Benefit Services Bureau

2024 Disability Benefit Statistical Report

March 18, 2025

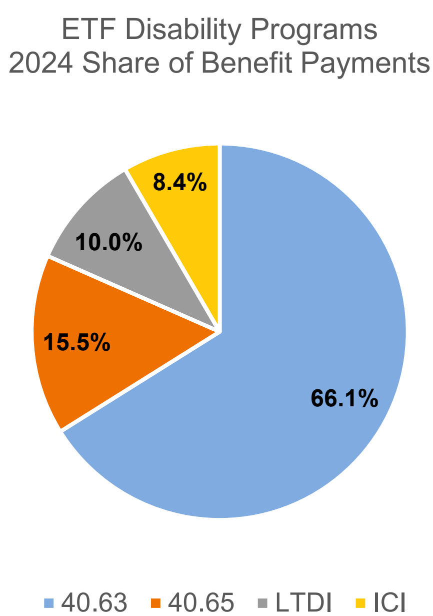
Prepared for the Employee Trust Funds Board, March 27, 2025

Introduction

The 2024 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 $273.3 million for 10,769 separate claims as of December 31, 2024[1]. The 40.63 program commands the largest share of disability payments with 66.1% of disability payments and 59.7% of all active claims (Exhibit 1).



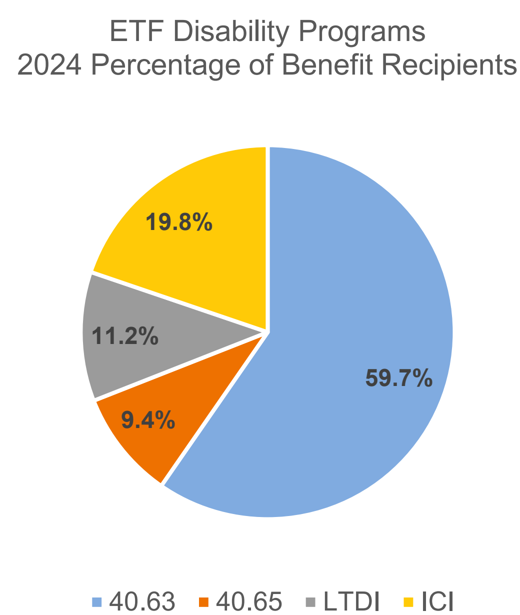


Exhibit 1

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

Exhibits 2 and 3 compare disability benefit payments and the number of claimants over a ten-year period from 2015 to 2024 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).

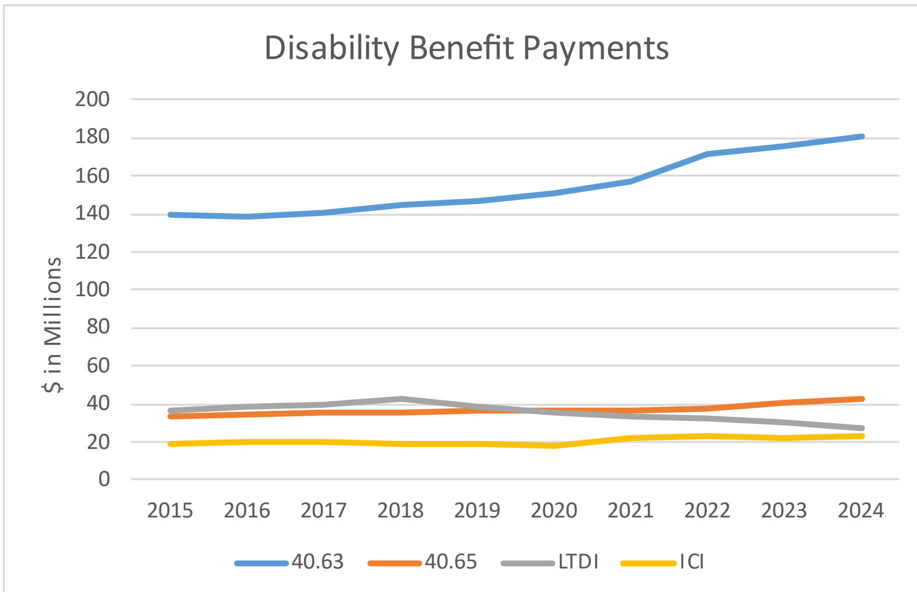


Exhibit 2

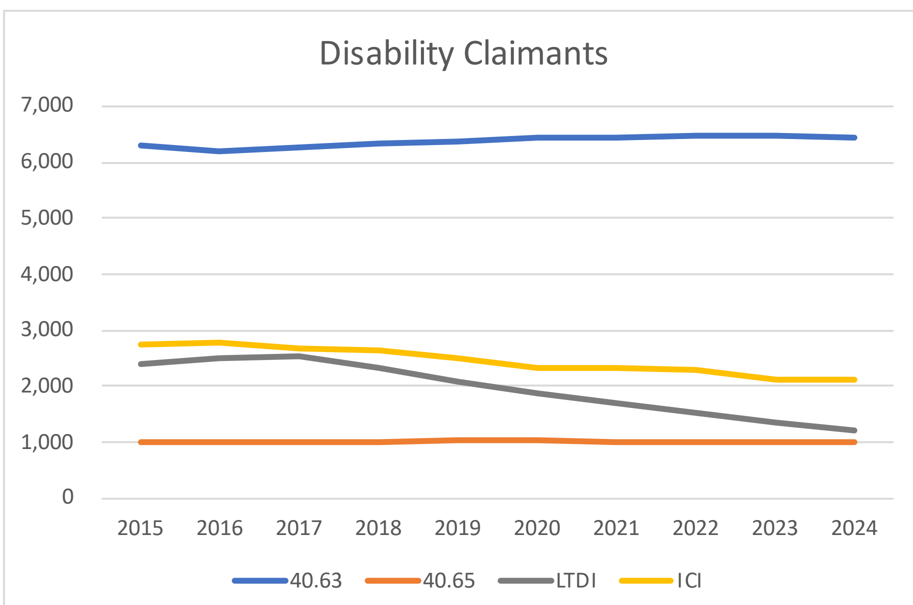


Exhibit 3

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 or a total of at least five years of creditable service in the last 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 calculated 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 ($19,883 for 2024, indexed annually).

In 2024 total benefit payments for the 40.63 program were $180.6 million. This amount was a 3.0% increase in benefit payments from 2023. Total benefit payments have increased 29.6% since 2015.

As of December 31, 2024, there were 6,433 annuitants receiving a benefit under 40.63. Total annuitants receiving a 40.63 benefit in 2024 decreased 0.5% from the previous year and has increased 2.0% since 2015. The average monthly 40.63 benefit in 2024 was $2,340, an increase of 3.4% from 2023 and an increase of 27.0% since 2015 (Exhibit 4).

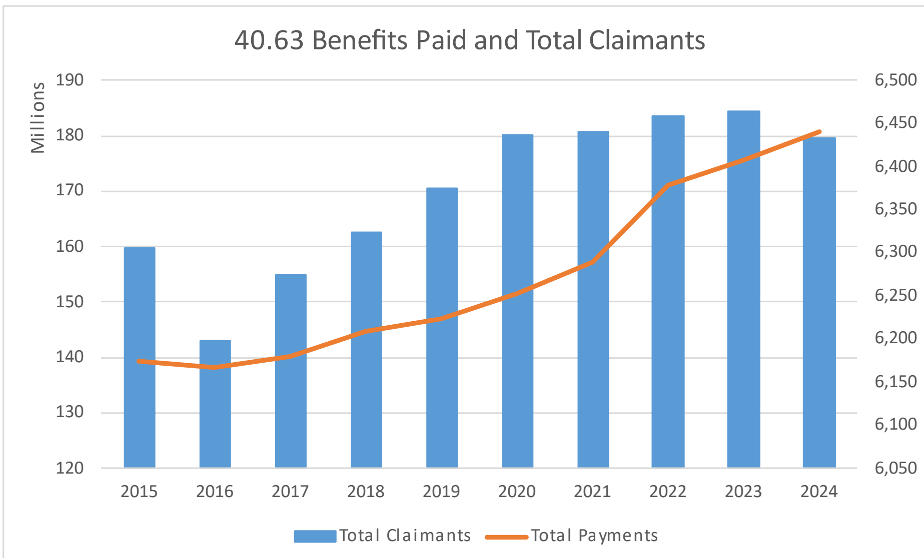


Exhibit 4

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, with the exception of county jailers whose employers do not treat them as protective occupation employees. (These jailers have the option of being categorized as either protective occupation employees or “general” employees under the WRS. County jailers who are categorized as protective occupation employees must pay additional contributions to fund potential Duty Disability benefits). An individual must be permanently disabled by a work-related injury or disease and can no longer work full protective duty. There are approximately 22,200 active protective occupation

participants in the WRS system and 8,650 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 (i.e., 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, with death benefits payable if eligibility criteria for death benefits are met.

The 40.65 program paid $42.4 million in benefits in 2024, a 5.4% increase from 2023 and an increase of 28.1% since 2015.

The number of members receiving a 40.65 benefit was 1,007 as of December 31, 2024, an increase of 0.7% from the previous year and an increase of 0.6% since 2015. The 2024 average monthly benefit payment for 40.65 was $3,510, an increase of 4.6% from 2023 and an increase of 27.3% from 2015 (Exhibit 5).

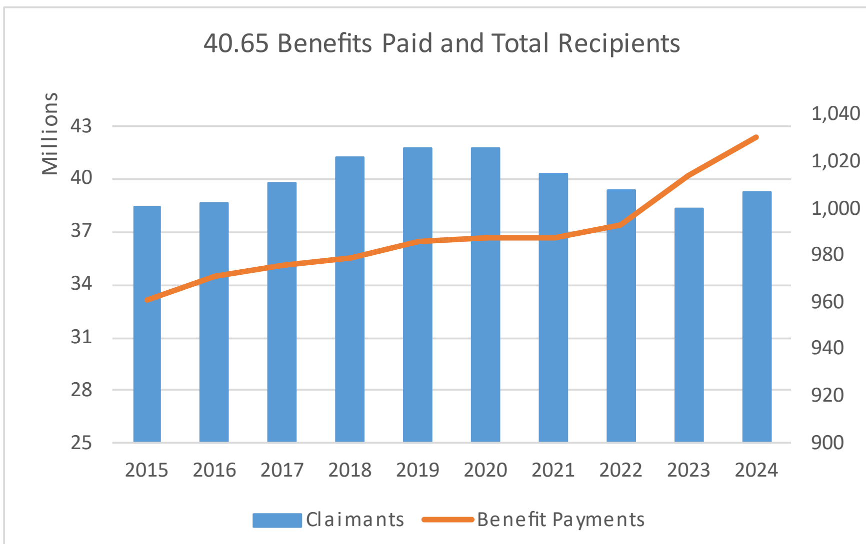


Exhibit 5

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

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[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) 43rd Annual Actuarial Valuation and Gain/Loss Analysis as of December 31, 2023.*

redundant. When the program was closed, 2,548 existing LTDI claims which were being administered by a third-party administrator (The Hartford) were transferred to ETF. The remaining claims will be managed by ETF staff until 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 at the time they applied 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 until the beginning of the next calendar year for exceeding the annual earnings limit the first time and will be terminated for exceeding the earnings limit a second time. Special LTDI benefits can be suspended, but 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 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 43,442 state and 14,002 local government employees with ICI coverage as of April 2024.

ICI benefits provide up to 75% of an employee's average monthly earnings based on previous calendar year earnings. ICI covers 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 GIB.

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 can select a payment option that would pay death benefits. In contrast, there are no death benefits payable under the LTDI program.

40.63 benefit payments and claimants declined modestly from 2008 to 2016, however with the closure of the LTDI program and the subsequent reopening of 40.63 on January 1, 2018, 40.63 benefit payments and claimants showed a sizeable increase. As of 2024, it would appear that the additional number of claims may be beginning to return to a more normal distribution. More data will be needed to see if this is a temporary shift, or a permanent trend (Exhibit 7).

A total of 565 disability annuity estimates were completed in 2024, representing an increase of 11.4% from the prior year's numbers. 40.63 disability annuity benefits that were started in 2024 totaled 195, a 3.9% decrease from the prior year.

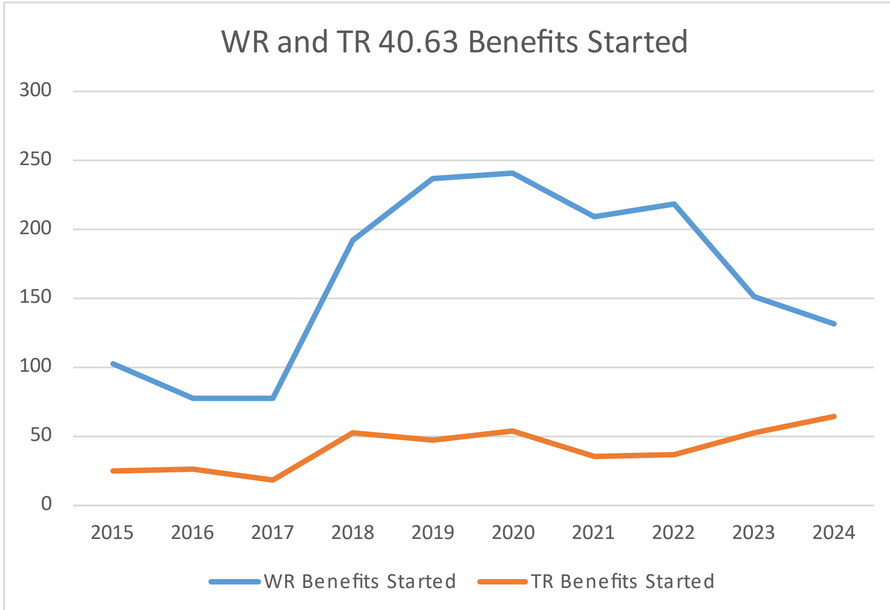

Exhibit 7

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 52.5% 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 2024, this group represents 14.6% of all 40.63 disability annuities (Exhibits 8 and 9).

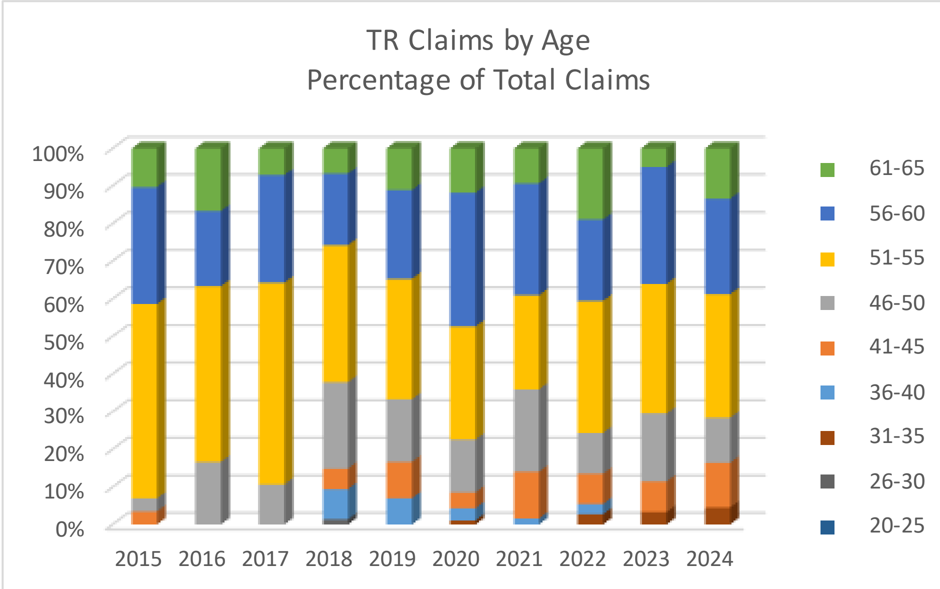

Exhibit 8

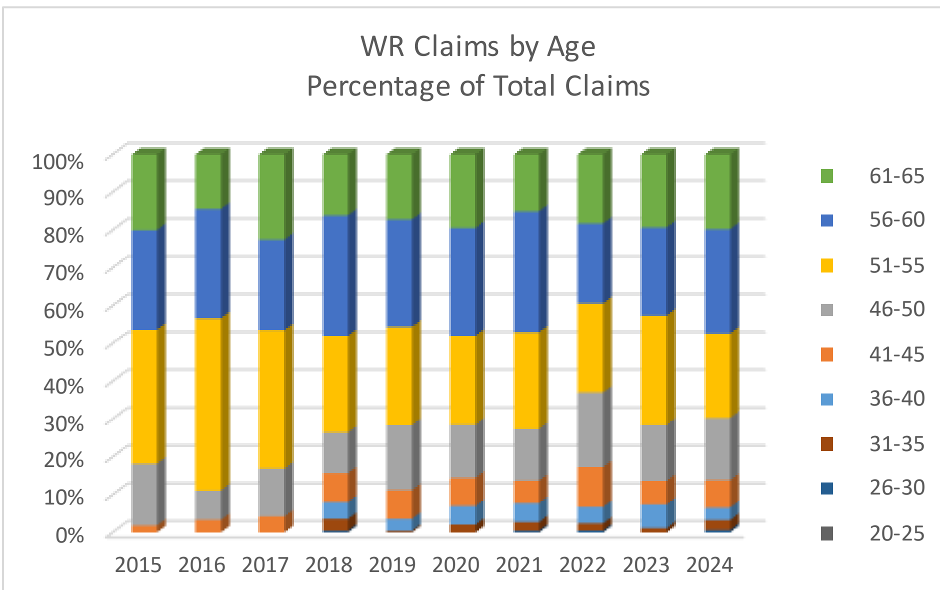

Exhibit 9

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).

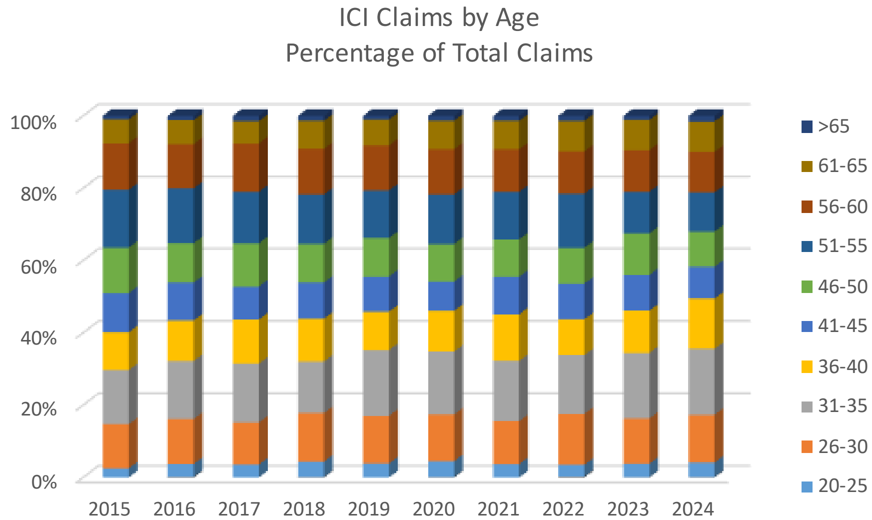

Exhibit 10

The primary disability types for the 40.63 program in 2024 are multiple medical problems, orthopedic, cancer, neurology, and mental illness.

Teachers Retirement Board claims for multiple medical problems and cancer began to level off, while mental illness saw a sharp increase. Orthopedic and Neurology claims showed decreases. Multiple medical problem claims comprise the greatest percentage of these claims in 2024 (34.3%), followed by cancer (20.9%) and mental illness (17.9%) (Exhibit 11).

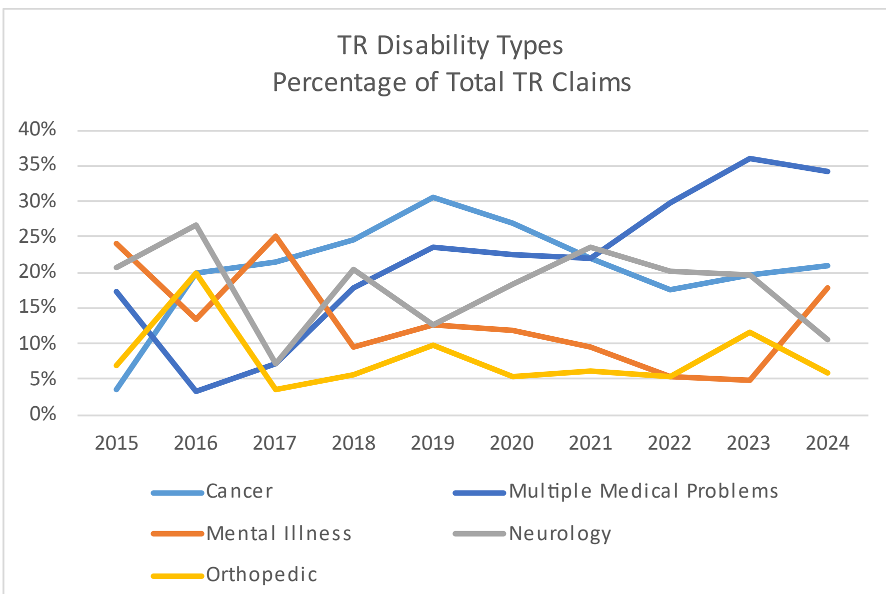

Exhibit 11

For Wisconsin Retirement Board disability annuity claims, multiple medical problems, neurology, mental illness, and cancer claims increased, while orthopedic claims decreased. Multiple medical problem claims comprised the greatest percentage of all claims in 2024 (27.6%), followed by cancer, neurology, orthopedic, and mental illness (17.8, 16.4, 15.8, and 11.8%, respectively) (Exhibit 12).

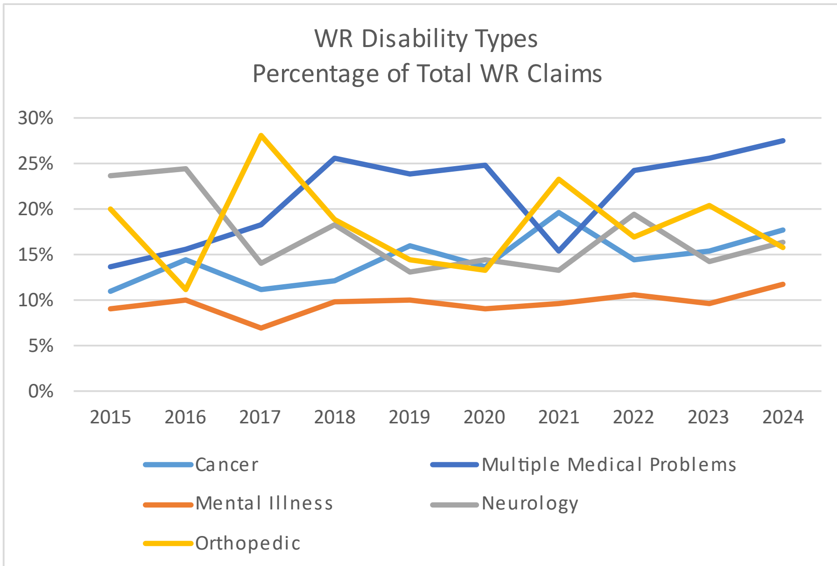

Exhibit 12

There were 27 duty disability benefits started in 2024. The primary disability type for these claims was musculoskeletal issues (37.0%), followed by cardiovascular (18.5%), cancer (11.1%), and multiple medical problem claims (11.1%). There is a large amount of volatility in other disability types for this program, due to the relatively small number of claimants (Exhibit 13).

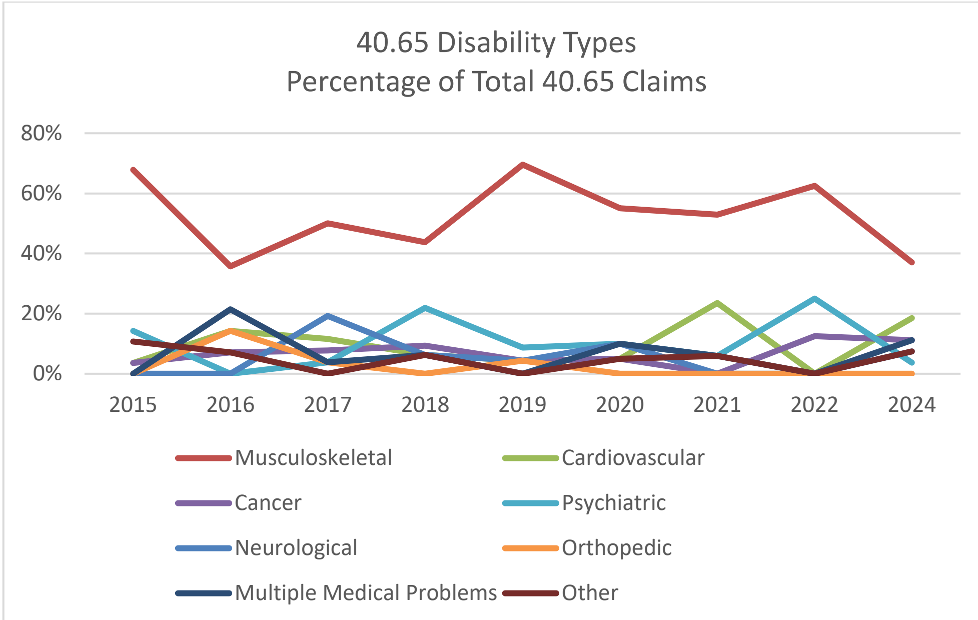

Exhibit 13

There were a few updates to the ICI program in 2024 that were approved by the GIB. Beginning January 1, 2024, the maximum covered earnings amount for standard ICI coverage was increased to $120,000 of annual income. The previous maximum, $64,000, had not been changed since the program was established in 1988, while average employee salaries increased 46% during that same period. The change eliminated supplemental coverage provisions from the plan since the updated standard coverage now includes income previously included under supplemental coverage. Additionally, employers will no longer be required to offer supplemental coverage enrollment opportunities for eligible employees each year.

The GIB also updated the maximum duration of benefits plan provisions to permit enrollment and benefits for employees who are age 70 or older. The GIB approved using the safe harbor schedule established by EEOC regulations in order to update the maximum duration of benefits for ICI recipients. This schedule terminates benefits at age 65 for claims filed by members under age 60, and limits benefits to five years for claimants aged 60 and older. ETF has instructed employers to accept applications for coverage from eligible employees aged 70 and older, and to identify active employees who lost coverage when they turned age 70 to provide them with a special re-enrollment opportunity.

Also, effective January 1, 2024, 2023 Wisconsin Act 4 enables certain county jailers to elect protective occupation status under the WRS if their employer does not classify them as such. This Act will have a direct impact to both the Duty Disability and Disability Annuity programs.

Effective February 1, 2024, the State ICI premium rate structure changed. The new rate tables are universally proportional for all employees in each premium category or elimination period. They are also structured to work with the IAS system.

Lastly, on February 21, 2024, the Group Insurance Board approved changes to the ICI program that modify the effective date of the annual ICI premium rate change for the State ICI Plan, along with other technical updates. These changes were required for the operation of the new Insurance Administration System. The new annual premium rate effective date is April 1 and will first apply in 2025.