

Virginia Retirement System

2023 Fiscal Impact Statement

1. **Bill Number:** HB 2314

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

2. **Patron:** Rasoul

3. **Committee:** Appropriations

4. **Title:** Health insurance credits; retired state employees.

5. **Summary:** Increases from \$4.00 per year of creditable service to \$5.00 per year of creditable service the amount of each monthly health insurance credit provided by the Commonwealth toward the cost of health insurance coverage for any retired state employee.

6. **Summary of Impacts**

Benefit(s) impacted: Increases the amount of monthly health insurance credits received by retired state employees with a minimum of 15 years of creditable service (including employees who were members of the State Police Officers' Retirement System (SPORS), the Judicial Retirement System (JRS), and the Virginia Law Officers' Retirement System (VaLORS)) from \$4.00 to \$5.00 per month per year of creditable service with no cap. In the case of retirement for disability, the bill increases the health insurance credit from \$4.00 to \$5.00 per month per year of creditable service or \$120 per month, if greater.

Impact to unfunded liability (see Item 9 for details): Adds \$257 million to unfunded liabilities of the state retiree health insurance credit plan.

Impact to contribution rate(s) (see Item 9 for details): Increases contribution rates for the state retiree health insurance credit plan requiring an estimated increase in annual contributions of \$23.8 million per year.

Specific Agency or Political Subdivisions Affected (see Item 10): The Commonwealth, VRS, and all state employees.

VRS cost to implement (see Item 7 and Item 8 for details): Approximately \$76,000 in FY 2023.

Employer cost to implement (see Item 7 and Item 8 for details): Approximately \$23.8 million increase in FY 2024 for the increase in employer contribution costs.

Other VRS and employer impacts (see Item 7, Item 9, Item 11, and Item 12 for details): VRS will incur administrative costs to implement the bill, primarily for communications to employers and participants and handbook and website changes. VRS would also incur programming changes related to new plan provisions.

GF budget impacts (see Item 8 for details): Approximately \$10.8 million increase in FY 2024 and successive years for the increase in employer contribution costs.

NGF budget impacts (see Item 8 for details): Approximately \$13.1 million NGF in FY 2024 and successive years for the increase in employer contribution costs and \$76,000 in FY 2023 for VRS implementation.

7. Budget Amendment Necessary: Yes. Items 483Y.1 and 498 of HB 1400.

Item 498: VRS implementation costs are estimated to be approximately \$76,000 in FY 2023. This does not include the impact to current or future contribution rates or to the funded status of the plans, which are discussed below and in section 8. The estimated costs take into account system changes that would need to be made upon the effective date of the legislation as well as communications to employers and participants and website changes.

Item 483Y.1: Central Appropriations will require a budget amendment of \$13.1 million NGF for FY 2024 to cover the additional costs associated with the higher contribution rate for the state retiree health insurance credit plan resulting from the increase in the health insurance credit amount.

8. 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>
2023				\$76,000
2024	\$23,824,000		\$10,765,000	13,059,000
2025	\$23,824,000		\$10,765,000	13,059,000
2026	\$23,824,000		\$10,765,000	13,059,000
2027	\$23,824,000		\$10,765,000	13,059,000
2028	\$23,824,000		\$10,765,000	13,059,000
2029	\$23,824,000		\$10,765,000	13,059,000

A more detailed breakdown of estimated costs is shown in section 9.

9. Fiscal Implications: Effective July 1, 2023, the bill provides a health insurance credit increase to active, inactive, retired, and disabled state employees with 15 or more years of total creditable service from the current \$4.00 to \$5.00 per year of creditable service with no cap. For disabled state retirees, the amount would increase from the current \$4 per year of service per month to \$5, or \$120 per month, whichever is greater.

The proposed increase in the health insurance credit to \$5.00 would add \$257 million to the unfunded liabilities of the state retiree health insurance credit plan. As of June 30, 2022, the plan had assets of \$224 million against liabilities of \$1.026 billion, leaving unfunded liabilities of over \$802 million. The change would lower the funded status of the plan as shown in Exhibit 1.

Exhibit 1

Estimated Impact on Funded Status of Proposed \$5 HIC		
Employer Group	Funded Status as of June 30, 2022	Funded Status Under Proposed Legislation
State HIC	21.8%	17.5%

The annual increase in required funding would be approximately \$14.7 million, which is paid by the Commonwealth. Exhibit 2 shows the impact to unfunded liability and the cost impact as a percent of payroll for the state retiree health insurance credit plan.

Exhibit 2

Estimated Impact On Unfunded Liability and Annual Funding of Proposed \$5 HIC				
Employer Group	Unfunded Liability as of June 30, 2022	Increase in Unfunded Liability	Increase in Annual Cost as Percentage of Covered Payroll	Estimated Increase in Annual Funding
State HIC	\$802,184,000	\$257,000,000	0.28%	\$14,748,000

Exhibit 3 shows the estimated future cost impacts associated with increasing the health insurance credit to \$5.00 for state retirees with 15 or more years of total creditable service.

Exhibit 3

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
State - General Fund	\$ 6,426,000	\$ 6,426,000	\$ 6,426,000	\$ 6,426,000	\$ 6,426,000	\$ 6,426,000
SPORS - General Fund	407,000	407,000	407,000	407,000	407,000	407,000
VaLORS - General Fund	1,007,000	1,007,000	1,007,000	1,007,000	1,007,000	1,007,000
JRS - General Fund	241,000	241,000	241,000	241,000	241,000	241,000
ORP/UVA - General Funds	2,684,000	2,684,000	2,684,000	2,684,000	2,684,000	2,684,000
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ 10,765,000	\$ 10,765,000	\$ 10,765,000	\$ 10,765,000	\$ 10,765,000	\$ 10,765,000
State - Non-General Funds	\$ 8,322,000	\$ 8,322,000	\$ 8,322,000	\$ 8,322,000	\$ 8,322,000	\$ 8,322,000
SPORS - Non-General Funds	67,000	67,000	67,000	67,000	67,000	67,000
VaLORS - Non-General Funds	104,000	104,000	104,000	104,000	104,000	104,000
ORP/UVA - Non-General Funds	4,566,000	4,566,000	4,566,000	4,566,000	4,566,000	4,566,000
TOTAL - Non-General Funds	\$ 13,059,000	\$ 13,059,000	\$ 13,059,000	\$ 13,059,000	\$ 13,059,000	\$ 13,059,000
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools	-	-	-	-	-	-
Political Subs - Non-schools	-	-	-	-	-	-
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ 23,824,000	\$ 23,824,000	\$ 23,824,000	\$ 23,824,000	\$ 23,824,000	\$ 23,824,000

Estimated projections based on employee data and valuation results as of June 30, 2022 and assume a level population throughout projection period.

Payrolls include proposed pay increases included in budget for FY 2023 and 2024. Payrolls are assumed to remain level beyond 2024 through remainder of the projection period.

It should be noted that the introduced budget includes an additional cash infusion for the state retiree health insurance credit plan. This was proposed to help bring the funding level of this plan up from its current funded status level of just over 22%.

The liabilities generated by changing the health insurance credit from \$4.00 to \$5.00, \$257 million, outweigh the proposed infusions of \$80.0 million for the state HIC plan, which were intended to improve the funded status of this plan.

Exhibit 4- Proposed Cash Infusions included in Budget Bill

HIC Plan	Proposed Cash Infusion in June 2023	Proposed Cash Infusion in June 2024	Total Proposed Cash Infusions
State HIC	\$27,159,085	\$52,800,000	\$79,959,085

10. Specific Agency or Political Subdivisions Affected: The Commonwealth, VRS, and all state employees.

11. Technical Amendment Necessary: No.

12. Other Comments: This bill increases the amount of monthly health insurance credits received by retired state employees with a minimum of 15 years of creditable service and those on disability retirement or long-term disability from \$4.00 to \$5.00 per month per year of creditable service with no cap. The benefit is intended to help defray the cost of the state retiree health benefits program or the cost of an alternative personal health insurance plan for retiree-only coverage. The health insurance credit was first provided effective January 1, 1990, for state retirees with at least 15 years of creditable service at the rate of \$1.50 per year of service, capped at the lower of \$45 or the cost of the insurance premium. The health insurance credit for state retirees increased to \$2.50 effective July 1, 1993. It was last increased effective July 1, 1999, when it was increased from \$2.50 to \$4.00, capped at \$120 per month. The \$120 cap was eliminated effective July 1, 2007.

The chart below shows the current health insurance credit dollar amounts for eligible retirees.

Eligible Retirees	Service Retirement		Maximum Credit
	Credit Amount per Year of Service	Disability Retiree and Long-Term Disability	
State employees	\$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
Other school division employees (non-teachers)	\$1.50 Localities may elect to provide an additional \$1.00 per month for each year of service	\$1.50 multiplied by 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: 1/19/2023

Document: HB2314.DOC/VRS