

Disability Insurance Redesign Proposal

Employee Trust Funds Board

Deb Roemer, Director, Benefit Services Bureau
Jim Guidry, Policy Analyst, Benefit Services Bureau

September 29, 2016



Long Term Disability Programs

- Disability Annuity Program (40.63)
 - Created in 1981 merger
 - Individual systems had disability programs reaching back to 1940-1950s or earlier
 - Covers EEs hired before October 16, 1992 with no break in service
 - 100-125 approved claims per year
- Long Term Disability Insurance Program
 - Created in 1992 in response to legal concerns
 - Covers EEs hired after October 15, 1992
 - 340-350 approved claims per year
 - 2008 U.S. Supreme Court Decision

General Proposal

- Close LTDI to new claims
- Re-open §40.63 Disability Annuity Program
- Potentially Effective January 1, 2018

Proposal Objectives

- Reduce duplication
- Reduce complexity for members & employers
- Reduce administrative costs
- Minimize disruption
 - members
 - agency
 - WRS Trust Funds

Benefits to Members

- §40.63 benefits are slightly higher
 - 45% of average salary vs. 40% for LTDI
- No offsets for §40.63 program
- Death benefits available
 - No death benefit in LTDI
- Less confusion regarding:
 - Benefit options
 - Coordination of benefits/offsets

Benefits to ETF

- Reduction in duplicative long-term disability programs
- myETF development should be streamlined
- Potential for significant administrative savings
- Shorter run-off period for LTDI
- Less complex ICI program administration for TPA.

Benefits to WRS Trust Funds

- 6% reduction in overall liability for new 40.63 claims, when compared to future LTDI liability
 - Elimination of LTDI supplemental contributions
 - Supplemental contributions continue for claims in run-off
 - 2% reduction in eligible claimants
- Simplifies accounting and actuarial analysis of LTDI premium structure

Program Implications

- No impact on existing disabilitants:
 - Approximately 2,300 existing LTDI recipients will have their claims run-out to termination.
 - Expected duration of 37 years.
- Estimated increase of 330-340 \$40.63 claims per year.

Financial Implications

- Net cost impact -approx. \$1 million in savings
 - Third-party administrative fees
 - 38% allocable to LTDI-\$1.3 million annually
 - 1% - 2% reduction in ICI claims costs
 - §40.63 program's higher benefit (45% FAS) reduces ICI claim payments more than LTDI benefit (40%)
 - \$190K - \$380K decrease (based on 2015 claims costs)
 - \$264K in personnel costs for 3 FTE
 - \$96K in BPS development costs
 - One-time cost impact

Implementation Options

1. Close LTDI and administer claims run-out internally
2. Close LTDI and let TPA administer claims run-out

Implementation Considerations

- myETF development
- TPA contracting and fees
- Internal resources
- Eligibility differences

Why Now?

- BAS Rollout 3 development beginning
 - Available IT resources will become very scarce
 - No need to develop for new LTDI claims
- TPA contract expiring end of 2017

Next Steps

- ETF Board consideration and approval
- Rulemaking and IT development timing
- Time frame allows for comprehensive communications plan/testing

Questions?