# Leveraging a Standardized State Methodology that Measures Behavioral Health Clinical Spending to Improve Care

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The Milbank Memorial Fund partnered with Freedman HealthCare to convene state leaders, behavioral health experts and industry stakeholders to provide recommendations and considerations for implementation of a standardized approach to measure behavioral health spending. The recommendations for a standardized state methodology to measure behavioral health spending and its accompanying code set were published in April 2024. This report discusses opportunities for states to use this standardized approach and tailor it to fit their unique needs.

## About the Milbank Memorial Fund

The Milbank Memorial Fund works to improve population health and health equity by collaborating with leaders and decision makers and connecting them with experience and sound evidence. Founded in 1905, the Milbank Memorial Fund advances its mission by identifying, informing, and inspiring current and future state health policy leaders to enhance their effectiveness; convening and supporting state health policy decision makers to advance strong primary care and sustainable health care costs; and publishing high-quality, evidence-based publications and *The Milbank Quarterly*, a peer-reviewed journal of population health and health policy. For more information, visit **www.milbank.org**.

## About Freedman HealthCare

Established in 2005, Freedman HealthCare (FHC) is a focused, independent consulting firm that helps states put health data to work to solve complex problems. FHC's team of seasoned experts support clients in using data to identify opportunities to improve healthcare quality, affordability and equity and measure the impact of meaningful policy change.

FHC's work to develop and implement health policy initiatives, including measuring progress toward quality and cost growth, primary care and behavioral health investment targets, in more than 15 states and several national non-profit organizations provides us with a broad and deep understanding of various healthcare data sources, and how to make meaningful connections.

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# ABSTRACT

More Americans are being diagnosed with behavioral health conditions, and nearly half will have a behavioral health issue, such as depression, anxiety, and opioid addiction, in their lifetime.[1] State officials are increasingly interested in identifying ways to improve access to high-quality behavioral health care and promote appropriate levels of spending to support these services. Defining and tracking how much payers spend to treat behavioral health conditions is an important early step for many states. This report discusses states' use cases for a standardized approach to measuring behavioral health spending and considerations for implementation, leveraging recommendations for a standard methodology published in a previous Milbank report.[2]

# BACKGROUND

Today, 12 states measure how much payers spend on clinical care to treat behavioral health conditions. Three of those states — Maine, Massachusetts, and Rhode Island — measure behavioral health spending across the clinical care continuum. These three states' approaches to measurement are largely similar, defining spending using a combination of diagnosis codes, procedure codes, and provider taxonomy codes. Some also measure spending paid through non-claims payments. However, the state code sets used to define spending, categories of non-claims payments, and technical specifications vary. Several states share an interest in developing a standardized methodology that supports greater comparability, utilizes best practices, and reduces data submitter burden.

To support a standardized approach to behavioral health spending measurement, the Milbank Memorial Fund commissioned Freedman HealthCare to convene an Advisory Group of state leaders and subject matter experts to consider ways to develop a comprehensive framework that could standardize measurement. The Advisory Group met twice to discuss ways a standardized methodology and code set could be used and to identify key considerations for measuring behavioral health clinical services and non-claims spending.

The Advisory Group noted three distinct "use cases" for behavioral health data collection that could benefit from a standardized methodology (Table 1):

- monitoring statutory or regulatory compliance related to behavioral health (i.e., mental health parity),
- improving service delivery through state budget reform, and
- setting spending targets for behavioral health services.

**Table 1: State Use Cases for Behavioral Health Data Collection**

| Monitor Regulatory Compliance | Improve Service Delivery through State Budget Reform | Set Spending Targets for Behavioral Health Services |
|---|---|---|
|  |  |  |
| A standardized clinical behavioral health spending measurement methodology can help states evaluate and enforce mental health parity laws and other regulatory or statutory behavioral health requirements. | Measuring utilization and spending through standardized service categories can help states identify where state budget dollars should be going to support behavioral health care delivery and where to cut back. | A standardized methodology for measuring behavioral health spending can help states identify areas of underinvestment, develop investment targets, and enable comparisons across regions and states. |

Discussions among Advisory Group members centered on key decisions such as which diagnosis codes, provider taxonomies, care settings, and non-claims clinical spending categories to include in a methodology for behavioral health spending measurement.

Informed by these Advisory Group discussions and interviews with additional national experts, Freedman HealthCare developed a report detailing recommendations for a standardized state methodology, with a companion code set. Freedman HealthCare then worked with payer experts to develop technical specifications informing implementation of the methodology.

# USING A STANDARDIZED MEASUREMENT

Discussions with the Advisory Group and national experts highlighted aligned priorities for reporting behavioral health data for these three distinct uses (Table 1).

## Use Case: Monitor Statutory/Regulatory Compliance

**Background:** Less than half of people with a mental illness nationwide report having timely access to behavioral health care.[3] Federal behavioral health parity requirements, aiming to address this access issue, mandate that health plans offering behavioral health coverage ensure financial requirements (i.e., deductibles, copayments, and coinsurance) and treatment limits are no more restrictive than those on medical benefits. Some states have adopted similar requirements, such as the Delaware Department of Insurance's Mental Health Parity requirement for health insurance carriers. Some states conduct annual analyses monitoring mental health parity compliance, publishing results in annual reports, such as Washington State Health Care Authority's Parity Analysis or Rhode Island's Behavioral Health Parity Implementation Report. Despite federal requirements, states often find parity enforcement challenging, especially without a standard approach to measuring behavioral health spending that meets compliance analysis needs.[4]

**Recommendation:** A standardized methodology to measure clinical behavioral health spending offers a consistent framework for defining mental health services and treatments, which is a first step to evaluating and enforcing parity. The methodology provides a list of recommended service codes and categories to define behavioral health services. This will allow states to adhere to a common definition for behavioral health services and standardize analyses to evaluate compliance with parity requirements. States also will be able to compare spending across behavioral health and other types of care for like services at specific care settings to ensure compliance with parity requirements and understand spending on these services across states.

**Stakeholder Feedback:** Stakeholders noted that parity analyses are often challenging, as there is no clarity in differentiating spending on behavioral health services from spending on medical services. Further, patients with behavioral health conditions often have other medical conditions that directly relate to behavioral health conditions. The standardized methodology for measuring clinical behavioral health spending will provide states a consistent approach to define behavioral health and will align with data collection for other use cases.

## Use Case: Reform State Budgeting to Improve Service Delivery

**Background:** Annual state spending on behavioral health services continues to increase, and the need for quality behavioral health services continues to rise with it.[5] States are increasingly looking to invest in effective behavioral health systems that address patient needs earlier and reduce downstream costs.[6] Comparing spending for different state-funded behavioral health-related programs, primarily through Medicare and Medicaid and often through non-claims payments, can help identify which efforts have the greatest impact. Some states use Medicaid Section 1115 waivers to fund this work, like Massachusetts' MassHealth 1115 Demonstration Extension, which is focused on supporting accountable care and advancing health equity.[7] These waivers offer funding to design and improve experimental, pilot, or demonstration policy approaches or projects to better serve a state's Medicaid population.

**Recommendation:** Measuring service utilization and spending by service category could enable states to understand whether upstream investments in preventive programs are addressing patients' conditions earlier, reducing the need for higher-intensity care. The standardized methodology will offer states the opportunity to track the impact of programs on behavioral health spending and work with payers and providers to develop solutions that will lead to better care delivery. States can use the recommended code set to define services, service categories, and care settings to develop analyses to evaluate access, delivery, and affordability. The methodology and its accompanying technical specifications provide groups of categories to track spending and evaluate the impact of programs. State leaders may also use data from the recommended methodology to evaluate the efficacy and value of programs and inform future budget decisions. States may look to the non-claims spending framework to capture this spending and collect non-claims spending by service categories aligned with the Expanded Framework for categorizing non-claims payments, developed by the California Office of Health Care Affordability and Freedman HealthCare.

**Stakeholder Feedback:** Stakeholders noted that behavioral health spending often varies significantly by region, and lower spending on behavioral health services may signal challenges with service delivery in that area (i.e., provider shortages, few social services and supports, challenges in tracking care delivery). Stakeholders also noted that a standardized approach could help identify populations that could be supported with Medicaid Section 1115 demonstration waivers. In one part of Massachusetts' current Section 1115 waiver extension, the MassHealth Community Partners program provides aid to accountable care organizations and managed care organizations to support members with significant behavioral health needs through enhanced care management and coordination. The standardized methodology could support Massachusetts in evaluating spending associated with the program through its service category designations, which will provide insight on where care is occurring and where spending is increasing. The standardized methodology will support states like Massachusetts in evaluating spending on care delivery over multiple years to evaluate the impact of policy and program implementation.

*"Recent state investments, legislation, and policy reforms have put further emphasis on the importance of adequate behavioral health services, which the Center for Health Information and Analysis continues to support through the measurement of behavioral health spending. A standard measurement approach goes a long way in enabling comparisons across payer types and states."*

*—Lauren Peters, JD*

*Executive Director, Massachusetts Center for Health Information and Analysis*

## Use Case: Set Spending Targets/Benchmarks for Behavioral Health Services

**Background:** A growing number of states have set or are in the process of setting targets or requirements for primary care investment.[8] States that are increasing investments in primary care have found it critical to develop a measurement approach that allows for spending comparisons across payer types to ensure a target adequately supports statewide care transformation. California and Rhode Island are developing goals for increasing behavioral health spending.[9] Understanding how much is spent and on what services is the first step to understanding whether spending is sufficient to support behavioral health needs. Categorizing behavioral health clinical spending by service type will support states in understanding where targeted investment increases can have the greatest impact. Successful preventive behavioral health programs may reduce spending in intensive downstream programs (e.g., spending at inpatient facilities). For example, Rhode Island's Office of the Health Insurance Commissioner established behavioral health expenditure targets for insurers, focused on integrated behavioral health, and community-based services for adolescent health based on initial spending and utilization measurement.[10,11,12]

**Recommendation:** States will use the standardized methodology to inform targets or benchmarks for spending on behavioral health clinical services. Measuring the spending over multiple years will benefit states in understanding the historic underinvestment in behavioral health, provide context for developing investment targets, and enable comparisons across states while reducing data submitter burden. Based on Advisory Group recommendations, the methodology includes capturing spending on behavioral health care delivered by primary care providers to understand changes in spending over time. States may consider this spending as part of their behavioral health clinical spending measurement and primary care spending measurement.

**Stakeholder Feedback:** Stakeholders noted a common goal to create behavioral health spending and utilization benchmarks similar to primary care benchmarks currently in place in many states. A standardized methodology for measuring behavioral health spending could allow for tailored benchmark program design, while allowing for more consistent data collection and effective use of data across states, including the opportunity for cross-state comparison.[13]

*Several states have already engaged in Section 1115 waivers to fund behavioral health-related programs:*

- *General expansion of behavioral health benefits and services (e.g., AR, AK, CA, ID, IL, MI, MO, MT, NJ, UT, and Washington, DC)*
- *Expanding substance use disorder services and benefits (e.g., AL, CO, CT, LA, KY, MD, ME, MN, NE, NV, NH, NY, OH, OK, OR, PA, UT, VT, and WV)*

# TAILORING THE MEASUREMENT APPROACH

While the recommendations provide states with a standard methodology for behavioral health spending measurement, not all states have the same measurement needs or capabilities. States should define their use cases and priorities, and determine the granularity of the data and analyses. As states measure behavioral health clinical spending, they may engage stakeholders in answering the following questions:

1. Should measurement include spending only for patients with a primary behavioral health diagnosis, or should it be stratified further with secondary, tertiary, and other behavioral health diagnoses?

2. Is there an interest in understanding outpatient behavioral health clinical spending by primary care providers? Should data collection distinguish outpatient care in a primary care setting?

3. Are there significant capitation and full risk payments in the state? Do data submitters need to calculate the portion of the payments representing treatment of patients with behavioral health conditions?

4. Are there additional fields outside of the common data elements that should be collected to support state behavioral health measurement priorities, such as geographic region or age groups?

5. Will behavioral health spending be reported at the payer or provider level? States should consider reporting at the level that they hold stakeholders accountable to achieve their use case or priority.

## CONCLUSION

A standardized methodology for behavioral health spending measurement offers policymakers and stakeholders a baseline for understanding the landscape of behavioral health in their state. The report published in April 2024, its accompanying code set, and technical specifications allow states to tailor behavioral health spending measurement based on their priorities and analyze spending data to improve behavioral health care delivery and outcomes.

# NOTES

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