

Virginia Retirement System 2020 Fiscal Impact Statement

1. Bill Number: SB 1057

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 and Appropriations

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, 2021.

6. Budget Amendment Necessary: Item 494. VRS would require a NGF appropriation to cover implementation costs of approximately \$23,000 in Fiscal Year 2020, and \$123,000 in Fiscal Year 2021 for system programming and communications efforts necessary to implement this legislation. This does not include impact to current or future contribution rates or to the funded status of the plans, which are discussed below.

7. Fiscal Impact Estimates: The bill applies to any state employee who rendered 30 or more years of creditable service in VRS or any state employee receiving long-term disability. As of June 30, 2019, approximately 52% 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 7.6% of the entire active state VRS-covered workforce, already have 30 or more years of service as of June 30, 2019.

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	106,948	98,805	8,143	7.61%
Retirees, Deferred Vested, Disabled*	53,034	25,501	27,533	51.92%

As of June 30, 2019 the State HIC program had \$1,026,752,000 in accrued liabilities and \$109,417,000 in assets, with a funded status of 10.66%. 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	\$917,335,000	\$998,221,000	\$80,886,000
Funded Status	10.66%	9.88%	-0.78%
Cost as a % of Payroll	1.12%	1.22%	0.10%
Estimated Expected Contributions	\$77,364,000	\$84,272,000	\$6,908,000

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

Exhibit 3

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State - General Fund	\$ 1,690,000	\$ 1,690,000	\$ 1,690,000	\$ 1,690,000	\$ 1,690,000	\$ 1,690,000
SPORS - General Fund	114,000	114,000	114,000	114,000	114,000	114,000
VaLORS - General Fund	336,000	336,000	336,000	336,000	336,000	336,000
JRS - General Fund	77,000	77,000	77,000	77,000	77,000	77,000
ORP/UVA - General Funds	723,000	723,000	723,000	723,000	723,000	723,000
TOTAL General Fund	\$ 2,940,000	\$ 2,940,000	\$ 2,940,000	\$ 2,940,000	\$ 2,940,000	\$ 2,940,000
State - Non-General Funds	\$ 2,685,000	\$ 2,685,000	\$ 2,685,000	\$ 2,685,000	\$ 2,685,000	\$ 2,685,000
SPORS - Non-General Funds	19,000	19,000	19,000	19,000	19,000	19,000
VaLORS - Non-General Funds	34,000	34,000	34,000	34,000	34,000	34,000
ORP/UVA - Non-General Funds	1,230,000	1,230,000	1,230,000	1,230,000	1,230,000	1,230,000
TOTAL - Non-General Funds	\$ 3,968,000	\$ 3,968,000	\$ 3,968,000	\$ 3,968,000	\$ 3,968,000	\$ 3,968,000
Grand Totals	\$ 6,908,000	\$ 6,908,000	\$ 6,908,000	\$ 6,908,000	\$ 6,908,000	\$ 6,908,000

Estimated projections based on employee data and valuation results as of June 30, 2019 and assume a level population throughout projection period.
Payrolls beyond 2021 are 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:** No.
- 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
2019	2.22
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 SB1013, which has been referred to Commerce and Labor.

Date: 01-22-2020

Document: SB1057.DOC/VRS