

## COMPETITION AND THE MENTAL HEALTH SYSTEM

### Competition and the Marketplace

Increasingly the U.S. health care system relies on competition to allocate scarce health care resources. This is even the case for those services that are ultimately paid for by the government. Competition helps to ensure that insurers, hospitals and physicians minimize their costs, keep their prices as low as possible, and innovate to improve quality. In reality, however, many experts have argued that competition does not always offer these benefits particularly in health care.

In their paper “Competition and the Mental Health System” for the *Fundamental Policy – Spotlight on Mental Health Conference*, Alison Evans Cuellar and Deborah Haas–Wilson identify differences between mental health care and general health care and discuss implications for competition and policy research. These areas include: the role of managed care organizations, the provision of services by specialists and generalists, and the nature of contracting between health plans and public and private purchasers.

### The Role of Managed Care in Mental Health

The premise of managed care in general health is that competition, generated because plans selectively choose providers, can lead to quality services at low cost. By the end of the 1990s, roughly half of insured individuals received services through a specialized managed behavioral health organization (MBHO), referred to as a carve-out plan. Although the premise of MBHOs is the same as for general health managed care organizations, anecdotal evidence suggests that selective contracting is not a prime feature in the behavioral health care market. Instead reimbursement rates are often fixed by discipline (psychiatrist, psychologist, master’s level

social worker, nurse, etc.) in a given geographic area, rather than determined by competition. That said, MBHOs have been credited with reducing behavioral health costs by as much as 48 percent in the private sector and 33 percent in the Medicaid program.

As managed care expanded widely in the 1990s, the hospital industry consolidated. Yet little information also exists about the role of mergers and the consolidation of inpatient psychiatric facilities. While general hospital consolidation has been the subject of numerous research studies, the effects of consolidation on the costs, quality, and prices of mental health care services is basically unknown. Further, there has been considerable consolidation among MBHOs.

### Specialist versus Generalist Care

The role of specialty versus general providers in the delivery of behavior health services is changing. This has important implications for competition and competition policy. First, since the early 1990s, more inpatient care is being provided in general hospitals that have psychiatric units, rather than specialty psychiatric hospitals. Second, there has been a trend toward treating persons with mental illness as outpatients rather than inpatients. In addition, more outpatient behavioral health care now is provided by master’s-level therapists and primary care doctors rather than psychiatrists. Finally, psychotropic medications are more frequently prescribed by primary care physicians and other health professionals.

Despite these trends, there is some evidence that mental illness is not as well managed in primary care settings as it is managed in specialty settings. However, the research in this area is thin and

therefore the authors recommend that future research focus on the prices, costs, and quality of both primary and specialty care providers of behavioral health services.

#### Contracting for Managed Mental Health Care

Procuring MBHOS is on its face a competitive process. MBHOS compete against one another in the selection process on the basis of reputations, proposed fees, provider networks, and other factors. If there are only a few plans active in the market this can create challenges for public purchasers. Furthermore, competition is undermined by adverse selection, or the tendency of individuals who use the most intensive services to select mental health plans with more generous coverage.

Because adverse selection exists, managed care plans have incentives to structure benefits, create limited specialty provider networks, or otherwise limit access to these services in order to avoid high-risk consumers. This limits the potential of competition to lower plan premiums. To date, research is limited on the effects of adverse selection and potential remedies that might counter it.

#### Research for the Future

Although these three areas provide some insight into the trends and challenges of competition in behavioral health services, there is little concrete data that provides context for setting efficient and effective public policies. Very little is known about price-competition in markets for behavioral health care services. Even less is known about quality-competition. With this in mind, Cuellar

and Haas-Wilson recognize the need for extensive future research.

The authors call for three areas of research that explore the implications of competition within the realm of behavioral health.

The first group of questions explores the impact of consolidation on the price and quality of services. To what extent have behavioral health clinicians consolidated through ownership or new types of provider organizations, such as Independent Practice Associations and Physicians Hospital Organizations? What impact have these new forms had on costs, prices, and quality?

Where there has been more consolidation, either in MBHOS or in psychiatric inpatient care, is there evidence of the exercise of market power—the willingness and ability of sellers to raise their prices above competitive levels?

The final group of questions examines the extent to which relationships between consolidation and price (and consolidation and quality) vary by policy-environment and by state? Some of these policies have been studied in the context of general health care, but only sporadic studies exist with respect to mental health.

With today's rapidly changing mental health care system, it is an opportune time to seek answers to these important questions about potential failures in competition and the impact of current policies on consumers, purchasers, providers, and managed care organizations.

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