



## **PEB Long Term Disability Benefits**

### **Analysis of Washington State Institute for Public Policy (WSIPP) Recommendations**

Presentation to the Washington State Select  
Committee on Pension Policy

September 20, 2011

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Authority

### **Purpose of the briefing**

In 2009 & 2010 WSIPP reported on public employer LTD benefits with recommendations for PEB consideration.

This briefing will:

- Recap the issue and PEB actions
- Present our analysis of suggested LTD plan options

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

- Large actuarial reductions for an early disability retirement may result in low monthly payment amounts
- The employer-paid PEB Basic Long-term Disability plan provides a low monthly payment
- 60% of Plans 2/3 members are without PEB Optional LTD
- LTD plans are not uniformly available to all Plans 2/3 members

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### **WSIPP Recommendations to PEB**

1. Increase PEB member awareness of Optional LTD insurance
2. Consider a higher Basic LTD benefit or hold a one time open enrollment for all PEB members to buy Optional LTD
3. Analyze the concept of a single LTD product to offer to all public employer groups in the retirement system
4. Research availability of a LTD or other insurance product without benefit reductions (offsets) for other income sources.

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## **PEB Action Taken**

- PEB conducted a LTD communication campaign in 2010
- PEBB analyzed:
  1. The cost to increase the employer-paid basic LTD PEBB benefit
  2. The option of a one-time open enrollment for optional LTD
  3. The feasibility of a single public employer LTD plan
  4. The availability of an insurance product to replace offsets, or an LTD policy that does not include offsets for other income.

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## **Results of Analysis**

### **1 - Increase Basic LTD Benefit**

- The current Basic LTD benefit maximum is \$240 (60% of \$400 salary per month.)
- Current annual cost to the State for Basic LTD is \$2.7 million.
- The annual State cost of the premium for the higher Basic benefit of 60% to a \$5000 monthly salary maximum is estimated at 12 times the current cost, or \$65 million per biennium.

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## Results of Analysis

### 2 - Special One-time Open Enrollment

- Estimates from PEB's LTD vendor, Standard Insurance Co.:
  - Low take-up rate
  - 40% premium rate increase
- PEB Impacts:
  - Renegotiate contract
  - Create communication and implementation plan
  - Establish rules, policies and appeal process
- Not industry standard to hold a special OE without a benefit change

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## Results of Analysis

### 3 – A single LTD plan for employers in state's retirement system

#### Advantages

- Simpler to administer than multiple plans; more efficient procurement
- Greater leverage of a large group to negotiate favorable rates and benefits
- Potential to provide LTD benefits to more public employees

#### Challenges

- Creating the administrative infrastructure
- Managing a lengthy, complex transition
- Designing and implementing a governing structure for procurement and the benefit design strategy
- Incorporating demographic differences that may require multiple risk pools or repricing the existing PEBB plan

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**Results of Analysis**

**4 - Identify options to the income offsets of the PEB LTD plan**

- Separate product designed to replace the reductions due to other income
  - No product found
- Procure LTD products without reductions
  - According to surveyed insurers they would only issue an LTD product without income offsets as a rare exception to standard practice
  - Cost would be significantly impacted

# WSIPP Disability Study

## Issue

Plans 2/3 of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and School Employees' Retirement System (SERS) provide actuarially equivalent benefits for members who retire early due to disability. Stakeholders have approached the SCPP over the past few years seeking improved disability benefits for these Plan 2/3 members.

This issue raises two key questions for policy makers:

- ❖ Should the state take on more responsibility for income replacement for Plan 2/3 members retiring early due to disability?
- ❖ If so, should it be done through the retirement systems, insurance products, or both?

## Background

The committee has studied improving disability pensions in the Plans 2/3 in years past and recommended that the Washington State Institute for Public Policy (WSIPP) undertake a broader study of this issue that would include considering both pension and insurance options.

In 2009 the Legislature directed WSIPP to study Plans 2/3 disability benefits. WSIPP was charged to look at both pension and insurance options and report any findings and recommendations on options back to the SCPP. The results of the study were published in November 2009 and are available here: <http://www.wsipp.wa.gov/rptfiles/09-11-4101.pdf>.

In 2010 the Legislature directed WSIPP to continue the study of Plans 2/3 disability benefits for the purpose of more fully developing the options identified. WSIPP was directed to report back to the SCPP and the fiscal committees of the Legislature. The follow up study was published in November 2010 and is available here: <http://www.wsipp.wa.gov/pub.asp?docid=10-11-4101>

## WSIPP Policy Options

- ❖ Option 1: Maintain current system with enhanced education.
- ❖ Option 2:\* Increase the Public Employees Benefits Board (PEBB) basic Long-Term Disability (LTD) insurance plan.
- ❖ Option 3:\* One-time open enrollment for PEBB optional LTD insurance plan.
- ❖ Option 4:\* Provide LTD insurance coverage for all employees.

- ❖ Option 5: Provide an enhanced disability pension benefit for PERS, TRS, and SERS Plans 2/3 members.

*\* These options are currently being developed by the Health Care Authority (HCA). Work is expected to be complete in 2011.*

## Committee Activity

The committee considered this issue at the September, November, and December meetings. At the December meeting, the committee voted to send letters with recommendations on the WSIPP Disability Study as detailed below.

## Recommendation To Fiscal Committees, HCA/PEBB

- ❖ Encourage the House and Senate Committees on Ways and Means to hold a work session on the WSIPP disability report.
- ❖ Encourage HCA and PEBB to continue providing enhanced education to employees regarding long-term disability insurance, and to complete the analysis of the other insurance options identified in the WSIPP Disability Report.

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# Select Committee on Pension Policy

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December 14, 2011

**TO:** Doug Porter, Administrator  
Health Care Authority  
Public Employees Benefits Board  
Doug Porter, Chair  
Greg Devereux  
Yvonne Tate  
Gwen Rench  
Lee Ann Prielipp  
Eva Santos  
Margaret Stanley  
Harry Bossi  
Phil Karlberg  
Melissa Burke-Cain

**FROM:** Senator Mark Schoesler, Chair   
Select Committee on Pension Policy  
Representative Steve Conway, Vice-Chair   
Select Committee on Pension Policy

**SUBJECT: ENHANCED EDUCATION ON OPTIONAL LONG-TERM  
DISABILITY INSURANCE FOR PUBLIC EMPLOYEES**

The Legislature directed the Washington State Institute for Public Policy (WSIPP) to study Long-Term Disability (LTD) benefits for certain public employees and report findings and recommendations on possible options to the fiscal committees of the Legislature and the Select Committee on Policy (SCPP).\*

The SCPP held a work session on the WSIPP report at its November 17, 2010, meeting. During this work session, WSIPP reported on steps taken by the Public Employees Benefits Board (PEBB) to improve communications to PEBB-eligible employees regarding PEBB-provided LTD insurance.

The SCPP encourages the Health Care Authority (HCA) and PEBB to continue to provide enhanced education and communications to PEBB-eligible employees with the goal of increasing enrollment in PEBB's optional LTD insurance. This recommendation is discussed in more detail under the caption "Option 1" on page 19 of the WSIPP report entitled "Long-Term Disability Benefits of Members of the Public Employee, Teacher, and School Employee Retirement Systems: Follow-up Study." This report is available on the WSIPP web site at: <http://www.wsipp.wa.gov/pub.asp?docid=10-11-4101>

We also encourage HCA and PEBB to continue to develop the other insurance options discussed in the WSIPP report. The SCPP looks forward to reviewing your report when it is completed.

\*S 105, C 564, L 2009 (ESHB 1244) & S 105, C 37, L 2010 (ESSB 6444).

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