

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
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MEMORANDUM

DATE: May 5, 2006

TO: OPERS Retirement Board Members

FROM: Julie Reneau, Director of Benefits

RE: **V. Discussion Items:**
C. Disability Program

Purpose – The attached presentation is for discussion and no action will be necessary at this time. The purpose of the discussion is to share program specific information regarding the Disability benefit program as it is currently provided under the law and administered by OPERS. Due to the complexity of issues surrounding the Disability program, this is the first of multiple discussions regarding the topic.

Disability benefits are an important feature of the total pension plan offerings available to members in the Traditional Pension and the Combined Plans. Disability benefits are available to eligible plan members who become permanently disabled from performing the duties of their most recent public employment positions.

The number of disability benefit recipients is growing steadily and thus, the cost to the pension and health care trust fund assets also continues to increase. It is because of this that staff would like the Board to review the current program and determine if changes should be considered. Plan provisions are provided in statute and further clarified in rule and therefore, any major changes would need to be pursued through the legislative process.

This month, we will discuss general disability program provisions and provide you relevant program data. Next month, we will cover past Board discussions, other public pension designs, and discuss if the Board would like staff to pursue review of any potential initiatives.



Ohio PERS Disability Programs

Program Overview and Statistics

May 2006

Disability Programs

This Month

- Program overview
- Benefit program statistics

Next Month

- Changes considered by the Board in 2004
- Review of other public pension system disability programs
- 2006 Statutory, Rule and operational considerations

Disability Programs

Traditional Pension and Combined Plan members are eligible for one of two disability programs:

- Original Disability Program
- Revised Disability Program

Original Disability Program

- Employees with contributions on deposit with OPERS on July 29, 1992, had a one-time opportunity to select coverage under the **Original or Revised Disability Programs**.
- Employees not selecting remained under the **Original Disability Program**.

Revised Disability Program

- Employees hired on or after July 29, 1992, are automatically covered under the Revised Disability Program.

Eligibility – Common Features

- Member must have at least five (5) years of contributing service, except for law enforcement (LE) officers who are disabled due to on-duty illness or injury.
- Must be a *permanent* disabling condition which prevents member from performing the member's **own occupation**.

Eligibility – Different Features

- Original Disability Program
 - Must file application before age 60
- Revised Disability Program
 - May file application at any age

Application Process – Common Features

- *Disability Benefit Application* is notarized.
- *Report of Attending Physician* form is completed by member's physician and must describe disabling condition in detail. Exam fee is paid by the member.
- *Application for Disability Retirement Report* is completed by employer.

Application Process– Common Features (cont.)

- *Report of Medical Examination* form is sent to member after application forms received. Includes contact information for an Ohio PERS selected physician. Physician completes exam and report.
- Exam fee paid by Ohio PERS
 - In 30% of cases, member is examined by more than two physicians; cost is paid by Ohio PERS.

OPERS Board Approval Process

- *Report of Medical Examination* and all other information in the member's file are reviewed by one of the Board's medical advisors.
- Medical advisor prepares summary and makes recommendations regarding approval, denial, and reexamination.
- Ohio PERS Board adopts findings of medical advisor at monthly meetings via consent agenda.

Ohio PERS Physician Selection Process

- OPERS has employed 3-5 medical advisors over the last 16 years.
- OPERS uses 168 physicians located throughout Ohio.

Benefits – Common Features

- Disability benefit is effective the first day of the month following attainment of eligibility or termination of public service, whichever is later.
- Health care coverage is effective the first day of the month following Ohio PERS Board's approval.
- Receive cost-of-living adjustment (COLA).

Benefits – Different Features

- **Original Disability Program**
 - Disability benefit based on member's Final Average Salary (FAS) and years of service with OPERS, plus length of time between effective date of benefit and age 60.
 - Benefit cannot be less than 30% of FAS nor exceed 75% of FAS.
 - Fully taxable until minimum retirement age, except LE officer disabled on-duty may exclude 30% of benefit from taxable income.

Benefits – Different Features

- Revised Disability Program
 - Benefit based on member's Final Average Salary (FAS) and years of public service.
 - Benefit cannot be less than 45% of FAS nor exceed 60% of FAS.
 - Fully taxable as long as received, except LE officer disabled on-duty may exclude 45% of benefit from taxable income.

Benefit Termination – Common Features

- Disability benefit terminated if:
 - Member is no longer disabled or returns to public service
 - At member's request
 - Death
- If disabled less than five years, Ohio PERS certifies to employer that member is capable of returning to work.
- If member returns to public service for at least two years, member receives service credit for period of disability.

Benefit Termination – Common Features (cont.)

- Annual medical examination may be required.
- Return to private employment may affect continuation of disability benefits.

Annual Filing of Earnings Reports

- Disability benefit recipients are required to file an annual statement of earnings.
- If recipient fails to file earnings statement, the disability benefit is suspended.

Benefit Termination – Different Features

- **Original Disability Program**
 - Benefit is payable for life but terminates if member is no longer disabled, returns to public employment, dies or at the member's request.
 - If terminated, member may apply for age and service retirement benefit, if eligible.
 - If terminated and not eligible for age and service retirement, refund is available but is reduced by amount of disability benefits paid.



Benefit Termination – Different Features (cont.)

- Revised Disability Program

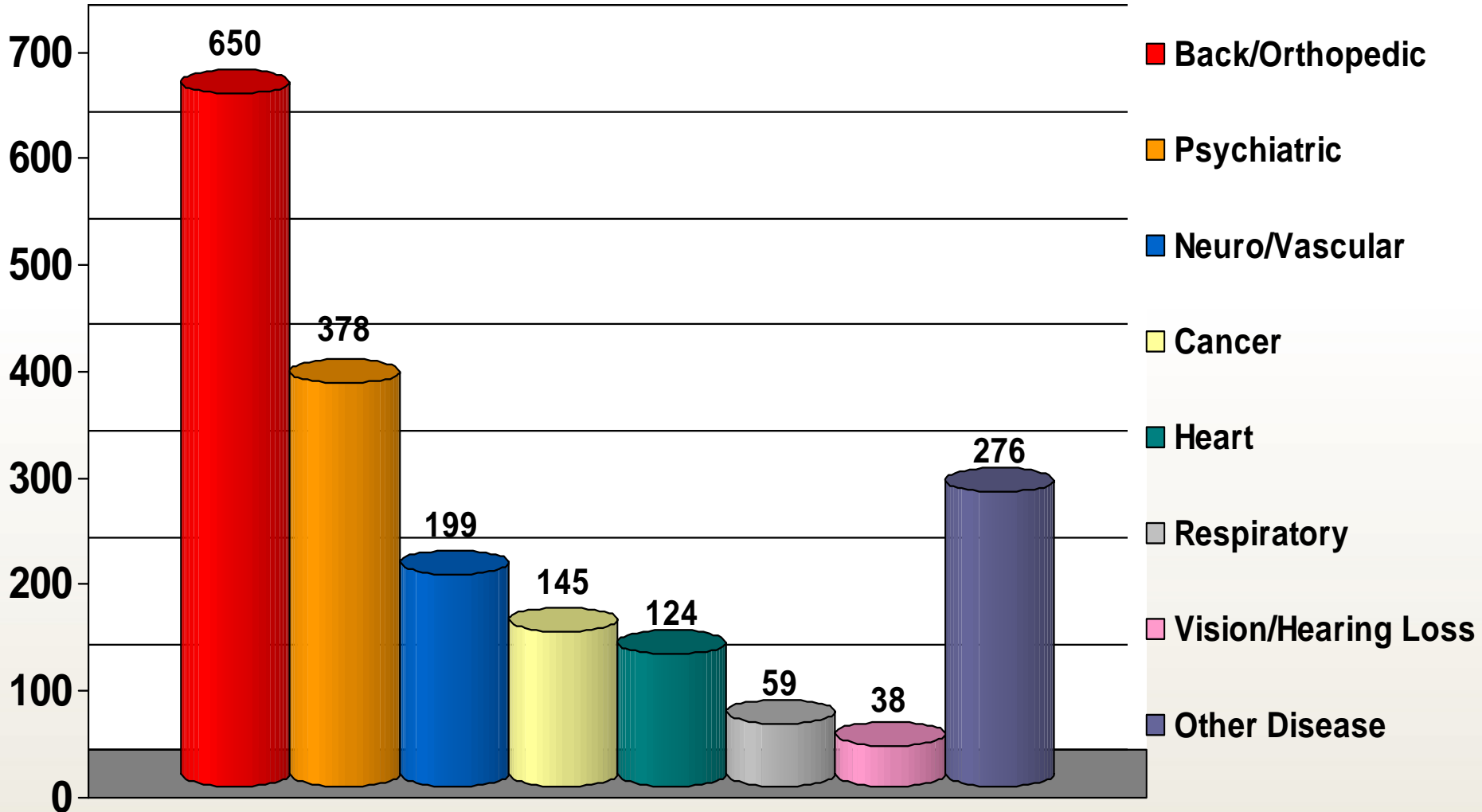
| Age at Effective Date of Disability Benefit | Period Benefit Payable |
|---|------------------------|
| Younger than 60 | Until age 65 |
| 60 – 61 | 60 months |
| 62 – 63 | 48 months |
| 64 – 65 | 36 months |
| 66 – 68 | 24 months |
| 69 or older | 12 months |



Benefit Termination – Different Features (cont.)

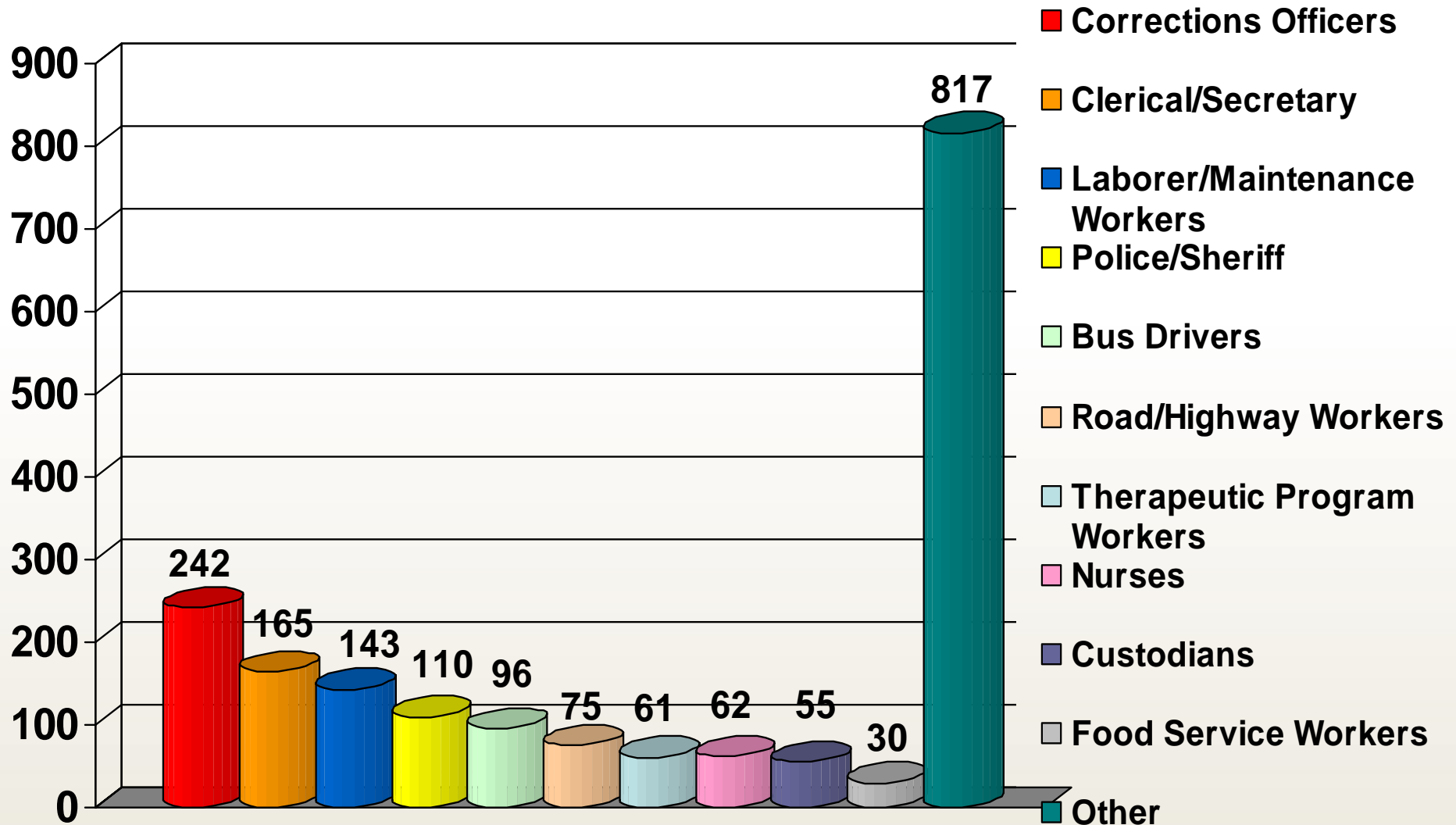
- Revised Disability Program
 - At end of period, member may apply for age and service retirement benefit or refund.
 - Retirement benefit is greater of:
 - 2.2% of FAS multiplied by years of service (contributing and disability) not to exceed 45% of FAS.
 - The regular or LE benefit calculation using only years of contributing service.
 - Refund is not reduced by amount of disability benefits paid.

Disability by Diagnosis - 2005





Disability by Occupation - 2005



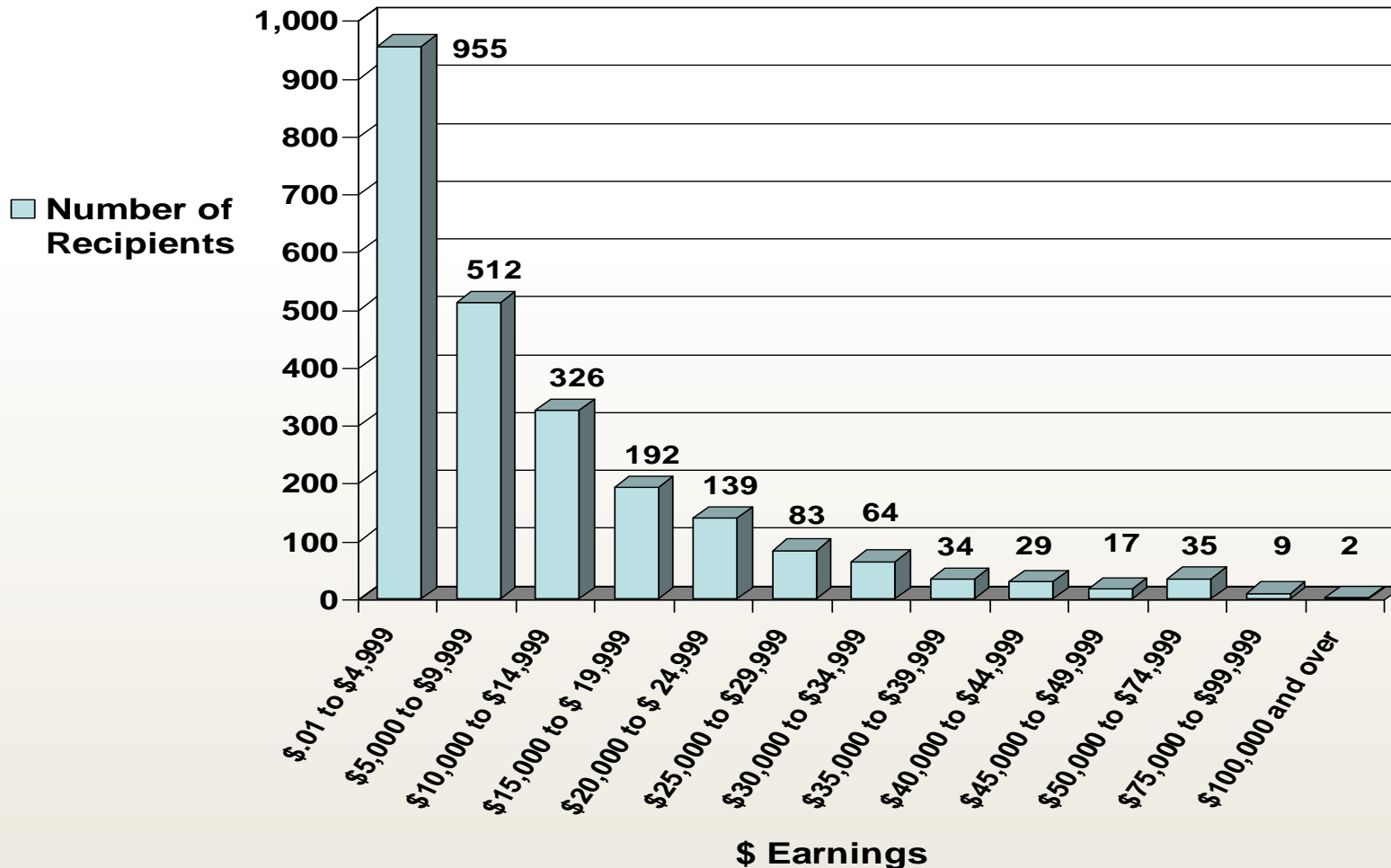


2004 Disability Earnings Report

- Total forms sent: 17,810
- Total forms returned: 17,599*
- Recipients reporting earnings: 2,397 (13.6%)
- Recipients reporting greater than \$10,000 in earnings: 923 (38.5%)
- Average reported earnings per participant: \$ 10,581
- Highest earnings amount reported: \$209,000
- Smallest earnings amount reported: \$ 4.52

**211 forms were not returned (192 recipient deaths and 19 non-compliant)*

2004 Disability Earnings Report





Earnings Reports Annual Comparison

| Year | Total Earnings Statements Mailed | Recipients Reporting Earnings | Percentage of Recipients Reporting Earnings | Average Amount of Earnings | Recipients Earning over \$10,000 |
|-------|----------------------------------|-------------------------------|---|----------------------------|----------------------------------|
| 2001 | 13,946 | 1,701 | 12.2% | \$9,587 | 546 |
| 2002 | 14,825 | 1,799 | 12.1% | \$10,451 | 668 |
| 2003 | 15,716 | 1,792 | 12.5% | \$10,745 | 736 |
| 2004 | 17,810 | 2,396 | 13.4% | \$10,581 | 923 |
| 2005* | 18,655 | 2,302 | 12.3% | \$11,347 | 915 |

* The 2005 review is underway. Information presented is accurate as of May 1, 2006.



New Disabilities by Division Added to Payroll 2000-2004

| | <u>State</u> | <u>Local</u> | <u>Law Enforcement</u> | <u>Total</u> | <u>Accrued liability Gain/(Loss) \$ in Millions</u> |
|------|---------------------------------|--------------|------------------------|--------------|---|
| 2000 | 605 | 842 | 100 | 1,547 | (\$21.6) |
| 2001 | 501 | 733 | 80 | 1,314 | \$1.7 |
| 2002 | 705 | 825 | 108 | 1,638 | (\$26.4) |
| 2003 | 627 | 916 | 122 | 1,665 | (\$30.4) |
| 2004 | 559 | 811 | 103 | 1,473 | (\$9.8) |
| 2005 | ----- Not Due Until 12/06 ----- | | | | |



Disability Benefit Recipients 2001-2005

| | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total Monthly Benefit Recipients | 134,769 | 139,665 | 143,643 | 146,966 | 151,758 |
| Total Disability Benefit Recipients | 16,727 | 17,809 | 18,859 | 19,758 | 20,732 |
| Disability Benefits Recipients as a % Total Benefits Recipients | 12.5% | 12.8% | 13.2% | 13.4% | 13.7% |
| Total Benefit Disbursements | \$1,880,704,941 | \$2,060,130,216 | \$2,236,477,663 | \$2,454,131,826 | \$2,679,084,743 |
| Disability Benefit Disbursements | \$ 287,759,349 | \$ 319,946,811 | \$ 352,768,476 | \$ 384,376,167 | \$ 418,066,051 |
| Disability Disbursements as a % of Total Disbursements | 15.3% | 15.6% | 15.8% | 15.7% | 15.6% |



Disability Re-examinations and Terminations

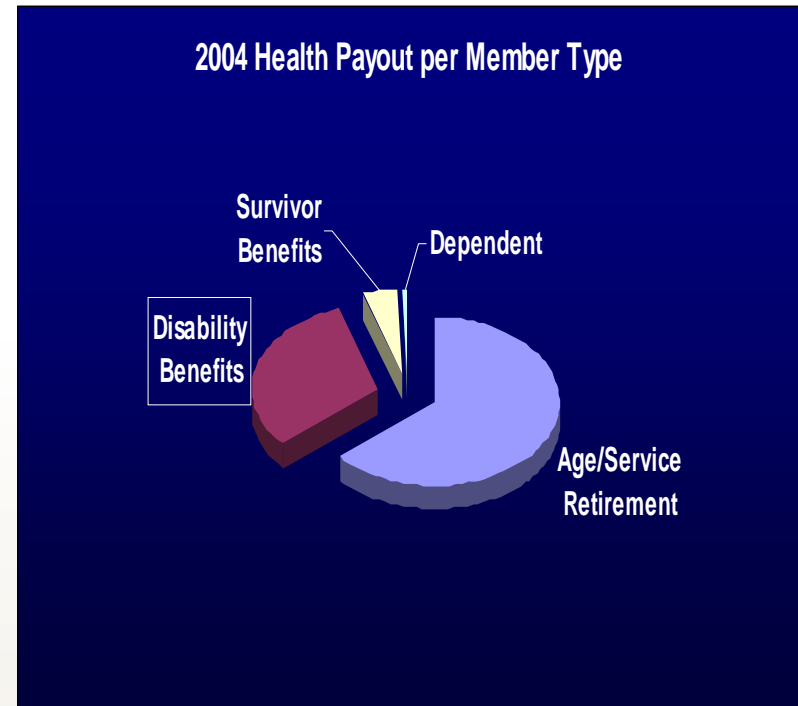
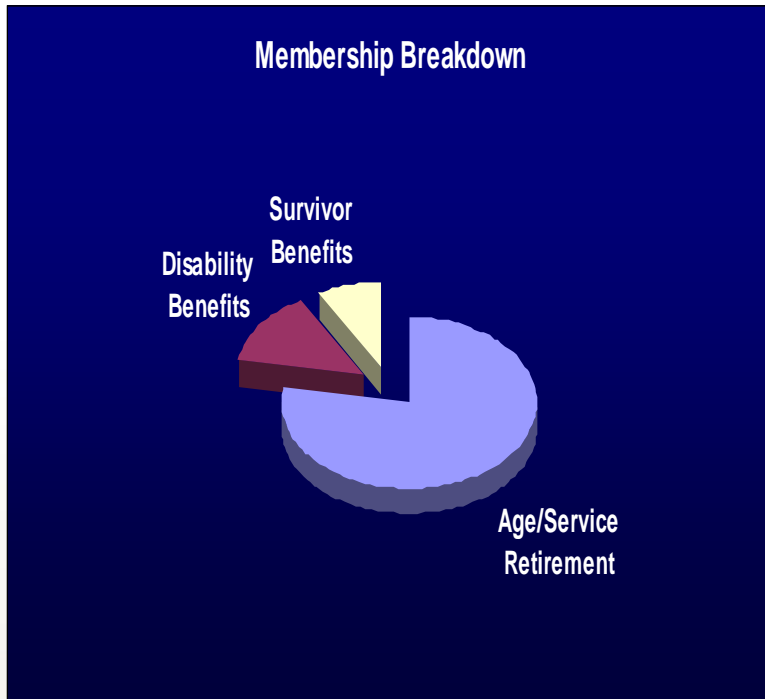
| Year | Disability Benefit Recipients | Re-examinations (Percent of Total Recipients) | Terminations (Percent of Total Re-examinations) |
|-------------|--------------------------------------|--|--|
| 2001 | 16,727 | 1,092 (6.5%) | 170 (15.6%) |
| 2002 | 17,809 | 1,231 (6.9%) | 192 (15.6%) |
| 2003 | 18,859 | 1,178 (6.2%) | 143 (12.1%) |
| 2004 | 19,758 | 2,114 (10.7%) | 243 (11.5%) |
| 2005 | 20,732 | 1,609 (7.8%) | 182 (11.3%) |



Disability Activity – 2001 to 2005

| Year | Total App's Received | Total App's Denied | Total App's Pending | Total App's Approved | Number of Non-LE Approved | Number of LE Approved | Percentage of Approvals to Total App's |
|-------------|----------------------|--------------------|---------------------|----------------------|---------------------------|-----------------------|--|
| 2001 | 2,399 | 224 | 376 | 1,799 | 1,705 | 94 | 75.00% |
| 2002 | 2,273 | 216 | 755 | 1,302 | 1,177 | 125 | 57.30% |
| 2003 | 1,953 | 578 | 91 | 1,284 | 1,151 | 133 | 65.70% |
| 2004 | 2,100 | 240 | 154 | 1,706 | 1,583 | 213 | 81.20% |
| 2005 | 2,019 | 166 | 546 | 1,307 | 1,204 | 103 | 64.70% |

Health Care Costs



•Disability retirees are 14% of total benefit recipients, but annual health care costs for Disability Retirees is 3 times that of Age/Service Retirees



Average Paid per Disability Recipient

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|--------------------------|-------------|-----------------|-----------------|-----------------|-----------------|
| Age & Service | | 19,488 | 18,744 | 18,004 | 17,248 |
| Health Benefits | | 15,913 | 15,804 | 14,199 | 13,197 |
| Total | | \$35,401 | \$34,548 | \$32,203 | \$30,445 |

Average Paid per Age/Service Recipient

| | 2005 | 2004 | 2003 | 2002 | 2,001 |
|--------------------------|-------------|-----------------|-----------------|-----------------|-----------------|
| Age & Service | | 16,681 | 15,600 | 14,712 | 13,892 |
| Health Benefits | | 5,245 | 5,066 | 4,472 | 4,166 |
| Total | | \$21,926 | \$20,666 | \$19,184 | \$18,058 |

Professional Services Costs Related to Administration

- Medical Exams
 - \$365 avg. cost per exam
 - \$2,112,480 spent in 2005
- Medical Exam Review
 - \$18 avg. cost per review
 - \$104,212 spent in 2005
- Private Investigation Services
 - \$100 each for routine random checks, ad-hoc requests extra
 - \$22,850 spent in 2005

Disability Benefit Comparison Between Public Pension Systems

| Plan | Social Security Coverage | Disability benefits as a % of pension benefits | Disability recipients as a % of total benefit recipients | Avg. salary/FAS of disability recipients at time of disablement | Avg. service credit at time of disablement | Avg. period receiving benefits |
|----------------------------|--------------------------|--|--|---|--|--------------------------------|
| Alaska Teachers | No | 0.93% | 0.72% | | 10.6 | 7.1 |
| Arizona SRS | Yes | 4.42% | 6.12% | 28,946 | 9.3 | 7.5 |
| Minnesota PERA | Yes | 2.72% | 3.38% | 30,288 | 16.0 | |
| Minnesota Teachers | Yes | 1.12% | 1.78% | 46,250 | 20.0 | 6.5 |
| Missouri Non-Teachers | Yes | 2.05% | 2.78% | 18,143 | 12.8 | 9.0 |
| Missouri Teachers | No | 1.22% | 1.81% | 40,091 | 15.2 | 13.3 |
| Missouri State Employees | Yes | 0.02% | 0.08% | 24,384 | 10.2 | 4.1 |
| Nevada Regular Employees | No | 5.57% | 5.17% | | 14.5 | 7.9 |
| Ohio PERS | No | 13.20% | 13.44% | 29,818 | 13.7 | 14.9 |
| Ohio School Employees | No | 11.26% | 8.55% | 25,960 | 20.4 | |
| Pennsylvania State ERS | Yes | 4.45% | 6.94% | 35,177 | 15.2 | 12.8 |
| Pennsylvania School ERS | Yes | 2.81% | 3.30% | 31,394 | 17.1 | 10.3 |
| Virginia Retirement System | Yes | 11.44% | 11.78% | 31,203 | 15.5 | |
| Average | | 5.02% | 5.43% | \$31,059 | 15.0 | 9.6 |
| Median | | 3.62% | 4.28% | \$30,288 | 15.2 | 9.0 |

Source: NASRA (February 2006 Study)



Future Discussions

June 2006

- Changes considered by the Board in 2004
- Review of other public pension system disability programs
- 2006 Statutory, Rule and operational considerations