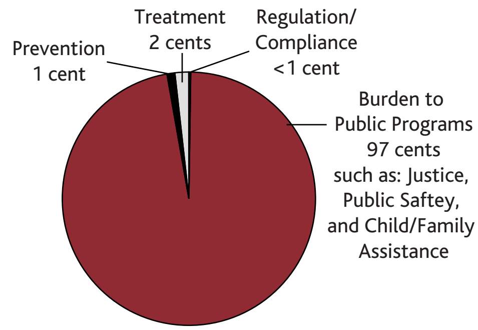
The Substance Abuse Dollar



New Jersey State Taxes and Substance Abuse

(State population: 8 million)

The Substance Abuse Dollar



1 National Center on Addiction and Substance Abuse at Columbia University (CASA). 2001. *Shoveling Up: The Impact of Substance Abuse on State Budgets*. New York, NY.

2 Legislative Analyst's Office, California State Legislature. Unpublished. Review of Health Insurance Coverage of Substance Abuse Treatment, Pursuant to Chapter 305, Statutes of 2000 (SB 1764, Chesbro). Sacramento, CA.

3 Generally, small businesses of fewer than 25 or 50 employees are exempt from state parity mandates, as are companies that self-insure health benefits.

4 Goplerud, Eric and Cimons, Marlene. 2002. *Workplace Solutions: Treating Alcohol Problems through Employment-Based Health Insurance*. Washington, DC: Ensuring Solutions to Alcohol Problems. Available from the World Wide Web: http://www.ensuringsolutions.org/pages/rerere.html

5 Oregon Legislative Administration Committee Services. 2000. *Joint Interim Task Force on Mental Health and Chemical Dependency Treatment: Final Report*, Salem, OR.

6 North Carolina Legislative Research Commission. 2000. *Mental Health and Chemical Dependency Parity: Report to the 2000 Session of the 1999 General Assembly of North Carolina*. Raleigh, NC. Legislative Research Commission.

7 Bachman, R.E. 2002. *An Actuarial Analysis of Comprehensive Mental Health and Substance Abuse Benefits for the State of New York*. Atlanta, GA: PricewaterhouseCoopers L.L.P.

8 National Center on Addiction and Substance Abuse at Columbia University. 2001.

9 National Council on Alcohol and Drug Dependence – New Jersey. 1998. *Policy Report: New Jersey Needs Substance Abuse Parity*. Hamilton, NJ.

10 National Center on Addiction and Substance Abuse at Columbia University. 2001.

11 Connecticut, Delaware, Maine, Minnesota, Vermont, Virginia, and West Virginia. The remaining states either require some lesser level of coverage, or lack any requirements. See Goplerud, Eric and Cimons, Marlene. 2002. *Workplace Solutions: Treating Alcohol Problems Through Employment-Based Health Insurance*. *Ensuring Solutions to Alcohol Problems*. Washington, DC: Ensuring Solutions to Alcohol Problems. Available from the World Wide Web: http://www.ensuringsolutions.org/pages/rerere.html

12 The studies were performed in Alaska, California, Delaware, Hawaii, Maine, New York, North Carolina, New Jersey, Ohio, Oregon and Vermont.

13 National Center on Addiction and Substance Abuse at Columbia University. 2001.

14 Bachman, R.E. 2001. *An Actuarial Analysis of Full Parity for Mental Health and Substance Abuse Benefits in the State of New Jersey*. Atlanta, GA: PricewaterhouseCoopers L.L.P.

15 National Center on Addiction and Substance Abuse at Columbia University. 2001.

16 Bachman, R.E. 2001. *An Actuarial Analysis of Full Parity for Mental Health and Substance Abuse Benefits in the State of New Jersey*. Atlanta, GA: PricewaterhouseCoopers L.L.P.

17 North Carolina Legislative Research Commission. 2000. *Mental Health and Chemical Dependency Parity: Report to the 2000 Session of the 1999 General Assembly of North Carolina*.

18 Gerstein, D.R., Johnson, R.A., Harwood, H., Fountain, D., Suter, N., & Malloy, K.1994. *Evaluating Recovery Services: The California Drug and Alcohol Treatment Assessment (CALDATA)*. Sacramento, CA: State of California Department of Drug and Alcohol Problems.

19 Ohio Department of Alcohol and Drug Addiction Services.1996. *Ohio Cost Effectiveness Study*. Columbus, OH: Ohio Department of Alcohol and Drug Addiction Services.

20 National Center on Addiction and Substance Abuse at Columbia University. 2001.

21 Ohio Department of Alcohol and Drug Addiction Services. 1996.

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Working with policymakers, employers and concerned citizens, Ensuring Solutions to Alcohol Problems at The George Washington University Medical Center in Washington, DC, provides research-based information and tools to help curb the avoidable health care and other costs associated with alcohol use. The project works to improve access to treatment for Americans who need it. It is supported by a grant from The Pew Charitable Trusts. For more information, please visit the Ensuring Solutions Website at www.ensuringsolutions.org.