

# Line of Duty Program Update

Compensation and Retirement  
Subcommittee of the House  
Appropriations Committee

David A. Von Moll, State Comptroller  
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# Presentation Outline

Key Provisions

Budget and Statistics

Other Post Employment Benefits (OPEB)

Fiscal Impact Challenges



# Eligibility

- **Law Enforcement Officers**
  - **Corrections Officers**
  - **Sheriffs, Deputies**
  - **Professional and Volunteer Firefighters**
  - **Rescue Squad Members**
  - **National Guard**
  - **Sworn ABC Agents, Game Wardens, Forest Wardens, Marine Resource and Conservation Officers**
  - **Hazardous Materials Officers and Response Team Members**
- ➔ **Local and State Employees and Citizen Volunteers**



# Death Benefits

- ➔ **\$100,000 payment** - deaths occurring as a direct or proximate result of the performance of duty on or after January 1, 2006 (\$75,000 for deaths on or before December 31, 2005)
- ➔ **\$25,000 payment** - deaths from occupational illnesses cited in presumption clauses arising out of the course of employment or within 5 years of retirement
- ➔ **Health insurance coverage** - continued coverage of the same insurance plan entitled to on the last day of employment for surviving spouses and dependents
- ➔ **Tuition Waiver** – for direct and proximate deaths only. Administered directly through individual state institutions of higher education based on applicable organization’s certification.



# Disability Benefits

Health Insurance Benefits – continued coverage of the same insurance plan entitled to on the last day of employment for disabled persons, their spouses and dependents:

- If disability occurred while in the line of duty as the direct or proximate result of the performance of duty, or
- If disability arose out of the course of employment under the presumptions, i.e., heart disease, respiratory disease, hypertension, certain cancers



# Death Claims and Budget

## Direct and proximate - \$100,000 payment (eff. 1/1/2006)

- FY 09-10 – \$700,00 proposed budget each year
- FY 08 – \$700,000 budgeted
- FY 07 – 10 claims, \$975,000 actual
- FY 06 – 6 claims, \$450,000 actual
- FY 05 – 2 claims, \$150,000 actual
- FY 04 – 8 claims, \$600,000 actual

## Presumption clause - \$25,000 payment

- FY 09-10 – \$125,000 proposed budget each year
- FY 08 – \$125,000 – budgeted
- FY 07 – 8 claims, \$200,000 actual
- FY 06 – 2 claims, \$90,000 actual – included 2 \$20,000 pmts. under 44-93.1 B.
- FY 05 – 4 claims, \$100,000 actual
- FY 04 – 4 claims, \$100,000 actual

# Health Insurance Claims and Budget

	<u>Fiscal</u> <u>Year</u>	<u>New</u> <u>Claims</u>	<u>Existing</u> <u>Claims</u>	<u>Total</u> <u>Claims</u>	<u>Total</u> <u>Amount</u>
<b>Budget – Proposed</b>	2010	90	690	780	\$ 11,823,276
<b>Budget – Proposed</b>	2009	90	600	690	10,523,276
<b>Budgeted</b>	2008	90	510	600	9,223,276
<b>Actual</b>	2007	72	468	510	5,113,195
<b>Actual</b>	2006	171	267	438	3,690,131
<b>Actual</b>	2005	47	220	267	2,268,153
<b>Actual</b>	2004	81	139	220	1,549,983
<b>Actual</b>	2003	80	59	139	816,172
<b>Actual</b>	2002	45	14	59	253,533
<b>Actual</b>	2001	14	0	14	40,797



# Claimants and Eligibles

## Current actual claimants

- 35% former state employees
- 65% former local employees

## Approximate\* eligible population

- 44% state employees
- 56% local employees

## Approximate\* eligible salary base

- 38% state employees
- 62% local employees

\* Based on Law Enforcement Officers Retirement System (LEOS) membership counts. Some LEOS-eligible positions are eligible for LOD but are not covered by LEOS and therefore, are not included in these counts. Also, there are many volunteer LOD-eligibles (e.g., firefighters, rescue squad members) for whom no count is available.



## **GASB 45 - OPEB** **Other Post-Employment Benefits**

- Line of Duty Death/Health Insurance Benefits
- Pre-Medicare Retiree Health Insurance (Implicit Subsidy)
- Retiree Health Insurance Credit
- Group Life Insurance
- Long-term Disability

GASB 45 reporting requirements must be implemented for the Commonwealth of Virginia for fiscal year 2008.



# OPEB Reporting Premise

- Post-employment benefits are a form of deferred compensation.
- Benefits are “earned” and obligations accrue during employment even though benefits are not taken until after employment.
- GASB 45 requires the cost of promised benefits to be recognized for financial reporting purposes during employment rather than after employment when the benefit is paid.
- The accrual-basis cost of benefits for a period is part of the total cost of government services for that period, *whether or not the employer chooses to fund it currently or not.*
- Expense accrual and related liabilities must be disclosed in the financial statements based on actuarial valuations.
- Liabilities are not reported for OPEB earned previously by employees but not funded. Liabilities are recognized only if a government fails to fully fund future actuarially determined annual required contributions.



# Key Actuarial Terms

**Unfunded Actuarial Accrued Liability (UAAL) – present value of the portion of projected benefits attributed to past periods that were not funded. GASB 45 allows 30 year amortization of UAAL.**

- Value of services received that should have been paid (pre-funded) in the past if projected benefits had been actuarially funded.

**Annual Required Contributions (ARC) – current year actuarially determined costs and the amortized portion of any unfunded costs from prior years (i.e., UAAL).**

- The contributions needed on a sustained basis to cover normal costs (current year actuarial costs) and amortize the UAAL over not more than 30 years.

**Net OPEB Obligation – cumulative difference between the ARC and actual contributions.**

- Indicates whether since implementation of GASB 45, the employer has contributed less than the ARC.



## Independent Trust Funds

If independent trust funds for the segregation and accumulation of plan assets are established and the annual required contribution (ARC) is fully funded, higher assumed discount rates (rates of return on plan assets) may be used in the actuarial valuation.

- Higher assumed rates of return on plan assets reduces the Actuarial Accrued Liability (UAAL) e.g., VRS rate of return – 7.5%, Treasury rate of return – 3%

If independent trusts are not established (i.e., no pre-funding), the discount rate used in the actuarial valuation must be the general return rate on Commonwealth assets (i.e., Treasury rate)

If independent trusts are established, but the ARC is not fully funded (i.e., partial pre-funding), the discount rate used in the actuarial valuations must be a blended rate, based on the proportion of contributions being used for asset accumulation versus payment of current benefits.



# Why Fund OPEB Obligations?

**Intergenerational equity** – unfairness of deferring cost of benefits earned by employees in the current year to citizens in the future

**Sustainability** – increases likelihood that promises to employees are sustainable over time

**Financial flexibility** – reduces demands on future cash flows and risk that benefits will consume an ever-increasing portion of state budget due to rising benefits costs (potential bond rating impact)

**Reduces future costs** – employer contributions are reduced as plan assets grow and an increasing percentage of costs are covered by investment earnings. Example:

- 65% of current pension benefits are paid from investment earnings from pre-funded contributions



# LOD Actuarial Valuation

## Key Actuarial Results as of June 30, 2007 Valuation:

<u>Discount Rate</u>	<u>Annual Required Contribution</u>	<u>Total Liability</u>
<b>7.5%</b>	<b>\$16.5 million *</b>	<b>\$145.8 million</b>
<b>3%</b>	<b>\$31.1 million</b>	<b>\$309.9 million</b>

\* \$5.8 million derived from state employee population, \$10.7 million derived local employee population

### Line of Duty Death and Health Benefits Trust Fund (Chapter 847 Item 262 B.)

- An independent trust administered by VRS
- Currently funded with general fund appropriation
- FY 08 proposed budget plans to begin to fund with long-term, actuarially sound, funding stream by proportionately increasing the annual contribution to the trust fund each year to reach the actuarial annual required contribution level by FY 2012.

# Fiscal Impact Challenge

- Fiscal impact of statutory eligibility and benefit expansions are difficult to estimate:
- Disparate eligible population makes (localities, volunteers)
  - Myriad of health insurance programs (state, local, Medicare, private)
  - Health insurance inflation
  - Volatility of actuarial valuations in early years of valuation



## Fiscal Impact Information

Pay-as-you-go (cash) costs are affected by adding to disabled rolls. Average annual pay-as-you-go costs per disabled claimant:

- FY 07 actual \$10,026
- FY 08 budget \$11,129

OPEB valuations (and corresponding OPEB costs) are affected by adding to disabled and/or eligible rolls. Estimated annual increase in ARC per person:

- Disabled - \$13,000
- Eligible - \$472





## Expanding Eligibility Proposals

Legislative proposals expanding eligibility for local employees who were disabled prior to July 1, 2000 carry significant fiscal impact:

- 2000 General Assembly provided health insurance benefits establishing July 1, 2000 as the prospective eligibility date for both state and local disability claims
- 2005 General Assembly revised the eligibility date for state disability claims to April 8, 1972 (prospective benefits beginning July 1, 2005), then in 2006 to the current January 1, 1966 (prospective benefits beginning July 1, 2006)
  - ➔ Additional local disability claimants estimated at 900-1,800
  - ➔ Actuarial cost of \$12-23 million per year for prospective benefit eligibility (pay-as-you-go cost \$10-20 million per year)
  - ➔ Estimated one-time retroactive benefit costs have been estimated at \$20-40 million



## Line of Duty Act

- **Code of Virginia § 9.1-400-406**

## Referenced Presumptions

- **§ 27-40.1, Firefighters - respiratory, hypertension, heart disease**
- **§ 51.1-813, Police - hypertension, heart disease**
- **§ 65.2-402, Firefighters, Police, etal. - adds certain cancers**

## Tuition Waiver

- **§ 23-7.4:1 B. Virginia Military Survivors and Dependent Education Program**

## Questions?

David A. Von Moll  
State Comptroller  
[david.vonmoll@doa.virginia.gov](mailto:david.vonmoll@doa.virginia.gov)  
(804)225-2109