

Virginia Retirement System 2014 Fiscal Impact Statement

1. Bill Number: SB 101

House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed
Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. Patron: Ruff

3. Committee: Finance

4. Title: Life insurance for retired state employees.

5. Summary: Provides that retired state employees be offered optional group life insurance coverage with premiums to be paid by the retirees.

6. Budget Amendment Necessary: No.

7. Fiscal Impact Estimates: Cost is to be borne by retired members who elect to participate. See "Other Comments" for additional information.

8. Fiscal Implications: See Fiscal Implications above.

9. Specific Agency or Political Subdivisions Affected: VRS and retired state employees.

10. Technical Amendment Necessary: Yes. Section 51.1-512(E) currently provides that "[a]ll accidental death and dismemberment insurance shall cease at retirement." If state retirees are to be allowed to purchase accidental death and dismemberment insurance, this language should be struck. Section 51.1-512(F) provides that the Board may discontinue the optional insurance plan at any time upon determination that employee participation is not sufficient to continue the plan on a sound actuarial basis. If this legislation passes, a reference to state retirees should be added to this provision.

Lines 44 and 45 Strike All accidental death and dismemberment insurance shall cease at retirement.

Line 48 insert *or state retiree* after employee

11. Other Comments: This legislation proposes to allow state retirees to enroll in the Optional Life insurance plan, without requiring that the employee had to have participated in the plan prior to retirement.

Generally, the focus of employer provided group life insurance plans, such as the VRS Group Insurance Program set out in Chapter 5 of Title 51.1, is on active employees. Available benefits upon retirement are based on benefits established while a member was actively employed in a VRS covered position. Currently active members who have Optional Life insurance have two options to continue Optional Life Insurance when they retire.

Conversion

Within 30 days of terminating service a member has the opportunity to convert existing Optional Life insurance to an individual whole life insurance policy, with guaranteed coverage (no medical underwriting). The cost of the converted coverage is at non-group rates through Minnesota Life, VRS' third-party administrator for life insurance and accidental death and dismemberment coverage. The benefit is payable upon death as long as the premiums are paid by the member. After the 30-day window, a member who has terminated service no longer has the opportunity to convert optional life insurance to an individual policy.

Continuation

If a member had Optional Life coverage for at least 60 continuous months prior to retirement or before leaving service, the member may elect to continue Optional Life coverage and pay the same group rates as the active member group. However, this continued coverage only lasts until age 80. The coverage is subject to 25% reductions at age 65, 70, 75, and by age 80 Optional Life coverage ceases.

Exhibit 1 below details the current optional life membership:

Exhibit 1			
Optional Life Insurance			
Employer	Active Members	Retired Members	Total Members
Judges	124	10	134
State Police	887	33	920
State	21,559	827	22,386
Teachers	17,935	724	18,659
Political Subdivisions	24,220	821	25,041
VaLORS	3,093	133	3,226
Total	67,818	2,548	70,366

In addition to the 2,548 members who have chosen to continue optional life coverage into retirement, each year another 15-20 members convert their optional coverage within 30 days of retiring. In total, less than 4% of active members with optional life coverage choose to continue coverage into retirement.

Allowing state retirees to enroll in a post-retirement benefit, which they did not elect while actively working, creates anti-selection against the current plan format by providing an opportunity for those with higher risk to enroll. As a whole, retirees are a higher risk group than active employees. For example, as indicated by Minnesota Life, even retirees currently covered in the Optional Life plan have experience that is five (5) times more negative than

the experience of active employees. These two factors, anti-selection and the high risk profile of this population, could negatively impact premiums for this group. § 51.1-512(B) provides in part that “[t]he conditions prescribed by the Board shall provide that offering the optional insurance does not materially increase the rates for any group life insurance policy provided pursuant to § 51.1-505.”

If this legislation were to be enacted, applicants would need to be medically underwritten to protect against anti-selection. Generally speaking, the underwriting decline rate of a group with demographics similar to a retiree group is high. Minnesota Life estimates that close to 80% of applicants could be declined for coverage. (In contrast, only 20% of active members who apply are declined.) From a cost/benefit analysis, the additional resources needed to manage such a high percentage of declined participation may not be worth the benefit, especially where other options are currently available to active members that would allow them to continue Optional Life insurance into retirement. Without this legislation, however, some retirees will not have access to the Optional Group Life insurance program. As a practical matter, though, the cost for this type of retiree coverage might be prohibitive to most members. This coupled with a high decline rate for retirees, could result in a negative perception of the program overall.

SB101 and SB102 are combined in HB1105.

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