Date: April 8, 2021
To: PERA Board of Trustees
From: Doug Anderson, Executive Director
Subject: Police & Fire Plan Disability Application Process Update

During the past year the number of applications for a PERA Police & Fire Plan duty disability have significantly increased. The vast majority of applications cite Post Traumatic Stress Disorder (PTSD) as the reason for the disability claim.

PERA’s board has a fiduciary obligation to our members, the employers, and the state taxpayers. All of these groups have expressed in various ways their desire that disability benefits paid by the Plan are provided fairly to members. The only way for PERA to ensure all stakeholder concerns are met, and members are fairly treated, is to evaluate each application carefully. This process requires careful review by qualified health professionals.

Per statute, PERA has the ability to contract with a third party medical advisor to review the medical reports submitted with disability applications. PERA contracts with Managed Medical Review Organization (MMRO). As a result of the upward trend in psychiatric illness/injury claims, and in order to fulfill our statutory obligations, PERA began an internal conversation over a year ago to review the clinical disability evaluation process as it relates to PTSD and other psychiatric claims. The result was a change in the process to require all psychological and psychiatric claims, which includes PTSD claims, to be reviewed by a board certified psychiatrist. The board certified psychiatrist conducts an initial review to determine whether the diagnostic criteria have been met and whether the member meets PERA Police and Fire disability standards. If necessary, the board certified psychiatrist recommends further independent psychological and psychiatric testing and an independent psychiatric evaluation. The cost for further testing and evaluation is born by PERA, not by individual members.

Shortly after the implementation of the revised evaluation process in August 2020, PERA received, and continues to receive, a high influx of disability claims. Monthly claims have reached levels that are four to five times higher than experienced the previous year. The processing time for evaluation of claims has increased. PERA believes that while the timing of the process revision contributed to longer processing times, the primary cause for delays is the increased volume. As has always been the case, some applications can be processed more quickly than others. The expectation is as the surge in claims subsides, the revised evaluation process will not add significant time to the application process.

On February 23, 2021, the Legislative Commission on Pensions and Retirement (LCPR) devoted a hearing to the PERA disability application process. PERA’s presentation for the hearing is attached. There were also PERA members that testified or provided personal impact statements. All materials are available on the LCPR’s website.
On March 1, PERA provided a letter to the LCPR that has previously been shared with you. The letter provided an update on actions PERA took immediately following the February 23, 2021 hearing. We also provided an update to the LCPR on March 17, 2021 demonstrating progress towards reducing the processing time for disability applications. PERA has since implemented a plan to pay members as quickly as possible once disability decisions are made.

The change in process and workload has increased the MMRO fees significantly and more than expected. Prior to January, the average monthly expense was $23,000. In January and February, when the initial bulk of claims began to be processed, expenses were $87,000 and $207,000 respectively. We expect the monthly fee to be approximately $135,000 through the rest of this fiscal year.

Staff will review the LCPR testimony materials, provide an update on processing status, share member concerns, and discuss the financial impact of the heavy caseload at the April meeting. No decision is required by the Board at this time.
Police & Fire Plan Duty Disability Application Process and Caseload Status Update

February 23, 2021

Doug Anderson, ASA, MAAA, Executive Director
Amy Strenge, Policy Coordinator
Julie Leppink, JD, General Counsel
12,025 Actives

Employee $124M
Employer $194M
Total Contributions $318M
FY19 Assets $8.8B
FY20 Assets $9.0B
Total Benefit Payments $567M
11,201 Retirees

Source: July 1, 2020 Actuarial Valuation prepared by GRS Consulting
**Membership Distribution**

- **Active** 12,025
- **Deferred** 2,580
- **Survivors** 1,931
- **Disability Retiree** 1,477
- **Service Retiree** 7,793

**Source:** July 1, 2020 Actuarial Valuation prepared by GRS Consulting
For improved future benefit security and progress towards full funding: 17.7%.

For full or reduced early retirement benefits with 1% annual increases: 16.3%.

3.4% for disability benefits.

0.9% for survivor and termination benefits.

0.1% for operating expenses.

8.8% for improved future benefit security and progress towards full funding.

11.8% Employee Contribution + 17.7% Employer Contributions = 29.5%.
Increasing disability rates may decrease the rate of funding improvement.

Plan sustainability concerns did not influence the change to the disability application process.
ANNUAL DISABILITIES & SERVICE RETIREMENTS

Sources: Disability Approvals from PERA, Service Retirements from 2008 -2020 actuarial reports prepared by GRS & Segal.
The number of approvals in 2020 has been impacted by longer processing times that have occurred due to a large influx of applications late in the year.

The approval rate from 2015 to 2020 was over 97%

Source: Data prepared by PERA staff
*ANNUAL DISABILITY RATE TREND BY AGE GROUP*

- **Age 50-54**
- **Age 45-49**
- **Under 45**

Sources: Disability Approvals from PERA, Service Retirements from 2008 - 2019 actuarial reports prepared by GRS Consulting & Segal.
DISABILITY APPROVALS IN FY19 BY AGE AND SERVICE

Source: Data prepared by PERA staff

288 service retirements over age 55 (members are not eligible for disability)

6 disabilities over age 55 with less than 20 years of service (out of 242 actives)
Duty Disability
• Eligible first day on the job
• Directly attributable to inherent dangers of the job
• Minimum of a 20 year service benefit
  • 60% of Average Salary plus 3.0% for each additional year of service
• For most, minimum benefit is non-taxable until normal retirement age (55)
  • Converts to taxable retirement benefit at normal retirement age
• For most, members receive continued health insurance paid by the employer until age 65

Regular Disability
• Eligible after 1 year of service
• Maximum of a 15 year service benefit
  • 45% of Average Salary
• Fully taxable
• For most, converts to a retirement benefit at normal retirement age (55)
DISABILITY APPROVALS BY TYPE AND POSITION

Source: Data prepared by PERA staff
DISABILITY APPLICATION PROCESS

Basis for the Decision

Data showed increased % of mental health applications
Collaborative PERA staff effort
Deliberative process from Fall 2019 to Summer 2000
PERA Board reviewed August 2020

Previous Process
Peer Review by General Physician

Revised Process
Peer Review by Psychiatrist
Member Applies

Employer Contacted

Consulting Disability Case Manager
DISABILITY APPLICATION PROCESS

Initial Review by a clinical nurse

- Physical Disability
- Psychiatric/Psychological Disability

Review by General Physician

If further information is required, independent medical evaluation is conducted

Recommendation to PERA

Review by Board Certified Psychiatrist

If further information is required, independent psychiatric evaluation and testing is conducted

Recommendation to PERA

Consulting Disability Case Manager Process
If approved, members benefit begins, if denied, member may appeal.
119 applications received in 2019
236 applications received in 2020

Source: Data prepared by PERA staff
In Process
Denied
Approved

Source: Data prepared by PERA staff. Data shows status as of February 22, 2020. No denials are currently in an appeal process.
Questions

www.mnpera.org

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