STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax 608-267-4549
etf.wi.gov

CORRESPONDENCE MEMORANDUM

DATE: March 13, 2015

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

FROM: Deb Roemer, Director
Disability Programs Bureau
Division of Insurance Services

SUBJECT: 2014 Disability Statistical Report

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

Attached for your review is the 2014 Wisconsin Retirement System Disability Statistical Report. The report provides information on disability annuity and duty disability activity for 2014.

This report represents a significant change from previous annual disability reports. It is our intention that this report provide you with a more holistic view of the disability annuity and duty disability programs. To that end, we have provided you with information for calendar year 2014, as well as comparisons to previous years. We have also included some comparative data with the Long-Term Disability Insurance and Income Continuation Insurance programs.

We would appreciate any feedback that you may offer for this report. Please contact me at 608-266-5387 or deb.roemer@etf.wi.gov if you have comments or questions.

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

Attachment: 2014 Disability Statistical Report

Reviewed and approved by Lisa Ellinger, Administrator, Division of Insurance Services

Lisa Ellinger

Electronically Signed 3/19/15

Board	Mtg Date	Item #
JM	4.2.15	4D

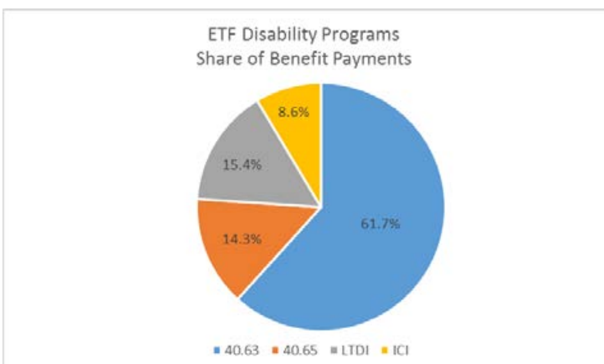
2014 Disability Statistical Report

Introduction

The 2014 Disability Statistical Report provides a statistical review of the Disability Annuity and Duty Disability programs for the calendar year. This report provides a review of benefit payments, the number of individuals receiving benefits and other demographic data. The information is presented over a period of six to ten years depending on the veracity of available data and usefulness of that data. This report will provide a broad contextual review of the Disability Annuity and Duty Disability programs to identify trends and comparisons with all of ETF's disability programs.

Overview

The Department of Employee Trust Funds administers four disability programs under the authority of the Employee Trust Funds, Wisconsin Retirement (WR), Teacher's Retirement (TR) and Group Insurance Boards. These programs are the 40.63 Disability Annuity (40.63), 40.65 Duty Disability (40.65), Long-Term Disability Insurance (LTDI) and Income Continuation Insurance (ICI) programs. These programs combine for annual benefit payments of $217.3 million for 11,871 separate claims as of December 31, 2014[1]. The 40.63 program commands the largest share of disability payments with 61.7% of disability payments and 54.7% of all active claims.



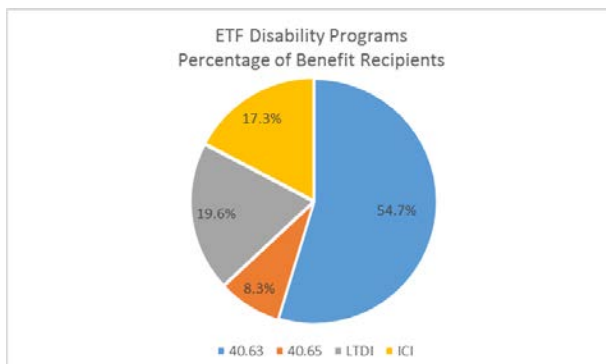


Exhibit 1

Comparing benefit payments over a period from 2005 to 2014 demonstrates the size of the 40.63 program compared to the other ETF administered disability benefits. In fact, 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.

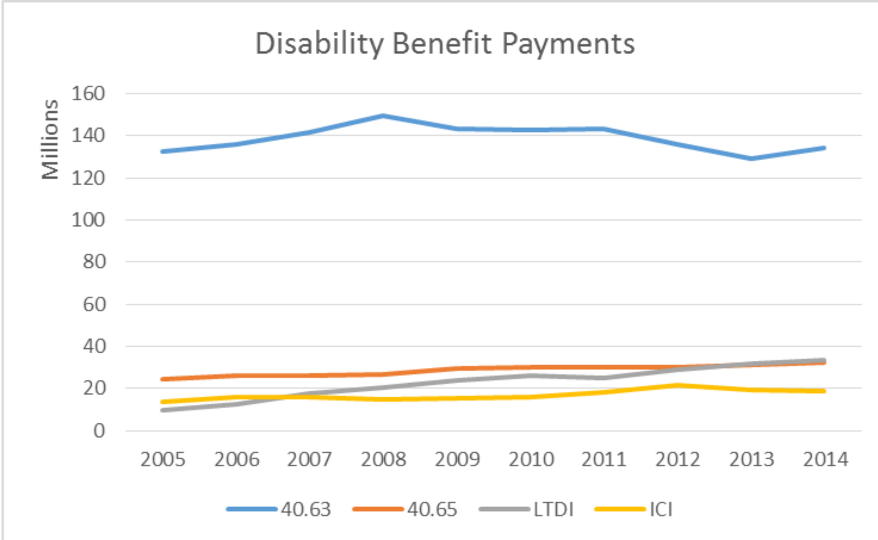


Exhibit 2

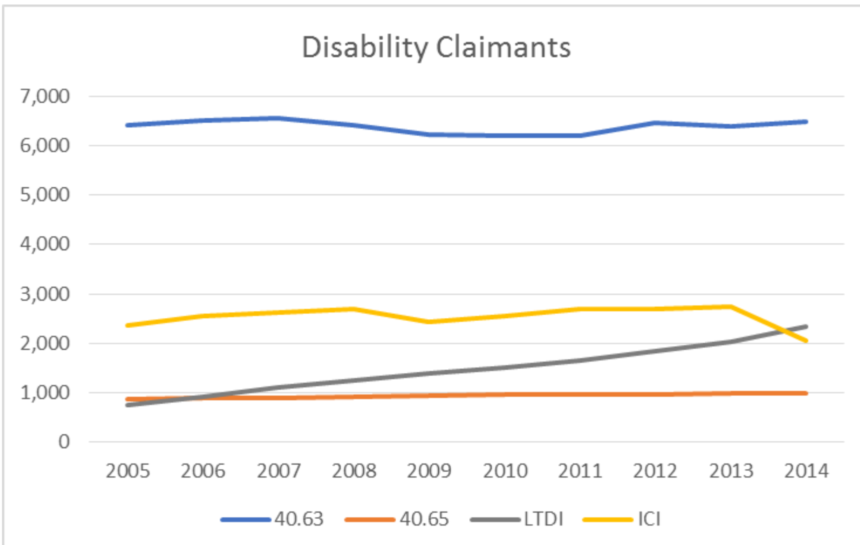


Exhibit 3

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 and Special LTDI benefits (for protective occupations only) and short-term ICI benefits are payable if an employee is unable to perform the duties of their current occupation.

All ETF-administered disability benefit applications require at least one (ICI) or two (40.63, 40.65, LTDI) medical reports from physicians certifying the employee meets the statutory definition of disabled. Disability benefit applications also require documentation from the employer. The ICI, LTDI and 40.63 disability programs may require annual medical recertification.

Some differences between programs include benefit eligibility rules, such as service requirements, different benefit durations, annual adjustments, voluntary (versus automatic) enrollment in programs and treatment of protective occupation participants.

ETF Disability Benefit Programs

Disability Annuity (§40.63). Disability annuity benefits are available to all WRS employees who have been continuously employed by a WRS employer since before October 16, 1992, and who have at least one-half year of creditable service in five of the previous seven years. Approximately 50,000 WRS participants are still eligible to apply for a 40.63 benefit.[2] Disability annuities are issued under the authority of the TR and WR Boards.

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 can also qualify for 40.63 benefits if an individual has 15 years of accumulated service, is between the ages of 50 and 55 years old at the time the disability occurs, and if the disability causes the individual to no longer be able to perform their protective occupation duties. 40.63 benefits are paid in the form of a disability annuity that is determined using a combination of an annuitant's creditable service and a period of assumed service up to the individual's normal retirement age. Disability annuities most resemble a regular WRS retirement annuity and offer similar death benefits. 40.63 benefits can be suspended if an annuitant has earned income above an established earnings limit ($14,009 for 2015, indexed annually).

In 2014, total benefit payments for the 40.63 Disability Annuity Program (40.63) were $134.1 million. This amount was a 3.9% increase in benefit payments from 2013 and a 1.5% increase in total benefit payments since 2005. Total benefit payments have been declining since 2009. Although the total payments increased in 2014, they are still only 1.5% above the 2005 amount.

As of December 31, 2014, there were 6,495 annuitants receiving a benefit under 40.63. Total annuitants receiving a 40.63 benefit in 2014 increased 1.6% from the previous year and increased 1.3% from 2005. The average monthly 40.63 benefit in 2014 was $1,721, an increase of 2.29% from 2013 and a decrease of 0.2% since 2005.

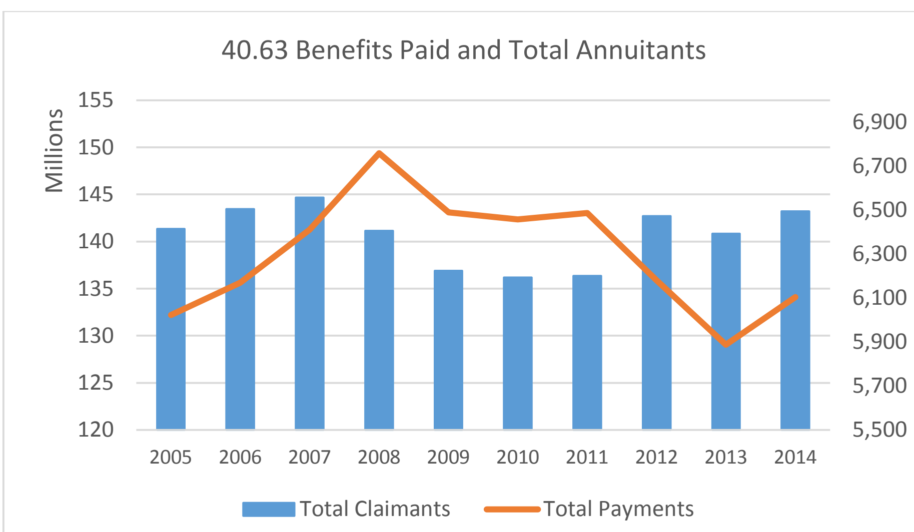


Exhibit 4

[2] All census information for 40.63, 40.65, and LTDI is from *WRS 33rd Annual Valuation of Active Lives and Gain/Loss Analysis – December 31, 2013.* Complete census data from 2014 was not available at the time of this report.

Duty Disability Benefits (§ 40.65 and Administrative Code ETF 52). Duty Disability is an income replacement program that is available to all WRS protective occupation participants, such as police officers, firefighters and correctional officers. This benefit is completely funded by employer contributions. The individual must be permanently disabled by a work-related injury or disease and can no longer work full protective duty. There are approximately 22,000 protective occupation participants in the WRS system. 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, usually 75% or 80%. Other sources of income, such as any WRS benefits (retirement, separation, ICI and LTDI), Social Security benefits, earned income and certain worker's compensation benefits will reduce Duty Disability benefits. A 40.65 benefit is a lifetime benefit.

The 40.65 Duty Disability Program paid $31.1 million in benefits in 2014, a 0.9% decrease from 2013 and an increase of 28.8% since 2005. The number of members receiving a 40.65 benefit was 990 as of December 31, 2014, which represents an increase of 0.92% from the previous year and an increase of 14% since 2005. The 2014 average monthly benefit payment for 40.65 was $2,702, an increase of 1.2% from 2013 and an increase of 15.9% from 2005.

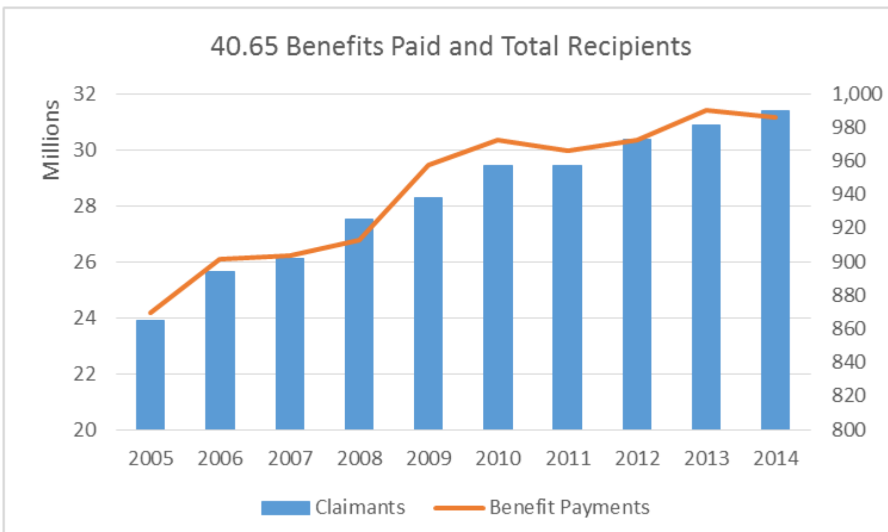


Exhibit 5

Long-Term Disability Insurance (Administrative Code ETF 50.40). LTDI was created in 1992 as a result of the passage of the federal Older Workers Benefit Protection Act (OWBPA). OWBPA amended the Age Discrimination in Employment Act (ADEA). As a result of this change it was determined that 40.63 potentially violated 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 intended to eventually replace the 40.63 program. Review of recent U. S. Supreme Court decisions have indicated that the 40.63 program does not present age discrimination issues for the state and calls into question the need for both programs.

LTDI is available to all of the approximately 255,000 active WRS participants. Employees who have been employed on or after October 16, 1992 are only eligible for LTDI benefits, while employees who have been continuously employed prior to October 16, 1992 are eligible to choose either a 40.63, or an LTDI benefit but not both. An individual must be totally disabled by a mental or physical impairment, which is likely to be of a long-continued and indefinite duration.

LTDI benefits are payable to age 65 for most recipients. Depending on the individual's age when applying for LTDI, the benefit may be available beyond age 65. The basic monthly LTDI benefit is 40% of an employee's final average salary (FAS) or 50% for those ineligible for Social Security benefits. In addition to the basic LTDI benefit, a supplemental contribution of 7% of FAS is added to an employee's WRS retirement account for each month an LTDI benefit is received as long as no WRS benefit has been taken from the account. LTDI benefits are offset (reduced) by any WRS retirement or separation benefits. LTDI benefits will be suspended for exceeding the earnings limit the first time and are terminated for exceeding the earnings limit for a second time. Individuals are required to repay duplicate benefits back to the LTDI program.

Income Continuation Insurance (§40.61, §40.62 and Administrative Code ETF 50.10). ICI is available on a voluntary basis to all state employees and to local government employees if their employer offers the benefit. It provides short-term and long-term replacement income for disabilities that are considered short-term in nature, as well as those which may last for extended periods. Short-term disability payments make up 48-50% of all ICI benefit payments. There are approximately 60,000 employees enrolled in ICI coverage.[3]

ICI benefits provide up to 75% of an employee's average monthly earnings based on previous calendar year earnings. Standard ICI coverage covers annual earnings of up to $64,000 of ($4,000 maximum monthly benefit). Employees may also enroll in supplemental coverage which provides additional coverage up to $120,000 in annual earnings ($7,500 maximum monthly benefit). ICI Benefits are payable to age 65 for most recipients.

ICI premiums are paid by employees and employers and are calculated based on the amount of accumulated sick leave for most state employees. For University of Wisconsin faculty and academic staff and local employees, the premium is based on an elimination period selected by the employee.

ICI benefits are offset by numerous other benefits received by the employee including any vacation or sick leave received after the elimination period, certain Worker's Compensation benefits, third party liability awards, Social Security benefits, Unemployment Compensation, any WRS benefits and any earned income. Individuals are required to repay duplicate benefits back to the ICI program.

The LTDI and ICI Programs are administered by a third party administrator (currently Aetna). Both programs are under the authority of the Group Insurance Board.

Trends in Disability Benefits

The gradual decline in 40.63 benefits is indicative of two things. First, the number of people eligible for 40.63 will continue to decline over time as fewer employees remain eligible for the benefit. Currently approximately 50,000 WRS participants are eligible for 40.63. This represents all employees with 22 or more continuous years of service. However, the popularity of the 40.63 program is indicated by the fact that the decline has not been more pronounced in favor of LTDI benefits. The size and popularity of the

[3] *State and Local Income Continuation Fact Sheets* (Rev 9/2014).

40.63 program has implications for future decisions on the wisdom of operating two disability programs, 40.63 and LTDI, if it is determined that one of the programs could be eliminated.

Additionally, annual adjustments made to the 40.63 and LTDI programs are based on the same Core Annuity dividend percentage as monthly WRS retirement annuities. These adjustments have seen successive negative adjustments beginning in 2008 and returning to positive adjustments in 2014. This would also account for the decrease in benefit payments for 40.63 annuitants. LTDI benefits, while experiencing the same negative adjustments, did not experience the same overall decrease in benefit payments due to the growth in the number of benefit recipients. Also, negative adjustments to LTDI benefits were mitigated by maximum benefit reduction rules that prohibit disability benefits from decreasing below the original benefit amount. These same reduction rules also apply to 40.63 benefits, however 40.63 benefits are generally of longer duration than LTDI benefits and therefore, due to previous increases, had farther to decrease before reaching the minimum benefit level.

40.65 duty disability benefits, on the other hand, are adjusted annually by an amount equal to the previous year's salary index (same as the Social Security salary index). In recent years the salary index has only decreased once, in 2011 by 1.5%.

ICI benefits do not receive annual adjustments.

The 40.63 program remains popular with those individuals who are eligible to choose between the 40.63 and LTDI. The primary distinction between the 40.63 program and the LTDI program is that 40.63 is a lifetime benefit while LTDI benefits end at age 65 for most recipients. Once an LTDI benefit is terminated due to age, a recipient may begin receiving a WRS retirement benefits if they have not already taken a WRS benefit prior to turning 65. For 40.63 annuitants, their annuities continue until death, with additional potential death benefits that do not exist in the LTDI program. These annuities are not converted to WRS retirement annuities at normal retirement age even though they are similarly administered. These factors underline the popularity of the 40.63 program and account for the relatively stable number of annuitants over time even though annual 40.63 benefit payments have declined 10.2% since 2008.

A total of 485 disability annuity estimates were completed in 2014. Disability annuity benefits that were started in 2014 totaled 142. The number of estimates completed, as well as benefits started, continued an overall decline. The number of 40.63 estimates have declined 37% since 2007 while the number of 40.63 benefits started have declined 41% over the same period.

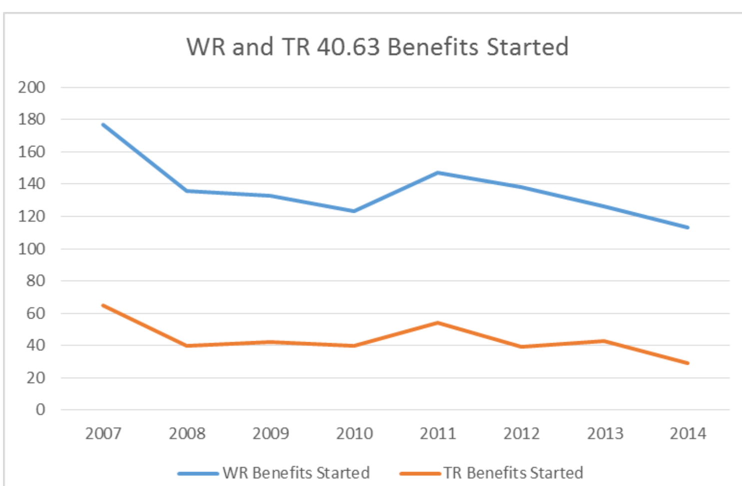
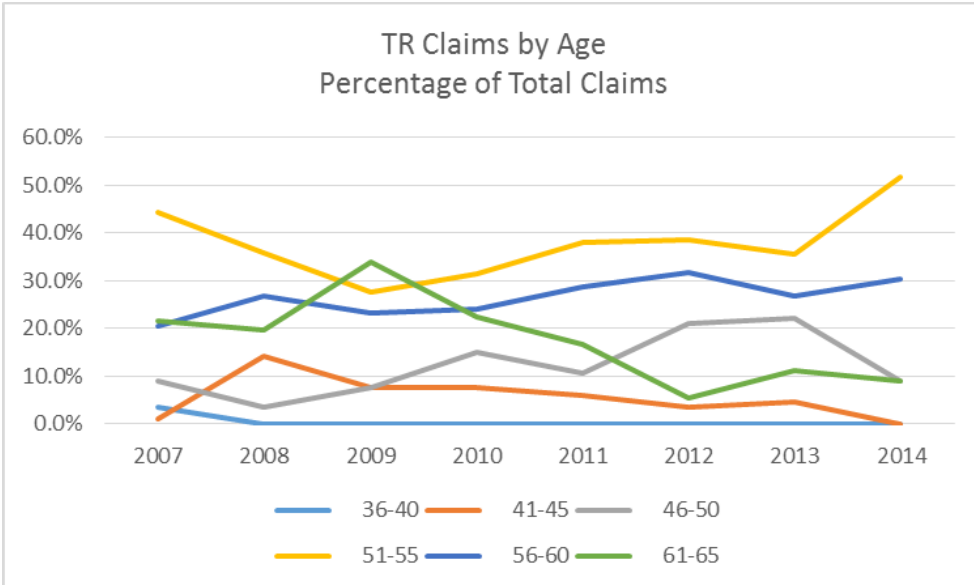


Exhibit 6

Disability annuity claims are filed primarily by claimants age 51-60, which have annually accounted for 57% to 67% of all 40.63 disability annuities started between 2007 and 2014.



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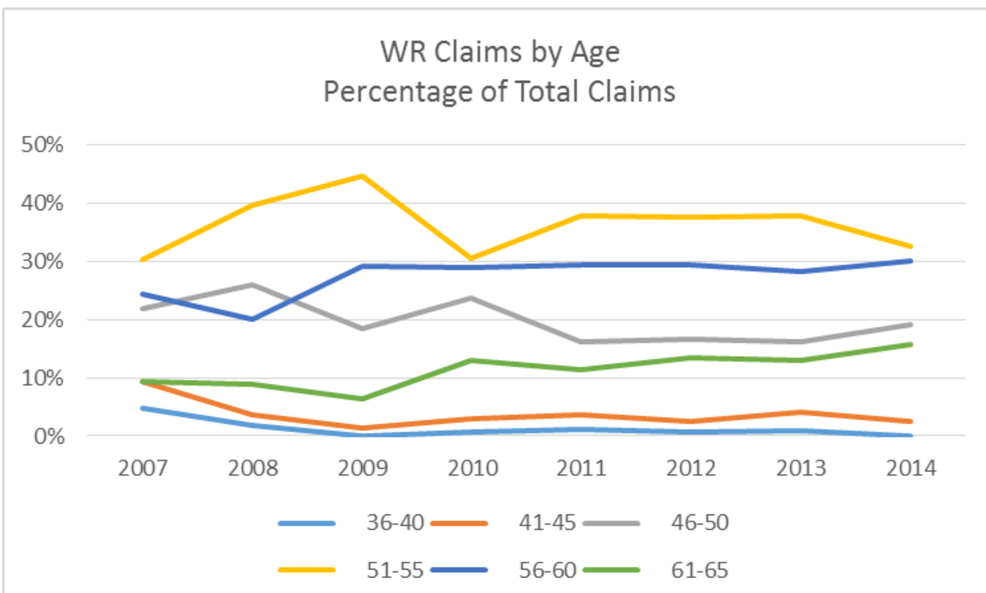

Exhibit 8

The ICI and LTDI programs, on the other hand, show a much broader distribution of claims by age range. This is indicative of the short-term component of the ICI program and the inability of employees to claim 40.63 benefits due to ineligibility based on hire date.

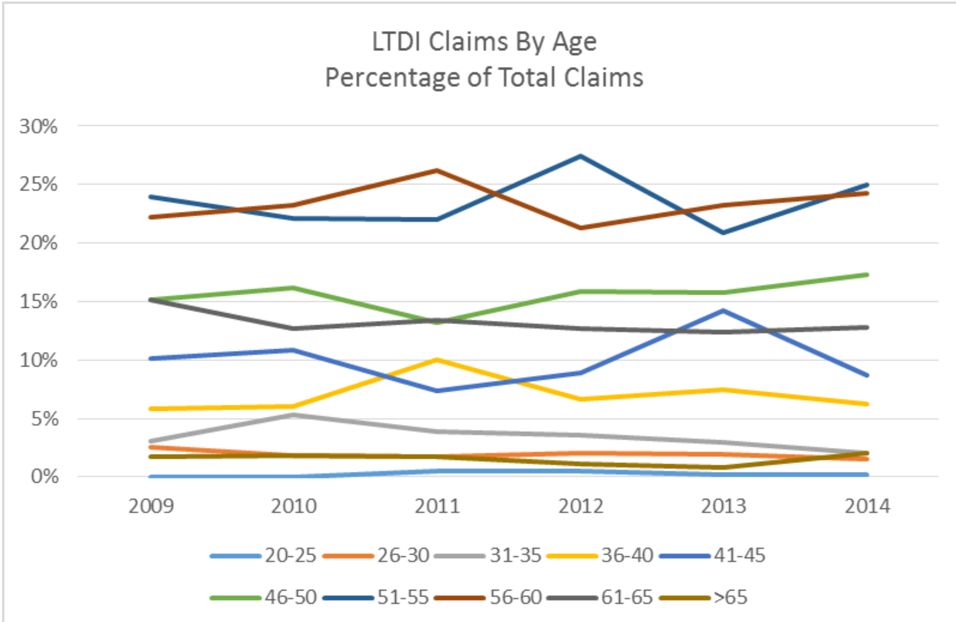

Exhibit 9

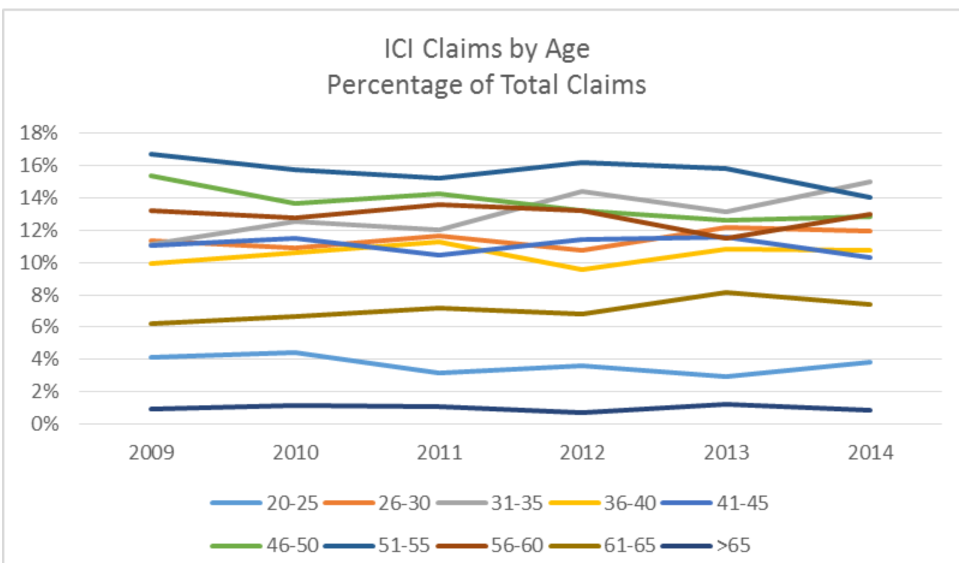

Exhibit 10

The primary disability types for the 40.63 program are cancer, orthopedic, neurology and mental illness.

Teachers Retirement Board claims for neurology and mental illness are trending upwards, while cancer claims, which had been as much as 40% of claims have been trending downward since 2008.

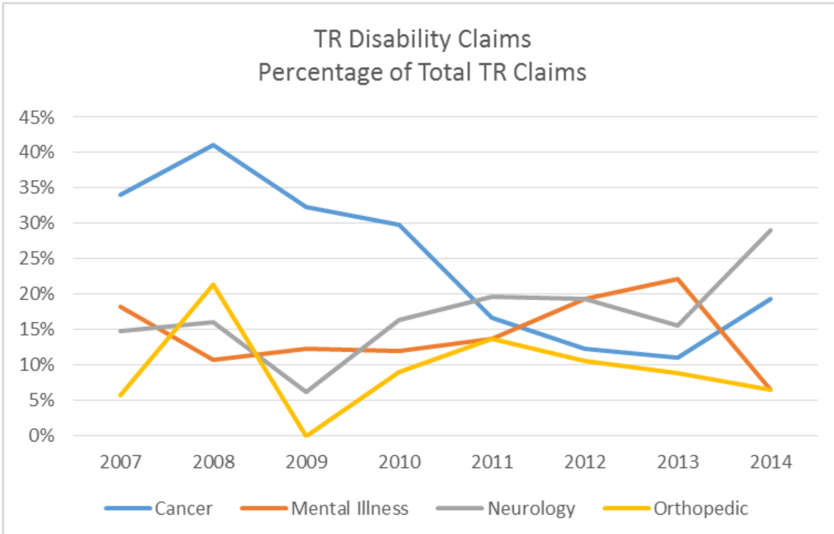

Exhibit 11

For Wisconsin Retirement Board claims, orthopedic and neurology claims are currently the greatest percentage of all claims. Cancer claims and mental illness claims have been declining in recent years.

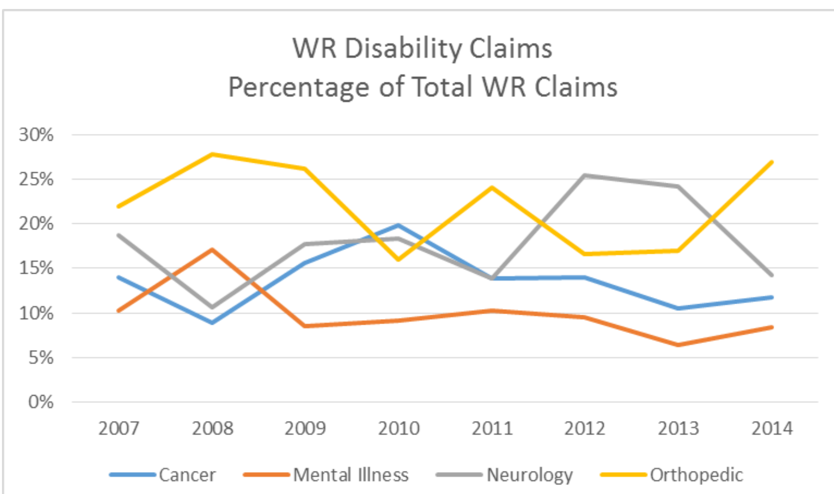

Exhibit 12

Orthopedic claims are a major disability type for LTDI and ICI. However, cancer and neurology claims are not as prevalent among LTDI and ICI claims as they are for 40.63. Mental illness claims are roughly the same share of all claims in LTDI and ICI as they are for WR Board 40.63 annuitants. Mental illness claims appear to be on the increase for ICI and TR board claimants, but on the decline for WR Board annuitants and LTDI recipients.

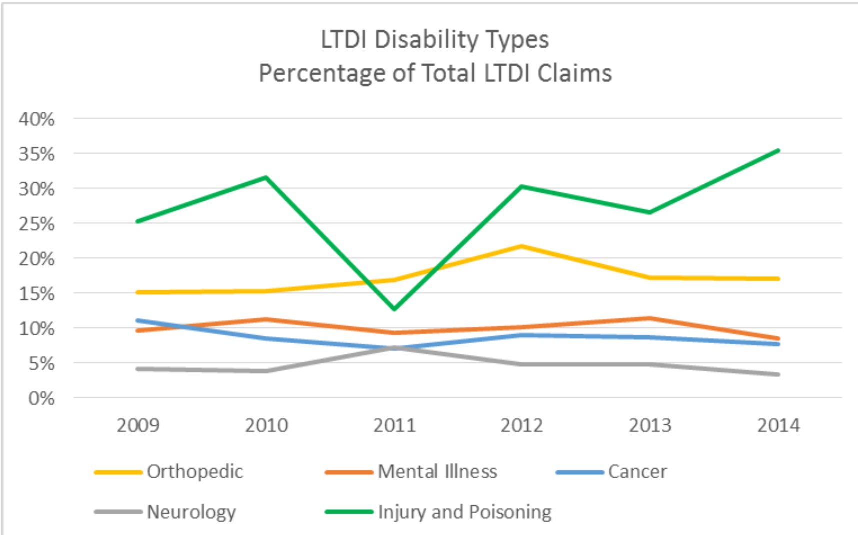

Exhibit 13

The most prevalent LTDI disability type is injury and poisoning (35% in 2014), followed by orthopedic and cancer. For ICI the most prevalent disability type is orthopedic, followed by pregnancy and perinatal, and mental illness. Orthopedic and pregnancy-related claims underscore the short-term component of ICI disability payments, as these are disabilities an individual is most likely to recover from and likely do not need to be transitioned to long-term benefits.

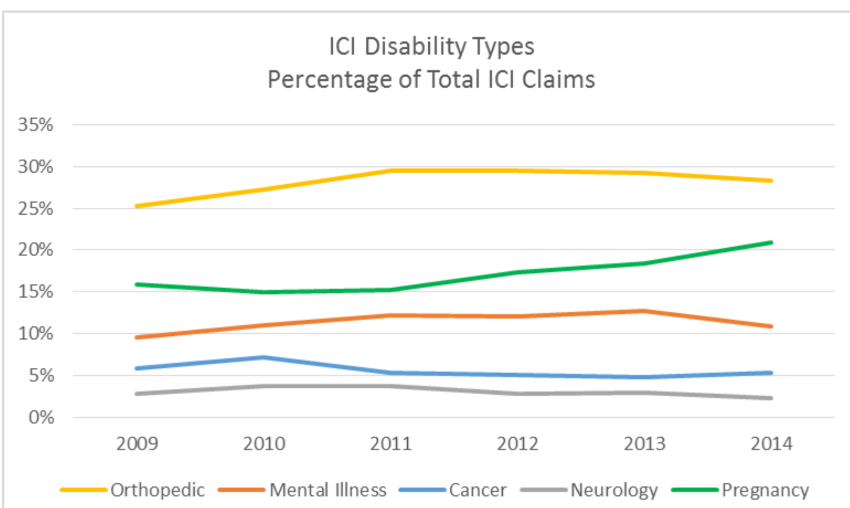

Exhibit 14