

MEMORANDUM

To: Senate Ways and Means Committee
From: Alan D. Conroy, Executive Director ^{A.D.C.}
Date: March 13, 2013
Subject: HB 2228 - Death and Disability Employer Contribution Rate Adjustment

Program History

The System has managed the death and long-term disability benefit program for active KPERS members and certain other groups of active employees since 1966. The program provides two primary benefits.

- Group life insurance equal to 150% of annual compensation, which is provided through an insurance contract with Minnesota Life.
- Self-insured long term disability benefits equal to 60% of annual compensation, offset by Social Security disability benefits. Members on disability also have their group life insurance coverage continued under a waiver of premium provision.

Additional information regarding the benefits provided by the program is detailed in Attachment A.

This program has been an employer-provided benefit since its inception. For over 20 years, the employer rate was set statutorily at 0.6 percent of payroll. The employer contribution rate was raised to 1.0 percent by the 2005 Legislature, effective in FY 2007.

Due to budget shortfalls, the Governor proposed and the Legislature adopted 27 months of moratoriums on employer contributions to the Death and Disability Fund (Fund) between FY 2000 and 2004. These moratoriums resulted in multi-year budget savings of \$100.3 million--\$78.5 million for the State and \$21.8 million for local governments. As a result, the Fund's balances were nearly depleted. By FY 2004, the program effectively shifted from being pre-funded on an actuarial reserve basis to a "pay-as-you-go" program, leading to enactment of a package of plan design and cost containment measures. In conjunction with the increase in the employer contribution rate, these measures stabilized the plan's funding. Fund balances began to grow modestly because actual claims expenses were lower than originally projected when the 1.0 percent rate was established.



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Following the economic downturn in 2008, the Legislature again approved moratoriums on employer contributions to the Death and Disability Fund. Between FY 2009 and FY 2012, the Legislature approved 13 months of moratoriums. An additional three-month moratorium is scheduled to occur in FY 2013. Attachment B shows the history of the approved moratoriums since FY 2000.

House Bill 2228

House Bill 2228 would adjust the employer contribution rate from 1.0 percent to 0.85 percent of the amount of compensation on which the members' contributions to the KPERS retirement system are based for FY 2014 and FY 2015. The rate would return to 1.0 percent in FY 2016 and all future years.

The bill would have the effect of reducing revenue into the Death and Disability Fund and lowering the ending balance of the Fund in FY 2014 and FY 2015. Since the death and long-term disability program has effectively become a pay-as-you-go system, the Fund needs a balance large enough to cover the claims in each fiscal year. KPERS' actuary recommends maintaining an ending balance of at least \$10.0 million each year in the event an unforeseen increase in claims occurs. Should approved claims exceed the balance of the Fund in any given year, the Pooled Money Investment Board is to loan sufficient funds to maintain the cash flow, upon approval by the State Finance Council. Ultimately, an adjustment to the revenue into the Death and Disability Fund would be necessary to meet the obligations of KPERS and the State.

The provisions of HB 2228 would reduce revenues to the Death and Disability Fund by an estimated \$7.4 million in FY 2014 and \$8.2 million in FY 2015. The ending balance of the Fund is estimated to be \$10.7 million at the end of FY 2014 and \$9.3 million at the end of FY 2015. Attachment C shows the estimated change in revenue caused by HB 2228 for the state, school, judges, and local groups and the projected ending balance of the Death and Disability Fund in FY 2014 and FY 2015.

The House Committee amended HB 2228 to include language enacting a three-month moratorium on employer contributions to the Death and Disability fund for the last quarter of FY 2013. The 2012 Legislature adjusted appropriations for state agencies to reflect a three-month moratorium in FY 2013, but corresponding substantive law change was not passed during the 2012 session. The total savings realized by the three-month moratorium are estimated to total \$15.96 million, which includes \$12.27 million for the state's contributions and \$3.70 million for the local contributions.

I hope this information is helpful. I am pleased to respond to any questions the Committee may have regarding HB 2228.

Attachments

KPERS DEATH AND DISABILITY PROGRAM

Basic and Optional Group Life Insurance

Active KPERS members are covered by a basic term life insurance policy equal to 150% of the member's annual earnings. This benefit is provided under a group life insurance contract with Minnesota Life and is funded entirely by employer contributions.

Members may elect to purchase additional optional group life insurance coverage under the same contract in \$5,000 increments, up to a maximum of \$250,000. All premiums for optional group life insurance are the responsibility of the member, with no contributions toward the premiums funded by employers.

Long-Term Disability (LTD) Benefits

Disability Plan Highlights	
Disability Definition	From own occupation first 24 months From any occupation after 24 months
Benefit Amount	60% of current compensation
Benefit Maximum	\$5,000 per month
Rehabilitation Benefit	24-month maximum
Limited Benefit Periods	None for biologically-based mental health conditions Other mental health conditions = 24 months Substance abuse conditions = 24 months

Definition of Disability. The member is disabled when, on the date of disability, he or she meets the following definition of total disability:

Own Occupation Period. For the first 24 months for which benefits are paid, the member is unable to perform the material and substantial duties of his or her regular occupation due to sickness or injury.

Any Occupation Period. After benefits have been paid for 24 months, the member is unable to perform the material and substantial duties of any gainful occupation due to sickness or injury.

Benefit Waiting Period. For approved claims, benefits will begin the later of (a) the date the member completes 180 continuous days of total disability; or (b) the

date the member ceases to draw compensation from his or her employer.

- Monthly LTD Benefit.** 60 percent of the member's monthly rate of compensation. Minimum monthly benefit of \$100 and maximum monthly benefit of \$5,000 (subject to reduction by deductible sources of income).
- Maximum Benefit Period.** If the disability begins before age 60, the period remaining to the member's 65th birthday or retirement, whichever occurs first. If the disability begins at or after age 60, a period of five years or the date of the member's retirement, whichever occurs first.
- Social Security Benefits.** As a condition of eligibility, the member must apply for Social Security disability benefits and exhaust all administrative remedies of the Social Security Administration.
- Limitations and Exclusions.** Certain limitations and exclusions apply relating to benefit periods, general exclusions, and exclusion for pre-existing conditions.

Historical Moratoriums on Employer Contributions	
Death and Disability Fund	
<u>Year</u>	<u>Length of Moratorium</u>
2000	3 Months
2001	12 Months
2002	6 Months
2003	6 Months
2009	4 Months
2010	3 Months
2011	3 Months
2012	3 Months
2013	3 Months

Estimated Ending Balance		
Death and Disability Fund		
	1.0%	0.85%
	Contribution Rate	Contribution Rate
FY 2013*	\$ 10,105,621	\$ 10,105,621
FY 2014	\$ 18,166,021	\$ 10,748,171
FY 2015	\$ 25,074,421	\$ 9,347,721
*Assumes a three month moratorium from April 2013 – June 2013		

Projected Reduction in Revenue		
Death and Disability Fund		
Group	FY 2014	FY 2015
State	\$ (2,076,000)	\$ (2,295,000)
School	(3,454,000)	(3,819,000)
Judges	(12,100)	(13,350)
Subtotal – State	\$ (5,542,100)	\$ (6,127,350)
Local	(1,875,780)	(2,074,000)
Grand Total	\$ (7,417,850)	\$ (8,201,350)

February 7, 2013

