

Virginia Retirement System

2023 Fiscal Impact Statement

1. **Bill Number:** HB 2314 H1

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

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

3. **Committee:** Appropriations

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

5. **Summary:** The substitute 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, as well as members receiving long-term disability or retired for disability as described in § 51.1-1400. The substitute 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 bill is effective July 1, 2024.

6. **Summary of Impacts**

Benefit(s) impacted: Increases the amount of monthly health insurance credits received by retired state employees with a minimum of 30 years of creditable service including employees who were members of the State Police Officers' Retirement System (SPORS), the Judicial Retirement System (JRS), the Virginia Law Officers' Retirement System (VaLORS), the Optional Retirement Plan for Higher Education (ORPHE), Optional Retirement Plan for Political Appointees (ORPPA) and the University of Virginia (UVA). The substitute also increases the amount of the HIC for members receiving long-term disability or retired for disability as described in § 51.1-1400(A). The substitute increases the HIC by the same percentage as any annual post-retirement supplement (cost of living adjustment, or COLA) that is calculated for employees hired on or after July 1, 2010 (Plan 2).

Impact to unfunded liability (see Item 9 for details): Adds approximately \$186.8 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 \$16.8 million per year.

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

VRS cost to implement (see Item 7 and Item 8 for details): Approximately \$81,400 in FY 2023 and \$158,200 in FY 2024, and at least an additional \$36,400 each year thereafter. This includes additional actuarial fees for annual HIC valuations that will depend in part on the

resources required for the additional analysis for the separate group described in the substitute, as this substitute adds complexity to the cost allocation component of the valuation process.

Employer cost to implement (see Item 7 and Item 8 for details): Approximately \$16.8 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, for communications to employers and participants and handbook and website changes. VRS would also be required to implement extensive programming and actuarial cost allocation changes related to new plan provisions in the substitute.

GF budget impacts (see Item 8 for details): Approximately \$7.6 million increase in FY 2024 and successive years for the increase in employer contribution costs.

NGF budget impacts (see Item 8 for details): Approximately \$9.2 million NGF in FY 2024 and successive years for the increase in employer contribution costs and \$81,400 in FY 2023 and \$158,200 in FY 2024, and at least an additional \$36,400 each year thereafter for VRS implementation. There will also be additional actuarial fees for annual HIC valuations which will depend in part on the resources required for the additional analysis that cannot be determined at this time. The increased annual fee for the actuarial valuation of the HIC plans is estimated at \$36,400, but may be higher.

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

Item 498: VRS implementation costs are estimated to be approximately \$81,400 in FY 2023 and \$158,200 in FY 2024, and at least an additional \$36,400 each year thereafter. 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. There will also be additional actuarial fees for annual HIC valuations that will depend in part on the resources required for the additional analysis that cannot be determined at this time. The increased annual fee for the actuarial valuation of the HIC plans is estimated at \$36,400, but may be higher.

Item 483Y.1: Central Appropriations will require a budget amendment of \$9.2 million NGF and \$7.6 million GF 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 by the Plan 2 COLA 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	\$81,400		--	\$81,400
2024	\$16,892,400		\$7,582,000	\$9,356,200
2025	\$16,816,400		\$7,582,000	\$9,234,400
2026	\$16,816,400		\$7,582,000	\$9,234,400
2027	\$16,816,400		\$7,582,000	\$9,234,400
2028	\$16,816,400		\$7,582,000	\$9,234,400
2029	\$16,816,400		\$7,582,000	\$9,234,400

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

- 9. Fiscal Implications:** Effective July 1, 2024, the substitute increases the amount of monthly health insurance credits received by retired state employees with a minimum of 30 years of creditable service including employees who were members of SPORS, JRS, VaLORS, ORPHE, ORPPA and UVA. The substitute also increases the amount of the HIC for members receiving long-term disability or retired for disability as described in § 51.1-1400(A). The substitute 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 proposed annual increase in the health insurance credit for state retirees with at least 30 years of service would add approximately \$186.8 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 to approximately 18.5% as shown in Exhibit 1.

Exhibit 1

Estimated Impact on Funded Status of Proposed HIC COLA for members with at least 30 years of service			
Employer Group	Funded Status as of June 30, 2022	Funded Status Under Proposed Legislation	Impact to Funded Status
State	21.8%	18.5%	-3.3%

The annual increase in required funding would be approximately \$16.8 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 HIC COLA for members with at least 30 years of service				
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	\$802,184,000	\$186,776,000	0.20%	\$16,780,000

Exhibit 3 shows the estimated future cost impacts associated with increasing the health insurance credit annually by the Plan 2 COLA for state retirees with 30 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	\$ 4,526,000	\$ 4,526,000	\$ 4,526,000	\$ 4,526,000	\$ 4,526,000	\$ 4,526,000
SPORS - General Fund	287,000	287,000	287,000	287,000	287,000	287,000
VaLORS - General Fund	709,000	709,000	709,000	709,000	709,000	709,000
JRS - General Fund	170,000	170,000	170,000	170,000	170,000	170,000
ORP/UVA - General Funds	1,890,000	1,890,000	1,890,000	1,890,000	1,890,000	1,890,000
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ 7,582,000	\$ 7,582,000	\$ 7,582,000	\$ 7,582,000	\$ 7,582,000	\$ 7,582,000
State - Non-General Funds	\$ 5,862,000	\$ 5,862,000	\$ 5,862,000	\$ 5,862,000	\$ 5,862,000	\$ 5,862,000
SPORS - Non-General Funds	47,000	47,000	47,000	47,000	47,000	47,000
VaLORS - Non-General Funds	73,000	73,000	73,000	73,000	73,000	73,000
ORP/UVA - Non-General Funds	3,216,000	3,216,000	3,216,000	3,216,000	3,216,000	3,216,000
TOTAL - Non-General Funds	\$ 9,198,000	\$ 9,198,000	\$ 9,198,000	\$ 9,198,000	\$ 9,198,000	\$ 9,198,000
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools	-	-	-	-	-	-
Political Subs - Non-schools	-	-	-	-	-	-
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ 16,780,000	\$ 16,780,000	\$ 16,780,000	\$ 16,780,000	\$ 16,780,000	\$ 16,780,000

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 increasing the health insurance credit annually by the Plan 2 COLA, \$186.8 million, as the substitute does, 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 employers.

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 30 years of creditable service, including employees who retire from SPORS, JRS, VaLORS, ORPHE, ORPPA and UVA. The substitute also increases the amount of the HIC for members receiving long-term disability or retired for disability as described in § 51.1-1400(A). The substitute 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 HIC 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 HIC was first provided, effective January 1, 1990, for state retirees with at least 15 years of creditable service. The amount at that time was \$1.50 per year of service, with a monthly cap at the lower of \$45 or the cost of the insurance premium. The HIC 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, and capped at \$120 per month. Finally, the \$120 cap was eliminated effective July 1, 2007.

The HIC was first provided, effective July 1, 1992, for teachers and for local employees with at least 15 years of creditable service whose employers elected to provide the benefit. The amount of the HIC for teachers and local employees at that time was \$1.50 per year of creditable service, with a monthly cap of \$45. The HIC for teachers was increased in 1999 to \$2.50. In 2007 the HIC for teachers was increased to \$4 and the cap was removed. The amount of the HIC for local employees has remained unchanged since 1992. However, beginning in 1998, employees, including local employees, could receive the HIC toward insurance of their own choosing rather than only for employer-sponsored health insurance.

As of July 1, 1999, the \$1.50 HIC, capped at \$45, was extended to sheriffs, sheriffs' deputies, constitutional officers, and local social service retirees with at least 15 years of creditable service. Further, effective July 1, 1999, localities could elect to provide retired constitutional officers and general registrars as well as employees of local social services boards an enhanced HIC of \$1 per month per year of service, not to exceed \$30 per month. In 2000, employees of constitutional officers became eligible for the HIC of \$1.50 per month per year of service, capped at \$45.

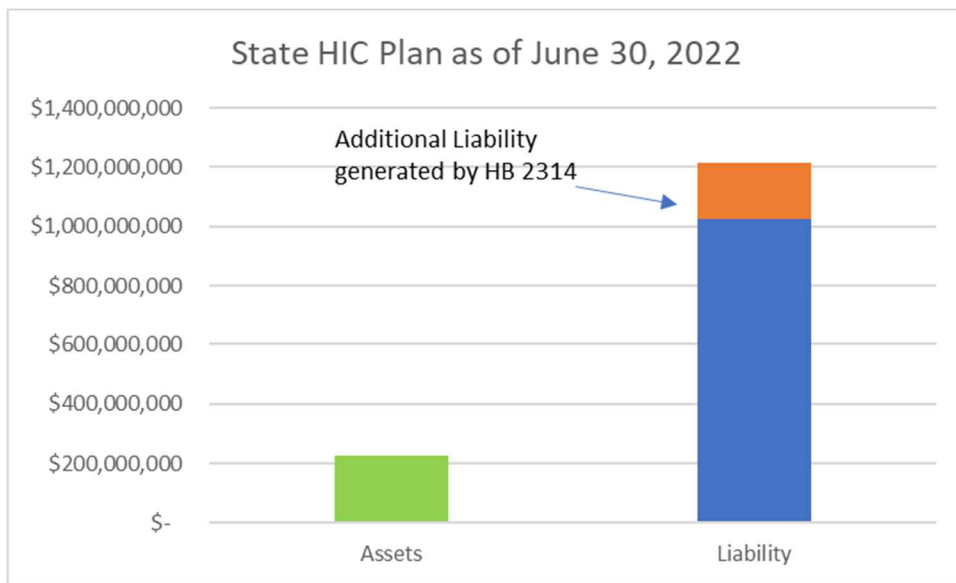
As of July 1, 2021, the \$1.50 HIC was extended to school division employees other than teachers, with the option for localities to elect to provide an enhanced HIC of \$1 per year of service per month, not to exceed \$30 per month.

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

The HIC benefit for state employees was last increased from \$2.50 to \$4.00 per year of service effective July 1, 1999. The \$120 maximum cap on the monthly benefit was removed effective

July 1, 2007. Due to the volume of members to whom this applies, the liability generated will be significant, as shown below, but the benefit, that will be provided to the members, even if the COLA is at the maximum 3%, will be \$3.60 per month or \$43 per year in the first year. This would compound over time. Assuming that the COLA on the HIC provided annually was at the maximum of 3%, it would likely take nearly 10 years for the current HIC benefit to increase from the current level of \$4 to \$5 per year of service.



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