Virginia Retirement System 2012 Fiscal Impact Statement

1.	Bill Number	r: HB 7	02				
	House of Orig	in X	Introduced		Substitute		Engrossed
	Second House		In Committee		Substitute		Enrolled
2.	Patron:	Filler-Co	orn				
3.	Committee:	Appropr	riations				
4.	Title:	Health in	nsurance; credi	ts fo	r retired schoo	l divi	ision employees.

- **5. Summary:** Health insurance credits for retired school division employees. Provides that the health insurance credit currently being provided to retired teachers would also be provided to all retired employees of the local school division at the option of the local school division and as a cost borne by the local government.
- **6.** Budget Amendment Necessary: No, this will be funded by local funds only.

7. Fiscal Impact Estimates:

Assuming all school divisions opted for the \$4 per month HIC benefit, the first year cost to increase the HIC from \$1.50 to \$4 would be \$1.1 million for school divisions that currently participate in the program. Similarly, the first year cost to provide a \$4 HIC for localities that do not currently participate in the HIC program is estimated to be \$6.2 million. These costs, however, would be borne by the school divisions that elected to provide the HIC benefit. The table below displays the local cost of providing this benefit to all local school division employees.

	<u>F`</u>	Y13 Cost	<u> </u>	Y14 Cost	<u> </u>	Y15 Cost	FY16 Cost	Į.	FY17 Cost	<u> </u>	Y18 Cost
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		1,097,000		1,097,000		1,097,000	1,097,000		1,097,000		1,097,000
Political Subs - Schools w/o HIC		6,158,000		6,158,000		6,158,000	6,158,000		6,158,000		6,158,000
Political Subs - Non School		-		-		-	-		-		-
TOTAL Local Funds	\$	7,255,000	\$	7,255,000	\$	7,255,000	\$ 7,255,000	\$	7,255,000	\$	7,255,000
Grand Totals	\$	7,255,000	\$	7,255,000	\$	7,255,000	\$ 7,255,000	\$	7,255,000	\$	7,255,000

8. Fiscal Implications: Only local implications.

Since the current health credit of \$1.50 is optional, some local school division employees currently are not receiving any health credit. For those local school divisions that currently provide the \$1.50 HIC, the table below shows the cost to increase the credit from \$1.50 to \$4. For the non-participating groups, the table below presents the cost impact in two steps: first, adopting the plan (\$0 to \$1.50); and then the additional impact of HB 702 (\$1.50 to \$4.00).

The table below presents the estimated cost increase of the proposed benefits for the affected employers. The table, including the payrolls presented, is based on the June 30, 2011 actuarial valuation. For those local school boards that elect to provide the optional increase in the HIC, the cost as a percent of payroll shown in the table below could be used to provide a reasonable estimate of the local school division's cost based on their particular payroll.

			Cost of Proposed HIC Benefit for Local School Divisions with Current HIC Benefit (a)	Cost of Providing Current HIC Benefit for Local School Divisions Not Providing Current HIC Benefit* (b)	Cost of Increase from Current HIC Benefit to Proposed HIC Benefit for Local School Divisions Not Providing Current HIC Benefit (c)	Total Cost of Providing Proposed HIC Benefit for Local School Divisions Not Providing Current HIC Benefit (d) = (b) + (c)	Total Cost of Providing Proposed HIC Benefit for Local School Divisions (e) = (a) + (d)
	(\$)	Impact on HIC cost for first year	\$1,104,817	\$1,618,174	\$4,557,913	\$6,176,087	\$7,280,904
sis		Impact on unfunded accrued liability	\$14,740,164	\$14,044,847	\$68,579,764	\$82,624,611	\$97,364,775
ion Bas		Impact on normal contribution	\$295,826	\$847,343	\$794,022	\$1,641,365	\$1,937,191
5/30/2011 Valuation Basis	Covered payroll for affected employers		\$166,200,020	\$334,612,660	\$334,612,660	\$334,612,660	\$500,812,680
30/2011	yroll)	Impact on HIC cost for first year	0.66%	0.48%	1.36%	1.84%	1.45%
2/9	(% of Covered Payroll)	Impact on unfunded accrued liability	8.87%	4.20%	20.50%	24.70%	19.44%
		Impact on normal contribution	0.18%	0.25%	0.24%	0.49%	0.39%
Plan 2		Impact on normal contribution rate as a percent of payroll	0.17%	0.24%	0.22%	0.46%	0.36%

*Does not include the cost of providing benefits for those members who retired prior to 6/30/2011.

- **9. Specific Agency or Political Subdivisions Affected:** VRS, localities, and local school divisions who have elected VRS coverage for non-professional and local school employees.
- 10. Technical Amendment Necessary: No
- 11. Other Comments: Due to the proposed change, a reduction in the HIC benefit to disabled retirees may result. The current minimum HIC benefit to disabled retirees is \$45 per month (not service based). Under the new proposal, the benefit is service based, and a reduction in benefit may occur for those with service less than 5.625 years. The fiscal impact of this change would be de minimis. A legislative change would be necessary in order to avoid this result.

Date: 01/25/2012

Document: HB702.DOC