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Correspondence Memorandum

Date: February 28, 2020

To: Employee Trust Funds Board
Teachers Retirement Board
Wisconsin Retirement Board

From: Anne Boudreau, Deputy Administrator
Division of Retirement Services

Subject: 2019 Disability Statistical Report

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

Attached for your review is the 2019 Wisconsin Retirement System (WRS) Disability Statistical Report. The report provides information on disability annuity and duty disability activity for 2019 and a comprehensive view of the disability annuity, duty disability, Long Term Disability Insurance (LTDI), and Income Continuation Insurance (ICI) programs. We have provided information for calendar year 2019 and comparisons to previous years.

Notable items include a sustained increase in 40.63 applications since the reopening of the program in 2018. ETF has seen a corresponding growth in claims started for the program during 2018 and 2019, but anticipates this volume to begin to plateau as the benefit payment initiation, which can take as much as a year from date of application, catches up with application submissions. Additionally, the age distribution for 40.63 claims is broadening, and is expected to continue doing so until it more resembles the ICI program age distribution.

We appreciate any feedback or suggestions that you may offer for future inclusion in this report. Please contact disability section staff at (608) 261-0151 or erinm2.esser@etf.wi.gov if you have comments or questions.

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

Attachment: 2019 Disability Statistical Report

Reviewed and approved by Matt Stohr, Administrator, Div. of Retirement Services
Matt Stohr
Electronically Signed 3/10/20

Board	Mtg Date	Item #
ETF	3.26.20	6K

Benefit Services Bureau

2019 Disability Benefit Statistical Report

WISCONSIN DEPARTMENT OF EMPLOYEE TRUST FUNDS

February 28, 2020

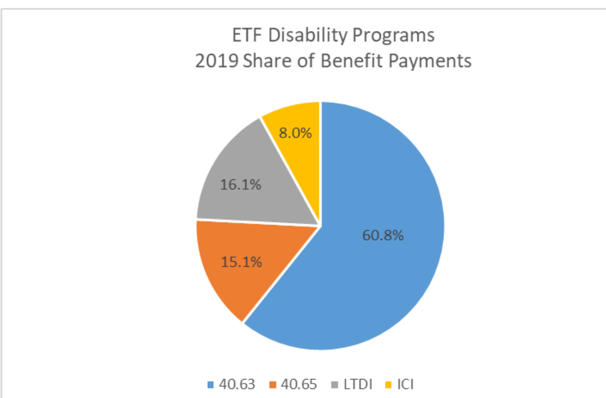
Prepared for the Joint Meeting of the Retirement Boards, March 26, 2020

Introduction

The 2019 Disability Statistical Report provides a statistical review of the 40.63 Disability Annuity (40.63), and 40.65 Duty Disability (40.65) programs 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 seven to ten years depending on the veracity of available data and usefulness of that data. This report will provide a broad contextual review of the 40.63 and 40.65 programs to identify trends and comparisons with all of ETF's disability programs.

Overview

The Department of Employee Trust Funds administers four disability programs under the authority of the Employee Trust Funds, Wisconsin Retirement (WR), Teacher's Retirement (TR), and Group Insurance Boards. These programs are the 40.63 Disability Annuity (40.63), 40.65 Duty Disability (40.65), Long-Term Disability Insurance (LTDI), and Income Continuation Insurance (ICI) programs. These programs combine for annual benefit payments of $241.9 million for 11,383 separate claims as of December 31, 2019[1]. The 40.63 program commands the largest share of disability payments with 60.8% of disability payments and 56.0% of all active claims (Exhibit 1).



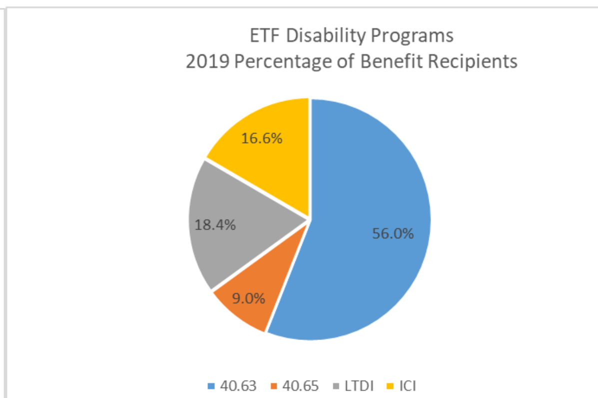


Exhibit 1

Exhibits 2 and 3 compare disability benefit payments and the number of claimants over a ten-year period from 2010 to 2019 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.

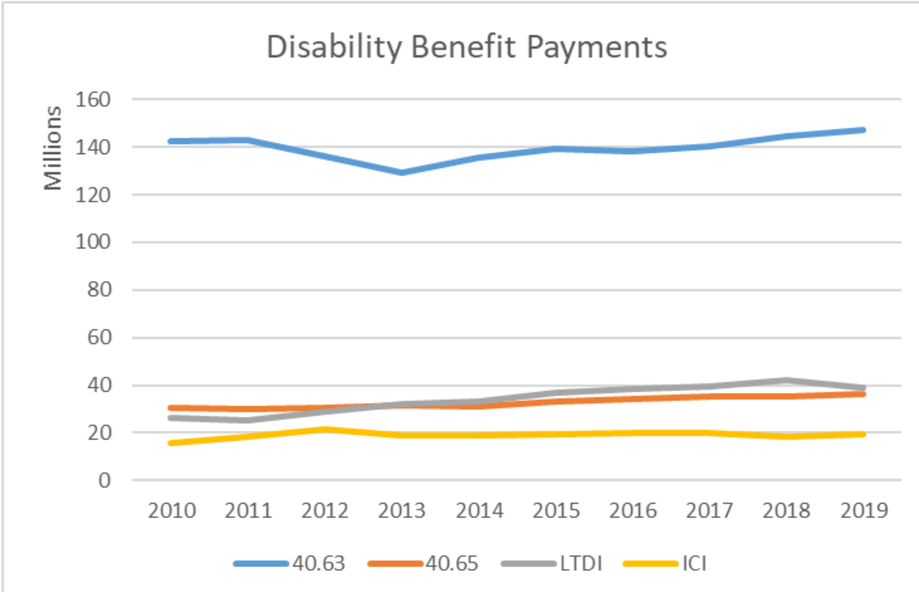


Exhibit 2

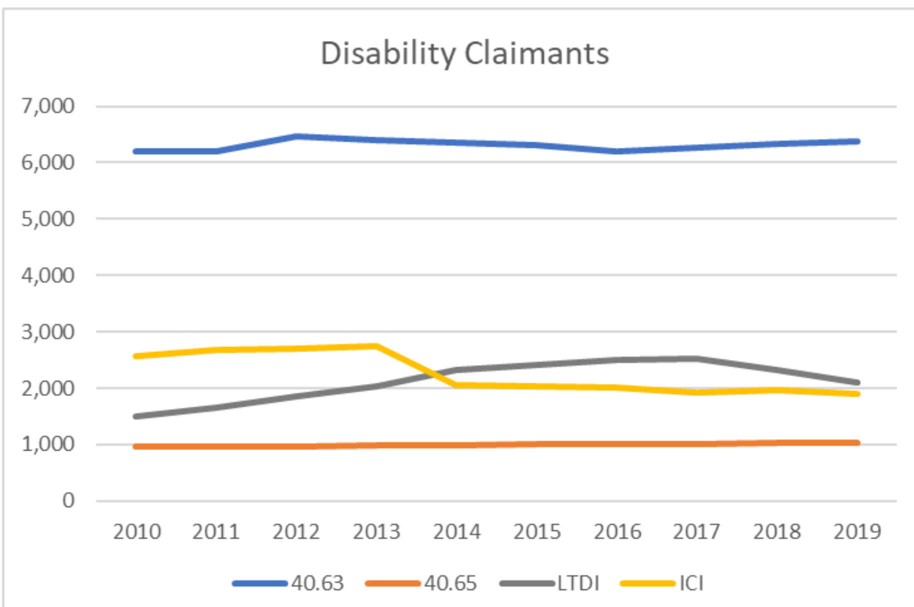


Exhibit 3

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, Special LTDI benefits (all 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 (e.g. service requirements), 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 and are available to all WRS employees who have at least one-half year of creditable service in five of the previous seven years.

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 they have at least 15 years of accumulated service, are between 50 and 55 years old at the time the disability occurs, and their disability causes them 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 ($15,702 for 2019, indexed annually).

In 2019 total benefit payments for the 40.63 program were $147.0 million. This amount was a 1.66% increase in benefit payments from 2018 and a 3.24% increase in total benefit payments since 2010. Total benefit payments declined 13.6% from 2008 to 2013 due to negative annual benefit adjustments but have increased 13.90% since then.

As of December 31, 2019, there were 6,374 annuitants receiving a benefit under 40.63. Total annuitants receiving a 40.63 benefit in 2019 increased 0.79% from the previous year and has increased 6.14% since 2010. The average monthly 40.63 benefit in 2019 was $1,922, an increase of 0.86% from 2018 and an increase of 0.33% since 2010 (Exhibit 4).

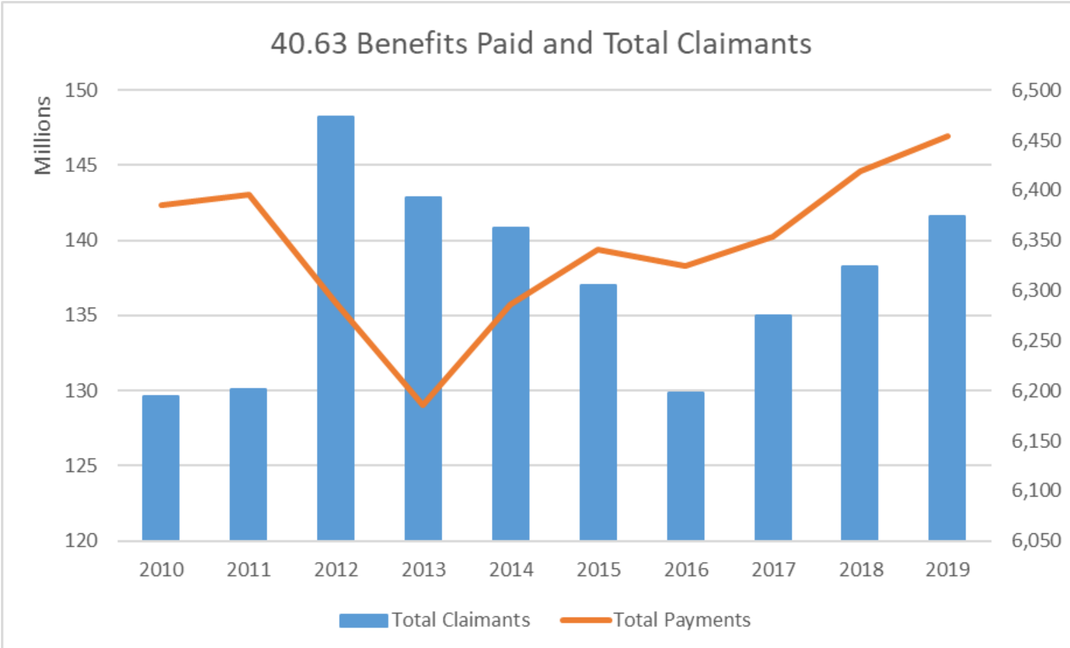


Exhibit 4

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 active protective occupation participants in the WRS system and 7,100 inactive. [2,3] The 40.65 program is under the authority of the WR Board.

Duty Disability is not a retirement or annuity benefit. The benefit for 40.65 is calculated as a percentage of income, either 75% or 80%. Other sources of income, such as WRS benefits (e.g. 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 $36.5 million in benefits in 2019, a 2.70% increase from 2018 and an increase of 20.22% since 2010. The number of members receiving a 40.65 benefit was 1,026 as of December 31, 2019, which represents an increase of 0.39% from the previous year and an increase of 7.21% since 2010. The 2019 average monthly benefit payment for 40.65 was $2,962, an increase of 2.30% from 2018 and an increase of 12.14% from 2010 (Exhibit 5).

[2] Inactive protective occupation participants are eligible for 40.65 benefits if they meet the eligibility criteria.
[3] All census information for 40.63, 40.65, and LTDI is from *Wisconsin Retirement System (WRS) 38th Annual Actuarial Valuation and Gain/Loss Analysis as of December 31, 2018.*

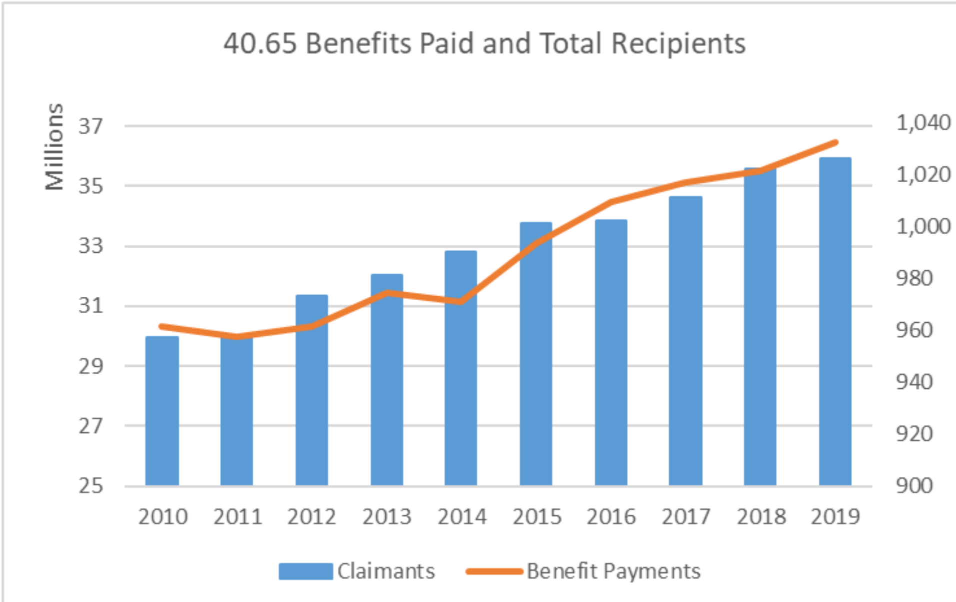


Exhibit 5

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. A review of recent U.S. Supreme Court decisions indicated that the 40.63 program did 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 is now 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 transferred to ETF from Aetna (now doing business as The Hartford) that will be run out to claim termination. 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 member's account. LTDI recipients who receive 40.65 benefits or earn creditable service with a WRS employer are also ineligible for supplemental benefits. LTDI benefits are offset (reduced) by any WRS retirement or separation benefits the individual is receiving or is eligible to receive. LTDI benefits will be suspended for exceeding the annual earnings limit the first time and will be terminated for exceeding the earnings limit a second time. LTDI Special benefits will not be terminated for exceeding the earnings limit, regardless of the number of occurrences. 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 (one year or less) and long-term (greater than one year) replacement income for disabilities. Short-term disability payments make up 42.2% of all ICI benefit payments. There are approximately 57,000 state and local government employees with ICI coverage.

ICI benefits provide up to 75% of an employee’s average monthly earnings based on previous calendar year earnings. Standard ICI 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, for most state employees, are calculated based on the amount of sick leave they’ve accumulated. 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, WRS benefits, and 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 The Hartford) and is under the oversight of the Group Insurance Board.

As part of ETF’s disability programs redesign effort, ETF developed modifications to the ICI program. The goal of this effort is to simplify and stabilize the program. At its February 8, 2017 meeting, the Group Insurance Board approved moving forward with the program modifications. The changes address the actuarial deficit in the state ICI program by transforming the ICI program into a short-term disability income program with an 18-month benefit duration and a benefit amount equal to 70% of salary. The changes also decouple current sick leave requirements for most state ICI enrollees from premium and benefit determination processes.

Instead, premiums and benefit effective dates are determined by employee-selected elimination periods. The modifications also transfer oversight authority of the ICI program to the ETF Board from the GIB. ETF has pursued a number of legislative options to reverse the downward trend in enrollment and reduce program complexity. However, we do not believe that we will see any action taken on these statutory changes prior to January 2021. ETF continues to evaluate legislative and non-legislative options for the ICI redesign effort, including the next biennial budget process.

Trends in Disability Benefits

Annual adjustments made to the 40.63 benefit are based on the same core annuity and variable annuity dividend percentages as monthly WRS retirement annuities. LTDI adjustments are based on the core annuity dividend only. These benefit adjustments have seen successive declines beginning in 2008 and returning to positive adjustments in 2013. The LTDI program, while experiencing the same negative adjustments, did not experience the same overall decrease in annual 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 payments from decreasing below their original 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, 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 annuity dividend, depending on the member’s age (60 or older) and qualification for other WRS disability benefits. In recent years the salary index has only decreased once, by 1.5% in 2011.

ICI benefits do not experience annual adjustments.

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 which do not exist in the LTDI program. 40.63 annuities are not converted to WRS retirement annuities at normal retirement age even though they are similarly administered.

40.63 benefit payments and claimants have declined modestly since 2008, however with the closure of the LTDI program and the subsequent reopening of 40.63 on January 1, 2018, 40.63 benefits have begun to increase. ETF’s disability actuaries projected that the number of active 40.63 claims will increase by approximately 300-330 claims annually.

A total of 726 disability annuity estimates were completed in 2019, representing a decrease of 12.3% from last year's numbers. 40.63 disability annuity benefits that were started in 2019 totaled 283, a 15.5% increase over last year. This was anticipated with the reopening of the program in 2018 (Exhibit 7).

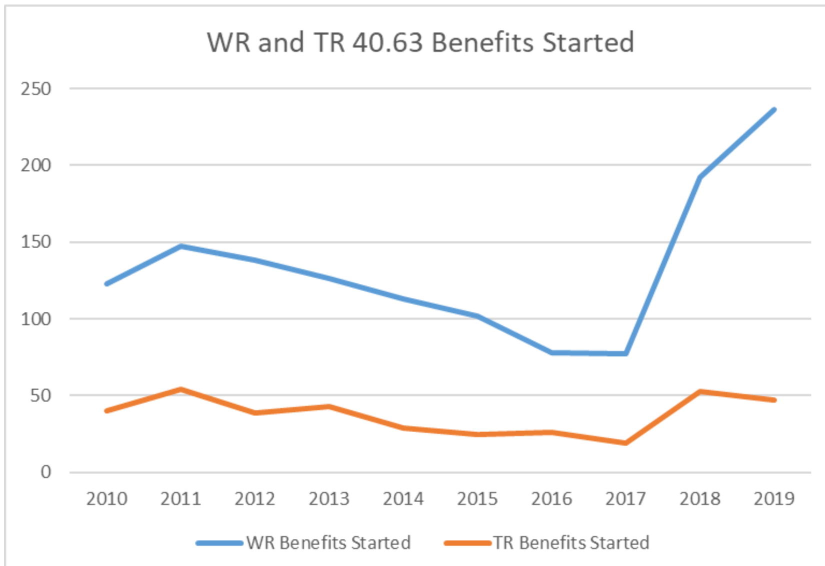


Exhibit 7

Disability annuity claims have historically been filed primarily by claimants age 51-60. This age group accounted for approximately two thirds of all 40.63 disability annuities started between 2011 and 2017. This year, the 51-60 age range accounts for only 54.7% of all 40.63 disability annuities started due, in part, to the reopening of the program to all eligible employees, and a corresponding increase in the number of claimants under age 51.

The number of claimants ages 45 and under has maintained its prior year gain. Between 2017 and 2018 this group went from 2.94% of the total claims, to 13.41%, and in 2019 this group represents 12.4% of all 40.63 disability annuities (Exhibits 8 and 9).

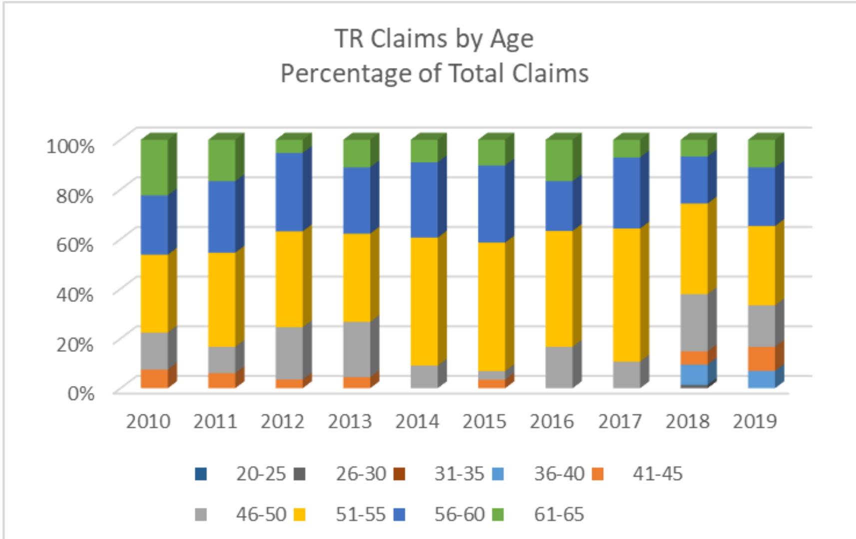


Exhibit 8

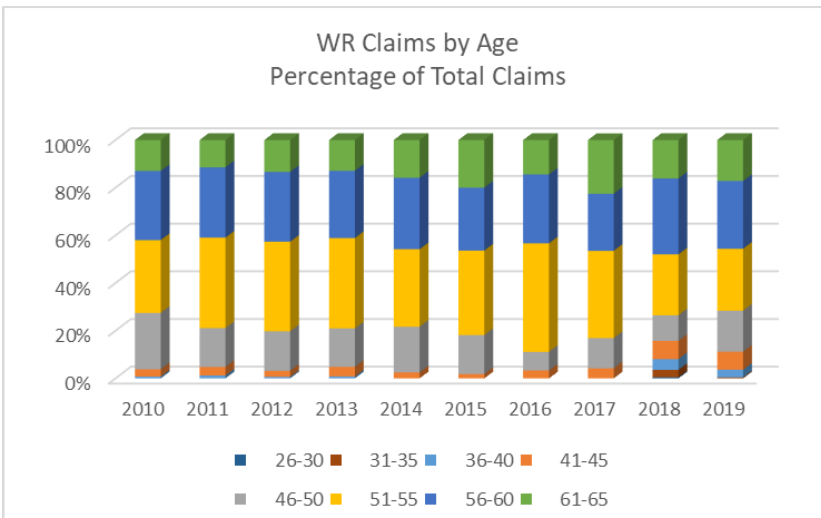


Exhibit 9

The ICI program, on the other hand, shows a much broader distribution of claims by age range. This is indicative of the short-term component of the ICI program, and the previous inability of employees to apply for 40.63 benefits based on hire date (Exhibit 10).

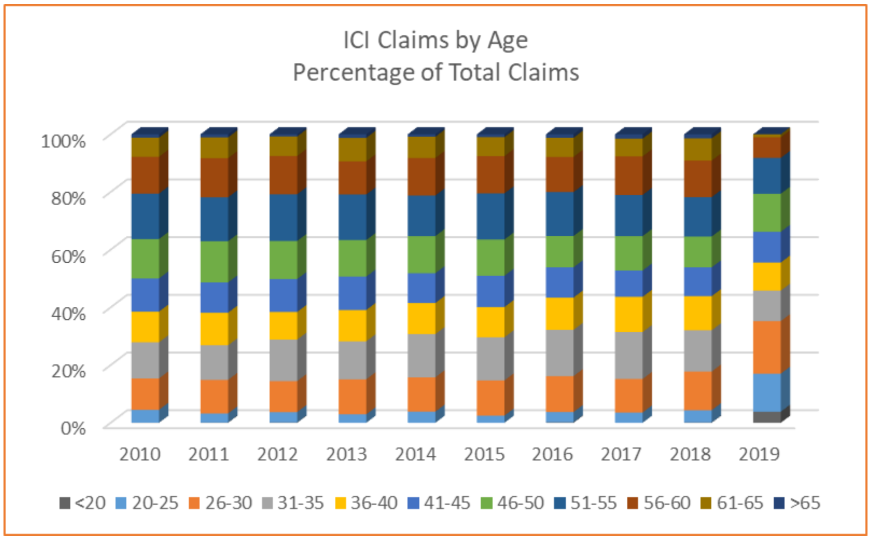


Exhibit 10

The primary disability types for the 40.63 program in 2019 are multiple medical problems, cancer, orthopedic, neurology, and mental illness.

Teachers Retirement Board claims for cancer, multiple medical problems, and orthopedic issues continued to increase, while neurology and mental illness claims have shown more volatility in recent years. Cancer claims comprise the greatest percentage of these claims in 2019 (30.6%), followed by multiple medical problem claims (23.6%) (Exhibit 11).

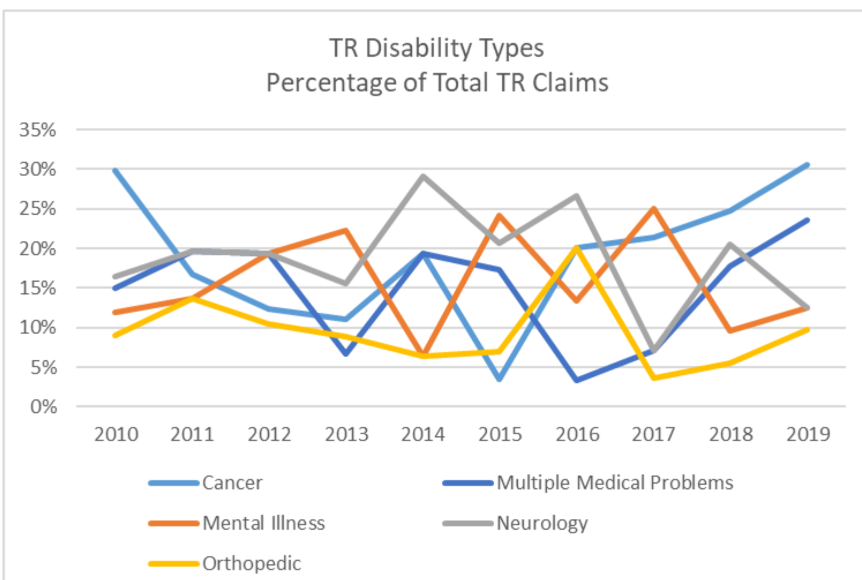


Exhibit 11

For Wisconsin Retirement Board disability annuity claims, cancer claims continued to increase, while orthopedic, neurology, and multiple medical problem claims all showed a decrease. Multiple medical problems comprised the greatest percentage of all claims in 2019 (24.0%), followed by cancer claims (16.0%) (Exhibit 12).

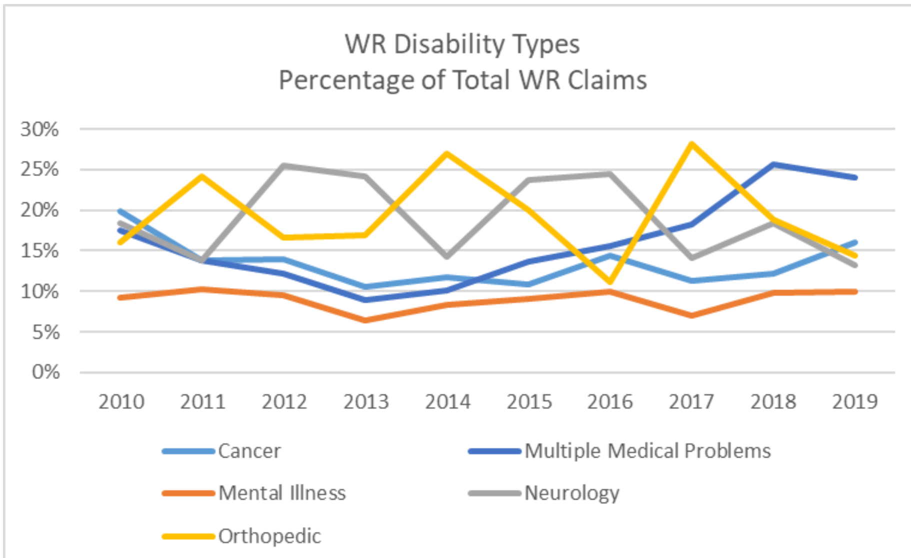


Exhibit 12

There were 23 duty disability benefits started in 2019. The primary disability type for these claims was musculoskeletal issues (69.6%), followed distantly by psychiatric disabilities (8.7%). There is a large amount of volatility in other disability types for this program, due to the relatively small number of claimants (Exhibit 13).

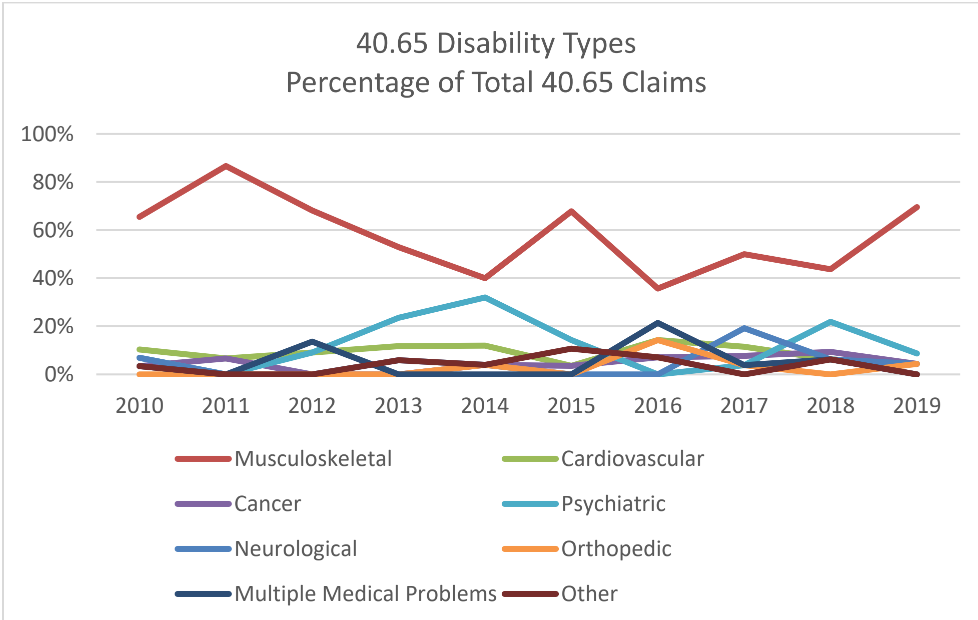

40.65 Disability Types
Percentage of Total 40.65 Claims
100%
80%
60%
40%
20%
0%
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
Musculoskeletal
Cardiovascular
Cancer
Psychiatric
Neurological
Orthopedic
Multiple Medical Problems
Other

Exhibit 13