

Virginia Retirement System 2016 Fiscal Impact Statement

1. Bill Number: HB 69

House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed
Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. Patron: McQuinn

3. Committee: Appropriations

4. Title: Health insurance credits for retired school division employees.

5. Summary: Requires school divisions to provide a health insurance credit of \$4 per year of service to all retired members of local school divisions with at least 15 years of total creditable service. Currently, the \$4 per year health insurance credit is provided only to teachers, and non-teacher school division employees are eligible for a credit of \$1.50 per year of service, capped at \$45 per month, if the locality has elected such coverage. An enactment clause provides that this measure does not apply to any local school division employee who retired on disability prior to July 1, 2016, if this measure would reduce the monthly credit currently payable to such former member. Eligible employees who retired prior to July 1, 2016, but who did not receive a health insurance credit under § 51.1-1401 prior to that date will only receive the \$4 per year health insurance credit prospectively.

6. Budget Amendment Necessary: Yes. Although the cost to fund the increased/additional health insurance credit (HIC) will be borne solely by localities, VRS implementation costs are estimated at approximately \$29,000.

7. Fiscal Impact Estimates: Exhibit 1 below shows both the increase in unfunded liability and the projected increase in annual cost as a percentage of covered payroll related to HB 69.

Exhibit 1

Impact of HB 69				
Employer Group	Number	Unfunded Liability as of June 30, 2015	Increase in Unfunded Liability	Increase in Annual Cost as Percentage of Covered Payroll
Participating School Divisions - HIC	34	\$ 5,603,532	\$ 18,394,811	0.84%
Non-Participating School Divisions - HIC	99	\$ -	\$ 79,293,855	2.12%
Total School Divisions - HIC	133	\$ 5,603,532	\$ 97,688,667	1.64%

The cost as a percentage of covered payroll shown in the exhibit above could be used to provide a reasonable estimate of a local school division's cost based on its specific payroll.

Exhibit 2 below displays the local cost of providing this benefit to all school division employees. These costs would be borne by the individual school divisions.

	Exhibit 2					
	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
State - General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	-	-	-	-	-	-
VaLORS - General Fund	-	-	-	-	-	-
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	-	-	-	-	-	-
TOTAL - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subdivisions - Local Funds						
School Division currently with HIC	\$ 1,447,000	\$ 1,447,000	\$ 1,447,000	\$ 1,447,000	\$ 1,447,000	\$ 1,447,000
School Division currently without HIC	\$ 7,266,000	\$ 7,266,000	\$ 7,266,000	\$ 7,266,000	\$ 7,266,000	\$ 7,266,000
Non-School Division	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL Local Funds	\$ 8,713,000	\$ 8,713,000	\$ 8,713,000	\$ 8,713,000	\$ 8,713,000	\$ 8,713,000
Grand Totals	\$ 8,713,000	\$ 8,713,000	\$ 8,713,000	\$ 8,713,000	\$ 8,713,000	\$ 8,713,000

Estimated projections based on employee data and valuation results as of June 30, 2015 and assume a level population throughout projection period.

Payroll projections are assumed to remain level throughout projection period.

8. Fiscal Implications: Only local implications.

Since the current HIC of \$1.50 for local government employees other than teachers is optional, some local school division employees are not currently receiving any HIC. The bill's enactment clause provides that all eligible retirees, regardless of retirement date, receive the HIC benefits (or increased benefits) prospectively only, beginning July 1, 2016.

9. Specific Agency or Political Subdivisions Affected: VRS, localities, and school divisions that will be required to provide this expanded HIC coverage for eligible non-professional school division retirees.

10. Technical Amendment Necessary: Yes. On line 53, reinsert "51.1-1402." That section provides for an election by a local government to provide the HIC to its employees and should remain.

However, VRS suggests striking “51.1-1401 or” on line 53. Section 51.1-1401 is no longer an elective benefit and, therefore, does not need to be referenced in the context of § 51.1-1400(C).

- 11. Other Comments:** This bill would require that school divisions provide the \$4 per year of service HIC benefit under § 51.1-1401 to all retired members of local school divisions with at least 15 years of total creditable service. Eligible employees who retired prior to July 1, 2016, but who did not receive an HIC benefit pursuant to this section prior to that date, however, will only receive the \$4 per year HIC prospectively. Currently, the \$4 per year HIC applies only to teachers. Non-teacher school division employees are currently only eligible for an HIC benefit of \$1.50 per year of service, capped at \$45.00 per month, if the locality has elected such coverage.

The enactment clause provides that the provisions of this bill shall not apply to any local school division employee who retired on disability prior to July 1, 2016 if the provisions of this bill would reduce the monthly HIC currently payable to such former member. This would preclude the potential for certain members who retire on disability with fewer years of service than required to equate to a \$45 HIC benefit to receive a lower amount of HIC than provided for in § 51.1-1402. Local school division employees who retire on disability after July 1, 2016, or members of the hybrid retirement plan on and after January 1, 2016 who are on long-term disability, would receive the HIC as calculated under the provisions of § 51.1-1401.

HB 69 amends § 51.1-1400(C) and 1401(D) to clarify that when a former state employee subsequently works for a local school division, the HIC is based on his or her state service or service as a local school division employee, whichever is greater. HB 69 also amends § 51.1-1400(C) and § 51.1-1401(D) to substitute service as a local school division employee for references to service as a teacher.

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Document: HB69.DOC/VRS