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CHARLESWORTHCONSULTING.COM

June 4, 2021

Mr. Scott Simon Executive Director MPERS  
Jefferson City, Missouri

Re: Long Term Disability Report

Dear Scott:

As MPERS' risk management and insurance consultant, we annually evaluate the long-term disability (LTD) program and rates. MPERS was able to secure a "10% rate reduction" by The Standard effective July 1, 2021, and is guaranteed not to exceed that for three years (until July 1, 2024). Recognizing that claims experience of MPERS will drive the premium rates charged, the positive experience suggested a reduction was in order. Remember, the rate guarantee is the minimum commitment by The Standard and if claims continue in a positive direction, we will not hesitate to ask for another reduction.

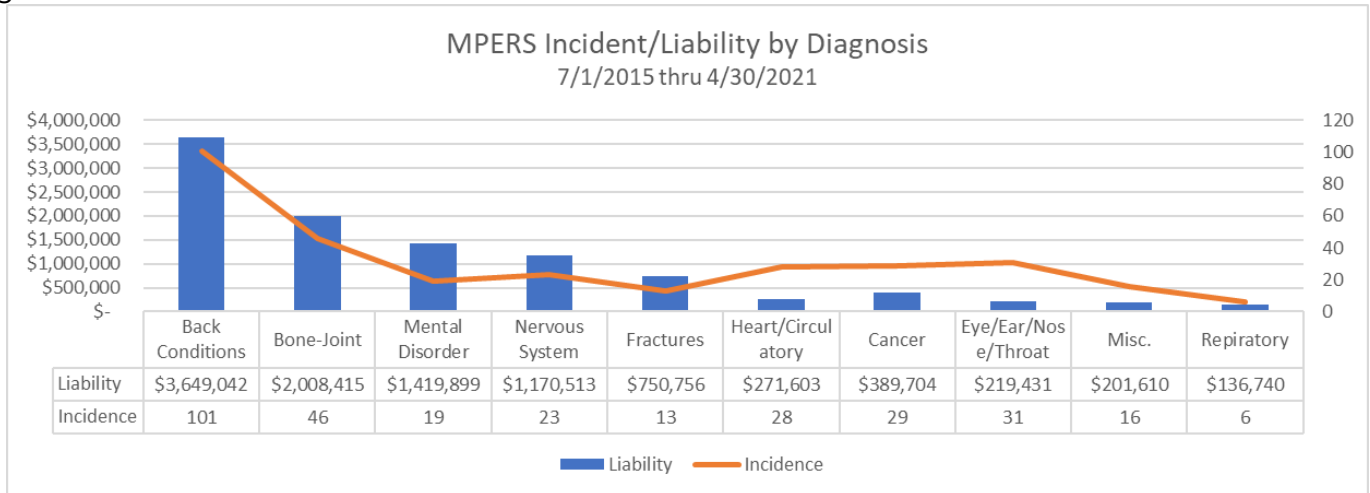
COVID is putting pressure on ancillary carriers in the areas of additional claims (primarily short-term disability, family medical leave), layoffs and furloughs, premium grace periods, etc. Also, the current interest rate environment is not providing any relief when investing reserves. All of these factors will more than likely lead to future alterations to the underwriting requirements of disability programs like MPERS utilizes. This is one of the reasons why we secured a three-year rate guarantee before insurers react with underwriting changes.

Effective July 1, 2016, MPERS was able to secure a Claim Fluctuation Reserve (CFR) account within The Standard's contract. This is a one-way experience rate mechanism that allows MPERS to capture positive claim experience, if/when it occurs, in order to protect against poor future claim experience or even generate a possible refund of premiums. This is important in that over a five-year evaluation period, MPERS' claims can vary and any positive fluctuations can help offset years that are not performing quite as well. While MPERS has one more year for this to be fully developed, we obtained a draft for the period to date. The final "balance" is slightly negative but experience has improved this year. The next accounting period to review the CFR will now be at the end of the next rating period which is June 30, 2024.

Some key numbers from July 1, 2015 through April 30, 2021:

- Collectively, \$4.97 million in incurred claims
- 207 incidents (all claims filed)
- 41 active claims
- 50 closed claims
- 1 pending claim (in determination process)

The following is a snapshot of the incidents and liability associated with approved claims, segmented by diagnosis:



While these points may be redundant for some board members, it is important to understand that by purchasing the LTD program through The Standard, some of the key positives realized by MPERS continue to include:

- A true transfer of responsibility for disability determination to those specialized in the field with medical and disability experience – no longer a trustee risk/responsibility.
- Benefits paid and necessary reserves can vary depending on several factors: age, gender, type of disability, retirement eligibility, salary/benefit, etc. Transferring the risk is a financial budget cost with the swings of claims and future liability becoming the responsibility of the insurer.
- The insurer utilizes consulting physicians, nurse and vocational case managers, social security assistance services, claim submission assistance (including approval or denial), mental health unit, and others, to manage claims.
- Disability recipients continue to receive prompt handling for the life of the claim, along with social security and return-to-work assistance. The individuals specifically assigned to the MPERS account have experience in handling claims and take pride in constant communication with their disability members so there are no surprises.
- This insurer has experience with large public entities (over 4,700 in the U.S.) and continues to provide technical expertise in refining the insurance document to meet the needs of MPERS. The statutory provisions of MPERS are not one we would consider “typical” in a long-term disability document and are viewed as more generous for the employee members.
- The Standard’s financial stability continues to be reviewed, including its investment structure (heavily bond weighted due to statutory investment requirements for life/LTD insurers). They are a financially stable, privately-owned insurer and no longer on the stock exchange (owned by Meiji Yasuda Life since March 2016). The management team remains active with U.S. controls.

- MPERS' employer groups have implemented Workplace Possibilities Program (WPP), which was designed to help lower possible LTD claims as well as further enhance return to work by modifying worksites, providing special training, evaluating light duty options, etc. This is provided as a "no-added-cost" service from The Standard as it helps the member be an active employee in lieu of a disability claimant. The Standard's internal studies suggest that when these services are utilized, their net savings return on investment continues to be about 4:1 for most clients. With the recent claims information suggesting back conditions are a high concern – one that can be positively impacted by WPP – we would encourage more interaction with this program in the coming year (recognizing that there were many limitations due to the social distancing requirements this past year).

We are pleased with the new three-year guaranteed rate offered by The Standard. Should our firm remain the consultant for MPERS, we will continue to monitor the claims experience and reserving practices of the insurer to confirm both the pricing and service model of this risk transfer meets the needs of MPERS. With the new rate moving from 0.53% of insured earning down to 0.475% (an annual savings of about \$165,000) and the availability of the CFR account provision to prepare for the end of the insurer's three-year rate guarantee, this will assist in keeping the LTD insurance rates competitive, especially since MPERS' rates are developed by the group's own experience.

Best regards,

*CHARLESWORTH CONSULTING, LLC*



Bob Charlesworth, CPCU, ARM, ALCM, AIS

Vice President

BC/pc