

Update on Employee Compensation and Benefit Initiatives: Local Employee Health Insurance & Line of Duty Changes & Pension Reform Commission

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- Development of A Statewide Pooled Health Insurance Plan for Employees of Political Subdivisions**
- Update on Line of Duty Reforms
- Status Report on Commission on Retirement Security and Pension Reform Efforts

During the 2016 Session 5 Bills Were Introduced Regarding Local Employee Health Insurance

- 4 of the 5 bills introduced would have included local employees in the state employee plan (these bills were not adopted)
 - HB 1215 (Kilgore) – local school boards & governing bodies may elect to participate in the state employee health plan
 - HB 848 (Cline) – localities & local school boards may elect to participate in the state employee health insurance plan
 - SB 384 (Vogel) – local school divisions may elect to participate in the state employee health plan for a 3 year renewable term
 - SB 675 (Chafin) - local school boards & governing bodies may elect to have employees and retirees participate in the state employee health plan
- The fifth one, SB 364 (Chafin), was enacted and allowed DHRM to develop a local option health insurance plan, with benefits similar to the state employee health insurance plan, using a single rating pool

SB 364 Authorized Modifying the Local Choice Program

- The legislation modified section §2.2-1204 of the Code pertaining to The Local Choice Program (TLC) to include an option for a statewide pooled plan which would have benefits that mirror the state employee health plan
 - Under the pooled plan all employee groups that elect to participate would be rated as a single group (one self-insured risk pool) and would be separate from the state employee plan
 - Under current Local Choice Program each group is rated as an individual plan
 - Legislation states DHRM should offer plans “one of which may be similar to the state employee plan”
 - TLC program currently offers several plans administered through Anthem which vary from the state plan both in cost sharing and scope of benefits
 - DHRM has determined that in order to go forward with the new plan it must have a minimum enrollment of 5,000 employees and 10,000 total members
 - New pooled plan would be offered under the TLC along with the current individually rated plans
 - Would be self fund and include stop-loss provisions

Initial Implementation Schedule

Date	Who	Action
Spring 2016	DHRM	Begin outreach to legislators and constituents
Summer 2016	DHRM	Develop program rules
August 2016	DHRM & interested parties	Conduct information webinars
September 14, 2016	Potential participants	Preliminary indication of interest
October 28, 2016	Potential participants	Complete data submission for actuarial analysis
January 2017	DHRM	Publish preliminary premium rates
February 2017	Participants	Indicate continued interest
October 2017	DHRM	Publish final rates
December 2017	Participants	Make binding election to participate
May 2018	All	Conduct open enrollment
July 1, 2018	All	Go live

DHRM Held a Series of Webinars with Various Parties to Provide Information and Receive Input

Group	Webinar
Local Government	August 23, 2016
School Board Members and School Superintendents	August 24, 2016
Virginia Education Association	August 25, 2016
Constitutional Officers	August 29, 2016
Virginia Professional Educators	September 1, 2016

Webinars Requested Input on Implementation Issues

- Should Non-Medicare Retirees be included (they are included in the state plan)?
 - Large majority favored inclusion
- Should plan include a Total Population Health Program similar to the premium rewards program offered state employees?
 - Large majority were against inclusion in the first few years
- Should plan include a minimum participation requirement for active employees?
 - Large majority supported minimum participation requirement
- Should plan include a minimum employer contribution (require employers to pay no less than a certain percentage of the premium)?
 - Large majority supported minimum contribution requirement
- Should Plan require a multi-year commitment period?
 - Large majority supported multi-year requirement
- Should plan include an Adverse Experience Adjustment to charge entities for higher than average cost if they decide to leave the program?
 - Large majority supported adverse experience adjustment

189 Political Subdivisions Provided Complete Data

Political Subdivisions	# of Political Subdivisions That Provided Data	Total Employees	# of Employees Participating in Health Insurance	# of Total Plan Members Including Dependents
Cities/Counties	66	36,594	32,253	66,101
School Divisions	64	58,434	45,764	86,142
Schools & Cities/Counties Combined	6	17,810	11,600	28,818
Other Entities	<u>53</u>	<u>5,203</u>	<u>4,470</u>	<u>7,609</u>
Total	189	118,401	94,147	188,670

- 30 other entities submitted a portion of the data requested
 - 10,415 total employees and 14,969 health insurance participants

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HB 1345 of the 2016 General Assembly Session Instituted Significant Reforms to Line of Duty Program

- The majority of the reforms included in HB 1345 (Jones) were subject to a delayed enactment clause making them effective July 1, 2017
- Effective July 1, 2017, the responsibility for Line of Duty Act (LODA) eligibility determinations will transfer from the Department of Accounts to the Virginia Retirement System (VRS)
- Effective July 1, 2017, the responsibility for health insurance administration will transfer from the Department of Accounts to the Department of Human Resource Management (DHRM)

Health Insurance Changes

- DHRM is developing a LODA health insurance program to include all individuals eligible for health insurance through the LODA (state employees and their dependents and local volunteers and employees and their dependents regardless of whether or not the locality participates in the state run LODA Fund)
 - Program will include 2 plans, one plan where Medicare is the primary insurer and one for all other participants
 - Plan will be identical to COVA Care including all of the enhanced options
 - Estimated savings of \$33.8 million over the first 10 years
- DHRM hopes to
 - Finalize per enrollee premium by January 1, 2017
 - Send new plan information to current program participants in January
 - Receive enrollment documentation from participants in February

Provisions of HB 1345 That Will Impact Health Insurance

- Children of beneficiaries will remain eligible for health insurance until they reach the age of 26
 - Previously age 21, or age 25 if they were a full time student
- The spouse of a “disabled person” will lose eligibility if they divorce and the spouse of a “deceased person” will lose eligibility if they remarry
 - Applies to all spouses of a “disabled person,” current and future
 - Previously they remained eligible unless they elected alternate insurance
 - Expected to result in minimal savings
- A “disabled person” will have their eligibility suspended if they earn income greater than the income they earned prior to disability, indexed for inflation
 - Applies only to those whose disability occurs on or after July 1, 2017
 - Benefit eligibility may be reinstated if income changes and meets eligibility requirements
 - Estimated savings of \$5.0 million over the first 10 years
- Beneficiaries lose benefits at Medicare age if LODA eligibility is based on a death or disability that occurs on or after July 1, 2017 (except those disabled under SSDI or Railroad Retirement Disability)
 - This provision does not apply to individuals currently in LODA
 - Minimal savings initially due to grandfathering

Other Provisions of HB 1345

- Effective July 1, 2017 the Virginia Retirement System (VRS) will assume responsibility for the eligibility determination process
- VRS will develop an appeals process for eligibility determinations pursuant to the Administrative Process Act
 - Currently, appeals of eligibility decisions are de novo and go directly to the circuit courts
- VRS may develop a disability redetermination process to re-evaluate the disability two years after the initial evaluation and again 5 years thereafter
 - There is currently no reevaluation process
- VRS and DHRM, in conjunction with the Secretary of Public Safety and Homeland Security, are jointly developing communications and training for employers and employees in LODA covered positions, including the importance of beneficiary designation

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Commission on Retirement Security and Pension Reform Created Pursuant to HB 665 of the 2016 Session

- The full Commission has held 2 meetings (July 11th and August 22nd)
- Commission divided its work into 3 working groups
 - Retirement Working Group
 - Compensation Working Group
 - Workforce Working Group
- Full Commission is scheduled to meet again in December to consider recommendations developed by the working groups
- Website has been created to provide information on Commission's efforts
 - <http://retirementcommission.virginia.gov>

Retirement Working Group Has Held 3 Meetings

- The Retirement Working Group meetings focused on issues related to:
 - VRS Funding issues
 - Potential plan design changes to the hybrid retirement plan
 - Design for an optional defined contribution plan
- Recommendations that the Retirement Working Group will bring to the full Commission for consideration include, but are not limited to:
 - The General Assembly should consider modifying the hybrid plan design in a manner similar to those changes proposed in HB 1072 of the 2016 General Assembly session
 - 2% (instead of 1%) of the mandatory 5% employee contribution would be directed to the employee DC account
 - 3% (instead of 4%) of the mandatory 5% employee contribution would be directed to the employee DB account
 - Enhance auto-escalation provisions to increase voluntary contributions at a faster rate
 - Establish “active choice” for new employees regarding voluntary contributions and pair with auto-enrollment (currently if employees makes no election their voluntary contributions default to zero)
 - The General Assembly should consider, dependent on the fiscal impact, providing an optional defined contribution (DC) plan to all employees based on the optional DC plan currently offered to political appointees

Workforce Working Group Has Held 2 Meetings

- The Workforce Working Group has focused on issues related to workforce demographics, succession planning, and employee development/training

- Recommendations that the Workforce Working Group will bring to the full Commission for consideration include:
 - Agencies should develop and annually update agency succession plans

 - Commission should contract for a comprehensive study of state employee positions in each region of the Commonwealth and the skills of potential employees in each region

 - The Department of Human Resource Management (DHRM) should develop a comprehensive marketing and recruitment plan

 - DHRM should develop an annual employee satisfaction survey for all state employees and an employee exit survey for all employees leaving state service

Compensation Working Group Has Held 2 Meetings

- The Compensation Working Group meetings focused on issues related to state employee compensation

- Recommendations that the Compensation Working Group will bring to the full Commission for consideration include:
 - The General Assembly should prioritize funding for the previously scheduled state employee pay raises (3%) in Fiscal Year 2018

 - JLARC should undertake a total compensation study to determine the total value of the state employee compensation package and compare it to other large employers
 - JLARC did total compensation study in 2008 and updated it in 2011

 - The General Assembly should appropriate necessary funds for DHRM to subscribe to Occupationally Based Data Services focused on total compensation and evaluation of peer employers (\$20,000 GF annually)

Fiscal Impact Per 1% Pay raise

Employee Group	Per Month	Annual Cost
State Employees	\$1,968,985	\$23,627,819
Faculty	\$770,642	\$9,247,701
Graduate Assistants & Adjunct Faculty	\$163,059	\$1,956,713
State Supported Local Employees	<u>\$778,079</u>	<u>\$9,336,952</u>
Total	\$3,680,765	\$44,169,185

- Under the revenue reserve, Chapter 780 included \$221.3 million in FY 2018 for employee compensation actions (including state employees, state supported local employees and SOQ funded positions)