
Minutes

A regular meeting of the Benefits and Actuarial Committee of the VRS Board of Trustees was held on February 12, 2019 in Richmond, Virginia with the following members present:

Wallace G. Harris, Chair

Troilen G. Seward, Vice Chair

Board members present:

Mitchell L. Nason, VRS Chair

Hon. J. Brandon Bell, II

Also present:

Rory Badura, Farley Beaton, Trish Bishop, Judy Bolt, Jeanne Chenault, Cassandra Coles; Michael Cooper, Sara Denson, Barry Faison, Andy Feagans, Krystal Groff, Robert Irving; Taylor Melton, Kathy Quiriconi, Andrea Peeks, Jennifer Schreck, Jillian Sherman, Virginia Sowers, and Cindy Wilkinson of the VRS Staff;

Latosha Johnson of the Department of Planning and Budget;

Lauren Axselle of the Joint Legislative Audit and Review Commission;

Joseph Chang and Jessica Marshall of Securian Financial;

Bea Snidow of the Virginia Education Association; and

J. Marshall Terry and Rick Fowler of the Virginia Governmental Employees Association.

The meeting convened at 1:35 p.m.

Approval of Minutes

Ms. Seward moved to approve the minutes of the November 13, 2018 meeting with a second by Mr. Bell. The Committee approved the minutes unanimously.

2019 Cost of Living Adjustments (COLAs)

Ms. Bishop and Mr. Badura presented the recommendations of the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, regarding cost of living adjustments (COLAs). Mr. Badura discussed how each COLA is calculated, and provided comparisons of the Supplemental Security Income (SSI) COLA, the Consumer Price Index for all items, all urban consumers, as published by the Bureau of Labor Statistics of the U.S. Department of Labor (CPI-U), the VRS Plan 1 COLA, and the VRS Plan 2 and Hybrid COLA from 2011 through 2018. The calculations for the COLAs were performed by the plan actuary and reviewed by VRS and Internal Audit staff.

VSDP COLAs

Mr. Badura provided details on how the increase in creditable compensation is calculated for the Virginia Sickness and Disability Program (VSDP). The combined average increase in the pay rate for State, SPORS, and VaLORS members who were active as of June 30, 2017 and June 30, 2018 and reported in VRS valuation data as participating in VSDP is used to calculate the increase in VSDP creditable compensation. The actual combined average increase in applicable pay for these members was 5.17% from June 30, 2017 to June 30, 2018. In accordance with current policy, the annual COLA to be applied to a VSDP claimant's creditable compensation may not exceed 4.00%.

Mr. Badura advised that for VSDP, the plan actuary recommends an increase in the creditable compensation for VRS pension benefit purposes of 4.00%, effective July 1, 2019; a COLA of 2.44% to be applied to long-term disability (LTD) benefits, after offsets, of eligible VSDP LTD Plan 1 recipients vested prior to January 1, 2013; and a COLA of 2.22% for LTD recipients who are Plan 1 members not vested by January 1, 2013 and all Plan 2 and Hybrid members.

VLDP COLA

Mr. Badura provided details on how the increase in creditable compensation is calculated for the Virginia Local Disability Program (VLDP). He reminded the Committee that the increase is not applied annually, but is applied to a member's average final compensation if the member takes a service retirement directly from long-term disability status. The combined average increase in the pay rate for Teachers and Political Subdivisions participating in the Hybrid retirement plan who were active as of June 30, 2017 and June 30, 2018 and reported in VRS valuation data as participating in VLDP is used to calculate the increase in VLDP creditable compensation. The actual combined average increase in applicable pay for these members was 4.85% from June 30, 2017 to June 30, 2018. In accordance with current policy, the COLA to be applied to a VLDP claimant's creditable compensation may not exceed 4.00%.

Mr. Badura advised that for VLDP, the plan actuary recommends an increase in the creditable compensation used at retirement of 4.00%, effective July 1, 2019. The VLDP plan does not provide for a COLA on LTD benefits being received.

Increased Maximum Limits for Optional Life Insurance for Active Employees and Retirees

Mr. Badura reminded the Committee that the Code of Virginia provides that maximum optional life insurance benefits are to be reviewed every five years, and were last increased in 2014. In 2014, the maximums were \$750,000 for active employees and \$275,000 for retirees. He advised that the maximum benefit levels are increased by the change in the average CPI-U over the five year period, which was 7.79%. The result is then rounded to the nearest \$25,000.

The plan actuary recommends increasing the maximum limits for optional life insurance to \$800,000 for active insured employees, and \$300,000 for active retirees.

Post-Retirement Supplement COLAs

Mr. Badura reminded the Committee that VRS cost of living increases are based on the difference in the monthly average CPI-U for the calendar year just ended and the CPI-U monthly average for the most recent calendar year used to determine post-retirement supplements being paid. He noted that Plan 1 members receive 100% of the first 3% increase in CPI-U and 50% of any increase between 3% and 7%, capped at 5%. Mr. Badura also noted that Plan 2 and Hybrid plan members receive 100% of the first 2% increase in CPI-U and 50% of any increase between 2% and 4%, capped at 3%.

The plan actuary calculated the Post-Retirement Supplement COLAs, effective July 1, 2019, of 2.44% for Plan 1 and 2.22% for Plan 2 and Hybrid members. The COLAs did not require action by the Committee.

COLA for Hazardous Duty Supplement

Mr. Badura also advised that in accordance with the requirements of the *Code of Virginia*, the Hazardous Duty Supplement is increased biennially using applicable cost of living adjustments published by the Social Security administration since the last applicable increase. The biennial Social Security increase is 4.86%, resulting in an increase in the annual Hazardous Duty Supplement from \$13,584 to \$14,244 effective with the 2020 fiscal year. The COLA did not require action by the Committee.

COLA for Group Life Insurance

Mr. Badura reviewed the minimum group life insurance benefits. He reminded the Committee that, in accordance with § 51.1-505(B) effective July 1, 2014, retirees with at least 30 years of creditable service are granted a life insurance benefit that will not decrease to less than 25% of the initial life insurance benefit, provided, however that the reduction will not decrease the benefit to less than \$8,000. In accordance with the statute, the minimum benefit for members retired with at least 30 years of service is to be increased by the same COLA applicable to VRS Plan 2 and Hybrid members, or 2.22%, effective July 1, 2019.

The new minimum life insurance payout effective July 1, 2019 will be \$8,463. The COLA did not require action by the Committee.

Mr. Harris thanked Mr. Badura for his presentation.

RBA: Approve the VSDP COLA to be applied to the creditable compensation and benefit payments of VSDP LTD recipients, to be effective July 1, 2019

Mr. Bell then moved, with a second by Ms. Seward, to recommend approval to the Board:

Request for Board Action: Effective July 1, 2019, for a Plan 1, Plan 2 or Hybrid member who has been the recipient of long-term disability (LTD) benefits for at least one calendar year under the Virginia Sickness and Disability Program (VSDP), a cost of living adjustment will be applied in the amount of (i) 4.00% to the recipient's creditable compensation used for calculating the member's average final compensation at retirement, and a cost of living adjustment to the recipient's net LTD benefit payment of (ii) 2.44% for

Plan 1 members vested prior to January 1, 2013, or (iii) 2.22% for Plan 1 members not vested by January 1, 2013 and all Plan 2 and Hybrid members.

The Committee approved the motion unanimously.

RBA: Approve the VLDP COLA to be applied to the creditable compensation for service retirement benefit purposes, to be effective July 1, 2019

Mr. Bell then moved, with a second by Ms. Seward, to recommend approval to the Board:

***Request for Board Action:** Effective July 1, 2019, each recipient of long-term disability (LTD) benefits under the Virginia Local Disability Program (VLDP) who has been receiving LTD for at least one calendar year, and who ultimately retires directly from LTD, will have a cost of living adjustment applied in the amount of 4.00% to the recipient's creditable compensation.*

The Committee approved the motion unanimously.

RBA: Approve the Increased Maximum Limits for Optional Life Insurance for Active Employees and Retirees, to be effective July 1, 2019

Ms. Seward then moved, with a second by Mr. Bell, to recommend approval to the Board:

***Request for Board Action:** Effective July 1, 2019, the maximum Optional Life, Accidental Death, and Dismemberment insurance coverage for active insured employees shall increase to \$800,000, and the maximum Optional Life insurance coverage for active retirees shall increase to \$300,000.*

The Committee approved the motion unanimously.

The remaining COLAs for post-retirement supplements, hazardous duty supplements, and GLI minimum benefit are statutory and did not require action by the Committee.

Other Business

2019 Legislative Update

Ms. Bishop presented an update on the status of VRS-related legislation in the 2019 General Assembly, including the Appropriation Act and proposed amendments.

Changes to Funding Policy

Ms. Bishop advised that the House has proposed amendments to the Appropriation Act to provide additional VRS contributions and to reduce the OPEB amortization period for the State and Teachers' Health Insurance Credit programs. If these amendments are approved in the final Appropriation Act, VRS may need to revise the funding policy to allow for increased contributions and shorter amortization periods for these programs. If changes are required in response to the enacted Appropriation Act, proposed revisions to the funding policy will be brought to a future Committee meeting for recommendation to the Board.

Purchase of Prior Service Update

As required by the Committee Charter, Ms. Bishop updated the Committee on a determination, delegated to the Director under the Board Governance Policy, section V(A), regarding purchase of prior service (PPS) that is outside of normal business operations. Ms. Bishop provided a memo to the Committee describing an error in system calculations related to the statutory changes to PPS that were implemented in 2017, and that affected approximately sixty VRS members. In consultation with outside counsel, staff determined that members who overpaid for purchases of refunded service will receive refunds of the overpayment amount. Existing contracts for members who have underpaid for refunded service will be honored at the price agreed to in the contract, but any future contracts will be corrected.

Ms. Bishop requested Committee affirmation that the following actions taken are appropriate: the purchase of refunded service will be manual until future system modifications can be made, members who overpaid will be refunded the overpayment amount, and members who underpaid will have their existing PPS contracts honored at the lower price.

On a motion by Mr. Bell, seconded by Ms. Seward, the Committee unanimously affirmed the actions of the Director described above and in further detail in the memo to the Committee (attached).

Upcoming Benefits and Actuarial Committee Meetings

The Committee's next scheduled meeting is June 11, 2019 at 1:30 p.m., if needed. If the Committee does not need to review the Funding Policy, it is possible this meeting will be cancelled.

Other remaining meetings are:

- October 16, 2019 at 1:00 p.m.
- November 19, 2019 at 1:00 p.m.

Adjournment

There being no further business, Mr. Harris adjourned the meeting at 2:27 p.m.

10/16/2019
Date

Wallace G. Harris
Wallace G. Harris, Chair