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Correspondence Memorandum

Date: February 25, 2022

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

From: Jim Guidry, Director
Benefit Services Bureau
Division of Retirement Services

Subject: 2021 Disability Statistical Report

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

Attached for your review is the 2021 Wisconsin Retirement System (WRS) Disability Statistical Report. The report provides information on disability annuity and duty disability activity for 2021 and a comprehensive view of the disability annuity, duty disability, Long Term Disability Insurance (LTDI), and Income Continuation Insurance (ICI) programs. We have provided information for calendar year 2021 and comparisons to previous years.

After a notable decrease in 40.63 application volume that started in the third quarter of 2020, claim volume increased substantially in the third and fourth quarters of 2021, returning to levels seen throughout 2019 and the first half of 2020. Active 40.63 benefits are beginning to reflect the decrease, as there is a lag between application receipt and the start of benefits. While our data is insufficient to establish causality, it suggests that the pandemic may have contributed to a drop in application volume late last year, as well as this year's return to more typical application volumes.

We appreciate any feedback or suggestions that you may offer for future inclusion in this report. Please contact Jim Guidry at (608) 266-5387 or jim.guidry@etf.wi.gov if you have comments or questions.

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

Attachment: 2021 Disability Statistical Report

Reviewed and approved by Matt Stohr, Administrator, Div. of Retirement Services – Electronically Signed 3/2/22
Matt Stohr

Board	Mtg Date	Item #
JM	03.24.22	4D

Benefit Services Bureau

2021 Disability Benefit Statistical Report

February 25, 2022

Prepared for the Joint Meeting of the Retirement Boards, March 24, 2022

Introduction

The 2021 Disability Statistical Report provides a statistical review of the 40.63 Disability Annuity (40.63), and 40.65 Duty Disability (40.65) 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 10 years, depending on the veracity of available data and usefulness of that data. This report will provide a broad contextual review of the 40.63 and 40.65 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 (GIB). 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 $250.2 million for 11,500 separate claims as of December 31, 2021[1]. The 40.63 program commands the largest share of disability payments with 62.8% of disability payments and 56.0% of all active claims (Exhibit 1).

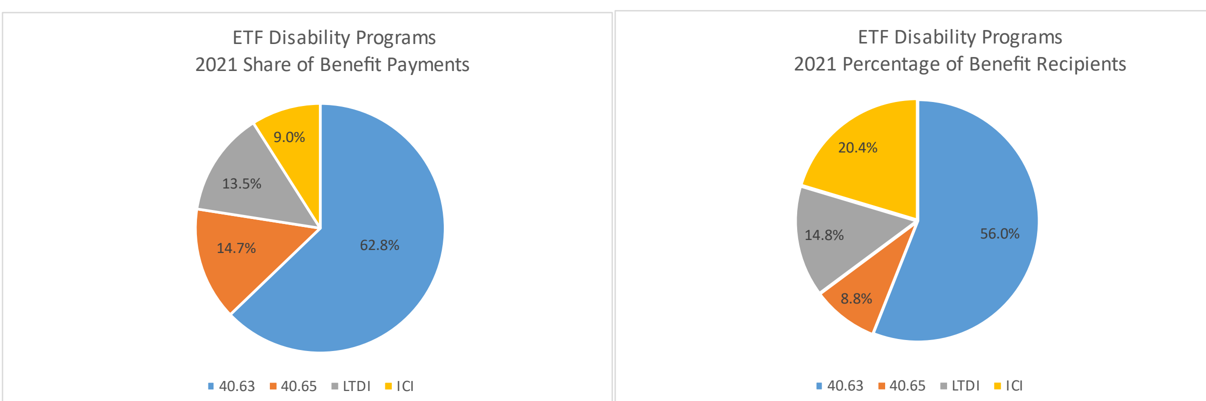

Exhibit 1

Exhibits 2 and 3 compare disability benefit payments and the number of claimants over a ten-year period from 2012 to 2021 for all four disability programs. 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.

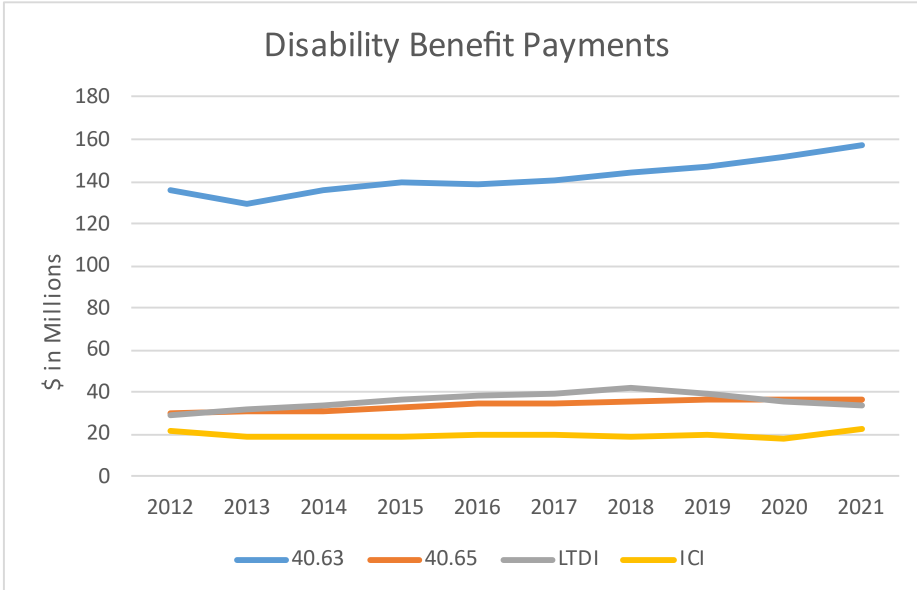

Exhibit 2

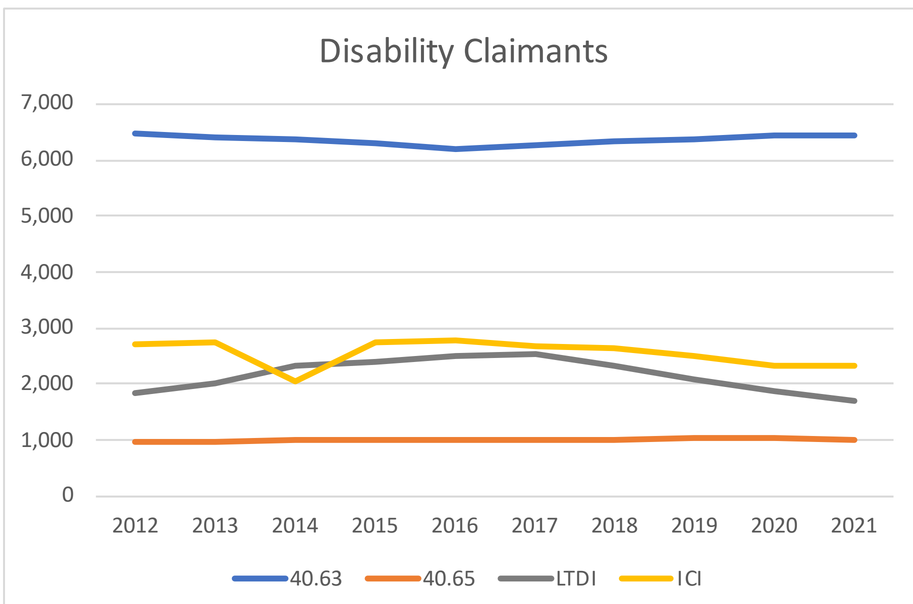

Exhibit 3

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, Special LTDI benefits (all for protective occupation participants 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 if the employee remains disabled as defined under the plan provisions.

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 program's 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 (e.g. service requirements), 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 annuities are issued under the authority of the TR and WR Boards and are available to all WRS employees who have at least one-half year of creditable service in five of the previous seven calendar years.

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 qualify for Special 40.63 benefits if they have at least 15 years of accumulated service, are between 50 and 55 years old at the time the disability occurs, and their disability causes them 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 ($16,868 for 2021, indexed annually).

In 2021 total benefit payments for the 40.63 program were $157.1 million. This amount was a 3.8% increase in benefit payments from 2020 and a 15.6% increase in total benefit payments since 2012. Total benefit payments declined 13.6% from 2008 to 2013 due to negative annual benefit adjustments but have increased 21.8% since then.

As of December 31, 2021, there were 6,440 annuitants receiving a benefit under 40.63. Total annuitants receiving a 40.63 benefit in 2021 increased 0.1% from the previous year and has decreased 0.5% since 2012. The average monthly 40.63 benefit in 2021 was $2,033, an increase of 3.8% from 2020 and an increase of 16.2% since 2012 (Exhibit 4).

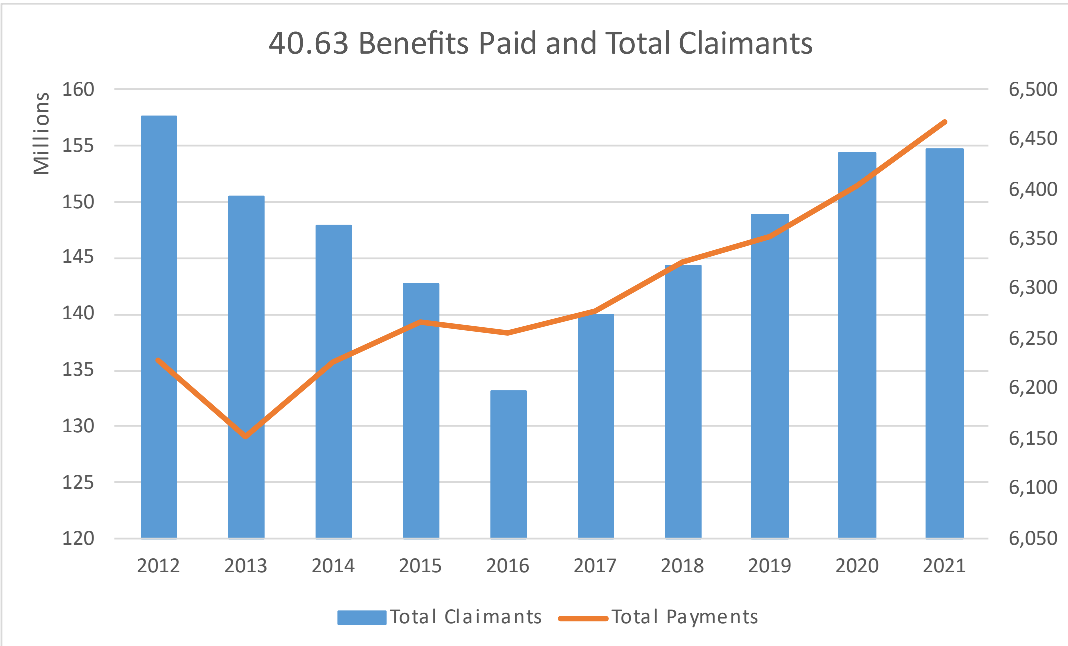

Exhibit 4

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 entirely 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 22,400 active protective occupation participants in the WRS system and 7,600 inactive. [2,3] 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 WRS benefits (e.g. retirement, separation, 40.63, and LTDI), Social Security benefits, earned income, Unemployment Insurance, and Worker's Compensation benefits will reduce Duty Disability benefits. The 40.65 benefit is a lifetime benefit.

The 40.65 program paid $36.7 million in benefits in 2021, a 0.0% increase from 2020 and an increase of 20.8% since 2012. The number of members receiving a 40.65 benefit was 1,015 as of December 31, 2021, a decrease of 1.1% from the previous year and an increase of 4.3% since 2012. The 2021 average monthly benefit payment for 40.65 was $3,010, an increase of 1.1% from 2020 and an increase of 15.8% from 2012 (Exhibit 5).

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[2] Inactive protective occupation participants are eligible for 40.65 benefits if they meet the eligibility criteria.
[3] All census information for 40.63, 40.65, and LTDI is from *Wisconsin Retirement System (WRS) 40th Annual Actuarial Valuation and Gain/Loss Analysis as of December 31, 2020.*

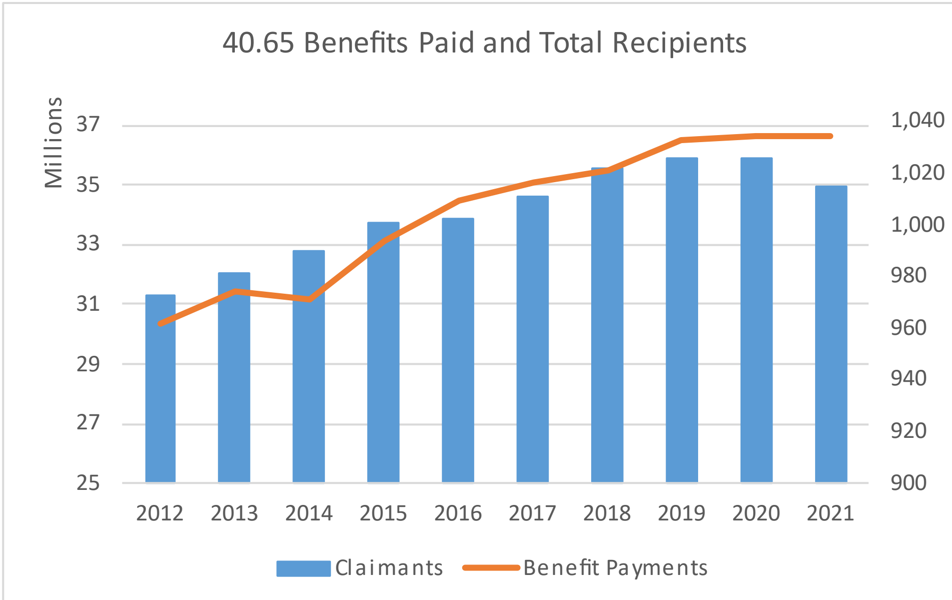

Exhibit 5

Long-Term Disability Insurance (§ ETF 50.40). The LTDI program closed to all new claims on January 1, 2018 as part of ETF's disability programs redesign project, a multi-year effort to streamline ETF's disability programs to make them more sustainable, administratively efficient, and less redundant. Up until that point, the LTDI program was being administered by a third-party administrator, Aetna (now doing business as The Hartford). The program closure provided ETF with an opportunity to bring the management of the existing LTDI claims in-house. When the program was closed, 2,548 existing LTDI claims were transferred to ETF from Aetna that will be run out to claim termination. It is estimated that it will take approximately 30 years to run out the existing LTDI claims.

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 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 member's account. LTDI recipients who receive 40.65 benefits or earn creditable service with a WRS employer are also ineligible for supplemental benefits. LTDI benefits are offset (reduced) by any WRS retirement or separation benefits the individual is receiving or is eligible to receive. LTDI benefits will be suspended for exceeding the annual earnings limit the first time and will be terminated for exceeding the earnings limit a second time. Special LTDI benefits will not be terminated for exceeding the earnings limit, regardless of the number of occurrences. The earnings limit for LTDI benefits is the same limit used by the 40.63 program.

Authority for the LTDI program was originally delegated to the Group Insurance Board by the Employee Trust Funds Board. The ETF Board resumed oversight of the LTDI program beginning in 2017.

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 coverage. It provides short-term (one year or less) and long-term (greater than one year) replacement income for disabilities. There are approximately 60,000 state and local government employees with ICI coverage.

ICI benefits provide up to 75% of an employee's average monthly earnings based on previous calendar year earnings. Standard ICI 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, for most state employees, are calculated based on the amount of sick leave they've accumulated. 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 certain Worker's Compensation benefits, third-party liability awards, Social Security benefits, Unemployment Compensation, WRS benefits, and earned income. Individuals are required to repay duplicate benefits back to the ICI program.

The ICI program is administered by a third-party administrator (currently The Hartford) and is under the oversight of the Group Insurance Board.

As part of ETF's disability programs redesign effort, a multi-year effort to streamline ETF's disability programs to make them more sustainable, administratively efficient, and less redundant, ETF and Milliman recommended design changes to the State ICI program that addressed declining enrollment, attempted to lower premiums, reduce the actuarial liability, and reduce the complexity and administrative burdens of the program. In light of feedback received on the original package ETF revised its proposal and prepared legislative changes that would decouple sick leave from the state ICI program and replace it with an elimination-period based program resembling the local ICI program. Currently sick leave balances play a part in determining state employee ICI premiums, and UW and state employees are required to exhaust up to 130 days of sick leave before ICI benefits can begin. The statute changes would remove these requirements.

Other changes considered include removing the requirement for UW faculty and academic staff to have 12 months of service before becoming eligible for an employer contribution to the ICI premium and shifting the oversight of the ICI program from the Group Insurance Board (GIB) to the ETF Board.

All of these items were proposed in the ETF budget request forwarded to the Governor's office, however, only the board oversight changes were included in the budget bill forwarded by the Governor to the Legislature in February It was later removed from the budget bill as a non-fiscal policy item.

Trends in Disability Benefits

Annual adjustments made to the 40.63 benefit are based on the same core annuity and variable annuity dividend percentages as monthly WRS retirement annuities. LTDI adjustments are based on the core annuity dividend only.

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) or by the previous year's core annuity dividend, depending on the member's age (60 or older) and qualification for other WRS disability benefits.

ICI benefits do not experience annual adjustments.

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 benefit if they have not already taken a WRS benefit. For 40.63 annuitants, their annuities continue until death, with additional potential death benefits which do not exist in the LTDI program. 40.63 annuities are not converted to WRS retirement annuities at normal retirement age even though they are similarly administered.

40.63 benefit payments and claimants have declined modestly since 2008, however with the closure of the LTDI program and the subsequent reopening of 40.63 on January 1, 2018, 40.63 benefits showed a sizeable increase. ETF's disability actuaries projected that the number of active 40.63 claims would increase by approximately 300-330 claims annually suggesting that, while the number of benefits started has decreased this year, the program may experience additional growth in future years.

A total of 644 disability annuity estimates were completed in 2021, representing an increase of 6.6% from the prior year's numbers. 40.63 disability annuity benefits that were started in 2021 totaled 244, a 17.3% decrease over the prior year. (Exhibit 7).

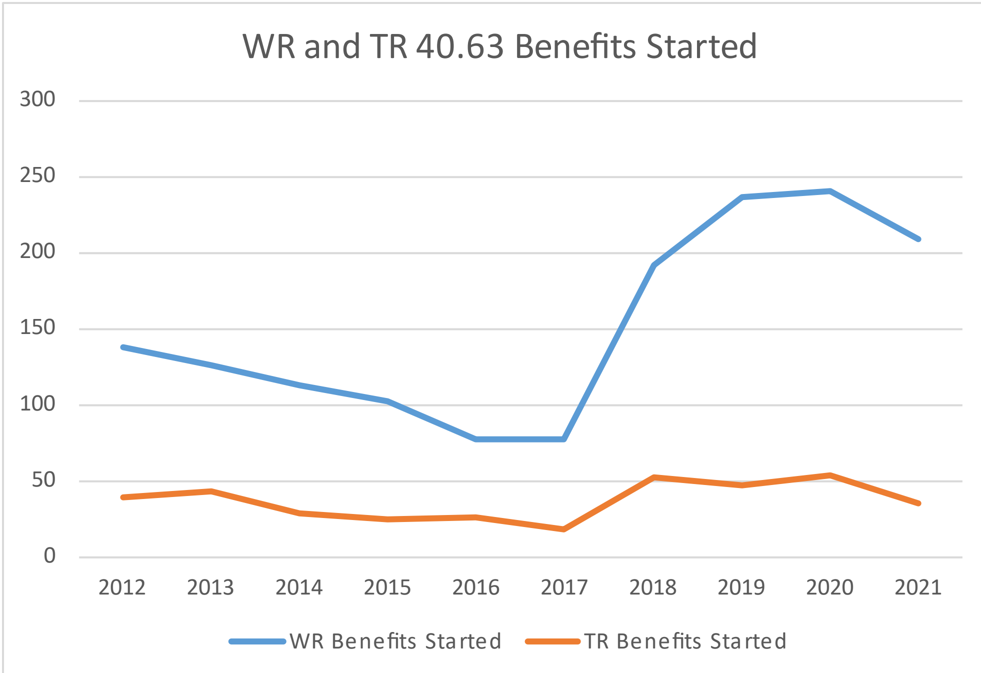

Exhibit 7

Disability annuity claims have historically been filed primarily by claimants ages 51-60. This age group accounted for approximately two thirds of all 40.63 disability annuities started between 2011 and 2017. Due, in part, to the reopening of the program to all eligible employees, claimants ages 51-60 made up just over half of the disability annuities started in the last four years. This year, the 51-60 age range accounts for 56.9% of all 40.63 disability annuities started.

The number of claimants ages 45 and under has increased this year, maintaining most of the gains made in the prior three years. Between 2011 and 2017 this group averaged 2.5% of the total number of claims. Since 2018, claimants under age 45 have averaged 13.6% of all claims. In 2021, this group represents 13.8% of all 40.63 disability annuities (Exhibits 8 and 9).

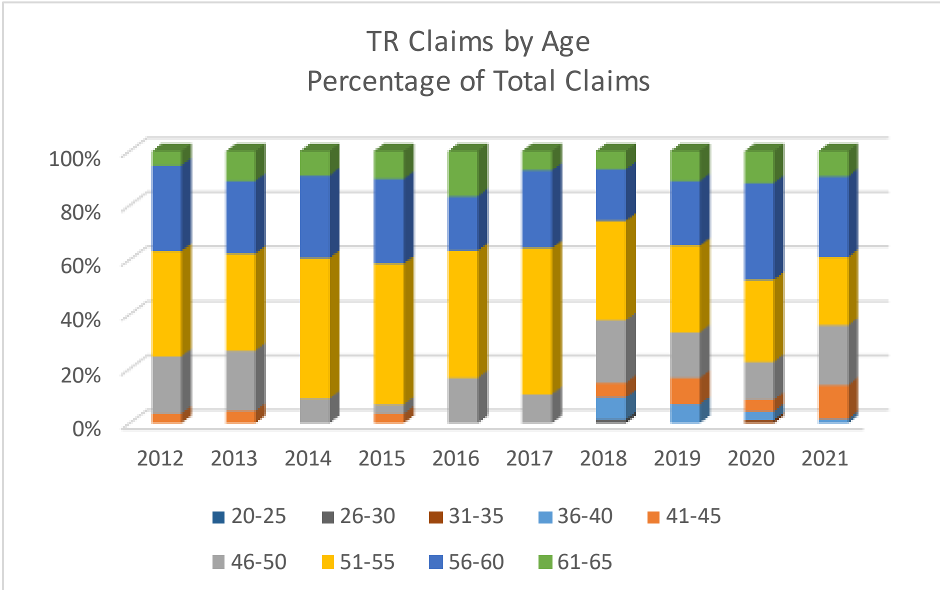

Exhibit 8

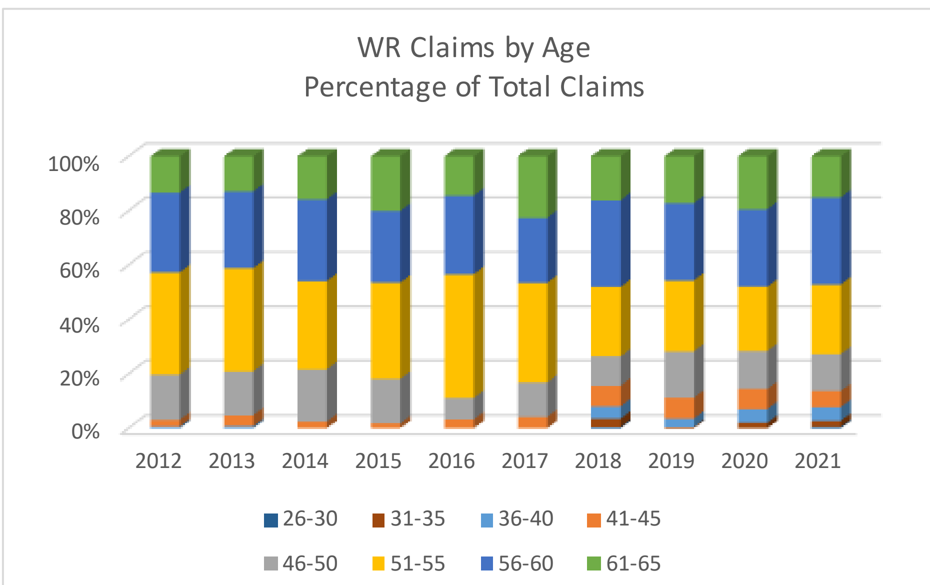

Exhibit 9

The ICI program, on the other hand, shows a much broader distribution of claims by age range. This is indicative of the short-term component of the ICI program, and the previous inability of employees to apply for 40.63 benefits based on hire date (Exhibit 10).

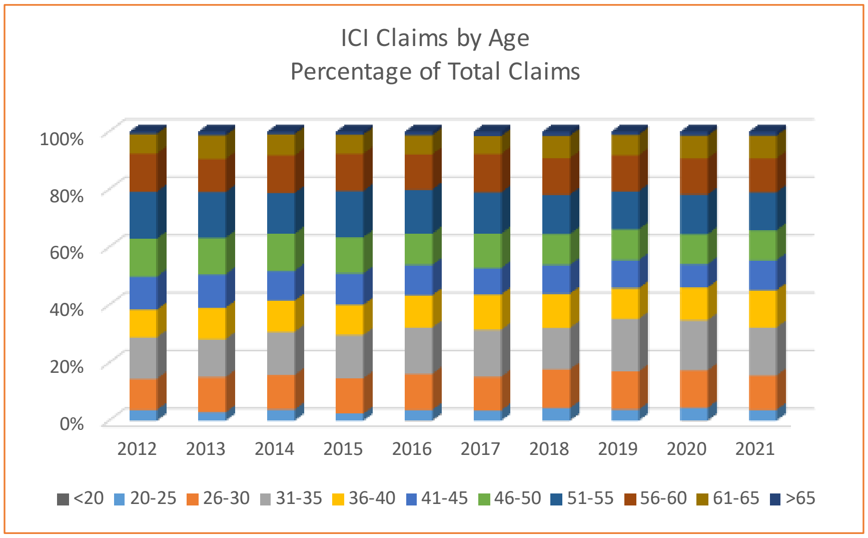

Exhibit 10

The primary disability types for the 40.63 program in 2020 are cancer, orthopedic, multiple medical problems, neurology, and mental illness.

Teachers Retirement Board claims for neurology and orthopedic increased, while cancer, multiple medical problems, and mental illness issues showed decreases. Neurology claims comprise the greatest percentage of these claims in 2021 (23.4%), followed by cancer and multiple medical claims (each at 21.9%) (Exhibit 11).

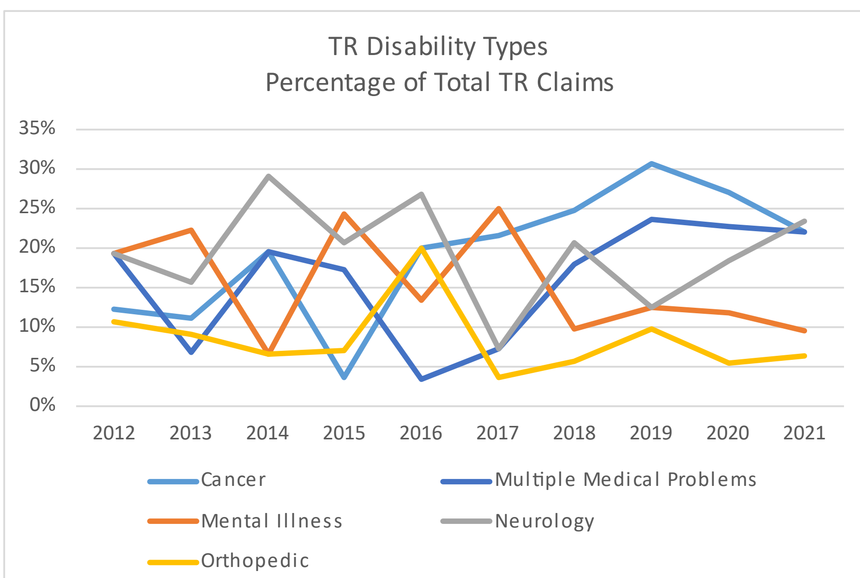

Exhibit 11

For Wisconsin Retirement Board disability annuity claims, orthopedic and cancer claims increased substantially, while mental illness claims rose only slightly. Multiple medical and neurology claims decreased this year. Orthopedic claims comprised the greatest percentage of all claims in 2021 (23.3%), followed by cancer, multiple medical concerns, neurology, and mental illness (19.6, 15.5, 13.2, and 9.6%, respectively) (Exhibit 12).

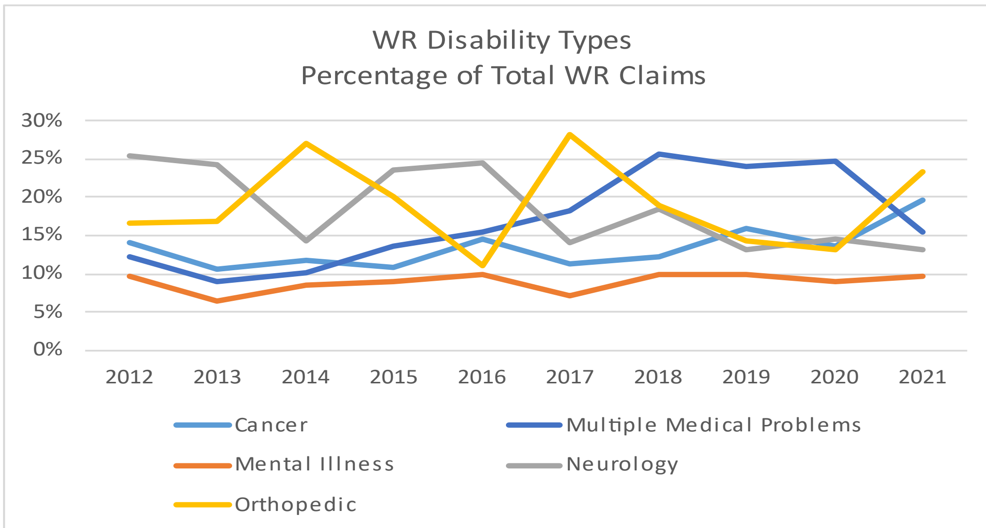

Exhibit 12

There were 17 duty disability benefits started in 2021. The primary disability type for these claims was musculoskeletal issues (52.9%), followed by cardiovascular issues (23.5%), and then respiratory, psychiatric, and multiple medical problem claims (all at 5.9%). There is a large amount of volatility in other disability types for this program, due to the relatively small number of claimants (Exhibit 13).

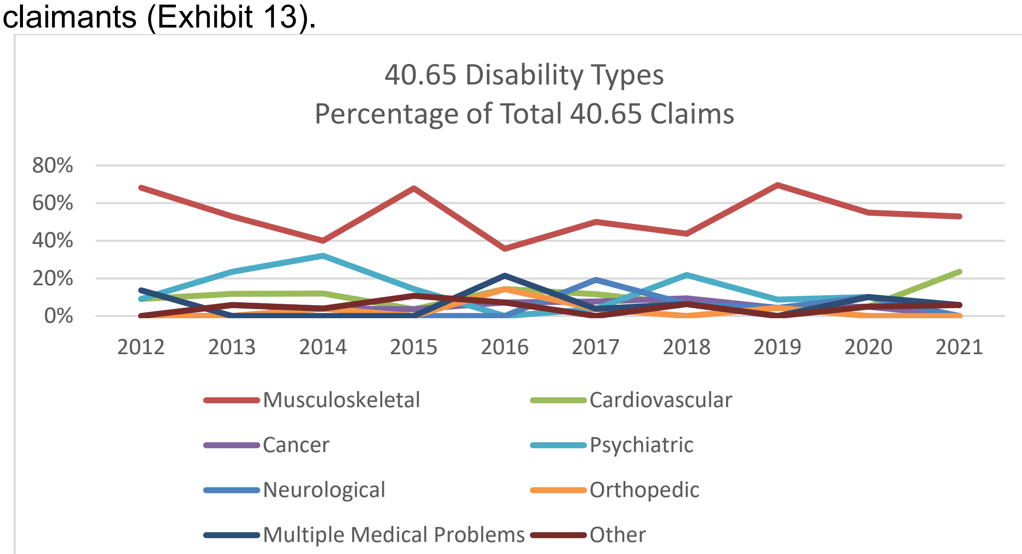

Exhibit 13