

Virginia Retirement System

2023 Fiscal Impact Statement

1. **Bill Number:** HB 2314 ER

House of Origin ☐ Introduced ☐ Substitute ☐ Engrossed

Second House ☐ In Committee ☐ Substitute ☒ Enrolled

2. **Patron Prior to Substitute:** Rasoul

3. **Committee:** Passed House and Senate

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

5. **Summary:** Beginning July 1, 2024, increases from \$4.00 per year of creditable service to \$4.25 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: The substitute increases the amount of monthly health insurance credits (HIC) 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 \$4.25 per month per year of creditable service with no cap. In the case of retirement for disability, the substitute increases the health insurance credit from \$4.00 to \$4.25 per month per year of creditable service or \$120 per month, if greater.

Impact to unfunded liability (see Item 9 for details): Adds \$64 million to unfunded liabilities of the state retiree health insurance credit plan. The cash infusions included in the introduced budget for June 2023 and June 2024 will offset the increase in liability from the substitute and provide a net decrease in liability of approximately \$16 million.

Impact to contribution rate(s) (see Item 9 for details): The cash infusions included in the introduced budget offset the increase in contribution rates for the state retiree health insurance credit plan under the substitute. The contribution rate would remain the same.

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 \$10,600 in FY 2023 and \$72,500 in FY 2024.

Employer cost to implement (see Item 7 and Item 8 for details): Expected to have minimal costs to employers for implementation.

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 substitute, 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): None at this time. With the cash infusions included in the introduced budget, no immediate impact is expected. There may be an impact to future contribution rates.

NGF budget impacts (see Item 8 for details): Approximately \$10,600 in FY 2023 and \$72,500 in FY 2024 for VRS implementation.

7. **Budget Amendment Necessary:** Yes. Item 498: VRS implementation costs are estimated to be approximately \$10,600 NGF in FY 2023 and \$72,500 NGF in FY 2024 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 in section 9.
8. **Fiscal Impact Estimates:** A detailed breakdown of estimated costs for the substitute is shown in section 9.
9. **Fiscal Implications:** Effective July 1, 2024, the substitute provides an HIC benefit increase to active, inactive, and retired state employees with 15 or more years of total creditable service from the current \$4.00 to \$4.25 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 \$4.25, or \$120 per month, whichever is greater.

It should be noted that the introduced budget includes additional cash infusions for the state retiree HIC plan. These additional contributions were proposed to help bring the funding level of this plan up from its current funded status of just over 22%.

The proposed increase in the health insurance credit to \$4.25 would add \$64 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 cash infusions of approximately \$80 million total in FY 2023 and FY 2024 proposed in the introduced budget will offset the increase in unfunded liability from the substitute. The cash infusions would result in a net decrease in liability of approximately \$16 million, bringing the funded status to 22.2% as shown in Exhibit 1.

Exhibit 1

Estimated Impact on Funded Status of Proposed \$4.25 HIC			
Employer Group	Funded Status as of June 30, 2022	Funded Status Increasing to \$4.25	Funded Status Increasing to \$4.25 After Cash Infusions
State HIC	21.8%	20.6%	22.2%

The additional \$20 million cash infusion included in the House budget will further improve the funded status to approximately 22.6%.

With the cash infusions in FY 2023 and FY 2024 in the introduced budget, the increase in liabilities results in no expected change to the contribution rate paid by the Commonwealth. Exhibit 2 shows the impact to unfunded liability for the substitute 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 \$4.25 HIC					
Employer Group	Unfunded Liability as of June 30, 2022	Increase in Unfunded Liability	Increase in Unfunded Liability After Cash Infusions	Increase in Annual Cost as Percentage of Covered Payroll	Estimated Increase in Annual Funding
State HIC	\$802,184,000	\$64,000,000	(\$16,000,000)	0.00%	\$0

The proposed cash infusions that were intended to increase the plan funded status will help pay for the increase in benefit level, however the funded status will not increase as much as originally intended as the liabilities will increase by \$64 million, leaving approximately \$16 million to be applied to the unfunded liabilities of the plan. The proposed infusions are shown in Exhibit 3 below.

Exhibit 3- 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 substitute 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 \$4.25 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: 2/24/2023

Document: HB2314ER.DOC/VRS