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Correspondence Memorandum

Date: May 24, 2019
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.** All LTDI claims pending as of January 1, 2018, have been processed. There are currently three LTDI claim denials that have been appealed. Depending on the outcome of the appeals, any or all of these claims may be added to the LTDI payroll. There are currently 2,199 open and 11 suspended LTDI claims. The number of open and suspended LTDI claims has declined by 13.3% since the program closed.
2. **LTDI Supplemental Contributions.** Beginning in July 2018, ETF assumed the responsibility for completing all LTDI supplemental contributions to WRS accounts for eligible claimants. This includes annual contributions and individual "one-off" contributions prepared outside of the annual cycle. ETF completed the annual

Reviewed and approved by Matt Stohr, Administrator, Div. of Retirement Services

 Electronically Signed 6/10/19

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supplemental contribution process in January 2019, calculating calendar year 2018 WRS contributions for 2,041 LTDI recipients.

- 3. Administrative Functions.** ETF has completed the transition of all administrative functions relating to the LTDI program, including payment offsets, LTDI recipient deaths, the annual benefit update process, computing supplemental contributions, 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.

Income Continuation Insurance (ICI)

The Group Insurance Board (GIB) approved modifications to the ICI program at its February 8, 2017, meeting in 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 changes to 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 during the 2017-2018 session. The Governor's budget proposal submitted on February 28, 2019, included the oversight changes requested by ETF; however, the ICI plan design changes were not included in that proposal. On May 9, 2019, the Joint Committee on Finance removed the ICI oversight provisions as part of its omnibus motion to remove non-fiscal policy items from the budget bill. ETF continues to evaluate legislative options for these statutory changes.

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. ETF and The Hartford have begun the process of enacting the contract extension as approved by the GIB.

40.63 Disability Annuity (40.63)

The closure of LTDI has resulted in a 315% growth in new claims for the 40.63 program in 2018. The increased claim volume was anticipated and is in line with the projections made by ETF's actuaries. Additionally, the inventory of pending claims has increased from approximately 50 claims to more than 80 claims on average. ETF made improvements to benefit calculations in 2018 with the introduction of an automated calculation process. This change has enabled a 200% increase in the number of 40.63

benefit calculations performed in 2018. This significant growth, combined with the LTDI program moving in-house, has considerably increased the workload of the Disability Programs Section. To address the increased workload, ETF's budget proposal requested two additional Trust Funds Specialist positions for the Section. The cost for these two positions was estimated to be \$88,000 each, however, due to substantial savings in vendor costs related to bringing LTDI in-house, ETF is still able to save approximately \$688,000 in annual program costs after the positions are added. On May 14 the Joint Committee on Finance took action on ETF's budget and left the requested positions in place. By reallocating existing positions within the Division of Retirement Services, the Disability Programs Section has also added a lead worker position to assist with the growing 40.63 claim volume as well as the added administration of the runout of the LTDI program.

Additionally, the budget request makes statutory changes to the 40.63 program to improve program administration. These changes include termination of benefits if a claimant exceeds the earnings limit twice in five years, eliminating the requirement to extend a member's last day paid for lump sum payouts at termination so that 40.63 benefits are calculated 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. These changes were included in ETF's budget request; however, they were not included in the Governor's budget proposal in February 2019. ETF continues to evaluate legislative options for the 40.63 modifications.

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.