SOCIETY OF ACTUARIES

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SECTION CORNER

This column reports on activities and newsletters of all special interest Sections on a rotating basis. This month covers the Financial Reporting and Education and Research Sections.

Financial Reporting Section
Membership in this Section stands at 3,045.

Lead articles in the March 1993 issue of *The Financial Reporter* include "A Demutualization Primer: Part 1. A Management Perspective" by Bruce Darling and "A Market Value Balance Sheet: Why and How" by Matthew C. Modisett. An article by Douglas C. Doll on "LHATF Report on Life Insurance and Annuity Projects" also ran in that issue.

The Section sponsored a seminar, "Postmortem on 1992 Valuation Actuary Opinion — Looking Forward to 1993," on June 3-4 in Florida.

Education and Research Section
This Section now has 708 members. Arnold Shapiro is this Section Council's chair-elect beginning in October 1993.

The March 1993 issue of this Section's newsletter, *Expanding Horizons*, edited by Bruce L. Jones, covers a full range of topics. Esther Portnoy's article on "ASA Requirements to Increase" leads off the issue. Other articles include "The CIA's Continuing Professional Development Standards" by Peter Gorham, "Actuarial Science at the University of Montreal" by Louis Doray, "Master's Degree Programs in Actuarial Science" by Howard Young, and an article by Warren Luckner discussing the "Actuarial Science Program at Nankai University, Tianjin, People's Republic of China."An article on the highlights of the Research Section's last council meeting in February discusses a budget item approved to create semiannual reports on the economics of entry-level actuarial employment.

The Section is planning a breakfast at the SOA annual meeting in New York on October 19. It also is sponsoring at that meeting a session on research papers for FSA credit, a teaching session on graduation, and a panel discussion jointly sponsored with the International Section on actuarial programs in other countries.

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Psychiatric disability claims: problem or opportunity?

by Richard Lewis

In the past decade, psychiatric disabilities have emerged as one of the fastest growing, most expensive, and most difficult categories of disability claims. Group insurers, individual disability insurers, workers compensation insurers, and self-insured employers all struggle with the management of such cases. The Social Security Disability Insurance program has experienced an increase in mental/nervous entitlements from under 3% to more than 15% of new cases since the early 1980s.

What is the cause of increase?
Three factors cause this situation:

1) Medical/social acceptance — Diagnosis, treatment, and medical recognition of psychiatric illnesses, coupled with societal acceptance of such illnesses, have increased in the past 20 years. In the 1950s or 1960s, it was unusual for an individual to claim psychiatric illness except in the most severe circumstances. Often, there was resistance from medical practitioners. Today such diagnoses and claims are common and accepted.
2) Economic/job stress — During the past 10 years, a transformation has occurred in the work place. Job stress from increased productivity demands, new information technology, and rapid decision making is endemic. Traditional worker/company relationships and loyalties have been fractured. This fosters greater willingness for employees to file disability claims.
3) Ineffective psychiatric disability claim management — Psychiatric disability claims are difficult to evaluate and manage. Issues include organic versus inorganic diagnoses, the subjective measurement of functional loss, and difficulty in obtaining clear and useful input from treating specialists. A lack of medical and psychiatric rehabilitative expertise from insurers, administrators, and employers may have much impact on claim continuance.

In addition, limits on psychiatric benefits in employers' health plans may be a contributing factor. Such limitations can cause individuals to defer treatment or to be undertreated. This can result in periods of intermittent short-term disability that conclude in a more severe episode of serious longer-term disability.

Rehabilitative model key to effective management
Given these realities, what can an insurer do to more effectively manage psychiatric disabilities and improve experience from such claims?

To achieve return-to-work and claim closure consistently, the claims management function must operate on the basis of a rehabilitative model for mental illness. Management also must have staff resources able to effectively operate within the model's requirements.

The Boston University Center for Psychiatric Rehabilitation developed and uses the rehabilitation model on the next page. It provides an excellent framework for psychiatric disability case management.

The model considers three different stages of mental illness: impairment, disability, and disadvantage. Historically, our efforts in claims management have been too focused on the impairment stage, where much of the decision-making rests on determining diagnosis. This can be very difficult in psychiatric claims and requires specialized claims management resources and training. The underlying issues of restrictions or inability to perform work activities often are not addressed.

With physical disabilities, such functional limitations usually deal with limited or restricted ability to perform observable physical functions. Psychiatric illnesses impact behavioral, social, and cognitive abilities. Examples include social adjustment skills, ability to read and follow instructions, ability to deal with work process changes, ability to participate effectively in work teams, and adjustment to workplace stress.

The third stage of the model also

The Rehabilitation Model For Severe Mental Illness

	Stages		
	Impairment	**Disability**	**Disadvantage**
Definitions	Any loss or abnormality of psychological, physiological, or anatomical structure or function	Any restriction or lack of ability to perform an activity and/or role in the manner or within the range considered normal for a human being (resulting from an impairment)	A lack of opportunity for a given individual that limits or prevents the fulfillment of a role that is normal (depending on age, sex, social, or cultural factors) for that individual (resulting from an impairment and/or a disability)
Examples	Hallucinations, delusions, depression	Lack of work adjustment skills, social skills, or ADL* skills, which restrict one's residential, educational, vocational, and social roles	Discrimination and poverty, which contribute to unemployment and homelessness

Source: W.A. Anthony, M.D. Cohen, and M.D. Farkas, Psychiatric Rehabilitation *(Boston: Boston University, Center for Psychiatric Rehabilitation, 1990) *ADL is activities of daily living.*

has a direct bearing on claim costs. A disadvantage in a disability insurance and benefits environment usually involves barriers to return-to-work. In the United States, with the advent of the Americans with Disability Act (ADA), such barriers must be removed. Returning to work, even where medically possible, can be very difficult. In such instances, it is often easier for the employer and the employee to continue the claim. This obviously worsens claim costs and claim duration.

Resources needed to apply model

To follow this model and focus not only on the impairment but also on functional loss and effective return-to-work programs, an insurer or administrator must have appropriate technical resources, tools, and procedures. Claims personnel must have sound training in evaluating psychiatric disabilities, be provided specialized tools such as diagnostic specific questionnaires and appropriate reference materials, and have access to specialized medical technical resources such as psychiatrists, psychiatric nurses, or psychologists. Templates that provide a consistent approach also are helpful for dealing with specific types of psychiatric disabilities.

Job accommodation programs important

The importance of return-to-work in limiting costs and providing rehabilitation is extremely important in psychiatric disability cases. While research on the value and impact of work on recovery is limited, it is clearly being demonstrated at Boston University. Its program of psychiatric rehabilitation has focused primarily on individuals with severe disabilities and very limited or no work experience. Nevertheless, the university's success rate has been remarkable in enabling people to enter and successfully participate in a working environment.

Often the problem from a claims management perspective is dealing effectively with the employer, who may not understand or sympathize with the individual's problems. The employer may not be flexible in modifying the work environment to allow the person to return to work successfully. Again, with the ADA, such barriers and attitudes must be addressed, if for no other reason than to deal with the potential liability employers face who do not offer reasonable accommodations when appropriate.

An enlightened insurer should take the lead in informing employers of their obligations and enabling them to develop cost-effective accommodation programs. Again, these accommodations deal with different issues than those of physical disabilities. Reasonable accommodations include schedule or job modification, exchange of secondary tasks among employees, modifications to the physical environment for employees who may have difficulty concentrating, and changes in interpersonal communication and work scheduling.

It is particularly incumbent on insurers whose contracts have time limits on psychiatric claim payments to work with their customers in job accommodation. A common provision in group LTD that limits benefits to 24 months for individuals unless they are institutionalized is almost certain to be a significant trigger point for reasonable accommodation requests. Because the insurance contract can trigger that event, insurers should warn the employer and give specific suggestions and technical assistance for reasonable accommodation.

For employers, the entire return-to-work philosophy and environment must be examined. Conflict exists between enlightened return-to-work programs and line management goals and objectives. Line managers often are driven by production requirements that they feel do not support part-time work or significant changes in job structure. An employer's challenge through communication, education, and appropriate incentives is to facilitate return-to-work and help all parties see it as a positive benefit of working at that organization.

While psychiatric disability is complex and challenging, it should not be viewed as a problem but as an opportunity. It is a large enough area of claims incidence that a significant improvement in average duration can have a major impact on the profitability of a disability product. We now have some evidence that psychiatric rehabilitation and case management work, so this area should be very fruitful in positive claim resolution. It should be possible to achieve a 10-20% improvement in the overall duration of such claims. To do so, however, administrators and insurers will have to invest in appropriate resources, training, new protocols and tools, and in more effective communications and cooperation with their customers.

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