

November 2009

LONG-TERM DISABILITY BENEFITS OF MEMBERS OF THE PUBLIC EMPLOYEE, TEACHER, AND SCHOOL EMPLOYEE RETIREMENT SYSTEMS

Executive Summary

The 2009 Legislature directed the Washington State Institute for Public Policy to study the disability benefits provided to members of Plans 2 and 3 of the state's Public Employees', Teachers', and School Employees' Retirement Systems (PERS, TRS, and SERS), and to examine options to improve coverage.¹ Members of these plans constitute 86 percent of the active membership in Washington's public employee retirement systems.

Due to the structure of these pension plans, disability retirement benefits for some Plan members may be considerably smaller than benefits provided to a similar employee under other retirement systems (in Washington State and other peer states). The average disability retirement pension of Plans 2 and 3 members is \$369 per month. Eligibility for other income replacement sources, however, has considerable influence on the financial status of a Plan member who retires early due to disability. Therefore, the report examines income replacement from three key sources:

- Disability retirement benefits through Washington State pension systems;
- Benefits provided through workers' compensation and Social Security Disability Insurance (SSDI); and
- Insurance-based long-term disability (LTD) benefits.

Retiring early due to disability, a 50-year-old Plan 2 member with pre-disability earnings of \$4,000 a month would collect from \$384 to about \$3,200 per month, depending on his or her eligibility for workers' compensation, SSDI, and LTD insurance. At greatest risk of receiving the lowest total benefit amounts are members who (1) are under the age of 55, (2) experiencing non-duty disabilities that do not meet Social Security standards, and (3) have inadequate or no LTD insurance.

Competitive (compared to peer states) employer- or employee-paid, long-term disability insurance benefits are available to most Plans 2 and 3 members, and represent a potentially important source of replacement income. Many employees, however, do not enroll in the optional, employee-paid LTD plans offered by their employers: for instance, 60 percent of Plans 2 and 3 members employed by state agencies do not enroll in the Public Employee Benefits Board (PEBB) Optional LTD insurance plan. Additionally, more affordable group LTD insurance plans are not uniformly available to all Plans 2 and 3 members, particularly those in small towns, school districts, and non-state, public agencies.

A range of options are available for policymakers seeking to expand or improve disability coverage for members of Plans 2 and 3. To avoid unintended, adverse fiscal consequences to the state, a coordinated approach to considering all of the options is advised. The Health Care Authority and the Department of Retirement Systems, in coordination with the Select Committee on Pension Policy and the Office of the State Actuary, are best positioned to estimate financial and administrative impacts associated with these options. Arranged by goal—increased LTD enrollment and increased disability benefits—the following policy options or combination of options are recommended 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 (that is comparable to the PEBB plan) to all other public employer groups.

¹ ESHB 1244, Chapter 564, Laws of 2009

To increase disability benefits:

- Increase the PEBB Basic LTD plan maximum benefit to bring it closer to the market median. The Standard Insurance Company estimates that increasing the maximum benefit under the Basic plan from \$250 to \$3,000 would increase the state's monthly premium from \$2 per employee to \$24;
- Issue a Request for Information to the insurance industry for a group insurance product that replaces the actuarial reduction in 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 for Plan members retiring early do to a permanent disability.

This study identifies conditions under which disability benefits for Plans 2 and 3 members may be significantly lower than benefits in other systems. We did not find existing insurance products that specifically address these conditions. While this report does not provide specific policy recommendations, it identifies options that merit further examination. We recommend a coordinated examination of these options by the appropriate agencies: Department of Retirement Systems, Health Care Authority, Select Committee on Pension Policy, and the Office of the State Actuary. Due to inter-jurisdictional issues and potential impacts on collective bargaining arrangements, this process would necessarily include representatives of other public employers, school districts, and their employees.

Legislative Direction and Study Focus

The 2009 Legislature, in ESHB 1244, directed the *“state actuary to contract with the Washington state institute for public policy for a study of 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.”*

Based on a review of previous issue papers prepared for the Select Committee on Pension Policy (SCPP) and interviews with knowledgeable individuals and agency staff, it was determined that this report would focus on long-term disability (LTD) benefits. Issues associated with short-term disability benefits are not examined in this report. A common interest among individuals interviewed at the beginning of the study was the lack of knowledge about LTD insurance products potentially available to the state, other public employers, or public employees. Therefore, the study places an additional emphasis on LTD insurance benefits available in Washington State and elsewhere.

The report examines the disability benefits available to employees enrolled in Plans 2 and 3 (Plans 2/3) of the Public Employees Retirement System (PERS), Teachers’ Retirement System (TRS), and School Employees’ Retirement System (SERS). The following sources of benefits are examined:

- Disability retirement benefits through the pension systems;
- Benefits provided through workers’ compensation and Social Security Disability Insurance; and
- Insurance-based long-term disability benefits.

The total benefits potentially available to Plans 2/3 members from the above sources are described. We identify situations where there may be large differences in expected monthly benefits relative to other retirement systems, describe limitations in coverage and availability, and suggest approaches to improving the monthly disability benefits available to plan members.

The following describes the current benefit structure of Plans 2/3, including income replacement sources from the retirement system, workers’ compensation, Social Security Disability Insurance, and employer-provided and optional group LTD insurance. Comparisons with other state systems are also provided.

Study Population: Members of Plans 2/3

Member of Plans 2/3 are the primary focus of this analysis. The Washington State Department of Retirement Systems (DRS) administers a number of public employee retirement plans including Plans 2/3 of PERS, TRS, and SERS.² The following public employees are eligible for retirement benefits under these plans:³

- PERS Plans 2 and 3 cover employees in all Washington State government agencies; all counties; most cities and towns (excluding Tacoma, Seattle, and Spokane); non-teaching employees of public institutions of higher education; employees of public utility districts; employees of fire, health, irrigation, port, water, and other public service districts; and judges appointed after June 30, 1988. Coverage by PERS 2 or 3 depends on the date of hire.

- SERS Plans 2 and 3 cover eligible classified employees in Washington State public schools, school districts, and Educational Service Districts. Coverage by SERS 2 or 3 depends on the date of hire and past PERS 2 or 3 service.
- TRS Plans 2 and 3 cover certified teachers, administrators, and educational staff employed in public schools, school districts, and Educational Service Districts. Coverage by TRS Plans 2 and 3 depends on the employee's date of hire.

Nearly 255,000 members were covered by Plans 2/3 in 2007, representing 86 percent of the active membership in Washington State's public employee retirement systems (Exhibit 1). PERS 2/3, the largest combined group, represented 49 percent of active members. The largest employer groups were K-12 education and state agencies, representing 37 and 19 percent of active members, respectively.

Exhibit 1
Active Membership in PERS, TRS, and SERS Plans 2 and 3:
2007 Membership by Employer and Plan

Employers	PERS 2/3	TRS 2/3	SERS 2/3	Sub Total	Percentage of All State Plans	All State Plans
State Agencies	54,613	70	0	54,683	19%	61,996
Higher Education	23,810	103	0	23,913	8%	25,838
K-12 Education	0	58,435	50,825	109,260	37%	117,996
Counties	24,723	0	0	24,723	8%	30,521
County Subdivisions	16,987	0	0	16,987	6%	17,983
Cities and Towns	15,563	0	0	15,563	5%	26,733
Other Public Entities	9,351	0	0	9,351	3%	13,123
Total	145,047	58,608	50,825	254,480		294,190
Percentage of All State Plans	49%	20%	17%	86%		100%

Source: Office of the State Actuary (2008, September). *2007 Actuarial Valuation Report*. Olympia, WA: Author.

² DRS also administers PERS and TRS Plans 1, the Public Safety Employees' Retirement System (PSERS), the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2, and the Washington State Patrol Retirement System (WSPRS Plans 2 and 3). These plans are not the subject of this report.

³ Chapters 41.32, 41.35, and 41.40 RCW.

Disability Benefits Available to Members of Plans 2/3

Benefits available to Plans 2/3 members who are no longer able to work due to an injury or illness-related disability depend on a variety of factors: the structure of the individual's pension plan, age, years of services, nature of the disability, recent income, and other benefits. As mentioned previously, three potential sources of benefits to Plans 2/3 members retiring due to disability are examined:

- Disability retirement benefits through the pension systems;
- Insurance-based long-term disability benefits; and
- Benefits provided through workers' compensation and Social Security Disability Insurance.

Plans 2/3 members who retire early due to disability may be eligible for a reduced disability retirement benefit through their state pension system. Depending on their employer, they may also have access to group long-term disability insurance. They may also be eligible for workers' compensation or benefits from the Social Security Administration. The following describes the benefits available from these diverse sources and how eligibility standards and availability influence potential replacement income.

Disability Retirement Benefits Through the Pension Systems.

Members of Plans 2/3 are eligible for a disability retirement if they become "totally incapacitated for continued employment" by a plan employer, and if they leave employment due to the disability.⁴ The disabling illness or injury does not need to be duty-related, and there are no minimum years of service needed to qualify for a benefit. Plan members who stop working due to disability apply to the Department of Retirement Systems (DRS), where DRS staff determine if the member is eligible.

As of 2007, there were 1,986 disability retirements in Plans 2/3 (Exhibit 2). The average age at retirement was close to 57, with an average monthly benefit of \$369. A 2005 analysis indicated that those with disability retirements averaged 13 years of service credit and were earning an average final compensation (AFC) of \$2,673 before their disability.⁵

If deemed eligible by virtue of disability, the monthly benefit is a function of age, salary, years of service, and the retirement system in which the individual is enrolled. As an *earned* benefit, the disability retirement benefits under Plans 2/3 are based on the benefits earned up to the time an employee leaves employment due to the disabling injury or illness. For Plan 2 members, the *base benefit* amount is calculated at .02 (.01 for Plan 3) times the number of service credit years times the AFC.⁶

Exhibit 2
Plans 2/3 Disability Retirements as of 2007

	PERS 2	PERS 3	TRS 2	TRS 3	SERS 2	SERS 3	Total
Number of Retirements	1,594	48	87	44	156	57	1,986
Average Age at Retirement	56.8	55.4	56.4	53.6	57.7	57.2	56.8
Average Years Retired	6.9	2.1	6.3	4.4	3.6	3.3	6.3
Average Monthly Benefit	\$374	\$229	\$544	\$510	\$289	\$191	\$369

Source: Dave Nelson (2008, December 16). *Disability Benefits* (issue paper). Olympia, WA: Office of the State Actuary.

⁴ This is considered an "occupational disability standard" compared to the stricter "total disability standard" used by the Social Security Administration. The difference is primarily the ability to perform duties material to an individual's occupation versus any gainful employment for which one is qualified.

⁵ Source: Robert Baker (2007, June 19). *Disability Retirement* (issue paper). Olympia, WA: Office of the State Actuary issue paper.

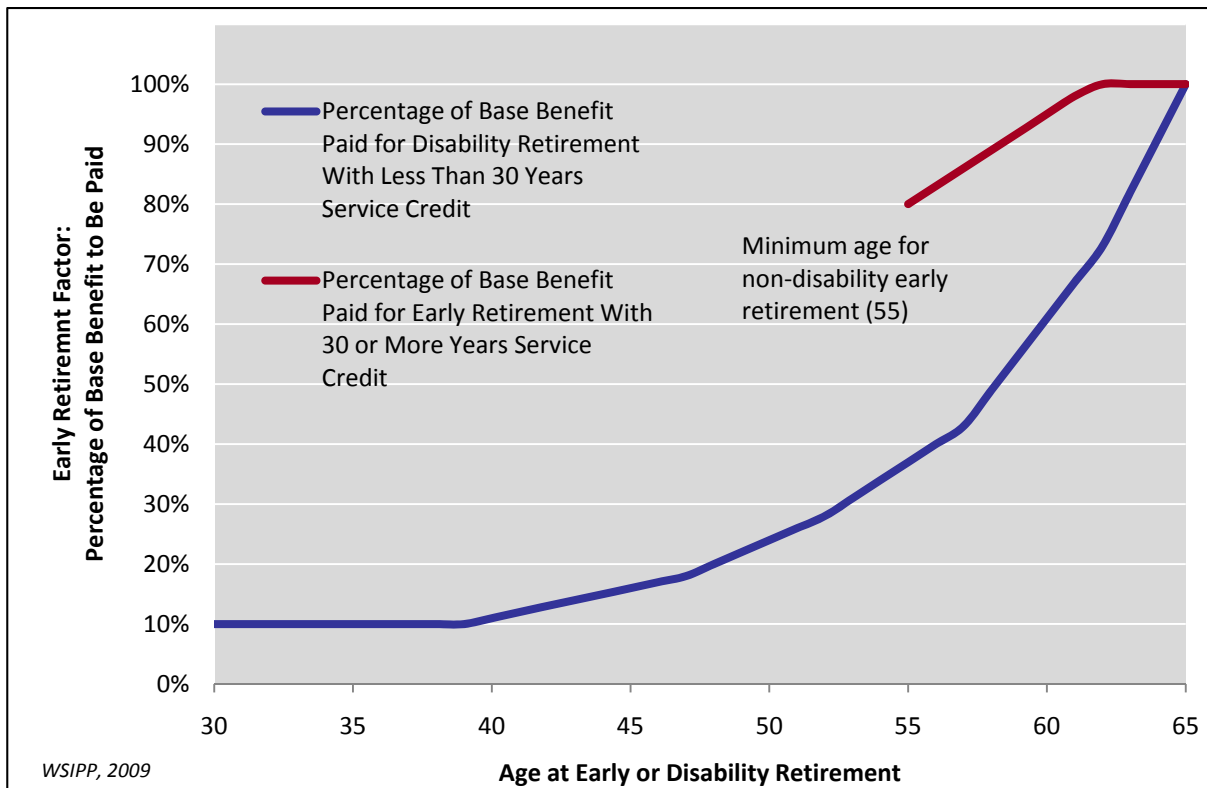
⁶ Members of Plans 3 have access to their accumulations.

Because a disability retirement occurs prior to retirement age (65 for Plans 2/3), benefits are actuarially reduced (using an Early Retirement Factor [ERF]) to account for the longer payout period over the employee's remaining lifetime. The actuarial reduction results in a low monthly benefit relative to other retirement systems, particularly for Plans 2/3 members with fewer than 30 years of service credit.⁷

Exhibit 3 illustrates the actuarial adjustment (by ERF) as a function of years from retirement.

At age 65, members would receive their full base benefit. The disability retirement benefit for someone retiring at age 55 with fewer than 30 years of service would be reduced to 37 percent of the individual's base amount; the retirement benefit would be reduced to 10 percent of the base if retiring at age 39 or younger. In contrast, the retirement benefit of a 55-year-old member with 30 or more years of service would be reduced to about 80 percent of the individual's base benefit amount.

Exhibit 3
Early Retirement Factors for PERS, TRS, and SERS Plans 2 and 3
With and Without 30 or More Years of Service Credit



WSIPP, 2009

Source: WAC 415-02-320

⁷ Members with 30 or more years of service credit may retire as early as age 55. Their benefits are reduced by a smaller amount than those members retiring without 30 years of service.

The total monthly retirement disability benefit amount for a Plans 2/3 member retiring due to a disability is calculated as follows:

$$\text{Plans 2 Monthly Benefit} = .02 \times \text{Years of Service} \times \text{Average Final Compensation} \times \text{Early Retirement Factor}$$

$$\text{Plans 3 Monthly Benefit}^8 = .01 \times \text{Years of Service} \times \text{Average Final Compensation} \times \text{Early Retirement Factor}$$

Exhibit 4 describes the disability retirement benefits for a 50-year-old Plans 2/3 member, with 20 or 30 years of service, an AFC of \$4,000, and an early retirement due to disability. After accounting for years of service and actuarially adjusting for the number of years prior to retirement age, the maximum monthly benefit amount would be \$384 and \$192 for a Plan 2 or Plan 3 member, respectively, with 20 years of service.⁹

Exhibit 4
Calculating the Monthly Disability Retirement for a 50-Year-Old Member of Plans 2/3

Benefit Plan	20 Years Service Credit	
	Plans 2	Plans 3*
Age	50	50
Average Final Compensation	\$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 can access their accrued contributions.

Plans 2/3 Compared With Other Washington State Retirement Systems. The six largest retirement systems administered by Washington State are PERS (Plans 1, 2, and 3); TRS (1, 2, and 3); SERS (2 and 3); and three other systems: the Public Safety Employees Retirement System (PSERS), the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF 1 and 2), and the Washington State Patrol Retirement System (WSPRS). In general, other Washington State retirement systems and plans (Exhibit 5) provide members larger monthly disability retirement benefits than the actuarially reduced *earned benefits* provided to members of Plans 2/3.

Enhanced disability benefits under PERS 1 and TRS 1 are not reduced as much as the earned benefits under Plans 2/3. Had the 50-year-old Plan 2 member, in the previous example, been a member of PERS 1, the monthly disability retirement amount would be \$1,440 instead of \$384.

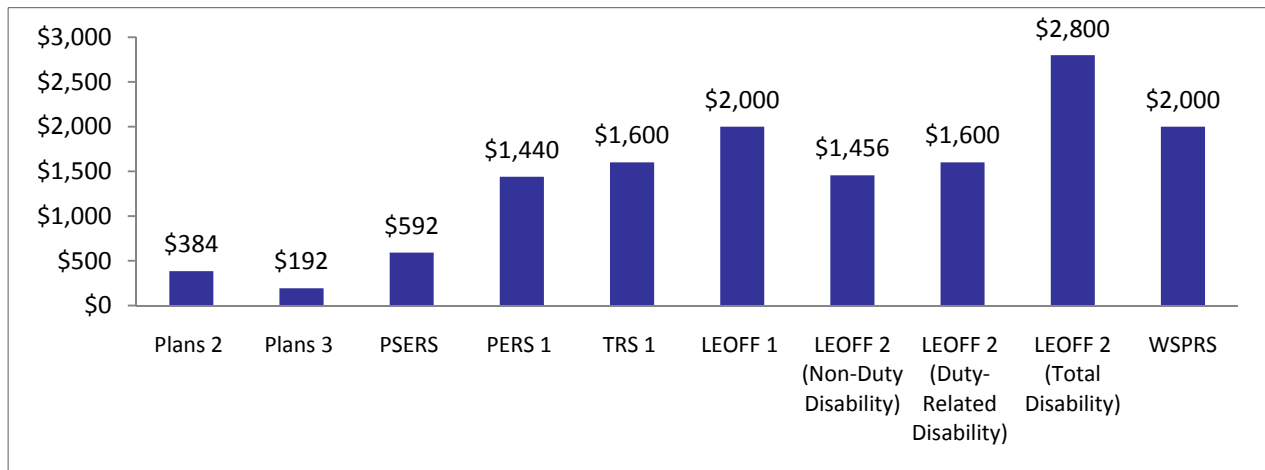
Members of LEOFF 1 receive a *guaranteed* disability benefit, which provides members a fixed percentage of salary. No matter what their age or years of service, LEOFF 1 members receive 50 percent of their Final Average Salary (FAS) if they are eligible for a disability retirement; in this case, \$2,000. LEOFF 2 provides a combination of earned, enhanced, and guaranteed benefits to members depending on the type of disability: non-duty, duty-related, or total disability.

Disability retirement benefits for the Plan 2 member in this example replace only 10 percent of that member's pre-disability earnings, compared with 36 to 70 percent in other Washington State retirement systems. The primary responsibility for income replacement is shifted to the employee in Plans 2/3.

⁸ Plans 3 members also have access to the accumulations in their defined contribution accounts.

⁹ Members may receive a lump sum cash amount if monthly payments are \$50 or less.

Exhibit 5
Monthly Disability Retirement Benefits by Retirement System for 50-Year-Old With
20 Years of Service Credit and a Final Average Monthly Salary of \$4,000



Note: These examples are somewhat simplified for expository purposes. A more detailed description of disability benefits by plan is provided in Exhibit 6.
 WSIPP, 2009

Comparative Retirement Systems.¹⁰ A recent examination of other state systems (including the City of Seattle) concluded that a common provision is the “absence of an early retirement reduction in calculating a duty or non-duty disability benefit.”¹¹ In other words, the actuarial adjustment that reduces monthly disability retirement benefits in Plans 2/3 is not a common practice among the comparative systems.

Consequently, monthly disability benefits in other public systems are a larger percentage of the workers final compensation than under Washington State’s Plans 2/3.

¹⁰ Includes ten peer states used by Office of the State Actuary in previous reports, plus the City of Seattle .

¹¹ Select Committee on Pension Policy, *Disability Retirement*.

Exhibit 6

Disability Retirement Benefits by Washington State Retirement System and Plan

Plan	Disability Retirement Benefit Based on . . .
PERS, TRS, SERS 2/3	Years of service and Average Final Compensation (AFC), actuarially reduced from age 65.
PERS 1	Duty: the lesser of 2/3 of AFC or \$4,200 per year. Converts to service retirement allowance at age 60 with service credited for disability period. Offset by workers' compensation. Non-duty: Earned benefit reduced 2 percent per year under age 55.
TRS 1	Permanent Disability: Service retirement if eligible (30 years service; age 60 or older with 5 or more years service, or age 55 or older with 25 years of service credit); or 2 percent times average final compensation times service credit years. May also be eligible for a refund of member contributions plus accrued interest. Temporary Disability: Allowance of \$180/month for up to 2 years.
LEOFF 1	50 percent of Final Average Salary (FAS), plus 5 percent of FAS for each child, not to exceed 60 percent of FAS.
LEOFF 2	Total Duty: 70 percent of FAS, with offsets, not to exceed 100 percent of FAS. Duty: 10 percent of FAS, plus 2 percent of FAS for each year of service beyond 5. Non-duty: Earned benefit, actuarially reduced from age 53.
PSERS	Years of service and AFC, actuarially reduced from age 60.
WSPRS	Duty: 50 percent of final compensation, offset with workers' compensation. Non-duty: 50 percent of final compensation, Social Security, group insurance, and other pensions. Earnings offsets if under age 50.

Source: Office of the State Actuary (2008, September). *2007 Actuarial valuation report*. Olympia, WA: Author.

California, Missouri, and Ohio TRS provide a guaranteed benefit set to a specific percentage of the employee's salary at the time of the disability retirement. The remaining systems provide an enhanced benefit: Iowa and Minnesota provide a benefit without reduction for early retirement; Florida, Ohio PERS, and Seattle provide a benefit without reduction and set a fixed percentage for minimum benefits; Colorado, Idaho, Oregon, and Wisconsin provide what the employee would have earned if he or she had worked to retirement age. In each case, an employee in these other systems would have a higher monthly disability retirement benefit than from Plans 2/3. Five of the comparable systems offset their benefits with

workers' compensation when a member receives both. It is worth noting that several of these states—California, Colorado, Missouri, and Ohio—do not withhold for Social Security for public employees, a factor that influences the level of pension benefits.

Eight of the comparative systems use an occupational disability standard for determining disability for their government and educational employees. Four states use the Social Security total disability standard; four have years of service requirements for non-duty disabilities; and only one state provides different disability retirement benefits for duty and non-duty disabilities.

Earned benefit retirement systems, such as Plans 2/3, lower monthly benefit amounts due to actuarial adjustments. Plans 2 and 3 are considerably lower than disability retirements under other Washington State plans and plans offered in peer states selected by the Office of the State Actuary.

Workers' compensation and Social Security Disability Insurance

Two other sources of income replacement for disabled members of Plans 2/3 include workers' compensation for those with work-related disabilities and Social Security Disability Insurance for those experiencing a total disability expected to last more than one year. Both may be significant sources of replacement income for workers who qualify.

Workers' Compensation for Duty-Based Disability. Members of Plans 2/3 who become unable to work as a result of a work-related injury or occupational illness may be eligible for workers' compensation through the Washington State Department of Labor and Industries.¹² If a doctor certifies that a member is unable to work as a result of a work-related injury or illness, that member is eligible for Labor and Industries' "time-loss benefits." Time-loss benefits are 60 to 75 percent (depending on marital status and number of dependents) of a worker's gross income at the time of the disability. Time-loss payments cannot exceed 120 percent of the annual average wage in Washington State (\$55,507 in 2008).¹³ These benefits are tax free.

Time-loss payments continue until the employee is able to return to work. If, based on medical and vocational reports, an injury or illness results in a permanent inability to work (including loss of multiple limbs or sight), an employee may receive a monthly pension for life.¹⁴ This permanent total disability award is equal to the time-loss payment to which the employee was entitled. If the employee is also receiving Social Security disability, time-loss payments or permanent total disability pensions

may be reduced to meet maximum benefit amounts allowed under federal law.

In addition to time-loss payments, workers may also be awarded compensation for permanent partial disabilities for loss of specific bodily functions or other unspecified disabilities. The amount of the awards for specific disabilities, such as the loss of a single limb or eye, is established by the legislature. Awards for unspecified disabilities are determined through an administrative process, using nationally recognized standards and guidelines for disability award determinations. Permanent partial disability awards may be deducted from any future total disability pension related to the same disability.

If disabled and receiving a time-loss benefit, the example employee earning \$4,000 would receive monthly workers' compensation payments ranging from about \$2,700 to \$3,400, depending on marital status and number of dependents (this example assumes no Social Security income offsets). The award calculation is based on gross income, which includes employer-paid health benefits.¹⁵

It should be noted that as many as 95 percent of disabling injuries or illnesses are not work related, so workers' compensation benefits will not be available to most disabled employees.¹⁶

Social Security Disability Insurance (SSDI). SSDI pays a monthly cash benefit to eligible workers unable to work for a year or more because of a serious disability. Most members of Plans 2/3 are covered by SSDI. To be eligible for SSDI benefits, a worker must have a minimum number of work credits with a covered employer and a medical condition meeting Social Security's disability standard. Minimum work credits depend on age and yearly earnings over time. Most mid-career employees in Plans 2/3 would meet the work credit requirements. SSDI benefits continue until the individual is able to work again or until retirement age, when SSDI benefits automatically convert to a retirement benefit of the same amount.

¹² Companies with at least \$25 million in assets, and some governmental entities, may qualify for self-insurance.

¹³ The annual average wage is determined by the Washington State Employment Security Department. Additional benefits may include medical care and other services associated with the disability.

¹⁴ Pension recipients have several Pension Survivor Options to choose from: an unreduced single life pension; a reduced joint and 50 percent pension; or a further reduced and 100 percent pension.

¹⁵ In this example, health care benefits are valued at the monthly employer contribution of \$561 for Group Health Classic coverage.

¹⁶ Council for Disability Awareness. *2008 long-term disability claims review*. Available from: http://www.disabilitycanhappen.org/surveys/CDA_LTD_Claims_Survey_2008.pdf.

SSDI only covers long-term, total disability. No benefits are awarded for partial or short-term disability. A worker is considered disabled if unable to perform the duties of his or her prior job; cannot adjust to any other work (considering medical condition, age, experience, education, and transferable skills); and if the disability has lasted or is expected to last for at least one year or result in death.

Disability payments from private sources do not influence SSDI benefits; however, workers' compensation and other public benefits may reduce monthly SSDI payment amounts. The total amount of all benefits, combined, cannot exceed 80 percent of pre-disability earnings. State and local government retirement benefits are not counted if Social Security taxes were deducted from earnings.

The 50-year-old Plans 2/3 member from our previous examples, earning \$4,000 a month, would receive a SSDI benefit of \$1,411 per month. With spouse and children, the maximum family benefit would be \$2,630 per month.¹⁷ The maximum benefit of combined SSDI and workers' compensation would be \$3,200 (80 percent of \$4,000). Any amount above that level would result in an equal reduction in the SSDI payment.

The total disability standard for SSDI is relatively strict. The approval rate for SSDI claims was 38 percent in 2008 (and has declined steadily from the 52 percent approval rate in 1998). About 30 percent of individuals who are already receiving private long-term disability insurance benefits did not qualify for SSDI assistance in 2008.¹⁸

Long Term Disability Insurance

This section describes the insurance-based benefits available to Plans 2/3 members through the Public Employee Benefits Board (PEBB); characteristics of plan members with disability claims; the availability of LTD insurance for members employed by school districts and other local public employers; and characteristics of the LTD insurance market in general. A comparison with LTD insurance benefit plans in other states is also provided.

¹⁷ Estimates derived using the Social Security Quick Benefits Calculator. Available from: <http://www.ssa.gov/OACT/quickcalc/index.html>.

¹⁸ Council for Disability Awareness. *2008 long-term disability claims review*.

Long-term disability insurance provides employees additional protection against lost wages due to long-term or permanent injury or illness. All state government employees in Plans 2/3 are covered by the PEBB Basic employer-paid LTD insurance and have an option to purchase additional coverage through the PEBB optional LTD group plan. The PEBB plans are underwritten by The Standard Insurance Company.

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. Consequently, not all Plans 2/3 members have access to the same LTD coverage, and it is possible that for some, the only option is to purchase their own individual LTD plan.

PEBB Basic and Optional LTD Insurance Plans.

Plans 2/3 members employed by a PEBB-participating employer receive basic LTD insurance at no cost to the employee. The basic plan pays, after deductions, 60 percent of the first \$400 in pre-disability earnings with a maximum of \$240 per month (\$50 minimum). The optional plan ensures a maximum benefit of 60 percent of the first \$10,000 in pre-disability earnings per month after deductions (\$100 per month minimum).¹⁹ Deductible income sources under the plans include benefits from Social Security, retirement disability, and workers' compensation. Future benefits are subject to cost-of-living adjustments.

The enrolled employer pays \$2 per month per employee for basic plan coverage.²⁰ Benefits under both plans are subject to waiting periods. Benefits from the basic plan begin 90 days after total disability. Benefits for the optional plan begin after a 30- to 360-day waiting period, as elected by the employee. The waiting period may be longer for either plan, depending on accumulated sick leave. Monthly payroll premium deductions for the optional plan are based on the waiting period selected by the employee (Exhibit 7).

¹⁹ Plans 2/3 members electing optional coverage are also eligible for retirement supplement benefits if they have five or more years of employment with a Plan employer. These benefits contribute to the employee's retirement during the period of disability.

²⁰ The Standard Insurance Company. (2008, May 7). *2009 employee benefits renewal for Washington state*. Portland, OR: Author.

Exhibit 7
Monthly PEBB Optional LTD Premiums
(percentage of earnings)

Benefit Waiting Period	Higher Education Retirement Plan Employees	Plans 2/3 Employees
30 days	2.48%	1.96%
60 days	1.26%	1.04%
90 days	0.69%	0.57%
120 days	0.40%	0.34%
180 days	0.30%	0.27%
240 days	0.29%	0.26%
300 days	0.27%	0.24%
360 days	0.26%	0.23%

Source: PEBB

The Plans 2/3 employee in our ongoing example who earns \$4,000 per month working for a state agency would pay a monthly premium of \$78.40 if electing a 30-day disability waiting period or \$9.20 if electing a waiting period of 360 days. If permanently disabled and unable to perform duties for which the member is reasonably qualified, the member would receive a maximum benefit (from all sources) of \$240 per month under the basic plan and \$2,400 per month under both the basic and optional plans. The actual payouts depend on other deductible income, such as retirement benefits, workers' compensation, or Social Security.

As mentioned earlier, all employees in participating employer groups are enrolled in the PEBB Basic LTD plan. According to the Washington State Health Care Authority (HCA), 40 percent of Plans 2/3 members eligible for the optional plan elect that coverage. Any new employee of a participating employer group has 31 days to elect coverage in the optional plan without providing proof of insurability. Employees must apply to The Standard Insurance Company and provide evidence of insurability if they wish to add the Optional LTD plan after the 31-day grace period.

Applications to add optional coverage after the new employee grace period may be denied. From January 2000 through August 2009, there were 7,070 evidence-of-insurability claims by employees seeking to add Optional LTD coverage or change their benefit waiting periods to lower premiums (Exhibit 8). On average, 37 percent of these claims were declined, information that might be useful to new employees who are considering the value of electing coverage during the 31-day grace period.

Exhibit 8
Evidence of Insurability Claims Declined
Employees Adding Optional LTD Insurance or
Reducing the Benefit Waiting Period

	Claims	Declined	Percentage Declined
2000	813	344	42%
2001	664	264	40%
2002	728	260	36%
2003	1,301	447	34%
2004	636	242	38%
2005	548	226	41%
2006	589	230	39%
2007	559	205	37%
2008	788	235	30%
2009*	444	173	39%
Total	7,070	2,626	37%

*2009 (through August)

Source : The Standard Insurance Co.

Unlike the disability standards used for a Plans 2/3 disability retirement, disability standards for the PEBB plans change over time and have more limitations. During the waiting period and for the first 24 months of disability, the PEBB-covered employee must have an injury or illness rendering the individual unable to perform "with reasonable continuity of the material duties" of their own occupation.²¹ But to continue receiving benefits 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 (based on education, training, and experience). The standard for disability retirement through the Plans 2/3 retirement systems is a total incapacity that prevents further employment "by a plan employer." Additionally, PEBB LTD plans do not provide benefits for mental, emotional, behavioral, or stress-related disabilities after 24 months (unless the employee is hospitalized).

Assuming no other limitations, benefits continue until the employee is no longer disabled or reaches a maximum benefit period (12 to 42 months) determined at the age when disability began, or at least until the age of 65.

²¹ Benefits are also available for partial disabilities.

Characteristics of PEBB LTD Enrollees. Of over 12,000 LTD insurance claims from 2003 through 2007, the majority (60 percent) of disability claimants in the PEBB LTD plans were female (Exhibit 9). The largest age group (41 percent) comprised claimants between the ages of 50 and 59 years. Professional occupations and service workers accounted for over half of all claims (53 percent), and 75 percent of claims were not work-related. Back conditions and bone, joint, or muscle disorders were the most common disabling conditions (40 percent) of claimants. The average cost (to the carrier) per claim in 2007 was \$777.²²

Exhibit 9
Characteristics of PEBB Basic and Optional LTD Insurance Claims, Based on 12,329 Disability Claims From 2003–2007

Gender and Age	
Male	40%
Female	60%
<30	2%
30–39	13%
40–49	31%
50–59	41%
60+	13%
By Occupation	
Professional	27%
Technician	14%
Service Worker	26%
Office and Clerical Worker	13%
Officials and Managers	6%
Skilled Crafts and Operators	11%
Other	3%
By Condition	
Back	20%
Bone, Joint, or Muscle	20%
Heart or Circulatory	10%
Nerve	6%
Cancer	10%
Mental	9%
Fracture	5%
Other	20%
Duty-Related Claims	
Duty-Related	25%
Non-duty Related	75%

Source: The Standard Insurance Co.

Who Has Access to PEBB LTD Benefits? All state and higher education employees who are members of Plans 2/3 (approximately 78,000, as shown in Exhibit 1) have employer-paid basic LTD insurance and are eligible for the optional LTD plan. Other Plans 2/3 members employed by cities and counties, K–12 school districts and Educational Service Districts, and other public employers such as ports, public utility districts, library districts, and water and sewer districts, may be, but are not necessarily, eligible for PEBB benefits.²³ PEBB benefits are optional for these employers.

The employer must purchase the full package of PEBB benefits, including medical/vision, dental, life, and long-term disability; enrollment is subject to HCA approval. As of this analysis, 50 school districts and educational service districts and 174 other public employer groups were participating in the PEBB LTD insurance plan.

- **School Districts Offering the PEBB LTD Plans.** There are 295 school districts and 9 Educational Service Districts in Washington State. Of these, 50 districts (with 2,300 total subscribers) are enrolled in a PEBB benefit package that includes LTD insurance plans. These 50 districts tend to be smaller, with a median enrollment of 294 (compared with 1,109). Districts participating in the PEBB plan are listed in Appendix A.
- **Other Public Employers Offering the PEBB LTD Plans.** The PEBB LTD plan is also an option for cities, counties, and other eligible Plans 2/3 public employers. There are 281 municipalities and 39 counties in Washington State. According to association websites, there are 171 water and sewer districts, 75 port districts, 47 conservation districts, 37 health districts, 35 irrigation districts, and 23 Public Utility Districts; all 708 comprise just a portion of potentially eligible public employers.

As of this analysis, there were 174 public employer groups (with 1,694 covered employees) enrolled in a PEBB benefit package that included LTD insurance plans. Two towns, Cle Elum and Rosalia, and no counties were enrolled. The other enrolled entities included 37 water and sewer districts, 26 port authorities, 18 irrigation districts, 17 health and human service organizations, and a variety of other public service districts and employee associations.²⁴

²² Ryan Woodland, Consultant, National Accounts, The Standard Insurance Company (email).

²³ All eligible employers are described in WAC 182-12-111.

²⁴ Source: Washington State Health Care Authority.

Alternatives to PEBB LTD Insurance. Plans 2/3 members at 50 school and educational service districts and 174 other public employer groups have access to PEBB Basic and Optional LTD insurance. Other public employers use alternatives to PEBB products.

- **Schools Without PEBB LTD Plans.** Of the remaining 245 districts not enrolled with the PEBB, 72 have group disability plans provided directly through The Standard Insurance Company.²⁵ According to the Washington Education Association (WEA), most of the districts with over 500 employees provide employer-paid group LTD coverage, primarily through Standard.²⁶ The remaining districts use a combination of employer/employee-paid LTD plans. Smaller districts, according to the WEA, tend to offer voluntary disability plans; 10 to 35 percent of employees elect these plans.

According to Standard and WEA, the alternative plans offered to employees of school districts outside the PEBB LTD plan are similar to PEBB's Optional plan and LTD insurance plans provided in the market in general: the plans offer a range of waiting periods (most commonly 90 days); monthly premiums range from \$8 to \$15; maximum benefits are around 60 percent of pre-disability salary; and the benefits last to retirement age. According to the WEA, some smaller districts (about 10 to 15 percent of all districts) offer only a basic LTD plan with maximum benefits of 40 percent of pre-disability earnings.²⁷

- **Other Public Employers Without PEBB LTD Plans.** Due to time constraints, we were unable to examine the LTD benefit plans of all PEBB-eligible public employers. According to a recent statewide survey, however, 97 cities and 20 counties pay all or part of the LTD insurance premium for their largest group of non-uniformed employees.²⁸ The

remaining cities or counties may offer employees access to a group plan into which eligible employees voluntarily enroll.

Much of the LTD insurance for Washington cities and counties is through products underwritten by Standard (48 cities and counties) and the Association of Washington Cities (AWC) Employee Benefit Trust (49 cities), which is also underwritten by Standard. The employer selects either a 60 percent or a 67 percent benefit payment level following a 90- or 180-day waiting period. Other cities may offer similar plans, but AWC does not have information on the nature of the coverage or the number of employees insured.

Standard also underwrites group coverage for a number of Plans 2/3 employers in Washington State, including two public utility districts and 30 miscellaneous public employers. Standard estimates that roughly 150,000 state and local public employees are covered under their plans, in addition to those covered under their PEBB products.²⁹ There are approximately 478,000 state and local government employees in Washington State.³⁰

According to conversations with association representatives, most city and county employees have access to some form of employer-paid or employee-paid group LTD coverage. Responses to telephone and email inquiries, however, confirm that there are small jurisdictions and agencies in which an employee's only option for LTD insurance is in the private, individual LTD insurance market. Group plans are not uniformly available.

²⁵ Ryan Woodland, Consultant, National Accounts, The Standard Insurance Company. For proprietary reasons, Standard did not disclose the districts with which it carries insurance.

²⁶ The WEA also offers its own group LTD plan underwritten by American Fidelity.

²⁷ Randy Parr, WEA.

²⁸ 2009 Association of Washington City and County Employee Salary and Benefit Survey (unpublished data). Cities and counties paying all or part of LTD premiums are listed in Appendix A.

²⁹ Ryan Woodland, The Standard Insurance Company.

³⁰ Washington State Employment Security Department. (2009). *Employment situation report for June*. Olympia, WA: Author.

What is the LTD Insurance “Standard”? The Optional plan provided through PEBB is similar to other plans on the market. Typically, maximum benefits are around 60 percent of final salary, with offsets for Social Security and other benefits.³¹ According to a member survey of the State and Local Government Benefits Association in August 2007, public sector employers typically offer a plan that provides a maximum benefit ranging from 50 to 66.67 percent of base salary, with monthly maximums ranging from \$6,000 to \$10,000. King County provides a plan at no cost to employees that, combined with other benefits, replaces up to 60 percent of monthly salary (up to \$6,000) and offers an employee-paid supplemental plan that increases the maximum benefit and reduces the waiting period.

About 31 percent of employees in private industry have access to long-term disability insurance through their employers.³² Large employers who provide LTD benefits typically offer employer-paid or employee-paid group LTD insurance with maximum benefits at 51 to 60 percent of base salary and monthly maximums ranging from \$5,000 to \$10,000.³³ The employee compensation consulting firm, Mercer, describes the characteristics of typical LTD insurance products:³⁴

- Waiting period of 90 or 180 days;
- Maximum benefits from 40 percent to 70 percent of salary (60 percent of plans offer 60 percent benefit level);
- Monthly maximum benefits from \$5,000 to \$10,000;
- Definition of disability: Unable to perform own occupation up to two years, or any occupation after two years;
- Benefits continue to age 65 for permanent and total disability; and
- 24-month limitation for mental conditions.

³¹ Mercer Benefits Monitor, *National 2006 Spotlight on Benefits*, Mercer Human Resource Consulting, Inc.

³² U.S. Department of Labor, Bureau of Labor Statistics, 2007.

³³ Corporate Executive Board, Benefits Roundtable Benchmark Center. As reported by HCA.

³⁴ Mercer (2008, June 25). *Life and disability benefits PEBA benefits 102 “More than just medical.”* PowerPoint presentation. Available from: http://www.peba.org/handouts/intro%20to%20benefits%2011%206_25_08/PEBA%20Life%20and%20Disability%20Benefits-FINAL.ppt.

Individual Disability Insurance. The PEBB, The Standard Insurance Company, and other organizations such as the WEA and AWC, provide LTD insurance options for many Plans 2/3 members. We do not know, however, how many Plans 2/3 employees are without an employer-provided or group LTD insurance plan. In some cases, it may be that the only option for employees is to purchase individual LTD insurance. Rates for individual plans vary according to age, health, occupation, and policy features, such as waiting periods and maximum benefit amount. Plans are purchased through financial planners, life insurance agents, or sometimes, mortgage companies. Nationally, the top five providers of LTD coverage (by premiums collected) are listed in Exhibit 10.

Exhibit 10
Top Five Long-Term Disability Insurance Companies Ranked by Value of LTD Policies in Force and Percentage of Market Share

Insurer	Value of LTD Policies	Market Share
UNUM	\$1,839	18.5%
Hartford Life	\$1,312	13.2%
MetLife	\$1,267	12.8%
CIGNA	\$843	8.5%
Standard	\$798	8.9%

Individual plans are structured similarly to the employer-provided and group plans described earlier. An individual LTD policy pays a percentage of base salary (usually 50, 60, or 66.67 percent). Depending on the policy, benefit periods range from two years to retirement. Plans offer more flexibility and can be locked in for the working career of the individual. Individual plans, however, are more expensive than group plans. The average annual premium for a group LTD policy in 2008 was \$238 per person, while an individual plan may cost an employee as much as \$2,000.³⁵ Additionally, the employee usually must demonstrate insurability, unlike many employer or other group plans that may offer grace periods for new employees to enroll without evidence of insurability.

³⁵ JHA. *2008 U.S. group disability market survey summary report*. Available from: http://www.jhaweb2.com/jdata/docs/groupltd_market_survey_2008.pdf; and Insure.com. (2008 November 26). *The basics of long term disability insurance*. Available from: [http://www.insure.com/articles/disability insurance/long-term-disability.html](http://www.insure.com/articles/disability%20insurance/long-term-disability.html).

In summary, the PEBB optional LTD plan provides enrolled members an LTD insurance benefit comparable to industry standards in Washington State. The PEBB plan is not universally available to all Plans 2/3 members in K–12 or with public employers other than the state. It appears, however, that many of these employers provide comparable coverage.

Other State Approaches to LTD Insurance Benefits

To provide context for the LTD benefits provided to public employees in Washington State, employer-paid LTD plans in the following states were examined: California, Colorado, Florida, Idaho, Illinois, Iowa, Minnesota, Missouri, Ohio, Oregon, Pennsylvania, and Wisconsin.³⁶ Mercer, a consultant for this report, prepared an LTD insurance market comparison, a benefit prevalence report, and a summary of LTD plan features for all comparison states, including Washington.³⁷

Only six of the 12 states—Idaho, Illinois, Iowa, Missouri, Washington, and Wisconsin—provide employer-paid LTD insurance.³⁸ Only Washington offers an employer-paid plan (PEBB’s Basic LTD plan) and a supplemental, employee-paid plan (PEBB’s Optional plan). 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 only employee-paid LTD plans. LTD plan designs vary from state to state.

Of the states (other than Washington) that provide employer-paid plans, benefit amounts range from 40 to 60 percent of salary.³⁹ Missouri, Idaho, and Iowa offer a benefit of 60 percent of salary; however, all have different monthly benefit maximums (unlimited, \$4,000, and \$3,000, respectively). Illinois and Wisconsin provide lower benefits of 50 percent and 40 percent of pre-

disability salary; however, the maximum monthly benefit amount is unlimited. By comparison, the maximum benefit for Washington’s basic (employer-paid) plan is the lowest, at \$250.

The waiting periods before LTD benefits are payable vary across the states. Illinois has the shortest waiting period, one month. Iowa and Washington plans require a three-month waiting period, while Idaho and Missouri require a six-month waiting period. Wisconsin has the longest waiting period, 36 months.

In each state, disability definitions and benefits provided depend on an individual’s ability to perform duties material to their *own occupation* or *any gainful employment*. Generally, individuals are considered disabled and initially eligible to receive LTD benefits for a period of time if “unable to perform with reasonable continuity the material duties of his/her own occupation.” After the initial period of disability, the individual is reassessed and then must be “unable to perform with reasonable continuity the material duties of any gainful occupation for which he/she is reasonably able through education, training, and experience.”⁴⁰

Idaho offers benefits for two and a half years based on a disability preventing employment of an individual’s own occupation. Minnesota and Washington provide a benefit for two years, while Iowa and Wisconsin provide a benefit for one year. After these periods, the disability must be an injury or illness that prevents any gainful employment. The maximum benefit duration in all states (if an employee becomes disabled at age 60 or younger) is to age 65. If an employee becomes disabled after age 60, LTD lasts for a set period of additional months, based on age at disability.

³⁶ The market study was conducted by the benefit consulting firm, Mercer. Ten of the states examined are the “peer” states used for comparisons by the Office of the State Actuary. Two additional states, Illinois and Pennsylvania, were added to the survey to provide a larger sample.

³⁷ Ralph Trieselmann & Angela Bui (2009, September). *Washington state institute for public policy long term disability benchmarking*, Seattle: Author.

³⁸ A detailed table describing state plans is provided in Appendix B.

³⁹ The definition of salary varies from state to state.

⁴⁰ Trieselmann and Bui, 2009.

Employee-paid plans in other states do not greatly differ from employer-provided plans in terms of plan structure (e.g., waiting period, benefit percentage offered, benefit duration, etc.). California, Colorado, Minnesota, Oregon, and Pennsylvania only offer voluntary employee-paid LTD plans that provide from 55 percent to 66.67 percent of salary, with monthly benefit maximums ranging from \$5,000 to \$10,000. Washington State's Optional LTD plan, described earlier, is similar.

Colorado, Idaho, Minnesota, Oregon, Pennsylvania, Washington, and Wisconsin LTD insurance plans apply the family Social Security payment to offset LTD benefits. California, Illinois, Iowa, and Missouri apply the individual Social Security payment to offset LTD benefits.

In summary, Washington State's Basic LTD plan through the PEBB, although an employer-paid benefit, is well below the market in terms of the monthly benefits paid. The PEBB Optional LTD plan, however, is comparable to LTD insurance benefits offered by the other states examined in this analysis.

Total Disability Benefits From All Sources

Eligibility and the nature of the disability are key determinants of the total monthly income potentially available to a disabled employee. A plan member may receive a retirement disability benefit from the state if he or she meets the definition of "total incapacity for continued employment," but might not receive workers' compensation because the disabling illness or injury is not work related. The length of time plan members may receive long-term disability insurance benefits depends on their ability to perform *any* gainful employment for which they are qualified, rather than just the material duties of their own or a comparable occupation. Exhibit 11 describes key eligibility parameters that determine which replacement income sources are potentially available to a disabled plan member.

Exhibit 11
Key Factors Influencing Eligibility Across Benefit Programs
 (checkmark indicates a benefit is provided)

	Plans 2/3	PEBB LTD Insurance	Workers' Compensation	SSDI
Type of Incapacity				
Occupational (own occupation)	✓	✓ (first 24 months)	✓	
Total (any gainful employment)		✓ (after 24 months)		✓
Duty-related	✓	✓	✓	✓
Not duty-related	✓	✓		✓
Mental, stress-related, etc.	✓	Not after 24 months	✓ (work-related)	✓
No Minimum Service Requirements	✓	✓	✓	
Available to All Plan Members	✓		✓	✓

Exhibit 12
Total Income Replacement From All Sources:
50-Year-Old With 20 Years of Service Credit and a
Final Average Monthly Salary of \$4,000 (single and no dependents)

	Disability Retirement	Basic LTD Insurance	Optional LTD Insurance	Workers' Compensation	SSDI	Total
Not Work-Related	\$384	\$0	\$0	\$0	\$0	\$384
	\$384	\$0	\$0	\$0	\$1,411	\$1,795
	\$384	\$50	\$0	\$0	\$0	\$434
	\$384	\$50	\$0	\$0	\$1,411	\$1,845
	\$384	\$240	\$1,776	\$0	\$0	\$2,400
	\$384	\$240	\$365	\$0	\$1,411	\$2,400
Work-Related	\$384	\$0	\$0	\$2,700	\$0	\$3,084
	\$384	\$0	\$0	\$2,584	\$116	\$3,084
	\$384	\$50	\$0	\$2,700	\$0	\$3,134
	\$384	\$50	\$0	\$2,634	\$66	\$3,134
	\$384	\$50	\$50	\$2,700	\$0	\$3,184
	\$384	\$50	\$50	\$2,684	\$16	\$3,184

Note: The cell value is \$0 if the disabled employee is not eligible for a benefit or if the benefit is not available.

Plan members who are no longer able to work due to a disability may, in addition to their own resources, receive replacement income from their Plans 2/3 retirement systems, LTD insurance, workers' compensation, and SSDI. What would the 50-year-old employee in our ongoing example expect to earn from all of these possible sources combined? For simplicity, we base the examples (Exhibit 12) on a single Plan 2 employee with no dependents, lump sum payments, or other complicating issues.

The scenarios examined are based on a combination of factors: work-related and non-work related disabilities, availability of LTD insurance, enrollment in Optional LTD insurance, eligibility for workers' compensation or SSDI benefits, income offsets, and maximum benefits allowed. The replacement income from all sources combined ranges from \$384 per month to almost \$3,200. Without workers' compensation, a maximum benefit of \$2,400 is available for those with Optional LTD insurance. The lowest replacement incomes, by far, are for plan members with non-duty disabilities who do not have Optional LTD insurance and who do not qualify for SSDI.

Summary and Recommendations

Due to the earned benefit structure of pension Plans 2/3 and actuarial reductions associated with disability retirements for members in those plans, monthly benefit amounts through the pension system may be considerably smaller than those provided under differently structured systems. This study describes a number of issues that contribute to potentially large differences in total benefits for some Plans 2/3 members retiring early due to a disability:

- 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 Public Employee Benefits Board (PEBB) Optional LTD insurance plan, a potentially important source of replacement income;
- Over one third of the Plans 2/3 members who apply to add Optional LTD insurance coverage after the 31-day, new employee grace period are declined;⁴¹

⁴¹ Includes Optional Plan members who also are applying to change the benefit waiting period.

- LTD insurance plans are not uniformly available to all Plans 2/3 members in smaller towns, school districts, and by other small public employers; and
- Members with non-duty-related disabilities are not eligible for workers' compensation.

If the goal is to improve or expand disability coverage for plan members, the legislature may consider directing the Health Care Authority and the Department of Retirement Systems, in coordination with the Select Committee on Pension Policy and the Office of the State Actuary, to estimate financial and administrative impacts associated with the following options or combination of options:

If the goal is to increase public employee participation in, or availability of, LTD insurance:

- Increase awareness and importance of participating in the employer's Optional LTD insurance plan by instituting an improved communication program for new hires;
- Work with the state's insurer to provide a one-time open enrollment period for all employees to enroll in the PEBB Optional LTD plan, without requiring evidence of insurability (excluding disabilities due to pre-existing conditions for a set period after enrollment). This approach would provide an opportunity for all plan members who did not do so during their new employee grace period to enroll in the PEBB Optional plan; and
- Issue a Request for Information to the insurance industry for a product providing LTD insurance (that is, comparable to the PEBB plans) to all other public employer groups in the retirement system. New hires would access the plan through the retirement system, but the plan would be administered by the HCA. This approach would provide more uniform access to LTD insurance to school district and other public employees, but is complicated by inter-jurisdictional issues and collective bargaining arrangements.

If the goal is to increase maximum benefits:

- Work with the state's insurer to increase the PEBB Basic LTD plan maximum benefit to bring it closer to the market median, including changes in the integration of Basic plan benefits with Social Security, disability retirement benefits, workers' compensation, and other sources of income. The Standard Insurance Company estimates that increasing the maximum payment of the Basic plan from \$250 to \$3,000 would increase the state's monthly premium from \$2 per employee to \$24;⁴²
- Issue a Request for Information to the insurance industry for a group insurance product (including a retirement supplement) that replaces the actuarial reduction in benefits of plan members taking a disability retirement; and
- Consider providing an earned disability benefit without an actuarial adjustment for permanently disabled plan members meeting minimum years of service criteria: for example, a benefit based on an early retirement reduction factor of 3 percent for each year of age below 62 for those with 20 years of service. Consider a workers' compensation offset of disability retirements associated with a duty-related injury.

⁴² This change would also influence employee-paid premiums for the Optional LTD plan.

Appendix A: School Districts and Other Public Employers Providing LTD Insurance

School Districts and Educational Service Districts Providing PEBB LTD Insurance

Almira School District # 17	Meridian School District # 505
Anacortes School District # 103	Mount Vernon School District # 320
Asotin-Anatone School District # 420	Naches Valley School District # JT3
Bellevue School District # 405	North Central Educational Service District #171
Burlington-Edison School District # 100	Northwest Educational Service Dist #189
Cashmere School District # 222	Oakesdale School District
Chimacum School District # 49	Okanogan School District # 105
Colfax School District # 300	Onion Creek School District # 30
Coulee-Hartline School District # 151	Orchard Prairie School District # 123
Cusick School District # 59	Orient School District #65
Darrington School District # 330	Palisades School District # 102
Easton School District # 28	Quincy School District # 144-101
Educational Service District #101	Republic School District # 309
Educational Service District #105	Ritzville School District # 160-67
Educational Service District #113	Sedro-Wooley School District # 101
Educational Service District #123	St. John School District # 322
Ellensburg School District # 401	Steilacoom Historical School District # 1
Elma School District # 68	Steptoe School District # 304
Endicott School District # 308	Summit Valley School District # 202
Entiat School District # 127	Wahkiakum School District # 200
Harrington School District # 204	Wahluke School District # 73
Kittitas School District # 403	Warden School District # 146-161
LaCrosse School District #126	West Valley School District # 208
Mansfield School District # 207	Wilbur School District # 200
Mary Walker School District # 207	Wilson Creek School District # 167-202

Public Employers Providing PEBB LTD Insurance

Adams Conservation District	Eastsound Sewer-Water District
Adams County Auditor	Edmonds Public Facilities District
Aging and Adult Care of Central WA	Evergreen Water-Sewer District
Aging and Long Term Care of E WA (ALTCEW)	Fall City Water District
Annapolis Water District	Forks Community Hospital
Asotin County Conservation District	Franklin County Mosquito Control District
Badger Mountain Irrigation District	Glacier Water District
Bellingham Housing Authority	Grand Coulee Proj Hydroelectric Authority
Ben Franklin Transit	Grays Harbor Public Development Authority
Benton Irrigation District #16	Highline Water District
Benton-Franklin Health District	Holmes Harbor Sewer District
Birch Bay Water and Sewer District	Housing Authority of Thurston County
Cascade Irrigation District	Hutchinson Irrigation District
Cedar River Water & Sewer District	Intercity Transit
Central Pierce Fire and Rescue	Island Hospital
Chelan-Douglas Health District	Jefferson County Conservation District
City of Cle Elum	Jefferson County Library
Clallam Conservation District	Kennewick Housing Authority
Clallam Transit System	Kennewick Irrigation District
Clark Conservation District	King Conservation District
Clark Regional Waste Water District	King County Cultural Development Authority
Clinton Water District	King County Fire Protection District #14
Coal Crk Utility District	King County Fire Protection District #27
Consolidated Irrigation District #19	King County Housing Authority
Covington Water District	King County Water District #111
Cowlitz County Soil and Water Conservation	King County Water District #119
Cowlitz Indian Tribe	King County Water District #125
E Columbia Basin Irrigation District	King County Water District #20
East Wenatchee Water District	King County Water District #45

**Public Employers Providing PEBB LTD Insurance,
*continued***

King County Water District #49
King County Water District #54
King County Water District #90
Kiona Irrigation District
Kitsap Conservation District
Kitsap County Community Development Corp
Kitsap County Public Utilities District #1
Kittitas Reclamation District
Klickitat County Port District
Lake Forest Park Water District
Lakehaven Utility District
Lewis County Conservation District
Lincoln County Conservation District
Loon Lake Sewer District #4
Lopez Island Library
Lynnwood Public Facilities District
Malaga Water District
Manchester Water District
Mason County Conservation District
Mason County Public Utilities District #1
Mid-Columbia Library
Midway Sewer District
Moab Irrigation District #20
Model Irrigation District #18
Moses Lake Irrigation and Rehabilitation District
N Central WA Reg Support Network
N Yakima Conservation District
Naches Union Ditch District
Naches-Selah Irrigation District
Northshore Utility District
Noxious Weed Control Board of Grant County
Olympic Medical Center
Orcas Island Library District
Orchard Avenue Irrigation
Pacific Conservation District
Pacific County
Pacific Transit System
Palouse-Rock Lake Conservation District
Pangborn Memorial Airport
Pasadena Park Irrigation District #17
Peninsula Metropolitan Park District
Pierce County Conservation District
Pine Crk Conservation District
Pomeroy Soil and Water Conservation District
Port of Benton
Port of Brownsville
Port of Camas/Washougal
Port of Centralia
Port of Chelan County
Port of Clarkston
Port of Douglas County
Port of Edmonds
Port of Ephrata- Port District #9 of Grant Co
Port of Grays Harbor
Port of Kennewick
Port of Kingston
Port of Mattawa
Port of Olympia- Accounting Dept

Port of Peninsula
Port of Port Angeles
Port of Port Townsend
Port of Ridgefield
Port of Royal Slope
Port of Shelton
Port of Skamania County
Port of Sunnyside
Port of Whitman County
Port of Willapa Harbor
Port of Woodland
Public Hospital Dist #1 of Pend Oreille County
Puget Sound Clean Air Agency
Quincy-Columbia Basin Irrigation District
Richland Public Facilities District
Ronald Waste Water District
S Columbia Basin Irrigation District
S King County Regional Water Association
Samish Indian Nation of Washington
San Juan County Conservation District
San Juan Island Parks and Recreation District
School Directors Association
SEIU Local 925
Selah-Moxee Irrigation District
Shoreline Fire Department
Shoreline Water District
Silverdale Water District #16
Skagit 911
Skagit 911 Non-Rep
Skagit Conservation District
Skyway Water-Sewer District
Snohomish Conservation District
Snoqualmie Pass Utility District
Spokane Conservation District
Spokane County Fire Protection District #10
Spokane County Water District #3
Spokane Regional Clean Air Agency
SW Suburban Sewer District
The Coalition for Clean Water
Thurston County Fire District #6
Thurston Regional Planning Council
Town of Rosalia
Valley General Hospital
Valley Transit
WA Federation of State Employees
WA Public Employees Association
WA Public Ports Association
WA State Bar Association
WA State Transit Insurance Pool
Wahkiakum County Conservation District
Walla Walla Conservation District
Water and Sewer Risk Management Pool
Wenatchee Reclamation District
Wenatchee Valley Transportation Council
Whidbey General Hospital
Whitman Conservation District
Willapa Valley Water District
Yakima Health District

Source: Washington State Health Care Authority

Cities That Pay for All or Part of Employee LTD Insurance

Anacortes	Kelso	Othello
Arlington	Kenmore	Pacific
Auburn	Kennewick	Port Angeles
Battle Ground	Kent	Port Townsend
Bellevue	Kirkland	Puyallup
Bellingham	Kittitas	Rainier
Benton City	La Center	Redmond
Black Diamond	Lacey	Renton
Blaine	Lake Forest Park	Richland
Bonney Lake	Lake Stevens	Ridgefield
Bothell	Lakewood	Rosalia
Burien	Liberty Lake	Sammamish
Cathlamet	Long Beach	SeaTac
Cheney	Longview	Seattle
Cle Elum	Lynnwood	Sequim
Clyde Hill	Maple Valley	Shelton
Colfax	McCleary	Shoreline
Cosmopolis	Medina	Snohomish
Covington	Mercer Island	Spokane Valley
Des Moines	Mill Creek	Stanwood
DuPont	Moses Lake	Steilacoom
Duvall	Mountlake Terrace	Sumas
East Wenatchee	Mukilteo	Sumner
Edgewood	Newcastle	Tacoma
Edmonds	Newport	Tekoa
Ellensburg	Normandy Park	Tukwila
Ephrata	North Bend	University Place
Everson	North Bonneville	Vancouver
Federal Way	Oak Harbor	Washougal
Fife	Ocean Shores	Westport
Gig Harbor	Olympia	Woodinville
Hunts Point	Oroville	
Issaquah	Orting	

Counties That Pay for All or Part of LTD Insurance

Adams County	Lewis County
Benton County	Okanogan County
Clark County	Pend Oreille County
Cowlitz County	Snohomish County
Franklin County	Spokane County
Island County	Stevens County
Jefferson County	Thurston County
King County	Wahkiakum County
Kittitas County	Walla Walla County
Klickitat County	

Source: Washington State
Association of Cities

Appendix B: State Comparisons of LTD Plan Features

Plan Feature	Commonwealth of PA DI0010	State of California DI0010	State of California DI0020	State of Colorado DI0010
Employees covered:	All employees, including highly compensated, minimum hours 10.0 per week.	All employees, minimum hours 20.0 per week.	All employees, minimum hours 20.0 per week.	All employees, minimum hours 30.0 per week. Certain groups of employees are excluded from the disability plans.
Part-time are eligible:	Yes.	Yes.	Yes.	Yes.
Collectively bargained eligible:	Not applicable.	Excluded.	Excluded.	Not applicable.
Eligibility:	Immediately.	First of month following date of hire.	First of month following date of hire.	First of month following date of hire.
Monthly employee contribution per \$100 of pay:	Rate not specified, tax status not specified. Employee pays total cost.	Rate not specified but is on an aftertax basis. Contributions vary by age. Employee pays total cost. Rates based on age: <30 = \$.093/\$100 of pay; 30-39 = \$.221; 40-49 = \$.508; 50-59 = \$1.089; 60+ = \$1.478. Employee also pays \$.80 administration fee.	Rate not specified but is on an aftertax basis. Contributions vary by age. Employee pays total cost. Rates based on age: < 30 = \$.054/\$100 of pay, 30-39 = \$.119, 40-49 = \$.281, 50-59 = \$.594, 60+ = \$.810. Employee also pays \$.80 administration fee.	Rate not specified but is on an aftertax basis. Contributions vary by age. Employee pays total cost. Rates/\$100 of salary vary by age and vesting service of five years (vested/non-vested): < 30 = \$.12/\$.35, 30-34 = \$.14/\$.42, 35-39 = \$.18/\$.52, 40-44 = \$.24/\$.73, 45-49 = \$.37/\$1.11, 50-54 = \$.55/\$1.65, 55-59 = \$.76/\$2.43, 60-64 = \$.83/\$2.49, 65+ = \$1.01/\$3.02.
Monthly employer contributions per \$100 of pay:	None.	None.	None.	None.
Benefit waiting period:	90 days.	180 days.	180 days.	180 days.
Period of own occupation:	Not specified.	1.0 year.	1.0 year.	1.5 years.
Level of benefit before offsets:	Fixed = 60.00% of pay.	Fixed = 65.00% of pay.	Fixed = 55.00% of pay.	Fixed = 60.00% of pay.
Salary definition:	Pay is defined as: Base pay.	Pay is defined as: Base pay.	Pay is defined as: Base pay.	Pay is defined as: Base + shift differential + special payments.
Maximum monthly benefit:	\$5,000	\$6,000	\$6,000	\$10,000
Maximum percent from all sources:	60%.	65%.	55%.	60%.

Plan Feature	State of Florida No Plan	State of Idaho DI0010	State of Illinois DI0010	State of Iowa DI0010
Employees covered:	No Plan	All employees, minimum hours 20.0 per week.	All employees, minimum hours 20.0 per week.	All employees, minimum hours 30.0 per week.
Part-time are eligible:		Yes.	Yes.	Yes.
Collectively bargained eligible:		Not applicable.	Not applicable.	Excluded.
Eligibility:		First of month following date of hire.	18 months.	First of month following 1 month.
Monthly employee contribution per \$100 of pay:		None.	None.	None.
Monthly employer contributions per \$100 of pay:		Rate not specified.	Rate not specified.	Rate not specified.
Benefit waiting period:		26 weeks.	30 days.	90 days.
Period of own occupation:		2.5 years.	Not specified.	1.0 year.
Level of benefit before offsets:		Fixed = 60.00% of pay.	Fixed = 50.00% of pay.	Fixed = 60.00% of pay.
Salary definition:		Pay is defined as: Base pay.	Pay is defined as: Average of the 48 consecutive months base salary out of the last 10 years.	Pay is defined as: Base pay.
Maximum monthly benefit:		\$4,000	Unlimited.	\$3,000
Maximum percent from all sources:		60%.	50%.	60%.

	State of Minnesota DI0010	State of Missouri DI0010	State of Ohio No Plan	State of Oregon DI0010
Employees covered:	All employees.	All employees, minimum hours 20.0 per week.	No Plan	All employees, minimum hours 18.5 per week.
Part-time are eligible:	Yes.	Yes.		Yes.
Collectively bargained eligible:	Included.	Not applicable.		Not applicable.
Eligibility:	35 days.	Immediately.		First of month following date of hire.
Monthly employee contribution per \$100 of pay:	Rate not specified, tax status not specified. Employee pays total cost.	None.		\$0.005, tax status not specified. Employee pays total cost.
Monthly employer contributions per \$100 of pay:	None.	Rate not specified.		None.
Benefit waiting period:	6 months.	90 days.		90 days.
Period of own occupation:	2.0 years.	2.0 years.		2.0 years.
Level of benefit before offsets:	Not specified.	Fixed = 60.00% of pay.		Fixed = 60.00% of pay.
Salary definition:	Pay is defined as: Base pay.	Pay is defined as: greater of base pay on date of disability or average base pay for the highest consecutive 36 months.		Pay is defined as: Base + special payments.
Maximum monthly benefit:	\$7,000	Unlimited.		\$7,200
Maximum percent from all sources:	Not specified.	60%.		60%.

Plan Feature	State of Oregon DI0020	State of Oregon DI0030	State of Oregon DI0040	State of Washington DI0010
Employees covered:	All employees, minimum hours 18.5 per week.	All employees, minimum hours 18.5 per week.	All employees, minimum hours 18.5 per week.	All employees, minimum hours 20.0 per week.
Part-time are eligible:	Yes.	Yes.	Yes.	Yes.
Collectively bargained eligible:	Not applicable.	Not applicable.	Not applicable.	Not applicable.
Eligibility:	First of month following date of hire.	First of month following date of hire.	First of month following date of hire.	First of month following date of hire.
Monthly employee contribution per \$100 of pay:	\$0.002, tax status not specified. Employee pays total cost.	\$0.010, tax status not specified. Employee pays total cost.	\$0.003, tax status not specified. Employee pays total cost.	None.
Monthly employer contributions per \$100 of pay:	None.	None.	None.	Rate not specified.
Benefit waiting period:	180 days.	90 days.	180 days.	90 days.
Period of own occupation:	2.0 years.	2.0 years.	2.0 years.	2.0 years.
Level of benefit before offsets:	Fixed = 60.00% of pay.	Fixed = 66.67% of pay.	Fixed = 66.67% of pay.	Fixed = 60.00% of pay.
Salary definition:	Pay is defined as: Base + special payments.	Pay is defined as: Base + special payments.	Pay is defined as: Base + special payments.	Pay is defined as: Base pay.
Maximum monthly benefit:	\$7,200	\$8,000	\$8,000	\$240
Maximum percent from all sources:	60%.	66.67%.	66.67%.	60%.

Plan Feature	State of Washington DI0020	State of Wisconsin DI0010
Employees covered:	All employees, minimum hours 20.0 per week.	All employees.
Part-time are eligible:	Yes.	Yes.
Collectively bargained eligible:	Not applicable.	Not applicable.
Eligibility:	First of month following date of hire.	3 months.
Monthly employee contribution per \$100 of pay:	Rate not specified, tax status not specified. Employee and employer share the cost. Contributions vary with benefit waiting period: \$.211/\$100 for 30 days, \$.112/60 days, \$.061/90 days, \$.037/120 days, \$.029/180 days, \$.028/240 days, \$.026/300 days, \$.025/360 days.	None.
Monthly employer contributions per \$100 of pay:	Rate not specified.	Rate not specified.
Benefit waiting period:	Not specified.	36 months.
Period of own occupation:	2.0 years.	1.0 year.
Level of benefit before offsets:	Fixed = 60.00% of pay.	Fixed = 40.00% of pay.
Salary definition:	Pay is defined as: Base pay.	Pay is defined as: Total pay.
Maximum monthly benefit:	\$6,000	Unlimited.
Maximum percent from all sources:	60%.	40%.

Plan Feature	Commonwealth of PA DI0010	State of California DI0010	State of California DI0020	State of Colorado DI0010
Social Security Offset:	Family benefit.	Individual benefit.	Individual benefit.	Family benefit.
Comments:				

Plan Feature	State of Florida No Plan	State of Idaho DI0010	State of Illinois DI0010	State of Iowa DI0010
Social Security Offset:		Family benefit.	Individual benefit.	Individual benefit.
Comments:			Annual COLA = 7% for first 4 years of disability, 3%/year thereafter.	

Plan Feature	State of Minnesota DI0010	State of Missouri DI0010	State of Ohio No Plan	State of Oregon DI0010
Social Security Offset:	Family benefit.	Individual benefit.		Family benefit.
Comments:	Employee chooses coverage between \$300-\$7,000/month based on annual salary.			

Plan Feature	State of Oregon DI0020	State of Oregon DI0030	State of Oregon DI0040	State of Washington DI0010
Social Security Offset:	Family benefit.	Family benefit.	Family benefit.	Family benefit.
Comments:				

Plan Feature	State of Washington DI0020	State of Wisconsin DI0010
Social Security Offset:	Family benefit.	Family benefit.
Comments:	Optional Long Term Disability Plan offers waiting periods ranging from 30 days to 360 days. Optional plan has a Cost-of-Living Adjustment provision based on Consumer Price Index up to 6%.	The basic 40% increases each year by the same percentage that the monthly retirement annuities are increased (7%). Employee must earn at least .33 years of creditable service in at least 5 calendar years during the period that includes the year in which benefits are applied for to be eligible.

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For further information, contact Jim Mayfield at (360) 586-2783 or mayfield@wsipp.wa.gov

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