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Correspondence Memorandum

Date: February 26, 2016
To: Teachers Retirement Board
Wisconsin Retirement Board
From: Deb Roemer, Director
Benefit Services Bureau
Division of Retirement Services
Subject: 2015 Disability Benefit Statistical Report

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

For your review is the 2015 Wisconsin Retirement System *Disability Benefit Statistical Report*. The report provides data on: disability annuity and duty disability activity for 2015.

Our intent is to provide you with a comprehensive view of the disability annuity and duty disability programs. To that end, the report provides you with information for calendar year 2015, as well as comparisons to previous years. The report also includes some comparative data with the Long-Term Disability Insurance and Income Continuation Insurance programs.

We would appreciate any feedback you may offer for improving this report. Please contact Deb Roemer 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: 2015 Annual Disability Benefit Statistical Report

Reviewed and approved by Matt Stohr, Administrator,
Division of Retirement Services
 Electronically Signed 3/9/16

Board	Mtg Date	Item #
JM	3.24.16	4C

Benefit Services Bureau

2015 Disability Benefit Statistical Report



February 16, 2016

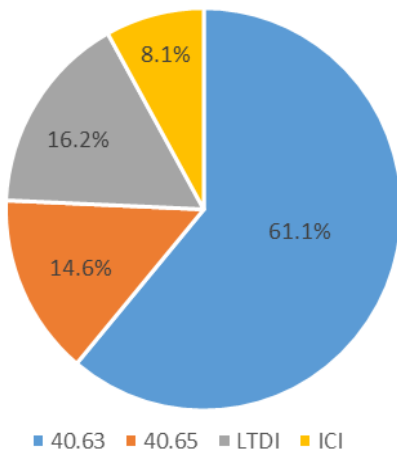
Introduction

The 2015 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 \$226.7 million for 11,895 separate claims as of December 31, 2015¹. The 40.63 program commands the largest share of disability payments with 61.1% of disability payments and 54.2% of all active claims (Exhibit 1).

ETF Disability Programs
Share of Benefit Payments



ETF Disability Programs
Percentage of Benefit Recipients

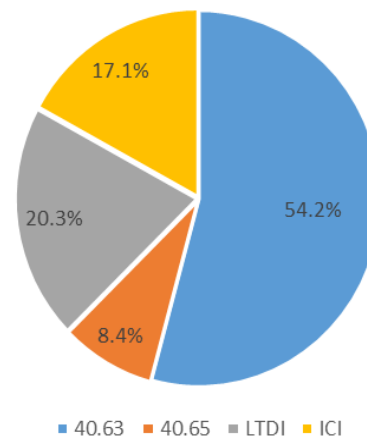


Exhibit 1- Distribution of Disability Benefit Payments and Recipients

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

Comparing benefit payments over a period from 2005 to 2015 also 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).

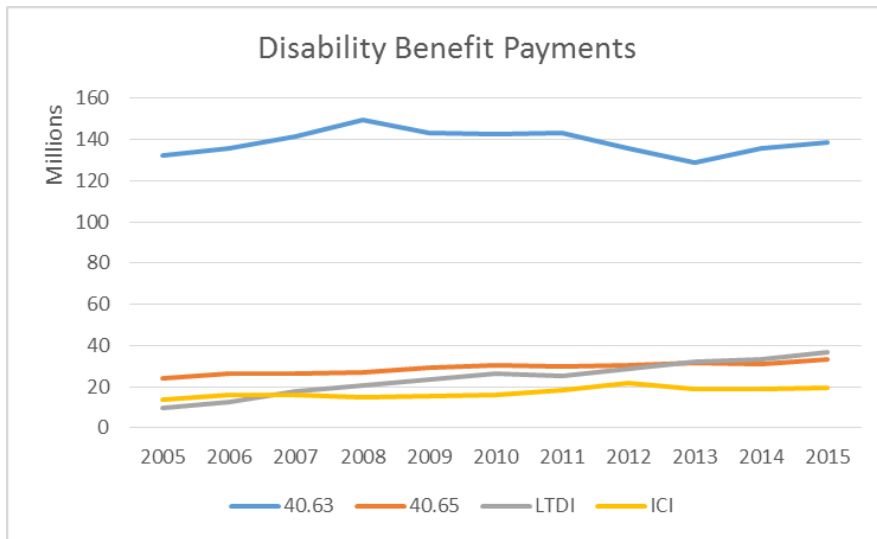


Exhibit 2-Disability Benefit Payments 2005-2015

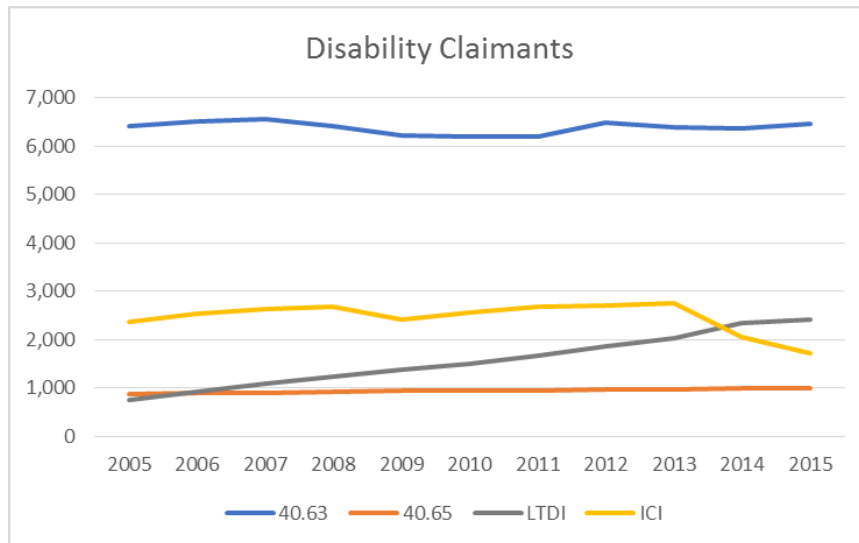


Exhibit 3-Disability Claimants 2005-2015

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. Short-term ICI benefits last for 12 months and may transition into long-term ICI benefits.

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

Some examples of the differences between programs include different benefit eligibility rules, such as service requirements, different 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 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 44,000 WRS participants were still eligible to apply for a 40.63 benefit as of December 31, 2014.² 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 include similar death benefits, depending on the annuity option selected. 40.63 benefits can be suspended if an annuitant has earned income above an established earnings limit (\$14,499 for 2016, indexed annually).

In 2015 total benefit payments for the 40.63 Disability Annuity Program (40.63) were \$138.5 million. This amount was a 2.1% increase in benefit payments from 2014 and a 4.8% increase in total benefit payments since 2005. Total benefit payments declined 13.6% from 2008 to 2013 but have increased 7.3% since then.

² All census information for 40.63, 40.65, and LTDI is from *Wisconsin Retirement System (WRS) 34th Annual Valuation of Active Lives and Gain/Loss Analysis – December 31, 2014*. Complete census data from 2015 was not available at the time of this report.

As of December 31, 2015 there were 6,449 annuitants receiving a benefit under 40.63. Total annuitants receiving a 40.63 benefit in 2015 increased 1.4% from the previous year and increased .5% from 2005. The number of annuitants declined sharply from 2008 through 2011. Since 2011 the number of annuitants has remained within a narrow range between 6,363 and 6,473 annuitants annually. The average monthly 40.63 benefit in 2015 was \$1,790, an increase of .7% from 2014 and an increase of 4.2% since 2005. Exhibit 4 compares the yearly change in 40.63 benefit payments and the number of individuals receiving a benefit from 2005-2015.

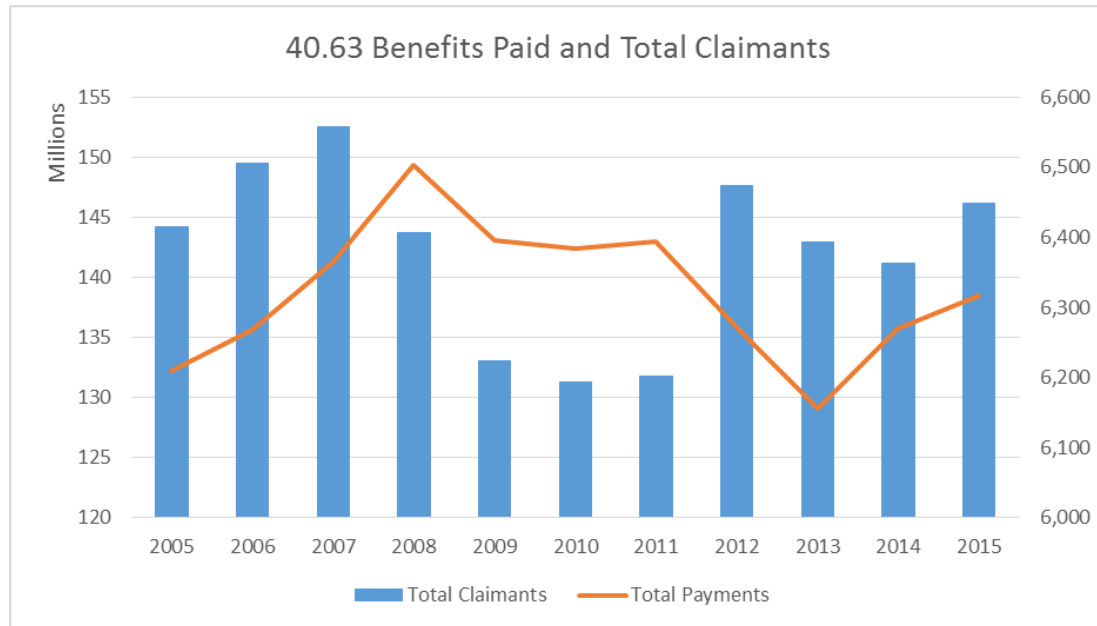


Exhibit 4- Annual 40.63 Benefits Paid and Number of Claimants 2005-2015

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 completely funded by employer contributions. An individual must be permanently disabled by a work-related injury or disease and can no longer work full protective duty. There are approximately 22,000 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. The 40.65 benefit is a lifetime benefit.

The 40.65 program paid \$33.1 million in benefits in 2015, a 6.3% increase from 2014 and an increase of 36.9% since 2005. The number of members receiving a 40.65 benefit was 1,001 as of December 31, 2015, which represents an increase of 1.1% from the previous year and an

increase of 15.7% since 2005. The 2015 average monthly benefit payment for 40.65 was \$2,756, an increase of 5.1% from 2014 and an increase of 18.3% from 2005. Exhibit 5 compares the yearly change in 40.65 benefit payments and the number of individuals receiving a benefit from 2005-2015.

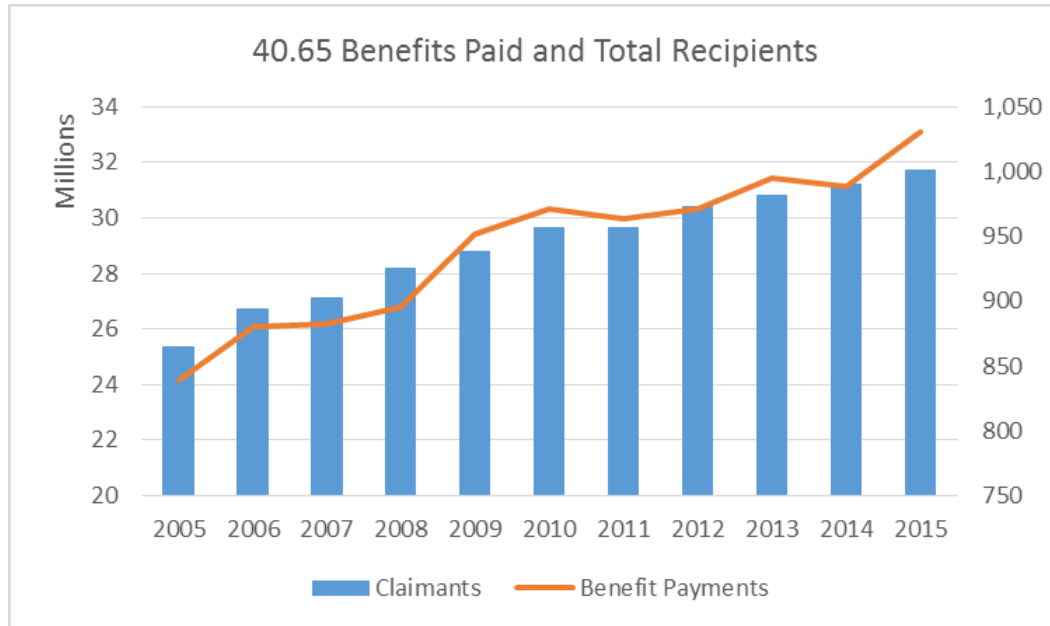


Exhibit 5-Annual 40.65 Benefits Paid and Number of Claimants 2005-2015

Long-Term Disability Insurance (§ ETF 50.40). LTDI was created in 1992 as a result of the passage of the federal Older Workers Benefit Protection Act (OWBPA), which addressed age discrimination in employee benefits. The OWBPA raised concerns about whether the 40.63 program violated the Age Discrimination in Employment Act. LTDI was intended to eventually replace the 40.63 program. 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 256,000 active WRS participants. Employees who began employment 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.

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 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 state and local government employees with 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 up to \$64,000 of annual earnings (\$4,000 maximum monthly benefit). Employees may also enroll in supplemental coverage which provides additional coverage up to \$120,000 (\$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 government employees the premium is based on an elimination period selected by the employee.

ICI benefits are offset by numerous other benefits received by the employee including 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. Approximately 44,000 WRS participants were eligible for 40.63 as of December 31, 2014. This represents all employees with 23 or more continuous years of service. However, the popularity of the 40.63 program is indicated by the fact that the decline in claimants has not been more pronounced in favor of LTDI benefits. The size and popularity of the 40.63 program has implications for future decisions on the prudence of operating two disability programs, 40.63 and LTDI, if it is determined that one of these programs could be eliminated.

³ *State and Local Income Continuation Fact Sheets (Rev 10/2015).*

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 have been 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 existing 40.63 benefits are generally older (of longer duration) than the existing 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 benefits. 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 which 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.

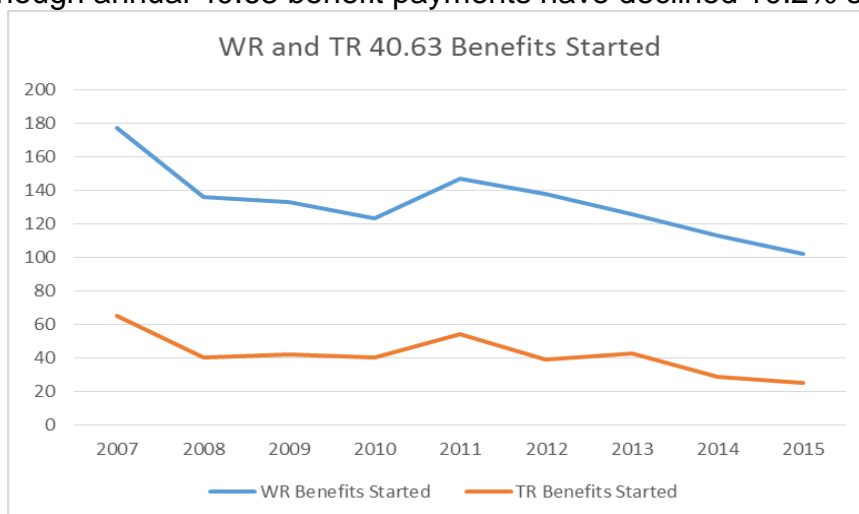


Exhibit 6-40.63 WR and TR Benefits Started 2007-2015

A total of 435 disability annuity estimates were completed in 2015. Disability annuity benefits that were started in 2015 totaled 127. The number of estimates completed and benefits started continued an overall decline. The number of 40.63 estimates have declined 43.5% since 2007 while the number of 40.63 benefits started have declined 47.5% over the same period (Exhibit 6).

Disability annuity claims are filed primarily by claimants age 51-60, which have annually accounted for two thirds of all 40.63 disability annuities started between 2007 and 2014 (Exhibits 7 and 8) .

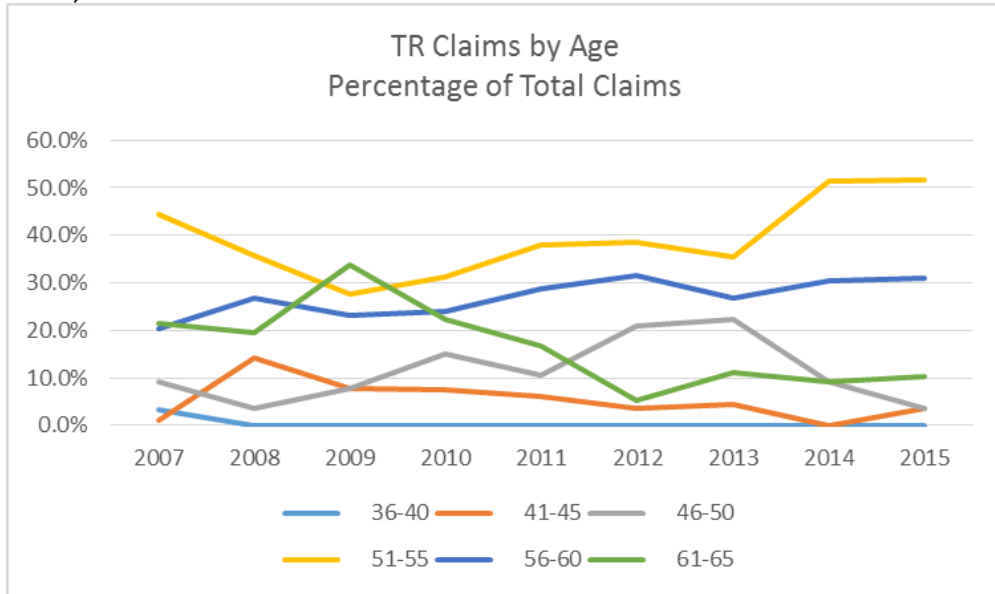


Exhibit 7-Distribution of TR Claims by Age Group 2007-2015

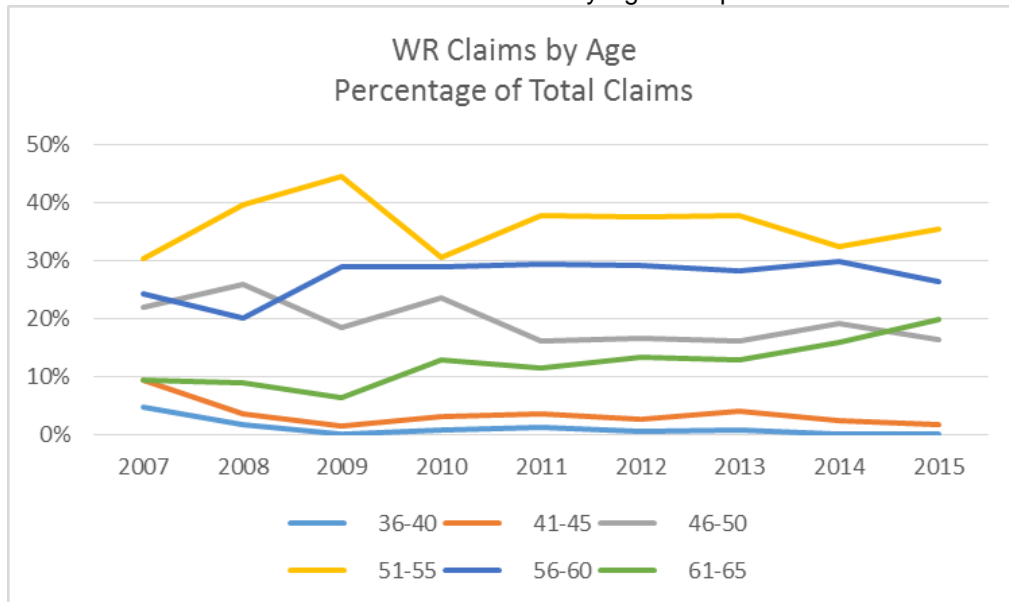


Exhibit 8-Distribution of WR Claims by Age Group 2007-2015

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 (Exhibits 9 and 10).

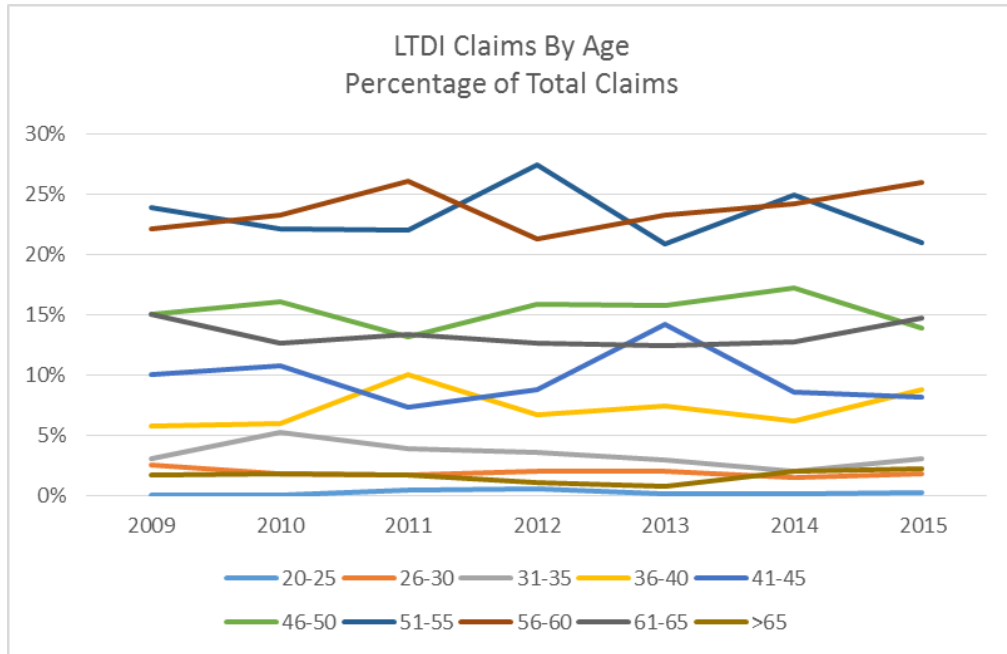


Exhibit 9-Distribution of LTDI Claims by Age Group 2009-2015

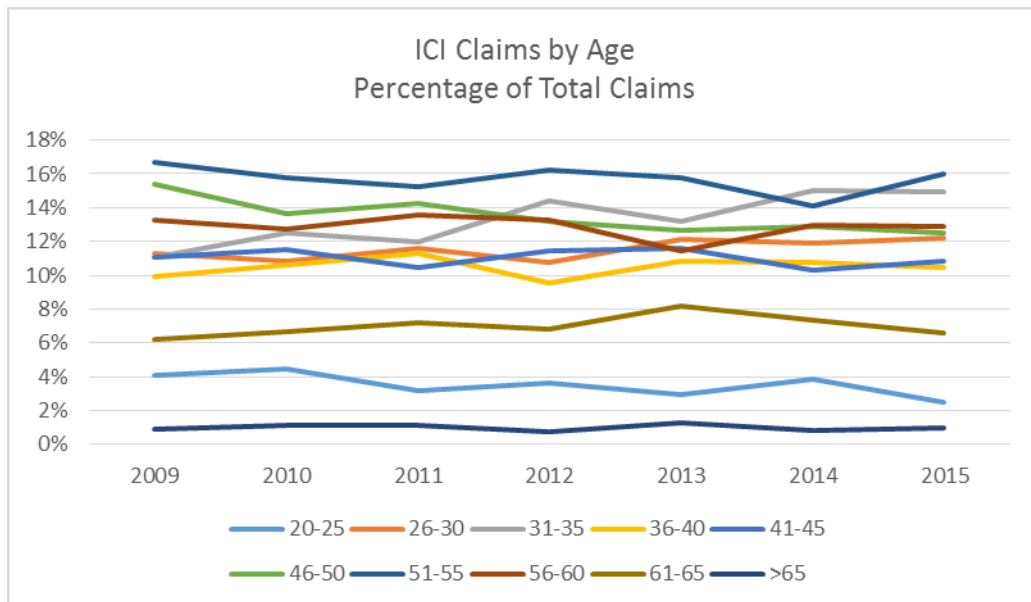


Exhibit 10-Distribution of ICI Claims by Age Group 2009-2015

The primary disability types for the 40.63 program in 2015 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).

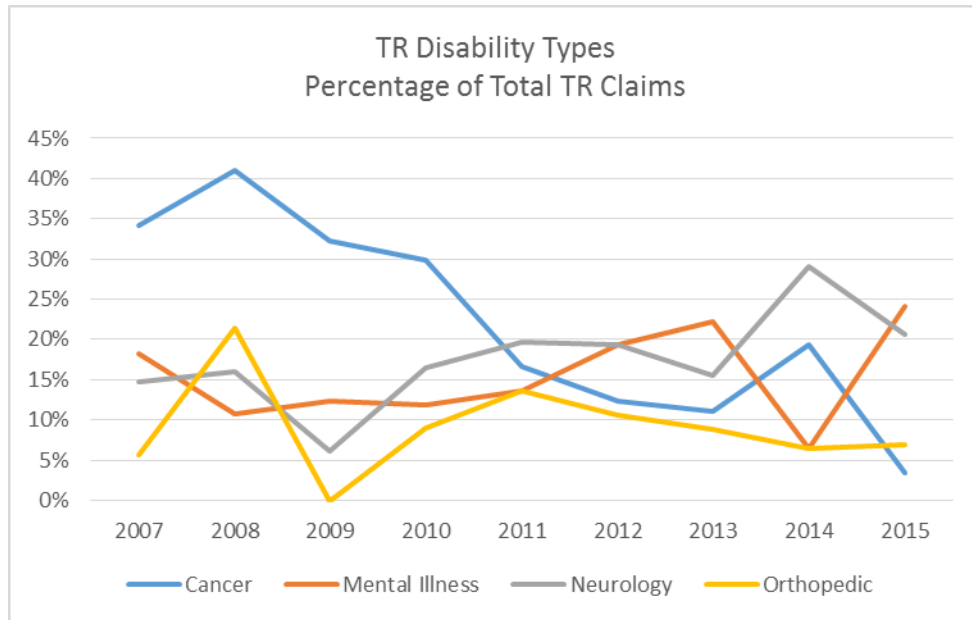


Exhibit 11-Distribution of TR Claims by Disability Type 2007-2015

For Wisconsin Retirement Board claims, orthopedic and neurology claims are currently the greatest percentage of all claims. Cancer claims and mental illness claims had been declining in recent years but seem to have leveled off since 2013 (Exhibit 12).

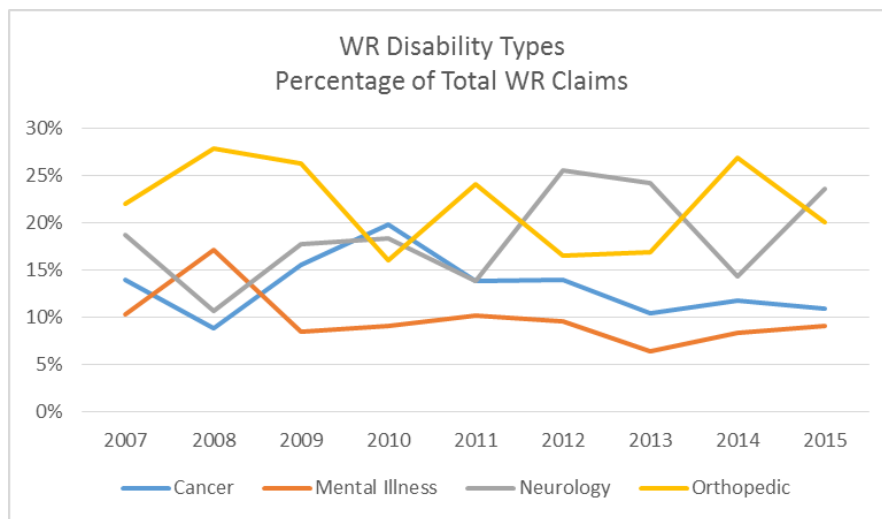


Exhibit 12-Distribution of WR Claims by Disability Type 2007-2015

The disability types that are prevalent in 40.63 do not carry over to ICI and LTDI benefits. 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 (Exhibits 13 and 14).

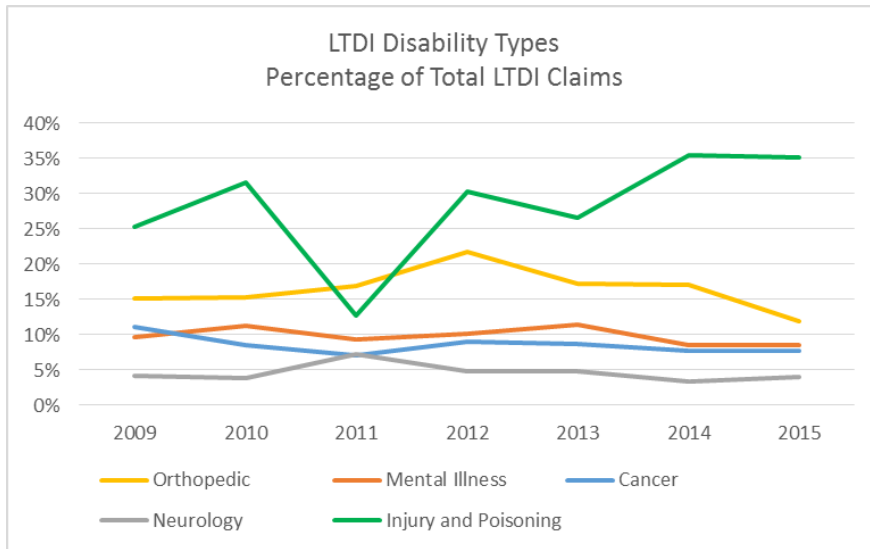


Exhibit 13-Distribution of LTDI Claims by Disability Type 2009-2015

The most prevalent LTDI disability type is injury and poisoning (35% in 2014), followed by orthopedic and mental illness. 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.

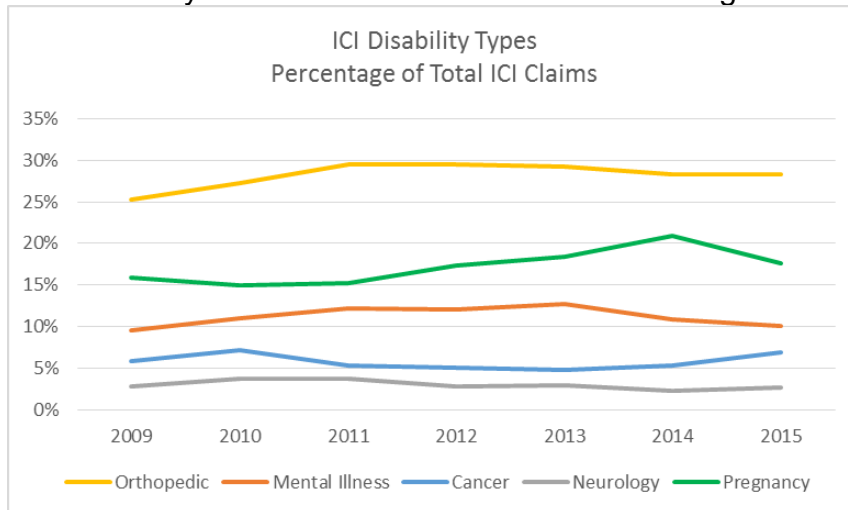


Exhibit 14-Distribution of ICI Claims by Disability Type 2009-2015

There were a total of 28 claims for 40.65 duty disability benefits in 2015. The disability types for these claims consisted of musculoskeletal disabilities (67.9%), psychiatric (14.3%), cancer (3.6%), and cardiovascular disabilities (3.6%).