

Department of Planning and Budget

2017 Fiscal Impact Statement

1. Bill Number: HB2294

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron: McQuinn

3. Committee: Appropriations

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

5. Summary: Provides a health insurance credit of \$4.00 per year of service to all retired members of local school divisions with at least 15 years of total creditable service. Currently, the \$4.00 per year health insurance credit is provided only to teachers, as defined by the Code of Virginia, to include any person who is regularly employed full time on a salaried basis as a professional or clerical employee of a county, city, or other local public school board. Currently, school division employees who do not meet the Code definition of a teacher are eligible for a credit of \$1.50 per year of service, capped at \$45.00 per month, if the locality has elected such coverage. An enactment clause provides that this measure does apply to any local school division employee who retired on disability prior to July 1, 2017, if this measure would reduce the monthly credit currently payable to such former member. Eligible employees who retired prior to July 1, 2017, but who did not receive a health insurance credit prior to that date will only receive the \$4.00 per year of service health insurance credit prospectively. This bill also clarifies 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.

6. Budget Amendment Necessary: Yes, Items 139 and 489.

7. Fiscal Impact Estimates: Preliminary. See Item 8.

8. Fiscal Implications: Pursuant to § 51.1-1401, Code of Virginia, the Commonwealth provides payments to localities for the state share of the \$4.00 per year of service retiree health insurance credit (HIC) for funded Standards of Quality (SOQ) teachers. Section 51.1-124.3, Code of Virginia, defines teacher as any person who is regularly employed full time on a salaried basis as a professional or clerical employee of a county, city, or other local public school board. Furthermore, Item 139.C.2.b of the current appropriation act indicates that this Item includes payments for the state share of the HIC for funded SOQ instructional positions, distributed based on the composite index of local ability-to-pay. If the intent of this bill is for the Commonwealth to provide payments to localities for the state share of the \$4.00 per year of service HIC for all funded SOQ positions, budget language in Item 139 also will need to be modified to include all such positions.

For employees who meet the Code definition of teacher, the SOQ model uses an Instructional and Professional Virginia Retirement System (VRS) rate and HIC to calculate the state share of payments for funded SOQ positions. In HB1500, 2017 General Assembly Session, the FY 2018 funded SOQ Instructional and Professional VRS and HIC rates are 16.32% and 1.23%, respectively.

For employees who do not meet the Code definition of teacher, the SOQ model uses a Non-Professional VRS rate. The Non-Professional VRS rate is a statewide prevailing rate used only for state funding purposes. The actual rate charged by VRS for these employees varies by school division. In HB1500, 2017 General Assembly Session, the FY 2018 funded SOQ Non-Professional VRS rate is 7.11%. Pursuant to current language, the SOQ model does not fund a HIC for Non-Professional employees.

As calculated by VRS, the aggregate rate for all local school divisions to provide the \$4.00 per year of service HIC for Non-Professional positions is 1.82% of covered payroll in FY 2018. Because the Commonwealth currently does not provide payments for the state share of an HIC for these employees, this rate represents the total cost of the \$4.00 credit for local non-teacher plans and does not account for any funding that local employers contribute to the current optional credit of \$1.50 per year of service for these positions.

Based on HB 1500, 2017 General Assembly Session, DOE estimates an additional state general fund cost of \$2.6 million in FY 2018 to provide the state share of the \$4.00 per year of service HIC for funded SOQ Non-Professional positions. Any state cost in outgoing years cannot be determined at this time and would be based on the Direct Aid to Public Education budget as rebenchmarked for future biennia.

Additionally, VRS anticipates that implementation of this bill will cost approximately \$73,325 for one-time programming in current systems to update current retirees who become eligible, one temporary wage employee, programming in the client server system, updating printed handbooks as required by Chapter 10 of Title 51.1, and increased employer outreach. A nongeneral fund appropriation is necessary for VRS to implement the provisions of this bill.

Localities also will incur increased costs as a result of this bill. 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 2294 in aggregate for the 133 employers of local school divisions.

Exhibit 1

Impact of HB 2294

Employer Group	Number	Unfunded Liability as of June 30, 2016	Increase in Unfunded Liability	Increase in Annual Cost as Percentage of Covered Payroll
Participating School Divisions - HIC	34	\$ 5,903,382	\$ 18,791,490	0.84%
Non-Participating School Divisions - HIC	99	\$ -	\$ 76,641,083	2.07%
Total School Divisions - HIC	133	\$ 5,903,382	\$ 95,432,573	1.60%

Each of the HIC plans for local employers is an individually rated plan, so the impacts of HB 2294 will differ slightly for each employer. 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.

Since the current HIC of \$1.50 for local government employees other than teachers is optional, some local school division employees currently are not 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, 2017.

For localities to provide the \$4.00 per year of service HIC to all school division employees, VRS estimates an additional local cost of \$8.1 million in FY 2018 and subsequent years. Of this amount, the cost to political subdivisions-schools that currently offer the optional HIC is approximately \$1.6 million per year, and the cost to political subdivisions-schools that currently do not offer the optional HIC is approximately \$6.5 million per year. These estimated projections are based on employee data and valuation results as of June 30, 2016 and assume a level population and level payroll projections throughout the projection period. These costs would be borne by the individual school divisions.

- 9. Specific Agency or Political Subdivisions Affected:** Department of Education, Virginia Retirement System, localities, local school divisions
- 10. Technical Amendment Necessary:** Line 69, strike "teachers" and insert "employees of a local school division".
- 11. Other Comments:** None