State of Wisconsin
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax 608-267-4549
etf.wi.gov

Correspondence Memorandum

Date: February 27, 2018

To: Employee Trust Funds Board

From: Jim Guidry, Director
Benefit Services Bureau
Division of Retirement Services

Subject: 2017 Disability Statistical Report

This memo is for informational purposes only. No Board action is required.

Attached for your review is the 2017 Wisconsin Retirement System (WRS) Disability Statistical Report. The report provides information on disability annuity and duty disability activity for 2017.

It is our intent to provide you with a comprehensive view of the disability annuity and duty disability programs. To that end, we have provided information for calendar year 2017 and comparisons to previous years. We have also included some comparative data with the Long-Term Disability Insurance and Income Continuation Insurance Programs.

We would appreciate any feedback that you may offer for this report. Please contact me at (608) 266-5387 or jim.guidry@etf.wi.gov if you have comments or questions.

Staff will be at the Board meeting to answer any questions.

Attachment: 2017 Disability Statistical Report

Reviewed and approved by Matt Stohr, Administrator
Division of Retirement Services

Matt Stohr

Electronically Signed 3/13/18

Board	Mtg Date	Item #
ETF	3.29.18	6C

Benefit Services Bureau

2017 Disability Benefit Statistical Report

February 24, 2018

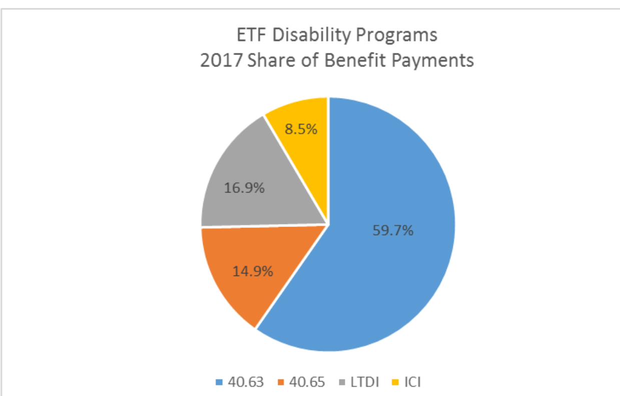
Prepared for the Retirement Board Meetings, March 29, 2018

Introduction

The 2017 Disability Statistical Report provides a statistical review of the Disability Annuity Program and the Duty Disability Program for the calendar year. This report provides a review of benefit payments, the number of individuals receiving benefits and other demographic data. The information is presented over a period of 7-10 years, depending on the veracity of available data and usefulness of that data. This report will also provide a broad contextual review of the programs to identify trends and comparisons between all four of ETF disability programs.

Overview

The Department of Employee Trust Funds administers four disability programs under the authority of the Employee Trust Funds Board, Wisconsin Retirement (WR) Board, Teacher's Retirement (TR) Board and Group Insurance Board. These programs are the 40.63 Disability Annuity (40.63) Program; 40.65 Duty Disability (40.65) Program; Long-Term Disability Insurance (LTDI) Program; and the Income Continuation Insurance (ICI) Program. These programs combine for annual benefit payments of $235 million for 11,736 separate claims as of December 31, 2017[1]. The 40.63 program commands the largest share of disability payments, with 59.7% of disability payments and 53.5% of all active claims (Exhibit 1).



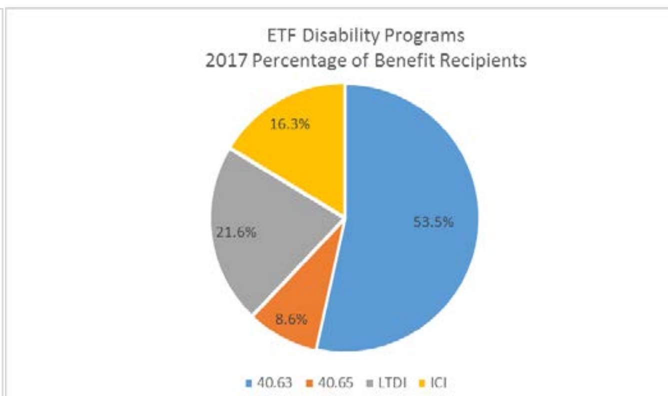


Exhibit 1

Exhibits 2 and 3 compare disability benefit payments and the number of claimants over a ten-year period from 2008 to 2017 for all four disability programs. Annual 40.63 benefit payments exceed the combined payments of the other three programs (40.65, LTDI, and ICI). Likewise, the number of 40.63 recipients exceeds that of the other three programs combined (Exhibits 2 and 3).

[1] Some individuals may be receiving more than one WRS disability benefit.

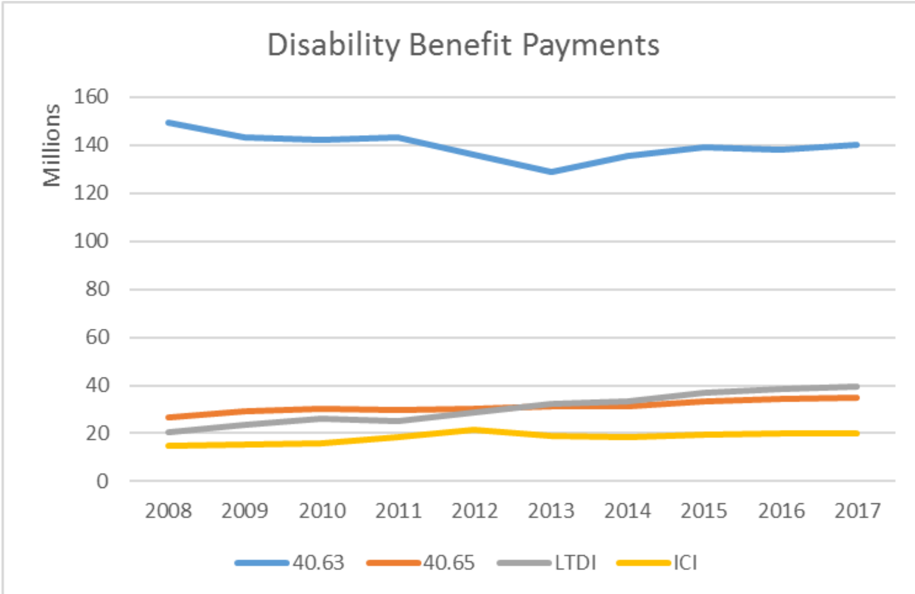


Exhibit 2

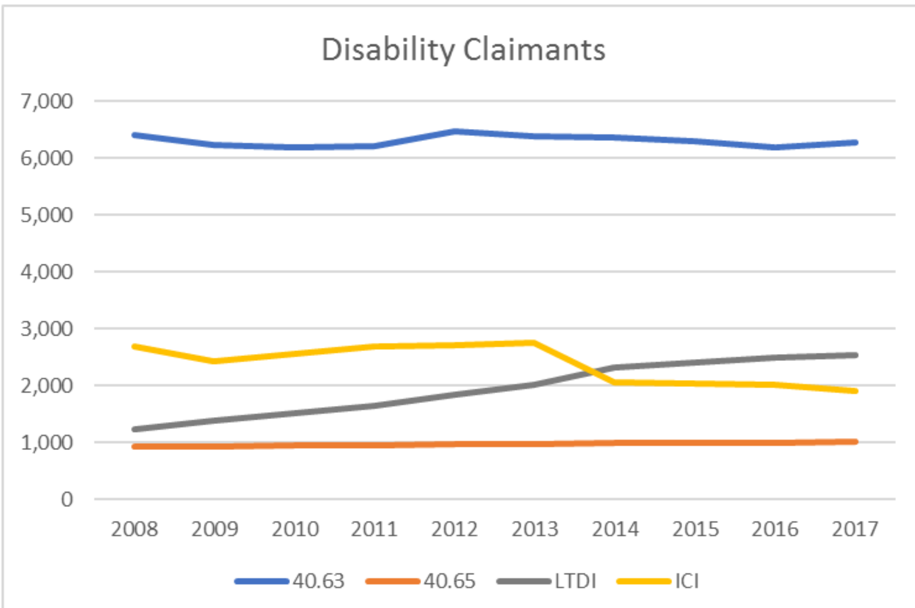


Exhibit 3

The 40.63, LTDI, and long-term ICI programs pay benefits if an employee is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that can be expected to result in death or to be of a long-term or indefinite duration. 40.65, Special 40.63 and Special LTDI benefits (for protective occupations only), as well as short-term ICI benefits are payable if an employee is unable to perform the duties of their current occupation. Short-term ICI benefits last for up to 12 months and may transition into long-term ICI benefits if the employee remains disabled as defined under the plan provisions.

All ETF-administered disability benefit applications require at least one (ICI) or two (40.63, 40.65, LTDI) medical reports from physicians certifying that the employee meets the statutory definition of disabled. Disability benefit applications also require documentation from the employer. The ICI, LTDI, and 40.63 disability programs may require annual medical recertification.

Some examples of the differences between programs include different benefit eligibility rules, such as service requirements, different benefit durations, annual adjustments, voluntary vs. automatic enrollment in programs, and the treatment of protective occupation participants.

ETF Disability Benefit Programs

Disability Annuity (§40.63). Disability annuities are issued under the authority of the TR and WR Boards. In 2017, disability annuity benefits were available to all WRS employees who were continuously employed by a WRS employer since before October 16, 1992, and who had at least one-half year of creditable service in five of the previous seven years. An estimated 26,000 WRS participants were still eligible to apply for a 40.63 benefit as of December 31, 2016.[2] Effective January 1, 2018, the 40.63 program was re-opened to all WRS employees who met the eligibility criteria to receive benefits. At the same time, the Long-Term Disability Insurance program was closed to new claims after December 31, 2017.

An individual is eligible to apply for 40.63 benefits until they reach normal retirement age, and benefits are paid for an annuitant's lifetime. An individual must be totally disabled by a mental or physical impairment, which is likely to be of a long-continued and indefinite duration. Protective occupation participants who are not totally disabled can qualify for Special 40.63 benefits if an individual has 15 years of accumulated service, is between 50 and 55 years old at the time the disability occurs, and if the disability causes the individual to no longer be able to perform their protective occupation duties. 40.63 benefits are paid in the form of a disability annuity that is determined using a combination of an annuitant's creditable service and a period of assumed service up to the individual's normal retirement age. Disability annuities most resemble a regular WRS retirement annuity and include similar death benefits, depending on the annuity option selected. 40.63 benefits can be suspended if an annuitant has earned income above an established earnings limit ($15,186 for 2018, indexed annually).

In 2017 total benefit payments for the 40.63 Disability Annuity Program (40.63) were $140.3 million. This amount was a 1.44% increase in benefit payments from 2016 and a 6.08% decrease in total benefit payments since 2008. Total benefit payments declined 13.6% from 2008 to 2013 but have increased 8.7% since then.

[2] All census information for 40.63, 40.65, and LTDI is from *Wisconsin Retirement System (WRS) 35th Annual Valuation of Active Lives and Gain/Loss Analysis – December 31, 2016.* Complete census data from 2017 was not available at the time of this report.

As of December 31, 2017, there were 6,275 annuitants receiving a benefit under 40.63. Total annuitants receiving a 40.63 benefit in 2017 increased 1.24% from the previous year but has decreased 2% since 2008. The average monthly 40.63 benefit in 2017 was $1,863, a decrease of 0.19% from 2016 and a decrease of 4.12% since 2008.

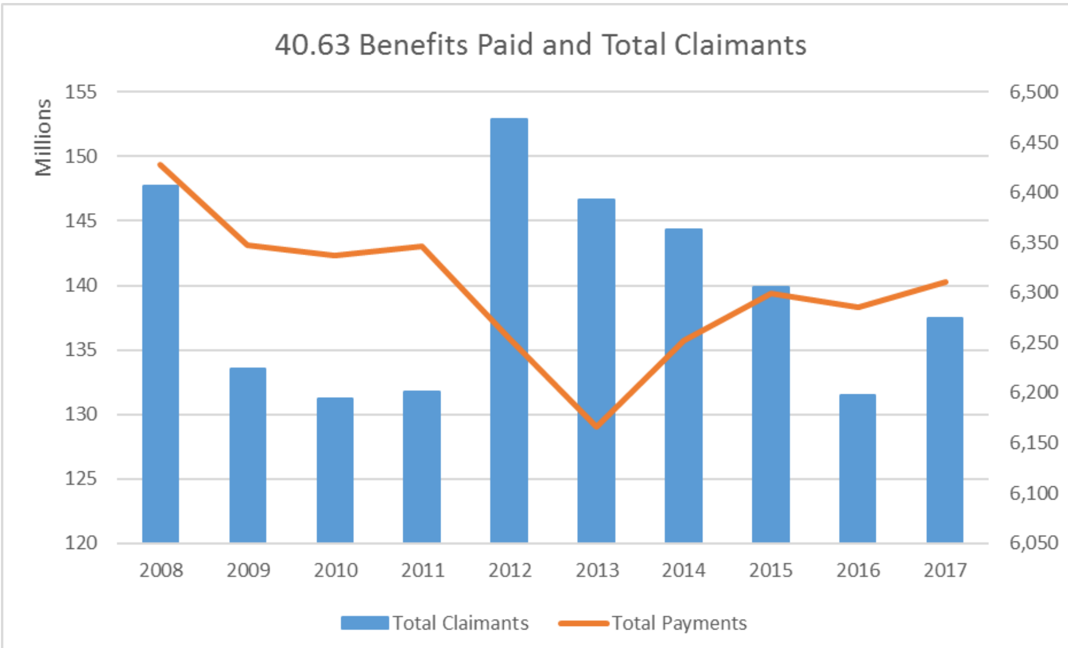


Exhibit 4

Duty Disability Benefits (§ 40.65 and § ETF 52). Duty Disability is an income replacement program that is available to all WRS protective occupation participants, such as police officers, fire fighters and correctional officers. This benefit is entirely funded by employer contributions. An individual must be permanently disabled by a work-related injury or disease and can no longer work full protective duty. There are approximately 22,000 protective occupation participants in the WRS system. The 40.65 program is under the authority of the WR Board.

Duty disability is not a retirement benefit. The benefit for 40.65 is calculated as a percentage of income, either 75% or 80%. Other sources of income, such as any WRS benefits (retirement, separation, ICI, and LTDI), Social Security benefits, earned income, and Worker's Compensation benefits will reduce Duty Disability benefits. The 40.65 benefit is a lifetime benefit.

The 40.65 program paid $35.1 million in benefits in 2017, a 1.9% increase from 2016 and an increase of 31.1% since 2008. The number of members receiving a 40.65 benefit was 1,011 as of December 31, 2017, which represents an increase of 0.9% from the previous year and an increase of 9.3% since 2008. The 2017 average monthly benefit payment for 40.65 was $2,894, an increase of 1% from 2016 and an increase of 19.9% from 2008.

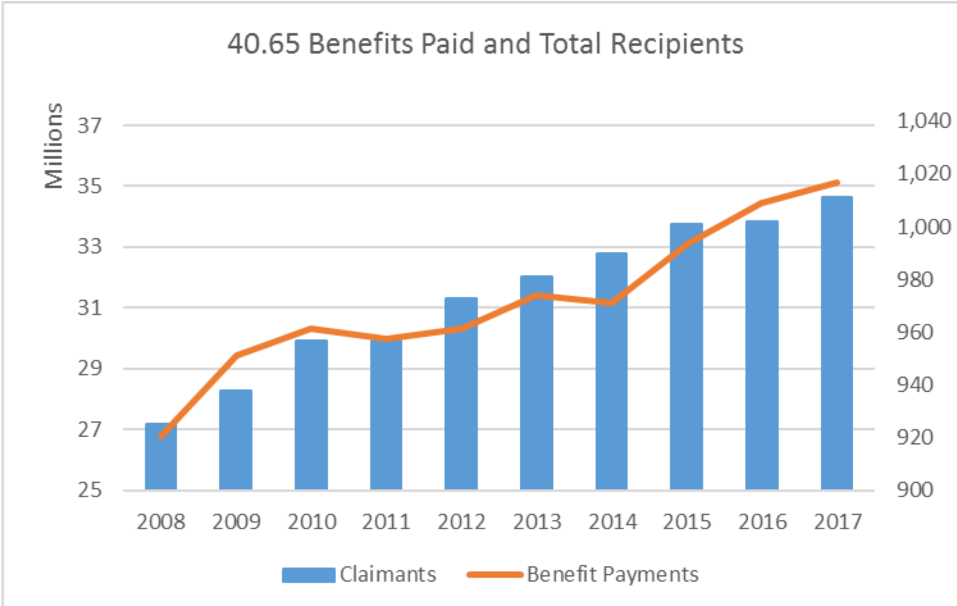


Exhibit 5

Long-Term Disability Insurance (§ ETF 50.40). LTDI was created in 1992 as a result of the passage of the federal Older Workers Benefit Protection Act (OWBPA), which addressed age discrimination in employee benefits. The OWBPA raised concerns about whether the 40.63 program violated the Age Discrimination in Employment Act. LTDI was intended to eventually replace the 40.63 program. Review of recent U. S. Supreme Court decisions have indicated that the 40.63 program does not present age discrimination issues for the state, and in 2016 the ETF Board approved the closure of the LTDI program. The 40.63 program would then be available to all WRS employees.

LTDI was available to all of the approximately 255,000 active WRS participants. The LTDI program closed to all new claims on January 1, 2018. As of January 1, 2018, there were 2,548 existing LTDI claims that were transferred to ETF from Aetna that will be run out to claim termination. There were approximately 125 pending LTDI claims at the time this report was prepared. It is estimated that it will take approximately 37 years to run out the existing LTDI claims.

LTDI benefits are payable to age 65 for most recipients. Depending on the individual's age when applying for LTDI, the benefit may be available beyond age 65. The basic monthly LTDI benefit is 40% of an employee's final average salary (FAS) or 50%, for those ineligible for Social Security benefits. In addition to the basic LTDI benefit, a supplemental contribution of 7% of FAS is added to an employee's WRS retirement account for each month an LTDI benefit is received, as long as no WRS benefit has been taken from the account. LTDI benefits are offset (reduced) by any WRS retirement or separation benefits. LTDI benefits will be suspended for exceeding an annual earnings limit the first time and will be terminated for exceeding the earnings limit a second time. The earnings limit for LTDI benefits is the same limit used by the 40.63 program.

Authority for the LTDI program was originally delegated to the Group Insurance Board by the Employee Trust Funds Board. The ETF Board resumed oversight of the LTDI program beginning in 2017.

Income Continuation Insurance (§40.61, §40.62 and § ETF 50.10). ICI is available on a voluntary basis to all state employees, and to local government employees if their employer offers coverage. It provides short-term and long-term replacement income for disabilities that are considered short-term (one year or less) in nature, as well as those which may last for extended periods. Short-term disability payments make up 43.7% of all ICI benefit payments. There are approximately 58,000 state and local government employees with ICI coverage.[3]

ICI benefits provide up to 75% of an employee's average monthly earnings based on previous calendar year earnings. Standard ICI coverage covers up to $64,000 of annual earnings ($4,000 maximum monthly benefit). Employees may also enroll in supplemental coverage which provides additional coverage up to $120,000 of annual earnings ($7,500 maximum monthly benefit). ICI benefits are payable to age 65 for most recipients.

ICI premiums are paid by employees and employers and are calculated based on the amount of accumulated sick leave for most state employees. For University of Wisconsin faculty and academic staff and local government employees the premium is based on an elimination period selected by the employee.

ICI benefits are offset by numerous other benefits received by the employee including certain Worker's Compensation benefits, third party liability awards, Social Security benefits, Unemployment Compensation, any WRS benefits, and any earned income. Individuals are required to repay duplicate benefits back to the ICI program.

The ICI program is administered by a third-party administrator (currently Aetna) and is under the oversight of the Group Insurance Board.

Trends in Disability Benefits

40.63 benefit payments and claimants have declined modestly since 2008; however, 40.63 benefits are expected to begin increasing in 2018, as a result of reopening the program on January 1, 2018. It is anticipated the number of active claims will increase by approximately 300-330 claims annually.

Annual adjustments made to the 40.63 are based on the same Core and Variable annuity adjustment percentages as monthly WRS retirement annuities. LTDI adjustments are based on

[3] *State and Local Income Continuation Fact Sheets* (Rev 1/4/2017 and 12/22/2016).

the Core annuity adjustment only. These benefit adjustments have seen successive declines beginning in 2008 and returning to positive adjustments in 2013. LTDI benefits, while experiencing the same negative adjustments, did not experience the same overall decrease in benefit payments due, to the growth in the number of benefit recipients. Also, negative adjustments to LTDI benefits have been mitigated by maximum benefit reduction rules that prohibit disability benefits from decreasing below their original benefit amount. These same reduction rules also apply to 40.63 benefits, however existing 40.63 benefits are generally older (of longer duration) than the existing LTDI benefits and therefore, due to previous increases, had farther to decrease before reaching the minimum benefit level.

40.65 duty disability benefits, on the other hand, are adjusted annually by an amount equal to the previous year's salary index (same as the Social Security salary index) or by the previous year's core annuitant dividend, depending on the member's age (60 or older) and qualification for other "regular" disability benefits. In recent years the salary index has only decreased once, in 2011 by 1.5%.

ICI benefits do not have annual adjustments.

The 40.63 program remains popular with those individuals who are eligible to choose between the 40.63 and LTDI benefits. The primary distinction between the 40.63 program and the LTDI program is that 40.63 is a lifetime benefit while LTDI benefits end at age 65 for most recipients. Once an LTDI benefit is terminated due to age, a recipient may begin receiving a WRS retirement benefit if they have not already taken a WRS benefit prior to turning 65. For 40.63 annuitants, their annuities continue until death, with additional potential death benefits that do not exist in the LTDI program. These annuities are not converted to WRS retirement annuities at normal retirement age, even though they are similarly administered. These factors underline the popularity of the 40.63 program and account for the relatively stable number of annuitants over time.

A total of 403 disability annuity estimates were completed in 2017. Disability annuity benefits that were started in 2017 totaled 96. The number of estimates completed increased slightly in 2017. This is due to an increase in estimates at the end of the year in anticipation that the program would re-open in 2018. Now that the program has started accepting new claims in 2018 it is expected that the number of benefits started will follow the growth in estimates.

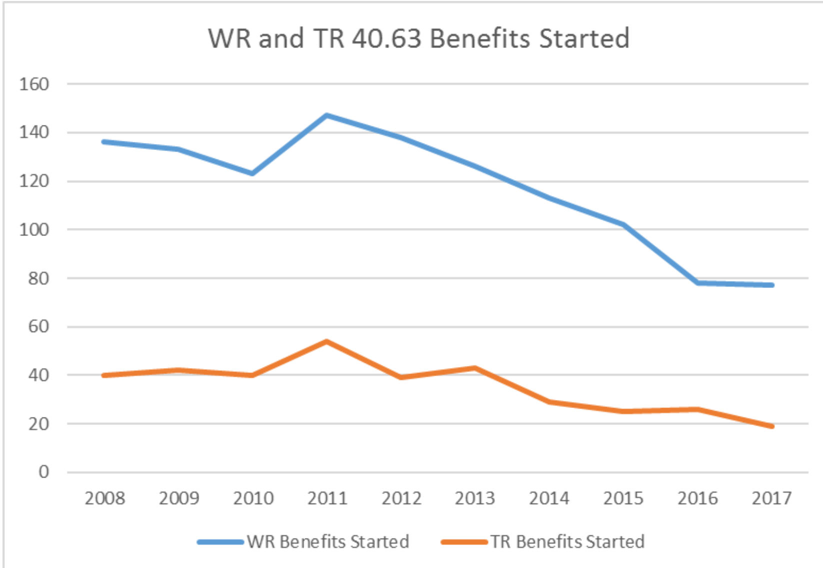


Exhibit 6

Disability annuity claims are filed primarily by claimants age 51-60. This age group has accounted for approximately two thirds of all 40.63 disability annuities started between 2011 and 2017.

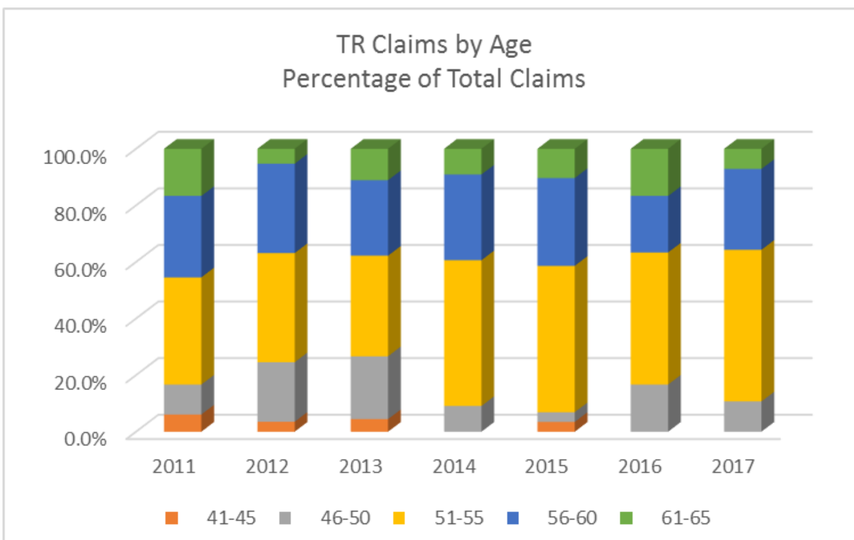


Exhibit 7

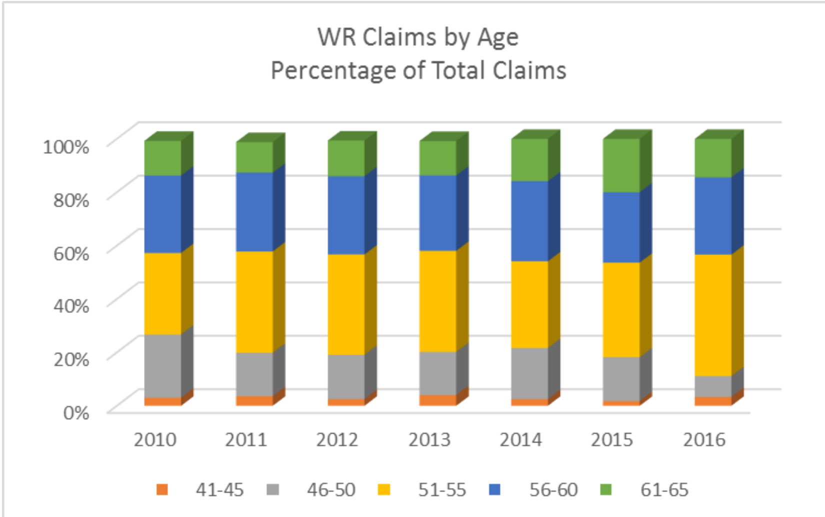


Exhibit 8

The ICI and LTDI programs, on the other hand, show a much broader distribution of claims by age range. This is indicative of the short-term component of the ICI program and the inability of employees to apply for 40.63 benefits due to ineligibility based on hire date. It is expected that the age range for the 40.63 program will to begin to resemble that of the LTDI program now that all WRS employees are eligible for coverage.

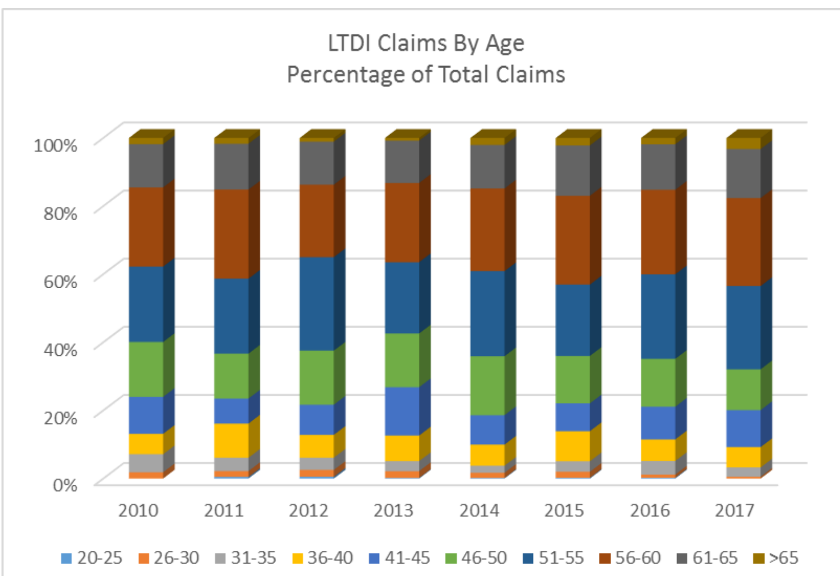


Exhibit 9

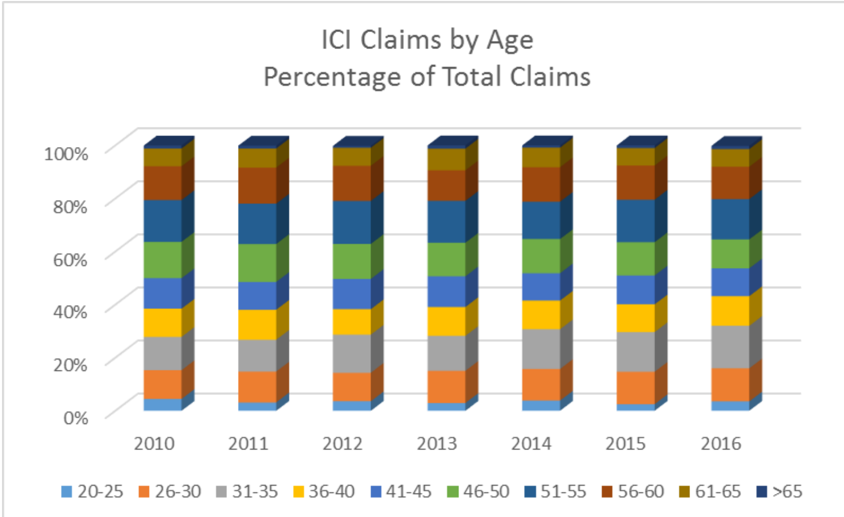


Exhibit 10

The primary disability types for the 40.63 program in 2017 are cancer, orthopedic, neurology and mental illness.

Teachers Retirement Board claims for neurology, and orthopedic disabilities decreased in 2017 while cancer and mental illness claims have increased.

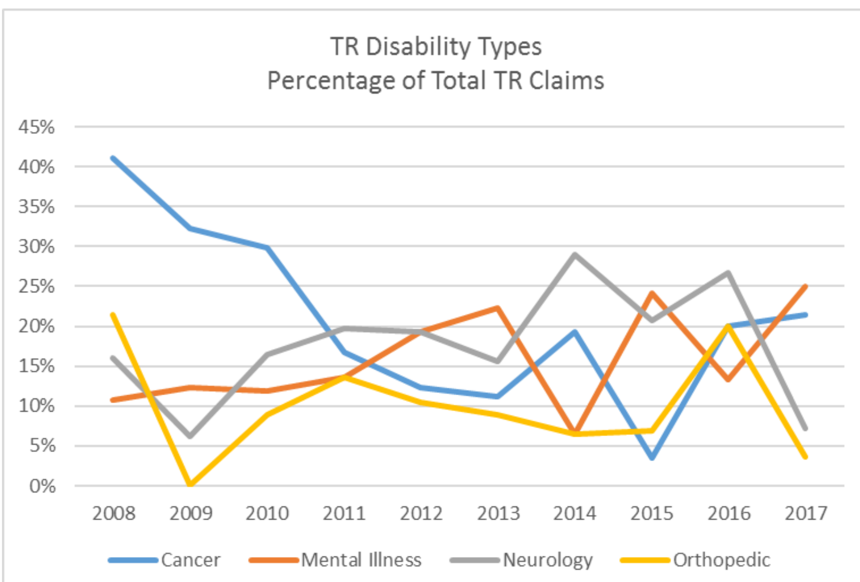


Exhibit 11

For Wisconsin Retirement Board disability annuity claims, orthopedic claims reversed their downward trend and comprise the greatest percentage of all claims (28.2%), followed by neurological claims (14.1%). Cancer and mental illness claims, declined in 2017.

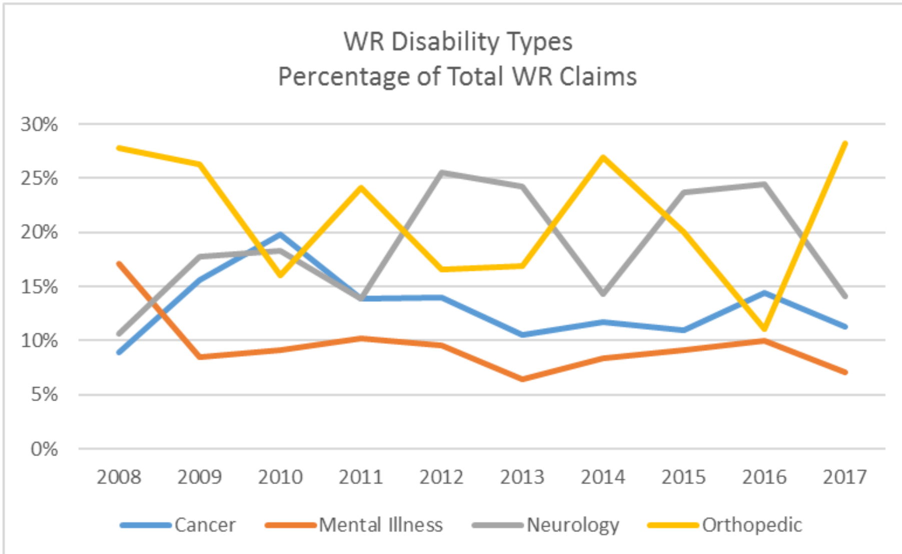


Exhibit 12

Orthopedic claims are also a major disability type for LTDI and ICI. However, cancer and neurology claims are not as prevalent among LTDI and ICI claims as they are for 40.63. Mental illness claims are roughly the same share of all claims in LTDI and ICI as they are for WR Board 40.63 annuitants.

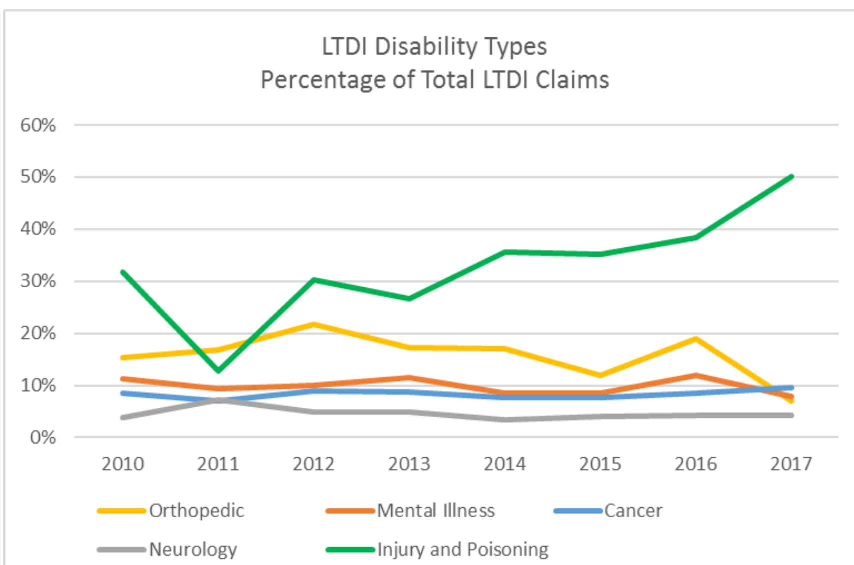


Exhibit 13

The most prevalent LTDI disability type is injury and poisoning (50% in 2017), followed by cancer (9.5%) and mental illness (7.9%). For ICI, the most prevalent disability type is orthopedic at 25.8%, followed by pregnancy and perinatal (24.6%), and mental illness (10%). Orthopedic and pregnancy-related claims underscore the short-term component of ICI disability payments, as these are disabilities an individual is most likely to recover from and likely do not need to be transitioned to long-term benefits.

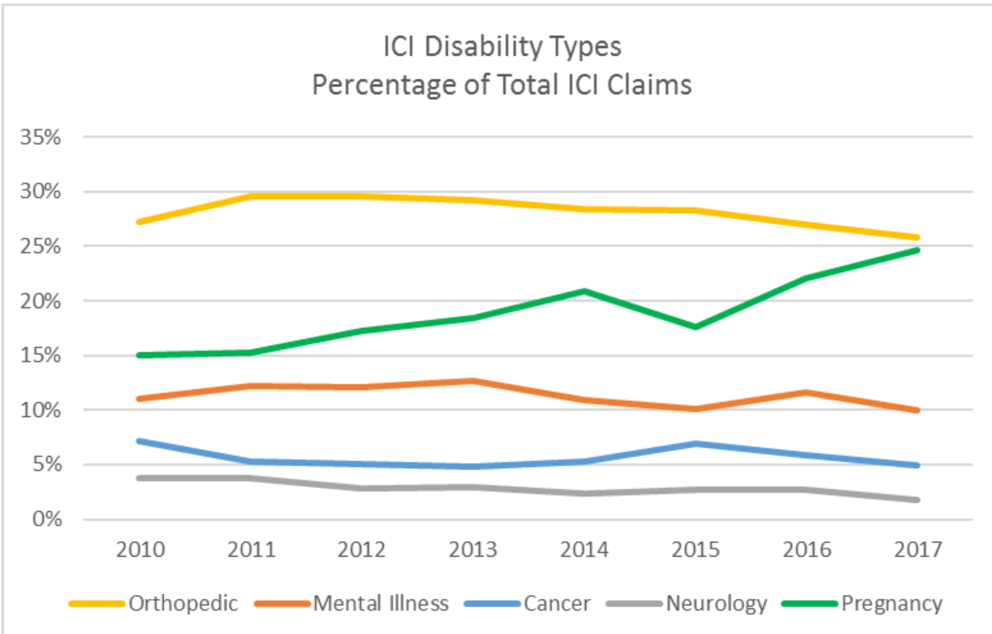


Exhibit 14

There were a total of 25 approved claims for 40.65 duty disability benefits in 2017. The disability types for these claims consisted of musculoskeletal disabilities (50%), neurological (19.2%), cardiovascular (11.5%), and cancer (7.7%).