

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
277 EAST TOWN STREET, COLUMBUS, OH 43215-4642
1-800-222-PERS (7377)
www.opers.org

MEMORANDUM

DATE: May 7, 2004

TO: OPERS Retirement Board Members

FROM: Beverlon Hodge, Asst. Director - Benefits
Dan Drake, Director – Benefits Administration

RE: **V. Discussion Items:**
A. Disability Options - Follow up discussion

Background:

At the February 2004 Board meeting, Staff reviewed OPERS' current disability benefit structure and provided discussion points for the Board's consideration. At the Board's request, additional information is provided with regards to:

- I. Additional background information on OPERS disability program
- II. Review of disability programs and performance of duty standards utilized by other retirement systems
- III. Actuarial analysis on possible impact of changes to current performance standard
- IV. Sample of potential effects of earnings offsets on monthly benefits
- V. Integration of health care options under HCPP
- VI. Survey Information

I. Additional background information

See report to ORSC (attached.)

II. Other retirement systems disability programs and performance of duty standards

At OPERS' request, GRS performed a study of 20 comparable statewide retirement systems which focused on their definitions of disability, eligibility requirements, benefit amounts, and limitations on earnings while on disability.

Of the 20 retirement systems reviewed, 65% applied the definition of disability as the incapacity to engage in the individual's own occupation. This is the approach currently utilized by OPERS. In addition, OPERS' definition of disability as "mentally or physically incapacitated for the performance of duty" is consistent with the definition used by the majority of the other systems.

For eligibility purposes, 68% of the systems require five years of service credit to be eligible for disability benefits while 14% require at least 10 years. Service requirements are generally waived if the disability benefit is job related. OPERS' eligibility requirements correspond with the majority of these systems whereby a member needs 5 years of service credit to be eligible with this requirement being waived for members in the Law Enforcement division for a disability which is job related.

For determining benefit amounts, half of the other retirement systems calculate a benefit using the service as of the disability date while the other half determined the benefit using projected service to a certain age. OPERS uses both these service approaches with our original and revised plan provisions. In addition, half of the other systems apply minimum benefits expressed as either a percent of final salary or a monthly dollar amount which is consistent with the OPERS program.

For limitations on earnings while receiving a disability benefit, as stated above, 65% of the systems surveyed use the "own occupation" standard. The majority of these systems allow individuals to earn employment income while receiving a disability benefit. However, almost all apply some type of limitation to continued receipt of a disability benefit. Of the systems surveyed, 4 terminate disability benefits upon

the individual's ability to sustain gainful employment. This approach is consistent with the "any occupation" standard. Nine systems reduce benefits if the disability benefit plus any additional earnings exceed the individual's FAS. This approach provides the flexibility to apply a 1-1, 2-1, or 3-1 reduction for excess money earned. And finally, 2 of the systems apply a fixed dollar limit on additional income earnings.

III. Actuarial analysis on possible impact of changes

With regards to the performance of duty standard, the Board requested actuarial analysis for a proposed change which would apply the "own occupation" standard for the first five years and then move to the "any occupation" standard thereafter. Benefits for current disability recipients would not be affected by this change.

For analysis, GRS utilized both member and financial data along with actuarial methods and assumptions in the December 31, 2002 annual valuation. In addition, the percentage of persons who would be able to perform any occupation was assumed to be 50%. And finally, the results are based on applying the combination own occ/any occ to all future disability cases after the effective date of legislative changes. Savings from these proposed changes are indicated below.

ACTUARIAL ANALYSIS

<u>Change in Computed</u>	<u>Alternative 1 (5 Years)</u>	<u>Alternative 2 (2 Years)</u>
Normal cost	(0.46)%	(0.66)%
Accrued liability		
\$ millions	\$(339)	\$(529)
30-year amortization	(0.17)%	(0.27)%
Total stand alone cost (savings)	(0.63)%	(0.93)%
UAAL amortization period with no rate change	22 yrs.	20 yrs.
Change from present amortization period	(7) yrs.	(9) yrs.

IV. Sample of potential effects of earnings offset

Assumptions:

- Member FAS: \$40,000
- Annual Disability Benefit: \$22,000
- Annual Additional Earnings: \$42,000
- Earnings Limit: \$10,000
- Monthly Disability Benefit: \$1,833.34

FAS	Adjusted Monthly Disability Benefit	Adjusted Annual Disability Benefit	Total Disability and Additional Earnings
Earnings Limit	\$666.67	\$8,000	\$50,000
2-1 Reduction	\$1,583.33	\$19,000	\$61,000
3-1 Reduction	\$1,833.34	\$22,000	\$64,000

Disability Benefit	Adjusted Monthly Disability Benefit	Adjusted Annual Disability Benefit	Total Disability and Additional Earnings
Earnings Limit	\$0.00	\$0.00	\$42,000
2-1 Reduction	\$83.33	\$1,000	\$43,000
3-1 Reduction	\$666.67	\$8,000	\$50,000

V. Integration of HCPP

The current treatment of disability recipients under the HCPP is the same as an age and service recipient with a floor of 15 years. If an “any occ” standard was imposed after 2 or 5 years, we would anticipate that this change would not impact the disability recipients treatment for health care purposes. An alternative would be to increase their allocation after they convert to “any occ”.

If an “any occ” standard was established after a certain number of years on disability, there would probably be a small savings for the health care program. The savings would not be very large because:

- 1) the sickest people would be staying on health care coverage, and
- 2) the disability recipients who are terminated would probably convert to an age and service benefit and would probably be covered under health care but at a higher cost to the recipient. The exact amount of the savings has not been determined at this time.

Summary: Staff will be seeking input from the Board for direction regarding this discussion.

Attachment 1: Disability presentation to ORSC

Attachment 2: Comparative Summary of Provisions in Selected Statewide Retirement Systems

Attachment 3: Summary of Disability Benefits in Selected Statewide Retirement Systems

Attachment 4: February 6,2004 memo to Board



The OPERS Disability Programs

Presentation to the
Ohio Retirement Study Council
May 12, 2004



The OPERS Disability Programs

- Overview of OPERS Disability Programs
 - Eligibility
 - Application and approval process
 - Benefit amount
 - Termination
- Per cent of total OPERS benefits paid on account of disability
- Summary of annual disability report submitted to ORSC
- Changes under consideration by the OPERS Board of Trustees



Overview of the OPERS Disability Programs



The OPERS Disability Programs

- OPERS members participating in the Traditional Pension and Combined Plans are eligible for one of two disability programs:
 - The Original Disability Program
 - The Revised Disability Program



The Original Disability Program

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



The Revised Disability Program

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



Eligibility – Common Features

- Member must have at least five (5) years of contributing service in the member's retirement plan, unless law enforcement (LE) officer who is disabled due to on-duty illness or injury.
- Must be a *permanent* disabling condition which prevents member from performing the member's own occupation. On-duty or off-duty illness or injury is covered.



Eligibility – Different Features

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



Application – Common Features

- *Application for a Disability Benefit* must be completed and signed in presence of notary.
- *Report of Attending Physician* must be completed by member's physician and must describe in detail the disability. Examination paid by the member.
- *Application for Disability Retirement Report* must be completed by employer and the payroll officer of the employer.



Application – Number of Applicants by Region

- The chart below shows the Ohio counties with the highest percentages of disability applicants for 2003 (all other counties < 2.0%):

County	Applicants (Non-LE)	Applicants (LE)	Total Applicants	Percentage of Total Applicants	Total Members (as of 5/7/04)	Applicants as a Percentage of Total Members
Franklin	716	27	743	38.7%	101,165	0.73%
Cuyahoga	220	6	226	11.8%	44,015	0.51%
Montgomery	115	14	129	6.7%	14,590	0.88%
Hamilton	78	9	87	4.5%	17,143	0.51%
Lucas	82	5	87	4.5%	12,145	0.72%
Summit	58	9	67	3.5%	9,763	0.69%
Mahoning	24	15	39	2.0%	5,051	0.77%

Application – Common Features (continued)

- *Report of Medical Examination* is sent to member after all other forms received, including the name of the physician selected by the OPERS Board to conduct the independent medical examination. Physician completes the report.
- Fee for medical examination paid by OPERS.
- In approximately 30% of cases, member is examined by more than two physicians (cost for additional examinations paid by OPERS).

OPERS Board Approval Process

- *Report of Medical Examination* and all other information in the member's file are reviewed by the Board's medical advisor (no examination of member is completed). OPERS currently employs three medical advisors.
- Medical advisor prepares summary and makes recommendations regarding approval, denial, and reexamination.
- OPERS Board adopts findings of medical advisor at monthly meetings via consent agenda.

Application – Top Five Conditions Approved

- Listed below are the top five conditions for which disability benefits are granted:
 - Orthopedic/back injury
 - Psychiatric illness
 - Neurological/Vascular condition
 - Cardiac condition
 - Cancer



OPERS Physician Selection Process

- OPERS has employed 3-5 medical advisors over the last 15 years.
 - OPERS makes it a priority to maintain long-term relationships with the medical advisors so that diagnosis and recommendations are consistent over time.
 - Evaluation of physician's CV and professional recommendations is completed prior to hiring.
- OPERS has 146 board-appointed physicians located throughout Ohio. Last search conducted for board physicians consisted of the following:
 - Obtained list of physicians from State Medical Board.
 - Conducted mass-mailing requesting CV and professional recommendations.



Benefit Amount – Common Features

- If approved, the disability benefit is effective the first day of the month following attainment of eligibility or termination of public service, whichever is later.
- Health care coverage is effective the first day of the month following OPERS Board's approval of application, provided public service has terminated.
- Cost-of-living adjustment is available.



Benefit Amount – Different Features

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



Benefit Amount – Different Features

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



Termination of Benefits – Common Features

- Disability benefit terminated if any of the following conditions apply:
 - Member is no longer disabled
 - Member returns to public service
 - Death
 - At member's request
- If disabled less than five years, OPERS will certify to employer that member is capable of returning to work.
- If member returns to public service for at least two years, member receives service credit for period of disability.

Termination – Common Features (continued)

- Annual medical examination may be required to determine if disabling condition continues. Exam may be waived if board physician certifies that disability is on-going.
- Return to private employment may affect continuation of disability benefits.



Statistics on Reexaminations and Terminations

Year	Total Disability Benefit Recipients	Total Reexaminations (Per cent of Total Recipients)	Total Terminations (Per cent of Total Reexaminations)
1998	14,146	1,005 (7.1%)	127 (16.9%)
1999	14,868	1,161 (7.8%)	127 (10.9%)
2000	15,811	786 (5.0%)	120 (15.3%)
2001	16,727	1,092 (6.5%)	170 (15.6%)
2002	17,809	1,231 (6.9%)	192 (15.6%)



Submission of Earnings Reports

- Each disability benefit recipient is required to file an annual statement of earnings. Requirement may be waived if board's physician certifies disability is on-going.
- If recipient refuses to file earnings statement, the disability benefit is suspended until filed. If refusal continues for one year, benefit is terminated.



Statistics on Submission of Earnings Reports

Year	Total Earnings Statements Mailed	Number of Recipients Reporting Earnings	Percentage of Recipients Reporting Earnings	Average Amount of Earnings	Number of Recipients Earning over \$10,000
1998	11,887	940	7.91%	\$7,633	174
1999	12,541	1,140	9.09%	\$8,772	315
2000	13,329	1,354	10.2%	\$9,422	428
2001	13,946	1,701	12.2%	\$9,587	546
2002	14,825	1,799	12.1%	\$10,451	668

Termination of Benefits – Different Features

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



Termination – Different Features (continued)

- **Revised Disability Program**

- Benefit is payable for a definite period depending on age when benefit takes effect (or will terminate if member is no longer disabled, returns to public employment, dies or at the member's request):

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



Termination – Different Features (continued)

- Revised Disability Program

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



Per cent of Total OPERS Benefits Paid on Account of Disability



Percentage of Total Benefit Recipients (2002)*

- Total benefit recipients = 139,665
- Total disability benefit recipients = 17,809

- Percentage of total benefit recipients = 12.7%

*Based on 2002 Comprehensive Annual Financial Report



Percentage of Total Benefit Recipients (2003)*

- Total benefit recipients = 143,643
- Total disability benefit recipients = 19,065
 - LE recipients = 1,092 (395 on-duty)
 - Non-LE recipients = 17,973
- Percentage of total benefit recipients = 13.3%
 - LE recipients = 0.8% (0.3% on-duty)
 - Non-LE recipients = 12.5%

*Based on 2003 data submitted to Internal Revenue Service



Percentage of Total Benefits Paid (2002)*

- Total disbursements = \$ 3,023,188,883
- Total disability benefits = \$ 270,583,859
- Percentage of total disbursements = 8.95%

*Based on 2002 Comprehensive Annual Financial Report



Percentage of Total Benefits Paid (2003)*

- Total disbursements = \$3,337,015,090
- Total disability benefits paid = \$351,949,294

- Percentage of total disbursements = 10.54%
 - LE recipients = 0.85% (0.31% on-duty)
 - Non-LE recipients = 9.69%

*Based on 2003 data submitted to Internal Revenue Service



Year to Year Comparison

Year	Disability Recipients at Year End	Net Increase in Recipients	% Increase in Recipients from Prior Year	Total # of Members (Active and Inactive)	% Increase in Members from Prior Year
1998	14,146	811	6.1%	563,836	4.3%
1999	14,868	722	5.1%	592,205	5.0%
2000	15,811	943	6.3%	620,108	4.7%
2001	16,727	916	5.8%	635,753	2.5%
2002	17,809	1,082	6.5%	657,569	3.4%



Summary of Annual Disability Report Submitted to ORSC



Summary of Disability Report - 2003

- The report submitted on February 27, 2004, pursuant to R.C. 145.351 consists of the following information:
 - Disability applications received, approved, denied and in process for calendar year 2003
 - Disability experience by employer for calendar year 2003 (566 employers and 272,276 employees)



Summary of Disability Report - 2003

- The following chart shows the disability applications (received and approved) as a percentage of the total number of eligible members (LE and non-LE):

Total applications in 2003	Total number of eligible members (as of 4/15/04)	Percentage rate for 2003
1,953 (received)	216,193	0.9%
1,284 (approved)	216,193	0.6%



Summary of Disability Report - 2003

- The following chart shows the disability experience for non-LE and LE members:

Recipients	Total Employees of Employer (eligible & not eligible)	Percentage rate of disability for 2003
151 (LE)	5,599	2.7%
1740 (non-LE)	266,677	0.65%
1891 (total)	272,276	0.69%



Summary of Disability Reports – 1999 to 2003

- The following chart shows the disability applications (received, denied, and approved) from 1999 to 2003 and the approval rate:

Year	Total Applications Received	Total Applications Denied	Total Applications Approved	Number of Non-LE Approved	Number of LE Approved	Percentage of Approvals to Total Applications Received
1999	1,837	105	1,077	993	84	58.6%
2000	1,923	121	1,212	1,111	101	63.0%
2001	2,399	224	1,799	1,705	94	75.0%
2002	2,273	216	1,302	1,177	125	57.3%
2003	1,953	578	1,284	1,151	133	65.7%



Changes under Consideration by the OPERS Board of Trustees

Changes under Consideration by OPERS Board

- Reasons for considering changes to the OPERS Disability Programs:
 - Technological advances have created opportunities to work that did not exist when disability programs were enacted
 - Increased potential for disability recipients to find gainful employment in other occupations
 - Savings to OPERS



Changes under Consideration by OPERS Board

- Changes under consideration:
 - On-duty versus off-duty disabilities
 - Workers' compensation offset
 - Performance of duties standard (“any occupation” versus “own occupation”)
 - Earnings offset

On-duty versus Off-duty Disabilities

- Options under consideration:
 - Expand application of on-duty illness or injury to allow all members disability coverage if member has less than five (5) years of service credit (same as LE officer)
 - Provide for different levels of benefits for on-duty versus off-duty disability
 - Provide disability benefits for on-duty disability only



Workers' Compensation Offset

- Option under consideration:
 - Offset disability benefits provided by OPERS for on-duty disability with available Workers' Compensation benefits

Performance of Duties Standards

- Options under consideration:
 - Utilize “any occupation” standard rather than current “own occupation” standard
 - Utilize “own occupation” standard for first five (5) years of service credit and “any occupation” standard thereafter



Earnings Offset

- Options under consideration:
 - Offset disability benefits provided by OPERS if additional earnings exceed recipient's FAS
 - Offset disability benefits provided by OPERS if additional earnings exceed the disability benefits



Questions?

**Comparative Summary of Provisions in
Selected Statewide Retirement Systems**

Disability Benefit Case Studies – Summary of Selected Statewide Systems

System	Definition	Service Requirement(1)	Benefits Not Job-Related	Benefits Job-Related	Limitations (2)
Arkansas PERS	Permanent & Total - Any Suitable Job	5 YOS & Soc. Sec. Disability	Service retirement based on service at disability date	Not separately defined	Benefits end upon gainful employment; trial re-employment period up to 9-months allowed
California PERS	Permanent or Extended Own Duties	5 YOS (Tier 1) or 10 YOS (Tier 2)	Service retirement based on service to age 60 (Tier 1) or 65 (Tier 2). Max: 1/3 of final compensation.	Greater of service retirement or 50% final compensation plus annuity based on employee contributions	If employed outside state service: DB+EI may not exceed maximum compensation currently earnable in former position
Colorado PERA	Permanent & Total - Any Substantial Gainful Employment (75% Earnings)	5 YOS	Service retirement with service projected to the lesser of 20 years or age 65. No offsets.	Not separately defined	Benefits end if individual is able to earn 75% of pre-disability earnings. Pre-1/1/99: Benefit reduced by 1/3 of amount DB+EI exceeded highest average salary.
Hawaii ERS	Permanent - Own Duties	10 YOS	Service retirement based on service at disability date, unreduced for age	General: Min. 15% average final compensation (AFC). Public Safety: Min. 25% AFC, Max: 75% AFC	Post 6/30/03: Firefighters w/ 10 YOS may work in other position and receive disability
Illinois SERS	Own Duties	18 Months	50% of pay (or AFC if greater) at disability date, reduced by Social Security	75% of pay (or AFC if greater) at disability date, reduced by Workers' Compensation	Benefits end upon gainful employment
Indiana Teachers	Own Duties	5 YOS & Soc. Sec. Disability	Service retirement based on service at disability date. Min: \$100/month.	Not separately defined	Annual requirement to verify continued qualification for Social Security disability benefits
Kentucky ERS Non-Hazardous	Incapacitating - Own Duties	5 YOS	Generally, service retirement with service projected to the lesser of 25 years or age 65. Actual service if 27+ years.	Greater of regular disability benefit or 25% final monthly pay plus 10% final monthly pay for each dependent child to maximum of 40%	Benefits reduced if sum of DB+EI+SS+WC exceeds greater of final pay or FAC
Kentucky ERS Hazardous	Permanent & Total - Hazardous Duty (Own)	5 YOS	Generally, service retirement with service projected to the lesser of 20 years or age 55. Actual service if 21+ years.	Greater of regular disability benefit or 25% final monthly pay plus 10% final monthly pay for each dependent child to maximum of 40%	DB reduced if sum of DB+EI+SS+WC exceeds greater of final pay or FAC
Michigan SERS	Permanent & Total - Own Duties	10 YOS	Service retirement based on service at disability date. Min: \$600 year	To age 60: 2/3rds FAC. At age 60: service retirement with additional service credit to age 60. Minimum 10 years service credit.	To age 60: Max: \$6,000 year. When combined with WC cannot exceed FAC
Minnesota SERS	> 1 Year Expected Duration Any Substantial Gainful Activity	3 YOS	Service retirement based on service at disability date.	Not separately defined. Workers' Compensation reduced by disability benefit	DB + EI may not exceed maximum salary at disability date
Missouri PSRS	Permanent - Any Occupation	5 YOS	90% service retirement based on service at disability date. For teachers: 50% final annual salary, if greater.	Not separately defined	Benefit ends upon gainful employment. Critical shortage exceptions. Non-teachers age 60 and older may work up to 550 hours per school year.
Missouri SERS	Own or Any Occupation	No service requirement	60% of monthly salary on last full day of work (or AHC if greater), excluding overtime, bonuses, etc. Min: greater of \$50/month or 15% of monthly disability benefit payable	Not separately defined	Benefit reduced by SS, WC EI, group disability, and any sick leave or salary continuation while eligible for disability benefits

(1) Service requirement waived if disability is job-related.

(2) DB = disability benefit, EI = earned income, WC = Workers' Compensation, SS = Social Security

Disability Benefit Case Studies – Summary of Selected Statewide Systems (Continued)

System	Definition	Service Requirement (1)	Benefits Not Job-Related	Benefits Job-Related	Limitations (2)
New York SLERS	Permanent - Own Duties	5 YOS (Tier 3) or 10 YOS (Tier 4)	<p>Tier 3: Service retirement (2%) based on service to disability date. Max: 1/3 FAS. Reduced by 50% SS and 100% WC.</p> <p>Tier 4: Service retirement (1.66%) projected to age 60. Max: 1/3 FAS. No offset for SS or WC.</p>	<p>Tier 3: Service retirement (2%) projected to age 65. Reduced by 50% SS and 100% WC.</p> <p>Tier 4: Service retirement (projected to age 60 if greater). Min: 1/3 FAS. No offset for SS or WC.</p>	None found
North Dakota PERS	> 1 Year Expected Duration Any Substantial Gainful Activities	6 Months	25% FAS. Min: \$100/month. No offsets.	Not separately defined	Benefit ends upon return to NDPERS covered employment. Non-covered work for longer than 9 months will result in benefit suspension.
Ohio PERS	Permanent - Own Duties	5 YOS, waived for law enforcement	<p>Pre-7/30/92: Benefit based on 2.2% FAS (or \$86, whichever produces the greater benefit) and service projected to age 60. Min: 30% FAS. Max: 75% FAS.</p> <p>Post-7/29/92: Benefit based on 2.2% FAS and service to disability date. Min: 45% FAS. Max: 60% FAS.</p>	Not separately defined	<p>Periodic medical review of disability. If member is judged no longer disabled, and disability benefit received for less than 5 years, member is restored to employment in previous (or similar) position.</p> <p>Return to employment with private employer may result in termination of disability benefit.</p>
Ohio STRS	Permanent - Own Duties	5 YOS	<p>Pre-7/30/92: Benefit based on 2.0% FAS (or \$86, whichever produces the greater benefit) and service projected to age 60. Min: 30% FAS. Max: 75% FAS.</p> <p>Post-7/29/92: Benefit based on 2.2% FAS and service to disability date. Min: 45% FAS. Max: 60% FAS.</p>	Not separately defined	<p>Periodic medical review of disability. If member is judged no longer disabled, and disability benefit received for less than 5 years, member is restored to employment in previous (or similar) position.</p> <p>Return to employment as teacher in any public or private school results in termination of disability benefit. Employer is responsible for reimbursing STRS for disability benefits paid while member was employed.</p>
Pennsylvania SERS	Incapacitating - Own Duties	5 YOS, waived for law enforcement	Single life annuity projected to normal retirement with no early retirement reduction. If member has less than 16-2/3rds YOS, maximum benefit is 33% FAS. (13-1/3 YOS if hired after 7/1/01)	Additional benefits provided under Pennsylvania Workers' Compensation Program.	Generally, DB + EI may not exceed retirant's HAS as state employee
Rhode Island ERS	Incapacitating - Own Duties	5 YOS (3 consecutive)	Service retirement based on service at disability date. Min: 10 YOS.	2/3rds annual compensation at disability date, offset by WC	DB + EI may not exceed annual compensation currently paid under former position
South Carolina RS	Incapacitating - Own Duties	5 YOS	Service retirement with service projected to age 65 and actuarial reduction.	Not separately defined	DB + EI may not exceed AFC. AFC adjusted for CPI
Wisconsin RS	Long-Continued Duration Any Substantial Activity	At least 6 months in each of at least 5 out of the last 7 calendar years	Pre-10/16/92: Service retirement benefit with service projected to normal retirement age. Else: 40% FAE for participants covered by Social Security and 50% for those not covered.	Not separately defined	Benefit suspended if EI exceeds earnings limit for "substantial gainful employment" (\$10,047 in 2002, adjusted)

(3) Service requirement waived if disability is job-related.

(4) DB = disability benefit, EI = earned income, WC = Workers' Compensation, SS = Social Security

**Summary of Disability Benefits in
Selected Statewide Retirement Systems**

Disability Benefit Case Studies – Selected Statewide Systems

Arkansas Public Employees Retirement System	
Disability Definition	Totally and permanently physically and mentally incapacitated for “any suitable job or position” as an employee as a result of a personal injury or disease.
Service Requirement	At least 5 years of actual service credit and eligible for Social Security disability benefits. 10 years for General Assembly.
Disability Benefits	Retirement annuity based on age, service credit, and final average compensation at time of disability. Different benefit multipliers apply for contributory and non-contributory plans. Job-related disability is not separately defined.
Earnings Offsets & Other Limitations	Medical review at least once per year during first 5 years of disability and at least every 3 years thereafter – at Board’s discretion. Benefits end upon gainful employment. If disability retiree secures employment with a private-sector employer to determine whether he or she is capable of returning to work, retiree will be allowed to earn compensation from employment for up to 9 months, during which time retiree will receive no benefits from the system. If retiree is unable to continue employment before 9-month period expires, retiree will be reinstated with the system. Only one trial period is allowed per retiree, but 9 months need not be consecutive. If disabled retiree returns to public employment, retiree immediately becomes a member of the system. Credited service up to time of disability and accumulated contributions are restored. No service credit is given for period of disability.
Sources	Actuarial Valuation, 12/31/2003; State Statutes §§ 24-4-511 and 24-4-601.

California Public Employees Retirement System	
Disability Definition	“Incapacity for performance of duty” for a “permanent or extended and uncertain duration as determined by the board, or in the case of a local safety member, by the governing body of the ... agency employing the member.”
Service Requirement	At least 5 years of creditable service (10 years for Tier 2 members). Public-Safety, Industrial (Job-Related): Service requirement waived.
Disability Benefits	Ordinary (Tier 1 w/ 10+ YOS): Service retirement (1.8%) times service credit to age 60 (Max: 1/3 final compensation). Tier 2 w/ 10+ YOS: Service retirement (1.125%) times service credit to age 65 (Max: 1/3 final compensation). Public Safety, Industrial (Job-Related): Generally, the greater of: 50% of final compensation plus annuity purchased with accumulated additional employee contributions, or service retirement allowance (after deducting annuity from employee contributions)
Earnings Offsets & Other Limitations	Periodic re-evaluation of medical condition. Disability retiree may not be employed by any state or public agency that contracts with CalPERS without reinstating from disability (with limited exceptions). If, prior to attaining minimum age for unreduced retirement, disability retiree is employed outside of state service, his/her monthly disability benefit is reduced so that retiree’s earnings and disability benefit do not exceed “the maximum compensation earnable by a person holding the position the disability retiree held at the time of his or her retirement.” Certain public safety employees who qualify for industrial (job-related) disability and return to work in a position with lower compensation than earned before the disability may receive benefits under a partial disability retirement program – compensating them for the difference.
Sources	CA Code; CalPERS Disability Retirement Application

Colorado Public Employees Retirement Association	
Disability Definition	Totally and permanently disabled from engaging in any regular and substantial gainful employment such that individual is unable to earn 75% of pre-disability earnings from PERA-covered employment. Standard Insurance Company makes medical determinations for program. Standard Insurance Company also provides Short-Term Disability (STD) insurance.
Service Requirement	At least 5 years of earned service credit. Service requirement is waived if disability is service-related.
Disability Benefits	Similar to service retirement benefit: 2.5% highest average salary (HAS) x actual service credit (earned or purchased) plus projected service credit up to the lesser of 20 years or age 65. If member has more than 20 years of actual service credit, add 2.5% of HAS is added for each additional year. 3.5% automatic COLA. No reductions for disability benefits from other sources. Payable as straight-life annuity, 50% joint and survivor, or 100% joint and survivor.
Earnings Offsets & Other Limitations	Any work may prompt reexamination of disabled condition. If individual is medically able to earn at 75% of pre-disability earnings, disability benefits end. For disability applications prior to January 1, 1999, annual disability benefits were reduced by one-third of the amount by which earned income plus the initial annual benefit exceeded the individual's highest average salary.
Source	Colorado PERA Disability Program brochure (revised 9/2003)

Hawaii Employees Retirement System	
Disability Definition	Permanently mentally or physically incapacitated for the further performance of duty.
Service Requirement	At least 10 years of creditable service. Service requirement waived if disability is job-related.
Disability Benefits	Non-Contributory Plan: 1.25% of average final compensation (AFC) times years of credited service, unreduced for age. (Minimum 15% AFC if service-related) Contributory Plan: 1.75% ACF times years of credited service, unreduced for age. Public Safety Duty Disability Benefits: no less than 25% nor no more than 75% average monthly compensation for the last 10 years of service.
Earnings Offsets & Other Limitations	Effective July 1, 2003, firefighters in the Hawaii ERS Contributory plan with 10 years of service and who are medically disqualified from performing their firefighter duties due to service connected disability will retain their retirement benefit allowance at 2.5% benefit formula for each year of credited service as a firefighter. Member's can continue to work in another position in the Contributory plan and later retire on a split benefit formula. [Act 205 of 2002]
Sources	2003 Hawaii Revised Statutes; Hawaii ERS Member Handbooks

Illinois State Employees Retirement System	
Disability Definition	Unable to perform in position due to illness or injury.
Service Requirement	At least 18 months of creditable service with SERS, STRS, or SURS. Service requirement waived if disability is job-related.
Disability Benefits	<p>Ordinary: 50% of rate of pay (or average final compensation for 48 highest consecutive months during last 10 years of service, if greater) at date of disability reduced by amount payable from Social Security.</p> <p>Job-Related: 75% rate of pay (or average final compensation for 48 highest consecutive months during last 10 years of service, if greater), on date of disability reduced by amount payable under Worker's Compensation.</p>
Earnings Offsets & Other Limitations	Disability benefits end upon gainful employment.
Source	SERS' Benefits Information page on web site

Indiana State Teachers' Retirement Fund	
Disability Definition	<p>Classroom Disability: "Medically confirmed inability to continue classroom teaching due to a mental or physical condition which is not necessarily of sufficient severity to meet Social Security disability guidelines."</p> <p>Disability Retirement: Medically confirmed inability to continue classroom teaching due to a mental or physical condition while "employed under a uniform or supplemental contract and receiving compensation from an employing unit on the disability onset date as determined by Social Security."</p> <p>(Indiana Administrative Code readopted 12/3/01)</p>
Service Requirement	<p>Classroom Disability: 5 or more years of service credit.</p> <p>Disability Retirement: 5 or more years of service credit (after 6/30/84) and qualified for Social Security disability effective to date the member left Indiana teaching.</p>
Disability Benefits	<p>Classroom Disability: \$125 per month plus \$5 per month for each year of service credit over 5 years.</p> <p>Disability Retirement: Regular retirement benefit based on service at disability date without reduction for early retirement. Minimum benefit \$100 per month.</p>
Earnings Offsets & Other Limitations	<p>Classroom Disability: Requires approval by Fund Physician; re-examination required until age 65 as specified by Fund Physician. Must be out of classroom for continuous 6 months without pay before disability benefits paid. No teaching service earned while receiving benefit.</p> <p>Disability Retirement: Annually required to verify continuing qualification for Social Security disability benefits.</p>
Sources	Indiana Code; Annual Valuation, 6/30/2002; ISTRF <i>Active Member's Handbook</i> (Rev. 3/2004)

Kentucky Employees Retirement System	
Disability Definition	<p>NON-HAZARDOUS - Ordinary: Incapacitating condition or disease ... expected to last at least 12 months or result in death with sufficient medical evidence proving incapacity prevents performing job or job with similar duties. Job-related: Injury that is a single traumatic event that occurs while the employee is performing job duties or a single act of violence against the employee related to job duties, regardless if act of violence occurs at job site.</p> <p>HAZARDOUS - Ordinary: Total and permanent disability where an employee is incapable of working in a hazardous position, but may be capable of performing other types of work. Job-related: Total and permanent disability that is a direct result of an injury sustained while performing job duties.</p>
Service Requirement	5 years of credited service. Service requirement is waived if disability is job-related.
Disability Benefits	<p>Ordinary: Age and service benefit with additional years of service if eligible for unreduced benefits. (Non-hazardous participants: granted additional service from last day of paid employment to age 65 or until combined total service and added service equals 25 years; or if 25-27 years service, total service is 27 years; or if more than 27 years, actual service credit is used. Hazardous participants: granted additional service from last day of paid employment to age 55 or until combined total service and added service equals 20 years or if more than 20 years, actual service credit is used.)</p> <p>Job related: Greater of: 1) regular disability benefit or 2) minimum 25% of final monthly pay plus 10% of final monthly pay for each dependent child to maximum 40%. Employee receives 100% of monthly contribution rate toward medical insurance regardless of actual service credit.</p>
Earnings Offsets & Other Limitations	<p>Member and employer must both submit employee job description. Disability is determined by medical review physicians. Must be filed within 24 months of the last day of paid employment in a regular full-time position.</p> <p>If combined income from retirement, Social Security and Workers' Compensation exceeds 100% of final rate of pay or final compensation (whichever is greater), disability benefits will be reduced.</p>
Source	Summary Plan Description 12/2002

Michigan State Employees Retirement System	
Disability Definition	<p>Totally and permanently disabled ... unable to perform duties for which individual is trained, educated, or experienced.</p> <p>Ordinary: "totally incapacitated for duty because of a personal injury or disease"</p> <p>Job-Related: "totally incapacitated for duty because of a personal injury or disease that is not the natural and proximate result of the member's performance of duty"</p>
Service Requirement	10 years of state employment. Service requirement is waived if disability is job-related
Disability Benefits	<p>Ordinary: 1.5% of final average compensation (FAC) times years of service. Minimum annual benefit is \$600.</p> <p>Job-related: To age 60 - 2/3 of FAC.</p> <p>At age 60 - 1.5% of FAC times years of service (including additional service credit from disability to age 60). Minimum service credit is 10 years.</p>
Earnings Offsets & Other Limitations	Job-related: To age 60 - Maximum \$6,000/year (when combined with Workers' Compensation cannot exceed FAS).
Sources	State Employees' Retirement Act (PA 240) §§ 38.20– 38.25 and 38.33.

Minnesota State Employees Retirement System	
Disability Definition	“Total and permanent disability means the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that has existed or is expected to continue for a period of at least one year.”
Service Requirement	Three or more years of service.
Disability Benefits	1.7% of high-five average salary (highest successive 60 month period) times years of service.
Earnings Offsets & Other Limitations	Cannot apply for disability benefit more than 180 days after terminate employment. During partial employment, member may continue receiving a disability benefit and earnings from gainful employment to a maximum of the salary at date of disability. Workers’ Compensation benefit reduced by MSRS disability benefit. If purchase optional LTD plan, MSRS benefit and Social Security benefit may reduce LTD benefit.
Sources	MSRS’ Benefits Information page on web site, Minn. Statutes 2003, Chap. 352

Missouri Public Schools Retirement System	
Disability Definition	Permanent physical or mental impairment that prevents a member from earning a livelihood in any occupation.
Service Requirement	Teachers: Before age 60 with at least 5 years of creditable service in districts in the system. Non-teachers: Before age 60 with at least 5 years of NTRS creditable service. Permanently disabled while working in covered employment or within 1 year thereafter if condition of disability began while employed.
Disability Benefits	Teachers: Greater of: 90% of normal service retirement benefit based on credited service or 50% of final year’s salary. Maximum is normal service retirement benefit at age 60 based on last year’s salary. COLA after second January after retirement if retired after 7/1/2001. Non-teachers: 90% of normal service retirement benefit based on credited service. COLA after fourth January after retirement.
Earnings Offsets & Other Limitations	Disability determination based on medical advisor recommendation. Teachers: If employed in any capacity by a school district in PSRS, or any other employment with compensation considered a livelihood by Board, disability payments cease. Non-teachers: Before age 60, if employed in any capacity by an NTRS-covered employer, or any other employment with compensation considered a livelihood by Board, disability payments cease. At age 60, may work for non-covered employer or NTRS-covered employer up to 550 hours per school year without ceasing disability payments. If exceed 550 hours, disability payments cease until service terminates or new school year begins. Post-retirement critical shortage work exception for disability retirees age 60 or older to work full-time at school districts with declared shortage of employees for two years without losing NTRS benefits.
Source	Missouri PSRS Disability Retirement brochure (9/2003)

Missouri State Employees Retirement System	
Disability Definition	<p>Own occupation disability - a) unable to perform material duties of own occupation as a result of physical disease, injury, pregnancy, or mental disorder or b) unable to earn 80% or more of pre-disability earnings in own occupation.</p> <p>Any occupation disability -a) unable to perform material duties of any occupation reasonably fitted by education, training and experience as a result of physical disease, injury, pregnancy, or mental disorder or b) unable to earn 60% or more of pre-disability earnings in own occupation or any other occupation.</p> <p>Partial disability - a) during benefit waiting period and following 24 months, unable to perform material duties of own or another occupation but as a result of physical disease, injury, pregnancy, or mental disorder unable to earn 80% or more of pre-disability earnings in own occupation. After first 24 months, unable to earn 60% or more of pre-disability earnings in an occupation.</p> <p>Standard Insurance makes medical determinations for program. Must be under continuous and appropriate care of a physician.</p>
Service Requirement	<p>No service requirement.</p> <p>Must work at least 1,000 hours per year for the state of Missouri and member of MSEP, MSEP 2000 or ALJLAP; be a member of PSRS and full-time employee of a state agency; or work in MSEP or MSEP 2000 position at Lincoln University or Linn State Tech College.</p>
Disability Benefits	<p>60% of: (1) monthly salary on last full day of active work or (2) average of highest 36 consecutive months of salary (whichever is greater). Excludes bonuses, overtime, or other extra compensation. COLA based on 80% of annual change in CPI.</p> <p>Minimum benefit is the greater of: \$50 per month or 15% of the monthly disability benefit payable.</p>
Earnings Offsets & Other Limitations	<p>LTD benefits reduced by: 1) primary Social Security retirement or disability benefits, 2) regular monthly Workers' Compensation benefits, 3) wages earned during part-time employment, 4) benefits received under another group disability insurance plan and 5) any sick leave or salary continuation received while eligible for disability benefits.</p>
Source	<p>MOSERS Disability Plan brochure 1/2004</p>

New York State and Local Employees' Retirement System	
Disability Definition	Unable to perform own duties because of a permanent physical or mental incapacity.
Service Requirement	<p>Tier 3 – Ordinary: 5 years of service and awarded primary Social Security disability benefits. Accidental: Service requirement waived.</p> <p>Tier 4 – Ordinary: 10 years of service (no Social Security eligibility requirement). Accidental: Service requirement waived.</p>
Disability Benefits	<p>Tier 3 – Ordinary: greater of 33% FAE or 2% FAE x actual credited service (Max: 30 years) reduced by 50% Social Security disability benefit based on public employment in New York State and 100% Workers' Compensation benefit.</p> <p>Tier 3 – Accidental: 2% FAE x credited service projected at age 65 (Max: 30 years) reduced by 50% Social Security disability benefit based on public employment in New York State and 100% Workers' Compensation benefit.</p> <p>Tier 4 – Ordinary: greater of 1.66% FAE x actual credited service or 1.66% projected to age 60. Max: 33% FAE. No offset for Social Security disability or Workers' Compensation.</p> <p>Tier 4 – Accidental: greater of 1.66% FAE x actual credited service or 1.66% projected to age 60. At least 33% FAE. No offset for Social Security disability or Workers' Compensation.</p>
Earnings Offsets & Other Limitations	Not found.
Sources	Summary Plan Description, Coordinated Retirement Plans

North Dakota Public Employees Retirement System	
Disability Definition	“Unable to engage in any substantial gainful activity due to a medically determinable physical or mental impairment expected to result in death or which has lasted for a continuous period of not less than 12 months.”
Service Requirement	Six months of eligible service.
Disability Benefits	<p>25% of final average salary (highest 36 of last 120 months worked). Minimum: \$100/month. No offsets for Social Security or other disability benefits.</p> <p>Payment Options: straight-life, 50% joint and survivor, 100% joint and survivor, 5-year certain; 10-year certain.</p>
Earnings Offsets & Other Limitations	<p>Medical re-certification 18 months after member is first eligible to receive disability benefits.</p> <p>If member returns to NDPERS covered employment, disability benefits are suspended.</p> <p>If member returns to work in employment not covered by NDPERS, disability benefit may continue for up to 9 consecutive months. Member must inform NDPERS upon returning to work.</p>
Source	NDPERS: <i>Disability Benefits</i> (brochure).

Ohio Public Employees Retirement System	
Disability Definition	Mentally or physically incapacitated for the performance of duty by a disabling condition, either permanent or presumed to be permanent.
Service Requirement	At least 5 years of contributing service credit to the Plan. Service requirement is waived for members in the law enforcement division of the Traditional Pension Plan who become disabled due to an on-duty illness or injury.
Disability Benefits	<p>Original Plan (pre-7/30/92): Disability benefit based on 2.2% FAS (or \$86, whichever produces the greater benefit) and service projected to age 60. Min: 30% FAS. Max: 75% FAS. Disability application must be filed before age 60. 3% simple COLA.</p> <p>Revised Plan (post-7/29/92): Disability allowance based on 2.2% FAS and service to disability date, with no early retirement reduction. Min: 45% FAS. Max: 60% FAS. Disability payments terminate after age 65 (or later if payments begin after age 60). After disability payments terminate, member may apply for service retirement equal to the greater of (i) the accrued benefit based on actual service or (ii) 2.2% FAS times service credit including the period of disability (Max: 45% FAS). 3% simple COLA.</p>
Earnings Offsets & Other Limitations	<p>Medical review may be required at least annually. If the member is no longer disabled, disability benefits terminate. If the member receives disability benefits for less than 5 years, OPERS will notify the member's previous employer so the member can be restored to his or her previous (or similar) position.</p> <p>Return to employment with a public entity terminates the disability benefit. Return to employment with a private employer may affect continued receipt of disability benefits.</p>
Sources	OPERS Disability benefits brochure (2/02); Actuarial Valuation, 12/31/2003; Ohio Revised Code §§ 145.35-145.36.1.

State Teachers Retirement System of Ohio	
Disability Definition	Mentally or physically incapacitated for the performance of duty by a disabling condition, either permanent or presumed to be permanent.
Service Requirement	At least 5 years of service credit.
Disability Benefits	<p>Pre-7/30/92: Disability retirement based on 2.0% FAS (or \$86, whichever produces the greater benefit) and service projected to age 60. Min: 30% FAS. Max: 75% FAS.</p> <p>Post-7/29/92: Disability allowance based on 2.2% FAS and service to disability date. Min: 45% FAS. Max: 60% FAS. Disability payments terminate after age 65 (or later if payments begin after age 60). After disability payments terminate, member can for service retirement.</p>
Earnings Offsets & Other Limitations	<p>Medical review may be required at least annually. If the member is no longer disabled, disability benefits terminate. If the member received the disability benefit for less than 5 years, STRS notifies the member's previous employer so that the member can be restored to his or her previous (or similar) position.</p> <p>If the disabled member returns to employment as a teacher in any public or private school, the disability benefit terminates. If the disabled member is employed before the disability benefit terminates, the employer is responsible for reimbursing STRS for the disability benefit paid to the member while employed.</p>
Sources	STRS web site; Ohio Revised Code §§ 3307.62-63.1.

Pennsylvania State Employees' Retirement System	
Disability Definition	Physically or mentally incapable of performing the duties of the member's current job
Service Requirement	At least 5 years of creditable service; minimum service requirement waived for State Police and enforcement officials
Disability Benefits	<p>If member has less than 16 2/3rds years of service, benefit is the lesser of 1/3rd final average salary or single life annuity projected to normal retirement. If member has 16 2/3rds years or more, benefit is single life annuity without any reduction for early retirement.</p> <p>For employees hired after July 1, 2001 (excluding State Police, legislators, and judges), the 16 2/3rds years is reduced to 13 1/3rd years. However, these employees have to contribute 6.5% of gross pay for retirement benefits.</p> <p>Job-Related: Additional benefits provided under Pennsylvania Workers' Compensation Program.</p>
Earnings Offsets & Other Limitations	<p>Earnings limit may not exceed the greater of (a) the difference between disability payments for past year and the individual's highest annual salary as a state employee or (b) the difference between disability payments for past year and \$5,000. Retirant is required to report employment earnings on a quarterly basis. Disability benefit adjusted accordingly.</p> <p>Earnings include gross wages, salaries, tips, and net earnings from self-employment. Earnings do not include Social Security benefits, workers' compensation, investment income, dividends, and wages prior to disability retirement.</p>
Sources	SERS web page "Applying for and Receiving a Disability Retirement" (http://www.sers.state.pa.us/sers/cwp/view.asp?a=260&Q=246669) and "Annual Earnings Statement for Disability Benefits" form

Employees Retirement System of Rhode Island	
Disability Definition	<p>Ordinary: Physically or mentally incapacitate for the performance of duty.</p> <p>Accidental: Same as ordinary except disability is the result of an accident while in performance of duty.</p>
Service Requirement	<p>Ordinary: At least 5 years of contributing service, of which 3 years are consecutive.</p> <p>Accidental: Service requirement waived.</p>
Disability Benefits	<p>Ordinary: Service retirement allowance (1.7% multiplier, 3 year FAE) times service to disability date. If less than 10 year of service, service increased to 10 years.</p> <p>Accidental: 2/3rds annual compensation at disability date, offset by workers' compensation.</p> <p>Generally, cost of living adjustments added to monthly disability check effective January 1 of third year of disability retirement. Teachers on accidental disability do not receive COLA.</p>
Earnings Offsets & Other Limitations	Disability benefit and personal earnings may not exceed annual compensation presently paid to position from which disabled member retired. Excess amounts refunded to system.
Sources	ERS-RI, Disability Handbook, 1999 (from web site).

South Carolina Retirement Systems	
Disability Definition	Physically or mentally incapacitate for the performance of duty.
Service Requirement	At least 5 years of earned service credit. Service requirement waived if disability is job-related.
Disability Benefits	Service retirement (1.82% x AFC based on 12 highest consecutive quarters) projected to age 65, with actuarial reduction. Ad hoc COLAs based on CPI up to 4%. COLA typically approved if System's funding requirements have been met.
Earnings Offsets & Other Limitations	Disability benefits plus earnings from gainful employment may not exceed average final compensation (AFC). For earnings limit purposes, AFC is adjusted annually by changes in the CPI, up to a maximum of 10%. [Unclear whether this is annual or cumulative]
Note	Because SCRS does not base benefit on "total and permanent" disability, benefit payments are considered to be normal distributions from the retirement system and subject to tax.
Sources	SCRS: Member Handbook, July 2003. SCRS: Your Disability Retirement Benefits, July 2003. (Brochures on web site)

Wisconsin Retirement System	
Disability Definition	"Inability to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that can be expected to result in death or to be a long-continued and indefinite duration." Compensation from "substantial gainful employment" means compensation exceeding \$10,047 in 2002, updated annually.
Service Requirement	Participant must have completed at least 6 months of creditable service in each of at least 5 out of the last 7 calendar years preceding application for disability. Service requirement waived if disability is service-related.
Disability Benefits	Pre-10/16/92 WRS Plan: WRS formula benefit based on service projected to normal retirement age. Post-10/15/92 LTDI Plan: 40% of FAE for participants covered by Social Security; 50% of FAE for non-covered participants who cannot qualify for Social Security disability benefits.
Earnings Offsets & Other Limitations	Disability benefit is suspended if an individual earns more than the "substantial gainful employment" earnings limit of \$10,047 (in 2002). After individual reaches normal retirement age, the earnings limit no longer applies.
Sources	Annual Valuation, 12/31/2002; WRS Publication: <i>Disability Benefits</i> (Rev. 2/2002)

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
277 EAST TOWN STREET, COLUMBUS, OH 43215-4642
1-800-222-PERS (7377)
www.opers.org

MEMORANDUM

DATE: February 6, 2004

TO: OPERS Retirement Board Members

FROM: Beverlon Hodge, Asst. Director - Benefits
Dan Drake, Director – Benefits Administration

RE: Disability Options

Background:

At the Board's request, Staff has reviewed OPERS' current disability benefit structure and developed an outline to be used as a basis for discussion of potential changes to disability benefits. In developing alternatives, consideration was given to funding, administration, and to maintaining the integrity of the current structure of disability benefits.

This memo is a starting point for discussions about this subject. Ultimate changes would require legislative action and coordination with the other Ohio Retirement Systems.

This memorandum includes the following:

- I. Disability benefit structure
- II. Current components used in determining eligibility for disability benefits including monitoring and review
- III. Alternatives

I. Disability Benefit Structure:

Original Plan:

- The amount of disability allowance is based on the final average salary (FAS) and years of service, including the length of time between the effective date of the disability benefit and age 60.
- Disability retirement shall not be less than thirty per cent and not more than seventy-five per cent of the member's final average salary.
- Benefit is fully taxable until minimum retirement age. For a law enforcement member disabled due to an on-duty injury or illness, 30 percent of the benefit payment is excludable from taxable income.

Revised Plan:

- The amount of the disability allowance is based on the final average salary (FAS) and years of service.
- Disability retirement shall not be less than forty five percent or cannot exceed sixty per cent of the member's final average salary.
- Converts to age and service retirement (generally at age 65).
- Benefit is fully taxable as long as it is received. For a law enforcement member disabled due to an on-duty injury or illness, 45 percent of the benefit payment is excludable from taxable income.

II. Current Disability Components:

On-duty versus Off-duty

- 1) On-duty illness or injury - defined as an illness or injury that: a) occurred during or resulted from performance of duties under the direct supervision of a member's appointing authority, and b) is not an exacerbation of an existing illness or injury medically diagnosed before the first day of employment with the employer reporting to the retirement system.
- 2) Off-duty illness or injury – defined as an illness or injury that is not a direct result of or does not occur during the performance of duties under the direct supervision of a member's appointing authority.

OPERS provides disability coverage to each member who has at least five years of total service credit and disability coverage for on-duty illness or injury to each member who is a PERS law enforcement officer or Hamilton county municipal court bailiff, regardless of length of service.

Performance of Duties Standard

- 1) Own occupation – This is the standard currently used by OPERS. It is defined as a determination of being mentally or physically incapacitated in the performance of a member’s present duty or similar service by a disabling condition that is either permanent or presumed to be permanent for at least 12 months.
- 2) Any occupation – Defined as a determination of being mentally or physically incapacitated in the performance of any other type of work or the inability to be gainfully employed.

Monitoring and Re-examination of Disability Retirees

Current statute requires that any disability recipient, as a condition of continuing to receive a disability benefit, agree in writing to obtain any medical treatment recommended by the board’s physician. In addition, the board’s physician may require subsequent medical examinations in the year(s) following a determination of disability to ensure continued eligibility for disability coverage.

All disability recipients must seek approval from OPERS if they wish to return to work in the private sector. If the employment is similar to the position the recipient held as a public employee then the disability benefit would be terminated. Current statute prevents a disability recipient from returning to employment for a public employer without termination of the disability benefit.

Employment and Earnings Statements

Current statute requires a disability recipient to file on an annual basis a notarized statement providing OPERS certain information included but not limited to work performed during the preceding calendar year, compensation received for work performed, and current medical information. However, OPERS disability benefits are not offset by employment earnings. As a result, it is possible to achieve income levels that exceed pre-retirement income.

The chart below shows the difference in earnings statistics between 1993 and 2002.

Year	# Mailed	# Who Reported Earnings	Average Earnings Per Year	# Earning > \$10,000	Highest Amount Earned
1993	8,891	295	\$7,040	65	\$82,417
2002	15,716	1972	\$10,746	747	\$125,000
% Change	+ 76%	+ 9%	+ 53%	+ 16%	+ 52%

Although the number of persons receiving disability benefits has increased significantly, there has only been a slight increase in the number of persons with reported earnings. On the other hand, of the persons reporting income, average earnings have increased along with the number of persons earning more than \$10,000.

Taxation

By IRS Private Letter Ruling, OPERS was granted authority to allow law enforcement members who are disabled as a result of an on-duty injury or illness to exclude from taxes an amount of up to 30% for the original plan and 45% for the revised plan of final average salary. Benefits paid to survivors of these same LE members are also excludable up to the same percentage.

III. Alternatives:

Potential Reasons for Change:

- Since the statute on disability was enacted, technological advances, particularly in recent years, have created opportunities to work that did not exist at the time the laws were enacted
- Increased possibility that some disability recipients could find full-time and/or gainful employment in other occupations
- Savings could be used to reduce disability costs to OPERS fund.
- Use of “own occupation” versus “any occupation” and “on-duty” versus “off-duty” for eligibility and benefit determination vary throughout the industry which allows for flexibility in developing potential plan changes

On-duty versus Off-duty

Options:	Pros	Cons
Expand application of “on-duty” illness or injury to allow all members disability coverage if member has less than 5 years of service (same as law enforcement)	<ul style="list-style-type: none"> • Could be viewed as “equal” treatment for all recipients with on-duty illnesses • Creates the ability to offer the higher tax exclusion to expanded number of recipients 	<ul style="list-style-type: none"> • Per GRS, cost to system is approx. .11% of payroll for both State and Local groups • Increases amortization period by 2 years • Health care costs could increase due to potential increase in the number of disability recipients
Have different levels of disability benefits for “on-duty” versus “off-duty”	<ul style="list-style-type: none"> • Provides a type of “no fault” provision to all members with on-duty illnesses or injuries 	<ul style="list-style-type: none"> • Adds complexity in disability administration • Would require clear communication to members
Provide disability benefits for “on-duty” illness or injury only	<ul style="list-style-type: none"> • Limits the number of members eligible for disability benefits • Reduces costs 	<ul style="list-style-type: none"> • Limits the number of members eligible for disability benefits • Significant departure from current law • Could be looked at prospectively

Worker’s Compensation Offset

Options:	Pros	Cons
Offset “on-duty” illness or injury with Worker’s Compensation benefits	<ul style="list-style-type: none"> • Savings to OPERS 	<ul style="list-style-type: none"> • Past discussions have been unsuccessful • Adds complexity in disability administration

Performance of Duties Standard

Options	Pros	Cons
Utilize “any occupation” instead of current “own occupation” standard	<ul style="list-style-type: none"> • Brings us in line with guidelines used by Social Security • Reduces costs 	<ul style="list-style-type: none"> • Severely limits the number of members eligible benefits • Would require clear communication to members
Utilize “own occupation” standard for first 5 years and “any occupation” thereafter.	<ul style="list-style-type: none"> • Follows leave of absence provisions • Limits the number of members receiving benefits for an extended period of time • Provides incentive for persons capable of working in other areas of employment • Reduces costs 	<ul style="list-style-type: none"> • Adds complexity in disability administration • Limits the number of members receiving benefits for an extended period of time • Would require clear communication to members

Earnings Offset

Options:	Pros	Cons
Offset disability benefit if additional earnings exceed FAS	<ul style="list-style-type: none"> • Recipient would not receive more than FAS • Reduction could be calculated on a dollar for dollar basis or a one dollar reduction for every two dollars over the FAS • Savings to OPERS 	<ul style="list-style-type: none"> • Adds significant complexity in disability administration • Would require clear communication to members
Offset disability benefit if additional earnings exceed disability allowance	<ul style="list-style-type: none"> • Recipient would not receive more than disability allowance • Reduction could be calculated on a dollar for dollar basis or a one dollar reduction for every two dollars over the disability allowance • Savings to OPERS 	<ul style="list-style-type: none"> • Adds significant complexity in disability administration • Would require clear communication to members