

Virginia Retirement System 2008 Fiscal Impact Statement

1. Bill Number: SB316

House of Origin X Introduced ___ Substitute ___ Engrossed
 Second House ___ In Committee ___ Substitute ___ Enrolled

2. Patron: Deeds

3. Committee: Finance

4. Title: Virginia Sickness and Disability Program; open-enrollment period.

5. Summary: Virginia Sickness and Disability Program; open-enrollment period. Opens the enrollment into the Virginia Sickness and Disability Program between October 1, 2008, and January 1, 2009, for eligible employees not currently participating in the program. Any employee electing to participate in the program would convert his sick leave balances to (i) additional retirement service credit on the basis of one month of service for each 173 hours of sick leave or (ii) disability credits on the basis of one hour of disability credit for each hour of sick leave. Disability credits would be used to continue periods for which the employee would receive income replacement at 100 percent of creditable compensation for a disability. An election to participate in the program must be in writing, and is irrevocable.

6. Fiscal Impact Estimates:

6a. Expenditure Impact:

Background on VSDP and Non-VSDP Members

The state employees eligible for the open enrollment are on average older and credited with more years of service than the state employees currently enrolled in VSDP. The table below provides a comparison of the data for VSDP and non-VSDP members.

VRS Plan	VSDP Members	Non-VSDP
State Employees Plan		
Number of employees	61,581	16,568
Average pay	\$43,588	\$46,609
Average age	45.28	51.94
Average service	9.85	21.50
SPORS		
Number of employees	649	1,241
Average pay	\$40,700	\$59,928
Average age	30.89	44.29
Average service	3.79	18.70
VaLORS		
Number of employees	7,940	2,273
Average pay	\$32,022	\$38,180

Average age	38.70	46.21
Average service	6.05	15.77

Previous VSDP Open Enrollments

Two previous open enrollments were held for state employees. The first was in 1998 prior to the program's effective date of January 1, 1999. In that open enrollment 35 percent of eligible state employees enrolled. In the 2002 open enrollment, 36 percent of eligible employees enrolled in the program. In the first VSDP enrollment, employees immediately converted sick leave to VRS service credit. In the 2002 enrollment, employees' sick leave balances were converted to disability credits which could be used to offset short-term disability benefit reductions, cashed out upon termination under existing state policy, or converted to VRS service credit at the time of termination or retirement.

VRS Pension Impact of 100 Percent Eligible VSDP Enrollment

The VRS actuary advises that it is difficult to precisely predict the rate at which eligible employees would enroll in VSDP. However, they conclude that the opportunity to convert sick leave balances to retirement service credits will provide a significant incentive for members. From the sick leave balances available, it appears that those members close to unreduced early retirement (i.e., age 50 and 30 years of service (State employees) or 25 years of service (SPORS and VaLORS)), the actuary reports that members may be able to retire approximately one year earlier by converting their sick leave balance to retirement service credits. The result is an actuarial loss to the system as this additional service credit has not been included in the employer contribution rates in any prior valuation.

Impact of Service Credit Conversion on VRS Retirement Plans

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
State-GF	\$2,149,000	\$2,235,000	\$2,324,000	\$2,417,000	\$2,514,000	\$2,615,000
SPORS-GF	\$681,000	\$708,000	\$736,000	\$765,000	\$796,000	\$828,000
VaLORS-GF	\$876,000	\$911,000	\$947,000	\$985,000	\$1,024,000	\$1,065,000
JRS-GF						
Teacher-GF						
Total GF	<u>\$3,706,000</u>	<u>\$3,854,000</u>	<u>\$4,007,000</u>	<u>\$4,167,000</u>	<u>\$4,334,000</u>	<u>\$4,508,000</u>
State-NGF	\$2,671,000	\$2,778,000	\$2,889,000	\$3,005,000	\$3,125,000	\$3,250,000
SPORS-NGF	\$155,000	\$161,000	\$167,000	\$174,000	\$181,000	\$188,000
VaLORS-NGF	\$69,000	\$72,000	\$75,000	\$78,000	\$81,000	\$84,000
Total NGF	<u>\$2,895,000</u>	<u>\$3,011,000</u>	<u>\$3,131,000</u>	<u>\$3,257,000</u>	<u>\$3,387,000</u>	<u>\$3,522,000</u>
Teacher-Local						
Local Aggregate						
Total Local						
Grand Total	<u>\$6,601,000</u>	<u>\$6,865,000</u>	<u>\$7,138,000</u>	<u>\$7,424,000</u>	<u>\$7,721,000</u>	<u>\$8,030,000</u>

VRS Pension Impact of 50 Percent Eligible VSDP Enrollment

To provide a range of potential costs, the VRS actuary analyzed the impact of a 50 percent VSDP enrollment rate among eligible nonmembers. In conducting this analysis, the actuary assumed that 50 percent of the non-VSDP members with the greatest accumulated sick leave would enroll in the VSDP to convert their sick leave balances to immediate service or disability credits.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
State-GF	\$1,488,000	\$1,548,000	\$1,610,000	\$1,674,000	\$1,741,000	\$1,811,000
SPORS-GF	\$595,000	\$619,000	\$644,000	\$670,000	\$697,000	\$725,000
VaLORS-GF	\$746,000	\$776,000	\$807,000	\$839,000	\$873,000	\$908,000
JRS-GF						
Teacher-GF						
Total GF	<u>\$2,829,000</u>	<u>\$2,943,000</u>	<u>\$3,061,000</u>	<u>\$3,183,000</u>	<u>\$3,311,000</u>	<u>\$3,444,000</u>
State-NGF	\$1,849,000	\$1,923,000	\$2,000,000	\$2,080,000	\$2,163,000	\$2,250,000
SPORS-NGF	\$135,000	\$140,000	\$146,000	\$152,000	\$158,000	\$164,000
VaLORS-NGF	\$58,000	\$60,000	\$62,000	\$64,000	\$67,000	\$70,000
Total NGF	<u>\$2,042,000</u>	<u>\$2,123,000</u>	<u>\$2,208,000</u>	<u>\$2,296,000</u>	<u>\$2,388,000</u>	<u>\$2,484,000</u>
Teacher-Local						
Local Aggregate						
Total Local						
Grand Total	<u>\$4,871,000</u>	<u>\$5,066,000</u>	<u>\$5,269,000</u>	<u>\$5,479,000</u>	<u>\$5,699,000</u>	<u>\$5,928,000</u>

Impact on VRS Disability Retirement and the VSDP Trust Fund

The VRS actuary noted that the proposed bill would likely reduce the cost of the disability retirement plan under VRS for members who elect to enroll in VSDP. Yet, the cost of VSDP could increase as a result of providing disability benefit coverage to the new enrollees. The members eligible for the open enrollment are on average older and credited with more years of service than the current VSDP members. Therefore, this group is more likely to incur a disability claim under VSDP. Nonetheless, the actuary was unable to quantify the impact to the traditional VRS disability retirement program and VSDP as a result of any cost shifting.

In addition, the actuary noted that the absence of any pre-existing condition exclusion or other underwriting requirement also increases the risk of adverse selection against VSDP. As a protective measure for the VSDP Trust Fund, the actuary advised that one option available to VRS would be to require underwriting as condition of enrollment in VSDP. However even if this tool was utilized, there may still be a cost to VRS since a member denied enrollment in VSDP would still be eligible for disability benefit through the traditional VRS disability retirement program. Finally, the actuary noted that the conversion of sick leave hours to retirement service may offset some of the anti-selection risk to the VSDP fund as discussed above. Earlier than expected retirement due to the sick leave conversion would impact the cost of VRS retirement plans, but should offset some cost of VSDP since these members would not be eligible for disability benefits once they retire.

VSDP and Long-Term Care Administrative Costs

Currently, both the VSDP and the long-term care insurance program are administered by private third party administrators under contract with VRS. The administrative expenses of VSDP and long-term care insurance are enrollment based, so additional enrollees will increase administrative costs. Premiums for long-term care insurance for VSDP members are paid by the state and are based on age at the time of enrollment. The projected costs based on 50% enrollment rate are as follows:

	2009	2010	2011	2012	2013
Long-Term Care Ins.	\$982,000	\$646,000	\$468,000	\$347,000	\$262,000
VSDP	\$962,086	\$674,660	\$528,820	\$420,831	\$338,039
Total	\$1,944,086	\$1,320,660	\$996,820	\$767,831	\$600,039

7. Budget Amendment Necessary: Yes. The cost of this legislation will be reflected in increased employer contributions for FY 09 and FY10. In addition, the VRS will require one (1) additional FTE and an additional \$125,000 for administration of this legislation.

8. Fiscal Implications: See Item 6 above

9. Specific Agency or Political Subdivisions Affected: VRS and VSDP participating agencies

10. Technical Amendment Necessary: No

11. Other Comments:

- In previous open enrollments, accumulated sick leave balances were addressed as follows:
 - 1998 Enrollment: Sick leave balances were only converted to service credit.
 - 1999 Enrollment: Sick leave balances were only converted to disability credits

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