

Disability Benefit Programs Redesign

Joint Meeting of the Employee Trust Funds, Teachers
Retirement, and Wisconsin Retirement Boards

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Disability Benefits at a Glance

- 40.63 Disability Annuity (40.63)
- Long-Term Disability Insurance (LTDI)
- Income Continuation Insurance (ICI)
- 40.65 Duty Disability (40.65)

Redesign Goals

- Holistic approach
 - Reduce overall program duplication
 - Reduce complexity for members & employers
 - Cost savings
- Minimize the effect on:
 - Members and employers
 - Agency
 - ICI administrator
 - WRS Trust

Redesign Phases

- 2013: First phase
 - Comprehensive technical update to ICI plan language
- 2015-2017: Second phase
 - Closing LTDI
 - Redesigning ICI

Closing LTDI

- Long Term Disability Insurance program
 - Created in 1992 in response to age discrimination concerns
 - Covers employees hired after October 15, 1992
 - 2008 U.S. Supreme Court Decision
- Recommendation to ETF Board:
 - Close the LTDI program to new claims and reopen the 40.63 Disability Annuity program (40.63) effective January 1, 2018
 - Approved September 29, 2016

Closing LTDI

- Fits with ETF's overall program redesign objectives:
 - Reduce duplication
 - Reduce complexity for members & employers
 - Reduce administrative costs
 - Minimize disruption
- Necessary administrative rule changes is still pending
 - Public hearing – May 30, 2017
 - ETF Board approval of final rule – June 22, 2017

State ICI Plan

- Provides Short-term and Long-term disability benefits
 - Standard coverage of 75% of monthly earnings up to \$64K
 - Premiums based on accumulated sick leave (assigned to a premium category) and level of earnings
 - Higher accumulated sick leave decreases employee's share of premiums
 - Supplemental coverage up to \$120K
 - Supplemental premiums are 100% employee paid
 - \$75 Long-term add-on benefit
 - Benefit terminates at age 65 (for most)
 - Benefits begin after the longer of a 30 day elimination period (EP) or exhaust sick leave up to a maximum of 130 days
 - Benefits do not duplicate other benefits or earned income

State ICI Plan

UW Faculty and Academic Staff

- Premiums determined by salary and employee selected EP
 - 30, 90, 125, or 180 days
 - Employer pays 100% of 180-day premium, employee pays differential for shorter EP
 - Employee must have one year of state service to be eligible for employer share
- Benefits begin after a UW Faculty/Academic Staff employee serves the longer of:
 - Employee selected EP or
 - Exhaust sick leave up to a maximum of 130 days

Local ICI Plan

- Similar to UW plan
 - Employee selects EP
 - 30, 60, 90, 120, or 180 days
 - Employer pays 100% of 180-day EP premium, employee pays differential for shorter EP
 - Benefits begin after an employee serves the employee selected EP
 - No requirement to use sick leave
- Local ICI is funded at 588% of liabilities and has been on a premium holiday since 2012

Income Continuation Insurance

- State ICI program's actuarial deficit is \$37 million
 - Deficit since Dec. 31, 2006
 - Enrollment declines and premium increases
 - Adverse selection
- Significant rate increases of 20% from 2016 through 2020 were proposed and approved at the May 2015 GIB meeting

State ICI Experience Studies

Performed by Milliman

- Confirmed current premium rates were not adequate for program funding
- Interest adjusted loss ratio (IALR) review of the state ICI program
 - Preferred IALR is 70-80%,
 - Only 3 state agencies met this
- When experience by occupation was examined, similar results were found
 - Some occupations expect higher disability rates, such as protective occupations
 - University of Wisconsin faculty and academic staff had the lowest IALR (40%)

ICI Specific Goals

- Address financial stability of program
- Encourage employee enrollment
- Keep employers' overall premiums cost-neutral
- Reduce complexity within program
- Reduce confusion for employees and employers

ICI Redesign Summary

- Replace current premium structure for State employees (i.e. “premium categories”) with an EP-based structure
- Decouple sick leave
- Eliminate long-term ICI benefits
- Increase short-term ICI benefit duration to 18 months after completion of employee-selected EP
- Eliminate \$75 long-term add-on
- Reduce benefit amount from 75% of salary to 70%
- Eliminate supplemental coverage
 - Increase the maximum monthly benefit for standard coverage to \$7,000 for \$120K of annual income
- Eliminate UW Faculty and Academic staff 12-month waiting period for employer contribution
- Change return to work/rehabilitative income offset from 75% to 70%

Fiscal Impact

- Achieves goal of reducing actuarial liability and deficit
- Significant cost savings for members due to reduced premium rates
- Cost savings for employers, even with increase in program participation
- ICI program debt eliminated by 2022 or 2023

Next Steps

- Group Insurance Board approved ICI program changes at February 8, 2017 meeting
 - Also approved moving authority over ICI and LTDI programs to ETF Board
- ICI Statute changes
 - Statute changes developed and drafted
 - Need legislative introduction
 - Targeted effective date: January 1, 2020
- LTDI Rule:
 - Public hearing: May 30, 2017
 - ETF Board approval
 - Final rule to Governor and Legislature
- Communicate information to key players: Employers, members, staff



Questions?

Thank you



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