

## Virginia Retirement System 2014 Fiscal Impact Statement

1. **Bill Number:** HB 110

**House of Origin** ☒ Introduced ☐ Substitute ☐ Engrossed

**Second House** ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron:** McQuinn

3. **Committee:** Appropriations

4. **Title:** Health insurance; credits for retired school division employees.

5. **Summary:** Expands the recipients of the health insurance credits currently being provided to retired teachers to all retired employees of local school divisions.

6. **Budget Amendment Necessary:** The cost to fund the increased/additional health insurance credit (HIC) will be borne solely by localities.

7. **Fiscal Impact Estimates:** Exhibit 1 below shows both the increase in unfunded liability and the projected increase in annual cost as a percent of covered payroll related to HB 110.

**Exhibit 1**

|   | Unfunded Liability as of June 30, 2013 | Impact of SB 110               |  |
|---|--|--------------------------------|--|
|   |  | Increase in Unfunded Liability | Increase in Annual Cost as Percentage of Covered Payroll |
| <b>Participating School Divisions</b>     | \$ 5,471,806                           | \$ 17,178,223                  | 0.78%  |
| <b>Non-Participating School Divisions</b> | \$ -                                   | \$ 81,990,261                  | 1.83%  |
| <b>Total School Divisions</b>             | \$ 5,471,806                           | \$ 99,168,484                  | 1.47%  |

The cost as a percent of payroll shown in the exhibit above could be used to provide a reasonable estimate of the local school division's cost based on their particular payroll.

Exhibit 2 displays the local cost of providing this benefit to all local school division employees. These costs would be borne by the school divisions.

Exhibit 2

|  | FY15 Cost    | FY16 Cost    | FY17 Cost    | FY18 Cost    | FY19 Cost    | FY20 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 Subdivisions - School Division - HIC     | \$ 1,393,000 | \$ 1,402,000 | \$ 1,411,000 | \$ 1,411,000 | \$ 1,411,000 | \$ 1,411,000 |
| Political Subdivisions - School Division - w/o HIC | \$ 6,224,000 | \$ 6,262,000 | \$ 6,301,000 | \$ 6,301,000 | \$ 6,301,000 | \$ 6,301,000 |
| TOTAL Local Funds                                  | \$ 7,617,000 | \$ 7,664,000 | \$ 7,712,000 | \$ 7,712,000 | \$ 7,712,000 | \$ 7,712,000 |
|  |              |              |              |              |              |              |
| Grand Totals                                       | \$ 7,617,000 | \$ 7,664,000 | \$ 7,712,000 | \$ 7,712,000 | \$ 7,712,000 | \$ 7,712,000 |

Estimated projections based on employee data and valuations results as of June 30, 2013 and assume a level population throughout projection period.

Payroll projections include only known payroll increases; including FY 2014 across the board merit increase and increases for compression for State employees and payroll increases for Teachers & Locals employees transitioning member contribution requirements effective July 1, 2012.

## 8. Fiscal Implications: Only local implications.

Since the current HIC of \$1.50 for local government employees other than teachers is optional, some local school division employees currently are not receiving any HIC.

The bill's enactment clause requires that all eligible retirees, regardless of date of retirement, receive the HIC benefits prospectively beginning July 1, 2014.

## 9. Specific Agency or Political Subdivisions Affected: VRS, localities and local school divisions that will be required to provide this expanded HIC coverage for eligible non-professional school division retirees.

## 10. Technical Amendment Necessary: No.

## 11. Other Comments: This bill would require that school divisions provide the \$4 per year of service HIC benefit under § 51.1-1401 to all retired members of local school divisions with at least 15 years of total creditable service. Eligible employees who retired prior to July 1, 2014, but who did not receive an HIC benefit pursuant to this section prior to that date, however, will only receive the \$4 per year HIC prospectively. Currently, the \$4 per year HIC applies only to teachers. Non-teacher school division employees are currently only eligible for an

HIC benefit of \$1.50 per year of service, capped at \$45.00 per month, if the locality has elected such coverage.

The enactment clause provides that the provisions of this bill shall not apply to any local school division employee who retired on disability prior to July 1, 2014 if the provisions of this bill would reduce the monthly HIC currently payable to such former member. This would preclude the potential for certain members who retire on disability with fewer years of service than required to equate to a \$45 HIC benefit to receive a lower amount of HIC than provided for in § 51.1-1402. Local school division employees who retire on disability after July 1, 2014, or members of the hybrid retirement plan on and after January 1, 2014 who are on long-term disability, would receive the HIC as calculated under the provisions of § 51.1-1401.

HB 110 amends § 51.1-1400(C) to clarify that the HIC of a former state employee who subsequently works for a local government is calculated based on his or her state service or service as a local school division employee (not just as a teacher), whichever is greater.

The bill also contains an amendment that removes a cross reference to § 51.1-1401 from § 51.1-1400. The cross reference to § 51.1-1401 is no longer necessary as the HIC provided for under § 51.1-1401 is not optional and no election is applicable.

**Date:** 01.15.2014

**Document:** HB110.DOC