

### THE BILL'S PURPOSE

HF1234/SF1959 impacts Police & Fire Plan members in two ways. First, the Bill improves access to mental health care, which stakeholder groups agree will help reduce the future number of disability benefit recipients. Second, the Bill more closely aligns a disability recipient's income (benefit plus reemployment earnings) with an active member's income (salary net of contribution requirements). Currently, it is not uncommon for a disability recipient with reemployment earnings to have net income in excess of an active member's net income. The Bill reflects the point of view that a disability benefit should provide income for a disabled member as a financial bridge to a new career or retirement.

Plan costs have increased due to the trends of a consistently higher level of disability benefit applications and an elevated number of younger applicants. When a disability benefit commences, both member and employer contributions stop. The combination of shorter pay-in periods and greater pay-out periods is very detrimental to the Plan. For example, if a member receives a disability benefit at age 30, the Plan does not receive 25 years of contributions, and pays out an additional 25 years of benefits. During this period, the fund no longer receives 29.5% of pay as contributions and pays out a benefit that is 60% of average salary – an annual impact of almost 90% of that member's pay.

A study<sup>1</sup> commissioned by PERA's Board indicates that the expected cost impact of these trends are approximately \$40M/year, or about 4% of payroll. Only a reversal of these trends will have a significant impact toward reducing or lowering this increase in Plan costs. While the proposed offsets have some impact on the health of the fund, the primary purpose of the offset changes is the realignment of benefits between member groups within the Plan.

### MEMBER IMPACT

The offsets are more thoroughly described, with examples, on the back of this page. The chart below shows estimated headcounts and the average impact by member group.

# of Members	Membership Group <sup>2</sup>		Bill Impact
23,200	Active	11,629	None
	Retirement and Survivor	10,195	
	Disability over 55, no offset	628	
	Disability under 55, no offset	748	
305	Disability under 55, Offset 1 and 2	82	Current Offset \$3,400 Proposed Offset \$17,900
	Disability under 55, Offset 1 only	223	Current Offset: \$0 Proposed Offset: \$2,700

The desired outcome of HF1234/SF1959 is to decrease the number of future duty disability applicants by providing access to improved mental health care. A complete reversion to the disability rates from the 2015-2019 would eliminate the \$40M/year cost impact due to current high rates.

### FUND IMPACT

As noted above, the change in offsets are not motivated as the sole financial solution. Nevertheless, the potential new cost savings to the Plan would initially be about \$2M/year. It is important to note that the above results for disability recipients do not reflect the likely significant growth expected in this group. There are a few hundred members that have not yet completed their first earnings reporting cycle. Meaning, the estimates for members impacted is relatively low right now and are expected to increase.

## UNDERSTANDING OFFSET 1 AND 2

Offsets only apply when disability recipients have reemployment earnings, and only to the point to help align the net disability benefit plus reemployment earnings with the net income of active members compensation after their PERA contribution. With the Bill, the workers' compensation offset is eliminated. Duty disability recipients also have an advantage – their 20-year benefit is tax free.

### PROPOSED OFFSET 1

This offset only applies to duty disability recipients who have earned less than 20 years of service in the plan (15 years for regular disability).

Let's say a Police & Fire member, age 40 at the time of disability, with 15 years of service credit and an average salary of \$100,000 receives a duty disability benefit. The member's disability benefit would be 60% of average salary, or \$60,000. Suppose they then get another non-public safety job and earn \$45,000.

The proposed Offset 1 would be calculated:

Proposed Offset 1	= $11.8\% \times (\text{average salary}) \times (20 - \text{accrued years of service}) / (55 - \text{age at time of disability})$
	= $11.8\% \times \$100,000 \times (20-15) / (55-40)$
	= $11.8\% \times \$100,000 \times 5/15$
	= \$3,933 (or \$328/month)

Note: The above calculation uses the smaller of (a) 50% of reemployment earnings, which would be \$22,500 (50% x \$45,000), or (b) 11.8% of average salary multiplied by the service/age ratio, which is shown above.

### PROPOSED OFFSET 2

Offset #2 is a reduction to the duty disability benefit when the sum of the duty disability benefit plus reemployment earnings exceed 100% of an active member's salary in a similar position. The reduction is equal to \$1 for every \$2 when the sum exceeds 100% up to 125%, and \$1 for every \$1 when the sum exceeds 125%.

Using the same scenario as above, the proposed Offset 2 would be calculated:

Proposed Offset 2	= (Disability benefit + Reemployment Earnings) – Current Salary of Similar Position
	= (\$60,000 + \$45,000) - \$100,000
	= (\$105,000 - \$100,000) / 2 (reduction is \$1 for \$2 over 100% but less than 125%)
	= \$2,500 (or \$208/month)

### CURRENT OFFSET

Under current law, disability recipients are subject to earnings offsets when their benefit plus reemployment earnings exceeds 125% of the salary currently paid for a similar position. If the 125% is exceeded, the disability benefit is reduced \$1 for every \$3 over the limit.

If we use the same example above, no offsets apply because the total benefit (\$60,000) plus reemployment earnings (\$45,000) is less than 125% of average salary for a member in a comparable position (\$125,000). The disability member would receive more total net income than a comparable active member.

Current Offset	= (Disability benefit + Reemployment Earnings – 125% x Current Salary of Similar Position) / 3
	= (\$60,000 + \$45,000 – 125% x \$100,000) / 3
	= \$0 (offset cannot be less than 0)

#### Additional Notes:

<sup>1</sup>[GRS Police & Fire Plan Disability Analysis](#), June 9, 2022

<sup>2</sup>Membership data is from the [2022 GRS Actuarial Valuation Report](#). The chart excludes deferred members (1,864), non-vested members (957), Relief Association disability recipients, combined service disability recipients, and disability recipients not part of the 2021 annual earnings reporting (231). The disability recipient data (1,681) was from the 2021 annual earnings reporting process. The 2022 annual earnings reporting is in process and complete data is not yet available.