

Virginia Retirement System Retiree Overpayment Review

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Robert P. Schultze, VRS Director



**Issue Analysis:
Overpayment of July 1, 2009
COLA for VRS Retirees**



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COLA – Statutory Authority

- Cost-of-Living Adjustment (COLA)
 - Section 51.1-166(B) specifies COLA calculation:

“The amounts of the post-retirement supplements shall be determined as percentages of the allowances supplemented hereby. The percentages shall be determined annually by the reference to the increase in the United States Average Consumer Price Index for all items, all urban consumers (CPI-U), as published by the Bureau of Labor Statistics of the United States Department of Labor. The percentages shall be based on monthly averages and shall be the difference between (i) the average for the calendar year just ended and (ii) the average for the most recent calendar year used in the determination of the post-retirement supplements currently being paid. **The annual increase, if any, in the CPI-U shall be considered only to the extent of the first three percent plus one-half of the next four percent of any additional increase,** or a maximum increase in the post-retirement supplement of five percent in any given year.

Annual COLA Process

- Actuary submits a letter at the beginning of the year providing the COLA calculation
- Board of Trustees is informed of the actuary's COLA calculation
- VRS advises retirees of the COLA through the agency website and in the spring newsletter
- COLA is effective on July 1 and appears in the August 1 retiree benefit payment

2009 COLA Calculation

2009 Calculation	
Consumer Price Index - Urban	3.84%
COLA applied	3.84%

2009 Calculation Applied Correctly	
Consumer Price Index - Urban	3.84%
First three percent	3.00%
Plus half of the amount over 3% (.84% ÷ 2 = .42%)	0.42%
2009 correct COLA amount	3.42%

Difference of 0.42%

Groups Affected and Overpayment Amounts

128,992* retirees and beneficiaries:

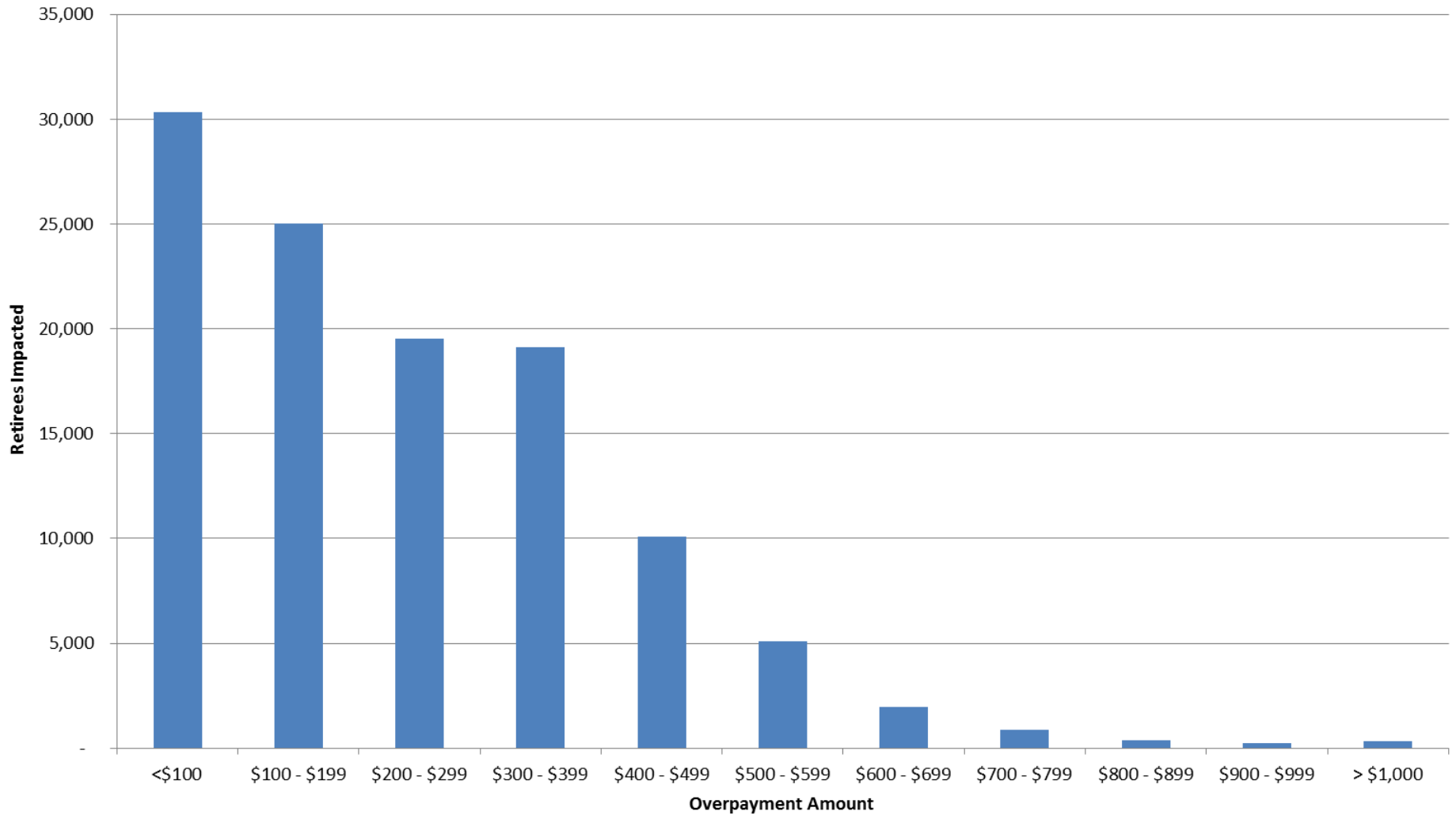
- 113,007 active retirees
- 6,508 survivors/beneficiaries
- 9,354 deceased
- 123 retirees returned to work

Overpayment:

- Three-year cumulative overpayment amount: \$28.7 million
- Cumulative overpayment averages \$239 per active retiree over a three-year period
 - Range from \$54.30 to a high of \$2,166
- Retiree payroll exceeds \$3 billion annually; \$9.7 billion over the three-year period

Overpayment at a Glance

(Retirees Only)



Remedies Under Consideration



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Authority To Deal with Overpayments

- **51.1-124.9 (actuarial adjustment/hardship waiver)**

“A. 1. If any change or error in records results in any member or beneficiary receiving more or less than he would have been entitled to receive from the Retirement System had the records been correct, the Board shall, subject to the provisions of subsection B, correct the error and as far as practicable adjust the payments so that the actuarial equivalent of the correct benefit shall be paid.

2. If a member has been overpaid through no fault of his and could not reasonably have been expected to detect the error the Board may waive any repayment which it believes would cause hardship.”
- **51.1-124.22(A)(13) (life insurance)**

“Overpayments from benefits received under the Virginia Retirement System...may be deducted from life insurance benefits payable under Chapter 5 (51.1-500 et seq.) of this title.”
- **51.1-510(B) (life insurance)**

“From any insurance proceeds payable pursuant to this chapter to a retiree’s beneficiaries, the Board may deduct any overpayment of retirement allowance paid to such retiree.”

Possible Resolutions

Board Meeting June 21 VRS Board to consider these options:

- **Correct Benefit Payments with Upcoming COLA**
 - Recalculate the 2009 COLA, apply COLAs for 2010, 2011 and 2012, resulting in an average increase 2.66% for 2012 (3.08% without the reduction)

- **Recoup Cumulative Overpayments**
 - Overpayment (average \$239) would be deducted from life insurance payment to retiree's beneficiary
 - Actuary would pay about \$1 million to cover deceased retirees and VSDP LTD state employees
 - Survivors' benefit would be reduced actuarially

Prospective Benefit Adjustment Example

Current Gross Benefit	\$1,694.68
2012 COLA of 3.08%	\$52.20
7-2012 Gross Benefit (unadjusted)	\$1,746.88

Current Gross Benefit	\$1,694.68
2012 COLA of 3.08% on corrected benefit*	\$45.12
7-2012 Gross Benefit (adjusted)	\$1,739.80

Difference in Adjusted Benefit vs. Unadjusted Benefit: (\$7.08)

*Adjusted COLAs for July 2009, July 2010 and July 2011.
Average increase of 2.66% for 2012.

Thank you!



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