



Economic Impact Analysis Virginia Department of Planning and Budget

12 VAC 30-50; 60; 80; 120 – Amount, Duration and Scope of Medical and Remedial Services, Standards Established and Methods Used to Assure High Quality of Care, Methods and Standards for Establishing Payment Rates – Other Types of Care, and Waivered Services

Department of Medical Assistance Services

October 22, 2007

Summary of the Proposed Amendments to Regulation

Pursuant to the 2007 Acts of Assembly, Chapter 847, Item 302 PPP, the proposed regulations provide Medicaid coverage for substance abuse treatment services for children and adults. The proposed regulations have been in effect since July 1, 2007 under emergency regulations.

Result of Analysis

The benefits likely exceed the costs for all proposed changes. A different design would likely yield greater net benefits.

Estimated Economic Impact

Pursuant to the 2007 Acts of Assembly, Chapter 847, Item 302 PPP, the proposed regulations provide Medicaid coverage for substance abuse treatment services for children and adults. The covered services include emergency services; evaluation and assessment; outpatient services; intensive outpatient services; targeted case management; day treatment; and opioid treatment.

Prior to the emergency regulations, the only services covered were residential and day treatment services for pregnant and postpartum women. With the proposed changes, a broader spectrum of services is offered to a greater number of Medicaid eligible enrollees.

The new services are available to fee-for-service enrollees, Medallion Primary Care Case Management recipients, and Medallion II recipients. Medallion Primary Care Case Management

recipients have direct access to the proposed substance abuse services as they do not need a referral from their primary care physician. Medallion II recipients have access to outpatient services (excluding intensive outpatient services) and assessment and evaluation services through their managed care organization while the rest of the services are provided through the fee-for-service model. In other words, outpatient services (excluding intensive outpatient services) and assessment and evaluation services are included as the services that the managed care organization has responsibility to pay while the rest of the services are carved out of the managed care organization's responsibility.

The available economic research on substance abuse services suggests that the benefits of provision of these services easily outweigh the costs. In general, Holder, 1998¹ reviews the literature on cost and benefits of substance abuse treatment and finds that the results in the literature provide consistent support for the cost effectiveness of the substance abuse treatment. More specifically, Wickizer et al., 2006² find that the cost of providing substance abuse services to Medicaid recipients was \$2,300 per person per year while the benefit in avoided (other) healthcare expenses in the following year was about \$2,500 per person per year. In other words, the provision of substance abuse services appears to pay for itself within one year. When some non-healthcare related benefits of substance abuse treatment such as reduction in crime and increased earnings potential of those treated were included, the benefits appear to greatly exceed the costs. Ettner et al., 2005³ reports \$1,583 in treatment costs versus \$11,487 in monetary benefits to the society representing benefit-cost ratio of greater than 7 to 1.

The Department of Medical Assistance Services (DMAS) estimates that approximately 9,000 recipients will use at least one substance abuse treatment service in FY 2008 at a total cost of approximately \$13.2 million. In FY 2009 and 2010, the projected total Medicaid costs are \$14.5 million and \$15.9 million, respectively. Approximately one half of these amounts will be funded by the federal government while Virginia will be responsible for the other half. Based on the research discussed above, we should expect offsetting reductions in other Medicaid expenditures in addition to lower crime rates and increased earnings.

¹ Holder, Harold D., 1998, "Cost Benefits of Substance Abuse Treatment: An Overview of Results from Alcohol and Drug Abuse," *The Journal of Mental Health Policy and Economics*, Vol. 1, pp. 23-29.

² Wickizer, Thomas M., et al., 2006, "The Effect of Substance Abuse Treatment on Medicaid Expenditures among General Assistance Welfare Clients in Washington State," *The Milbank Quarterly*, Vol. 84, No. 3, pp. 555-576.

The proposed program may also have significant distributional economic effects among the Medicaid providers. As more individuals use substance abuse services, we expect to see an increase in reimbursements to substance abuse services providers and a decrease in reimbursements to the providers of other healthcare services, such as hospital based care services.

In addition, the proposed program is expected to introduce approximately \$181,488 in staff administrative costs to perform prior authorization and utilization review for new services.

It is worth noting that the expected increase in expenditures for the proposed services will result in approximately \$6.6 million in additional federal funds coming into the Commonwealth which would have an expansionary economic effect on overall economic activity, all things being equal. However, this expansionary effect will be offset after about a year when the utilization of other healthcare services decreases as a result of the substance abuse treatment services.

Finally, the proposed regulations do not provide substance abuse treatment services for tobacco and caffeine addiction. Given the widespread use of tobacco and its well documented adverse health effects, the treatment of tobacco addiction would probably significantly increase the net economic benefits expected. However, realizing the future savings in other healthcare related costs requires significant funds in the present to treat tobacco addiction. Thus, when and if such funds become available, making tobacco addiction treatment available to Medicaid recipients would likely be worth much more than the costs of coverage.

Businesses and Entities Affected

The number of providers who may render substance abuse treatment services is estimated to be 765. The number of individuals who may utilize newly available services is estimated to be about 9,000.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth.

³ Ettner, Susan L., et al., 2005, "Benefit-Cost in the California Treatment Outcome Project: Does Substance Abuse Treatment Pay for Itself?," *Health Research and Educational Trust*, pp. 1-22.

Projected Impact on Employment

Expected increases in the demand for the use of substance abuse treatment services, and the need for administrative staff to conduct prior authorization and utilization reviews, will likely increase the demand for labor. Expected decreases in other health care services, hospital base care in particular, will likely decrease the demand for labor.

Effects on the Use and Value of Private Property

An expected increase in the use of substance abuse treatment services and a corresponding increase in the revenue that accrues to providers will likely enhance the asset value of these providers, while the expected decrease in the revenues of other healthcare services will likely decrease the asset value of these providers. Also, any reduction in crime is expected to have a positive impact on the use and value of private property in the Commonwealth.

Small Businesses: Costs and Other Effects

All of the substance abuse service providers are believed to be small businesses. Thus, all of the economic effects discussed above apply to them.

Small Businesses: Alternative Method that Minimizes Adverse Impact

There is no known alternative that will reduce the adverse effect on the providers of other healthcare services, such as hospital based care providers, while achieving the goals of the proposed regulations.

Real Estate Development Costs

The proposed regulations are not expected to have any effect on real estate development costs.

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 36 (06). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to

be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.