

**Colorado Public Employees' Retirement Association
Group Short Term Disability and Disability Retirement Plans
Request for Proposals
October 21, 2021**

Section 1: Introduction and Overview

This request for proposals (RFP) has been issued by the Colorado Public Employees' Retirement Association (PERA) to solicit proposals for a disability insurance carrier to insure its short-term disability (STD) plan and provide administrative services, including disability determinations, for its disability retirement plan. This RFP process is being managed by Milliman in its role as a consultant to PERA.

Background on PERA

PERA provides retirement and other benefits to the employees of more than 500 government agencies and public entities in the state of Colorado. Established by state law in 1931, PERA operates by authority of the Colorado General Assembly and is administered under Title 24, Article 51 of the Colorado Revised Statutes. In accordance with its duty to administer PERA, the Board of Trustees has the authority to adopt and revise Rules in accordance with state statutes.

Members of PERA include employees of the Colorado state government, public school teachers in the state, many university and college employees, judges, many employees of cities and towns, state troopers, and the employees of many other public entities. PERA is a substitute for Social Security for most of these public employees.

Members of PERA participate in two disability plans. The first plan is a fully insured short term disability (STD) plan that provides benefits for up to twenty-two months after a 60-day elimination period. The STD plan is intended to help disabled members return to work as soon as possible. The plan also utilizes a risk-sharing agreement to provide PERA the benefit of favorable experience in the form of dividends. A further discussion of the STD plan and the risk-sharing agreement is provided in Section 2 of this RFP.

The second plan is disability retirement coverage, which is part of the defined benefit retirement plan managed by PERA. Disability retirement provides long-term disability benefits for those claimants who are permanently and totally disabled. Disability determinations for this plan are made by the insurance carrier who insures the STD plan, under an administrative services only (ASO) agreement with PERA. A further discussion of the scope of these services is provided in Section 3 of this RFP.

Additional information on the PERA disability plans can be found as follows:

- Attachment A of this RFP provides a summary of the current disability programs.
- Attachment B of this RFP is the current STD policy and certificate.
- The statutory language of the PERA program is available at the following link. See Part 7 beginning on page 96 for language related to the disability program. <https://www.copera.org/sites/default/files/documents/5-6.pdf>
- The PERA rules, which are promulgated by PERA's Board, are available at the following link. See Rule 7 beginning on page 50 for rules related to disability benefits. https://www.copera.org/sites/default/files/documents/5-14_2.pdf

RFP Process

PERA expects to use the following time frame for this RFP:

- October 21, 2021: Release RFP
- October 29, 2021: Submit Questions
- November 8, 2021: Respond to Questions
- November 19, 2021: RFP responses due by 5:00 pm Eastern time.
- January 7, 2022: Notification of finalists
- Week of January 24, 2022: Finalist Meetings
- Week of February 14, 2022: Vendor selection
- January 1, 2023: Expected ASO agreement and STD policy effective date

PERA reserves the right to modify this schedule at any time. PERA also reserves the right to change any aspect of the selection process, to withdraw the RFP, to select any bidder, multiple bidders or no bidder, and to use any criteria it feels is most appropriate to evaluate responses. The lowest-cost proposal will not necessarily be the winning bidder due to the importance of qualitative items such as claim management capabilities, customer services, and demonstrated experience managing similar programs of this size and complexity.

Your completed proposal should contain the following elements:

1. A draft disability policy and certificate for the PERA STD plan, including a draft schedule page identifying customer-specific provisions such as maximum benefit amounts, etc.
2. A draft risk-sharing agreement that provides for dividends if STD experience is favorable but no additional downside risk if experience is unfavorable.
3. A draft administrative services agreement for the disability retirement program.
4. A completed financial bid template (Attachment C) including all of the specific financial terms of the proposal.
5. A completed RFP questionnaire (Attachment E).
6. A sample implementation plan detailing the implementation process from the time the case is awarded to the effective date of 1/1/2023.
7. Detailed language to support the proposed performance guarantees.

Please submit your proposals in electronic format to the following email addresses:

jennifer.quintana@milliman.com
dan.skwire@milliman.com

All questions or inquiries on the RFP itself or on any other aspect of this opportunity should be directed to Jennifer Quintana at Milliman at jennifer.quintana@milliman.com.

This RFP and the related attachments were prepared by Milliman, in cooperation with PERA, for the sole purpose of providing potential vendors with the information necessary to evaluate this program. In preparing this material, Milliman has relied on information provided by PERA and its current insurance carrier. We have not audited this information but we have reviewed it for reasonableness. Some of the attachments to this RFP contain confidential information and will be provided only to those bidders who have completed a non-disclosure agreement with PERA and a third party release agreement with Milliman. If you have not received this information, please contact Jennifer Quintana at Milliman at jennifer.quintana@milliman.com to request copies of the required agreements.

Daniel D. Skwire, FSA, MAAA is a consulting actuary with Milliman and a member of the American Academy of Actuaries. He meets the qualification standards of the Academy to provide the actuarial opinions contained in this RFP and the related attachments.

Section 2: PERA STD Plan

Objectives

PERA seeks proposals to insure its group STD plan, effective 1/1/2023. Key attributes desired in an STD insurer include the following:

1. Fair but aggressive pricing with a rate guarantee of at least three years.
2. Transparency on all pricing-related items, including expense assumptions, interest rates, target loss ratios, and reserving methods.
3. A knowledgeable and responsive service team that provides regular contact and discussion about the program, including annual in-person stewardship meetings and participation in PERA Board of Trustees and Benefits Committee meetings as requested by PERA.
4. Best-in-class disability claim management, to ensure that claims are properly assessed pursuant to PERA's governing law and rules and are paid fairly and in a manner that results in a positive experience for PERA members, PERA employers, and PERA staff.
5. An ongoing commitment to quality service as reflected in performance guarantees.

Benefit Summary

The complete STD policy and certificate are contained in Attachment B. Key plan provisions are summarized below:

- Eligibility: See statutory eligibility requirements pursuant to C.R.S. § 24-51-701 and set forth in Attachment B.
- Premium Payment: Premiums are paid by PERA.
- Elimination Period: 60 days
- Maximum Benefit Period: 22 months
- Monthly Benefit: 60% of monthly earnings to a maximum benefit of \$25,000 per month. Benefits are reduced by deductible sources of income. PERA requests that the maximum benefit amount be removed so that the plan will match the required statutory provisions. Please note that the covered earnings for this plan are subject to the IRS 401(a)(17) salary limit of \$290,000. Also, there are currently no members

on the census whose pay in the past 12 months has exceeded \$500,000 (which translates to a gross monthly benefit of \$25,000).

- Definition of Disability: For the STD plan, the claimant must meet three requirements:
 - 1) Medically incapacitated from performing the essential functions of his or her own job, with reasonable accommodations as required by federal law.
 - 2) Medically unable to earn at least 75% of pre-disability earnings from PERA-covered employments in any job that exists in the state of Colorado and that the claimant is able to perform based on education, training and experience.
 - 3) Not totally and permanently incapacitated from all regular and substantial gainful employment. In this case, the claimant would be eligible for disability retirement benefits rather than STD benefits.

- Deductible Income: Benefits are reduced by deductible income to the extent that the sum of the gross benefit and specified sources of other income exceeds 100% of pre-disability earnings. These sources include worker's compensation, work earnings while disabled, compulsory state benefits including unemployment, salary continuation, sick leave, third-party payments, and payments from the mandatory portion of no fault auto coverage. Most PERA members do not participate in Social Security with respect to their PERA-covered income. Please see the policy and certificate for further details.

Timeline for Claim Submission: Pursuant to C.R.S. § 24-51-701(1)(a), PERA has a firm 90-day timeline, following termination of employment, for disability claims to be submitted. Claims submitted following that time period will not be eligible for disability benefits.

Bidders are expected to match the current plan provisions, with the exception of the maximum benefit amount, which PERA asks be removed. Any deviations should be clearly identified.

Historical Experience

Attachment C provides detail of the historical experience on the case, which is also summarized in the following tables. A member census and claim listing is included in Attachment D.

In addition, as of 6/30/2021, PERA had experienced only one COVID-19 claim on its STD plan, incurred in 2020. The plan's 60-day elimination period minimizes its risk of COVID-19 exposure relative to other STD plans with shorter elimination periods.

Please submit your proposed premium rate for this plan in Attachment C (the financial bid template) along with related information requested there. Due to the short-term nature of these benefits, the new carrier will not be asked to assume the runout of STD claims on individuals disabled before the effective date of the new coverage.

Risk-Sharing Agreement

In light of the plan's favorable experience, and in order to ensure that the plan is priced in a fair manner for PERA, there is a risk-sharing agreement in place. This agreement provides for a dividend to be payable to PERA when experience is favorable, but it does not require any additional payments from PERA if experience is unfavorable. The accounting date for each plan year is the first quarter of the year that is two years beyond the completion of the plan year. For instance, the accounting date for the 2020 plan year is in the first quarter of 2023. Note that this time frame allows for the full runout of claims incurred during the plan year.

In preparing your proposal, please include a draft risk sharing agreement and all related financial parameters, including items such as expense charges, interest crediting formulas, target loss ratios, the dividend formula (including any maximums and minimums) and the accounting timelines. If you propose determining dividends before the claims from each plan year have fully run out, please include a description of what reserves will be included in the dividend calculation. Please note that the risk-sharing agreement should survive the termination of the underlying insurance coverage to allow for the runout of open claims. The financial terms of your proposed formula should be summarized in Attachment C (the bid template), and the detailed wording should be provided separately.

Administrative and Reporting Requirements

Covered members initiate the disability claim process by submitting a claim application to PERA (the current application is included in Attachment A, the program brochure). PERA then determines the applicant's eligibility by reviewing employment history, years of service, and other items. Applications meeting the statutory eligibility criteria are forwarded to the insurance carrier to evaluate the STD and/or disability retirement claims.

By law, PERA must maintain a distance from the evaluation of disability applications. The application itself contains only a limited authorization for the insurer to share data with PERA for the purpose of program audits, for example. The approval or denial of disability benefits, including related appeals, is entirely the responsibility of the insurance carrier.

PERA does ask the carrier to provide regular reports on claim activity, including periodic tabulations of submitted, approved, and denied claims. It also asks the carrier to provide

updates on overall program experience to be shared with PERA's staff, Benefits Committee, and/or Board of Trustees. PERA may ask the carrier to participate in such meetings either in person or remotely. Finally, PERA also asks the carrier to respond to ad hoc requests for data or program information that may arise from time to time.

RFP Questionnaire

Please be sure to complete the RFP questionnaire contained in Attachment E.

Section 3: Disability Retirement Program

PERA's disability retirement program provides long-term disability benefits to members who are unable to work as the result of a disability and are not expected to recover. Claimants must be permanently and totally disabled to qualify for benefits, including being unable to engage in any regular and substantial gainful employment, and being unable to earn 75% of pre-disability earnings from their covered PERA employment for any job for which they could be trained or educated. Disability retirement benefits are part of PERA's defined benefit retirement plan. They are payable for lifetime as long as the claimant continues to satisfy the definition of disability.

PERA uses a single application process for STD and disability retirement benefits. (See page 13 of Attachment A for the current application used.) The insurance carrier who insures the STD plan also administers disability retirement claims, including disability determination and ongoing proof of loss, on an ASO basis. This work is governed by an administrative services agreement (ASO agreement) that is separate from the STD insurance policy. For disability retirement, the key responsibilities of the administrator (i.e., the STD insurer who provides ASO services for the disability retirement plan) under the current agreement include the following:

- **Claim Reviews:** Administrator will process the claim and make a determination of whether it is payable under the terms of the plan. Claim payments are made by PERA, which is also solely responsible for funding the cost of payments.
- **Claim Denials:** Administrator will communicate claim denials to claimants along with specific reasons, reference to the plan provision used to deny the claims, and an explanation of the rights and process for appealing the decision.
- **Periodic Review:** Administrator will review each claim at appropriate intervals to determine ongoing benefit eligibility. The nature of these ongoing reviews is minimal, given the permanent and total definition of disability. The periodic reviews (and the associated fees paid by PERA) cease when the claimant reaches age 65, at which point the claim is administered by PERA in the same manner as a service retirement claim.
- **Appeals:** Administrator will manage the appeals process including initial and second-level appeals.
- **Reports:** Administrator will provide monthly claim status reports and quarterly claim listings by diagnosis category as well other ad hoc reports that may be requested.
- **Claimants Outside US:** The Administrator does not provide services for claimants located outside the US unless and until such claimant's return to the US.

The current fee structure for the administration of disability retirement claims is a flat amount per month, with no additional charges for initial intake. In your pricing of this program, please note that disability retirement claims have few recoveries, unlike traditional LTD claims, due to the permanent and total definition of disability. A disability retirement claim listing is provided in Attachment D.

In addition to assuming responsibility for managing new disability retirements that occur after the effective date for implementing a new insurance carrier, PERA anticipates the new insurance carrier will take over responsibility for managing existing disability retirement claims for those retirees under the age of 65, of which there are approximately 1,000 as of September 2021. To the extent that your pricing of ASO services differs for new and takeover disability retirement claims, this should be clearly indicated in your completion of the financial bid template in Attachment C.

The vast majority of the required ASO services involve the evaluation of new and ongoing disability retirement claims, but there are occasional other reviews required as well.

- Disabled adult children age 26 and older of PERA retirees may be eligible for health coverage as a dependent through the PERACare program. PERA asks the administrator to perform occasional reviews to assess if dependents meet the definition of disability to qualify for this coverage. In the most recent plan year, there were eight such reviews.
- Disabled adult children of deceased PERA members may be eligible for ongoing survivor benefit payments. Additionally, spouses may be eligible for ongoing survivor benefit payments immediately if the spouse is determined to be disabled. PERA asks the administrator to perform occasional reviews to assess if dependents meet the definition of disability to qualify for this coverage. In the most recent plan year, there was one such review.
- Prior to the current design structure's implementation in 1999, PERA offered a disability retirement benefit to members, which was administered internally and was based on an own-occupation definition. Any such disability retirees are not subject to the periodic review by the administrator described in Section 3 above. PERA may request the administrator perform a medical review on any of these disability retirements to ensure they continue to be eligible for benefits. In the most recent plan year, there were no such reviews.
- Prior to the merger of the Denver Public Schools' Retirement System (DPSRS) into PERA in 2010, DPSRS offered a disability retirement benefit to members based on an own-occupation definition. Any such disability retirees are not subject to the periodic review by the administrator described in Section 3 above. PERA may request the administrator perform a medical review on any of these disability retirements to ensure they continue to be eligible for benefits. In the most recent plan year, there were no such reviews.

Section 4: Other Provisions

Confidentiality and Open Records

From the date of issuance of the RFP until the due date, Proposers must not make available or discuss its Proposal, or any part thereof, with any employee, Trustee or agent of PERA, except for communicating with Milliman in the manner prescribed in this RFP. By responding to this RFP, Proposers agree to the following:

- Any part of their Proposal or any other material marked as confidential, proprietary, or trade secret, can only be protected to the extent permitted by Colorado Statutes or any other applicable law.
- Proposers that wish to protect portions of their proposals from public disclosure must make a written request that those records be kept confidential at the time of submission of records. In addition, Proposers must specifically and conspicuously identify any portion of the proposals that are deemed by them to constitute confidential or proprietary information or trade secrets.
- Proposers' identifications of material as being exempt from disclosure are not conclusive, and Proposers submitting such requests acknowledge the possibility that such materials may be determined by a reviewing court not to be protected from disclosure under the laws governing Colorado PERA and the resulting contract.
- Upon receipt of a request for disclosure of the proposals, Colorado PERA will make an initial attempt to deny such request as provided by law. If the requesting party objects to Colorado PERA's initial response, then to the extent not prohibited by law, Colorado PERA will provide Proposers with notice as soon as possible of the objection. The burden and any responsibility, financial or otherwise, is solely on Proposers to take such actions as they deem necessary and appropriate to shield such materials from disclosure. Proposers shall timely notify Colorado PERA in writing of any initiated legal actions regarding the request for disclosure of confidential information. Proposers agree to release Colorado PERA from liability for the release of any confidential information Colorado PERA determines to be required by law.