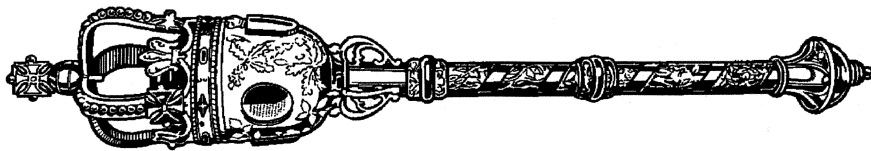


*Report of the
House Appropriations
Subcommittee*

on

Compensation & Retirement



House Bill 1600

February 8, 2009

REPORT OF THE SUBCOMMITTEE on COMPENSATION AND RETIREMENT

Mr. Chairman and Members of the Committee:

On behalf of the Compensation and Retirement Subcommittee, I am pleased to offer you our budget recommendations. During this extremely difficult budget environment we set out to do our work, under the guidance of the Chairman, with two overriding goals. We were determined to ensure the continued financial viability of our employee benefit programs with an eye towards the future. In addition, while we understand it was impossible to fund a salary adjustment for our hardworking employees within this budget environment we were resolved to safeguard their benefits during this time of economic uncertainty. I am pleased to offer budget recommendations that are intended to meet these two goals.

The work of the Subcommittee this Session has focused primarily on restoring benefits which were reduced in the Governor's budget and lacked sound policy justifications which we felt would unfairly harm our employees. I am pleased to recommend that the subcommittee has significantly reduced the cost sharing increases proposed for the state employee health insurance plan in the Governor's budget. We feel that the Governor's plan would have resulted in a substantial increase in out-of-pocket expenses for our employees at a time when they are going without a salary adjustment and they are feeling the same economic stress as the rest of our citizens.

In addition, I am pleased to report that we were able to restore the funding for the long-term care benefit we offer our employees and retirees through our sickness and disability benefit which was also eliminated in the Governor's proposals. As a matter of policy, we have always supported efforts of private companies and individuals to plan for their own long-term care needs as opposed to counting on the Medicaid program as their long-term care insurer.

Therefore, we feel it is an important policy statement to continue to provide this benefit to our own hard-working employees.

While restoring these benefits were a high priority, we also felt an obligation to ensure that our benefit programs are managed in a prudent and efficient manner, to the benefit of our citizens as well as our employees. Consequently, Mr. Chairman, the Subcommittee recommends several specific modifications to these benefit programs that result in savings which enabled us to fund the restorations we are proposing. Furthermore, these proposals are intended to ensure that our programs are operated using best management practices and policies that are fair and balanced to all of our employees.

Finally, Mr. Chairman, I would like to take this opportunity to thank the members of this Subcommittee for their hard work this Session, especially given the large number of retirement bills that were heard. The Subcommittee reviewed each bill with a long-term view of how legislation would impact the financial viability of the Commonwealth in future bienniums.

Mr. Chairmen and fellow Committee members, I will ask staff to take you through our detailed recommendations, and then I hope it will be your pleasure to adopt our Subcommittee report.

**Respectfully Submitted by the House Appropriations Subcommittee
on Compensation & Retirement:**



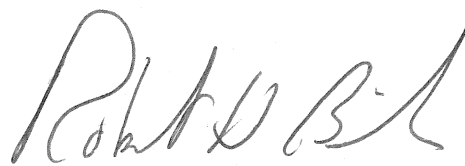
Clarke N. Hogan, Chairman



Johnny S. Joannou



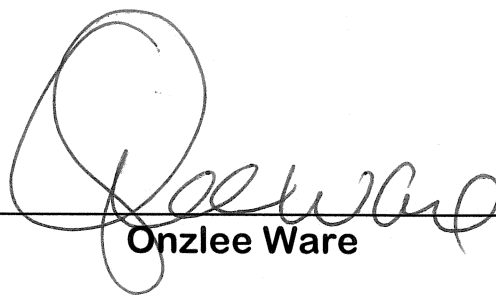
Robert Tata



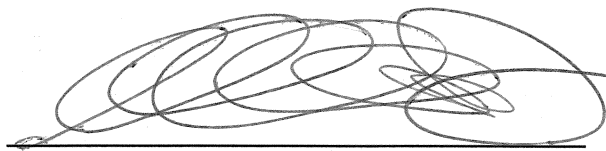
Robert H. Brink



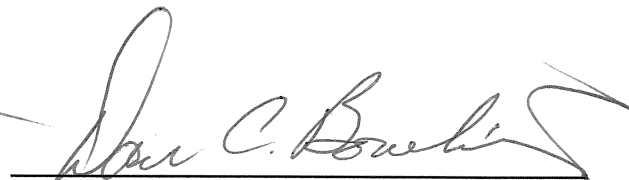
Riley E. Ingram



Onzlee Ware



S. Chris Jones



Dan C. Bowling

**HB 1600
Amendment**

2008-10 Biennium
General Fund **Nongeneral Fund** **FTE**

Compensation & Retirement

General Assembly

Joint Subcommittee to Review the JLARC Compensation Study

Language

Department of Human Resources Management

Employee Health Insurance - Plan Modifications

Language

Central Appropriations

Restore LTC Benefit to VDSP program

3,121,256

Virginia Retirement System

VRS Contribution Rates for Local Governments

Language

Staffing for VRS Call Center

4.00

Total Compensation & Retirement

3,121,256

0

4.00

Amendments to House Bill 1600, as Introduced

Compensation - Retirement Subcommittee

Item 1 #3h

Legislative Department

General Assembly Of Virginia

Language

Language:

Page 9, after line 35 insert:

"L.1. The Speaker of the House of Delegates shall appoint six members of the House of Delegates and the Senate Committee on Rules shall appoint four members of the Senate to a Joint Commission on State Employee Compensation to review the findings and recommendations included in the Joint Legislative Audit and Review Commission's Review of State Employee Total Compensation.

2. A technical advisory committee shall be established to assist the joint commission in its review. The advisory committee shall include the staff directors of the House Appropriations and Senate Finance Committees, the Director of the Joint Legislative Audit and Review Commission, the Directors of the Department of Human Resources Management, the Department of Planning and Budget, and the Virginia Retirement System, the Executive Secretary of the Supreme Court, the President of the Virginia Governmental Employees Association, the Presidents of the Virginia Association of Counties, Virginia Municipal League, and the Virginia School Board's Association.

3. The joint subcommittee shall complete its review and shall submit to the Division of Legislative Automated Systems an executive summary of its findings and recommendations no later than the first day of the 2010 Regular Session of the General Assembly Session."

Explanation:

(This amendment establishes a 10 member joint subcommittee, including six members of the House of Delegates and four members of the Senate, to review the findings and recommendations included in the JLARC Review of State Employee Total Compensation, which was completed in October of 2008.)

Compensation - Retirement Subcommittee

Item 86 #1h

Administration

Administration Of Health

Language

Amendments to House Bill 1600, as Introduced

Insurance

Language:

Page 82, after line 46, insert:

"E.1. The Department of Human Resources Management is hereby authorized to enhance savings and efficiencies within the State Employee Health Insurance plan through the increased use of pharmacy management best practices. These best practices shall include the expansion of the preferred drug step therapy program to include additional therapeutic classes. Anti-depressant and Anti-psychotic drug classes are specifically prohibited from inclusion in the preferred drug step therapy program. Furthermore, the Department is prohibited from modifying current policies related to the purchase of pharmacy products from retail pharmacies or mail order.

2. The Department is authorized, effective July 1, 2009, to modify the cost sharing requirements for employees and early retirees covered under the COVA care plan as follows: i.) increase the copayment for tier 2 drugs from \$20 to \$25, ii.) increase the copayment for tier 3 drugs from \$35 to \$40, iii.) create a tier 4 drug class with a copayment of \$50 per script, iv.) increase the copayment for office visits to specialist, excluding physical and speech therapy, from \$35 to \$40, and v.) decrease the copayment for behavioral health office visits from \$35 to \$25. Furthermore, to the extent possible, the Department is authorized to increase the copayment for non-sedating antihistamines within the current copayment structure.

3. Effective July 1, 2009, the Department shall eliminate coverage of surgery procedures to treat morbid obesity under the State Employee Health insurance plan."

Explanation:

(This amendment specifies the plan changes authorized for the state employee health insurance plan. The introduced budget provided no additional funding for state employee health insurance premiums based partly on program changes assumed but not specified in the budget. The cost sharing increases assumed in the introduced budget included i.) a \$10 increase in the copayment for tier 2 and 3 drugs, ii.) the establishment of a tier 4 for high cost drugs with a \$60 copayment, iii.) a \$10 increase in the copayment for specialist visits and iv.) increases in the co-insurance for lab & x-ray services, v.) increases in the annual deductible and vi.) increase in the annual out of pocket maximums.)

Amendments to House Bill 1600, as Introduced

| | | | |
|-------------------------------|-----------------|-----------------|----|
| Central Appropriations | FY 08-09 | FY 09-10 | |
| Central Appropriations | \$0 | \$3,121,256 | GF |

Language:

Page 518, line 25, strike "\$90,324,589" and insert "\$87,203,333".

Page 519, line 23, strike ".80" and insert "1.00".

Page 519, line 34, strike "\$41,940,871" and insert "\$37,540,615".

Page 519, strike lines 56-58.

Page 520, strikes lines 1-16, and insert:

"D.1 Notwithstanding any provision to the contrary, any references to a period of 14 days or a period of 28 days in §§ 51.1-1111, -1112, -1122, and -1123 of the Virginia Sickness and Disability Program (VSDP) are hereby changed to a period of 45 days. Moreover, the period of 45 days shall be consecutive days that the participating employee is (i) actively at work and (ii) fully released to return to work full time, full duty. The Virginia Retirement System shall develop policies and procedures to administer the effects of the 45-day period in connection with participants who are deemed to have a major chronic condition.

2. Notwithstanding any provision to the contrary, any eligible employee commencing employment or reemployment on or after July 1, 2009, shall not be entitled to receive Virginia Sickness and Disability Program benefits under Article 3, Chapter 3 of Title 51.1 (Nonwork Related Disability Benefits) until the employee completes one continuous year of active employment or reemployment.

3. Notwithstanding any provision to the contrary, for all eligible employees commencing employment or reemployment on or after July 1, 2009, short-term disability coverage under the Virginia Sickness and Disability Program shall provide income replacement for no more than 60 percent of a participating employee's creditable compensation for the first 60 months of continuous state service after employment or reemployment.

4. The Director of the Department of Planning and Budget shall withhold and transfer general fund amounts of \$1,279,000 the second year from the appropriations of state agencies and institutions of higher learning to this item, representing savings from reduced expenditures for short-term disability benefits pursuant to the policy changes authorized in this item."

Page 520, line 17, strike "5." and insert "E."

Explanation:

(This amendment restores funding for the Long-Term Care insurance program for

Amendments to House Bill 1600, as Introduced

state employees enrolled in the Virginia Sickness and Disability Program (VSDP), reduces the recurrent period for repeat Short-Term Disability (STD) claims from 14 workdays to 45 workdays, institutes a one-year waiting period for new employees before receiving STD benefits for non-work related claims, and institutes a cap of 60% on the STD income replacement rate until a new employee services a five-year vesting period. These changes to the STD program are meant to bring the VSDP program in line with best practices prevalent in private sector disability plans.)

Compensation - Retirement Subcommittee

Item 485 #2h

Independent Agencies

Virginia Retirement System

Language

Language:

Page 534, strike lines 53 through 56 and insert:

"E. In the second year, as an alternative to the contribution rates certified by the Virginia Retirement System (VRS) Board of Trustees pursuant to § 51.1-145(1), Code of Virginia, rates paid to the VRS by a participating city, county, or local school board for retirement benefits of its employees may, at the option of each participating city, county, or local school board, be based on the results of the June 30, 2007 actuarial valuation of assets and liabilities assuming an amortization period of 30 years."

Page 535, strike lines 1 through 7.

Explanation:

(This amendment allows cities, counties and school boards, for the provision of retirement benefits to school employees not included under the teachers retirement plan, who participate in the Virginia Retirement System to elect employer contribution rates based on a 30 year amortization period for the calculated unfunded liability.)

Compensation - Retirement Subcommittee

Item 487 #1h

Independent Agencies

Virginia Retirement System

FY 08-09

4.00

FY 09-10

4.00 FTE

Language:

Amendments to House Bill 1600, as Introduced

Explanation:

(This amendment provides four additional full time positions within the Virginia Retirement System. This will enable the VRS to convert four part-time call center staff to full time status, which is needed due to increased call volume.)
