

OFFICE OF THE CITY MANAGER

July 9, 2001

TO: City Council
FROM: City Manager
SUBJECT: SB 599 (Chesbro) *Health Care Coverage: Substance-Use Disorders*

On June 25, 2001, the City Council reviewed the attached report and requested further information on the cost benefit of providing insurance coverage for substance use disorders as proposed in SB 599.

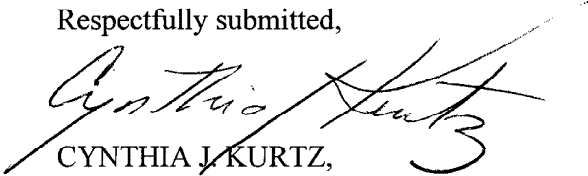
An analysis by PERS legislative staff estimates that if SB 599 were enacted, it would result in a 0.5% increase in overall annual health premiums. Based on this estimate, the cost to the City of Pasadena would be \$34,000 annually in increased premiums. Under the current benefits structure, both PPO and HMO options place strict limits on both inpatient and outpatient coverage for addiction treatment services. SB 599 would remove many of these limits making coverage equal to that provided for chronic disorders (i.e., no lifetime maximum and no limit on number of visits per year).

Increased access to substance abuse treatment services will reduce the associated costs for untreated addiction and result in a greater cost savings to the City. Although data on the exact costs to the City from substance abuse among employees and their family members is not available, known costs of untreated substance addiction include absenteeism, lost productivity, injuries and accidents resulting in worker's compensation or legal costs, and extended disability costs linked to substance use-related chronic health problems. Industry wide economic analysis shows that every \$1 spent on treatment saves \$3 in law enforcement costs. This means that spending \$34,000 could potentially save \$102,000 in public safety and prosecution costs. The same analysis estimates there is an overall \$7 savings in medical and social costs for every \$1 spent on treatment. Therefore, spending \$34,000 could save a total of \$238,000.

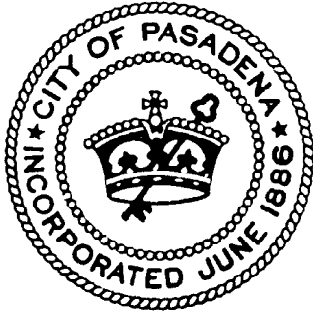
07/09/2001
3.C.

Although staff originally stated that passage of this legislation would have no fiscal impact on the City of Pasadena, further analysis has shown that some impact is likely. The net cost to the City is unknown at this time and can only be estimated. Staff maintains its original recommendation to support SB 599 and requests City Council to consider both the potential savings and costs in determining the City's position on this bill.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Cynthia Kurtz", written in black ink. The signature is positioned above the printed name and title.

CYNTHIA J. KURTZ,
City Manager



Agenda Report

TO: CITY COUNCIL

DATE: June 25, 2001

THROUGH: Legislative Committee

FROM: City Manager

**SUBJECT: SUPPORT FOR SENATE BILL 599 (CHESBRO) – HEALTH CARE
SERVICE PLANS: SUBSTANCE-USE DISORDERS**

RECOMMENDATION

It is recommended that the City Council:

1. Support Senate Bill 599 (Chesbro) – Health Care Service Plans: Substance-Use Disorders; and
2. Authorize the Mayor to send letters to the appropriate authorities stating Pasadena's position.

BILL SUMMARY

This bill requires health care service plans, disability insurers and self-insured employee welfare benefit plans to provide coverage for substance-use disorders on the same basis as they would provide coverage for any other medical care.

BACKGROUND

It is estimated that more than half a million preventable deaths a year in the country are a result of drug and alcohol abuse. The estimated cost to taxpayers nationwide is nearly \$276 billion per year and includes increased health care, law enforcement, automobile accident, drug related criminal activity and lost productivity. Statistics released in 1994 by the California Department of Alcohol and Drug Programs revealed that for every dollar spent on treatment, taxpayers save \$7. Although 85% of the public is in support of coverage for drug and alcohol abuse treatment, plan coverage has significantly declined in recent years.

The Health Status Report for the San Gabriel Valley Service Planning Area (SPA 3) published in March 2001 reports Alcohol Dependence as one of the 3 leading causes of premature death and disability in 1997, second only to Coronary Heart Disease and having a much higher incidence than Depression, the third leading cause. In California, only an estimated 17% of adults and 10% of juveniles have access to alcohol and drug abuse treatment. In Pasadena, at any one time, an estimated 600 individuals are receiving treatment through County-funded outpatient programs, up to 317 beds are available in non-profit residential treatment programs, and up to 175 beds are available in non-profit sober living homes. However, the number of individuals receiving treatment through private medical plans is unknown. The State Legislative Analyst is currently reviewing information on private resources and organizations statewide that provide alcohol and drug treatment services and will be reporting its findings to the Legislature.

Addicted individuals who are covered by plans use medical benefits 10 times more than non-addicted individuals. Yet, it is estimated that nationwide over three-quarters of the people with serious alcohol and drug problems go without treatment. Lack of coverage has been identified as one of the barriers to treatment.

Existing law is structured so that plans may limit the level of coverage provided. Specifically, existing law:

1. Requires plans and insurers to offer coverage for the treatment of alcoholism under the terms and conditions agreed upon between the group subscriber and the plan.
2. Allows the group subscriber and the plan and the group policyholder and the insurer to agree to cover treatment for chemical dependency or nicotine use.
3. Requires plans and insurers to provide coverage for the diagnosis and medically necessary treatment of severe mental illnesses of a person of any age, and of serious emotional disturbances of a child, under the same terms and conditions applied to other medical conditions.

This bill will ensure that substance-use disorders are covered in the same manner as other medical care. If enacted, this law:

1. Requires every health care service plan, disability insurers and self-insured employee welfare benefit plans that cover hospital, medical or surgical expenses on a group basis to provide coverage for the treatment of substance-use disorders as listed in the Diagnostic and Statistical Manual of Mental Health Disorders, IV (DSM IV) published by the American Psychiatric Association, in a nondiscriminatory manner on the same basis as any other medical care.
2. Requires that every plan and insurer communicate the availability of this coverage to all current and prospective group subscribers.

3. Specifies that plans and insurers shall provide continuum of clinically effective and appropriate services and continuing treatment in a facility that is licensed or certified, or by a licensed physician, an appropriately credentialed addictions counselor or other provider licensed or certified in the treatment of substance-use disorders.
4. Specifies that coverage and funding shall be the same as benefits covering other physical illness, including medications with the same cost-sharing provisions, deductibles, appropriate caps or limits on number of outpatient visits, residential or inpatient treatment days, payments, lifetime benefits and catastrophic coverage.
5. Specifies that every plan and insurers and its contracting entities shall provide actuarially sound augmentation for reimbursement to the providers of services specified in the bill.
6. Specifies that a plan that directly contracts with an individual providers or provider organization shall not delegate the risk adjustment costs of providing services unless certain requirements are met.
7. Provides that an insurer shall not seek indemnity from its contracting providers or otherwise transfer to its contracting providers financial responsibility for any mandate in the bill.

Passage of this legislation would make substance abuse treatment services more readily available to individuals and families who need them and potentially reduce morbidity and mortality from alcohol and other drug use and the costs of these problems to families, communities and society.

Numerous public health and medical organizations support SB 599, including the Health Officers' Association of California (HOAC), County Health Executives of California (CHEAC), and the County Alcohol and Drug Program Administrators Association of California (CADPAAC), as well as state professional associations of social workers, therapists, psychologists, psychiatrists and other mental health providers. Other supporters include municipalities and counties, such as Los Angeles County. Several states (Vermont, Minnesota and North Carolina) have passed laws requiring coverage for alcohol and drug abuse treatment. Other states, such as Delaware and Rhode Island, are attempting to regulate mental health parity and treatment for substance for substance abuse disorders. The opposition is comprised of Health Insurance plan providers and Health Maintenance Organizations.

FISCAL IMPACT

Passage of this legislation has no fiscal impact on the City of Pasadena.

Respectfully submitted,

For: Cynthia J. Kurtz
CYNTHIA J. KURTZ
City Manager

Prepared by:

Heidi Petersen
Heidi Petersen
Acting Public Health Administrator

Approved by:

Wilma J. Allen
Wilma J. Allen
Director of Public Health