

Department of Planning and Budget 2018 Fiscal Impact Statement

1. Bill Number: SB321

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

2. Patron: Ruff

3. Committee: Finance

4. Title: Virginia Retirement System; health insurance credits for retired state employees.

5. Summary: Increases annually the amount of the health insurance credit (HIC) for all retired state employees who rendered at least 30 years of creditable service in the Virginia Retirement System (VRS). The bill increases the HIC by the same percentage as any annual post-retirement supplement that is calculated for employees hired on or after July 1, 2010. The second enactment clause states that the provisions of this act shall not become effective unless an appropriation effectuating the purposes of this act is included in the 2018 appropriation act.

6. Budget Amendment Necessary: Yes, Items 474 and 488.

Item 474: page 414, line 30: strike both instances of “1.17%” and insert “1.27%”;

Item 474: page 414, line 42, strike “\$676,148” and insert “\$3,570,148”;

Item 474: page 414, line 42, strike “\$705,521” and insert “\$3,599,521”;

Item 488: page 430, line 21, strike “\$41,124,684” and insert “\$41,211,684”

7. Fiscal Impact Estimates:

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2018	\$0	N/A
2019	\$87,000 \$2,894,000 \$3,568,000	Trust and Agency General Nongeneral
2020	\$2,894,000 \$3,568,000	General Nongeneral
2021	\$2,894,000 \$3,568,000	General Nongeneral
2022	\$2,894,000 \$3,568,000	General Nongeneral
2023	\$2,894,000 \$3,568,000	General Nongeneral
2024	\$2,894,000 \$3,568,000	General Nongeneral

- 8. Fiscal Implications:** This legislation would increase the health insurance credit (HIC) benefit received by retired state employees with at least 30 years of creditable service in the Virginia Retirement System (VRS). Providing this additional benefit would increase the HIC contribution rate paid by state agencies. The VRS Board of Trustees certified a rate of 1.17 percent of salary for the 2018-2020 biennium and this rate was included in HB30, as introduced. VRS estimates that this legislation would increase the contribution rate to 1.27 percent of salary. Based on VRS' current employee data and valuation results as of June 30, 2017, this rate would increase state agencies' costs by a total of \$6.5 million, of which \$2.9 million would be paid by the general fund. Additionally, VRS indicates that the agency would incur one-time costs of \$87,000 for modifications to its systems to implement the bill.

This legislation applies to any state employee who rendered 30 or more years of creditable service in the VRS or any state employee receiving long-term disability. As of June 30, 2017, approximately 55 percent of the combined retiree, deferred vested, and disabled state employee population would be eligible for the proposed increase to the HIC under the provisions of the bill. In addition, nearly 8,500 active state employees, or approximately 8.0 percent of the entire active state VRS-covered workforce, already have 30 or more years of service as of June 30, 2017.

Exhibit 1

Health Insurance Credit - State Employees

Employee Type	Total	Less than 30 Years of Service	30 or More Years of Service	Percentage with 30 or More Years of Service
Active Members	107,840	99,359	8,481	7.9%
Retirees, Deferred Vested, Disabled *	48,004	21,410	26,594	55.4%

State employees includes State, SPORS, VaLORS, JRS, ORP and UVA.

* Disability retirements are included in the "30 or More Years of Service" as they are granted COLA under the bill.

As of June 30, 2017 the State HIC program had \$990 million in accrued liabilities and \$79 million in assets, with a funded status of 8.0 percent. Exhibit 2 below shows the impact to the unfunded liability and the cost impact as a percent of covered payroll if the legislation were implemented.

Exhibit 2

	Current State HIC	State HIC after HB 863	Change
Unfunded Actuarial Accrued Liability	\$911,273,000	\$989,261,000	\$77,988,000
Funded Status	8.02%	7.43%	-0.59%
Cost as a % of Payroll	1.17%	1.27%	0.10%
Estimated Expected Contributions	\$75,825,000	\$82,305,000	\$6,480,000

Exhibit 3 shows the estimated future cost impacts associated with the bill, as provided by VRS.

Exhibit 3

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY2024</u>
State - General Fund	\$ 1,702,000	\$ 1,702,000	\$ 1,702,000	\$ 1,702,000	\$ 1,702,000	\$ 1,702,000
SPORS - General Fund	104,000	104,000	104,000	104,000	104,000	104,000
VaLORS - General Fund	311,000	311,000	311,000	311,000	311,000	311,000
JRS - General Fund	66,000	66,000	66,000	66,000	66,000	66,000
ORP/UVA - General Funds	720,000	720,000	720,000	720,000	720,000	720,000
TOTAL General Fund	\$ 2,894,000	\$ 2,894,000	\$ 2,894,000	\$ 2,894,000	\$ 2,894,000	\$ 2,894,000
State - Non-General Funds	\$ 2,335,000	\$ 2,335,000	\$ 2,335,000	\$ 2,335,000	\$ 2,335,000	\$ 2,335,000
SPORS - Non-General Funds	17,000	17,000	17,000	17,000	17,000	17,000
VaLORS - Non-General Funds	28,000	28,000	28,000	28,000	28,000	28,000
ORP/UVA - Non-General Funds	1,208,000	1,208,000	1,208,000	1,208,000	1,208,000	1,208,000
TOTAL - Non-General Funds	\$ 3,586,000	\$ 3,586,000	\$ 3,586,000	\$ 3,586,000	\$ 3,586,000	\$ 3,586,000
Grand Totals	\$ 6,480,000	\$ 6,480,000	\$ 6,480,000	\$ 6,480,000	\$ 6,480,000	\$ 6,480,000

Estimated projections based on employee data and valuation results as of June 30, 2017 and assume a level population throughout projection period.

Payroll projections are assumed to remain level throughout projection period.

9. Specific Agency or Political Subdivisions Affected: Virginia Retirement System, all state agencies

10. Technical Amendment Necessary: No.

11. Other Comments: The engrossed version of this bill contains a second enactment clause, which states that the provisions of this act shall not become effective unless an appropriation effectuating the purposes of this act is included in the 2018 appropriation act. The inclusion of this enactment clause does not change the fiscal impact estimates provided.

For all state employees who retire with at least 30 years of creditable service, this bill would increase the HIC, currently \$4 per year of service for state retirees with at least 15 years of service, by the amount of the cost of living (COLA) increase as calculated for Plan 2 and Hybrid retirees. That formula is the annual increase, if any, in the CPI-U only to the extent of the first two percent plus one-half of the next two percent of any additional increase, or a maximum increase of three percent in any given year. As a reference, the historical COLA rates under this formula are set out below.

Year	Plan 2 & Hybrid Percent
2017	1.26
2016	0.12
2015	1.62
2014	1.46
2013	2.04
2012	2.58
2011	1.28
2010	0

VRS indicates that implementing the system changes required by this bill may impact the modernization program, which is in the final stages of a multi-year effort to modernize its business processes and implement enhanced technology that will result in new functionality and improved services for its members, employers, and retirees. Implementation of the final phase of this effort is anticipated for FY 2019. VRS indicates that a delayed effective date of September 1, 2019 will allow for the completion of the on-time completion of the modernization program and the necessary system adaptations and communications to affected employees and employers as a result of this legislation. If the effective date is delayed until September 1, 2019, then the \$87,000 cost would be delayed until fiscal year 2020.

Prior to engrossment, this bill was identical to HB863.