Virginia Retirement System
2019 Fiscal Impact Statement

1. **Bill Number:** HB 2481

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

2. **Patron:** McNamara

3. **Committee:** Appropriations

4. **Title:** Virginia Retirement System; authorizes localities to opt out of group life insurance program.

5. **Summary:** Authorizes a locality that participates in the Virginia Retirement System's group life insurance program to opt out of the program and instead establish, either by self-funding or purchasing insurance, local life insurance coverage or accidental death and dismemberment insurance. Under current law, if a locality participates in the group insurance program, it is prohibited from withdrawing.

6. **Budget Amendment Necessary**: Yes. Item 488. VRS will need approximately $107,000 in FY 2019 for programming, communication, and other changes.

7. **Fiscal Impact Estimates:**

Fiscal Impact Estimates Impacts:

Fiscal Year	***Dollars***	***Positions***	***General Fund***	***Non-General Fund & Local Funds***
2019	$107,007			$107,007 (VRS)
2020				
2021				
2022				
2023				
2024				
2025				

A more detailed breakdown of estimated costs are shown in Item 8 below.

8. **Fiscal Implications:** This bill would likely introduce adverse selection and potential stranded liabilities. Due to the language currently including any county, city, or town participating in the VRS group life insurance program and offering no remedy for unfunded stranded liabilities that could be generated under this bill, the fiscal impacts are indeterminate at this time. As proposed we would expect an increase in the cost to employers who remain, and a potential shifting of stranded liabilities to remaining employers, with the magnitude contingent on the number of employers electing to opt-out.

9. **Specific Agency or Political Subdivisions Affected:** VRS, any county, city, or town participating in the VRS group life insurance program that may wish to withdraw from the program, and all other VRS-participating employers that remain in the program.

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** The VRS Group Life Insurance Program (Program) is a single pool cost-sharing plan within which all participating employers share costs. As such, a single employer's entry into, experience in, or exit from the Program necessarily impacts the rest of the pool. By exiting the Program pursuant to the bill, an employer could have the following ramifications on the cost-sharing pool:

    - **Adverse Selection** - Removing active covered members from the group has the potential to impact how costs are developed and shared within the cost-sharing pool.

      An employer's decision to withdraw from Program participation under the bill may hinge on whether it can obtain similar coverage at a lower cost. Generally, the employers that are most likely able and inclined to obtain lower cost coverage would be those with a younger or healthier employee population. If the bill creates a trend of younger and healthier members leaving coverage due to their employers withdrawing from the Program, then the Program's covered population would likely become more expensive to insure (i.e., adverse selection). Specifically, there would be unpredictability related to: (a) how many employers may leave; (b) which employers may leave; (c) disruption from employers leaving; (d) and loss of economies of scale and service levels that are available when a large group is universally covered.

    - **Stranded Unfunded Liabilities –** As of June 30, 2018 the Group Life plan was 49.71% funded with approximately $1.6 billion in unfunded liabilities. Existing retirees keep their benefits, and the remaining employers would pick up the cost.

      Even if an employer withdraws from Program participation, the employer's retirees would likely not forfeit their life insurance benefits under the bill since the bill does not retroactively remove benefits for those who retired with the expectation of coverage. As a result, an unfunded liability would likely exist for the terminating employer that would either be due upon exit from the Program or left for remaining employers in the Program to absorb. Allowing employers to exit without paying for remaining unfunded liabilities associated with the employer is known as "stranding liabilities." Stranded liabilities would have an adverse effect on plan costs. The magnitude of the impact on plan costs depends on the size and number of employers that would exit.

    The bill allows all counties, cities, and towns to exit the Program. Depending on how many and which localities choose to opt out, the impact could be significant to the remaining employers participating in the Program, including the potential for an increased employer contribution rate, which is currently 1.31% of covered payroll. Any increase would depend on the number, size, and respective liabilities of the counties, cities, and towns that choose to withdraw from Program participation. As of June 30, 2018 political subdivisions represented about 27% of the Group Life plan. The current plan is an employer-sponsored group term life insurance program subject to § 79 of the Internal Revenue Code.

Should this bill move forward, VRS requests language be added that would require employers that withdraw from the group life insurance program to pay the share of the actual unfunded liability associated with the employer as a condition to allowing them to opt out.

If an employer withdraws from the Program, current active employees of the withdrawing employer would forfeit any future group life benefits effective on the date of withdrawal.

§ 51.1-510(A) allows members to make a voluntary, irrevocable assignment of group life insurance policies. Irrevocable assignment means the transfer of ownership rights to another living person or entity. To the extent that active members of a withdrawing locality have made such an irrevocable assignment, such assignments would no longer be effective.

The Group Life program cost effectively provides comprehensive coverage, the provisions of which are set forth in the *Code of Virginia*, for active members and retirees. While we believe that the current rates associated with the Group Life program are very competitive with the private markets for group policies, it should also be noted that under existing law and policy, an employer participating in the Program can shift up to 60% of Program premium costs to employees. VRS is aware of only a limited number of employers that exercise this option, but if plan costs are part of the employer's opt out decision, flexibility currently exists for sharing costs with members.

If the intent is to provide the election to all political subdivisions participating in the program, then in Line 18 the phrase "county, city, or town" should be replaced with "political subdivision" to ensure that this option is available to all local employers. If the intent was only to allow the election for a county, city or town, then the language as drafted will accomplish the intent.

In addition, because Chapter 8 of Title 51.1 applies separately to jurisdictions that do not participate in VRS, similar language allowing those localities to opt out of the group life insurance program would need to be included to be consistent if that is the intent. The amendment in § 51.1-504 does not authorize localities that do not participate in VRS to opt out of the group life insurance program.

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