



**Review and Evaluation of Proposed  
Legislation Entitled:  
An Act Relative to Children's Mental Health  
Senate Bill No. 2518**

**Provided for  
The General Court**

**July 28, 2008**

Deval L. Patrick, Governor  
Commonwealth of Massachusetts  
Timothy P. Murray  
Lieutenant Governor



JudyAnn Bigby, Secretary  
Executive Office of  
Health and Human Services  
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## EXECUTIVE SUMMARY

This report was prepared by the Division of Health Care Finance and Policy (Division) pursuant to the provisions of M.G.L. c. 3, § 38C requiring the Division to evaluate the impact of mandated benefit bills. S. 2518 *An Act Relative to Children's Mental Health* incorporates various goals including seeking to establish a Mental Health Commission for Children, to ensure greater communication among state agencies in providing services to children with behavioral health needs, and to create an office of compliance coordination within the Executive Office of Health and Human Services to ensure compliance with *Rosie D. vs. Romney*. This report addresses only the specific components of S. 2518 related to commercially insured populations.

With regard to private insurance, the bill authorizes coverage consisting of a range of inpatient, intermediate, and outpatient services that permit medically necessary and active and non-custodial treatment for mental disorders in the least restrictive clinically appropriate setting for children and adolescents under 19, including collateral services. Collateral services are described as face-to-face or telephonic consultation of at least 15 minutes in duration by a licensed mental health professional determined to be necessary to make a diagnosis, and to develop and implement a treatment plan. Intermediate services are to be determined by the Division of Insurance in consultation with the Department of Mental Health. In addition, the proposed bill would mandate additional disclosure and reporting requirements for managed behavioral health organizations (MBHO).

To prepare this review and evaluation, the Division conducted interviews with health insurers, providers, and child welfare advocates in the Commonwealth, examined whether billing for collateral services occurred in other private or public insurance contexts, reviewed research evidence on the diagnosis and treatment of mental health disorders in childhood in intermediate level settings, and conducted an analysis of the fiscal impact of the components of S. 2518 related to private insurance.

The Division identified one provision of S. 2518 with potential material cost implications for the relevant population. S. 2518 requires coverage for “collateral services,” defined in the legislation as “...face-to-face or telephonic consultation, of at least 15 minutes in duration, by a licensed mental health professional with parties determined by the licensed mental health professional to be necessary to make a diagnosis, and develop and implement a treatment plan.”<sup>1</sup>

Coverage for collateral services as generally defined in the proposed bill is not currently mandated or included voluntarily in commercial insurance products, and so this study uses information from other contexts applied to data from the Massachusetts commercial population which was adjusted to estimate the impact.

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<sup>1</sup> S. 2518. Section 11.

After reviewing the literature and other available sources of information, the only payer identified currently covering collateral services for children was MassHealth managed care. (MassHealth is the name for the Medicaid program in the Commonwealth.). In order to estimate the impact of mandating collateral services on the commercial population, the ratio of per member collateral services spending to per member children's behavioral health spending in the MassHealth population was applied to the per member spending on children's behavioral health in the commercial population. This estimate was adjusted upward to reflect higher fees in the commercial sector. Low, middle, and high scenarios were computed to address the uncertainty stemming from the application of Medicaid utilization to the commercial population.

Exhibit 1 displays the projected impacts for the years 2008-2012 for three scenarios. Over the five year period, the mid-scenario impact averages approximately \$1.5 million per year, which is 5 ½ cents per member per month, or about 0.01% of premium.

### Exhibit 1

**Estimated Cost Impact of SB2518, An Act Relative to Children's Mental Health, on Fully-Insured Health Care Premiums 2008-2012**

Annual Trend in Behavioral Claims	1.065					
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>All 5 Years</b>
Fully Insured Enrollment	2,329,685	2,329,406	2,344,491	2,356,243	2,358,085	
<b>Low Scenario</b>						
Annual Impact Claims (000s)	\$ 18.2	\$ 19.4	\$ 20.6	\$ 22.0	\$ 23.4	\$ 103.6
Annual Impact Administration (000s)	\$ 2.5	\$ 2.6	\$ 2.8	\$ 3.0	\$ 3.2	\$ 14.1
Annual Impact Total (000s)	\$ 20.7	\$ 22.0	\$ 23.5	\$ 25.0	\$ 26.6	\$ 117.8
Premium Impact (PMPM)	\$ 0.0007	\$ 0.0008	\$ 0.0008	\$ 0.0009	\$ 0.0010	\$ 0.0008
<b>Mid Scenario</b>						
Annual Impact Claims (000s)	\$ 1,199.1	\$ 1,277.1	\$ 1,360.1	\$ 1,448.5	\$ 1,542.7	\$ 6,827.5
Annual Impact Administration (000s)	\$ 163.5	\$ 174.1	\$ 185.5	\$ 197.5	\$ 210.4	\$ 931.0
Annual Impact Total (000s)	\$ 1,362.7	\$ 1,451.2	\$ 1,545.6	\$ 1,646.0	\$ 1,753.0	\$ 7,758.5
Premium Impact (PMPM)	\$ 0.0488	\$ 0.0520	\$ 0.0554	\$ 0.0590	\$ 0.0628	\$ 0.0556
<b>High Scenario</b>						
Annual Impact Claims (000s)	\$ 3,203.6	\$ 3,411.9	\$ 3,633.6	\$ 3,869.8	\$ 4,121.4	\$ 18,240.3
Annual Impact Administration (000s)	\$ 436.9	\$ 465.3	\$ 495.5	\$ 527.7	\$ 562.0	\$ 2,487.3
Annual Impact Total (000s)	\$ 3,640.5	\$ 3,877.1	\$ 4,129.1	\$ 4,397.5	\$ 4,683.4	\$ 20,727.6
Premium Impact (PMPM)	\$ 0.1305	\$ 0.1390	\$ 0.1480	\$ 0.1576	\$ 0.1679	\$ 0.1486

## **INTRODUCTION**

### **Summary of Proposed Bill**

S. 2518 would authorize coverage consisting of a range of inpatient, intermediate, and outpatient services that permit medically necessary and active and non-custodial treatment for mental disorders in the least restrictive clinically appropriate setting for children and adolescents under 19, including collateral services. Collateral services are described as face-to-face or telephonic consultation of at least 15 minutes in duration by a licensed mental health professional determined to be necessary to make a diagnosis, and to develop and implement a treatment plan. The bill does not specifically mention the types of individuals with whom medical professionals would consult. In discussions with advocates for the bill, the range of collateral contacts mentioned included parents, foster parents, teachers, primary care clinicians, pediatricians, police, parole officers, and youth services.

Under the S. 2518, intermediate services are to be defined by the Division of Insurance in consultation with the Department of Mental Health. Such services would include, but need not be limited to, Level III community-based detoxification, acute residential treatment, partial hospitalization, day treatment and crisis stabilization licensed or approved by the Department of Public Health or the Department of Mental Health.

The proposed bill would also mandate additional disclosure and reporting requirements for managed behavioral health organizations (MBHO). Carriers would be responsible for an MBHO's failure to comply with statutory requirements, and to provide the name and telephone number of the contracting MBHO on enrollment cards. Carriers would be required to provide information to enrollees regarding emergency mental health services including the option of calling the local pre-hospital emergency medical service system if the insured individual has an emergency mental health condition requiring pre-hospital emergency services. In addition, the bill states that no insured individual should be discouraged from using the local pre-hospital emergency medical service, or be denied coverage for medical and transportation expenses incurred as a result of such emergency mental health condition. The bill also specifies that, if the MBHO requires an enrollee to make contact within 48 hours of receiving emergency services, notification already given to the MBHO, carrier or primary care physician by the attending emergency physician would satisfy that requirement. Carriers would be required to summarize the process by which clinical guidelines and utilization review criteria are developed for behavioral health services. Carriers would be required to provide a statement that the Office of Patient Protection is available to assist consumers, a description of the grievance and review processes available to consumers under chapter 176O, and relevant contact information to access the office and these processes.

## **METHODOLOGICAL APPROACH**

### **Approach for Determining Medical Efficacy**

M.G.L. c. 3, § 38C (d) requires the Division to assess the medical efficacy of mandating the benefit, including the impact of the benefit to the quality of patient

care and the health status of the population and the results of any research demonstrating the medical efficacy of the treatment or service compared to alternative treatments or services or not providing the treatment or services. To determine the medical efficacy of S. 2518, the Division conducted a literature review on the availability and efficacy of collateral services billing and use of intermediate level services related to the diagnosis and treatment of mental health disorders in children.

### **Approach for Determining Fiscal Impact of the Bill**

M.G.L. c. 3, § 38C (d) requires the Division to assess nine different measures in estimating the fiscal impact of a mandated benefit:

- (1) the financial impact of mandating the benefit, including the extent to which the proposed insurance coverage would increase or decrease the cost of the treatment or the service over the next 5 years;
- (2) the extent to which the proposed coverage might increase the appropriate or inappropriate use of the treatment or service over the next five years;
- (3) the extent to which the mandated treatment or services might serve as an alternative to a more expensive or less expensive treatment or service;
- (4) the extent to which the insurance coverage may affect the number or types of providers of the mandated treatment or service over the next 5 years;
- (5) the effects of mandating the benefit on the cost of health care, particularly the premium, administrative expenses and indirect costs of large employers, small employers, employees and nongroup purchasers;
- (6) the potential benefits and savings to large employers, small employers, employees and nongroup purchasers;
- (7) the effect of the proposed mandate on cost shifting between private and public payors of health care coverage;
- (8) the cost to health care consumers of not mandating the benefit in terms of out of pocket costs for treatment or delayed treatment; and
- (9) the effect on the overall cost of the health care delivery system in the commonwealth.

To estimate the fiscal impact of collateral services, the Division:

- 1.) estimated the size of the affected insured population;
- 2.) estimated the per member per month cost in a sample population for which the benefit is already covered;
- 3.) adjusted the per member per month cost for differences between the sample population and the target population (i.e., the fully insured under-65 population); and
- 4.) estimated the impact on administrative expenses of the relevant insurers.

Following these steps, estimates were made for the entire covered population for a five-year timeframe (2008-2012) for a range of “low case” to “high case” scenarios.

For more detailed information on the methodological approach used to calculate the impact of collateral services (including the approach to calculating administrative costs), refer to the appendix to this report prepared by Compass Health Analytics, Inc.

## **MEDICAL EFFICACY**

### **Mental Health Disorders in Childhood**

In the United States, one in ten children and adolescents suffer from mental illness severe enough to cause some level of impairment.<sup>1</sup> It is estimated that about one in five of such children receive specialty mental health services,<sup>2</sup> indicating that a substantial proportion of children have an unmet need for services.

The Diagnostic and Statistical Manual (DSM) of Mental Disorders identifies mental disorders involving onset in childhood and adolescence. These include anxiety disorders; attention-deficit and disruptive behavior disorders; autism and other pervasive developmental disorders; eating disorders (e.g., anorexia nervosa); elimination disorders (e.g., enuresis, encopresis); learning and communication disorders; mood disorders (e.g., major depressive disorder, bipolar disorder); schizophrenia; and tic disorders (Tourette's disorder). It is not uncommon for a child to have more than one disorder. For example, children with pervasive developmental disorders often suffer from ADHD, and anxiety disorders may occur in combination with mood disorders. Learning disorders and substance use disorders are also commonly co-occurring with other disorders. While these conditions often begin in childhood, many can persist across the lifespan.

The National Comorbidity Survey Replication found that half of all lifetime DSM disorders start by age 14.<sup>3</sup> If left untreated, child onset mental health disorders may have substantial, deleterious effects on educational attainment and long-term earning potential. Child mental disorders often persist into adulthood with data indicating that 74 percent of 21 year olds with mental disorders had prior problems. As adults, children with co-occurring depression and conduct disorders, for example, use more health care services and have higher health care costs than other adults.<sup>4</sup>

In comparison with adults, diagnosis and treatment of disorders in childhood can present challenges. Many children have greater difficulty than adults verbalizing thoughts and emotions, presenting a challenge to diagnosis and treatment. The *Surgeon General's Report on Mental Health* noted that, for this reason, clinicians are often reliant on parents, teachers, and other professionals to better assess behavioral or emotional problems in children.<sup>5</sup> In addition, because child development involves rapid change, clinical diagnosis is complicated by the fact that behaviors appropriate at one age are indicative of a mental health disorder at another age. Finally, diagnostic criteria and evidence-based treatment for most mental health disorders in children have been adopted from those developed for adults. Limited research evidence is available to comprehensively understand the applicability of diagnostic methods and treatments for adults in the child population.

A range of treatments are available to care for children and adolescents with mental and emotional health problems. Most psychotherapies are considered effective for children and adolescents since they lead to greater improvements compared with no treatment.<sup>6-</sup>

<sup>14</sup> Less is known about the efficacy of psychotherapies to treat specific childhood diagnoses, however.<sup>15</sup> In addition, pharmacological therapies are increasingly being used to treat children and adolescents. A dramatic increase has occurred in the use of psychotropic medication for treating children over the last decade. However, there are important knowledge gaps with regard to the efficacy and safety of using these medications in the treatment of a child population.<sup>16</sup> For many prescribed medications, studies of safety and efficacy for children and adolescents are lacking. The absence of research on children and adolescents has led to extensive “off-label” use of psychotropic medications. In the last few years, the Food and Drug Administration (FDA) has identified risks associated with a number of psychotropic drugs commonly used to treat children. For example, the FDA issued a black box warning related to pediatric antidepressant use and suicide risk in October 2004 and a public advisory in 2005 related to risks associated with a commonly used Attention Deficit Hyperactivity Disorder drug.

### **Collateral Services**

Collateral services under S. 2518 would involve face-to-face or telephonic consultation of at least 15 minutes in duration by a licensed mental health professional determined to be necessary to make a diagnosis, and to develop and implement a treatment plan. The Division examined the use of billable collateral services in other contexts. Through its MBHO, Massachusetts Behavioral Health Partnership (MBHP), and through its Managed Care Organizations (MCOs), MassHealth covers three types of consultation services: case consultation, family consultation, and collateral contact. Case consultation involves provider to provider telephonic or face-to-face contact in 15 minute units. Family consultation involves provider to family member telephonic or face-to-face contact in 15 minute units. Collateral contact involves provider contact with non-clinicians who are professionally involved with the child such as teachers, police, parole officers, coaches, or day care providers. Commercial insurers in Massachusetts do not reimburse providers separately for collateral services. They view these services as “bundled” into clinician visit reimbursement rates. The Division was not able to identify private insurers in other states that typically reimburse mental health providers for collateral services in the manner proposed under S. 2518.

Child advocates stress the importance of reimbursing collateral contacts on the basis of the role these services could play in early diagnosis and treatment of mental health disorders.<sup>17</sup> They suggest that early identification and treatment can substantially reduce the long-term direct and indirect societal costs of mental illness. The President’s *New Freedom Commission on Mental Health Report* identified a need to address the problem of fragmentation across multiple programs and services and different funding sources as a strategy for improving health outcomes.<sup>18</sup> Collateral services have the potential to reduce fragmentation in the delivery of mental health care for children and adolescents. However, no published studies are available to assess the effects of collateral services on coordination or health outcomes. In addition, research evidence indicates that parents of

children with mental health disorders spend significant time coordinating their child's health care. Compared to parents of children with other special health care needs, a recent study indicated that parents of children with mental health disorders spent significantly more time coordinating their child's care.<sup>19</sup> No published research is available to assess whether billing for collateral services would lower the coordination burden on families.

In contrast, insurers have expressed a number of concerns related to billing for collateral services under the proposed bill. First, they indicated concern about the absence of established standards for determining the medical necessity of collateral contacts. Second, they expressed a concern that if collateral services were provided for children's mental health care, similar billable services would need to be offered for physical health care. Finally, they noted the difficulty in managing the collateral services benefit and the additional costs that would be required to conduct utilization review of these services. Specifically, they noted the difficulty health plans would face in validating that a collateral contact occurred, and ensuring that contact was of the appropriate duration and was necessary to make a diagnosis. No published research is available to assess these claims.

### **Intermediate Level Services**

Child advocates in the Commonwealth have expressed the view that commercial insurers rely heavily on outpatient and inpatient services in treating children with mental health conditions, and that greater use of intermediate level services is warranted.

Research indicates the effectiveness of a range of intermediate level treatment interventions for children and adolescents. Partial hospitalization, also called day treatment and partial care, has been a growing treatment modality for youth with mental disorders. The *Surgeon General's Report on Mental Health* reports that research on partial hospitalization as an alternative to inpatient treatment "generally finds benefit from a structured daily environment that allows youth to return home at night to be with their family and peers."<sup>20</sup> Residential treatment centers, a slightly less restrictive form of care than inpatient hospitalization, constitutes a second category of intermediate services. Although only about eight percent of children receive treatment in this setting, they account for nearly one-fourth of the national outlay on child mental health according to one report.<sup>21</sup> However, the Surgeon General's Report indicated that there is only weak evidence for their effectiveness.<sup>22</sup> Comprehensive community-based interventions including case management, home-based services, therapeutic foster care, therapeutic group homes, and crisis services are also considered intermediate level services. Uncontrolled studies offer some information on the effectiveness of these treatments. Of these interventions, the Surgeon General's Report identified the most convincing evidence of effectiveness of home-based services and therapeutic foster care.<sup>23</sup>

### **Regulation of MBHOs**

In Massachusetts, the majority of private insurers sub-contract with MBHOs to provide behavioral health benefits. MBHOs, specialty managed behavioral health 'carve-out'

firms, have emerged as the dominant approach to managing mental health care over the last decade. The carve-out industry has grown rapidly in the U.S. with 164 million individuals covered in 2002 compared to 70 million in 1993, according to one estimate.<sup>24</sup> Behavioral health carve-out firms typically use specialized expertise to establish networks of mental health specialty providers, negotiate volume discounts, identify evidence-based treatment protocols, and develop other incentive programs to manage utilization and quality of care. The financial arrangement between health plans and carve-out firms ranges from full/partial risk sharing to administrative services only contracts. Likewise, the scope of services covered by carve-outs ranges from full service behavioral health contracts to stand-alone utilization review, case management, or employee assistance program services. Concern has been raised by child welfare advocates in the state that Division of Insurance does not have sufficient authority to collect and report service data on MBHOs and to regulate the activities of these companies.<sup>25</sup>

## FISCAL IMPACT OF MANDATE

1. The Division is required to assess the extent to which the proposed insurance coverage would increase or decrease the cost of the treatment or service over the next 5 years.

Exhibit 2 displays the projected impacts for the years 2008-2012 for three scenarios. Over the five year period, the mid-scenario impact averages approximately \$1.5 million per year, which is 5 ½ cents per member per month, or about 0.01% of premium.

### Exhibit 2

Estimated Cost Impact of SB2518, An Act Relative to Children's Mental Health, on Fully-Insured Health Care Premiums 2008-2012

Annual Trend in Behavioral Claims		1.065				
	2008	2009	2010	2011	2012	All 5 Years
Fully Insured Enrollment	2,329,685	2,329,406	2,344,491	2,356,243	2,358,085	
<b>Low Scenario</b>						
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<b>High Scenario</b>						
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Premium Impact (PMPM)	\$ 0.1305	\$ 0.1390	\$ 0.1480	\$ 0.1576	\$ 0.1679	\$ 0.1486

2. The Division is required to assess the extent to which the proposed coverage might increase the appropriate or inappropriate use of the treatment or service over the next 5 years.

There is no data available that would permit the Division to quantify the extent to which the proposed bill might affect the appropriate or inappropriate use of the treatment or service over the next five years. Under S. 2518, mental health providers who believe that consultation with third parties would better equip them to make a diagnosis might be expected to provide more effective treatment as a result of a more accurate diagnosis and/or a more appropriate treatment plan. However, these services may increase health care costs and the appropriate use of these services may be hard for an insurer to quantify.

3. The Division is required to assess the extent to which the mandated treatment or services might serve as an alternative to a more expensive or less expensive treatment or service.

There is no data available that would permit the Division to quantify the extent to which the mandated treatment might serve as an alternative for more expensive or less expensive treatments. As noted above, should reimbursement for additional treatment facilities for children become available, costs may in fact increase. However, one could expect that insurers may initially approve care in less expensive outpatient settings, if medically appropriate, prior to approving care in intermediate level settings.

4. The Division is required to assess the extent to which the insurance coverage may affect the number or types of providers of the mandated treatment or service over the next 5 years.

There is no data available that would permit the Division to quantify the extent to which the mandated treatment may result in establishment of additional inpatient or residential treatment facilities. Should S. 2518 become law, providers may determine that demand for additional intermediate level services may increase and it is possible that additional treatment facilities could be established to provide this specialized care.

5. The Division is required to assess the effects of the mandated benefit on the cost of health care, particularly the premium, administrative expenses and indirect costs of large and small employers, employees and non-group purchasers.

Exhibit 2 above includes administrative cost estimates. Incremental administrative expenses would be incurred for activities associated with the implementation of the mandate such as modifications to benefit plan materials, claims processing system changes, training/communication material for staff, etc. In addition, the proposed bill would mandate additional disclosure and reporting requirements for managed behavioral health organizations (MBHOs). These marginal administrative costs would be greater than zero, but less than the average administrative cost percentage that the administrative adjustment applied to these estimates allows.

In addition, incremental margin is required in order for the insurer to maintain adequate reserve levels as required by the Massachusetts Division of Insurance. Required reserves are based on the claim levels for the insurer, and since the mandate would increase claim levels, it would

increase required reserve levels and therefore incrementally increase the total dollars of margin required to meet those reserve levels.

6. The Division is required to assess the potential benefits and savings to large and small employers, employees and non-group purchasers.

Some clinicians argue that early treatment, using a multidisciplinary approach, offers many patients the best opportunity to improve and many to recover. Some small employers could benefit by increased employee satisfaction if employees' family members benefit from additional services offered by this mandate. This mandate would not affect the many large employers who are self-insured unless they choose to adopt this standard.

7. The Division is required to assess the effect of the proposed mandate on cost-shifting between private and public payers of health care coverage.

There is no data available that would permit the Division to quantify the extent to which the mandate would shift costs between private and public payers of health care coverage. The proposed mandate only applies to commercial insurers, HMOs and BCBSMA and the Group Insurance Commission. However, insurers have raised concerns that the legislation would broaden coverage of mental health services resulting in a cost-shifting of services from school systems and the Department of Education to the private health insurance market.

8. The Division is required to assess the cost to health care consumers of not mandating the benefit in terms of out-of-pocket costs for treatment or delayed treatment.

There is no data available that would permit the Division to quantify the extent to which the mandate would affect out-of-pocket costs or treatment delays. Insured employees who currently pay for intermediate level treatment for their children out-of-pocket could possibly experience some savings should their insurers offer additional intermediate level services. Likewise, parents involved in coordinating their child's care across providers (e.g., mental health specialists, pediatricians) and other professionals (e.g., teachers) may experience a reduction in time costs associated with coordination if collateral services are paid for under the proposed bill. Delays in treatment might be avoided if collateral services lead to an earlier diagnosis of a condition.

9. The Division is required to assess the effects on the overall cost of the health care delivery system in the Commonwealth.

The estimated overall impact on health insurance premiums and spending is included in Exhibit 2 above.

## ENDNOTES

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<sup>1</sup> (Burns, et al., 1995; Shaffer, et al., 1996)

<sup>2</sup> (Burns, et al., 1995)

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**Actuarial Assessment of Massachusetts Senate Bill 2518**  
*An Act Relative to Children's Mental Health*

**Prepared for**

**Division of Health Care Finance and Policy**  
**Commonwealth of Massachusetts**

**Prepared by**

**Compass Health Analytics, Inc.**



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# Actuarial Assessment of Massachusetts Senate Bill 2518

## *An Act Relative to Children's Mental Health*

### Executive Summary

Compass Health Analytics, Inc. was engaged by the Division of Health Care Finance and Policy (“the Division”) to estimate the cost impact of S. 2518 *An Act Relative to Children's Mental Health* for the period 2008-2012. This proposed legislation largely focuses on administrative processes intended to improve the coordinated management of services for children receiving publicly funded behavioral health services. The Division of Health Care Finance and Policy is obligated under Chapter 3, Section 38C to provide cost estimates of legislation that affects the under-65 fully-insured population regulated by the Commonwealth's Division of Insurance (DOI). The Division identified one provision of S. 2518 with potential material cost implications for the relevant population. S. 2518 requires coverage for “collateral services”, defined in the legislation as “...face-to-face or telephonic consultation, of at least 15 minutes in duration, by a licensed mental health professional with parties determined by the licensed mental health professional to be necessary to make a diagnosis, and develop and implement a treatment plan.”<sup>1</sup>

Coverage for collateral services as generally defined in the proposed bill is not currently mandated or included voluntarily in commercial insurance products and so this study uses information from other contexts applied to data from the Massachusetts commercial population and adjusted to estimate the impact.

After review of literature and other available sources, the only payer identified currently covering collateral services for children was MassHealth managed care. (MassHealth is the name for the Medicaid program in the Commonwealth.). In order to estimate the impact of mandating collateral services on the commercial population, the ratio of per member collateral services spending to per member children's behavioral health spending in the MassHealth population was applied to the per member spending on children's behavioral health in the commercial population. This estimate was adjusted upward to reflect higher fees in the commercial sector. Low, middle, and high scenarios were computed to address the uncertainty stemming from the application of Medicaid utilization to the commercial population.

Exhibit E-1 displays the projected impacts for the years 2008-2012 for three scenarios. Over the five year period, the mid-scenario impact averages approximately \$1.5 million per year, which is 5 ½ cents per member per month, or about 0.01% of premium.

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<sup>1</sup> SB2518 Section 11.

## Exhibit E-1

### Estimated Cost Impact of SB2518, An Act Relative to Children's Mental Health, on Fully-Insured Health Care Premiums 2008-2012

Annual Trend in Behavioral Claims	1.065					
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>All 5 Years</u>
Fully Insured Enrollment	2,329,685	2,329,406	2,344,491	2,356,243	2,358,085	
<b>Low Scenario</b>						
Annual Impact Claims (000s)	\$ 18.2	\$ 19.4	\$ 20.6	\$ 22.0	\$ 23.4	\$ 103.6
Annual Impact Administration (000s)	\$ 2.5	\$ 2.6	\$ 2.8	\$ 3.0	\$ 3.2	\$ 14.1
Annual Impact Total (000s)	\$ 20.7	\$ 22.0	\$ 23.5	\$ 25.0	\$ 26.6	\$ 117.8
Premium Impact (PMPM)	\$ 0.0007	\$ 0.0008	\$ 0.0008	\$ 0.0009	\$ 0.0010	\$ 0.0008
<b>Mid Scenario</b>						
Annual Impact Claims (000s)	\$ 1,199.1	\$ 1,277.1	\$ 1,360.1	\$ 1,448.5	\$ 1,542.7	\$ 6,827.5
Annual Impact Administration (000s)	\$ 163.5	\$ 174.1	\$ 185.5	\$ 197.5	\$ 210.4	\$ 931.0
Annual Impact Total (000s)	\$ 1,362.7	\$ 1,451.2	\$ 1,545.6	\$ 1,646.0	\$ 1,753.0	\$ 7,758.5
Premium Impact (PMPM)	\$ 0.0488	\$ 0.0520	\$ 0.0554	\$ 0.0590	\$ 0.0628	\$ 0.0556
<b>High Scenario</b>						
Annual Impact Claims (000s)	\$ 3,203.6	\$ 3,411.9	\$ 3,633.6	\$ 3,869.8	\$ 4,121.4	\$ 18,240.3
Annual Impact Administration (000s)	\$ 436.9	\$ 465.3	\$ 495.5	\$ 527.7	\$ 562.0	\$ 2,487.3
Annual Impact Total (000s)	\$ 3,640.5	\$ 3,877.1	\$ 4,129.1	\$ 4,397.5	\$ 4,683.4	\$ 20,727.6
Premium Impact (PMPM)	\$ 0.1305	\$ 0.1390	\$ 0.1480	\$ 0.1576	\$ 0.1679	\$ 0.1486

# **Actuarial Assessment of Massachusetts Senate Bill 2518**

## ***An Act Relative to Children’s Mental Health***

### **Introduction**

Compass Health Analytics, Inc. was engaged by the Division of Health Care Finance and Policy (“the Division”) to estimate the cost impact of S. 2518 *An Act Relative to Children’s Mental Health* for the period 2008-2012. This proposed legislation largely focuses on administrative processes intended to improve the coordinated management of services for children receiving publicly funded behavioral health services. The Division of Health Care Finance and Policy is obligated under Chapter 3, Section 38C to provide cost estimates of legislation that affects the under-65 fully-insured population regulated by the Commonwealth’s Division of Insurance (DOI). The Division identified one provision of S. 2518 with potential material cost implications for the relevant population. S. 2518 requires coverage for “collateral services”, defined in the legislation as “...face-to-face or telephonic consultation, of at least 15 minutes in duration, by a licensed mental health professional with parties determined by the licensed mental health professional to be necessary to make a diagnosis, and develop and implement a treatment plan.”<sup>2</sup>

Coverage for collateral services as generally defined in the proposed bill is not currently mandated or included voluntarily in commercial insurance products and so this study uses information from other contexts applied to data from the Massachusetts commercial population and adjusted to estimate the impact.

The steps required to identify the costs implied by this mandate are as follows:

- 1.) Estimate the size of the affected insured population
- 2.) Estimate the per member per month cost in a sample population for which the benefit is already covered
- 3.) Adjust the per member per month cost for differences between the sample population and the target population (i.e., the fully insured under-65 population)
- 4.) Estimate the impact on administrative expenses of the relevant insurers

Following these steps, estimates were done for the entire covered population for a five-year timeframe (2008-2012) for a range of “low case” to “high case” scenarios.

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<sup>2</sup> SB2518 Section 11.

## **Analysis/Calculations**

Below we describe the basic steps taken to perform the projections.

### Affected Population

The objective for this analysis was to develop Massachusetts population projections for purposes of analyzing the impact of S. 2518, which required estimation of the number of commercially fully insured individuals under 65 years of age. The fully-insured under-65 population for calendar year 2007 was estimated to be an average of 2.32 million members, increasing to 2.36 million by 2012. To project the Massachusetts population out to 2012, we estimated an annual growth rate of 0.4% per year, based on several population projections on the U.S. Census Bureau web site. Similarly, the growth in the age 65+ population was estimated as 1.5% per year through 2010 and 2.0% in subsequent years, again based on Census projections. The residual growth was allocated between age ranges 0-18 and 19-64.

### Data Sources and Analytical Approach

After review of literature and other available sources, the only payer identified currently covering collateral services for children was MassHealth managed care. (MassHealth is the name for the Medicaid program in the Commonwealth.). While the Medicaid population has much higher utilization rates for behavioral health services for children and lower per unit cost for services, we can make adjustments to approximate commercial population utilization and cost. Because the information used to estimate the use of collateral services is not from a directly comparable population, in the analysis assumptions are set at deliberately conservatively high levels to allow for the increased uncertainty.

Survey data were collected by the Division from the health plans that currently provide managed care coverage for MassHealth enrollees. The plans surveyed include Fallon Community Health Plan, Boston Medical Center HealthNet Plan, Neighborhood Health Plan, and the Massachusetts Behavioral Health Partnership.<sup>3</sup> Information provided included some or all of the following: Utilization information and unit costs for collateral services and commonly provided behavioral services, as well as PMPM spending for children's behavioral health services.

The analysis also utilized previously collected PMPM spending on children's behavioral health services by commercial payers<sup>4</sup>, as well as information on commercial fees in Massachusetts for commonly provided behavioral health services.

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<sup>3</sup> The fifth MassHealth managed care plan, Network Health, did not respond to requests for data.

<sup>4</sup> Actuarial Assessment of Massachusetts House Bill 4423 *An Act Relative to Mental Health Parity*, Compass Health Analytics, Inc., June, 2008, available at [www.mass.gov/dhcfp](http://www.mass.gov/dhcfp).

The basic approach used to estimate the anticipated use of collateral services among children in the fully-insured commercial population was as follows:

- Calculate A = PMPM spending on collateral services for children in the Medicaid population.
- Calculate B = PMPM spending on all behavioral services for children in the Medicaid population.
- Calculate C = PMPM spending on all behavioral services for children in the fully-insured commercial population.
- Estimate collateral services in the commercial population by calculating (A/B) \* C – that is, using the ratio of collateral services to all behavioral services for children in the Medicaid population and applying it to all behavioral spending for children in the commercial population.
- Estimate a low-end scenario by applying the lowest observed use rates among the MassHealth managed care plans.
- Estimate a high-end scenario by applying the highest observed use rates among the MassHealth managed care plans.
- Estimate a mid-range scenario by applying the weighted average of the observed use rates among the MassHealth managed care plans.

#### Calculations Using Medicaid Data

Aggregate data on collateral services sampled from MassHealth plans for SFY2007 is displayed in Exhibit 1.

### Exhibit 1

#### Total Usage of Sampled MassHealth Plans of Collateral Consult Services

Average Under 19 Membership	321,250			
SFY 2007	<b>Case Consultation</b>	<b>Family Consultation</b>	<b>Collateral Contact</b>	<b>Total</b>
Paid Units*	83,370	61,580	11,648	156,598
Total Paid Amount	\$1,467,243	\$1,071,916	\$125,379	\$2,664,538
Cost per Unit	\$17.60	\$17.41	\$10.76	\$17.02
Unduplicated Service Utilizers	12,284	9,626	3,037	24,947
Average units per utilizer	6.79	6.40	3.84	
Cost per utilizer	\$119.44	\$111.36	\$41.28	
PMPM	\$0.38	\$0.28	\$0.03	\$0.69
*15 minute units				

It is important to address the definition of the term “collateral” as we consider how to draw upon the MassHealth experience in estimating use of collateral services in the commercial population. As shown in Exhibit 1, MassHealth managed care plans pay for

three types of services that involve communication with parties other than the patient directly. Generally these three services are defined as:

- *Case consultation* involves provider to provider telephonic or face-to-face contact in 15 minute units.
- *Family consultation* involves provider to family member telephonic or face-to-face contact in 15 minute units.
- *Collateral contact* involves provider contact with non-clinician professionally involved with the child such as teachers, police, parole officers, coaches, or day care providers in 15 minute units.

In S. 2518 collateral services are described as face-to-face or telephonic consultation of at least 15 minutes in duration by a licensed mental health professional determined to be necessary to make a diagnosis, and to develop and implement a treatment plan. The bill does not specifically address the types of individuals with whom medical professionals would consult. In discussions with bill advocates, the range of collateral contacts mentioned included parents, foster parents, teachers, primary care clinicians, pediatricians, police, parole officers, and youth services. This would appear to describe all three types of collateral consults currently paid for by MassHealth and shown in Exhibit 1. Discussions with the Massachusetts Association of Health Plans and Blue Cross Blue Shield of Massachusetts confirm that existing CPT codes that specifically describe these various types of collateral contacts would currently be denied by them and that all of these types of contacts are currently bundled into the codes that involve direct service to the patient.

With respect to the use of the MassHealth data, all three of the consult types displayed in Exhibit 1 fall under the notion of “collateral services” as contemplated in S. 2518, and not just the “collateral contact” which is a more narrowly defined term in MassHealth. As a result, the utilization and cost information in the “Total” column of Exhibit 1 is used as the starting point of our analysis of collateral service costs related to S. 2518.

In using the MassHealth data it is also important to understand what policies accompany the coverage of these services so that their applicability to the commercial population can be understood. Three important policies associated with the MassHealth coverage of collateral services are:

- Multiple providers can bill for a discussion about the same patient as long as they are not from the same agency
- There is no limit to the number of units that can be billed (although excessive use would trigger an investigation)
- The collateral services are not bundled into any other services and so there is no artificial suppression of the actual number of collateral contacts being made relative to the commercial population.

As a result of these policies, there is no reason to believe that utilization of collateral services in the Medicaid population, as measured by the data in Exhibit 1, is an

underestimate of their true prevalence. If the MassHealth policies had restricted when collateral services could be billed in a such a way that was different from the policies likely to accompany implementation of a collateral services mandate in the commercial population, the measured MassHealth utilization would be biased downward as a basis for commercial population estimates. However, the policies used in the MassHealth population do not create such a bias.

In the collection of the MassHealth data, we also obtained information on the overall MassHealth PMPM spending for behavioral services for children. Three ratios of the rate of use of total collateral services to total children's behavioral health spending were calculated from the MassHealth data for application to the low, medium, and high scenarios:

- The lowest observed ratio among the MassHealth plans for the low scenario
- The highest observed ratio among the MassHealth plans for the high scenario
- The average observed ratio for the medium scenario.

It should be noted that the observed average ratio includes a population of MassHealth members with more complex behavioral health needs on average (e.g., includes those in the care or custody of the Commonwealth) and therefore the utilization represented by that ratio is much larger than would be likely among a commercially enrolled population.

These ratios were applied to the commercial data as described next.

#### Adjustment to the Commercial Population

As noted above, for a recent study the Division had collected information on behavioral health spending from the four major commercial carriers in Massachusetts, specifically for the under-65 fully insured commercial population. The children's behavioral services PMPM on a member-weighted average basis across the four sampled plans (Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim Health Plan, Tufts Health Plan, and Fallon Community Health Plan) was \$6.13. The ratios calculated in the section above were applied to these commercial PMPMs for children to arrive at the estimates of collateral spending that would occur in the commercial population.

Several factors affect the appropriateness of the application of these ratios, including the relative rate of behavioral illness in the populations, the degree to which ill individuals receive treatment, the nature of family, school, and juvenile justice system situations, the degree to which collateral coordination is necessary, and the degree to which providers will engage in these contacts for the respective populations. Quantifying and adjusting for any such differences is not a feasible task; however, the approach taken in this study to accommodate these potential differences is twofold:

- By using the ratio of collateral services to overall behavioral spending, and then applying that ratio to the commercial PMPM, we adjust for the higher incidence of behavioral problems in the Medicaid population, and
- By using low, medium, and high scenarios we account for the range of variation in utilization that may exist around the medium scenario estimate.

Two additional adjustments to the estimates were required. First, the spending level in the Medicaid population needed to be adjusted for the fact that fees are lower among the MassHealth managed Medicaid products than under the fully insured commercial products. Based on a comparison of fees for services in these two populations, the Medicaid costs were inflated by 23% to account for fee level differences.

The second adjustment is to inflate the estimated dollars upward to reflect those commercial health plans not included in the sample. The four plans surveyed include approximately 85% of the statewide fully-insured under-65 membership; a factor of (1/.85) was applied to inflate the dollars to include the non-sampled plans.<sup>5</sup>

### Administrative Costs

In addition to the incremental medical care costs previously discussed, the overall impact of a mandate on the costs of health insurance in the Commonwealth consists of two other components:

- 1.) Incremental Administrative Expenses
- 2.) Incremental Margins

Incremental administrative expenses would be incurred for activities associated with the implementation of the mandate such as modifications to benefit plan materials, claims processing system changes, training/communication material for staff, etc. In addition, the proposed bill would mandate additional disclosure and reporting requirements for managed behavioral health organizations (MBHOs). These marginal administrative costs would be non-zero but less than the average administrative cost percentage that the administrative adjustment applied to these estimates allows.

Incremental margin is required in order for the insurer to maintain adequate reserve levels as required by the Massachusetts Division of Insurance. Required reserves are based on the claim levels for the insurer, and since the mandate would increase claim levels, it would increase required reserve levels and therefore incrementally increase the total dollars of margin required to meet those reserve levels.

Data provided by the Division from its Key Indicators report<sup>6</sup> indicate that administrative costs plus margin are currently approximately 12% on average. For the purposes of this

<sup>5</sup> This assumes that the sampled plans are representative of the plans not included in the survey.

<sup>6</sup> [http://www.mass.gov/Eeohhs2/docs/dhcfp/r/pubs/08/key\\_indicators\\_0608.pdf](http://www.mass.gov/Eeohhs2/docs/dhcfp/r/pubs/08/key_indicators_0608.pdf)

analysis, we assume that incremental administrative costs and margin are equal to their current average level, which allows for any extraordinary expenses and provides a conservatively high estimate of any additional administrative requirements.

## Results

Estimated impacts of S. 2518 on Massachusetts healthcare premiums for fully-insured products are displayed in Exhibit 2 below.

### Exhibit 2

**Estimated 2007 Impact of Collateral Service Coverage Due to SB 2518, An Act Relative to Children's Mental Health  
Low, Medium, and High Scenarios**

	Using Lowest Ratio	Using Average Ratio	Using Highest Ratio
	All Collateral Consults	All Collateral Consults	All Collateral Consults
Commercial Total FI MMs (000s)	27,840	27,840	27,840
Commercial Children's FI MMs (000s)	6,277	6,277	6,277
Fully Insured Children's Behavioral PMPM	\$ 6.13	\$ 6.13	\$ 6.13
Medicaid Calculated Ratio	0.031%	2.022%	5.403%
Estimated Initial Children's Claims \$ (000s)	\$ 11.8	\$ 778.1	\$ 2,078.8
Estimated Initial Children's Claims PMPM	\$ 0.002	\$ 0.124	\$ 0.331
Commercial Fee Level Adjustment	1.23	1.23	1.23
Commercial Membership Adjustment	1.18	1.18	1.18
Estimated Overall PMPM Claim Impact	\$ 0.0006	\$ 0.0404	\$ 0.1080
Administration	\$ 0.0001	\$ 0.0055	\$ 0.0147
Estimated Total PMPM Impact	\$ 0.0007	\$ 0.0460	\$ 0.1228
Estimated Total Dollar Impact (000s)	\$ 19	\$ 1,279	\$ 3,418
Percent of Premium	0.0002%	0.0111%	0.0297%

The 2007 scenarios produce estimated impacts of between \$19,000 per year and \$3.4 million per year, or 0.0002% to 0.0297% of premium. The middle case scenario produces an estimate of \$1.3 million, or 0.0111% of premium. Two issues to consider that may affect the degree of impact that would actually occur under S. 2518 are awareness levels among providers and the bundling of collateral services.

Exhibit 3 projects these values from 2008-2012. The historical growth in behavioral health trend according to a recent CMS study is 6.7%.<sup>7</sup> We have assumed 6.5% annual growth to trend the PMPMs, as the per-person spending would be slightly less than the aggregate trend due to population growth. Over the five year period, the mid-scenario PMPM impact averages approximately 5 ½ cents, or about 0.01% of premium.

<sup>7</sup> Mark, T.L., Levit, K.R., et. al. Mental Health Treatment Expenditure Trends, 1986-2003. (2007) Psychiatric Services 58:1041-1048.

### Exhibit 3

**Estimated Cost Impact of SB2518, An Act Relative to Children's Mental Health, on Fully-Insured Health Care Premiums 2008-2012**

Annual Trend in Behavioral Claims		1.065				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>All 5 Years</u>
Fully Insured Enrollment	2,329,685	2,329,406	2,344,491	2,356,243	2,358,085	
<b>Low Scenario</b>						
Annual Impact Claims (000s)	\$ 18.2	\$ 19.4	\$ 20.6	\$ 22.0	\$ 23.4	\$ 103.6
Annual Impact Administration (000s)	\$ 2.5	\$ 2.6	\$ 2.8	\$ 3.0	\$ 3.2	\$ 14.1
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Annual Impact Total (000s)	\$ 3,640.5	\$ 3,877.1	\$ 4,129.1	\$ 4,397.5	\$ 4,683.4	\$ 20,727.6
Premium Impact (PMPM)	\$ 0.1305	\$ 0.1390	\$ 0.1480	\$ 0.1576	\$ 0.1679	\$ 0.1486

The Massachusetts health insurers assert that there may be low awareness among providers that provide services, and that the passage of S. 2518 would increase their awareness of the availability of coverage for collateral services for both Medicaid and commercial patients. In addition, the insurers assert that their paying a higher per unit rate for collateral services would increase utilization, arguing that today some providers do not bill for collateral services provided due to the low reimbursement rate under MassHealth managed care plan. While there is nothing in S. 2518 that compels commercial insurers to pay higher rates, the inclusion of the “high” scenario accommodates these issues to a significant degree. Furthermore, the intention of the MassHealth coverage of these services is to make providers aware of the services to improve the degree to which collateral services are carried out by providers so that coordination and care continuity are improved. It is not clear on what basis the assertion of lack of awareness is based.

As discussed above, the MassHealth program does not bundle any services that are of a collateral nature. The commercial insurers indicated that they pay for collateral services bundled into their current patient service fees. If S. 2518 were to pass it would seem reasonable for the providers to unbundle the collateral services from the patient services and lower those fees accordingly, which would offset increases caused by the separate billing of collateral services. Exhibit 1 above showed that only a small percentage of covered individuals have collateral services billed for them. We do not have penetration data for all behavioral services for the MassHealth program, but it is likely based on industry norms that the 4% or so penetration for collateral services represents a fraction of the overall behavioral penetration, so that for many individuals no collateral services are billed at all. A fee reduction to reflect the unbundling of collateral services would in part reduce spending for those situations in which collateral services are not provided. This may offset some or all of the increase payments that the required coverage of the service would induce.