**Mental Health Parity: Costs and Benefits**

Requiring health insurers to give parity to mental health coverage could boost premium costs but save the government money, the Academy told House-Senate conferees considering an amendment to the Kassebaum-Kennedy health insurance bill. Under the Senate-approved proposal sponsored by Sens. Pete Domenici (R-N.M.) and Paul Wellstone (D-Minn.), coverage limits on mental health services must be the same as for other health conditions. Currently, insurers often impose tighter benefit restrictions, higher cost sharing, and lower annual spending limits on mental health services.

The amendment’s impact on private insurance premiums and self-insured plan costs will vary depending on the current level of coverage provided, according to the Academy comments. Some private actuarial studies document that increases will vary depending upon assumptions. Congressional Budget Office estimates show an increase of 4% in total health premium costs, with employer’s share of the increase at 1.6%.

The Academy also noted that expanded private coverage under the amendment could reduce public-sector expenditures for mental health. A private firm’s actuarial study referred to in the Academy letter shows that up to one-third of current government expenditures would be privatized, yielding savings of $16.6 billion. Market efficiencies would limit private sector cost increases to $14.4 billion. Most employer-sponsored and individual health plans would be covered under the amendments, but not Medicare or Medicaid.

Ron Bachman, an expert on mental health benefits and author of the Academy’s comments, said “if the Domenici-Wellstone amendment is implemented properly, with aggressive use of managed care, it could mean big savings for the federal government.”

The amendment allows some managed care controls on mental health benefits. Permitted limitations include pre-admission screening, authorization of coverage requirements, and procedures to restrict coverage to medically necessary services. Mental health carveouts and risk-sharing programs also would be permitted under the amendment.

The Domenici-Wellstone amendment does not require insurers to offer mental health benefits, only to offer them on an equal basis if included in a health plan. The amendment would supplement existing state requirements and mandates for mental health coverage. Employers also could not require a separate premium for mental health coverage. The definition of mental illness does not include alcohol or other substance abuse; thus, restrictions could be placed on any treatment of those conditions.

The Academy’s comments provided conference with an overview of these provisions, but emphasized that the amendment’s impact would depend on regulatory clarification and “could encounter problems due to uncertain language, undefined terms, and potential unintended consequences.”

Minnesota regulatory actuary Julia Philips, who reviewed the Academy letter, noted that her state adopted a similar provision last year. “It is still too early to tell the effects of the Minnesota law,” said Philips, “but information from insurance carriers indicates that cost increases to private insurers will range from 1% to 5%. HMOs and other arrangements where care is tightly managed could expect to see lower increases.”
Life Journal
Praises Academy

The Academy’s unique, unbiased status among Washington policy groups was highlighted in the May Life Underwriters News, published by the National Association of Life Underwriters. In his column, “Asking the Actuaries,” LAN editor Jeffrey Kosnett writes: “While the National Association of Life Insurance New,published by groups was emphasized in the May status among Washington policy The Academy’s unique, unbiased LifeJournal

agents keep fighting to be trusted, policy initiatives on Medicare, bank-
effectiveness proves “the market is ap-
AcademyPress Chuck Bryan,
never grinding axes and staying nonpartisan.” Quoting former
continues to work closely with the insurance industry, the Academy’s success “is the result of neither grinning axes and staying partisan.”

Quote former Academy President Chuck Bryan, Kosnett states the profession’s ef-
correction
An April 28 Boston Globe col-
umn by economics writer David Wards also called the actuarial discipline a “non-

PBCG Upholds Actuaries’ Right to Set Assumptions

In a victory for actuaries’ professional judgment, a Pension Benefit Guaranty Corporation (PBCG) nego-
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Fighting for the Pension Actuary: ASPA's Chet Salkind

Chet Salkind has served as executive director of the American Society of Pension Actuaries (ASPA) since 1979, capping a long career as an attorney in employee benefit regulation. Salkind was the first person to work for all three principal federal pension regulatory bodies—the IRS, Department of Labor, and the Pension Benefit Guarantee Corporation. Unlike the Academy, ASPA is a lobbying organization, representing enrolled actuaries and other benefits professionals who work for small qualified pension plans. From 1989-95, ASPA battled the IRS small-plan audit program, which called into question actuaries' ability to determine reasonable pension plan assumptions. The IRS has since called a halt to the program, and litigation over individual cases is now winding down. Salkind recently met with Update Managing Editor Jeffrey Speicher to discuss the small plan fight, retirement income policy, and the future of the pension actuarial profession.

What was ASPA's role in the battle against the IRS small-plan audit program?
Primarily, ASPA had to convince our members and their clients to hang in there and fight. We were sure that the program was an arbitrary IRS action and did not result from actuaries' erroneous judgments. Our task was to persuade actuaries that they would ultimately prevail in court. As first, there was a danger that actuaries and plan sponsors would give up. The result was good sponsors and sponsors remained until victory.

How did ASPA carry out its strategy?
Specifically, we filed a number of Freedom-of-Information-Act requests, including one on how the IRS arrived at its estimate that the audit would net $660 million. We also got Congress involved in questioning what the IRS was doing. And of course, we continuously alerted the press as to what was going on.

And what strategy ran out of your effort?
For better or worse, it was up to ASPA to lead the fight, and I came to the chief of operations—with a lot of help from actuaries and others in ASPA and the benefits industry.

Do you foresee a future rematch, or will the IRS abide by the court's decision?
I think the decisions represent a sea change in the IRS's attitude toward the IRS. It was very helpful to have the courts' decisions. I don't see that on the horizon. Most of our new business will continue to come from the defined contribution side.

Do you then foresee increasing divergence between ASPA actuaries and other pension practitioners?
No. The whole industry is changing across the board—for large-plan actuaries as well as ASPA members. ASPA actuaries are not alone in the trend toward benefit consulting.

Pension Standards and Small Plans

Concerns of actuaries who work with small pension plans were the focus of the April meeting of the Actuarial Standards Board (ASB) and its Pension Committee. (See ASB Outlook on page 4.) Actuaries' responses to the proposed amendment to Actuarial Standard of Practice (ASOP) No. 4 prompted revisions to both that amendment and the draft standard on economic assumptions. The revised drafts will clarify three points in particular:

- The term "individually reasonable" in ASOP No. 4 amendment implies the same "best estimate range" defined in the economic assumptions standard. Without forcing the practitioner into rigorous stochastic analysis, this definition tends to imply the middle half of possible outcomes. Thus, actual results might fall above the range about 25% of the time. In many small plans, for example, this means the lower corridor of the permissible mortality range will be an absence of mortality. Hence, there is no mandate to use a pre-retirement mortality discount.
- Where use of a particular assumption is immaterial, no assumption need be used. For example, if optional forms are equivalent or nearly equivalent in value to the normal form, the effect of using an assumption regarding option elections would ordinarily be immaterial. Hence, there is no mandate to employ utilization assumptions.
- "Individually reasonable" refers to all expected experience described by the particular type of assumption. For example, there is no mandate to establish separately the reasonably expected investment rate of return for each future in the measurement period. The actuary can reflect expected rates for all years with a single composite. Hence, "select and ultimate" investment rates and service-related salary scales are not mandatory. The same reasoning applies to dynamic mortality tables and retirement decrements. It's ordinarily acceptable to reflect expected mortality with a static table. Especially with small plans, it's often acceptable to reflect expected retirement with a single retirement age.

Issues of materiality and cost effectiveness received considerable attention in the ASB discussion of amendment revisions:

- Using or failing to use a particular type of assumption relates to materiality.
- If the impact of use is material, the manner in which the actuary establishes a scale for the assumption relates to both materiality and cost effectiveness.
- Assumptions may be immaterial individually but material in combination. For example, separately, the election of optional forms and incidence of early retirement may appear immaterial; their combined effects may be material.
- Actuaries who face individually immaterial assumptions that are material on a combined basis might solve the problem with a simple percentage load.

The ASB and Pension Committee believe the clarification developed in April will meet most concerns raised by small-plan practitioners.

BURROWS is A MEMBER OF THE ACTUARIAL STANDARDS BOARD.

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We support the pension simplification proposals, but the pension audit program is very troublesome. It provides for tremendous fines on plan administrators who don't report apparent irregularities within a 5-day period. This would make it more difficult and expensive for them to obtain insurance and ultimately will make it difficult to attract administrators.

The supporters are well-intentioned in trying to protect plan participants, but their proposal is unrealistic. It's impossible to determine the costs, and ultimately will harm the pension system.

How would you characterize the level of cooperation between ASPA and the Academy?
ASPA has always been aggressive in its lobbying effort, and I understand that the Academy is different. But relations are good between the two organizations. Speaking of the actuarial audit cases, the Academy helped out at the beginning of our campaign with a letter to the IRS. It was very helpful in defending our case. We provided counseling services. I hope that defined benefit plans make a come-back, but I don't see that on the horizon. Most of our new business will continue to come from the defined contribution side.

Do you then foresee increasing divergence between ASPA actuaries and other pension practitioners?
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The ASB and Pension Committee believe the clarification developed in April will meet most concerns raised by small-plan practitioners.
Two proposed pension standards dominated discussion at the quarterly meeting of the Actuarial Standards Board (ASB) April 30-May 1 in Washington, D.C. The board considered several pension-related issues, including determination of best-estimate range and disclosure of the effects of mandated assumptions.

In a discussion of the draft standard, Selection of Actuarial Assumptions for Measuring Pension Obligations, the board agreed that actuaries should follow all assumptions mandated by law or regulation, but may modify other assumptions within a best-estimate range. In such cases, actuaries should disclose the source of the mandated assumption, but are not required to discuss the implications of the mandate. The board also discussed comments on a proposed amendment to Actuarial Standard of Practice (ASOP) No. 4, Measuring Pension Contributions, which would require assumptions to be individually reasonable.

The board also decided that both draft pension standards had been sufficiently modified to warrant reexposure. The ASB Pension Committee will recommend that both drafts be reexposed for another 60-day comment period to the board in June to revise the text in light of the board's guidance and the thirteen comment letters received from members.

On the recommendation of the ASB Editorial Advisory Committee, the board also approved editorial changes that will affect the format of all future actuarial standards of practice:

- Section 3, "Background and Historical Issues," and Section 4, "Current Practices and Alternatives," will be combined in an appendix titled, "Background and Current Practice." This change was made to help readers who may have mistakenly believed that all actuarial practice listed in Section 4 were sanctioned by the board.
- The heading "Preamble," which applied to the first four standard sections, will be deleted.
- Section 5, "Analysis of Issues and Recommended Practices" or "Recommended Compliance," and Section 6, "Communications and Disclosures," will be renumbered Sections 3 and 4. The first four sections will comprise the standard of practice. This new format is intended to help the reader distinguish between a standard's substantive requirements and language intended for general instruction.

The next board meeting will be July 23-24 in Boston.

Two newly appointed Academy Senior Pension Fellows to the Board of Directors (BOD) were Jeff Burrows (right) and Ken Krehbiel (left). The BOD also reappointed Renee Saunders to the Actuarial Standards Board (ASB) Executive Committee.

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