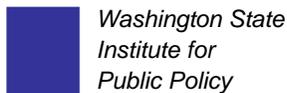


DISABILITY BENEFITS FOR MEMBERS OF WASHINGTON STATE PLANS 2 AND 3

Presented to the Washington State Select
Committee on Pension Policy

November 17, 2009

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Legislative Direction

The 2009 Legislature directed the Office of the State Actuary to contract with the Washington State Institute for Public Policy to...

Study the disability benefits provided to the plan 2 and plan 3 members of the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system. Among the options the institute shall examine include statutory changes to the retirement systems and insurance products.

ESHB 1244

Study Goals

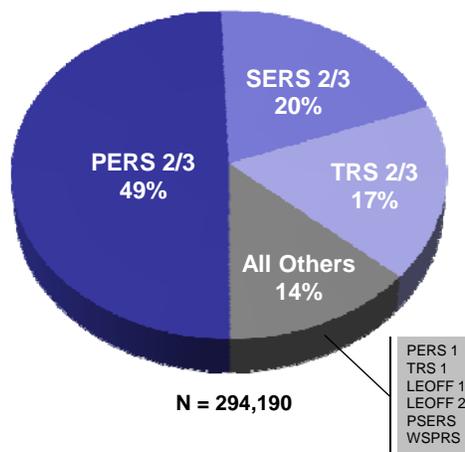
Examine long-term disability (LTD) benefits provided to Plans 2 and 3 members of the Public Employees', Teachers', and School Employees' Retirement Systems (PERS, TRS, and SERS), and explore options for improving LTD coverage.

Three goals:

- Describe the current LTD benefits available to Plans 2/3 members;
- Identify situations where members may experience large differences in monthly LTD benefits relative to other retirement systems; and
- Recommend strategies for the legislature to improve long-term disability benefits for Plans 2/3 members.

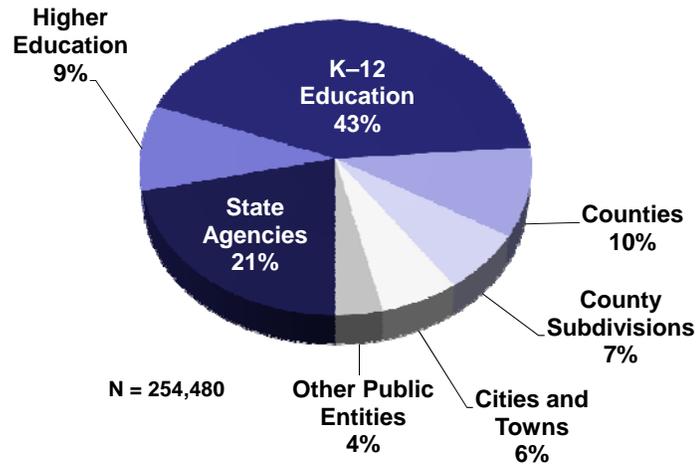
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State Retirement Plans: Active Membership as of 2007



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Active Membership in Plans 2 and 3: By Employer



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Disability Retirements Under Plans 2/3

Members are eligible for a disability pension if...

- They are totally incapacitated for continued employment with a plan employer;
- They leave employment due to the disability; and
- DRS staff determine the member is eligible.

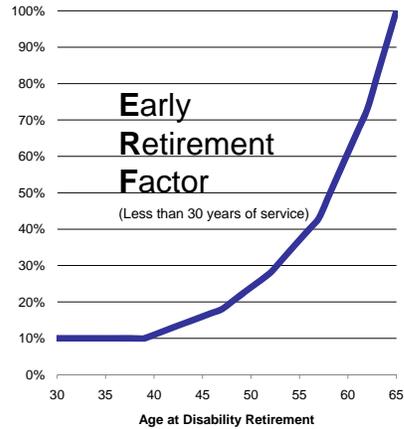
The disability need not be duty-related, and there are no minimum years of service to qualify for a disability pension.

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Disability Retirement Calculation: Plans 2 and 3

Plans 2
Monthly Benefit = .02 x Years of Service x Average Final Salary x Early Retirement Factor

Plans 3*
Monthly Benefit = .01 x Years of Service x Average Final Salary x Early Retirement Factor



*Plans 3 members have access to their accumulated contributions.

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Example Retirement Calculation

Monthly disability retirement for 50-year-old with 20 years service credit and a final monthly salary of \$4,000.

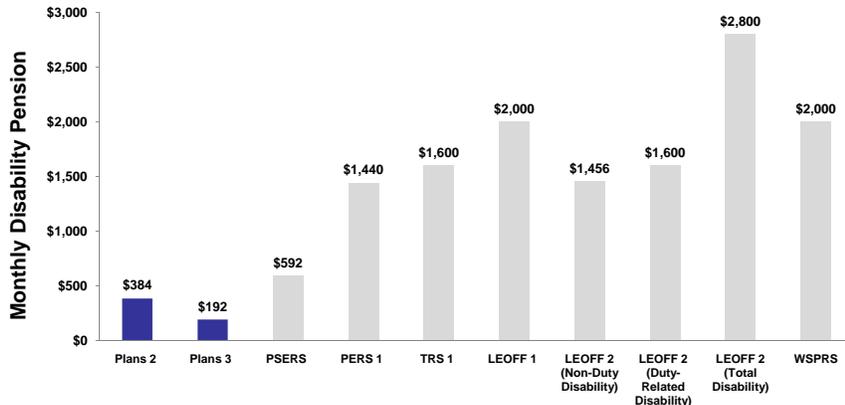
	Benefit Plan	
	Plans 2	Plans 3*
Age	50	50
Average Final Salary	\$4,000	\$4,000
Years of Service	20	20
Base Percentage	0.02	0.01
Base Benefit	\$1,600	\$800
Early Retirement Factor	0.24	0.24
Actuarially Adjusted Benefit	\$384	\$192

*Plans 3 members have access to their accumulated contributions.

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Disability Pensions Compared Across Washington State Retirement Systems

Monthly disability retirement for 50-year-old with 20 years service credit and a final monthly salary of \$4,000.



*Plans 3 members have access to their accumulated contributions.

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Plans 2 and 3 Disability Retirements as of 2007

Number of Retirements	1,986
Average Age at Retirement	56.8
Average Years Retired	6.3
Average Monthly Benefit	\$369

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Other Disability Benefits Examined

In addition to disability retirement benefits through Washington State pension systems, plan members may also be eligible for benefits from other sources. We examined the following:

- Workers' compensation
- Social Security Disability Insurance (SSDI)
- Insurance-based LTD benefits

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Workers' Compensation For Duty-Related Disabilities

- Compensation for a work-related injury or illness rendering an employee unable to perform his or her own occupational duties (through Labor and Industries or a self-insured employer).
- Tax free monthly payments of 60 to 75 percent of a worker's gross income (depending on marital status and dependents).
- Someone with pre-disability earnings of \$4,000 could receive monthly compensation ranging from about \$2,700 to \$3,400.

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Social Security Disability Insurance

- Compensation for a total disability (duty or non-duty related) rendering a worker unable to perform any gainful employment for at least one year.
- The 50-year-old Plans 2/3 member from previous examples would receive a SSDI benefit of \$1,411 to \$2,630 (depending on family composition).
- The total of all benefits received cannot exceed 80 percent of pre-disability earnings (excluding state retirement benefits).

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Long-Term Disability Insurance

- LTD insurance provides employees additional protection against lost wages due to long-term or permanent injury or illness.
- All state employees in Plans 2/3 are covered by the Public Employees Benefits Board (PEBB) Basic employer-paid LTD insurance and may purchase additional coverage through the PEBB optional LTD plan.
- Other Plans 2/3 employers, such as counties, cities, school districts, and other local government entities, have the option to apply for the PEBB plan or choose their own coverage.

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PEBB LTD Insurance: Basic and Optional Plans

Basic Plan: Plans 2/3 members employed by a PEBB-participating employer receive basic LTD insurance paid for by the employer (at \$2 per employee). The plan pays a maximum of \$240 per month (\$50 minimum after deductions) after a 90-day waiting period.

Optional Plan: If an employee chooses to enroll, the optional plan guarantees a maximum benefit of 60 percent of the first \$10,000 in pre-disability earnings per month after deductions (\$100 per month minimum). Depending on the optional waiting period, an employee earning \$4,000 a month would pay premiums of \$9.20 to \$78.40 per month. Only 40 percent of employees enroll in the optional plan.

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PEBB LTD Insurance Disability Standard

Disability standards for the PEBB plans change over time:

- For the first 24 months of disability, the PEBB-covered employee must have an injury or illness rendering the individual unable to perform duties associated with the employee's *own occupation*.
- After 24 months, the employee must be unable to perform the duties associated with *any gainful occupation* for which the plan member is reasonably qualified. Additionally, PEBB LTD plans will no longer provide benefits for mental, behavioral, or stress-related disabilities.

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PEBB LTD Insurance Awards

- If permanently disabled and unable to perform duties for which the member is reasonably qualified, a member earning \$4,000/month would receive a maximum benefit (from all sources) of \$240 per month under the basic plan and \$2,400 per month under the optional plan.
- Benefits continue until the employee is at least 65, and longer in some instances.
- Benefits from Social Security, retirement disability, and workers' compensation are deductible.

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School Districts and Other Employers Enrolled in PEBB LTD Insurance

Employers must purchase the full package of PEBB benefits, including medical/vision, dental, life, and long-term disability; enrollment is subject to HCA approval.

- Of the state's 295 school districts and 9 Educational Service Districts, 50 are enrolled in a PEBB benefit package that includes LTD insurance.
- 174 public employer groups are enrolled in a PEBB benefit package that includes LTD insurance: 37 water districts, 26 ports, 18 irrigation districts, 17 human service organizations, and a variety of other public service districts. Only two towns, and no counties, are enrolled.

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Alternative LTD Insurance Provided by School Districts and Other Employers

- The majority of school districts provide employer-paid, or optional employee-paid, LTD insurance comparable to the PEBB optional plan. Some smaller districts offer employee-paid plans with lower benefits than the PEBB plan.
- Most city and county employees have access to some form of employer- or employee-paid group LTD coverage comparable to the PEBB optional plan. There are, however, an unknown number of small jurisdictions and agencies that do not provide a group LTD option.

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Other State LTD Plans

To determine how Washington State's LTD insurance benefits compare to others, the following states were examined:

- California
- Colorado
- Florida
- Idaho
- Illinois
- Iowa
- Minnesota
- Missouri
- Ohio
- Oregon
- Pennsylvania
- Wisconsin

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Other State LTD Plans: Summary

- Six states (Idaho, Illinois, Iowa, Missouri, Washington, and Wisconsin) provide employer-paid LTD.
- Two states (Florida and Ohio) offer no formal LTD benefit, but provide short-term benefits for 52 weeks.
- Five states (California, Colorado, Minnesota, Oregon, and Pennsylvania) offer LTD only on an employee-paid *basis*.
- Only Washington offers a basic (employer-paid) and optional (employee-paid) LTD.
- Washington State's basic PEBB plan pays considerably less than other state plans.
- Washington State's optional PEBB plan is competitive with other state plans and the market in general.

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Factors Associated With Low Total Disability Benefits

- Due to the earned benefit structure of Plans 2/3, there may be large actuarial reductions for early disability retirement;
- 60 percent of Plans 2/3 members do not enroll in the PEBB Optional LTD insurance plan;
- LTD insurance plans are not uniformly available to all Plans 2/3 members in smaller towns, school districts, and other small agencies; and
- Members with non-duty related disabilities are not eligible for workers' compensation.

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Potential Disability Compensation From All Sources

Monthly total compensation for 50-year-old Plans 2 member with 20 years service credit and a final monthly salary of \$4,000 (single and no dependents).

✓ If receiving a benefit

Possible Sources of Income					
Disability Retirement	Basic LTD Insurance	Optional LTD Insurance	Workers' Compensation	SSDI	Total Income
✓					\$384
✓	✓				\$434
✓				✓	\$1,795
✓	✓			✓	\$1,845
✓	✓	✓			\$2,400
✓	✓	✓		✓	\$2,400
✓			✓		\$3,084
✓	✓		✓	✓	\$3,084
✓	✓		✓		\$3,134
✓	✓		✓	✓	\$3,134
✓	✓	✓	✓		\$3,184
✓	✓	✓	✓	✓	\$3,184

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Potential Disability Compensation From All Sources: Low Total Benefits

At greatest risk of receiving the lowest total benefit amounts are plan members who...

- are under the age of 55 and have less than 30 years of service (with actuarially reduced disability pensions);
- are experiencing non-duty related disabilities that do not meet workers' compensation or SSDI standards; and
- have limited or no LTD insurance.

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In Conclusion

- This study identified conditions under which disability benefits for Plans 2 and 3 members may be significantly lower than benefits in other systems.
- We were unable to find existing insurance products that specifically address these conditions.
- We identify, in the following slides, options for further examination by the Department of Retirement Systems, Health Care Authority, Select Committee on Pension Policy, and the Office of the State Actuary.
- Due to potential impacts on collective bargaining arrangements, further consideration of options would necessarily include representatives of other public employers, school districts, and their employees.

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Options for Further Consideration

To increase public employee participation in, and/or availability of, LTD insurance:

- Institute an improved communication program for new hires to increase enrollment;
- In collaboration with the state's insurer, provide a one-time open enrollment period for all eligible employees to enroll in the PEBB Optional LTD plan; and
- Issue a Request for Information to the insurance industry for a product providing LTD insurance (comparable to the PEBB plan) to all other public employer groups.

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Options for Further Consideration

To increase disability benefits:

- Increase the PEBB Basic LTD plan maximum benefit to bring it closer to the market median;
- Issue a Request for Information to the insurance industry for a group insurance product that replaces the actuarial reduction in pension benefits of Plan members taking a disability retirement; and
- Estimate the fiscal impacts, over a range of eligibility criteria (years of service, age, etc.), for which there would be no actuarial reduction in pension for some plan members retiring early due to a permanent disability.