

North Carolina Department of State Treasurer

---

# Retirement Systems Division

---

October 2006

North Carolina Nationwide Survey of State Disability Programs



## SURVEY QUESTION SUMMARY

A fifty-four question internet survey was sent to senior-level disability administrators in the fall of 2005. Including North Carolina, 39 states responded to the survey. The questions were designed to provide a general overview of the administration of state disability plans.

Respondents were first asked to indicate whether or not income replacement was offered to state employees who become disabled due to a non-duty related injury or illness. All but three of the states answered in the affirmative.

The following sequence of questions was aimed at identifying the like processes of state disability plans. Process categories were defined as:

- processing applications
- determinations
- benefit payments
- collection of overpayments
- financial management
- fraud investigation
- vocational rehabilitation
- assistance with medical rehabilitation.

Respondents identified whether these processes are a part of the plan, what organization is primarily responsible for the associated duties, and if the function is legally mandated.

State representatives were asked questions specific to plan eligibility and the benefit:

- How is the benefit calculated?
- How long will it last?
- What incidences render the recipient ineligible?
- On what basis is a person considered disabled?

In most instances, the disability determination can be brought back to two foundations. The disability test is either based on the duties of one's *current* occupation or *any* occupation. A third option is a hybrid of these models referred to as a current-then-any occupation test.

The survey covered who pays and how much. Respondents were asked to describe in percentages how much of the plan was funded by employers, investments, and employees.

The final series of questions regarded offsetting the disability benefit for outside income. Respondents were provided with a list of potential benefits and other income and asked if their disability plan offset for the listed items or others. If the plan included offsets, the respondents were directed to two questions: First, how do administrators obtain information about disability recipients' outside income? Second, did the plan include a hypothetical offset for Social Security Disability Insurance?

There was opportunity at the end of the survey for additional comments and contact information.

## MAJOR FINDINGS

Whether or not an employee is considered disabled is based on the extent to which a physical or mental incapacity prohibits the employee from performing job duties. In North Carolina, an employee is considered disabled if he cannot perform the usual duties of his current occupation. A total of eighteen states (50%) used this rule in the determination process. A more restrictive definition requires that an employee be rendered to perform the duties of any occupation. Seven states (19%) responded to the survey as using an “any occupation” definition. Six states (17%) are using a hybrid of these definitions. Initially, employees are judged based on the more lenient “current occupation” test and then after a period of time are reevaluated based on the “any occupation” criteria.

**Number of States by Test Type and Plan Location**

		Govt.	Non-Govt.	Combination	Total
Type of Test	Current Occupation	14	4	0	18 50.00%
	Any Occupation	4	1	2	7 19.44%
	Current then Any Occupation	1	4	1	6 16.67%
	Other	3	0	2	5 13.89%
Total		22	9	5	36
% of Total		61.11%	25.00%	13.89%	100.00%
No Data:	3				39

Of the 36 states that responded as having a disability benefit, 22 reported that the plan is administered by a government entity. The most common is a state retirement system. Nine states are outsourcing the disability plan to a private company like an insurance company or third party administrator. The remaining five states reported using a combination of these methods.

States that operate a purely current occupation or any occupation test are more likely to keep the administration of the plan in government. A current-then-any test, however, is more likely to be administered by an external organization.

### States by Test Type and Plan Administrator

Survey Respondents	Current	Any	Current then Any	Other	
<b>Govt. Retirement</b>	Alabama Alaska California Maryland Mississippi Montana New Hampshire	New Jersey North Carolina North Dakota South Carolina South Dakota Virginia	Minnesota New York Tennessee	Maine	Kentucky New Mexico Wyoming
<b>Govt. Other</b>	Ohio				
<b>Federal government</b>		Arkansas			
<b>Non-Govt. Insurance</b>	Massachusetts Nebraska Nevada	Oklahoma	Iowa Missouri		
<b>Non-Govt. TPA</b>			Kansas Michigan		
<b>Non-Govt. Physician</b>	Louisiana				
<b>Other</b>		Oregon Wisconsin	Delaware	Utah Washington	
<b>No non-duty disability benefits</b>	Florida Indiana Vermont				

### PLAN FUNDING

Twenty respondents indicated how the plan was funded. Survey respondents were asked to give the percentage of the plan that was funded by employer contributions, employee contributions, investment returns, and other sources. Ten states fund disability plans solely through employer contributions. Eight states have some level of employee contributions. Only two states responded as having an entirely employee-funded disability plan. These states are Nebraska and Massachusetts.

### SHORT-TERM DISABILITY

The majority of states (72%) specified that there was no program resembling a short-term disability (STD) benefit in their system. The survey did not address how these states dealt with employees who became only partially and/or temporarily disabled. A reasonable explanation may be that in these states, supplemental insurance or more generous sick leave is expected to make up the deficit that someone would experience if s/he were not immediately eligible for long-term benefits. On the following page is a breakdown of frequency of STD by type of administrative body.

### Short-term Disability

		Short-Term Disability			
		yes	No	Total	
<b>Government</b>	Retirement	Count	5	13	18
		% of row total	27.8%	72.2%	
	Not Retirement	Count	1	1	2
		%	50.0%	50.0%	
<b>Non-Government</b>	Insurance	Count	1	6	7
		%	14.3%	85.7%	
	Third Party Administrator	Count	0	2	2
		%	0%	100.0%	
	Other	Count	2	2	4
		%	50.0%	50.0%	
Total		Count	9	24	<b>33</b>
		%	27.3%	72.7%	

### VOCATIONAL REHABILITATION

Eighteen states utilize some form of vocational rehabilitation. Vocational rehabilitation is defined as efforts made to return disabled employees to a working status as quickly as possible while prioritizing the safety and well-being of each employee. The theory behind these efforts is that despite the higher administrative demands, cost-efficiency is achieved by reducing the overall number of employees that are not working and collecting a disability benefit. Returning disabled employees to work at the earliest safe date is also believed to be good for the mental and physical health of employees, and increases the likelihood of a successful work placement.<sup>1</sup> The chart below describes the occurrence of vocational rehabilitation programs by administrative body. The largest number of disability programs that include a vocational rehabilitation element are administered by either an insurance company or government department other than a retirement system.

### Vocational Rehabilitation

		Frequency	Valid Percent
Valid	Retirement	1	5.6%
	Not Retirement	7	38.9%
	Insurance	6	33.3%
	Third Party Administrator	1	5.6%
	Other	3	16.7%
Valid Total		18	100.0
Missing	System	21	
Total		39	

<sup>1</sup> R. Hall and S. Kaleta. (2005) "New Return-to-Work Strategies," Benefits Compensation Digest. 42(12): 33-39.

## SUPPLEMENTAL FINDINGS

- 40.6 percent of states reported having less than 1,500 disability benefit recipients.
- The average years of service required to receive a long-term disability benefit is 5 years.
- Years of service requirements for long-term disability ranged from immediate eligibility to 10 years.
- Who determines disability?
  - 14 States: A medical board
  - 6 States: Staff
  - 8 States: An administrator
  - 6 States: Insurance Company
  - Other responses: Board of Trustees and Social Security Administration (SSA)
- How is information about outside income collected for the purposes of offsetting?
  - 21 states ask recipients to report outside income
  - 14 states require tax documents to be submitted
  - 12 states communicate with other benefit organizations like SSA
- Only 13 states offset for Social Security Disability.

## SURVEY LIMITATIONS

State government policies on disabled workers are the product of evolutionary policy changes and administrative adaptations. The resulting differences among plans are both intricate and unique to the needs of each state's system. Often, there are varying options within a single disability plan that employees can either choose from or are defaulted to due to their status in the organization. To control for some of this obscurity, respondents were asked to limit their answers to ones that would be most applicable to a current state government employee who has recently become disabled.

State retirement agencies were targeted for this survey for two reasons. First, disability benefits in North Carolina are administered by the state retirement system. Second, pre-survey research revealed that most states also house the disability benefit program in the retirement system. However, many respondents indicated that other state government organizations are also contributing some type of disability benefit. Therefore, this survey is most applicable to the benefits offered by a state retirement system; it is not a comprehensive overview of the benefit options available to state employees who become disabled.

Questions were factually based and did not ask for value judgments from respondents. Maintaining factually-based questions limited potential data that comes from having experience with a particular program. The nuances of administering these programs may not have been captured by this survey.