



Date of Council Meeting: October 22, 2013

**TOWN OF LEESBURG  
TOWN COUNCIL WORK SESSION**

- Subject:** Resolution to Opt Out of the Virginia Long Term Disability Program (VLDP) as provided by Virginia State Retirement (VRS)
- Staff Contact:** Jeanette A. Irby, Town Attorney
- Issue:** Whether the Town of Leesburg opt out of the VLDP as provided by VRS.
- Recommendation:** To opt out of the VLDP as provided by VRS.
- Fiscal Analysis:** Wells Fargo completed a fiscal analysis of several plans which were provided to Council as part of the health insurance plan update for Town employees. The analysis as it relates to the VLDP portion is attached.
- Background:** Recent legislation created the Virginia Local Disability Program (VLDP), a disability benefit for political subdivision and school division employees who will be covered under the VRS Hybrid Retirement Plan effective January 1, 2014. The Hybrid Retirement Plan will apply to most new employees hired on or after January 1, 2014 and current employees who opt to switch to the Hybrid Retirement Plan. Employees who are eligible for Line of Duty benefits are not subject to the new plan. Coverage for employees is automatic under VLDP unless the governing body elects to opt out and provide a comparable employer-paid program. The comparable program does not require the locality to provide long-term care coverage even though this coverage is included in VLDP. The decision to participate or opt out once made is irrevocable. *The current VRS Disability Retirement will not be available to Hybrid Retirement Plan participants.* VRS provided an opt-out resolution packet to all localities; the original resolution deadline was September 1, 2013. Employers had an opportunity to request a deadline extension by September 1 and the Town of Leesburg did so on June 27, 2013. Employers that requested an extension and who wish to opt out must send VRS a signed opt-out resolution by November 1, 2013. Accordingly, staff has determined that the Town of Leesburg should opt out of the program based upon the recommendation of the Town's consultant; **Wells Fargo's belief is that the private market place is in a better position to control costs. Therefore, it is our recommendation that the Town of Leesburg consider the Standard's VLDP option.**



JOHN WELLS  
Town Manager

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June 27, 2013

Ms. ZaeAnne Sferra  
Employer Coverage Coordinator  
Virginia Retirement System  
P.O. Box 2500  
Richmond, VA 23218-2500

Re: Town of Leesburg Employer #55329  
Request for Extension of Virginia Local Disability Program Resolution Date

Dear Ms. Sferra:

As the Primary Administrative Authority for the Town of Leesburg, I respectfully request an extension to the Virginia Local Disability Program (VLDP) Resolution Date until November 1, 2013. This additional time will enable us to make a decision that will best meet the needs of the employees of the Town of Leesburg, in addition to complying with our fiscal responsibility.

Sincerely,

A handwritten signature in black ink that reads "John Wells". The signature is written in a cursive style.

John Wells  
Town Manager

Cc: Karen Dilley, Human Resources Manager

# ***Virginia Local Disability Program (VLDP) through VRS***

## **Background**

- Recent legislation (SB 498) created the Virginia Local Disability Program (VLDP)--a disability benefit for political subdivision and school employees who will be covered under the new VRS Hybrid Retirement Plan.
- The Virginia Retirement System (VRS) governs the VLDP program.
- VRS is moving from a defined benefit to a defined contribution retirement plan. The new plan is referred to as a hybrid plan.
- The current retirement plan includes disability benefits. The new hybrid plan does not.

## **Who will be in the Hybrid Plan & the new VLDP?**

- All employees hired on or after 1/1/2014 will only be eligible for the new hybrid plan.
- All employees rehired on or after 1/1/2014 will only be eligible for the new hybrid plan (unless a Plan 1 or Plan 2 member does not take a refund of their member contribution account and they are rehired, then they can remain in the current VRS plan).
- All current employees will continue in the existing VRS plan. However, they will have a one-time opportunity to opt-in to the hybrid plan (during a one-time election window held from January 1 through April 30, 2014). The hybrid plan's effective date for VRS Plan 1 and Plan 2 members who opt in is July 1, 2014.
- Hazardous duty employees covered under enhanced benefits are exempt and will continue to be covered under VRS Disability Retirement.
- State employees eligible for the Hybrid Retirement Program will be covered under the Virginia Sickness and Disability Program.

## **Disability Benefits under the VLDP**

- The VLDP includes short-term disability, long-term disability, and long-term care.
- The plans mirror the current VRS plan design offered to state employees in almost all aspects.
- Plan is self-insured through VRS for STD. Unum provides the medical management for STD & LTD.
- Coverage is automatic under VLDP unless the locality or school opts out. Municipalities must either make a decision or request an extension by 9/1/2013. The extension is only valid through 11/1/2013. Opt-out resolution packets were mailed to municipalities on 2/15/2013. This is an irrevocable one-time opt out opportunity.
- There is a one-year waiting period (except for Workers' Comp disabilities). The waiting period applies regardless of service, including existing employees who opt into the Hybrid plan.
- In order to opt out, the entity must have comparable coverage for the STD & LTD plans (not LTC) under an employer-paid program. Comparable coverage is determined by the municipality, not VRS.

# Virginia Local Disability Program (VLDP) through VRS

- LTD must be fully-insured.
- STD can be self-funded.

## Challenges

- Does the municipality have existing coverage that satisfies "comparable" coverage?
- How do the rates compare?
- Decisions must be made by 9/1/2013 (or by 11/1/2013 if an extension is requested).

## Other Considerations

- Should a voluntary plan be offered for new employees that have a one-year waiting period? Should this plan be extended to existing employees? (*The Town of Leesburg is well positioned to cover the gap in coverage, as it currently provides LTD coverage to employees with a 30 day elimination period.*)
- Look at other disability plans and consider sick leave policies. (*Wells Fargo will review current policies at the Town's request.*)

## Timeline

- Decision to opt-in or opt-out of VLDP by **September XX**
- Present to Council **October XX**

## Recommendation

- Wells Fargo's belief is that the private market place is in a better position to control costs. Therefore, it is our recommendation that the **Town of Leesburg** consider the Standard's VLDP option.

# VLDP Options

	VLDP (UNUM)	Standard	VMLIP (Lincoln Financial)
Compliance with Code	Always in compliance	Dependent on carrier to keep up with changes to the code	Dependent on carrier to keep up with changes to the code
Easy for Employees	One Vendor for Retirement and Disability	Separate vendor	Separate vendor
Long Term Care	Included in rates	Not included in rates	Not included in rates
Cost	Highest cost offering	Lowest cost offering	Second highest cost offering
Financial Guarantees	6 month rate - change every biennium	3-year guarantee	24 month guarantee
Benefits	One year wait on benefit eligibility for disability for both STD & LTD	Can eliminate the one year wait on STD	Can eliminate the one year wait on STD
Contingencies	None	None	LTD pricing contingent on offering two voluntary benefits
1% Pension Contribution Benefit for disabled members	Included in rates	Included in rates	Not included in rates
Carrier selection	Good reputation for disability services	Good reputation for disability services	Wells Fargo's experience has been that service has been disrupted due to closing of local service office.
Control of plan	State controls pricing and vendor selection	Can market program at end of rate guarantee. Can change vendors if service should become an issue.	Can market program at end of rate guarantee. Can change vendors if service should become an issue.
Procurement requirements	None	Can attach to City of Harrisonburg's RFP	RFP out for Albemarle County. No award has been made. May or may not be awarded to VMLIP.
Long Term Stability of Program	It is very difficult to say how any given carrier's "pool" will perform. There is no way of knowing which program will be the most cost effective.		

Advantages have been shaded in green

Disadvantages have no shading

# Town of Leesburg

## Financial Analysis (*Illustrative* - Based Upon Wells Fargo's Assumptions)

(Advice to Pay Services for Self-Insured STD Plan and Fully-Insured LTD Plan)

Plan	VLDP	The Standard	VMLIP (Lincoln Financial)*
STD Rate	0.91 percent of Hybrid Retirement Plan covered payroll (covers STD and LTD and LTC)	0.79 percent of monthly insured earnings (covers STD and LTD)	\$2.49 pepm
Estimated Annual STD Premium			\$299
LTD Rate			\$.75/\$100 of covered monthly pay
Estimated Annual LTD Premium			\$4,812
<b>Estimated Annual Total Premium (1st year)</b>	<b>\$5,839</b>	<b>\$5,069</b>	<b>\$5,111</b>
<b>Estimated Annual \$ Difference from VLDP</b>	<b>n/a</b>	<b>-\$770</b>	<b>-\$728</b>
<b>Rate Guarantee</b>	<b>6 Months</b>	<b>3 Years</b>	<b>24 months</b>

**Assumptions used by Wells Fargo Insurance to calculate estimated premiums:**

- o Used estimated number of employees expected to be hired in 2014 based on past hiring patterns (10 assumed).
- o Used average annual salary of current benefit-eligible employees provided in census for benefit review (\$64,165).

\* VMLIP - LTD pricing assumes all employees will be offered two of Lincoln's voluntary products

PRESENTED \_\_\_\_\_

RESOLUTION NO. \_\_\_\_\_

ADOPTED \_\_\_\_\_

A RESOLUTION: IRREVOCABLE ELECTION NOT TO PARTICIPATE IN VIRGINIA LOCAL DISABILITY PROGRAM

WHEREAS, by enacting Chapter 11.1 of Title 51.1 of the Code of Virginia, the Virginia General Assembly has established the Virginia Local Disability Program (“VLDP”) for the payment of short-term and long-term disability benefits for certain participants in the hybrid retirement program described in Virginia Code §51.1-169; and

WHEREAS, for purposes of VLDP administration, an employer with VLDP-eligible employees may make an irrevocable election on or before November 1, 2013, as extension granted by VRS, requesting that its eligible employees not participate in VLDP as of the VLDP effective date of January 1, 2014, because it has or will establish, and continue to maintain, comparable employer-paid disability coverage for such employees that meets or exceeds the coverage set out in Chapter 11.1 of Title 51.1 of the Code of Virginia, with the exception of long term care coverage, by January 1, 2014; and

WHEREAS, it is the intent of the Town of Leesburg (55329), to make this irrevocable election to request that its eligible employees not participate in VLDP;

NOW, THEREFORE, IT IS HEREBY RESOLVED that Town of Leesburg irrevocably elects not to participate in VLDP because it has or will establish, and continue to maintain, comparable employer-paid disability coverage for such employees; and it is further

THEREFORE RESOLVED, by the Council of the Town of Leesburg in Virginia that, as an integral part of making this irrevocable election, the Town of Leesburg certifies that it has or will establish, and continue to maintain, comparable employer-paid disability coverage for such employees.

A RESOLUTION: IRREVOCABLE ELECTION NOT TO PARTICIPATE IN VIRGINIA  
LOCAL DISABILITY PROGRAM

PASSED this \_\_\_\_\_ day of \_\_\_\_\_, 2013.

\_\_\_\_\_  
Kristen C. Umstattd, Mayor  
Town of Leesburg

ATTEST:

\_\_\_\_\_  
Clerk of Council