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Correspondence Memorandum

Date: February 22, 2017
To: Teachers Retirement Board
Wisconsin Retirement Board
From: Deb Roemer, Director
Benefit Services Bureau
Division of Retirement Services
Subject: 2016 Disability Statistical Report

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

Attached for your review is the 2016 Wisconsin Retirement System (WRS) Disability Statistical Report. The report provides information on disability annuity and duty disability activity for 2016.

It is our intent to provide you with a comprehensive view of the disability annuity and duty disability programs. To that end, we have provided information for calendar year 2016 and 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: 2016 Disability Statistical Report

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

Electronically Signed 3/2/17

Board	Mtg Date	Item #
JM	3.23.17	4E

Benefit Services Bureau

2016 Disability Benefit Statistical Report



February 17, 2017

Introduction

The 2016 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 seven 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 \$231.5 million for 11,904 separate claims as of December 31, 2016¹. The 40.63 program commands the largest share of disability payments with 60.3% of disability payments and 53.6% of all active claims.

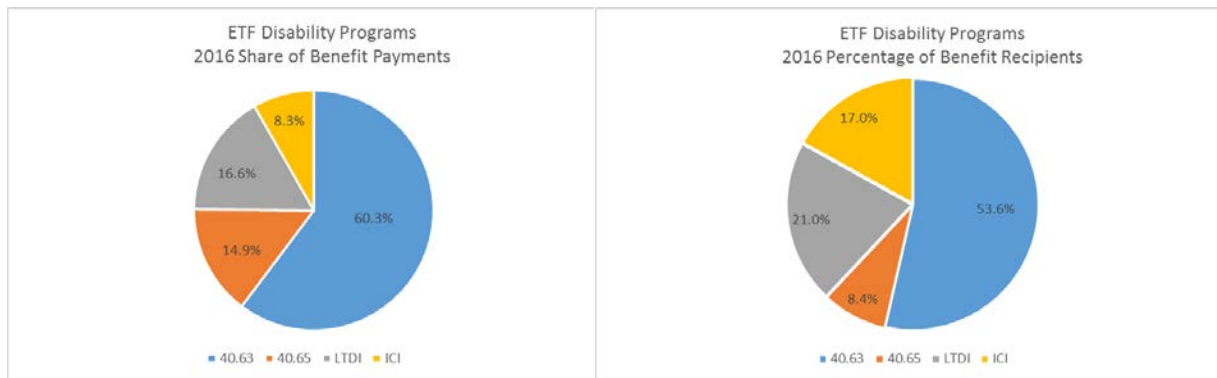


Exhibit 1

Comparing benefit payments over a ten-year period from 2007 to 2016 also demonstrates the size of the 40.63 program compared to the other ETF administered disability benefits. 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.

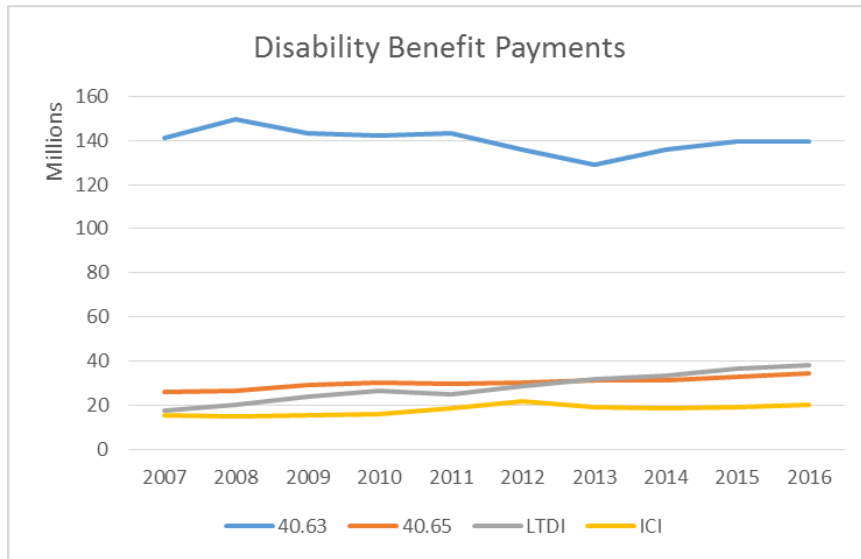


Exhibit 2

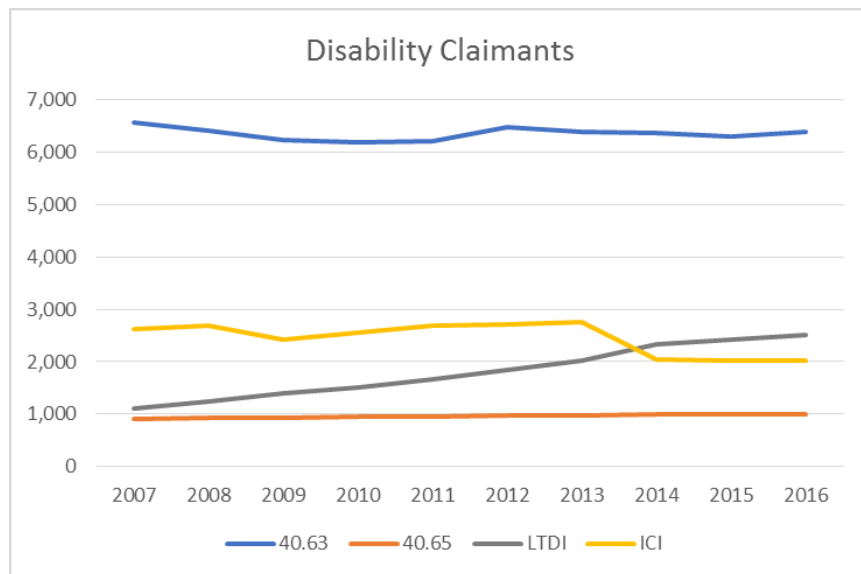


Exhibit 3

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), as well as short-term ICI benefits are payable if an employee is unable to perform the duties of their current occupation. Short-term ICI benefits last for up to 12 months and may transition into long-term ICI benefits.

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. An estimated 33,000 WRS participants were still eligible to apply for a 40.63 benefit as of December 31, 2015.² 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 who are not totally disabled can also qualify for Special 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 (\$15,006 for 2017, indexed annually).

In 2016 total benefit payments for the 40.63 Disability Annuity Program (40.63) were \$139.5 million. This amount was a 0.11% increase in benefit payments from 2015 and a 2.9% increase in total benefit payments since 2006. Total benefit payments declined 13.6% from 2008 to 2013 but have increased 8.1% since then.

As of December 31, 2016 there were 6,378 annuitants receiving a benefit under 40.63. Total annuitants receiving a 40.63 benefit in 2016 increased 1.16% from the previous year and

² All census information for 40.63, 40.65, and LTDI is from *Wisconsin Retirement System (WRS) 35th Annual Valuation of Active Lives and Gain/Loss Analysis – December 31, 2015*. Complete census data from 2016 was not available at the time of this report.

decreased 2% from 2006. The number of annuitants declined sharply from 2008 through 2011. Since 2011 the number of annuitants has remained within a narrow range between 6,305 and 6,473 annuitants annually. The average monthly 40.63 benefit in 2016 was \$1,823, a decrease of 1% from 2014 and an increase of 4.9% since 2006.

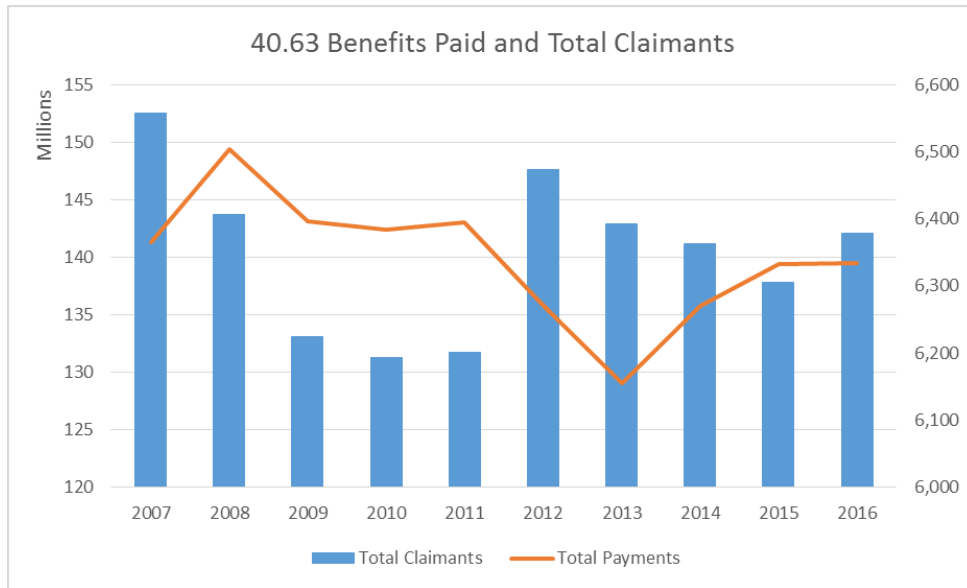


Exhibit 4

Duty Disability Benefits (§ 40.65 and § ETF 52). Duty Disability is an income replacement program that is available to all WRS protective occupation participants, such as police officers, fire fighters and correctional officers. This benefit is 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, either 75% or 80%. Other sources of income, such as any WRS benefits (Retirement, separation, ICI, and LTDI), Social Security benefits, earned income, and Worker’s Compensation benefits will reduce Duty Disability benefits. The 40.65 benefit is a lifetime benefit.

The 40.65 program paid \$34.5 million in benefits in 2016, a 4.1% increase from 2015 and an increase of 32.1% since 2006. The number of members receiving a 40.65 benefit was 1,002 as of December 31, 2016, which represents an increase of 0.1% from the previous year and an increase of 12.1% since 2006. The 2016 average monthly benefit payment for 40.65 was \$2,865, an increase of 4% from 2015 and an increase of 17.8% from 2006.

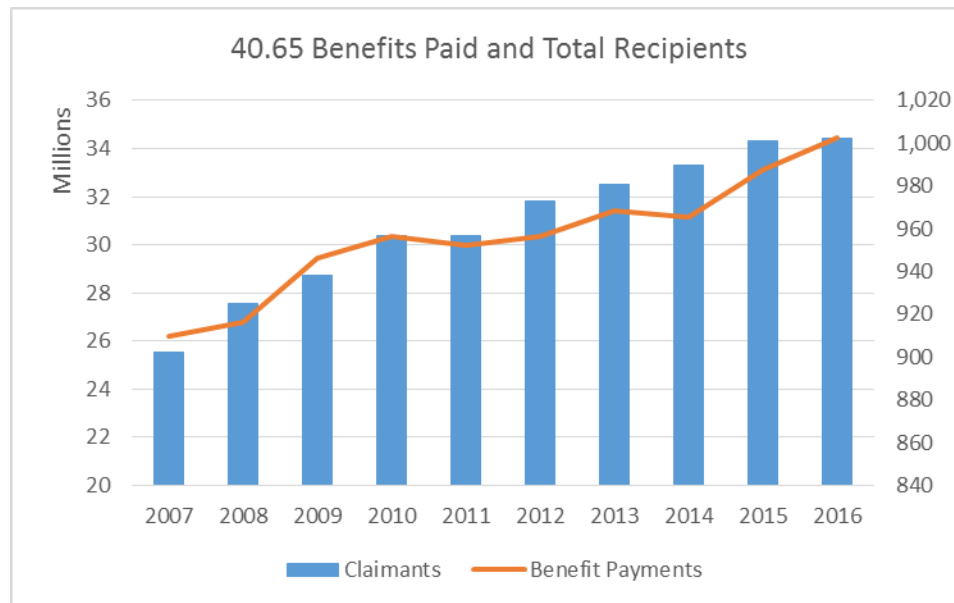


Exhibit 5

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 in 2016 the ETF Board approved the closure of the LTDI program effective January 1, 2018. The 40.63 program will become available to all WRS employees at the same time.

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 currently 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 an annual earnings limit the first time and will be terminated for

exceeding the earnings limit for a second time. The earnings limit for LTDI benefits is the same limit used by the 40.63 program.

Income Continuation Insurance (§40.61, §40.62 and § ETF 50.10). ICI is available on a voluntary basis to all state employees, and to local government employees if their employer offers 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 58,000 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 of 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 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 oversight of the Group Insurance Board.

Trends in Disability Benefits

The lack of growth in 40.63 benefits is indicative of two things. First, the number of people eligible for 40.63 will continue to decline as fewer employees remain eligible for the benefit. Approximately 33,000 WRS participants were eligible for 40.63 as of December 31, 2015. This represents all employees with 24 or more continuous years of service. When the 40.63 program becomes available to all WRS employees, it is anticipated the number of active claims will increase by approximately 300-330 claims annually.

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

³ *State and Local Income Continuation Fact Sheets (Rev 1/4/2017 and 12/22/2016).*

positive adjustments in 2013. 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 their 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 have 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.

A total of 372 disability annuity estimates were completed in 2016. Disability annuity benefits that were started in 2016 totaled 104. The number of estimates completed and benefits started continued an overall decline. The number of 40.63 estimates have declined 51.8% since 2007 while the number of 40.63 benefits started have declined 57% over the same period.

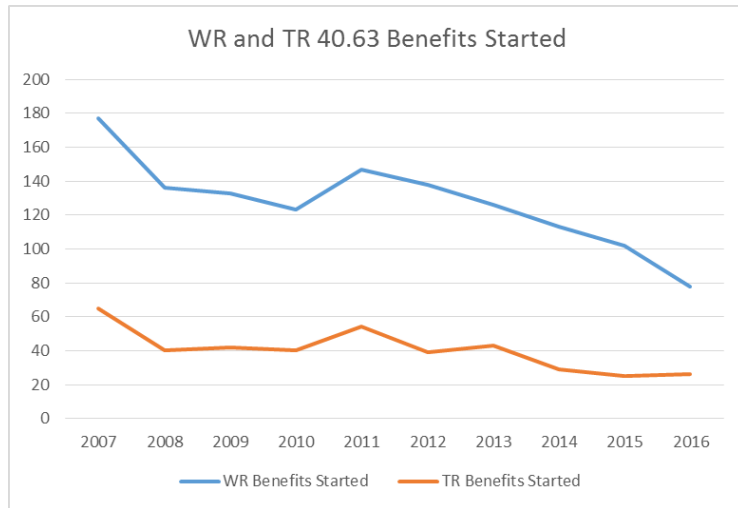


Exhibit 6

Disability annuity claims are filed primarily by claimants age 51-60, which have annually accounted for approximately two thirds of all 40.63 disability annuities started between 2010 and 2016.

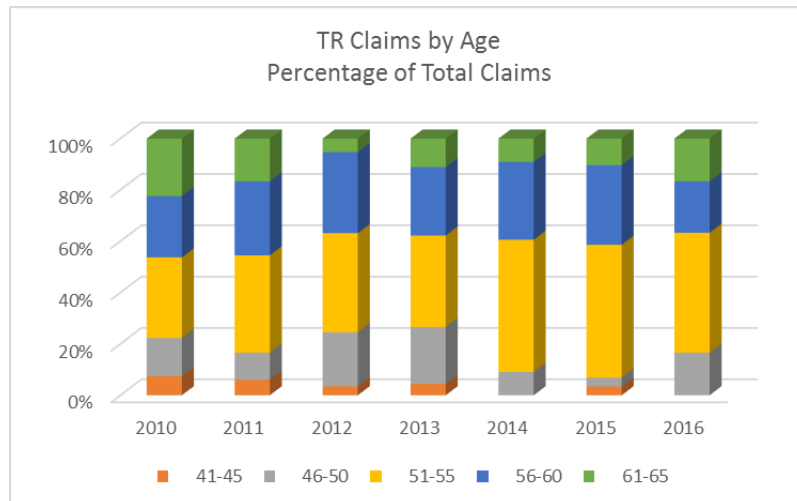


Exhibit 7

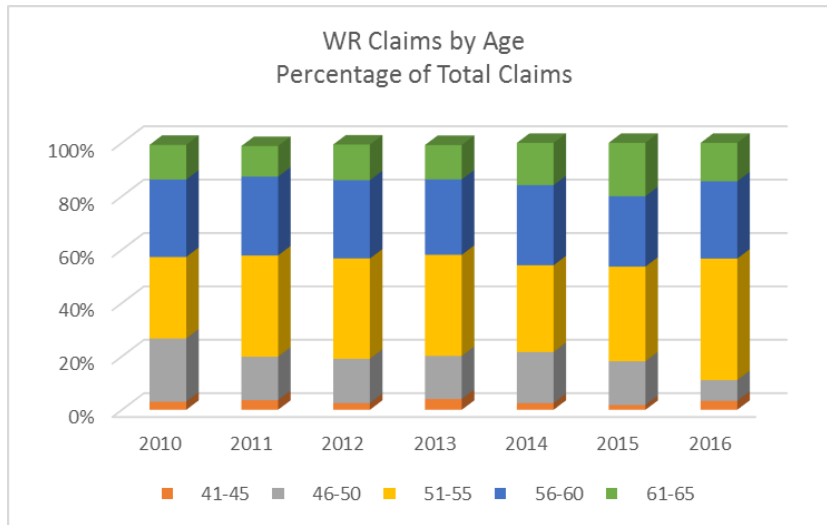


Exhibit 8

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.

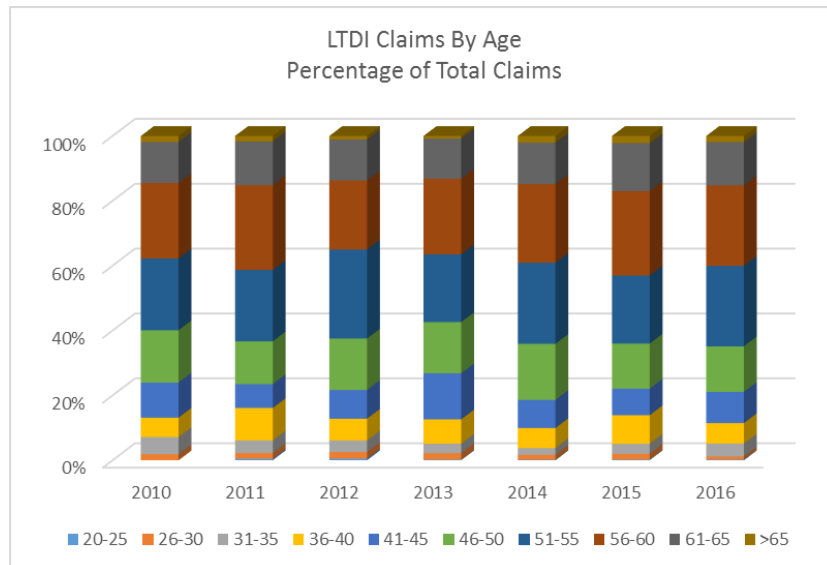


Exhibit 9

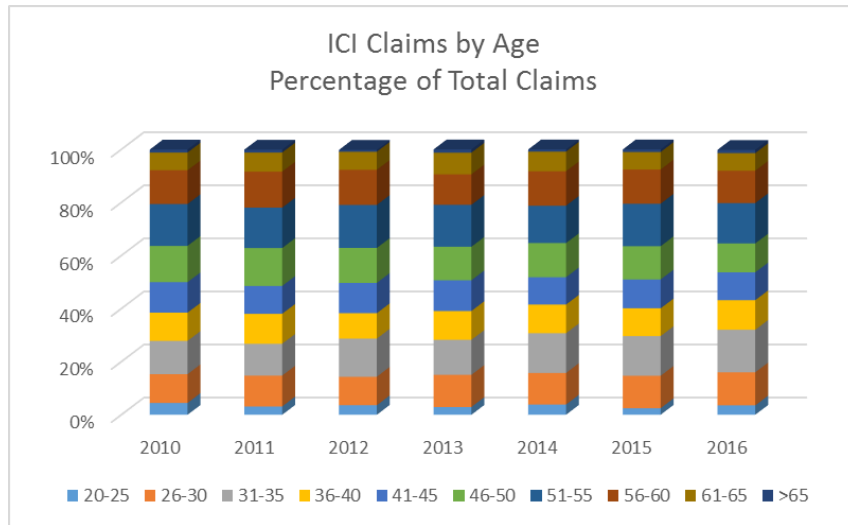


Exhibit 10

The primary disability types for the 40.63 program in 2016 are cancer, orthopedic, neurology and mental illness.

Teachers Retirement Board claims for neurology, orthopedic disabilities and cancer have increased, while mental illness claims decreased in 2016.

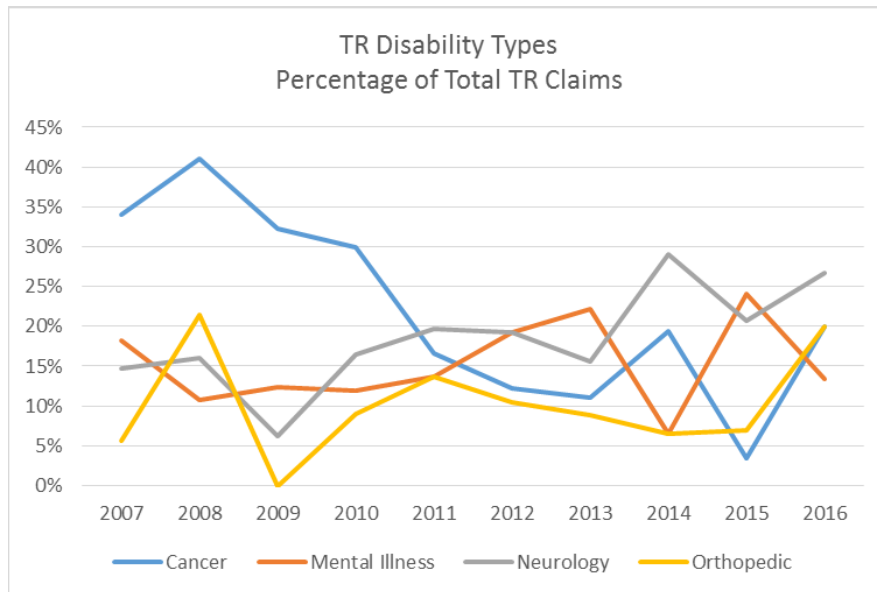


Exhibit 11

For Wisconsin Retirement Board disability annuity claims, orthopedic claims continue their downward trend while neurological claims, currently the greatest percentage of all claims,

continued their upward trend. Cancer and mental illness claims, which had been declining, have also seen slight increases in 2016.

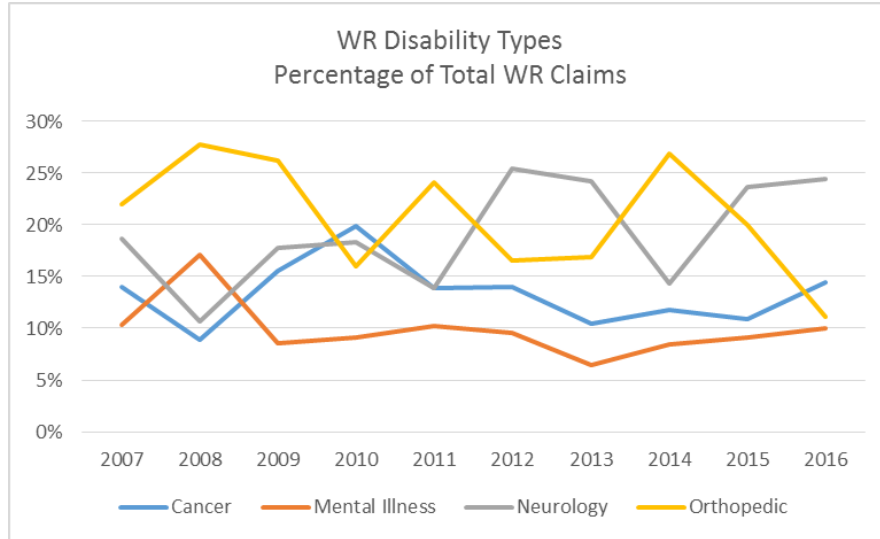


Exhibit 12

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.

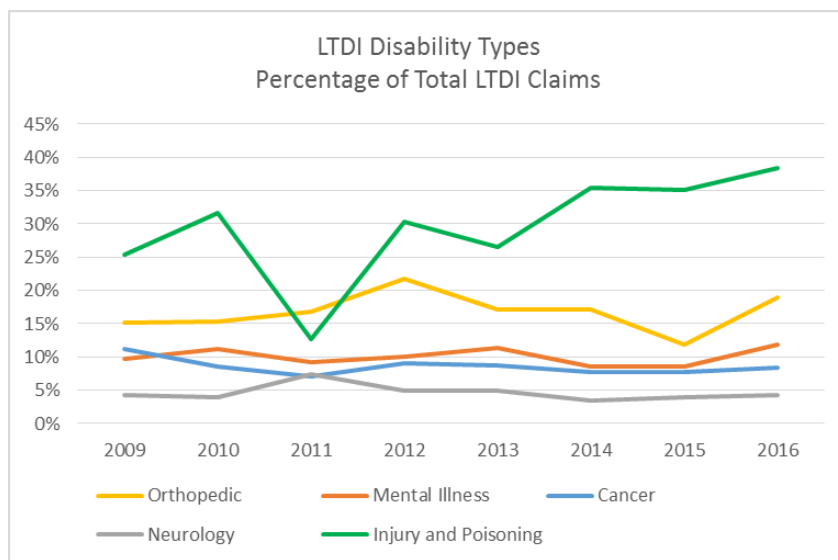


Exhibit 13

The most prevalent LTDI disability type is injury and poisoning (38% in 2016), followed by orthopedic (19%) and mental illness (12%). For ICI the most prevalent disability type is orthopedic at 27%, followed by pregnancy and perinatal (22%), and mental illness (12%). 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.

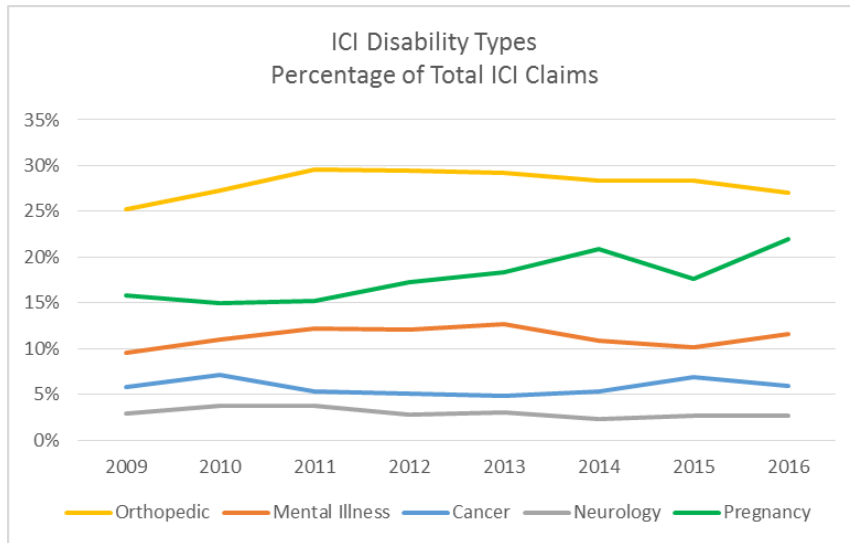


Exhibit 14

There were a total of 15 approved claims for 40.65 duty disability benefits in 2016. The disability types for these claims consisted of musculoskeletal disabilities (33.3%), orthopedic (13.3%), cardiovascular (13.3%), cancer (6.7%), and multiple medical problems (20%).