

Virginia Retirement System 2020 Fiscal Impact Statement

1. **Bill Number:** HB 1513H1

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

2. **Patron:** Patron prior to substitute: McQuinn

3. **Committee:** Appropriations

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

5. **Summary:** HIC for non-teacher school division support staff; the substitute bill requires school divisions to provide a health insurance credit of \$1.50 per year of service to all retired members of local school divisions (other than teachers) with at least 15 years of total creditable service. The school division may, at its option, provide an additional \$1.00 per year, for a total health insurance credit of \$2.50 per year of service for the affected retirees. The proposed legislation also removes the \$45 cap. Currently, 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 non-teacher school division employee who retired on disability prior to July 1, 2020, if this measure would reduce the monthly credit currently payable to such former member. Eligible employees who retired prior to July 1, 2020, but who did not receive a health insurance credit prior to that date will only receive the \$1.50 health insurance credit under the substitute bill prospectively.

6. **Budget Amendment Necessary:** Yes.

Item 145. The Department of Education may require additional funding if a portion of the benefit will be funded as part of the Standards of Quality (SOQ). Including the mandated HIC for school support staff would be consistent with the interpretation of DOE when the HIC for Teachers/Professional staff became a mandated benefit in 1996. See section 8 below for additional discussion regarding potential SOQ implications.

Item 494. VRS would need a NGF appropriation of approximately \$99,000 for FY 2020 to cover the cost of programming and testing, as well as updating employee and employer communications. This does not include impact to current or future contribution rates or to the funded status of the plans, which are discussed below.

Local Budgetary Implementation Considerations

The additional required benefits would be payable immediately upon the effective date to existing eligible school division retirees by local school divisions, which are separately

actuarially rated plans. Particularly those divisions that do not currently offer any HIC benefits to this population will not have accumulated any or sufficient assets to fund these benefits, which will be payable immediately upon the bill's effective date. Contributions to fund the new or enhanced benefit will need to be charged and collected concurrent with the bill's effective date. Benefit amounts in excess of current employer contributions or existing assets will be set up as receivables for each employer as applicable, and will be paid in addition to the actuarially-required contributions.

7. Fiscal Impact Estimates:

Fiscal Impact Estimates (includes only required \$1.50 HIC without additional \$1 election):

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>General Fund</i>	<i>Non-General Fund & Local Funds</i>
2020	\$99,000			\$99,000
2021	\$2,900,000		\$976,000	\$1,924,000
2022	\$2,900,000		\$1,024,000	\$1,876,000
2023	\$2,900,000		\$1,024,000	\$1,876,000
2024	\$2,900,000		\$1,024,000	\$1,876,000
2025	\$2,900,000		\$1,024,000	\$1,876,000
2026	\$2,900,000		\$1,024,000	\$1,876,000

Fiscal impacts includes Department of Education estimate of SOQ funding impacts as well as estimated impacts to local employers. See fiscal implications in section 8 below for a detailed breakdown of estimated costs.

- 8. Fiscal Implications:** The Department of Education estimates an additional state general fund cost of \$976,000 in FY 2021 and \$1,024,000 in FY 2022 to provide the state share of the \$1.50 per year of service health insurance credit (HIC) for funded Standards of Quality (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 re-benchmarked for future biennia.

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 HIC for funded 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 145.C.2.b of HB 30/SB 30, the Governor's proposed budget, 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 \$1.50 per year of service HIC for all funded SOQ Non-Professional positions, budget language in Item 145 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 the Governor's proposed budget, the 2021-2022

biennium funded SOQ Instructional and Professional VRS and HIC rates are 16.62% and 1.21%, 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 the Governor's proposed budget, the 2021-2022 biennium funded SOQ Non-Professional VRS rate is 6.52%. 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 \$1.50 per year of service HIC for Non-Professional positions is 0.58% of covered payroll in FY 2021.

VRS anticipates that implementation of this bill will cost approximately \$99,000 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 non-general fund appropriation is necessary for VRS to implement the provisions of this bill.

Localities will also 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 this bill in aggregate for the 133 local school divisions.

Exhibit 1

Estimated average impact of all school divisions providing the \$1.50 HIC benefit to current & future retirees with no cap				
Employer Group	Number	Unfunded Liability as of June 30, 2019	Increase in Unfunded Liability	Increase in Annual Cost as Percentage of Covered Payroll
Participating School Divisions	37	\$6,217,500	\$661,300	0.02%
Non-Participating School Divisions	96	\$0	\$33,138,600	0.89%
Total School Divisions	133	\$6,217,500	\$33,799,900	0.58%

Each of the HIC plans for local employers is an individually actuarially rated plan, so the impact of this bill will differ 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 an average local school division's approximate cost based on its specific payroll.

Since the current HIC of \$1.50 for local government employees other than teachers is optional, most 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, 2020.

For school divisions to provide the \$1.50 per year of service HIC to all school division employees without a cap on service used in developing the benefit, VRS estimates an additional local cost of approximately \$2.9 million in FY 2021 and subsequent years. Of this amount, the additional cost to political subdivisions-schools that currently offer the optional HIC is approximately \$46,000 per year, and the cost to political subdivisions-schools that currently do not offer the optional HIC is approximately \$2.85 million per year.

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. Please note that if the DOE determines that the mandated HIC coverage for school support staff should be included as part of the SOQ formula, the estimates provided from DOE of \$976,000 in FY 2021 and \$1,024,400 in FY 2022 would be used to offset the costs shown below for the local employers.

Exhibit 2						
	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</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 Subs - Schools w/ HIC	46,000	46,000	46,000	46,000	46,000	46,000
Political Subs - Schools w/o HIC	2,854,000	2,854,000	2,854,000	2,854,000	2,854,000	2,854,000
Political Subs - Non School	-	-	-	-	-	-
TOTAL Local Funds	\$ 2,900,000	\$ 2,900,000	\$ 2,900,000	\$ 2,900,000	\$ 2,900,000	\$ 2,900,000
Grand Totals	\$ 2,900,000	\$ 2,900,000	\$ 2,900,000	\$ 2,900,000	\$ 2,900,000	\$ 2,900,000

Estimated projections based on employee data and valuation results as of June 30, 2019 and assume a level population throughout projection period. Payrolls beyond 2021 are assumed to remain level throughout projection period.

The substitute bill also provides that a locality may, at its option, provide an additional \$1.00 per year, for a total health insurance credit of \$2.50 per year of service for the affected retirees. Each of the HIC plans for local employers is an individually actuarially rated plan, so the impact of the additional \$1.00 HIC will differ for each employer. The cost as a percentage of covered payroll shown below could be used to provide a reasonable estimate of an average local school division's approximate cost based on its specific payroll.

Exhibit 3

Estimated average impact of all school divisions providing the \$1.50 HIC benefit to current & future retirees and also electing the additional \$1.00 HIC benefit				
Employer Group	Number	Unfunded Liability with Mandated \$1.50 HIC with No Cap	Increase in Unfunded Liability if Additional \$1.00 HIC Elected	Increase in Annual Cost as Percentage of Covered Payroll
Participating School Divisions	37	\$6,878,800	\$9,258,500	0.37%
Non-Participating School Divisions	96	\$33,138,600	\$22,092,300	1.48%
Total School Divisions	133	\$40,017,400	\$31,350,800	1.02%

9. Specific Agency or Political Subdivisions Affected: VRS and Department of Education, localities, local school divisions.

10. Technical Amendment Necessary: VRS is requesting that the effective date of this legislation be delayed until July 1, 2021, as the agency is finalizing 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. A delayed effective date of July 1, 2021 will allow for necessary systems adaptations along with necessary system validation testing without as much of an impact on the modernization effort. A delayed effective date will also allow for communications and outreach to affected employees and employers, including but not limited to benefit eligibility, administration, and funding. VRS is also anticipating the potential need to implement multiple legislative initiatives this year, which will require additional time for the effective implementation of a number of concurrent legislative initiatives.

11. Other Comments: The HIC for local employees is currently set at \$1.50 per year of service. The benefit is optional and must be elected by the locality or school division. Only 37 of the 133 school divisions have elected to offer this benefit. The HIC for school division staff is currently capped at \$45 per month.

The substitute bill would require that all school divisions provide a \$1.50 per year of service HIC benefit to retired members (other than teachers) with at least 15 years of total creditable service. The substitute bill does not have a cap on the HIC. Eligible employees who retired prior to July 1, 2020, but who did not receive an HIC benefit pursuant to this section prior to that date, however, will only receive the \$1.50 per year HIC prospectively.

The enactment clause provides that the provisions of the substitute bill shall not apply to any local non-teacher school division employee who retired on disability prior to July 1, 2020 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 non-teacher school division employees who retire on disability on or after July 1, 2020, or members of the hybrid retirement plan who are

on long-term disability, would receive the HIC as calculated under the provisions of the new § 51.1-1402.1 in the substitute bill.

The chart below shows the current HIC dollar amounts for eligible retirees.

Eligible Retirees	Service Retirement Credit Amount per Year of Service	Disability Retiree and Long-Term Disability	Maximum Credit per Month
State employees, including participants in an optional or alternate retirement plan	\$4.00	\$120 or \$4 per year of service, whichever is greater	No Maximum
Teachers	\$4.00	\$4 x the smaller of (a) twice the amount of service credit or (b) the amount of service that would have been earned had the member remained an active employee until age 60	No Maximum
General registrars and their employees; constitutional officers and their employees; local social service employees	\$1.50	\$45.00	\$45.00
General registrars and their employees; constitutional officers and their employees; local social service employees if political subdivision elects \$1.00 enhancement	\$2.50	\$75.00	\$75.00
Other political subdivision employees as elected by the employer, such as school support personnel	\$1.50	\$45.00	\$45.00

Date: 02-13-2020

Document: HB1513H1.DOC/VRS