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The Case against Mental Health Parity, Part I: Faulty Assumptions

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Advocates of mental health parity assume that all health care should be paid for in the same way. Federal law already requires that any cap on private health insurance benefits (e.g., a limit on the amount of total spending) must be the same for physical and mental health services. The current round of parity proposals would require the same deductibles and copayments for physical and mental health care.

All such proposals are based on a false assumption. Different types of illnesses require different payment structures in order to achieve better health outcomes for lower costs.

How Mental Health Care Is Different. Five key differences between a typical episode of mental illness and a typical episode of physical illness have implications for paying for care.

Subjectivity. In contrast to the direct observation employed in other branches of medicine, providers in the mental health field must rely largely on the patient's subjective experience of the illness. Patient reports are not always reliable.

No Objective Standards. Partly because the medical community has not studied mental illnesses as intensely as physical illnesses, few objective standards exist — for either diagnosis or treatment.

Doctor Discretion. The providers of mental health care services exercise considerable discretion in prescribing drugs and administering other treatments, and their choices vary considerably.

Patient Discretion. Patients have a wide choice of providers: physicians, psychiatrists, psychologists, social workers, family therapists and counselors, to name a few. Greater patient discretion in mental health is also reflected in the fact that the demand for mental health services is four times more sensitive to changes in price than the demand for general health care.

Patient Cooperation. Patient behavior does not have much impact on the setting and mending of a broken leg. But in the case of diabetes and many other chronic conditions, patient cooperation (e.g., taking the proper drugs, maintaining the proper diets) is essential. The same is true for mental illness. For example, substance abuse patients have to continue to say "no" to the substance they were abusing. For other problems, patients have to take prescription drugs, make appointments with therapists and avoid destructive behaviors. Patient cooperation is also needed in diagnosing the illness in the first place and in monitoring patient progress.

Value of Patient Monitoring. Because of these key differences, patients and their families are often more effective and efficient monitors of mental health care than are such third-party payers as employers, insurance companies or the government. This is true because patients and families are often (1) more aware of the condition, (2) more aware of treatment options and (3) in a better position to compare the costs and benefits of the treatment options.

38 percent of all mental health patients have no mental health disorder.

To take advantage of this capability, patients and their families need to have a financial stake in the outcome of treatment. In mental health care, health incentives are often not enough. Financial incentives are essential.

Curtailing Perverse Incentives. Having patients pay more expenses directly helps reduce two important causes of wasteful health care spending.

Moral Hazard. On the patient side of the market, the condition of having incentives to waste other people's money is called the problem of "moral hazard." It is a problem inherent in all third-party insurance — where individuals are able to draw resources from a common pool. Suppose a patient has a choice between two equally effective therapies. If someone else is paying the bill, the patient has no reason to choose the less expensive option. An apparent reflection of the problem of moral hazard is a National Bureau of Economic Research study finding that 38 percent of all mental health patients — representing 28 percent of all treatment visits — are people who do not have any mental health disorder.

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Rent Seeking. On the other side of the market, provider incentives to waste resources are called "rent seeking." Because both information and monitoring are imperfect, providers find they can enhance their incomes by providing services that are of little or no value. A common observation in the mental health field is that the number of visits it takes to "cure" a patient often equals the maximum number of visits allowed under the patient's insurance plan. Similarly, the number of days in a hospital or other institution needed to "cure" a patient often equals the maximum allowed by insurance. Providers tend to provide as long as insurance pays. Once insurance stops paying, the services stop.

Medical Savings Accounts and Mental Health Care. The problem with the current system is not that there is too little parity, but that there is too much. We need even more diversity than we now have in paying for different types of health care services. With respect to mental health care, we will often get better results for less money spent, if patients pay less in premiums to insurers and pay more bills directly on their own. One way to accomplish this result is by use of a Medical Savings Account (MSA).

The idea behind an MSA is simple. Instead of giving all health care dollars to an insurance company, some of the funds are put into accounts that patients own and control. Money in MSAs is a form of self-insurance, and patients use MSA funds to pay expenses a third-party payer does not.

Through an employer, an MSA would work like this: instead of sending the entire monthly premium to an insurance company, the employer would pay a lower monthly premium and put the difference into each employee's MSA. In return, the employee would accept responsibility for more costs and pay those costs directly from his or her MSA. But except for a special pilot program, federal tax law penalizes direct payment by patients. (See NCPA Study No. 216.)

MSAs in South Africa. In South Africa, where Medical Savings Accounts are not discriminated against, MSA plans now constitute more than half the market for private health insurance. As a result:

- South African patients spending from their own MSAs managed to reduce spending on Ritalin (for children with attention deficit disorder) by almost 20 percent without any adverse health affects.
- Patients using their MSAs also were much more likely to purchase a generic equivalent which cost only 38 percent of the price of Prozac (for depression); by contrast, use of the brand name drug jumped 45 percent when patients were spending insurance company money.

In both these cases, patients with MSAs controlled costs better than managed care did and without the cost of managed care.

Second-best Solutions. Because of the rigidities built into the current system, insurers turn to second-best solutions:

Fee-for-Service Insurance. These plans try to curtail waste by imposing heavy patient cost sharing and limits on visits, hospital days and expenses. For example, one study found that a 50 percent co-payment is the most efficient level for many mental health services. This is consistent with giving individuals a large financial stake in the cost of mental health services. Yet traditional fee-for-service plans contain no mechanism for savings. So if the individual or family tends to live from paycheck to paycheck, they might lack the resources to pay their share and forgo the treatment instead.

Managed Care. This approach usually turns over all health care dollars to a third party with little if any co-payment by the patient. To deal with the problems of moral hazard, managed care organizations limit the providers the patient can see and the facilities the patient can access. Also, doctors and facilities may have a financial interest in under-providing care.

Conclusion. The answer is not to make the health care system more rigid by outlawing second-best approaches, as advocates of parity propose. The solution is to allow maximum flexibility — freeing employees, employers and insurers to find the best ways of paying for diverse health care services.

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