



ITEM 15

Executive Staff
Richard Stensrud
Chief Executive Officer
Vacant
Chief Investment Officer
Robert L. Gaumer
General Counsel
Kathryn T. Regalia
Chief Operations Officer
John W. Gobel, Sr.
Chief Benefits Officer

For Agenda of:
September 21, 2016

September 16, 2016

TO: President and Members
Board of Retirement

FROM: John W. Gobel, Sr.
Chief Benefits Officer

Robert L. Gaumer
General Counsel

SUBJECT: Annual Report on the Processing of Applications for
Disability Retirement Benefits

Recommendation:

That your Board receive and file this annual report for the fiscal year ended June 30, 2016.

Background:

In October 2007, your Board established new procedures for the processing of disability retirement applications. These procedures were codified in Chapter 5 of the SCERS Bylaws and implemented following approval by the Board of Supervisors in February 2008.

Because the referenced procedures require the annual evaluation of disability retirement processes and activities, General Counsel and the Chief Benefits Officer compile certain statistics every fiscal year and prepare a corresponding report to your Board. General Counsel and the Chief Benefits Officer also discuss disability retirement activity throughout the year and regularly review administrative issues that appear to increase the time and/or expense required to resolve Applications for Disability Retirement.

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Comparison:

As with prior reporting, Staff has considered the Applications for Disability Retirement that concluded during the fiscal year ended June 30, 2016 and reviewed the corresponding processing times and outcomes. For comparison, Staff has also categorized each application to reflect the method of resolution:

Annual Period Ended 6/30/2016

50 Applications Concluded (16 NSCDR and 34 SCDR):

- 21 Staff Recommendations for Approval
- 2 Proposed Decision for Approval
- 23 Proposed Decisions for Denial*
- 4 Withdrawn Applications

Average Processing Time: 2 Years, 0 Months

Relative to data reported for the preceding fiscal year, the current activity shows a slight decrease in overall conclusions, but a significant increase in the number of applications that moved to hearing and resulted in proposed decisions for consideration by your Board:

Annual Period Ended 6/30/2015

53 Applications Concluded (19 NSCDR and 34 SCDR):

- 34 Staff Recommendations for Approval
- 1 Proposed Decision for Approval
- 10 Proposed Decisions for Denial
- 8 Withdrawn Applications

Average Processing Time: 1 Years, 8 Months

Annual Period Ended 6/30/2014

60 Applications Concluded (18 NSCDR and 42 SCDR):

- 21 Staff Recommendations for Approval
- 1 Staff Recommendation for Denial (by Stipulation)
- 3 Proposed Decisions for Approval
- 24 Proposed Decisions for Denial
- 7 Withdrawn Applications

Average Processing Time: 2 Years, 4 Months

Observations:

Given the significant increase in hearings and proposed decisions during the fiscal year ended June 30, 2016, this rate of activity is now back in line with recent norms. Because the evidence needed to file a new application is still relatively light and the process required to dispute an application is exhaustive, however, SCERS must maintain the current pace of hearings to avoid growing the backlog of applicants awaiting hearing and prevent a creep in processing times.

* Includes one Application for Survivor's Service-Connected Death Benefits that was referred to hearing.

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Although disability retirement counsel should be commended for conducting more hearings during the fiscal year ended June 30, 2016, it is important to note that some of these gains occurred because SCERS decided to supplement our internal legal resources and retain outside attorneys experienced in disability retirement matters:

Applications Adjudicated & Resolved by Proposed Decision during Fiscal Year

- 15 Proposed Decisions Procured by County Counsel (2 Approvals, 13 Denials)
Average Processing Time for County Counsel Assignments: 2 Year, 10 Months
- 8 Proposed Decisions Procured by Outside Counsel "A" (0 Approvals, 8 Denials)
Average Processing Time for Counsel "A" Assignments: 2 Years, 2 Months
- 2 Proposed Decisions Procured by Outside Counsel "B" (0 Approvals, 2 Denials)
Average Processing Time for Counsel "B" Assignments: 2 Years, 3 Months

In contrast to the hearings conducted on disability retirement and the number of applications addressed by proposed decisions, the number of staff recommendations submitted in order to approve disability retirement benefits decreased notably during the fiscal year ended June 30, 2016. While one can argue that the latest number is still in line with other fiscal years and is starting to pick up, the sizeable increase in disability retirement spending and resources over the same period suggests that the number of staff recommendations prepared by disability-focused specialists can and should be higher:

Applications Submitted with Staff Recommendations for Approval during Fiscal Year

- 12 Staff Recommendations by Chief Benefits Officer (5 IMEs, 7 Internal Reviews)
Average Processing Time for CBO Recommendations: 1 Year, 3 Months
- 1 Staff Recommendation by Disability Specialist "A" (0 IMEs, 1 Internal Review)
Avg. Processing Time for Specialist "A" Recommendations: 1 Year, 2 Months
- 8 Staff Recommendation by Disability Specialist "B" (4 IMEs, 4 Internal Reviews)
Avg. Processing Time for Specialist "B" Recommendations: 1 Year, 4 Months

While the process of reviewing, processing and submitting applications for Board approval often requires contributions from multiple staff members, the preparation of written benefit recommendations is certainly an area for individual improvement and continues to be an important metric for disability retirement processing.

Administrative Actions:

The annual report for the preceding fiscal year described the development of new Disability Retirement Procedures (DRPs) and a commitment to improving multiple aspects of disability retirement processing, including the time and expense currently required to resolve applications – via the submission of written staff recommendations for applications that warrant approval or the delivery of proposed decisions for applications in dispute. As a complement to these efforts, General Counsel and the Chief Benefits Officer have initiated several administrative changes during the second half of the fiscal year, which “set the table” for process changes authorized by the DRPs and are listed on the next page.

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January 2016 - General Counsel provides new Disability Retirement Procedures (DRPs) for Board of Retirement to endorse ahead of submission to Board of Supervisors.

February 2016 – Chief Benefits Officer addresses approximately 20 outstanding record reviews by assigning these tasks directly to Independent Medical Examiners or staff members at an outside law firm.

February 2016 - General Counsel secures Board of Retirement approval to retain a contract Medical Advisor to perform record reviews for future applications and schedule Independent Medical Examinations as needed.

May 2016 – Chief Benefits Officer submits first application to new Medical Advisor for record review.

May 2016 – General Counsel and Chief Benefits Officer meet with disability retirement staff to affirm importance of addressing benefit issues prior to accepting certain Applications for Disability Retirement, including applications for reciprocal service-connected disability retirement.

June 2016 – General Counsel and Chief Benefits Officer meet with disability retirement staff to discuss procurement and delivery of records for review by new Medical Advisor.

June 2016 – Chief Benefits Officer initiates pilot project with Workers' Compensation office in order to reduce time and cost required to extract records of interest to new Medical Advisor.

Looking at the current fiscal year, please note that General Counsel and the Chief Benefits Officer anticipate submitting the final version of new DRPs to the Board of Supervisors on or before December 2016 and releasing a corresponding Disability Retirement Handbook sometime within the following 60 days.

As a complement to large-scale process changes addressed by the DRPs, the Chief Benefits Officer continues to look for ways to reach benefit determinations quicker in order to reduce processing times for applicants and mitigate the impact of disputed disability claims on the employer's staffing and overall operations. To that end, SCERS has begun to utilize certain practices more frequently during the past fiscal year -- practices that can produce earlier disability retirement outcomes and, by extension, reduce the period of time that employers find necessary to hold positions for inactive employees who are pursuing disability retirement with SCERS. These practices include apprising inactive employees of filing barriers earlier in the review process, recommending more interim disability retirement awards ahead of limited scope hearings, and working with the County to clarify the administrative options that are available when inactive employees cannot or will not submit Applications for Disability Retirement of their own accord.

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If there are questions regarding the disability retirement experience reviewed in this annual report or the DRPs that Staff anticipates submitting to the Board of Supervisors for approval, we will be happy to address these items during the your Board's next meeting on September 21, 2016.

Respectfully submitted,

John W. Gobel, Sr.
Chief Benefits Officer

Robert L. Gaumer
General Counsel