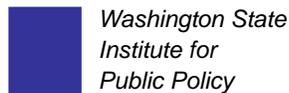

Long-term Disability Benefits for Members of PERS, SERS, and TRS Plans 2 and 3: Follow-up Study

Presentation to the
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Legislative Direction

The 2010 Legislature directed the Office of the State Actuary to contract with the Washington State Institute for Public Policy to...

...continue the study of long-term disability benefits for public employees.... The purpose of the study is to develop the options identified in the 2009 legislative interim disability benefit study, including options related to the public employees' benefits board programs, other long-term disability insurance programs, and public employee retirement system benefits.

Today's Topics

- Background information and highlights from the 2009 interim report;
- Progress on recommendations from the 2009 report; and
- A summary of policy options and next steps.

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The Issue: The Potential for Low Disability Benefits for Plans 2/3 Members

- Actuarial reductions for early disability retirement may result in low monthly payment amounts;
- Employer-paid Basic Long-term Disability offered through the Public Employees Benefit Board (PEBB) provides a low monthly payment;
- 60 percent of Plans 2/3 members do not enroll in the Optional LTD insurance available through PEBB; and
- LTD plans are not uniformly available to all Plans 2/3 members working for other public employers.

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2009 Study Recommendations

1. Increase awareness of Optional LTD insurance through an improved communication program for new hires;
2. Consider increasing the PEBB Basic LTD plan maximum benefit and/or providing a one-time open enrollment period in the PEBB Optional LTD plan;
3. Issue a Request for Information to the insurance industry for a product providing LTD insurance to all other public employer groups in the retirement system; and
4. Consider providing an earned disability benefit without an actuarial adjustment for permanently disabled plan members meeting minimum years of service criteria.

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Developments: 1) Improved Communications

- PEBB created a one-hour new-employee video covering all benefits, including optional LTD insurance.
- The video was added to the PEBB new-hire web page in early October 2010 and is being distributed to all member contacts.
- In August 2010, PEBB sent all covered employees the newsletter, *For Your Benefit*, describing its LTD coverage and encouraging enrollment in their Optional LTD plan.
- Does not impact Plans 2/3 members who are not enrolled in PEBB.

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Developments:

2) Increase or Expand LTD Coverage

- The Health Care Authority (HCA) is investigating the feasibility of increasing the maximum benefit of the employer-paid PEBB's Basic LTD plan or offering a one-time open enrollment period for the employee-paid Optional LTD plan.
- HCA is currently developing implementation details for these options. A report on HCA's analysis of costs and other impacts is expected in 2011.
- The majority of public employees in Plans 2/3 are not enrolled in PEBB and would not be affected by these changes.

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Developments: 3) Requests for Information for LTD Insurance Products

- Requests for Information have yet to be issued.
- HCA is developing proposals for a group LTD insurance product for all Washington State Plans 2/3 members, not just PEBB enrollees.
- The proposals will describe how the insurance product will be structured (e.g., whether all public employers would be required to participate) and administered (by HCA or DRS or another entity).
- HCA will report on the details and feasibility of the proposals in 2011.

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Developments:

4) Increase Plans 2/3 Disability Benefits

Proposal for actuarial pricing: Provide an Earned Disability Benefit to Plans 2/3 members with more than 10 years of service, based on 30-year Early Retirement Reduction Factors (ERRF).

- The standard of disability for early retirement would be the same as the SSI standard, and there would be no changes in duty or non-duty disability eligibility;
- Permanently disabled members retiring with 20+ years of service have an ERRF of 3 percent for each year under age 62;
- Disabled members retiring with 10+ years of service (but less than 20) use a 3 percent reduction for each year under age 65.
- The SCPP studied this proposal in 2008.

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4) Impacts of the Proposed Change to Plans 2/3 Disability Benefits

- A \$1,000 monthly benefit of a member aged 40, with 15 years of service, would increase to \$2,273 (or to \$2,667 for a 50-year-old member with 25 years of service).
- Budget impacts of this proposal (in millions of dollars):

	General Fund— State	Total Employer	Total Employee
2011–13 Biennium	\$15.1	\$45.2	\$27.2
25-Year	\$215.9	\$636.3	\$394.4

Source: Office of the State Actuary.

- Increased disability retirements and a greater need for fraud prevention impose additional administrative costs on the Department of Retirement Systems.

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Key Issues for Insurance and Pension Options

Should the state take greater responsibility for income replacement? If “yes,” what are the pros (+) and cons (-) of pension enhancement or LTD insurance?

	Pension	Insurance
Cost	<ul style="list-style-type: none"> + Lower for employees - Increase for employers - Increased administrative 	<ul style="list-style-type: none"> - Contract oversight - Higher for employees + Lower for employers
Coverage	<ul style="list-style-type: none"> + Standardized + Stable - Continued “gaps” 	<ul style="list-style-type: none"> + Variety of options - Less stable
Flexibility/Choice	<ul style="list-style-type: none"> - Less flexibility for policymakers 	<ul style="list-style-type: none"> + Employer choice + More flexibility for policymakers

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Policy Options

Policy Options	Impacts	Next Steps
Option 1: Maintain Current System With Enhanced Education.	<ul style="list-style-type: none"> • Increases enrollment in PEBB LTD. • No new pension system costs. 	Consider broadening to other non-PEBB employers and employees.
Option 2: Increase the PEBB Basic LTD Plan.	<ul style="list-style-type: none"> • Increases PEBB LTD benefits. • Increases employer premiums. • No new pension system costs. 	Awaiting further analysis by HCA (in 2011).
Option 3: Offer a one-time open enrollment for PEBB Optional LTD.	<ul style="list-style-type: none"> • Increases enrollment in PEBB LTD. • No new pension system costs. 	Awaiting further analysis by HCA (in 2011).
Options 4: Offer LTD insurance for all public employees.	<ul style="list-style-type: none"> • Increases enrollment in LTD. • No new pension system costs. • Increased administrative costs (HCA or DRS). 	Awaiting further analysis by HCA (in 2011).
Option 5: Enhance Plans 2/3 pension system disability retirements.	<ul style="list-style-type: none"> • Increases disability pension. • Adds \$281.6 million to pension liability. • Increased DRS administrative costs. 	Reconsider this option in light of HCA findings regarding insurance-based options.

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