

Department of Planning and Budget 2019 Fiscal Impact Statement

1. **Bill Number:** HB1857

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. **Patron:** McQuinn

3. **Committee:** Appropriations

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

5. **Summary:** Requires school divisions to provide a health insurance credit of \$4 per year of service to all retired members of local school divisions with at least 15 years of total creditable service. Currently, the \$4 per year of service health insurance credit is provided only to teachers, and non-teacher school division employees are eligible for a credit of \$1.50 per year of service, capped at \$45 per month, if the locality has elected such coverage. An enactment clause provides that this measure does not apply to any local school division employee who retired on disability prior to July 1, 2019, if this measure would reduce the monthly credit currently payable to such former member. Eligible employees who retired prior to July 1, 2019, but who did not receive a health insurance credit prior to that date will only receive the \$4 per year of service health insurance credit prospectively.

6. **Budget Amendment Necessary:** Yes, Items 136 and 486.

7. **Fiscal Impact Estimates:** Preliminary. See Item 8.

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2019	\$90,000	0	Nongeneral Fund (VRS)
2020	\$2.7 million	0	General Fund (Direct Aid)

8. **Fiscal Implications:** Based on HB1700, 2019 General Assembly Session, the Department of Education estimates an additional state general fund cost of \$2.7 million in FY 2020 to provide the state share of the \$4.00 per year of service health insurance credit (HIC) for funded Standards of Quality (SOQ) Non-Professional positions. Any state cost in future years cannot be determined at this time and would be based on the Direct Aid to Public Education budget as rebenchmarked for future biennia.

Pursuant to § 51.1-1401, Code of Virginia, the Commonwealth provides payments to localities for the state share of the \$4.00 per year of service retiree HIC for funded SOQ teachers. Section 51.1-124.3, Code of Virginia, defines teacher as any person who is regularly employed full time on a salaried basis as a professional or clerical employee of a county, city, or other local public school board. Furthermore, Item 136.C.2.b of HB1700, 2019 General Assembly Session, indicates that this Item includes payments for the state share of the HIC for funded SOQ instructional positions, distributed based on the composite index of local ability-to-pay. If the

intent of this bill is for the Commonwealth to provide payments to localities for the state share of the \$4.00 per year of service HIC for all funded SOQ positions, budget language in Item 136 also will need to be modified to include all such positions.

For employees who meet the Code definition of teacher, the SOQ model uses an Instructional and Professional Virginia Retirement System (VRS) rate and HIC to calculate the state share of payments for funded SOQ positions. In HB1700, 2019 General Assembly Session, the 2018-2020 biennium funded SOQ Instructional and Professional VRS and HIC rates are 15.68% and 1.20%, respectively.

For employees who do not meet the Code definition of teacher, the SOQ model uses a Non-Professional VRS rate. The Non-Professional VRS rate is a statewide prevailing rate used only for state funding purposes. The actual rate charged by VRS for these employees varies by school division. In HB1700, 2019 General Assembly Session, the 2018-2020 biennium funded SOQ Non-Professional VRS rate is 6.28%. Pursuant to current language, the SOQ model does not fund a HIC for Non-Professional employees.

As calculated by VRS, the aggregate rate for all local school divisions to provide the \$4.00 per year of service HIC for Non-Professional positions is 1.72% of covered payroll in FY 2020. Because the Commonwealth currently does not provide payments for the state share of the HIC for these employees, this rate represents the total cost of the \$4.00 credit for local non-teacher plans and does not account for any funding that local employers contribute to the current optional credit of \$1.50 per year of service for these positions.

VRS anticipates that implementation of this bill will cost approximately \$88,549 for one-time programming in current systems to update current retirees who become eligible, one temporary wage employee, programming in the client server system, updating printed handbooks as required by Chapter 10 of Title 51.1, and increased employer outreach. A nongeneral fund appropriation is necessary for VRS to implement the provisions of this bill.

Localities also will incur increased costs as a result of this bill. Exhibit 1 below shows both the increase in unfunded liability and the projected increase in annual cost as a percentage of covered payroll related to this bill in aggregate for the 133 employers of local school divisions.

Exhibit 1

Local HIC - Impact of HB1857				
Employer Group	Number	Unfunded Liability as of June 30, 2018	Increase in Unfunded Liability	Increase in Annual Cost as Percentage of Covered Payroll
Participating School Divisions	35	\$ 5,355,700	\$ 19,943,600	0.89%
Non-Participating School Divisions	98	\$ -	\$ 83,673,100	2.26%
Total School Divisions	133	\$ 5,355,700	\$ 103,616,700	1.72%

Each of the HIC plans for local employers is an individually rated plan, so the impact of this bill will differ for each employer. The cost as a percentage of covered payroll shown in the exhibit above could be used to provide a reasonable estimate of an average local school division's approximate cost based on its specific payroll.

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 provides that all eligible retirees, regardless of retirement date, receive the HIC benefits (or increased benefits) prospectively only, beginning July 1, 2019.

For localities to provide the \$4.00 per year of service HIC to all school division employees, VRS estimates an additional local cost of \$9.4 million in FY 2020 and subsequent years. Of this amount, the cost to political subdivisions-schools that currently offer the optional HIC is approximately \$1.9 million per year, and the cost to political subdivisions-schools that currently do not offer the optional HIC is approximately \$7.5 million per year. Exhibit 2 below displays the local cost of providing this benefit to all school division employees. These costs would be borne by the individual school divisions.

Exhibit 2

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
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	1,915,000	1,915,000	1,915,000	1,915,000	1,915,000	1,915,000
Political Subs - Schools w/o HIC	7,484,000	7,484,000	7,484,000	7,484,000	7,484,000	7,484,000
Political Subs - Non School	-	-	-	-	-	-
TOTAL Local Funds	\$ 9,399,000	\$ 9,399,000	\$ 9,399,000	\$ 9,399,000	\$ 9,399,000	\$ 9,399,000
Grand Totals	\$ 9,399,000	\$ 9,399,000	\$ 9,399,000	\$ 9,399,000	\$ 9,399,000	\$ 9,399,000

Estimated projections based on employee data and valuation results as of June 30, 2018 and assume a level population throughout projection period.

Payroll projections for political subdivisions include a 2.5% increase applicable July 1, 2019. Payroll beyond 2020 is assumed to remain level throughout projection period.

9. Specific Agency or Political Subdivisions Affected: Department of Education, Virginia Retirement System, localities, local school divisions

10. Technical Amendment Necessary: No

11. Other Comments: None