

Virginia Retirement System 2014 Fiscal Impact Statement

1. Bill Number: SB 102

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

2. Patron: Ruff

3. Committee: Finance

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

5. Summary: Provides that the basic life insurance coverage for retired employees with 15 or more years of creditable service shall not be reduced to less than \$8,000, indexed to the amount of any general salary increases for state employees.

6. Budget Amendment Necessary: No.

7. Fiscal Impact Estimates: SB 102 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 15 years of creditable service. Additionally, the \$8,000 minimum benefit is to be increased annually by the same percentage of any general salary increases for state employees on the date such salary increases 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 an annual rate of 3.00%, which is the annual payroll growth assumption used in the valuation of the group life plan.
- For service retirees, eligibility for the minimum benefit was based upon 15 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 \$8,240 minimum benefit in fiscal year 2015, an \$8,487 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 SB 102 would increase the unfunded liability for the Group Life Program by \$22.1 million. The increase in annual cost is expected to be approximately 0.01% of covered payroll. Exhibit 1 below provides estimated cost impacts.

Exhibit 1

	FY15 Cost	FY16 Cost	FY17 Cost	FY18 Cost	FY19 Cost	FY20 Cost
State - General Fund	\$ 152,000	\$ 152,000	\$ 152,000	\$ 152,000	\$ 152,000	\$ 152,000
SPORS - General Fund	9,000	9,000	9,000	9,000	9,000	9,000
VaLORS - General Fund	29,000	29,000	29,000	29,000	29,000	29,000
JRS - General Fund	6,000	6,000	6,000	6,000	6,000	6,000
Teacher - General Fund	272,000	274,000	274,000	274,000	274,000	274,000
TOTAL General Fund	\$ 468,000	\$ 470,000	\$ 470,000	\$ 470,000	\$ 470,000	\$ 470,000
State - Non-General Funds	\$ 198,000	\$ 198,000	\$ 198,000	\$ 198,000	\$ 198,000	\$ 198,000
SPORS - Non-General Funds	2,000	2,000	2,000	2,000	2,000	2,000
VaLORS - Non-General Funds	3,000	3,000	3,000	3,000	3,000	3,000
TOTAL - Non-General Funds	\$ 203,000	\$ 203,000	\$ 203,000	\$ 203,000	\$ 203,000	\$ 203,000
Teacher - Local Funds	\$ 414,000	\$ 416,000	\$ 416,000	\$ 416,000	\$ 416,000	\$ 416,000
Political Subdivisions - Local Funds	\$ 409,000	\$ 415,000	\$ 418,000	\$ 418,000	\$ 418,000	\$ 418,000
TOTAL Local Funds	\$ 823,000	\$ 831,000	\$ 834,000	\$ 834,000	\$ 834,000	\$ 834,000
Grand Totals	\$ 1,494,000	\$ 1,504,000	\$ 1,507,000	\$ 1,507,000	\$ 1,507,000	\$ 1,507,000

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 Estimates above.
- 9. Specific Agency or Political Subdivisions Affected:** VRS, all participating employers and all active members and retirees.
- 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 SB 102, 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.

This legislation provides for an indexed minimum life insurance benefit for all eligible members of the Group Life Insurance Program.

Under the proposed legislation, eligible employees with at least 15 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.

The \$8,000 minimum will be increased by the same percentage as any across the board salary increase provided for active employees. For example, if all active employees get a 2% increase, the minimum for retirees (current and future) would go up to \$8,160. The legislation states that the benefit would increase by "percentage or amount," so if everyone got a \$500 increase, the retiree minimum would go up by that amount as well.

From a cost perspective, SB 102 has the potential for increasing claim cost by approximately \$1.6 million 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 original summary indicated that this bill is applicable only to retired state employees. The bill as currently drafted, however, applies to all VRS retirees eligible for Group Life Insurance coverage pursuant to Chapter 5 of Title 51.1.

SB101 and SB102 are combined in HB1105.

Date: 01.16.2014

Document: SB102.DOC