

Virginia Retirement System 2019 Fiscal Impact Statement

1. Bill Number: SB 1122

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: Ruff

3. Committee: Finance

4. Title: Virginia Retirement System; health insurance credits for retired state employees

5. Summary: The bill 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. The bill 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 January 1, 2020.

6. Budget Amendment Necessary: Item 488. VRS would require a NGF appropriation to cover implementation costs of approximately \$113,000 for system programming and communications efforts necessary to implement this legislation.

7. Fiscal Impact Estimates: The bill applies to any state employee who rendered 30 or more years of creditable service in the VRS or any state employee receiving long-term disability. As of June 30, 2018, approximately 48% of the combined retiree, deferred vested, and disabled state employee population would be eligible for the proposed increase to the HIC under the provisions of the bill. In addition, nearly 8,200 active state employees, or approximately 8.0% of the entire active state VRS-covered workforce, already have 30 or more years of service as of June 30, 2018.

Exhibit 1 Health Insurance Credit - State Employees

Employee Type	Total	Less than 30 Years of Service	30 or More Years of Service	Percentage with 30 or More Years of Service
Active Members	107,234	99,011	8,223	7.7%
Retirees, Deferred Vested, Disabled *	49,313	25,539	23,774	48.2%

State employees includes State, SPORS, VaLORS, JRS, ORP and UVA.

* Disability retirements are included in the "30 or More Years of Service" as they are granted COLA under the bill.

As of June 30, 2018 the State HIC program had \$996 million in accrued liabilities and \$96 million in assets, with a funded status of 9.7%. Exhibit 2 below shows the impact to the unfunded liability and the cost impact as a percent of covered payroll if the legislation were implemented.

Exhibit 2

	Current State HIC	State HIC after Proposed Legislation	Change
Unfunded Actuarial Accrued Liability	\$899,365,000	\$977,800,000	\$78,435,000
Funded Status	9.67%	8.96%	-0.71%
Cost as a % of Payroll	1.15%	1.25%	0.10%
Estimated Expected Contributions	\$78,799,000	\$85,651,000	\$6,852,000

Exhibit 3 shows the estimated future cost impacts associated with the bill.

Exhibit 3

	<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	\$ 1,818,000	\$ 1,818,000	\$ 1,818,000	\$ 1,818,000	\$ 1,818,000	\$ 1,818,000
SPORS - General Fund	113,000	113,000	113,000	113,000	113,000	113,000
VaLORS - General Fund	328,000	328,000	328,000	328,000	328,000	328,000
JRS - General Fund	69,000	69,000	69,000	69,000	69,000	69,000
ORP/UVA - General Funds	740,000	740,000	740,000	740,000	740,000	740,000
TOTAL General Fund	\$ 3,068,000	\$ 3,068,000	\$ 3,068,000	\$ 3,068,000	\$ 3,068,000	\$ 3,068,000
State - Non-General Funds	\$ 2,494,000	\$ 2,494,000	\$ 2,494,000	\$ 2,494,000	\$ 2,494,000	\$ 2,494,000
SPORS - Non-General Funds	18,000	18,000	18,000	18,000	18,000	18,000
VaLORS - Non-General Funds	30,000	30,000	30,000	30,000	30,000	30,000
ORP/UVA - Non-General Funds	1,242,000	1,242,000	1,242,000	1,242,000	1,242,000	1,242,000
TOTAL - Non-General Funds	\$ 3,784,000	\$ 3,784,000	\$ 3,784,000	\$ 3,784,000	\$ 3,784,000	\$ 3,784,000
Grand Totals	\$ 6,852,000	\$ 6,852,000	\$ 6,852,000	\$ 6,852,000	\$ 6,852,000	\$ 6,852,000

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

Payroll projections include a 2% increase for State, SPORS, VaLORS, and JRS effective July 1, 2019 as well as additional 2% for members with three or more years of service. Payroll projections for ORP/UVA include a 2.5% increase applicable July 1, 2019. Payroll beyond 2020 is assumed to remain level throughout projection period.

8. Fiscal Implications: See Fiscal Impact Estimates above.

9. Specific Agency or Political Subdivisions Affected: VRS, state agencies, state employees who retire with at least 30 years of service, and state employees on long-term disability.

10. Technical Amendment Necessary: Since the changes proposed in the bill affect only the HIC benefits set forth in § 51.1-1400 of the *Code of Virginia*, they do not appear to apply a cost-of-living adjustment to the HIC benefits set forth in Item 474 of the Governor's proposed budget (HB 1700 and SB 1100). If the intent is otherwise, additional language will be necessary.

11. Other Comments: For all state employees who retire with at least 30 years of creditable service, this bill would increase the HIC, currently \$4 per year of service for state retirees with at least 15 years of service, by the amount of the cost of living (COLA) increase as calculated for Plan 2 and Hybrid Plan retirees. That formula is the annual increase, if any, in the U.S. Bureau of Labor Statistics' Consumer Price Index for all Urban Consumers (CPI-U) only to the extent of the first two percent plus one-half of the next two percent of any additional increase, or a maximum increase of three percent in any given year. As a reference, the historical COLA rates under this formula are set out below.

Year	Plan 2 & Hybrid Percent COLA
2018	2.07
2017	1.26
2016	0.12
2015	1.62
2014	1.46
2013	2.04
2012	2.58
2011	1.28
2010	0

The bill is identical to HB 2152 and SB 1332.

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