

Virginia Retirement System 2020 Fiscal Impact Statement

1. Bill Number: SB1057-S1

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

2. Patron: Ruff

3. Committee: Finance and Appropriations

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

5. Summary: The bill 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. 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. This provision is effective January 1, 2021. The substitute adds a provision that increases the HIC for local constitutional officers and their employees, general registrars and their employees, and local social services employees who have at least 15 years of service from the current \$1.50 per year of service capped at \$45 per month to \$4 per year of service with no cap, effective July 1, 2020.

6. Budget Amendment Necessary: Item 477 K.2. The state employee HIC plan would require an additional \$6.9 million in FY 2021 and future years.

Item 477 L.1. The constitutional officers, general registrars, and local social services employees HIC plans will require an additional \$7.7 million in FY 2021 and future years.

Item 494. VRS would require a NGF appropriation to cover implementation costs of approximately \$25,000 in FY 2020, and \$175,000 in FY 2021 for system programming and communications efforts necessary to implement this legislation. This does not include the impact to current or future contribution rates or to the funded status of the plans, which are discussed below.

7. Fiscal Impact Estimates:

Fiscal Impact Estimates/Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>General Fund</i>	<i>Non-General Fund & Local Funds</i>
2020	\$25,000			\$25,000
2021	\$14,763,000		\$10,620,000	\$4,143,000
2022	\$14,588,000		\$10,620,000	\$3,968,000
2023	\$14,588,000		\$10,620,000	\$3,968,000

2024	\$14,588,000		\$10,620,000	\$3,968,000
2025	\$14,588,000		\$10,620,000	\$3,968,000
2026	\$14,588,000		\$10,620,000	\$3,968,000

A more detailed breakdown of estimated costs are shown in Item 8 below.

- 8. Fiscal Implications:** The substitute bill applies a cost-of-living adjustment (COLA) to HIC benefits for certain state retirees in § 51.1-1400 and increases the HIC benefit for certain local constitutional officers in § 51.1-1403. Effective January 1, 2021, the annual COLA increase applicable to Plan 2 and Hybrid retirees applies to the HIC for any state employee who rendered 30 or more years of creditable service in VRS, any state employee receiving long-term disability, and any state employee who is receiving a disability retirement allowance. The bill will essentially increase the level of the HIC benefit for eligible retirees and set a new starting level for future retirees when they become eligible for retirement. The provision will be very similar to how the cost-of-living provisions of the hazardous duty supplement under § 51.1-206(B) and § 51.1-217(B) impact the starting level of the supplement for eligible hazardous duty members.

Effective July 1, 2020, the substitute provides an HIC benefit increase to active, inactive, retired, and disabled constitutional officers and their employees, general registrars and their employees, and local social service employees with 15 or more years of total creditable service. The substitute would increase the amount of the monthly HIC payable to eligible local service retirees from \$1.50 per year of creditable service capped at a maximum benefit of \$45 to \$4 per year of creditable service with no benefit cap. Additionally, monthly HIC benefits for those eligible local service members receiving disability income from an eligible VRS plan (either disability retirement or long-term disability) would be increased to the greater of:

- \$120;
- \$4 per year of creditable service at the time of disability retirement; or
- \$4 per year for each year of creditable service at the time of eligibility for long-term disability

Cost-Of-Living Adjustment (COLA) for HIC Benefits in § 51.1-1400

As of June 30, 2019, approximately 52% of the combined retiree, deferred vested, and disabled state employee population would be eligible for the proposed HIC COLA under the provisions of the bill. In addition, nearly 8,200 active state employees, or approximately 7.6% of the entire active state VRS-covered workforce, already have 30 or more years of service as of June 30, 2019.

Exhibit 1 – HIC COLA
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	106,948	98,805	8,143	7.61%
Retirees, Deferred Vested, Disabled*	53,034	25,501	27,533	51.92%

As of June 30, 2019, the State HIC program had \$1,026,752,000 in accrued liabilities and \$109,417,000 in assets, with a funded status of 10.66%. 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 – HIC COLA

	Current State HIC	State HIC after Proposed Legislation	Change
Unfunded Actuarial Accrued Liability	\$917,335,000	\$998,221,000	\$80,886,000
Funded Status	10.66%	9.88%	-0.78%
Cost as a % of Payroll	1.12%	1.22%	0.10%
Estimated Expected Contributions	\$77,364,000	\$84,272,000	\$6,908,000

Exhibit 3 shows the estimated future cost impacts associated with the application of an annual COLA to the HIC benefit for state employees who retire with at least 30 years of service.

Exhibit 3 – HIC COLA

	<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	\$ 1,690,000	\$ 1,690,000	\$ 1,690,000	\$ 1,690,000	\$ 1,690,000	\$ 1,690,000
SPORS - General Fund	114,000	114,000	114,000	114,000	114,000	114,000
VaLORS - General Fund	336,000	336,000	336,000	336,000	336,000	336,000
JRS - General Fund	77,000	77,000	77,000	77,000	77,000	77,000
ORP/UVA - General Funds	723,000	723,000	723,000	723,000	723,000	723,000
TOTAL General Fund	\$ 2,940,000	\$ 2,940,000	\$ 2,940,000	\$ 2,940,000	\$ 2,940,000	\$ 2,940,000
State - Non-General Funds	\$ 2,685,000	\$ 2,685,000	\$ 2,685,000	\$ 2,685,000	\$ 2,685,000	\$ 2,685,000
SPORS - Non-General Funds	19,000	19,000	19,000	19,000	19,000	19,000
VaLORS - Non-General Funds	34,000	34,000	34,000	34,000	34,000	34,000
ORP/UVA - Non-General Funds	1,230,000	1,230,000	1,230,000	1,230,000	1,230,000	1,230,000
TOTAL - Non-General Funds	\$ 3,968,000	\$ 3,968,000	\$ 3,968,000	\$ 3,968,000	\$ 3,968,000	\$ 3,968,000
Grand Totals	\$ 6,908,000	\$ 6,908,000	\$ 6,908,000	\$ 6,908,000	\$ 6,908,000	\$ 6,908,000

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.

Increased HIC Benefits in § 51.1-1403 – Constitutional Officers, General Registrars, and Local Social Service Employees

The substitute would increase the HIC benefit for active, inactive, retired, and disabled constitutional officers and their employees, general registrars and their employees, and local social service employees with 15 or more years of total creditable service, to \$4 per year of creditable service.

The proposed increase in the HIC benefit to \$4 with no cap would add \$84.2 million to the unfunded liabilities of the constitutional officers, social services employees, and general registrar HIC plans combined. The change would lower the funded status of the constitutional officers, social services employees, and general registrar HIC plans down to approximately 5.0% each, as shown in Exhibit 4 below, making the plans essentially “pay-as-you-go”.

Exhibit 4 - \$4 HIC for Constitutional Officers, General Registrars, & Local Social Service Employees

Estimated Impact on Funded Status of Proposed \$4 HIC Constitutional Officers, Registrars, and Social Service Employees		
Employer Group	Funded Status as of 6/30/19 Valuation	Funded Status Under Proposed Legislation
Constitutional Officers	14.2%	5.1%
Social Service Employees	15.5%	5.5%
General Registrars	16.0%	5.7%

The annual increase in required funding would be approximately \$7.7 million. This is paid by the Commonwealth, however we are aware that the costs of these benefits are offset against other

funding provided to localities for constitutional officer positions, social services, and general registrar positions. This legislation could impact local funding but the impact will vary among localities given their individual staffing levels. Exhibit 5 below shows the impact to unfunded liability and the cost impact as a percent of payroll for each of the local health insurance credit plans.

Exhibit 5 – \$4 HIC Constitutional Officers, General Registrars, & Local Social Service Employees

Estimated Impact On Unfunded Liability and Annual Funding of Proposed \$4 HIC Constitutional Officers, Registrars, and Social Service Employees				
Employer Group	Unfunded Liability as of June 30, 2019	Increase in Unfunded Liability	Increase in Annual Cost as Percentage of Covered Payroll	Estimated Increase in Annual Funding
Constitutional Officers	\$ 27,088,000	\$ 56,821,000	0.75%	\$ 5,244,000
Social Service Employees	\$ 12,359,000	\$ 26,338,000	0.82%	\$ 2,340,000
General Registrars	\$ 461,000	\$ 988,000	0.81%	\$ 96,000
Total	\$ 39,908,000	\$ 84,147,000		\$ 7,680,000

Exhibit 6 shows the estimated future cost impacts associated with increasing the HIC benefit to \$4 for constitutional officers and their employees, general registrars and their employees, and local social service employees with 15 or more years of total creditable service without a cap.

Exhibit 6 - \$4 HIC Constitutional Officers, General Registrars, & Local Social Service Employees

	<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	-	-	-	-	-	-
Constitutional Officers - HIC	5,244,000	5,244,000	5,244,000	5,244,000	5,244,000	5,244,000
Social Services Employees - HIC	2,340,000	2,340,000	2,340,000	2,340,000	2,340,000	2,340,000
General Registrars - HIC	96,000	96,000	96,000	96,000	96,000	96,000
TOTAL General Fund	\$ 7,680,000	\$ 7,680,000	\$ 7,680,000	\$ 7,680,000	\$ 7,680,000	\$ 7,680,000
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	-	-	-	-	-	-
TOTAL - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools w/ HIC	-	-	-	-	-	-
Political Subs - Schools w/o HIC	-	-	-	-	-	-
Political Subs - Non School	-	-	-	-	-	-
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ 7,680,000	\$ 7,680,000	\$ 7,680,000	\$ 7,680,000	\$ 7,680,000	\$ 7,680,000

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.

Exhibit 7 below shows the combined impact of both the HIC for all retired state employees who rendered at least 30 years of creditable service in the Virginia Retirement System and the provision that increases the HIC for local constitutional officers and their employees, general registrars and their employees, and local social services employees who have at least 15 years of service from the current \$1.50 per year of service capped at \$45 per month to \$4 per year of service with no cap, effective July 1, 2020.

Exhibit 7

	<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	\$ 1,690,000	\$ 1,690,000	\$ 1,690,000	\$ 1,690,000	\$ 1,690,000	\$ 1,690,000
SPORS - General Fund	114,000	114,000	114,000	114,000	114,000	114,000
VaLORS - General Fund	336,000	336,000	336,000	336,000	336,000	336,000
JRS - General Fund	77,000	77,000	77,000	77,000	77,000	77,000
ORP/UVA - General Funds	723,000	723,000	723,000	723,000	723,000	723,000
Teacher - General Fund	-	-	-	-	-	-
Constitutional Officers - HIC	5,244,000	5,244,000	5,244,000	5,244,000	5,244,000	5,244,000
Social Services Employees - HIC	2,340,000	2,340,000	2,340,000	2,340,000	2,340,000	2,340,000
General Registrars - HIC	96,000	96,000	96,000	96,000	96,000	96,000
TOTAL General Fund	\$ 10,620,000	\$ 10,620,000	\$ 10,620,000	\$ 10,620,000	\$ 10,620,000	\$ 10,620,000
State - Non-General Funds	\$ 2,685,000	\$ 2,685,000	\$ 2,685,000	\$ 2,685,000	\$ 2,685,000	\$ 2,685,000
SPORS - Non-General Funds	19,000	19,000	19,000	19,000	19,000	19,000
VaLORS - Non-General Funds	34,000	34,000	34,000	34,000	34,000	34,000
ORP/UVA - Non-General Funds	1,230,000	1,230,000	1,230,000	1,230,000	1,230,000	1,230,000
TOTAL - Non-General Funds	\$ 3,968,000	\$ 3,968,000	\$ 3,968,000	\$ 3,968,000	\$ 3,968,000	\$ 3,968,000
Grand Totals	\$ 14,588,000	\$ 14,588,000	\$ 14,588,000	\$ 14,588,000	\$ 14,588,000	\$ 14,588,000

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.

- 9. Specific Agency or Political Subdivisions Affected:** VRS, state agencies, and political subdivisions that have constitutional officers, general registrars, and local social service employees.
- 10. Technical Amendment Necessary:** Yes. VRS is requesting a delayed effective date of July 1, 2021 for the entire substitute bill. Currently the annual COLA on the HIC for certain state employees is effective as of January 1, 2021. The remainder of the bill, which provides for an increase in the COLA benefit from \$1.50 to \$4 for local constitutional officers and their employees, general registrars and their employees, and local social service employees with 15 or more years of total creditable service, is effective July 1, 2020. A delayed effective date of July 1, 2021 for all benefits covered in this substitute bill will allow time for programming and communications updates with affected employees and employers.
- 11. Other Comments:** The substitute bill applies an annual COLA to HIC benefits for certain state employees and increases the HIC benefit for certain constitutional officers from \$1.50 to \$4.

HIC Benefits in § 51.1-1400 – Cost-Of-Living Adjustment (COLA)

Effective January 1, 2021, an annual COLA applies to any state employee who rendered 30 or more years of creditable service in VRS, any state employee receiving long-term disability, and any state employee who is receiving a disability retirement allowance. 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 annual COLA as calculated for Plan 2 and Hybrid Plan retirees. That formula is the annual increase, if any, in the U.S. Bureau of Labor Statistics' Consumer Price Index for all Urban Consumers (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 COLA
2019	2.22
2018	2.07
2017	1.26
2016	0.12
2015	1.62
2014	1.46
2013	2.04
2012	2.58
2011	1.28
2010	0

HIC Benefits in § 51.1-1403 – Constitutional Officers, General Registrars, and Local Social Service Employees

Effective July 1, 2020, the substitute provides an HIC benefit increase to active, inactive, retired, and disabled constitutional officers and their employees, general registrars and their employees, and local social service employees with 15 or more years of total creditable service. The substitute would increase the amount of the monthly HIC payable to eligible local service retirees from \$1.50 per year of creditable service capped at a maximum benefit of \$45 to \$4 per year of creditable service with no benefit cap.

Additionally, monthly benefits for those eligible local social service employees receiving disability income from an eligible VRS plan (either disability retirement or long-term disability) would be increased to the greater of:

- \$120;
- \$4 per year of creditable service at the time of disability retirement; or
- \$4 per year for each year of creditable service at the time of eligibility for long-term disability

Subsection B of § 51.1-1403 allows a local employer that participates in the Virginia Retirement System to provide an additional HIC benefit of \$1 per month for local constitutional officers and their employees, general registrars and their employees, or employees of a local social services board. If SB 1057 were enacted, it would allow a maximum HIC benefit of \$5 per year of service for eligible employees whose employers elected the additional \$1 benefit under § 51.1-1403(B). The cost of the additional benefit would be borne by the locality. The cost impacts provided in this impact statement only

reflect the increase from the current \$1.50 to \$4 and do not include the optional additional \$1 that is currently allowed under § 51.1-1403(B).

The HIC was first provided effective July 1, 1992 for local employees with at least 15 years of creditable service whose employers elected to provide the benefit. The amount at that time was \$1.50 per year of creditable service, with a monthly cap of \$45, and has remained unchanged since then. As of July 1, 1999, the \$1.50 HIC capped at \$45 was extended to sheriffs, sheriff's deputies, constitutional officers, and local social service retirees with at least 15 years of creditable service. The HIC benefit is intended to help defray the cost of health care coverage for the retiree only.

An enactment clause provides that the bill will not become effective unless the 2020 Appropriation Act provides a sufficient appropriation.

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

HB 1513 as amended requires localities to provide a HIC 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 amended bill also permits a locality to elect to provide an additional \$1 per year of service, for a total HIC of \$2.50 per year of service for the affected retirees.

Date: 2-5-2020

Document: SB1057S1.DOC/VRS