

Virginia Retirement System 2014 Fiscal Impact Statement

1. Bill Number: HB 1105

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

2. Patron: Patron Prior to Substitute - Ingram

3. Committee: Appropriations

4. Title: Life insurance; basic coverage for eligible retired employees.

5. Summary: The substitute bill provides that the basic life insurance coverage for retired employees with 30 or more years of creditable service shall not be reduced to less than \$8,000, indexed to the amount of any post-retirement supplement for retirees, as calculated for employees hired on or after July 1, 2010, pursuant to § 51.1-166.

6. Budget Amendment Necessary: No.

7. Fiscal Impact Estimates: The substitute for HB 1105 would provide a minimum group life insurance death benefit of \$8,000 for all retirees eligible for VRS Group Life Insurance who retire with at least 30 years of creditable service. Additionally, the \$8,000 minimum benefit is to be increased annually by the same percentage of any post-retirement supplement for retirees (cost of living allowance, or COLA), as calculated for employees hired on or after July 1, 2010, pursuant to § 51.1-166 on the date such post-retirement supplements, if any, apply.

In determining the cost impact of the legislation, the proposed benefit changes were assumed to apply to the eligible active, retired, and disabled members of the State, Teachers, Political Subdivisions, State Police (SPORS), Judicial Employees (JRS), Virginia Law Officers (VaLORS), and Optional Retirement Plan (ORP) employer groups. For estimation purposes, the following assumptions were made:

- To be consistent with the retiree life insurance benefit's eligibility requirements, disabled retirees and members on long-term disability were assumed to be eligible for the minimum death benefit regardless of their amount of creditable service.
- The \$8,000 minimum benefit was indexed at a rate of 2.25%, which is the annual assumed post retirement supplement for retirees hired on or after July 1, 2010, pursuant to § 51.1-166.
- For service retirees, eligibility for the minimum benefit was based upon 30 years of estimated creditable service.
- The indexing of the minimum benefit was assumed to apply to a member's benefit annually. As such, a member with an \$8,000 minimum benefit in fiscal year 2014 is assumed to have an \$8,180 minimum benefit in fiscal year 2015, an \$8,364 minimum benefit in fiscal year

2016 and so on. Similarly, a member not immediately eligible for the minimum benefit may become eligible at a future point in time.

As of June 30, 2013, the Group Life Insurance Program had an unfunded liability of \$1.735 billion. The proposed changes in HB 1105H1 would increase the unfunded liability for the Group Life Program by \$8.57 million. The increase in annual cost is expected to be approximately 0.0034% of covered payroll. Exhibit 1 below provides estimated cost impacts.

Exhibit 1						
	<u>FY15 Cost</u>	<u>FY16 Cost</u>	<u>FY17 Cost</u>	<u>FY18 Cost</u>	<u>FY19 Cost</u>	<u>FY20 Cost</u>
State - General Fund	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000
SPORS - General Fund	3,000	3,000	3,000	3,000	3,000	3,000
VaLORS - General Fund	11,000	11,000	11,000	11,000	11,000	11,000
JRS - General Fund	2,000	2,000	2,000	2,000	2,000	2,000
Teacher - General Fund	99,000	99,000	99,000	99,000	99,000	99,000
TOTAL General Fund	\$ 170,000	\$ 170,000	\$ 170,000	\$ 170,000	\$ 170,000	\$ 170,000
State - Non-General Funds	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000
SPORS - Non-General Funds	1,000	1,000	1,000	1,000	1,000	1,000
VaLORS - Non-General Funds	1,000	1,000	1,000	1,000	1,000	1,000
TOTAL - Non-General Funds	\$ 74,000	\$ 74,000	\$ 74,000	\$ 74,000	\$ 74,000	\$ 74,000
Teacher - Local Funds	\$ 150,000	\$ 151,000	\$ 151,000	\$ 151,000	\$ 151,000	\$ 151,000
Political Subdivisions - Local Funds	\$ 147,000	\$ 150,000	\$ 151,000	\$ 151,000	\$ 151,000	\$ 151,000
TOTAL Local Funds	\$ 297,000	\$ 301,000	\$ 302,000	\$ 302,000	\$ 302,000	\$ 302,000
Grand Totals	\$ 541,000	\$ 545,000	\$ 546,000	\$ 546,000	\$ 546,000	\$ 546,000

Estimated projections based on employee data and valuations results as of June 30, 2013 and assume a level population throughout projection period.

Payroll projections include only known payroll increases; including FY 2014 across the board merit increase and increases for compression for State employees and payroll increases for Teachers & Locals employees transitioning member contribution requirements effective July 1, 2012.

8. Fiscal Implications: See Fiscal Impact Estimate above.

9. Specific Agency or Political Subdivisions Affected: VRS, all participating employers, all active members, and retirees with at least 30 years of service.

10. Technical Amendment Necessary: No.

11. Other Comments: In general, § 51.1-505 provides that the current amount of group life insurance for each covered employee is twice the employee's annual salary, rounded up to the next higher \$1,000. This amount begins to be reduced by 25% per year on January 1 following the first full year from the date the employee is separated from service and each January 1 thereafter. The reduction is not to decrease the amount of life insurance to less than 25% of the amount of life insurance to which the initial reduction is applied. So for example, in order to benefit from the initial \$8,000 floor provided in HB 1105, an employee

would need to have an annual salary of less than \$16,000 ($\$16,000 \times 2 =$ group life benefit of \$32,000). Final reduction of this retiree's group life benefit under current law would be \$8,000.

This bill does not affect the group accidental death and dismemberment insurance, which terminates upon retirement.

Under the substitute legislation, eligible employees with at least 30 years of service will have a retirement life insurance minimum of the greater of \$8,000 or 25% of the amount of the group life insurance amount available prior to retirement.

Under the substitute, the \$8,000 minimum will be increased by the same percentage as any COLA for retirees, as calculated for employees hired on or after July 1, 2010, pursuant to § 51.1-166. For example, if all retirees whose COLA under § 51.1-166 as calculated for employees hired on or after July 1, 2010 is 2.0%, the minimum for eligible retirees (current and future) would go up to \$8,160.

From a cost perspective, HB 1105H1 has the potential for increasing claim cost by as much as \$800,000 annually, based on a minimum insurance amount of \$8,000. This is based on the last two years of actual claims experience and assumes the minimum death benefit is increased on both current and future retirees.

Depending on the rate and amount of increase in the minimum benefit, the maximum premium rate may need to be increased.

The substitute bill does not include the provision in the original bill that would have allowed retired state employees to purchase optional group life insurance coverage, with premiums to be paid by the retirees.

The original summary indicated that this bill is applicable only to retired state employees. The bill, however, applies to all VRS retirees eligible for Group Life Insurance coverage pursuant to Chapter 5 of Title 51.1. The substitute would limit the application to retirees with at least 30 years of creditable service.

SB102S1 is identical to HB1105H1. However, SB102S1's enactment depends upon an \$8.6 million appropriation to the Retirement System Group Life Insurance Unfunded Liability Special. HB1105H1 contains no such enactment clause.

Date: 02.12.2014

Document: HB1105H1.DOC