PREPARED BY: Sandy Sostad
DATE PREPARED: February 26, 2003
PHONE: 471-0054

LB 588

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *

	FY 2003-04		FY 2004-05	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	See Below	See Below	See Below	See Below
CASH FUNDS		See Below		See Below
FEDERAL FUNDS	See Below		See Below	
OTHER FUNDS				
TOTAL FUNDS				

*Does not include impact on political subdivisions. See narrative for political subdivision estimates.

LB 588 requires mental health parity in all health insurance plans issued or renewed in the state on or after January 1, 2004. Insurance plans issued in the state may not establish any deductibles, co-payments, coinsurance levels, medication management or other financial components or treatment limits for the coverage of mental illness that are not also applicable to other physical health conditions. The coverage requirements for mental illness are also applicable for the spouse and dependents that are covered by the plan. Insurers that violate the provisions of the act are subject to fines by the Director of Insurance of $10,000.

Currently, mental health parity is required in certain group health insurance plans issued in the state. Plans are not required to provide coverage for mental health conditions or serious mental illnesses. Individual insurance plans or group plans for fewer than 15 employees need not require mental health coverage. Deductibles, co-payments and coinsurance may be different for mental health conditions.

The bill will have a fiscal impact on public and private sector spending on mental health services. The bill will result in an unknown increase in cash fund revenue for the Department of Health and Human Services (HHS) from payments by insurance companies for mental health services. The increase in revenue may be substantial since the state spent $202 million on mental health services in psychiatric hospitals, mental health centers, fees for service Medicaid and Medicaid managed care in 2001-02. Any increase in cash fund revenue will decrease state and federal expenditures for these services. It will also increase revenue for community-based providers of mental health services.

It is important to note that a state mandate for mental health parity will not apply to a majority of the insured workforce. This is because much of the workforce is covered by self-funded plans which are governed by the Employee Retirement Income Security Act (ERISA). These plans are exempt from state insurance regulation and do not have to comply with the requirements of the bill. The Department of Insurance has estimated in the past that 55% of the employees in the state are covered by self-funded health benefit plans.

The University of Nebraska and Department of Administrative Services indicate that the bill will increase expenditures for health insurance plans for their employees. DAS estimates that the cost of the health insurance plan for state employees will increase by 1.2% pursuant to the bill. This will increase the cost of the coverage by approximately $569,715 in 2003-04 and $1,201,524 in 2004-05. The University projects increased annual expenditures of $561,000 to $787,000. Approximately 50% of the cost of the state employee plan and 66% of the University plan is funded with General Funds, so general fund expenditures are projected to increase by a minimum of $389,000 in 2003-04 and $901,000 in 2004-05. The bill may also increase the expenses of other political subdivisions to provide insurance coverage for their employees.

The Department of Insurance estimates the bill will increase the cost of the Comprehensive Health Insurance Pool program by $550,000-$4,000,000. The administrator of the pool estimates there will be a 2% increase in claims in the first year totaling about $550,000. If the plan experiences adverse selection, then these costs could increase to an estimated $4 million each year.

The pool will not receive any increased premium income to offset the increase in claims in the initial year. The actual fiscal impact of the bill for the pool depends upon how much of the cost can be recouped through premium increases. The premium for the pool is based upon 135% of the average premium charged by the top five health insurers in the state. If adverse selection occurs as a result of this legislation, then CHIP may end up covering persons in need of mental health services who are not provided coverage by other health insurers in the state. This may mean costs for the pool will rise more than the costs for the other health insurance providers. Any increase in cost that is not covered by increased premiums, reduces the amount of insurance premium tax proceeds that are received by the General Fund, Mutual Finance Assistance Fund, counties, cities and schools..

DEPARTMENT OF ADMINISTRATIVE SERVICES

REVIEWED BY	Joe Wilcox	2/03/03	PHONE 471-2526

COMMENTS

Dept. of Insurance - Concur with agency analysis and range of impact potential.
Dept. of Administrative Servs. - No basis to dispute agency analysis.
University of NE - No basis to dispute agency analysis.