

Virginia Retirement System 2015 Fiscal Impact Statement

1. **Bill Number:** HB2277

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

2. **Patron:** Ingram

3. **Committee:** Appropriations

4. **Title:** Life insurance for retired state employees.

5. **Summary:** Provides that the basic life insurance coverage for retired state employees with 30 or more years of creditable service shall not be reduced to less than \$8,000, indexed to the amount of post-retirement supplements for retirees as calculated for employees hired on or after July 1, 2010.

6. **Budget Amendment Necessary:** No.

7. **Fiscal Impact Estimates:** HB 2277 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 Retirement System (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 2015 is assumed to have an \$8,180 minimum benefit in fiscal year 2016, an \$8,364 minimum benefit in fiscal year 2017 and so on. Similarly, a member who is not immediately eligible for the minimum benefit may become eligible at a future point in time.

As of June 30, 2014, the Group Life Insurance Program had an unfunded liability of \$1.71 billion. The proposed changes in HB 2277 would increase the unfunded liability for the Group Life Program by \$8.3 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	\$ -	\$ 56,000	\$ 56,000	\$ 56,000	\$ 56,000	\$ 56,000
SPORS - General Fund	-	3,000	3,000	3,000	3,000	3,000
VaLORS - General Fund	-	11,000	11,000	11,000	11,000	11,000
JRS - General Fund	-	2,000	2,000	2,000	2,000	2,000
Teacher - General Fund	-	99,000	99,000	99,000	99,000	99,000
TOTAL General Fund	\$ -	\$ 171,000				
State - Non-General Funds	\$ -	\$ 73,000	\$ 73,000	\$ 73,000	\$ 73,000	\$ 73,000
SPORS - Non-General Funds	-	1,000	1,000	1,000	1,000	1,000
VaLORS - Non-General Funds	-	1,000	1,000	1,000	1,000	1,000
TOTAL - Non-General Funds	\$ -	\$ 75,000				
Teacher - Local Funds	\$ -	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000
Political Subdivisions - Local Funds	\$ -	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000
TOTAL Local Funds	\$ -	\$ 300,000				
Grand Totals	\$ -	\$ 546,000				

Estimated projections based on employee data and valuation results as of June 30, 2014 and assume a level population throughout projection period.

Payroll projections are assumed to remain level throughout projection period.

As of June 30, 2014 there were over 159,000 covered retired or disabled members in the Group Life Program. Approximately 2,100 of these current members had a death benefit of less than \$8,000 and had accrued at least 30 years of creditable service at retirement.

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 2277, 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 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.

Also under this legislation, 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 2.25%, the minimum for eligible retirees (current and future) would go up to \$8,180.

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

The summary for this bill indicates that it is applicable only to retired state employees. The bill, however, applies to all VRS retirees who are eligible for Group Life Insurance coverage pursuant to Chapter 5 of Title 51.1. The application is limited to retirees with at least 30 years of creditable service.

Date: 01-23-2015

Document: HB2277.DOC