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 SECRETARY

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***Correspondence Memorandum***

**Date:** November 16, 2018

**To:** Employee Trust Funds Board

**From:** Jim Guidry, Director  
Benefit Services Bureau

**Subject:** Disability Program Redesign Update


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

This memo is to update the Board on the activities related to the redesign of the disability benefit plans offered to eligible Wisconsin Retirement System employees. The goal of the redesign effort is to streamline the administration of disability benefits, reduce duplication and reduce complexity and confusion for employers and employees.

**Long-Term Disability Insurance (LTDI)**

On January 1, 2018, the LTDI program was closed to new claims and the 40.63 Disability Annuity program was reopened to all eligible WRS employees. Since February 1, 2018, all existing LTDI claim payments have been made through ETF's Benefit Payments System (BPS).

1. **LTDI Claims Pending.** There are approximately 28 pending claims (filed prior to the program closure) as of the date of this memo. There were 135 pending claims at the beginning of the year. The Hartford (formerly Aetna) is responsible for processing these remaining claims to final determination. There are currently 2,310 open and 12 suspended LTDI claims. The number of open and suspended LTDI claims has declined by 5.5% since the program closed.
2. **LTDI Supplemental Contributions.** Beginning in July, ETF staff have assumed the responsibility for completing all LTDI supplemental contributions for eligible claimants. This includes annual contributions and individual "one-off" contributions prepared outside of the annual cycle.

Reviewed and approved by Matt Stohr, Administrator, Div. of Retirement Services  
  
 Electronically Signed 11/30/18

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3. **LTDI Salary Corrections.** Beginning in November 2018, disability staff took over administration of Final Average Salary corrections from The Hartford. However, The Hartford is continuing to calculate any over or underpayments that might occur from those salary corrections.
4. **Administrative Functions.** ETF and The Hartford continue working to transition LTDI-specific administrative functions to ETF. ETF has transitioned administrative functions relating to LTDI payment offsets, LTDI recipient deaths, the annual benefit update process, and computing supplemental contributions. There are three remaining administrative functions that will be transitioned to ETF by the end of the year: notifying certain recipients about the requirement to apply for a WRS benefit, tracking / suspending recipients due to exceeding the annual earnings limit and claim closure processing.

By closing LTDI and transitioning claim payments and the administrative duties in-house, ETF was able to negotiate an \$864,000 reduction to the annual fee paid to The Hartford for the administration of the ICI program beginning in 2019.

### **Income Continuation Insurance (ICI)**

The Group Insurance Board (GIB) approved modifications to the ICI program at its February 8, 2017, meeting as a response to the growing actuarial deficit in the State ICI program and as part of the overall disability benefit system overhaul. Additionally, the GIB approved moving oversight of the ICI program to the ETF Board.

Modifying the ICI program structure and moving program oversight to the ETF Board requires changing Wisconsin statutes. ETF, working with the Legislative Reference Bureau, developed draft legislation to enable the redesign of the ICI program to occur. The legislation did not see action by the legislature before the 2017-2018 session was adjourned. ETF has included the ICI changes as part of the Biennial budget request submitted to the Governor's office in September 2018.

In order to provide stable benefits administration while the ongoing changes to the LTDI and ICI programs are implemented, the GIB, at its November 14, 2018, meeting approved an amendment to the third-party administrative contract with The Hartford to grant one additional two-year contract extension through 2021. The extension will provide a critical bridge from the current ICI program structure to the redesigned program, which has an anticipated effective date of January 1, 2021.

### **40.63 Disability Annuity (40.63)**

The closure of LTDI has resulted in a growth in new claims for the 40.63 program of more than 300% in 2018. The increased claim volume was anticipated and is in line with the projections made by ETF's disability actuaries. This growth, combined with the LTDI

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program moving in-house has resulted in significant increases to the workload of the disability staff.

To address the increased workload, ETF's budget proposal requested two additional Trust Funds Specialist positions for the Disability Programs section. ETF was able to include the positions in its budget request without seeking a funding increase due to negotiated savings on the ICI administration contract with The Hartford, as mentioned above. Additionally, the budget request makes statutory changes to 40.63 supporting ease of program administration and overall program clarity. These changes include termination of benefits if a claimant exceeds the earnings limit twice in five years, no extension of last day paid for lump sum payouts at termination so that 40.63 benefits are administered similarly to WRS retirement benefits and allowing survivors of deceased applicants to choose between 40.63 program benefits or WRS death benefits if an applicant passes away prior to completing the claim approval process.

Please contact me at (608) 266-5387 or [jim.guidry@etf.wi.gov](mailto:jim.guidry@etf.wi.gov) if you have comments or questions.

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