STATE OF WISCONSIN
Department of Employee Trust Funds
A. John Voelker
SECRETARY

Wisconsin Department
of Employee Trust Funds
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax 608-267-4549
etf.wi.gov

Correspondence Memorandum

Date: February 24, 2023

To: Employee Trust Funds Board

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

Subject: 2022 Disability Statistical Report

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

Attached for your review is the 2022 Wisconsin Retirement System (WRS) Disability Statistical Report. The report provides information on disability annuity and duty disability activity for 2022 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 2022 and comparisons to previous years.

The number of disability annuity applications appears to have returned to pre-pandemic volumes this year. The volume of duty disability claims, which take more time to process and complete, are showing a notable decrease that may also tie back to lower application volumes during the pandemic period.

On November 16, 2022, the Group Insurance Board approved changes to the ICI program. The primary change will increase ICI standard plan coverage from $64,000 of annual income to $120,000 and eliminate supplement coverage. ETF will be implementing those changes that go into effect on January 1, 2024.

We appreciate any feedback or suggestions that you may offer for future inclusion in this report. Please contact Jim Guidry 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: 2022 Disability Statistical Report

Matt Stohr

Reviewed and approved by Matt Stohr, Administrator, Div. of Retirement Services
Electronically Signed 03/02/23

Board	Mtg Date	Item #
ETF	3.23.23	7D

Benefit Services Bureau

2022 Disability Benefit Statistical Report

February 24, 2023

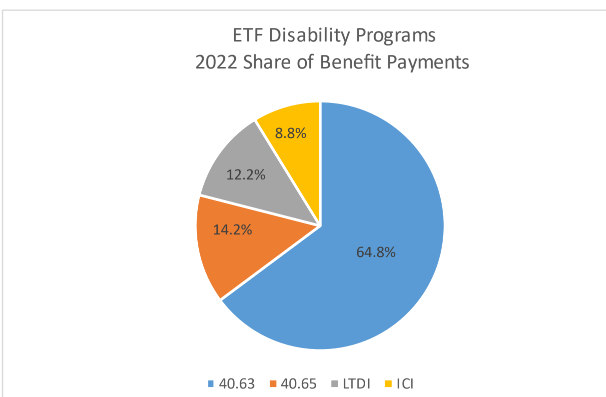
Prepared for the Joint Meeting of the Retirement Boards, March 23, 2023

Introduction

The 2022 Disability Statistical Report provides statistical information for the 40.63 Disability Annuity (40.63), 40.65 Duty Disability (40.65), Long-Term Disability Insurance (LTDI), and Income Continuation Insurance (ICI) programs for the calendar year. While the LTDI program is closed to new claims, the program still provides benefits for existing claimants during its runout period. 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 10 years, depending on the veracity of available data and usefulness of that data. This report will provide a review of the disability programs, identify trends, and provide comparisons among the four programs.

Overview

The Department of Employee Trust Funds administers four disability programs under the authority of the Employee Trust Funds, Wisconsin Retirement (WR), Teachers Retirement (TR), and Group Insurance Boards (GIB). These programs are the Disability Annuity, Duty Disability, Long-Term Disability Insurance, and Income Continuation Insurance programs. These programs combine for annual benefit payments of $264.1 million for 11,258 separate claims as of December 31, 2022[1]. The 40.63 program commands the largest share of disability payments with 64.8% of disability payments and 57.4% of all active claims (Exhibit 1).



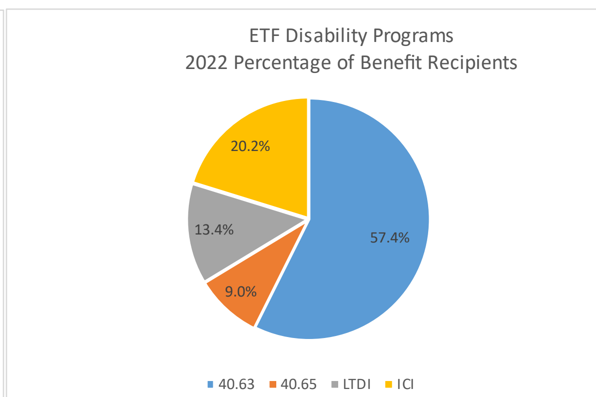


Exhibit 1

Exhibits 2 and 3 compare disability benefit payments and the number of claimants over a ten-year period from 2013 to 2022 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.

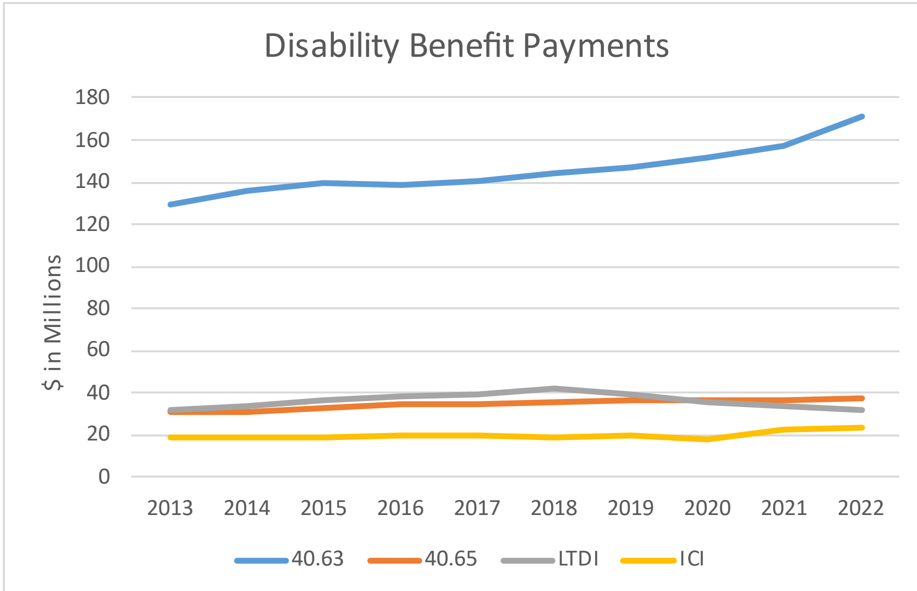


Exhibit 2

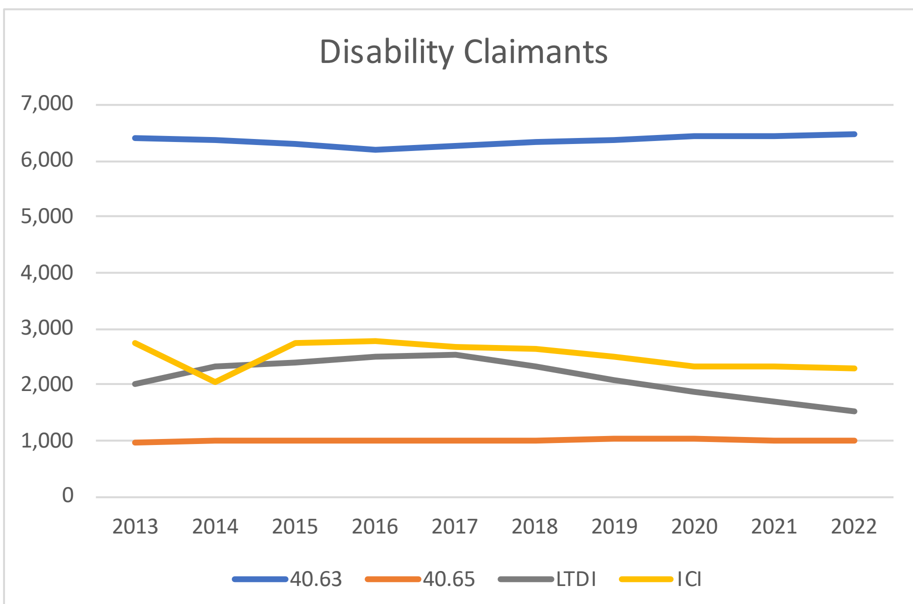


Exhibit 3

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 occupation participants 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) medical reports from physicians certifying that the employee meets the program's definition of disabled. Disability benefit applications also require documentation from the employer. The LTDI program was closed on January 1, 2018, and is no longer accepting new benefit applications. The ICI, LTDI, and 40.63 disability programs may require annual medical recertification for benefit recipients.

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 calendar 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 prevents them from performing their protective occupation duties. Disability Annuity 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 and receive the same annual adjustments as retirement annuities. 40.63 benefits can be suspended if an annuitant has earned income above an established earnings limit ($17,340 for 2022, indexed annually).

In 2022 total benefit payments for the 40.63 program were $171.2 million. This amount was an 8.9% increase in benefit payments from 2021. Total benefit payments have increased 32.7% since that 2013.

As of December 31, 2022, there were 6,459 annuitants receiving a benefit under 40.63. Total annuitants receiving a 40.63 benefit in 2022 increased 0.3% from the previous year and has increased 1.0% since 2013. The average monthly 40.63 benefit in 2022 was $2,209, an increase of 8.6% from 2021 and an increase of 31.3% since 2013 (Exhibit 4).

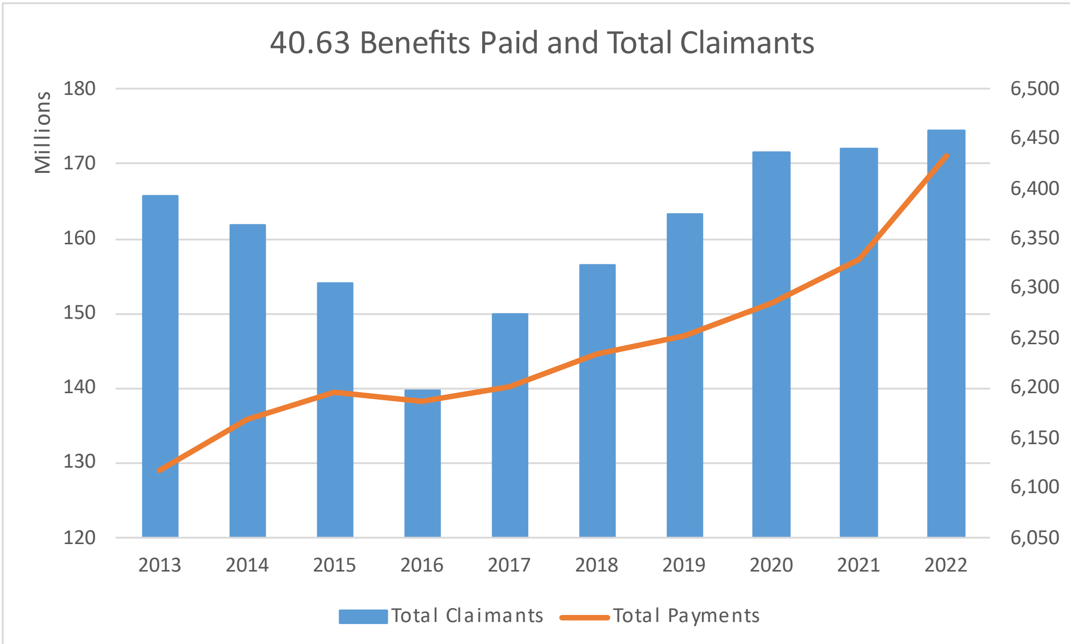


Exhibit 4

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 21,900 active protective occupation participants in the WRS system and 8,100 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, 40.63, and LTDI), Social Security benefits, earned income, Unemployment Insurance, and Worker's Compensation benefits will reduce Duty Disability benefits. The 40.65 benefit is a lifetime benefit.

The 40.65 program paid $37.4 million in benefits in 2022, a 2.1% increase from 2021 and an increase of 19.1% since 2013. The number of members receiving a 40.65 benefit was 1,008 as of December 31, 2022, a decrease of 0.7% from the previous year and an increase of 2.8% since 2013. The 2022 average monthly benefit payment for 40.65 was $3,095, an increase of 2.8% from 2021 and an increase of 15.9% from 2013 (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) 41st Annual Actuarial Valuation and Gain/Loss Analysis as of December 31, 2021.*

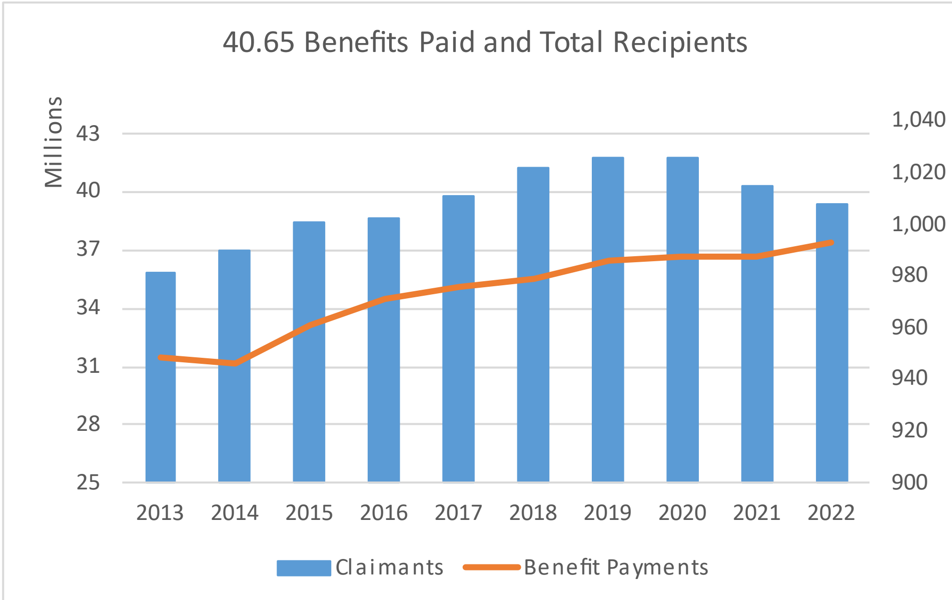


Exhibit 5

Long-Term Disability Insurance (§ ETF 50.40). The LTDI program closed to all new claims on January 1, 2018, as part of ETF's disability programs redesign project, a multi-year effort to streamline ETF's disability programs to make them more sustainable, administratively efficient, and less redundant. Up until that point, the LTDI program was being administered by a third-party administrator, Aetna (now The Hartford). The program closure provided ETF with an opportunity to bring the management of the existing LTDI claims in-house. When the program was closed, 2,548 existing LTDI claims were transferred to ETF from Aetna that will be run out to claim termination. It is estimated that it will take approximately 30 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 members who were ineligible for Social Security benefits. LTDI benefits are offset (reduced) by any WRS retirement or separation benefits the individual is receiving.

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. Special LTDI 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 Disability Annuity program.

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 if 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.

The ETF Board has oversight of the LTDI program.

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 members who become disabled while enrolled in the plan. There were 42,132 state and 11,723 local government employees with ICI coverage as of April 2022.

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 premiums are paid by employees and employers and, for most state employees, are calculated based on the amount of sick leave they've accumulated and their previous year's annual earnings. For University of Wisconsin faculty and academic staff and local government employees, the premium is based on annual earnings and 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.

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.

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.

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 annuity benefit, similar to a WRS retirement benefit, while LTDI benefits end at age 65 for most recipients. Once an LTDI benefit has reached its maximum duration, a recipient may begin receiving a WRS retirement benefit if they have not already taken a WRS benefit. 40.63 disability annuitants have the same benefit payment options as WRS retirees, with the exception of accelerated benefits, which means they can select an option that would pay death benefits. In contrast, there are no death benefits payable under the LTDI program. 40.63 annuities are not converted to WRS retirement annuities at normal retirement age.

40.63 benefit payments and claimants 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 showed a sizeable increase. ETF's disability actuaries projected that the number of active 40.63 claims would increase by approximately 300-330 claims annually, suggesting that, while the number of benefits started has decreased this year, the program may experience additional growth in future years.

A total of 606 disability annuity estimates were completed in 2022, representing a decrease of 5.9% from the prior year's numbers. 40.63 disability annuity benefits that were started in 2022 totaled 255, a 4.5% increase over the prior year. (Exhibit 7).

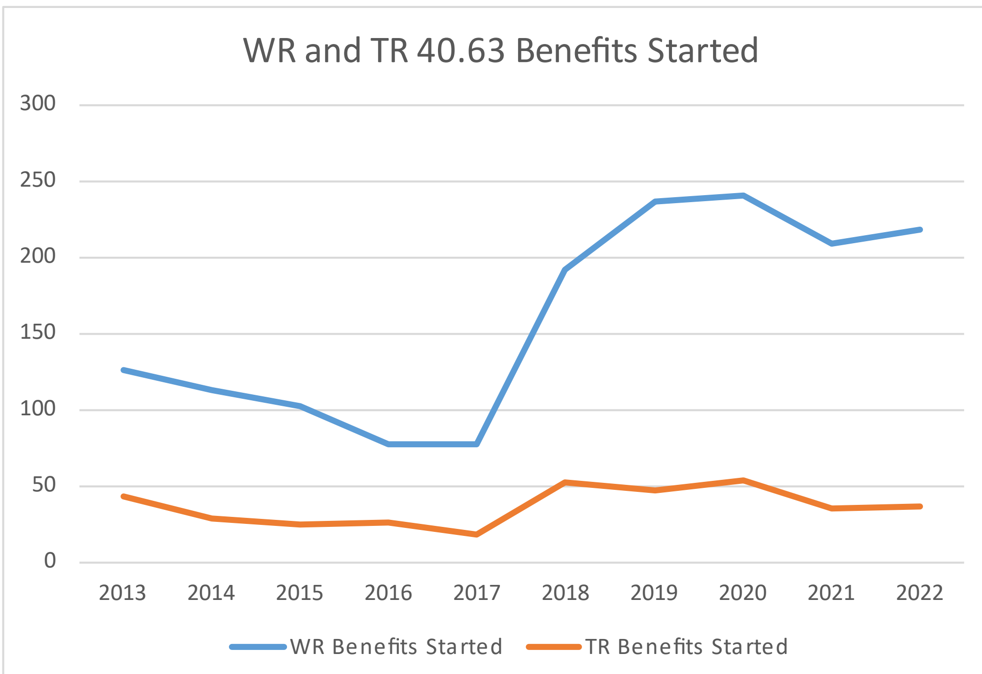


Exhibit 7

Disability annuity claims have historically been filed primarily by claimants ages 51-60. This age group accounted for approximately two thirds of all 40.63 disability annuities started between 2011 and 2017. Due, in part, to the reopening of the program to all eligible employees, claimants ages 51-60 made up just over half of the disability annuities started in the last five years. This year, the 51-60 age range accounts for only 48.4% of all 40.63 disability annuities started.

The number of claimants ages 45 and under has increased this year, maintaining most of the gains made in the prior four years. Between 2011 and 2017 this group averaged 2.5% of the total number of claims. Since 2018, claimants under age 45 have averaged 14.0% of all claims. In 2022, this group represents 15.4% of all 40.63 disability annuities (Exhibits 8 and 9).

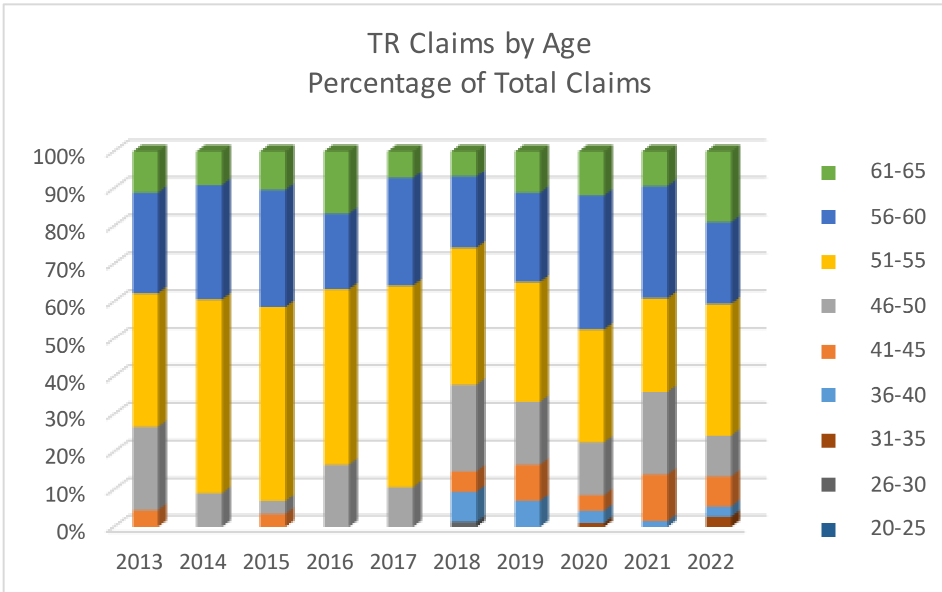


Exhibit 8

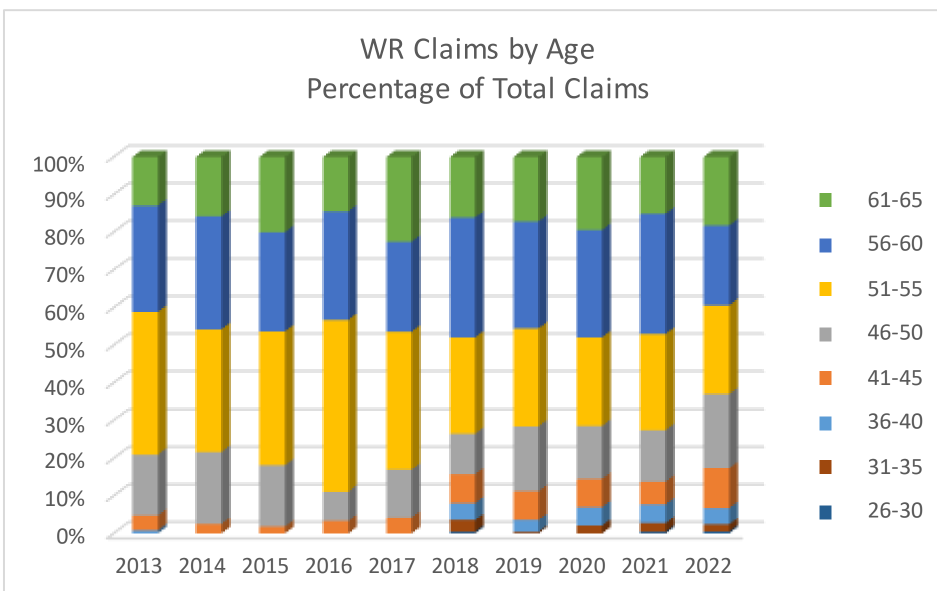


Exhibit 9

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).

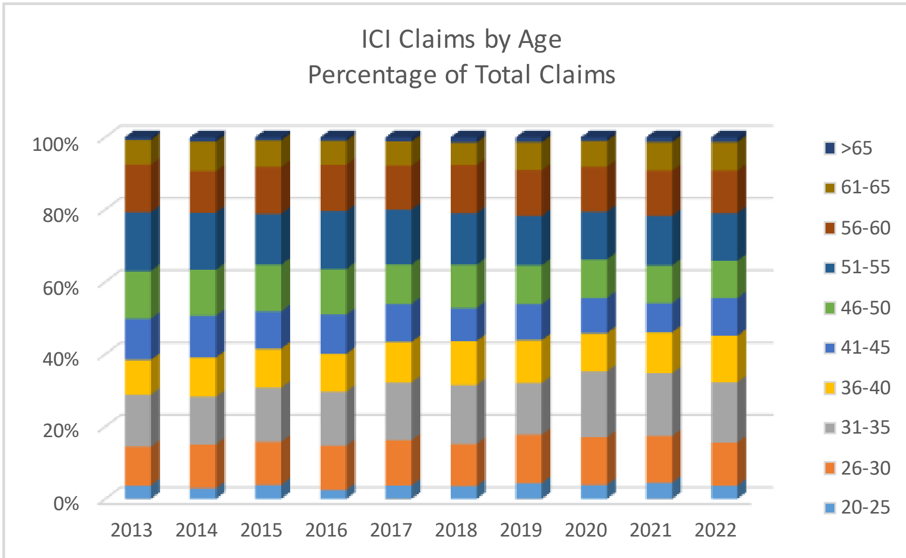


Exhibit 10

The primary disability types for the 40.63 program in 2022 are multiple medical problems, neurology, cancer, orthopedic, and mental illness.

Teachers Retirement Board claims for multiple medical problems increased, while cancer, mental illness, neurology, and orthopedic issues showed decreases. Multiple medical problem claims comprise the greatest percentage of these claims in 2022 (29.7%), followed by neurology (20.3%) and cancer (17.6%) (Exhibit 11).

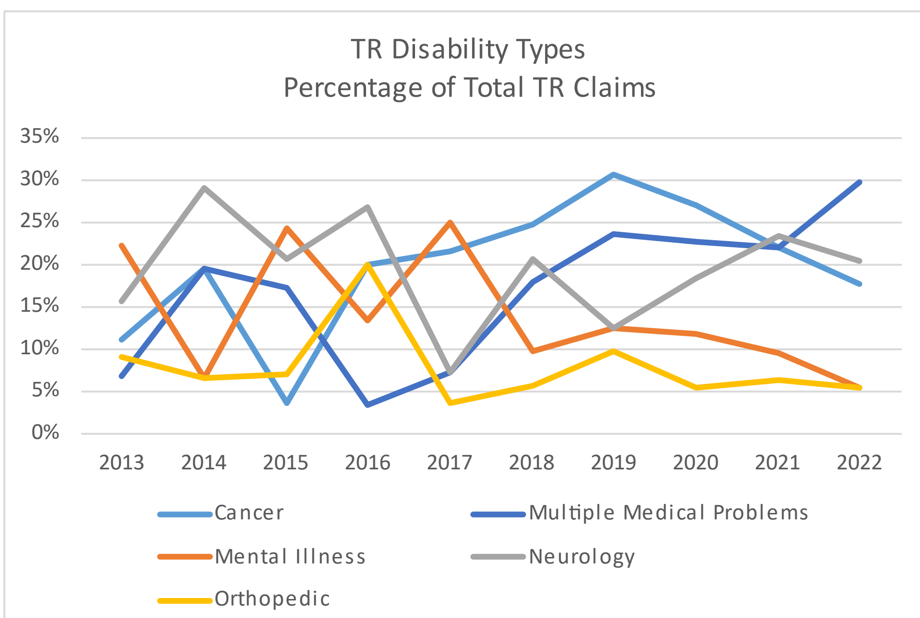


Exhibit 11

For Wisconsin Retirement Board disability annuity claims, multiple medical problems and neurology claims increased substantially, while mental illness claims rose only slightly. Cancer and orthopedic claims decreased this year. Multiple medical problem claims comprised the greatest percentage of all claims in 2022 (24.3%), followed by neurology, orthopedic, cancer, and mental illness (19.4, 17.0, 14.6, and 10.7%, respectively) (Exhibit 12).

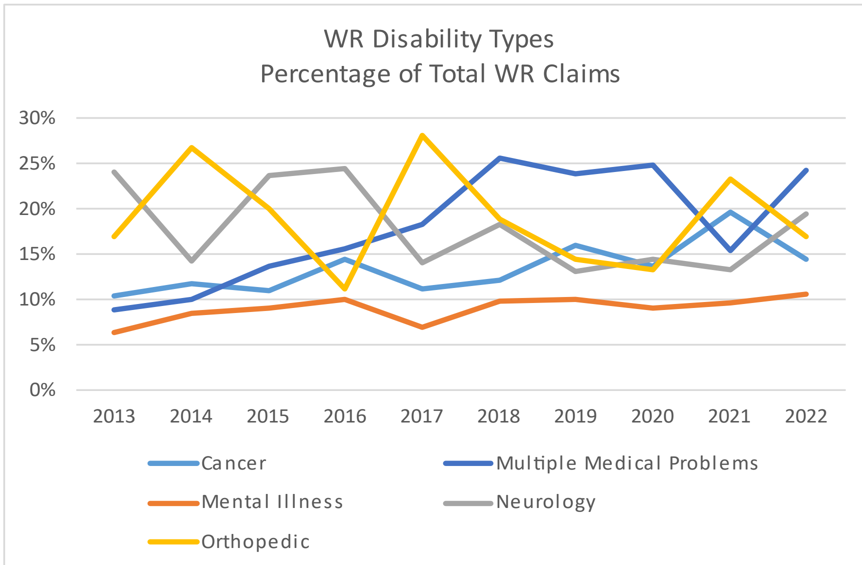


Exhibit 12

There were 8 duty disability benefits started in 2022. The primary disability type for these claims was musculoskeletal issues (62.5%), followed by psychiatric issues (25%), and cancer claims (12.5%). There is a large amount of volatility in other disability types for this program, due to the relatively small number of claimants (Exhibit 13).

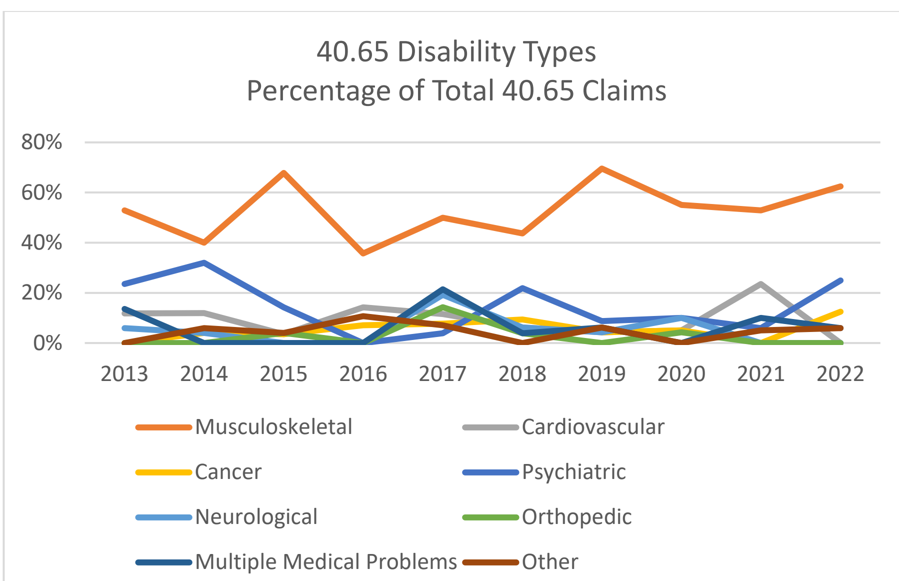


Exhibit 13

Beginning with the 2024 calendar year, the ICI program will increase the covered earnings amount in standard ICI coverage to $120,000 of annual income. The current amount, $64,000 has not been changed since it was established in 1988, while average employee salaries have increased 46% during that same period. Employees can fill the gap by enrolling in supplemental coverage but must pay 100% of the additional premiums since only premiums for standard coverage are eligible for employer contributions. As salaries have risen, employees have seen an erosion in the portion of their wages eligible for an employer share. With this change employees will obtain standard coverage up to $120,000 of income with an associated employer share.

This change also eliminates supplemental coverage provisions from the plan, since the updated standard coverage will include the income range currently established in supplemental coverage. Additionally, employers will no longer be required to offer supplemental coverage enrollment opportunities for eligible employees each year.

The supplemental coverage changes were a part of ETF's disability programs redesign effort, a multi-year effort to streamline ETF's disability programs to make them more sustainable, administratively efficient, and less redundant. ETF recommended design changes to the State ICI program that addressed declining enrollment, attempted to lower premiums, reduce the actuarial liability, and reduce the complexity and administrative burdens of the program.

In light of feedback received on the original package, ETF revised its proposal and prepared legislative changes that would decouple sick leave from the state ICI program and replace it with an elimination-period based program resembling the local ICI program. Currently sick leave balances play a part in determining state employee ICI premiums, and UW and state employees are required to exhaust up to 130 days of sick leave before ICI benefits can begin. The statute changes would remove these requirements.

Other changes considered include removing the requirement for UW faculty and academic staff to have 12 months of service before becoming eligible for an employer contribution to the ICI premium and shifting the oversight of the ICI program from the Group Insurance Board (GIB) to the ETF Board.

ETF's 2023-2025 budget request included the changes to the ICI program's sick leave provisions, UW faculty 12-month waiting period for employer contributions, and the change in board oversight. Additionally, ETF requested statute changes to codify the LTDI program. The Governor's budget proposal presented to the legislature in February 2023 included these requested changes

Other legislation we are currently following includes legislation introduced that would enable certain county jailers to elect protective occupation status if their employer does not classify them as such. These bills, AB28 and its companion, SB28, will have a direct impact to the Duty Disability program.