VIEWPOINT
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Mental Health Parity Could Decrease Access to Affordable Insurance

by D. Joseph Olson

Summary

Two bills in the Michigan Senate would require insurance providers to ease restrictions on mental health and substance abuse benefits in order to make them more available to those who need them. Unfortunately, this new government mandate could have the opposite effect—by driving up the price of insurance and placing it out of reach of more people.

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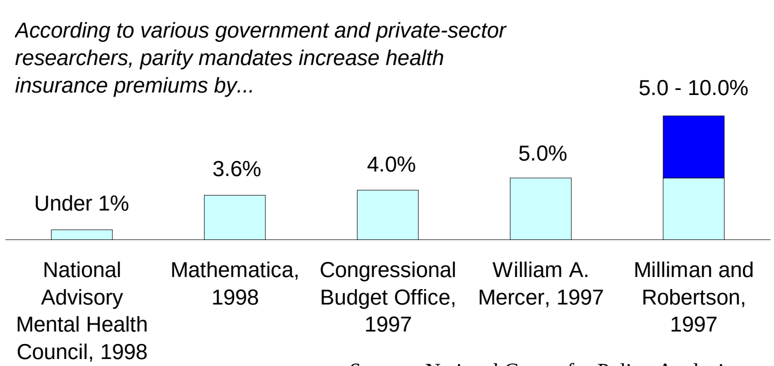
Government regulation is often proposed in response to what is called "market failure." The argument usually goes like this: The marketplace fails to provide something or fails to provide it at what many people regard as a reasonable price. To pick up the slack, government must either require private individuals or companies to make it available, or actually get into the business of providing the thing itself.

Sometimes this argument makes some sense, but more often it does not. And when it doesn't, it is usually because the advocates of government action fail to understand that there are good reasons why people in the marketplace are behaving the way they are. The alleged shortcomings of the market are exaggerated, and the problems attendant to a government "solution" are understated or ignored.

Perhaps more than any other industry, insurance suffers from the misuse of the concept of market failure as an excuse for regulation. A very current example is found in Michigan Senate Bills 101 and 102, now pending before the Committee on Health Policy. These bills would require that group or nongroup coverage provided by Blue Cross/Blue Shield of Michigan, policies issued by Michigan insurers, and contracts issued by Michigan health maintenance organizations, must all provide "parity" for mental health and substance abuse treatment.

Estimates Show Parity Mandates Drive up Health Insurance Premiums



Source: National Center for Policy Analysis

Mental health parity mandates may increase the cost of health insurance by as much as 10 percent. Economists estimate a 1-percent increase in insurance premiums boosts the number of uninsured Americans by as many as 300,000.

The theory behind these bills is that the marketplace discriminates against mental health and substance abuse benefits because employers typically put tougher restrictions on those coverages than on other medical coverage. So to be "fair" and "equitable," government must mandate "parity"—that is, require that the deductibles, co-pays and benefit or service limitations for mental health and substance abuse treatment be no more restrictive than such limits on other benefits.

Proponents of parity argue that it is not fair to restrict coverage in light of the large number of Americans who have a mental

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illness or abuse drugs. They point to estimates that 50 percent of all Americans will suffer from some form of mental illness in their lifetimes. As is the practice of those calling for increased state intervention in so many areas, they also point out the special problems of children.

Why do current insurance contracts not provide such parity, if in fact there is a need for it? The answer is simple: Insurance providers recognize that many of their customers are unwilling to pay the increased premiums that would result from the inclusion of parity in their contracts. Proponents of parity, not deterred by the lack of *market* demand, are attempting to create a *political* demand. To do so, they use appeals to emotion to keep participants in the political marketplace (voters) from seeing the consequences of legislatively imposed parity on participants in the economic marketplace (consumers).

Mandates that cause increases in health insurance premiums price some people out of the market and cause the number of uninsured to rise.

Given the facts, most voters/consumers can understand the unintended consequences of imposing parity. Since additional coverage must be provided for conditions whose existence is often subjective, difficult to define, or even self-inflicted, the premiums for insurance will increase. As premiums increase, some individuals who can barely afford to pay for health insurance today will drop their coverage.

Some employers will either drop insurance coverage entirely or, when possible, switch to self-insured Employee Retirement Income Security Act (ERISA) plans, the regulation of which by the states is preempted by federal law. People covered under ERISA plans cannot participate in the dispute resolution processes offered by Michigan's regulatory authorities, so not only would they *not* get mental health and drug abuse coverage, they would have more difficulty in resolving differences with their health care providers.

Whatever the source, increases in health insurance premiums price some people out of the market and cause the number of uninsured to rise. The Congressional Budget Office estimated in 1996 that a 1-percent increase in health insurance premiums would increase the number of uninsured Americans by 200,000. Private economists have since indicated the number would be closer to 300,000. With this admonition, Vermont Gov. Howard Dean recently asked his legislature not to pass any more mandates: "We cannot vote on the one hand to expand insurance coverage and increase the cost of liability insurance, and then go out in an election year and point the finger elsewhere for the increase in insurance costs."

Rather than mandate equal coverage for drug abusers and the many people suffering from sometimes ill-defined mental problems, Michigan legislators should rely upon the market to reflect the priorities of consumers and suppliers. If the demand is there, the supply will follow.

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