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Correspondence Memorandum

Date: January 19, 2017

To: Group Insurance Board

From: Deb Roemer, Director
Benefit Services Bureau
Division of Retirement Services

Subject: Closure of the Long-Term Disability Insurance Program (LTDI)

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

Pursuant to their authority under Wis. Stat. § 40.03 (1) (i), the Employee Trust Funds (ETF) Board adopted a recommendation to close the LTDI program to new claims effective January 1, 2018 and reopen the 40.63 Disability Annuity program (40.63), effective on the same date. The ETF Board took this action at the September 29, 2016 meeting.

The ETF Board took this action for two reasons. First, the LTDI program was created in 1992 to address potential age discrimination issues raised by changes to the Age Discrimination in Employment Act (ADEA). However, subsequent U. S. Supreme Court decisions greatly diminished these concerns, and with them, the primary reason for the existence of the LTDI program. ETF staff questioned the need for both the LTDI and 40.63 (which is still accepting claims) programs, which share many similar characteristics. Please see the attached meeting materials that were presented to the ETF Board.

Second, after analyzing various factors related to both programs, the ETF Board determined that closing the LTDI program and reopening the 40.63 program to new claims would be the most efficient and economical choice for the agency. These factors included ease of implementation, future systems development related to myETF and administrative costs.

Staff are developing the administrative rules necessary to facilitate the ETF Board's actions as well as internal processes needed for run-out of the current LTDI claims. Future actions will include a comprehensive communication effort to stakeholders.

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

Attachment A: Proposal to Close the Long-Term Disability Insurance Program
Attachment B: Milliman Analysis

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services

Matt Stohr

Electronically Signed 1/27/17

Board	Mtg Date	Item #
GIB	2.8.17	9A

Attachment A

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Correspondence Memorandum

Date: August 24, 2016

To: Employee Trust Funds Board

From: Deb Roemer, Director
Benefit Services Bureau
Division of Retirement Services

Subject: Disability Program Redesign Proposal

This memo outlines a proposal to close the Long-Term Disability (LTDI) Insurance Program and re-open the §40.63 Disability Annuity program to new claims. No board action is required at this meeting.

Attached is a report and proposal to close the Long-Term Disability Insurance program to new claims in favor of a re-opened §40.63 Disability Annuity program. Our proposal, which was informed by analysis completed by Milliman, is based on the objective to reduce the complexity of the current long-term disability programs administered by the ETF. We will discuss the proposal in more detail at the September 29, 2016 meeting.

Staff will be at the Board meeting to answer any questions. In the meantime, please contact me at (608) 266-5387 or deb.roemer@etf.wi.gov if you have comments or questions.

Attachment: Proposal to Discontinue the Long-Term Disability Insurance Program

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services

Matt Stohr Electronically Signed 9/19/16

Board	Mtg Date	Item #
ETF	9.29.16	4C

Benefit Services Bureau

Proposal to Close the Long-Term Disability Insurance Program

August 12, 2016

Prepared for the Employee Trust Funds Board, September 29, 2016

Proposal to Close the Long-Term Disability Insurance Program

Summary

ETF proposes to close the Long-Term Disability Insurance (LTDI) program to new claims effective January 1, 2018 and reopen the § 40.63 Disability Annuity (40.63) program to all eligible employees. LTDI was created to address potential age discrimination issues in the Wis. Stat. § 40.63 Disability Annuity Program (40.63). The U.S. Supreme Court, in a 2008 decision in *Kentucky Retirement Systems v. E.E.O.C.*, found that Kentucky's disability annuity program, which shares many similarities with 40.63, did not violate the federal Age Discrimination in Employment Act (ADEA). Meanwhile, the 40.63 program is still accepting new claims from eligible employees. Thus, ETF is administering two long-term disability programs, where only one is needed.

LTDI and 40.63 share a number of similarities, including the definition of disability and benefit eligibility requirements. Differences between the two programs include creditable service requirements and benefit calculations, supplemental contribution calculations, and benefit duration.

After evaluating both programs, the Division of Retirement Services (DRS) conclude that the option most beneficial to ETF and members is to close the LTDI program to new claims.

LTDI is authorized by Wis. Stat. § 40.03 (1) (i) and was created as Subchapter III of Wisconsin Administrative Code Chapter ETF 50. Closing the LTDI program can be done through the administrative rule process and will not require the legislature to change current law.

Closing LTDI will save potentially $1 million per year in administrative costs by moving the administration of the runoff of current LTDI claims to ETF, where the administration of 40.63 already resides. Some additional positions will be necessary to handle the estimated 330-340 new 40.63 claims per year -- but at a much lower cost than the current practice of contracting with a third party administrator (TPA).

Closing LTDI could also result in a more competitive bid process for a stand-alone Income Continuation Insurance (ICI) administrator contract.

Closing the LTDI program is important as it relates to the development of the new benefit administration system (BAS)/myETF. The 40.63 program will be part of the new system. By closing LTDI, BAS/myETF development will only be necessary for running out the existing claims, instead of developing an entire system for processing new LTDI claims. Development

in BAS/myETF of a payment-only LTDI run out process will require fewer development resources.

Estimates indicate that closing the LTDI program will result in a run out period of approximately 37 years. The run out of 40.63, ongoing for the past 23 years, is expected to continue for a longer time period than running out the LTDI program. The 40.63 program is still approving claims, and there are approximately 44,000 active WRS employees who are still eligible for 40.63 benefits if they become disabled.

Background

ETF is currently administering five disability programs for state and local government employees. The Disability Annuity (40.63) program, the Long-Term Disability Insurance (LTDI) program, the Duty Disability (40.65) program, and the State and Local Income Continuation Insurance (ICI) programs. Both ICI programs pay short-term and long-term disability benefits.

LTDI was created as a result of the passage of the federal Older Workers Benefit Protection Act (OWBPA), which addressed age discrimination in employee benefits and amended the Age Discrimination in Employment Act (ADEA). The passage of the OWBPA caused ETF to question if the 40.63 program violated the ADEA in two circumstances: 1.) by barring eligibility for disability benefits after normal retirement age and; 2.) in the calculation of assumed service. LTDI was created to remove the age-related aspects of the program that were deemed to be non-compliant. The federal law still permitted 40.63 to continue. However, ETF closed the program to employees hired after October 15, 1992.

The U.S. Supreme Court in a 2008 decision in *Kentucky Retirement Systems v. E.E.O.C.*, 128 S. Ct. 2361 (2008) (KRS), ruled that Kentucky's disability annuity program, which is similar to 40.63, did not violate ADEA. This was due to the Court's opinion that for a plan to be discriminatory it must be shown that age is a motivating factor in differential treatment of annuitants and that pension status did not serve as a proxy for age.

The Supreme Court's *Kentucky* decision greatly diminishes the primary reason for the creation of the LTDI program. ETF is now administering two disability benefit programs where only one is needed. It therefore becomes necessary to evaluate whether it is desirable to continue administering two programs and if not, which program should be eliminated in favor of the other. To aid in this determination, staff enlisted the assistance of ETF's group insurance programs actuary, Milliman, Inc.

LTDI Program

Created in 1992, the LTDI program is a long-term disability insurance benefit program. LTDI is available to all eligible WRS participants and pays a basic benefit equal to 40% of an eligible recipient's final average salary (FAS), or 50% of FAS for participants without Social Security coverage. The basic benefit is adjusted annually, based on the annual Core Trust Fund effective rate of interest. LTDI premiums are paid by the WRS.

All eligible WRS participants can apply for LTDI benefits. Employees hired on or after October 16, 1992 are limited to LTDI benefits only and are not eligible for 40.63. Employees who were active in the WRS system prior to October 16, 1992 can apply for 40.63 or LTDI (but not both) provided their employment has been continuous with no break in service. If a break in service occurs, then they are no longer eligible for 40.63.

Additionally, an employee must meet a minimum creditable service requirement. This requirement is 0.33 years of service in each of at least five of the previous seven calendar years. This service requirement is waived if the employee's disability is work-related and the claim is filed within two years of the date the employee last rendered services.

To be eligible for LTDI benefits, two licensed physicians must certify the employee meets the program's definition of totally and permanently disabled. One of these physicians must be a specialist in the area of the employee's disability. Totally and permanently disabled means the inability to engage in any substantial gainful activity by reason of a medically-determinable impairment, whether physical or mental, which can reasonably be expected to result in death or to be permanent, or of indefinite and long-continued duration.

Also, the employer must certify the employee has terminated employment (or is on leave of absence) for medical reasons.

There are "special" provisions of the LTDI program for protective occupation employees where they are not required to meet this definition of disability. These employees are eligible for LTDI benefits if they a) have accumulated 15 or more years of creditable service (in addition to the other service requirements for LTDI); b) will attain age 55 within 60 months after the occurrence of the disability and; c) are unable to perform the duties required by their protective occupation, as certified by two physicians.

In addition to the basic benefit, LTDI pays a supplemental contribution to a claimant's WRS account. This supplemental contribution is equal to 7% of the recipient's FAS for each month they meet the qualifications for the contribution.

LTDI benefits will be reduced if a recipient receives a benefit from their WRS retirement account.

The LTDI program is a self-funded program, currently administered under contract with Aetna Life Insurance Company (Aetna).

40.63 Disability Annuity Program

The 40.63 program offers a disability annuity benefit from the Wisconsin retirement system to any participating WRS member who was employed on or before October 15, 1992 and has been continuously employed without a break in service since then.

Disability annuity benefits are determined in the same manner as retirement annuities except that a claimant's creditable service will include assumed service between the date of disability and the claimant's normal retirement age. Disability annuity benefit options are the same as for retirement benefits in that an annuitant may make optional annuity choices that provide for guaranteed benefit payments and benefits to named survivors.

Like LTDI, two licensed physicians must certify the applicant for 40.63 benefits meets the program's definition of totally and permanently disabled. One of these physicians must be a specialist in the area of the employee's disability. The two programs also share the same definition of disability, the same benefit eligibility provisions for work-related disabilities and the same eligibility provisions for protective occupation employees.

Where 40.63 benefit eligibility differs from LTDI is the minimum creditable service requirement. For 40.63 this requirement is either 0.5 years of service in each of at least five of the previous seven calendar years or a total accumulated creditable service of five years in the previous seven.

Unlike LTDI, 40.63 is a benefit from the member's retirement account, and therefore does not end at age 65, as does LTDI. Once the member reaches their normal retirement age, their 40.63 benefit will be treated like a "regular" retirement benefit, and is payable for their lifetime, with potential death benefits being payable to a survivor(s) upon the member's death.

Also unlike LTDI, 40.63 benefits have no offsets.

The 40.63 program is the largest disability program administered by ETF even though the program was closed to new hires after October 15, 1992. It pays 3.5 times the amount of benefits that the LTDI program pays, primarily because it has nearly 3 times as many recipients. Tables 1.1 and 1.2 provide the amount of payments and number of recipients for each program from 2013 through 2015.

Table 1.1 40.63/LTDI Benefit Payments 2013-2015

40.63/LTDI Benefit Payments			
	2013	**2014**	**2015**
40.63	$129,040,989	$135,724,563	$138,513,164
LTDI	$32,067,487	$37,052,195	$40,110,299

Table 1.2 40.63/LTDI Recipients 2013-2015

40.63/LTDI Benefit Recipients			
	2013	**2014**	**2015**
40.63	6,393	6,495	6,449
LTDI	2,026	2,207	2,282

The number of new 40.63 claims has been declining annually, albeit at a slow pace. Table 1.3 shows the annual number of new claims between 2013 and 2015. There are approximately 44,000 participants that are still eligible for a 40.63 benefit.

Table 1.3 40.63/LTDI New Claims 2013-2015

40.63/LTDI New Claims			
	2013	**2014**	**2015**
40.63	169	142	127
LTDI	353	309	291

Proposal

DRS proposes closing the LTDI program to new claims effective January 1, 2018. At the same time DRS proposes removing the 40.63 eligibility restrictions that currently prevent participants from claiming 40.63 benefits, also effective January 1, 2018. The effect of this is to eliminate one of ETF's long-term disability benefit programs in a manner that is most efficient and cost effective for the agency.

Both of these actions can be accomplished by amending ETF administrative rules and developing internal IT systems to accommodate the run out of the current LTDI recipients. The 40.63 program will not require any additional systems development because the program is already run in-house; however, we anticipate needing three additional FTE positions to handle the estimated 330 to 340 additional 40.63 claims that will be received each year. Additionally, disability program staff will need to assume some of the annual LTDI processes currently performed by Aetna, including medical recertification, income verification, and annual adjustments. These are the same annual process activities that DRS staff currently fulfill for 40.63.

Closure Implications

At DRS's request, ETF's disability actuary, Milliman, Inc. analyzed the effects of closing the LTDI program. Milliman's evaluation (Attachment A) made the following conclusions:

Estimated funding impact to WRS Trust. The LTDI program paid $40.1 million in benefits in 2015[1]. Another $6.5 million in supplemental contributions were transferred to WRS accounts of LTDI recipients in 2015. Milliman has estimated that approximately $40.5 million of LTDI claims are incurred annually.[2] By shifting disability claims from LTDI to 40.63, the estimated actuarial liability for new claims would decrease by approximately 6% from the current LTDI estimated incurred claims liability. This expected decrease is primarily driven by an estimated 15% decrease in liability that results because supplemental contributions will no longer be made on new claims as they would have been under the LTDI program, and from a decrease of approximately 2% in the number of eligible WRS employees due to the 40.63 program's higher creditable service requirement.

Estimated remaining liability for current LTDI recipients. Per the valuation report prepared by Milliman for the year ending December 31, 2015, the estimated actuarial liability for the LTDI program was $323 million for 2,282 open LTDI claims.[3]

Estimated benefit run off period for current LTDI recipients. Milliman has estimated it would take approximately 37 years to completely run out LTDI claims that existed as of December 31, 2015. To put this figure in context, it has been nearly 24 years since the 40.63 program was ostensibly closed, though it is still accepting new claims from eligible employees and it will be a considerable amount of time before this ends. Approximately 44,000 WRS employees remain eligible for 40.63 benefits[4] and 127 new benefits were started in 2016.

Estimated increase in 40.63 disability annuity applications. Closing the LTDI program and reopening the 40.63 program will result in an increase in the number of 40.63 claims. Milliman expects as many as 330-340 additional claims. This number is less than the current rate of annual LTDI claims, due to the more generous service requirement of the LTDI program.

Estimated number of members affected by the LTDI program's more generous service requirement. In order to be eligible for a 40.63 benefit a claimant must meet a creditable service requirement that is either 0.5 years of service in at least five of the previous seven calendar years or a total accumulated creditable service of five years in the previous seven. The LTDI program's creditable service requirement is a more generous 0.33 years of service in each of at least five of the previous seven calendar years. Because of this small gap between these requirements there will be some members who will not qualify for 40.63 benefits even though they would have qualified for LTDI. Milliman estimated that approximately 2% of state

[1] Skwire, D & Correia, P (2016, April 18*). Annual Actuarial Valuation for the Long-Term Disability Insurance Plan as of December 15, 2015*. Presented to the Group Insurance Board on May 18, 2016. http://etf.wi.gov/boards/agenda-items-2016/gib0518/item4b1.pdf.

[2] Ibid.

[3] Ibid.

[4] Murphy, B, Buis, M, & Anderson J (2016, June 8). *Wisconsin Retirement System Thirty-Fifth Annual Actuarial Valuation and Gain Loss Analysis, December 31, 2015.* Presented to the Joint Meeting of the Wisconsin Retirement and Teacher's Retirement Boards on June 23, 2016. http://etf.wi.gov/boards/agenda-items-2016/etf0623/joint/item3b.pdf.

WRS members would be affected by the 40.63 program's higher creditable service requirement.

Estimated impact on the State Income Continuation Insurance (ICI) program. While both the 40.63 program and LTDI have few benefit offsets, receipt of either benefit will result in a reduction in state and local ICI program benefits. As indicated above, a 40.63 benefit is slightly higher than an LTDI benefit. This means that closing the LTDI program in favor of 40.63 will result in a greater reduction in ICI benefits. Milliman has estimated that the increased offset will result in a 1% to 2% reduction in State ICI costs. Based on State ICI 2015 claims payments of $19,060,450[5] the projected increase in offsets would result in a reduction in ICI costs of $190,605 to $381,209.

Supplemental Contributions. The LTDI program pays a supplemental contribution to a claimant's WRS account. This supplemental contribution is equal to 7% of the recipient's FAS for each month they qualify for the contribution. Closing the LTDI program would mean supplemental contributions would no longer be paid on new claims that will be filed with 40.63. Supplemental contributions will continue for existing LTDI claims as part of the program runoff and will decline as LTDI claims are terminated. Milliman's runoff projections include cash flow projections for supplemental contributions.

Administrative costs. The effect of closing LTDI will also have an administrative effect on ETF. LTDI is currently administered under contract with Aetna Life Insurance Company (Aetna). Once LTDI is closed to new claims, administration of the LTDI program will only require monthly payments to existing LTDI recipients and completion of annual processes that include benefit adjustments, supplemental contributions, medical recertification, and income verification. These processes can be brought in-house instead of remaining with ETF's current administrator.

Estimated administrative savings and costs include TPA carrier fees, systems development, and personnel.

Aetna's contract includes LTDI and the ICI program. Aetna has 18 staff devoted to administration of the contract with ETF. The breakdown of Aetna's personnel by program is shown in Table 1.4 below. Aetna personnel not assigned to a specific program are assumed to be split 50/50 between LTDI and ICI.

[5] Skwire, D & Correia, P (2016, April 18). *Annual Actuarial Valuation for the State Income Continuation Insurance Plan as of December 15, 2015*. Presented to the Group Insurance Board on May 18, 2016. http://etf.wi.gov/boards/agenda-items-2016/gib0518/item4a1.pdf.

Table 1.4 Aetna LTDI/ICI Personnel Allocation

Aetna Personnel Allocation			
Function	**Staff**	**ICI**	**LTDI**
Administration	4	2	2
Overpayments	2	1	1
ICI	8	8	0
LTDI	4	0	4
Total	18	11	7

Based on this breakdown, approximately 38% of Aetna personnel can be allocated to the LTDI program. If this percentage is applied to Aetna's annual administration fee amount of $3,405,740 in 2016, the amount allocated to LTDI would be $1,294,181 and represents a potential savings to ETF in future contract expenditures.

Bringing the LTDI runoff process in-house will require some systems development resources to enable the Benefit Payment System (BPS) and eventually BAS/myETF to pay the remaining LTDI claims. ETF's systems development staff are reviewing several options to determine cost effectiveness and minimal risk. Of these, the most expensive estimate would be $96,000, plus internal testing resources. The least expensive estimate is $9,600, with some testing. The third estimate falls in the middle at $24,000, with the least testing resources required. It's advantageous for ETF to adapt existing BPS code to LTDI run out payments and processes because doing so would keep demands on development resources to a minimum.

Along with running out the LTDI program, ETF will also need to prepare for the increased volume of 40.63 benefit applications. As previously indicated, this proposal will result in an estimated increase of 330 to 340 disability annuity applications per year and the assumption of some annual processes for the remaining LTDI claims during the runoff period. Disability program staffing levels are not adequate to incorporate this substantial increase in benefit applications each year. Coupled with the assumption of LTDI functions from Aetna, ETF estimates that it would be necessary to add three Trust Funds Specialist positions. The cost for these positions is $87,943 per position, making the total personnel costs associated with this proposal $263,829.

When these quantifiable costs are aggregated, the result is a net savings of $1.3 million in administrative costs and a maximum estimate of $96,000 in one-time systems development costs as well as the financial savings to the ICI program (Table 1.5).

Table 1.5 Financial Impact of Closing LTDI

Financial Impact of Closing LTDI	
Annual savings/(costs):	
TPA fee	$1,294,181
ICI Benefit Offsets (1.5%)	285,906
Staffing (3 FTE)	(263,829)
Total Savings	$1,316,258
One-Time Expenditure:	
Systems Development	$(96,000)

Discussion

In addition to the estimated cost savings outlined in this document and shown in the table above, there are a number of intangible benefits to closing the LTDI program to new claims. The primary advantage is the elimination of a duplicative disability benefit program. LTDI was originally created as a necessary replacement for the 40.63 program to avoid potential age discrimination issues. However, due to the U. S. Supreme Court's *Kentucky* decision, that necessity no longer exists. It is neither efficient nor economical for ETF to administer two separate long-term disability programs.

Second, there would be no need to make system changes to the 40.63 program. Claim volume would increase; however, since no program changes are being suggested, there would be no need to devote resources on system development. Equally important, 40.63 administration would be developed as part of BAS/myETF. By closing LTDI, BAS/myETF development would only be necessary for running out the existing LTDI claims. Current LTDI processes that are associated with the claim process, such as LTDI estimates, applications, medical reports, and employer certifications, will not require BAS/myETF development.

Third, Aetna's contract with ETF is scheduled to terminate at the end of 2017. If LTDI is closed to new claims, a new request for proposal (RFP) can be issued for the ICI program only. ICI is a more traditional disability insurance product, while LTDI is a unique program. The previous two RFP processes resulted in only one bid from the incumbent administrator. DRS believes that an RFP for ICI administration only will attract multiple bidders and, therefore, result in a more competitive process that could generate additional savings.

Closing the LTDI program to new claims would be a straightforward process. LTDI is authorized by §40.03 (1) (a) Wis. Stat. under the powers and duties of the ETF Board:

> 40.03 (1) (i) (The ETF Board) May determine that some or all of the disability annuities and death benefits provided from the Wisconsin retirement system shall instead be provided through group insurance plans to be established by the group insurance board

either as separate plans or as integral parts of the group life and income continuation insurance plans established under this chapter.

Aside from this statutory authority, the LTDI program exists entirely in the Wisconsin Administrative Code; therefore, the program can be closed through the rulemaking process. Additionally, necessary changes to the 40.63 program that will expand eligibility to WRS employees hired on or after October 16, 1992 also exist in the administrative code only and will not require statutory changes. A preliminary draft of administrative rule changes is included with this report (Attachment B).

Coordination of benefits. The LTDI program interacts with other WRS benefit programs, including Duty Disability (40.65), ICI, WRS retirement benefits, and WRS separation benefits. These benefit interactions can be complicated and must be coordinated between ETF and Aetna. Receipt of LTDI benefits will cause a reduction (offset) to ICI and 40.65 benefits. WRS retirement benefits offset LTDI, but also offset ICI and 40.65 benefits. Additionally, 40.65 benefits are an offset to ICI. Separation benefit offsets differ from retirement benefit offsets and can effect different benefits in different ways, sometimes being a temporary offset that will end and other times an ongoing offset for the lifetime of a benefit. If a member is receiving multiple benefits, the offset coordination between all of the benefits can become quite complex. The flow chart in Attachment C provides a detailed look at the interactions between programs and the effect that various income sources will have on benefits. The different offset conditions and amounts create a good deal of confusion for members and other ETF customer groups, such as employers. This confusion is magnified when a member is receiving multiple benefits. Attachment D provides a specific example of the interaction and coordination required for administration of multiple disability benefits.

Death benefits. Depending on the option chosen, 40.63 benefits can continue to a named survivor upon the death of a recipient. The LTDI program does not have a death benefit. If a member dies while receiving LTDI, the disability benefit ends. The member’s beneficiary or estate will receive the employee contributions that are in the deceased member’s WRS account; however, the employer share will revert back to the WRS. If the LTDI recipient reaches their normal retirement age and begins receiving WRS retirement benefits, then their survivors will again be eligible for the death benefits associated with retirement benefits. This differing treatment of death benefits between LTDI, 40.63, and WRS retirement benefits has always seemed to place LTDI recipients in an inequitable position and is another area of confusion for members.

Alternatives

An alternative to closing LTDI to new claims would be to continue to run out the 40.63 program and eventually leave LTDI as a remaining long-term disability benefit for WRS members. However, it is difficult to estimate how long 40.63 will take to run out, as it is a lifetime benefit and it is still approving claims from the approximately 44,000 members that remain eligible for the benefit. It has been 23 years since LTDI was created and it will likely take even longer to completely run out 40.63 benefit payments. For example, a member, aged 45 applying for 40.63 today and who lives to age 90 will be on the benefit for 45 years. When survivor benefits are included, the runout period gets even longer. LTDI, on the other hand, will take approximately 37 years to run out because benefits will cease once a claimant reaches age 65, if not sooner.

Maintaining LTDI in its current form will necessitate development in the BAS/myETF and require ETF to continue to request bids from outside vendors to administer the program. ETF estimates that this contracted amount will cost at least $1.2 million annually. There is also a concern with obtaining competitive bids for program administration if LTDI is bid out with the ICI program. The 40.63 program, conversely, is already administered in-house as a part of ETF's current systems and as a result will be part of the BAS/myETF development.

A similar alternative to maintaining the status quo also includes maintaining the current LTDI program but bringing administration of the program in-house, rather than contracting for its administration. This alternative will require additional development in BAS/myETF. ETF estimates this alternative would save approximately $1.2 million annually in TPA fees; however, it raises the same issues with running out the 40.63 program as the previous alternative and also includes additional BAS/myETF development costs.

Next Steps

After appropriate Board approval to move forward with closing the LTDI program, administrative rule and systems development can begin. Rule development and drafting can get underway this year; however, the rule cannot be submitted to the legislature until the beginning of the new legislative session in 2017.

Conclusion

In 2013, Disability Programs Bureau staff presented a package of ICI plan changes to the Group Insurance Board. Staff indicated then that those changes were the first of a series of program redesign changes that would reduce redundancies and complexity while maintaining quality for members and doing so at minimal cost. Closing the LTDI program to new claims represents the second step in this disability programs redesign project and is the best option to achieve these goals. This step will eliminate one of five long-term disability programs.

Closing LTDI will require less BAS/myETF development than maintaining the existing program or bringing the program in-house. Closing the program will also eliminate the need for an outside administrator to conduct the program functions potentially saving in excess of $1 million per year in administrator fees while at the same time improving the competitive bidding process for the ICI contract. The 40.63 program is already a part of the BAS/myETF development process and allowing additional claims into the program will not require additional IT systems resources.

It makes economic and programmatic sense for ETF to streamline the provision of disability benefits to WRS members. Closing LTDI to new claims is the most efficient, cost effective, and timely option for the agency and WRS members.

Attachments:

Attachment A: Milliman Analysis, May 16, 2016-Impact of Closing the LTDI Program
Attachment B: Sample administrative rule draft
Attachment C: Disability Programs Offset Hierarchy
Attachment D: Coordination of Multiple Disability Benefits Case Study

ATTACHMENT B
Disability Programs Rule Changes

40.63 Program

Amend 50.30 Eligibility for a disability annuity (1) A person may be eligible for a disability annuity under s. 40.63, Stats., provided the person meets ~~all of~~ the following requirement~~s~~:

Repeal 50.30 (1) (a). ~~The person was a participating employee on October 15, 1992, and continuously employed from October 15, 1992, until taking a final leave of absence, or terminating employment, due to the disability. "Continuously employed" in this paragraph shall have the same meaning as in s. ETF 50.44 (2) (b).~~

Renumber 50.30 (1) (b) to 50.30 (1) (a). The person is not ~~covered~~ receiving benefits under the long−term disability insurance under subch. III.

Repeal 50.30 (1) (c). ~~The person is a participant in the Wisconsin retirement system.~~

Long-Term Disability Insurance Program

Amend ETF 50.40 Purpose ~~(1)~~. The purpose of this subchapter is to provide long−term disability insurance coverage to participating employees as of October 15, 1992, who elect its benefits as provided in s. ETF 50.46 and to all persons who become participating employees on or after October 16, 1992 who are receiving benefits under this subchapter or who have filed a claim for benefits before January 1, 2018.

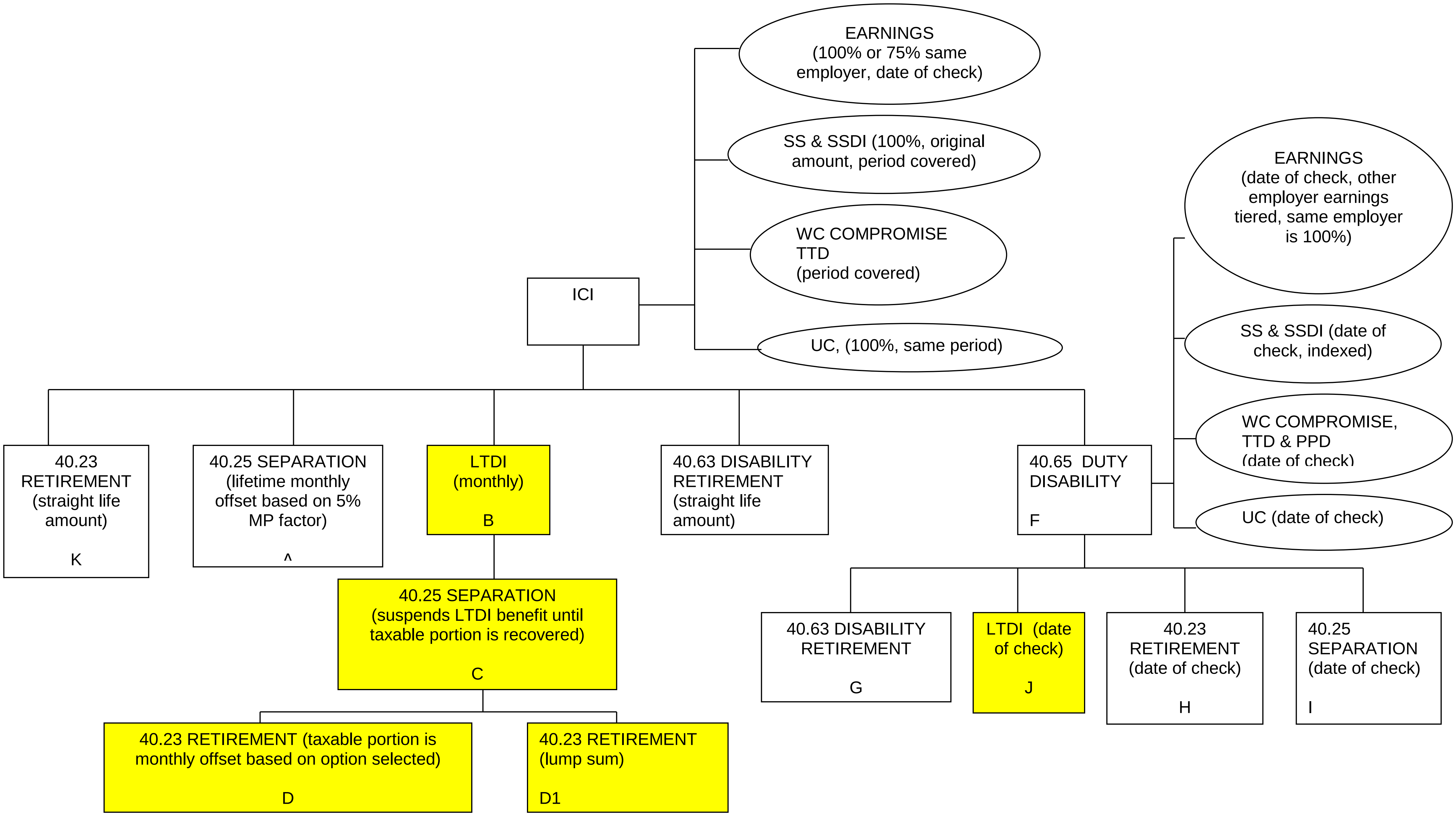
Repeal 50.40 (2). ~~This subchapter replaces the disability annuity under s. 40.63, Stats., with group long−term disability insurance. Benefits under the disability annuity program under s. 40.63, Stats., are not available to participating employees to whom this subchapter applies as provided in s. ETF 50.44~~.

Amend ETF 50.44 Scope and application. (1) Participating employees on or after October 16, 1992. Except as provided in sub. (2), this subchapter applies to any person becoming a participating employee on or after October 16, 1992, regardless of any prior employment by a participating employer, and who is receiving benefits under this subchapter or has filed a claim for benefits before January 1, 2018.

Amend 50.44 (2) Participating employees prior to October 16, 1992. **(a)** This subchapter does not apply to a person who is a participating employee on October 15, 1992, and continuously employed by one or more successive participating employers from that date until terminating employment or taking a final leave of absence due to a medically determinable impairment, unless the person elects to be covered by this subchapter as provided in s. ETF 50.46 and the person files a claim for benefits before January 1, 2018.

Create 50.46 (2) (e). Notwithstanding 50.46 (2) (d), an election to be covered under this subchapter will not be accepted unless a claim for benefits has been filed with the department before January 1, 2018.

ATTACHEMENT C: Disability Programs Offset Hierarchy



Division of Retirement Services-
Benefit Services Bureau

Coordination of Multiple Disability Benefits Case Study

August 31, 2016

Prepared for Employee Trust Funds Board meeting, September 29, 2016

Introduction:

Members may be eligible for one or more disability benefits, provided they meet the criteria for each disability benefit. The following is an actual example showing how complex the coordination of benefits process can be when more than one disability benefit is received.

Example:

Mr. X, a 51-year-old protective category employee, was injured while performing his job duties. Because he was injured while performing his job duties, Mr. X was eligible to apply for §40.65 (Duty Disability). Additionally, because Mr. X was a state employee and had opted for Income Continuation Insurance (ICI) coverage, he was also eligible to apply for ICI benefits.

In addition to the first two disability programs:

- because Mr. X was age 51 when he was injured, he was required to pursue either “Special” §40.63 (Disability Retirement) or Long–Term Disability Insurance (LTDI) benefits.
- Mr. X pursued “Special” LTDI benefits at the same time he was pursuing Duty Disability benefits.

If Duty Disability benefits are awarded, Mr. X needs to apply for his Wisconsin Retirement System (WRS) retirement benefit because he is over the minimum retirement age for his WRS employment category. As the ICI, LTDI and Duty Disability cases progressed, Mr. X decided to apply for Social Security Disability Insurance (SSDI) benefits.

Benefits Coordination:

Currently, Mr. X has been awarded the following benefits, which must be coordinated with each other: ICI, LTDI, Duty Disability, SSDI and WRS retirement benefits.

This is how all of the benefits integrate:

ICI Benefit	
Offset Type	**How Benefit is Offset**
SSDI	Original gross monthly benefit
Duty Disability	Original gross monthly benefit
“Special” LTDI	Net LTDI benefit after WRS regular retirement is offset but before taxes
WRS Retirement	Original gross monthly straight life annuity amount (once finalized)

"Special" LTDI Benefit	
Offset Type	**How Benefit is Offset**
SSDI	N/A
Duty Disability	N/A
ICI	N/A
WRS Retirement	Monthly taxable portion of the annuity option selected

Duty Disability Benefit	
Offset Type	**How Benefit is Offset**
SSDI	Current gross monthly benefit
"Special" LTDI	Gross monthly benefit minus monthly taxable portion of the WRS regular retirement annuity
ICI	N/A
WRS Retirement	Gross monthly benefit based on annuity option selected

When there is a change to the WRS retirement benefit, a modification needs to be made to both the "Special" LTDI and the Duty Disability benefits. First, the "special" LTDI benefit must be recalculated, then the Duty Disability benefit must be adjusted. This process requires a significant amount of coordination between Aetna (the LTDI and ICI third party administrator) and ETF to avoid overpayments to the disability-annuitant. Further note: the LTDI benefits will eventually end, eliminating the offset and, therefore, changing the liability back to the Duty Disability program.

If Mr. X had chosen to pursue §40.63 disability retirement rather than LTDI benefits, these benefit coordination machinations would have been avoided. Additionally, the offset for §40.63 disability retirement would have remained for the life of the §40.65 benefit.

Attachment B

Milliman

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May 16, 2016

Ms. Deb Roemer
Director
Disability Programs Bureau
Division of Retirement Services
Wisconsin Department of Employee Trust Funds
Madison, WI 53707

RE: Analysis of the Expected Impact of Closing the LTDI Program

Dear Deb:

Thank you for asking Milliman to analyze the impact of making changes to the Long-Term Disability Insurance (LTDI) program for members of the Wisconsin Retirement System (WRS). We have analyzed the impact of closing the LTDI program by focusing on the following specific tasks:

1. Estimating funding impact to WRS Trust;
2. Estimating remaining liability for current LTDI recipients;
3. Estimating benefit runoff period for current LTDI recipients;
4. Estimating increase in 40.63 disability annuity applications;
5. Estimating the number of members who would be impacted by the higher service requirements of the 40.63 program;
6. Estimating impact on funding levels for existing State ICI program.

This letter describes our analysis and observations related to each of these six items.

1. Funding Impact to WRS Trust

If the LTDI program is closed, then members whose disabilities are incurred after the effective date of closure would not be eligible to receive LTDI benefits. If this were to happen, then future LTDI premium contributions would not be required after that date. This assumes that the liabilities corresponding to LTDI claims incurred prior to the effective date are fully funded. To the extent that there is any shortfall in the funding of these liabilities in future periods, then additional funding would be required to cover future expenses and benefit payments. Similarly, to the extent that any gains emerge over time, then surplus funds could be used by the WRS Trust for other purposes. Please note that we have not yet received asset data from ETF to evaluate whether or not this liability was fully funded as of 12/31/2015.

Going forward, WRS would need to make additional contributions to support the 40.63 program, which would then cover future disabilities for all qualifying members. We would expect the amount of those contributions to be approximately 6% less than those currently made to support the LTDI plan, due to the following differences:

- The average 40.63 benefit amount is approximately 12.5% higher than the average LTDI benefit for employees with continuous service dates after October 15, 1992. This result was derived from an analysis of benefit amounts using WRS census data as described in section 6 below. If the LTDI program is closed and disabled members were eligible to receive 40.63 benefits instead, then the benefit payments for those members is expected to increase by approximately 12.5%.

- Approximately 2% of members who currently are eligible to participate in the LTDI program may not be eligible to participate in the 40.63 program, due to its higher service requirements. This result was derived from an analysis of WRS membership demographics from 2008 – 2014, as described in section 5 below.

- If the LTDI program were closed, then supplemental retirement contributions would terminate. This is expected to result in savings of approximately 15%, since the supplemental benefit ratio is 7% of final average salary and the basic benefit ratio is 40%.

We estimate the impact of these differences would be an increase of approximately 6% below the current funding levels for the LTDI plan, as shown below:

- Benefit Amount Adjustment: 112.5%
- Claim Inventory Adjustment: 98.0%
- Supplemental benefit Adjustment: 85.1%
- Overall Impact: 112.5% x 98% x 85.1% = 93.8%

Another important funding consideration is the different manner in which the liabilities are computed for LTDI and 40.63. For LTDI, the liabilities correspond to claim liabilities only, i.e. they represent the present value of expected future benefit payments and administrative expense on disabled lives. For 40.63, however, pension accounting requires not only a similar claim liability but also a liability for future claims on active lives. The calculation of this additional liability is beyond the scope of our work and will need to be estimated by your pension actuary, but it is likely that this amount will be significant and could affect the annual required contribution amount.

2. Remaining Liability for Current LTDI Recipients

We have estimated the remaining liability for LTDI recipients as of 12/31/2015 to be approximately $323 million. This amount includes expected future benefit payments, claim administration fees, and retirement contributions. It also includes estimated liabilities for LTDI claims that were open as of 12/31/2015 and for claims incurred but not reported (IBNR) as of that date. Please note that there were 2,282 open LTDI claims as of 12/31/2015, and that approximately $26 million of the $323 million corresponds to liabilities for IBNR claims.

3. Runoff Period for Current LTDI Recipients

We have estimated that it will take approximately 37 years for the liabilities for current LTDI recipients to runoff completely. The following table shows runoff projections for basic benefit payments and retirement contributions, and for the remaining LTDI liability at the end of each calendar year. Please note that the projections are based on an inventory of 2,282 open LTDI claims as of 12/31/2015, and they include expected payments for IBNR claims as of that date. They also include projections of expected future claim administration expenses.

Table 1
Expected Runout of LTDI Claims Incurred Prior to 1/1/2016
As of 12/31/2015

	Expected Cash Flows			
Calendar Year	Basic Benefits and Expenses	Retirement Contributions	Total Basic + Retirement	Expected Liability at EOY
2016	$41,527,741	$6,734,054	$48,261,795	$296,495,661
2017	$39,337,140	$6,443,265	$45,780,405	$270,443,493
2018	$36,510,600	$6,019,001	$42,529,601	$245,881,367
2019	$33,737,030	$5,583,278	$39,320,308	$222,873,588
2020	$31,069,071	$5,140,985	$36,210,056	$201,429,524
2021	$28,942,687	$4,789,797	$33,732,485	$181,006,701
2022	$26,836,798	$4,443,990	$31,280,788	$161,651,858
2023	$24,470,983	$4,048,856	$28,519,840	$143,762,082
2024	$22,253,790	$3,675,947	$25,929,737	$127,265,968
2025	$19,942,399	$3,290,129	$23,232,528	$112,374,754
2026	$18,074,402	$2,976,987	$21,051,389	$98,669,669
2027	$16,411,756	$2,699,500	$19,111,256	$85,986,581
2028	$14,740,706	$2,419,204	$17,159,910	$74,410,685
2029	$13,014,423	$2,128,966	$15,143,389	$64,089,177
2030	$11,678,072	$1,902,755	$13,580,827	$54,642,358
2031	$10,227,912	$1,661,779	$11,889,691	$46,266,327
2032	$9,210,455	$1,493,570	$10,704,025	$38,514,830
2033	$8,115,877	$1,320,573	$9,436,450	$31,517,639
2034	$6,894,650	$1,125,581	$8,020,231	$25,482,967
2035	$5,784,046	$945,185	$6,729,232	$20,350,467
2036	$4,589,134	$747,717	$5,336,851	$16,290,063
2037	$3,791,425	$615,898	$4,407,323	$12,899,718
2038	$3,295,935	$536,028	$3,831,963	$9,860,981
2039	$2,718,955	$442,071	$3,161,026	$7,298,127
2040	$1,972,193	$323,692	$2,295,885	$5,446,492
2041	$1,488,654	$245,557	$1,734,211	$4,043,082
2042	$1,222,855	$201,159	$1,424,014	$2,859,796
2043	$890,178	$146,089	$1,036,267	$1,992,777
2044	$598,387	$99,526	$697,914	$1,413,655
2045	$415,512	$68,036	$483,549	$1,014,784
2046	$327,952	$53,398	$381,350	$693,009
2047	$298,289	$47,163	$345,452	$385,233
2048	$174,361	$27,440	$201,801	$204,030
2049	$99,841	$17,473	$117,314	$97,256
2050	$45,137	$7,642	$52,779	$49,612
2051	$25,644	$4,290	$29,934	$22,191
2052	$19,683	$3,293	$22,976	$0
2053	$0	$0	$0	$0

The cash flow and liability projections shown above are based on LTDI valuation assumptions as of 12/31/2015, which include claim termination assumptions from the 1987 Commissioner's Group Disability Tables adjusted for LTDI experience, and assumed benefit increases of 2.1% per year. The 2.1% assumption is an estimate of future annual Core Annuity adjustments, which are variable and have fluctuated significantly in the past. Although we have tested this assumption for reasonableness using historical Core Annuity rates, to the extent that future Core Annuity rates are different than 2.1%, actual future cash flows and liability amounts will differ from the projections shown above in Table 1.

Please note that the expected cash flows in Table 1 are shown on an undiscounted basis (i.e. the amounts shown in columns 2-4 represent expected total payments in a given calendar year), whereas the liability projections shown in the final column were calculated using a 7.2% interest rate assumption for discounting future cash flows.

4. Increase in 40.63 Disability Annuity Applications

We would expect the number of 40.63 disability annuity applications to increase by approximately 330 to 340 applications per year if the LTDI program were closed to new members.

The following table shows the number of new LTDI claims incurred between 2011 and 2015.

Table 2
LTDI Claims Incurred Between 2011 and 2015
As of December 31, 2015

Year	New LTDI Claims
2011	331
2012	375
2013	353
2014	309
2015	125

In Table 2 above, the number of new claims incurred in 2015 is much lower than prior periods because the experience was reported as of 12/31/2015, and we would expect a significant number of claims incurred in 2015 (and to a much lesser degree in 2014) to be unreported as of 12/31/2015.

Based on historical claim experience and recent WRS membership demographics, we would expect roughly 340 to 350 new LTDI claims per year under the current program design. We have estimated that approximately 2% of members who currently are eligible to participate in the LTDI program may not be eligible to participate in the 40.63 program, due to its higher service requirements. Therefore, we would expect the number of 40.63 disability annuity applications to increase by approximately 330 to 340 applications per year if the LTDI program were to close.

5. Members Impacted by the Higher Service Requirements of the 40.63 Program

We have estimated that approximately 2% of members who currently are eligible to participate in the LTDI program may not be eligible to participate in the 40.63 program due to its higher service requirements.

There are two eligibility conditions that are different between the 40.63 and LTDI benefit programs:

1. Members who have been continuously employed since October 15, 1992 may be eligible for LTDI or 40.63 benefits, whereas members whose continuous employment began after October 15, 1992 are eligible for LTDI benefits only.

2. The 40.63 program requires members to have accrued *0.5 years of service* in 5 of the last 7 calendar years, or a total of 5 years of service in the last 7 calendar years. The LTDI program requires members to have accrued *0.33 years of service* in 5 of the last 7 calendar years.

The other eligibility requirements are similar between the two programs, and include the following conditions:

1. Members whose disability is work-related must submit an application within 2 years of their last day of work;

2. Members in protective occupations who have accrued 15 years of creditable service and become disabled between the ages of 50 and 55 are eligible for special benefits that only require them to be disabled from their protective occupation job.

To evaluate the number of members who would be impacted by the higher service requirements of the 40.63 program, we used the insurance files from 2008 through 2014 (the most recent 7 years available) that were provided to us by ETF. These files contain WRS enrollment statistics and member-level employment information, including continuous service dates and "Budgeted Position" data representing the percentage of service years accrued in a given calendar year.

In our analysis, we used the data from the insurance files to identify members who satisfy LTDI eligibility requirements but who would not satisfy 40.63 requirements. For example, the following table shows two members who we identified as meeting these criteria.

Table 3
Examples of WRS Members Who Satisfy Eligibility Conditions For LTDI But Not 40.63

Member	Cts. Service Start Date	Budgeted Position						
		2008	2009	2010	2011	2012	2013	2014
Case 1	1/7/2011	0%	33%	40%	60%	60%	40%	40%
Case 2	8/22/1977	40%	40%	40%	50%	50%	50%	50%

In the first case, we determined that this member would be eligible to participate in the LTDI program based on having accrued at least 0.33 years of service in 5 of the last 7 calendar years. If the LTDI program were closed, however, this member would not satisfy the higher service requirement of the 40.63 program due to not having accrued at least 0.5 years of service in 5 of the last 7 calendar years, nor a total of 5 years of service in the last 7 calendar years.

In the second case, the member's continuous start date is prior to October 15, 1992, so the member could be eligible to participate in either the 40.63 or LTDI program. We determined that the member would be eligible to participate in LTDI and not 40.63 because the member accrued at least 0.33 years of service in 5 of the last 7 calendar years, but not 0.5 years of service in 5 of the last 7 calendar years, nor a total of 5 years of service in the last 7 calendar years. If the LTDI program were closed, this member would not be eligible for 40.63 benefits.

We noticed that significantly more members employed by the University of Wisconsin (UW) would be affected by the higher service requirements than members employed by other state agencies. According to our analysis, approximately 4.1% of UW members would be affected by the higher service requirement, whereas only 0.1% of non-UW members would be impacted. This could be due to different employment characteristics at UW which could include more part-time positions, such as adjunct professors, assistant professors, assistant coaches, and other part-time support staff.

In performing our analysis, we relied on data from the insurance files from 2008 – 2014 as provided in the spreadsheets "DOA Files.xlsx", "2002-2013 UW Enrollments.xlsx" and the text file "ETF.WRD.INSUR15.DOA.txt". To the extent that the data is inaccurate or incomplete, the results of our work may be affected. For example, we noticed that the values for "Budgeted Position" are equal to zero for several members listed in the insurance files. We did not try to alter this data, nor did we exclude this data from our analysis.

6. Impact on Funding Levels for Existing State ICI Program

We have estimated a 1% to 2% reduction in State ICI costs if the LTDI program were to close and disabled members were to receive 40.63 benefits instead. State ICI benefits are reduced by benefits from other sources, including LTDI and 40.63 benefits. Because 40.63 benefit amounts are slightly higher than LTDI benefit amounts on average, if disabled members were to receive 40.63 benefits instead of LTDI, the impact would be a slightly higher offset to the State ICI benefit and consequently a small reduction in State ICI costs.

The LTDI benefit amount is equal to 40% or 50% of a member's average salary. The benefit is 50% for members who are not eligible for Social Security benefits, which is uncommon. Based on our analysis of historical LTDI claim experience, the benefit percent is 40% most of the time.

On the other hand, the 40.63 benefit amount is determined by multiplying "Formula Multiplier" factors, which vary by employment category and service years, by the member's average earnings and by the number of creditable service years up to normal retirement age. The formula multiplier factors are shown in Table 4 below.

Table 4
40.63 Disability Retirement Formula Multiplier Factors

Employment Category	Before 2000	After 1999	After Act 10
General, Teacher and Educational Support	0.01765	0.016	
Protective with Social Security	0.02165	0.020	
Protective without Social Security	0.02665	0.025	
Elected Officials, State Executive Retirement Plan Employees and Judges	0.02165	0.020	0.016

We calculated expected benefit amounts for 40.63 and LTDI using WRS enrollment data from the 2014 insurance files. We assumed the following normal retirement ages for calculating 40.63 benefit amounts:

Table 5
Normal Retirement Age

Employment Category	Age
General Employees and Teachers	65
Protective Occupations with Fewer than 25 Years of Creditable Service	54
Protective Occupations with 25 or More Years of Creditable Service	53
Executive Retirement Plan Employees and Elected Officials	62

Based on this analysis, we determined that the average 40.63 benefit amount would equal approximately 45% of a member's average salary for members with continuous service dates after October 15, 1992, and that their average LTDI benefit amount is equal to 40% of their average salary. Therefore, if the LTDI program were closed and members were to receive 40.63 benefits going forward, then we would expect the corresponding offset to State ICI benefits to increase by approximately 12.5% (because a 45% benefit is 12.5% greater than a 40% benefit).

Separately, we calculated the proportion of State ICI benefits that are offset by LTDI, using historical claim data from 2011 through 2014. We determined that LTDI benefits offset between 13% and 18% of total State ICI benefits. The 13% to 18% range is quite broad because LTDI benefits are adjusted annually by the Core Annuity rate, which can vary significantly from year to year.

Finally, we assumed that 2.0% of members who currently are eligible to participate in the LTDI program may not be eligible to participate in the 40.63 program due to its higher service requirements.

The following table shows how we arrived at the 1% to 2% reduction in State ICI costs if disabled members were to receive 40.63 benefits instead of LTDI. In the table, we show the analysis corresponding to two different scenarios: one that assumes LTDI benefits offset 13% of total State ICI benefits, and another that assumes LTDI benefits offset 18% of State ICI benefits.

Table 6
Impact on State ICI Funding Levels

Calculation Steps	Scenario 1	Scenario 2
A. LTDI Offset as % of State ICI Benefits	13.0%	18.0%
B. Increase in Offset if Benefits are Based on 40.63 Parameters Instead of LTDI	112.5%	112.5%
C. Adjustment to Claim Inventory Due to Higher Eligibility Requirements	98.0%	98.0%
D. Expected Offset as % of State ICI Benefits if LTDI is Closed (D = A x B x C)	14.3%	19.8%
E. Expected Reduction in State ICI Costs (E = D – A)	1.3%	1.8%

Please note that we did not make any adjustments for differences in the definition of disability because the definitions are similar for the LTDI and 40.63 programs. We also did not make any adjustments for differences in annual benefit increases because both programs feature annual Core Annuity adjustments.

General

This letter has been developed for Wisconsin ETF, and may not be distributed to parties outside of the Wisconsin Retirement System without the written consent of Milliman. In preparing this information, we have relied on data provided to us by Wisconsin ETF, including historical claim data, plan documents, insurance files and other information. To the extent this information is inaccurate or incomplete, the results of our work may be materially affected.

In order to provide the information requested by Wisconsin ETF, we have constructed several projection models. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is nearly certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

I, Paul Correia, am a consulting actuary with Milliman and a member of the American Academy of Actuaries. I meet the qualification standards of the Academy to render the actuarial opinion contained herein.
Please let me know if you have any questions on the information in this letter. We look forward to discussing these results with you. Thank you.

Sincerely,

Paul Correia

Paul Correia, FSA, MAAA
Consulting Actuary

cc: Jim Guidry, Ann Suchomel, Gina Fischer, Matt Nelson (ETF)
Dan Skwire (Milliman)