

Virginia Retirement System 2012 Fiscal Impact Statement

1. Bill Number: HB350

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

2. Patron: Cox

3. Committee: Appropriations

4. Title: Virginia Retirement System; disability benefits.

5. Summary: Virginia Retirement System (VRS); disability benefits; Modifies the disability benefits provided to state employees by (i) no longer reducing such benefit by the amount of military disability benefits received and (ii) reflecting changes made in 2009 by the General Assembly limiting new employees to disability payments in an amount of 60% of their creditable compensation for the first 60 months of employment. The bill also makes some technical changes.

6. Budget Amendment Necessary: No.

7. Fiscal Impact Estimates: Removal of the military disability benefits as an offset from VSDP is expected to have a minimal impact on prospective plan costs. The plan currently has approximately 2,700 claimants, of which 27 have been determined to have a military disability offset (less than 1% of the claimant population).

From a funding standpoint, removing the military disability offset would have minimal impact on the normal cost rate since so few participants are anticipated to have a military disability offset apply after Social Security Disability and Workers' Compensation offsets are applied. The accrued liability rate for the plan currently is a credit, because plan assets exceed the plan's total liability. Based on the demographics of the current population, the increase in VSDP benefit payments would be minimal. Any increase would be absorbed by the plan's current overfunded position. The net effect is not anticipated to cause an increase in contribution rates for this program.

The technical changes included in this legislation have no fiscal impact.

8. Fiscal Implications: This bill would not result in an increase in the rates calculated by the VRS actuary for the Virginia Sickness and Disability Program (VSDP). As such, the budget would remain unaffected.

9. Specific Agency or Political Subdivisions Affected: Any members covered under the Virginia Sickness and Disability Program (VSDP) who are also receiving a military disability benefit and who are currently receiving a disability benefit or will become a disability

claimant on or after July 1, 2012; any members covered under VSDP hired on or after July 1, 2009.

10. Technical Amendment Necessary: No

11. Other Comments:

The Senate amendment to this legislation provides an emergency clause. This clause is necessary in order to accommodate those members who may have their military disability payments offset prior to July 1, 2012.

This bill would eliminate a provision in the Virginia Sickness and Disability Program (VSDP) that requires VRS to offset a VSDP disability payment for claimants who are also receiving a military disability payment from the Veterans Administration for the same disabling condition.

It is common practice to offset VSDP benefits by other governmental disability payments such as Social Security Disability or Workers' Compensation payments. In this way, VSDP is generally the last payer of disability benefits. However, VRS has discovered that it is highly unusual for employers to offset disability payments by the amount received in a military disability benefit. VRS has confirmed that the Social Security Administration does not offset for military disability benefits. Similarly, UNUM, the VSDP third-party administrator, has also confirmed that such offsets are unusual in the industry.

VRS reports that the VSDP currently has 27 claims that have offsets for military disability benefits. This offset provision has been in the law governing the VSDP since its inception in 1999. However, VRS recommends that the General Assembly eliminate this offset requirement and bring the VSDP into conformity with current general industry standards.

The second feature of the bill corrects an omission from legislation enacted in the 2009 session that limits new employees participating in VSDP who have less than 5 years of continuous state service to a maximum work-related benefit of 60% of their pre-disability salary when placed on short-term disability. This language was missed when the requirement previously set forth in the Appropriation Act was codified by statute.

The Board of Trustees of the Virginia Retirement System requested this bill.

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