

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
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MEMORANDUM

DATE: July 6, 2007

TO: OPERS Retirement Board Members

FROM: Julie Reneau, Benefits Director

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

Purpose

This is the first of several discussions regarding potential changes to the existing Disability program. The Board requested staff to review the current Disability program and determine if there are alternatives to consider in plan or policy design. The areas of initial review included the occupation standard (own occupation and any occupation) for eligibility and continued benefits and health care.

Staff suggests that the Board establish guiding principles for program change discussion and decision-making. We also bring various alternatives before the Board in order to get further reaction and direction in the project development.

Background

Although the Board has covered the program in detail at previous meetings, summarized below is a brief legislative history, significant facts about the program and suggested alternatives for discussion. We have also provided a copy of the "Disability Activity Report" that was submitted to Governor Ted Strickland on March 1, 2007.

Disability Program Legislative History -

1933 – Enabling legislation

- Ten-year eligibility – ten years start after 1933

- “Physically or mentally incapacitated and ought to be retired” standard
- Benefit based on employee contributions
- Considered on leave of absence for first five years
- Certify return to work with civil service commission

- 1953**
- Permanent and total definition added
 - Application limited to one year after public employment terminated

- 1955**
- Calculation changed to service based, with projected service
 - Benefit not to exceed 60% of FAS
 - Final Average Salary (FAS) capped at \$15,000
 - Offset from state insurance fund with total not to exceed 75% of FAS
 - Recipient may terminate his own benefits and restore contributions and interest that funded the disability
 - If recipient returns to public service for two years, he is entitled to free credit for the period of disability
 - Member cannot apply for a benefit after age 60

1955 -1967

- Five years of contributing service requirement added (down from ten years)
- Must apply for benefit within one year of terminating employment unless member can prove condition existed prior to the one-year period
- Disability must have occurred since last becoming a member to the extent as to make the disability permanent
- Disability must have existed prior to the expiration of a one-year period following the last date of contributing service

- 1968**
- Formula increased to 1.9% of FAS and minimum benefit to \$82 per year of service

- 1971**
- Formula increased to 2.0% of FAS and minimum benefit to \$86 per year of service
 - Disability application must be made within two years of terminated employment

- 1972**
- Any pension subject to state income tax

- 1973**
- Maximum benefit to 75% of FAS
 - Removed provision that retiree whose disability was terminated, must apply for a retirement benefit within three years of termination

- 1976**
- Minimum benefit of 30% of FAS established
 - Denied eligibility to members receiving disability benefits from another Ohio system

- 1984** • Formula increased to 2.1% of FAS
- 1986** • Disability denied to any person who is receiving a retirement benefit or who has withdrawn his/her accumulated contributions
 - Disability benefits subject to court-issued orders for withholding for purposes of alimony or child support
- 1988** • Immediate on-duty eligibility for Law Enforcement
- 1990** • Clarifies that IRC Section 415 limits apply to disability benefits
 - Disability benefits subject to school district tax income
- 1992** • Disability benefits subject to withholding orders from a child support agency
 - Nondiscriminatory disability plan established (Revised Plan)
 - Prohibition of over age 60 members applying for benefits was repealed
 - Provided an irrevocable election of current disability program or revised plan
 - Benefit equal to the greater of: 45% of FAS; or 2.1% of FAS times years of service, benefits shall not exceed 60% of FAS
 - Benefits terminate upon age 65 or expiration of applicable benefit period:
 - 60 months if disabled at age 60 or 61;
 - 48 months at age 62 or 63;
 - 36 months at age 64 or 65;
 - 24 months at age 66, 67 or 68;
 - 12 months at age 69 or older
- 1997** • Requires annual medical reexamination, with Board authority to waive based on the board physician's recommendation
- 1998** • Requires benefit recipients to obtain any medical treatment recommended by board physician and to provide medical reports of such treatment
 - Requires benefit recipients to file annual statement of earnings
- 2000** • Benefit formula for pre-1992 plan increased to 2.2% for each year of accrued service
 - Use projected service to age 60, up to a maximum benefit of 75% of FAS

DISABILITY FACTS

- Over the past five years (2001-2005), 65% of all incoming disability applications are approved and 8% denied.
- As of December 31, 2006, OPERS pays 20,815 active disability benefit recipients. Of those recipients, 52% are male and 48% are female.
- 32% of all health care costs (including dependents) are for 17% of retirees receiving disability benefits.
- Average OPERS disability recipient receives benefits for 14.9 years, whereas the median for 13 like pension systems is 9.0 years.
- OPERS Disability benefits as a percentage of pension benefits is 13.2% -- median for peers is 3.62% (2005 data). As of 2006, the dollar value of disability benefits totaled 15.8% of the total OPERS monthly benefits.
- There are no earnings limitations on disability recipients.
- Members can apply for disability benefits up to two years beyond termination of OPERS' covered employment.
- OPERS can terminate disabilities for medical reasons only.
- If disabled for less than five years, OPERS certifies to employer that member is capable of returning to work.
- If member returns to public service for at least two years, member receives free service credit for period of disability.

Current Potential Population



OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

Disability Service Credit and Plan Eligibility by Members

Active Members	Original Plan ≥ 5 years	Revised Plan ≥ 5 years	Original Plan < 5 years	Revised Plan < 5 years
Non - LE	83,904	112,714	1,115	148,162
LE	3,417	4,208	25	1,535
Active Total	87,321	116,922	1,140	149,697
Inactive Members				
Non - LE	15,556	13,401	47,184	261,066
LE	201	127	140	507
Inactive Total	15,757	13,528	47,324	261,573

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ALTERNATIVES FOR DISCUSSION

Guidelines: Staff was directed to look at alternatives that:

1. Guarantee that those members who are permanently and totally disabled would continue to receive disability benefits
2. Consider impact of the “any” versus “own” occupation standard
3. Encourage medically-able benefit recipients to return to the workforce
4. Recognize that this benefit takes the place of disability benefits offered by the Social Security Administration
5. Consider the health insurance cost implications
6. Are actuarially sound and consistent with practices of solid defined benefit program design

A team worked on four alternatives (PLANS A through D) for the Board’s consideration. The largest changes to the current program are in PLAN A (Statutory, rule and member impact) and PLAN D requires no statutory changes. Each must be further evaluated on actuarial costs and return on investment, where appropriate. Our goal is to discuss the options, listen to the Board’s feedback and determine which plan options would like incorporated for such an analysis.

Changes Recommended in all Plan (A-D) Options

◀**Develop a medical standards review.** This would be to establish medical standards to be used by our physicians. Standardization reduces subjectivity. Under the current process, the examining physician reviews medical records, does an examination and determines whether a person is disabled from his/her occupation. Because there are no specific guidelines, different physicians might make different decisions. Standard guidelines give all physicians the same checklist to follow. Physicians then ask the same set of questions, score the same sheet and should arrive at the same conclusions.

◀**Implement an Integrated Disability Management System.**

Services in an Integrated Disability Management System

Coordinated Health, Medical, and Case Management of Disability
Integrated Medical and Vocational Disability Services
Integrated Intake and Service Delivery Systems
Telephonic and Field Case Management
Utilization Review
Disability Duration and Treatment Guidelines / Benchmarking
Provider Networks
Peer Review Services
Episode Tracking and Member Compliance
Return to Work Planning
Disease-specific Education Materials (members manage own health)
Disease Management Programs
Wellness Programs
Behavioral Health Management / Behavioral Assessments
Vocational Evaluations / Transitional Task Assessment
** Own Occupation vs. Any Occupation
Disability Claims Administration / Medical Bill Review
Social Security Disability Consultation / Coordination with Medicare
Customized Disability Reporting, Analysis, and Outcomes

Staff (Medical, Clinical and Vocational Experts)

Physicians Consultants / Medical Directors
Nurse Specialists / Disability Nurse Managers
Disability Case Managers
Rehabilitation Coordinators/Specialists
Vocational Experts
Behavioral Specialists
Social Security / Medicare Specialists
Quality Management Specialists
Claims Specialists
Fraud Investigators

Outcomes

Improve individual's quality of life

Eliminate gaps and redundancies that lead to ineffective / inefficient care

Help employees return to work

Decreased litigation

Return on Investment

Minimize OPERS disability costs → more efficient / effective care

Reduce number of OPERS disability retirees → Reduce OPERS future liabilities (OPEB)

◀All spouses would be eligible for health care coverage, but entire spouse premium must be paid out-of-pocket prior to spouse reaching age 55.

Currently, 4,496 spouses or 49% of the total (9,321) number of spouses covered under the disability program are under age 55. This approach would guarantee coverage, but no premium for the spouse would come from the trust fund until the spouse reaches age 55.

Major change to disability eligibility recommended in PLANS A through C

◀Change to “any occupation” standard from “own occupation” standard

This would tend to limit the number of members receiving benefits for an extended period of time. It provides an incentive for people to hold positions in other areas of employment based on their abilities and skills. Any occupation standard is what is applied by Social Security and many other public retirement funds.

PLAN A
“Any occupation” standard

1. **Statute Change R.C. 145.35 and Rule 145-2-21**
Move to “any occupation” standard.
2. **New**
Develop medical standards review. Establish medical standards to be used by our physicians. There are companies that apply such standards and that also provide a network of doctors who will guarantee within specific timeframes (e.g., one week).
3. **Statute Change R.C. 145.35 (B)**
Increase the number of years to be eligible from five years total service credit to ten years. This applies to all employees except Law Enforcement (LE).
4. **Statute Change R.C. 145.35 (C)**
Reduce period of time to apply for a disability benefit from two years to one year from the date that contributing service terminated.
5. **New**
Require application for Social Security disability benefit if eligible.
6. **Statute Change R.C. 145.362**
Terminate free service credit for returning to covered employment within two years. Allow member to pay for such service.
7. **New**
Implement an Integrated Disability Management system within the disability program.
8. **Rule Change**
No paid health care coverage for spouses under age 55. Spouse has access to health care, but must pay premium.

PLAN B

“Own occupation” standard first three years, then “any occupation” thereafter

- 1. Statute Change R.C. 145.35 and Rule 145-2-21**
Move to “own occupation/any occupation” standard. First three years “own occupation” after that, changes to “any occupation”.
- 2. New**
Develop medical standards review. Establish medical standards to be used by our physicians. There are companies that apply such standards and that also provide a network of doctors who will guarantee examinations within specific timeframes (e.g., one week).
- 4. Statute Change R.C. 145.35 (C)**
Reduce period of time to apply for a disability benefit from two years to one year from the date that contributing service terminated.
- 5. New**
Require application for Social Security disability benefit if eligible.
- 6. Statute Change R.C. 145.362**
Terminate free service credit for returning to covered employment within two years. Allow member to pay for such service.
- 7. New**
Implement an Integrated Disability Management system within the disability program.
- 8. Rule Change**
No paid health care coverage for spouses under age 55. Spouse has access to health care, but must pay premium.
- 9. Statute Change R.C. 145.362**
Keep the “leave of absence” provision in place during the “own occupation” period described in #1.
- 10. Statute Change 145.362**
Do not require employer to take back employees if terminated from disability after three years.

PLAN C

“Own occupation” standard first five years, then “any occupation” thereafter

1. **Statute Change R.C. 145.35 and Rule 145.2-21**
Move to “own occupation/any occupation” standard. First five years “own occupation” after that, changes to “any occupation”.
2. **New**
Develop medical standards review. Establish medical standards to be used by our physicians. There are companies that apply such standards and that also provide a network of doctors who will guarantee examinations within specific timeframes (e.g., one week).
4. **Statute Change R.C. 145.35 (C)**
Reduce period of time to apply for a disability benefit from two years to one year from the date that contributing service terminated.
5. **New**
Require application for Social Security disability benefit if eligible.
6. **Statute Change R.C. 145.362**
Terminate free service credit for returning to covered employment within two years. Allow member to pay for such service.
7. **New**
Implement an Integrated Disability Management system within any disability program.
8. **Rule Change**
No paid health care coverage for spouses under age 55. Spouse has access to health care, but must pay premium.
9. **Statute Change R.C. 145.362**
Keep the “leave of absence” provision in place during the “own occupation” period described in #1.
10. **Statute Change 145.362**
Do not require employer to take back employees if terminated from disability after five years.

PLAN D

No statutory changes required

2. New

Develop medical standards review. Establish medical standards to be used by our physicians. There are companies that apply such standards and that also provide a network of doctors who will guarantee examinations within specific timeframes (e.g., one week).

7. New

Implement an Integrated Disability Management system within the disability program.

8. Rule Change

No paid health care coverage for spouses under age 55. Spouse has access to health care, but must pay premium.

Note: By not changing Statute R.C. 145.362, this allows free service credit if returning to covered employment within two years. This could be considered contrary to the direction of members covering the true liability cost for service purchases.

Next Steps

The Board will begin the discussion of the disability program with reviewing and discussing potential guiding principles. Based on the experience with creating the Health Care Preservation Plan we believe such principles will be helpful throughout the decision-making process. A “draft” of potential guiding principles will be distributed at the meeting to assist with the discussion.

Staff also requests Board direction as to which options they would like further review. Any of the individual components within the options can be selected and analyzed. Also, different components can be reviewed if the Board so decides.

It is our recommendation that if the Board is interested in the change to “any occupation” standard, that the actuary complete their analysis with three different scenarios that would have the resulting impact of a 10%, 30% and 50% of the disability recipients leaving the disability program.

If the Board wishes to pursue establishing a medical standards review or implementation of an Integrated Disability Management System, we would hire outside consulting expertise to assist in designing a cost-effective and results-oriented program. The consultant could provide a report to the Board on an expected return on investment potential based on our disability recipient types.

Both disability and health care program staff will be part of the Board presentation and will be available to answer questions during the discussion.