

Virginia Retirement System

2023 Fiscal Impact Statement

1. **Bill Number:** HB 1789

House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed
Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron:** Filler-Corn

3. **Committee:** Appropriations

4. **Title:** Health insurance credits for retired constitutional officers, employees of constitutional officers, general registrars, employees of general registrars, and local social services employees.

5. **Summary:** Raises the amount of monthly health insurance credits received by retired constitutional officers and their employees, with a minimum of 15 years of creditable service from \$1.50 to \$4.00 per month per year of creditable service with no cap or, in the case of retirement for disability, the greater of \$120 per year or \$4.00 per month per year of creditable service.

6. **Summary of Impacts**

Benefit(s) impacted: Increases the Health Insurance Credit for retired constitutional officers and their employees with a minimum of 15 years of creditable service from \$1.50 to \$4.00 per month per year of creditable service with no cap; the HIC for general registrars and their employees, and local social services employees remains at \$1.50 per year for those who retire with a minimum of 15 years of creditable service.

Impact to unfunded liability (see Item 9 for details): Adds \$60.0 million to unfunded liabilities of the constitutional officers' health insurance credit plan.

Impact to contribution rate(s) (see Item 9 for details): Increases contribution rates for the constitutional officers' health insurance credit plan requiring an estimated increase in annual contributions of \$5.4 million per year.

Specific Agency or Political Subdivisions Affected (see Item 10): The Compensation Board, VRS and local entities who employ constitutional officers. The costs will vary from employer to employer given their individual staffing levels.

VRS cost to implement (see Item 7 and Item 8 for details): Approximately \$140,000 NGF in FY 2023.

Employer cost to implement (see Item 7 and Item 8 for details): Expected to have minimal costs to employers for implementation.

Other VRS and employer impacts (see Item 7, Item 9, Item 11, and Item 12 for details):

VRS will incur administrative costs to implement the bill, primarily for communications to employers and participants, and handbook and website changes. VRS would also incur programming changes related to the new plan provisions.

GF budget impacts (see Item 8 for details): Approximately \$5,434,000 increase in FY 2024 for the increase in employer contribution costs for the change in HIC.

NGF budget impacts (see Item 8 for details): Approximately \$140,000 NGF in FY 2023 for VRS implementation.

7. Budget Amendment Necessary: Yes.

Item 483. The constitutional officers' HIC plan will require an additional \$5.4 million GF in FY 2024 and future years.

Item 498. VRS would require a NGF appropriation to cover implementation costs of approximately \$140,000 in FY 2023 for system programming and communications efforts necessary to implement this legislation. This does not include the impact to current or future contribution rates or to the funded status of the plan, which are discussed below.

8. Fiscal Impact Estimates:

Fiscal Impact Estimates/Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>General Fund</i>	<i>Non-General Fund & Local Funds</i>
2023	\$140,000		\$0	\$140,000
2024	\$5,434,000		\$5,434,000	0
2025	\$5,434,000		\$5,434,000	\$0
2026	\$5,434,000		\$5,434,000	\$0
2027	\$5,434,000		\$5,434,000	\$0
2028	\$5,434,000		\$5,434,000	\$0
2029	\$5,434,000		\$5,434,000	\$0

A more detailed breakdown of estimated costs is shown in Item 9 below.

9. Fiscal Implications

Effective July 1, 2023, the bill provides an HIC benefit increase to active, inactive, and retired constitutional officers and their employees with 15 or more years of total creditable service from the current \$1.50 to \$4 per year of creditable service with no cap.

Additionally, monthly HIC benefits for eligible constitutional officers and their employees receiving disability income from an eligible VRS plan (either disability retirement or long-term disability) would be increased to the greater of:

- \$120;
- \$4 per year of creditable service at the time of disability retirement; or

- \$4 per year for each year of creditable service at the time of eligibility for long-term disability

The proposed increase in the HIC benefit to \$4 with no cap would add \$60.0 million to the unfunded liabilities of the constitutional officers' HIC plan. The change would lower the funded status of the constitutional officers HIC plan as shown in Exhibit 1 below, making the plan essentially "pay-as-you-go." If the plan becomes pay-as-you-go, this will likely necessitate use of a surcharge or require additional funding to ensure adequate resources are available to pay benefits.

Exhibit 1

Estimated Impact on Funded Status of Proposed \$4 HIC		
Employer Group	Funded Status as of June 30, 2022	Funded Status Under Proposed Legislation
Constitutional Officers	22.9%	8.2%

The annual increase in required funding would be approximately \$5.4 million. This is paid by the Commonwealth, however we are aware that the costs of these benefits are offset against other funding provided to localities for constitutional officer positions. This legislation could impact local funding, but the impact will vary among localities given their individual staffing levels. Exhibit 2 below shows the impact to unfunded liability and the cost impact as a percent of payroll for the constitutional officers' health insurance credit plan.

Exhibit 2

Estimated Impact On Unfunded Liability and Annual Funding of Proposed \$4 HIC				
Employer Group	Unfunded Liability as of June 30, 2022	Increase in Unfunded Liability	Increase in Annual Cost as Percentage of Covered Payroll	Estimated Increase in Annual Funding
Constitutional Officers	\$25,605,000	\$59,967,000	0.66%	\$5,434,000

Exhibit 3 shows the estimated future cost impacts associated with increasing the HIC benefit to \$4 for constitutional officers and their employees with 15 or more years of total creditable service without a cap.

Exhibit 3

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
State - General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	-	-	-	-	-	-
ValORS - General Fund	-	-	-	-	-	-
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
Constitutional Officers - HIC	5,434,000	5,434,000	5,434,000	5,434,000	5,434,000	5,434,000
Social Services Employees - HIC	-	-	-	-	-	-
General Registrars - HIC	-	-	-	-	-	-
TOTAL General Fund	\$ 5,434,000	\$ 5,434,000	\$ 5,434,000	\$ 5,434,000	\$ 5,434,000	\$ 5,434,000
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	-	-	-	-	-
ValORS - Non-General Funds	-	-	-	-	-	-
TOTAL - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools	-	-	-	-	-	-
Political Subs - Non-schools	-	-	-	-	-	-
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ 5,434,000	\$ 5,434,000	\$ 5,434,000	\$ 5,434,000	\$ 5,434,000	\$ 5,434,000

Estimated projections based on employee data and valuation results as of June 30, 2022 and assume a level population throughout projection period.

Payrolls are based on rate in effect on June 30, 2022 and are assumed to remain level beyond 2024 through remainder of the projection period.

It should be noted that the introduced budget includes an additional cash infusion in an amount estimated at \$91,992 for the Health Insurance Credit plan for constitutional officers for June 2023. The introduced budget also includes an additional contribution scheduled for June 2024 of \$1.5 million for the constitutional officers HIC plan. These additional

contributions were proposed to help bring the funding level of this plan up from its current level.

The liabilities generated by changing the HIC benefit from \$1.50 to \$4.00 for the local constitutional officers would far outweigh the proposed cash infusions shown below that are intended to improve the funded status of this plan.

Exhibit 4- Proposed Cash Infusions included in Budget Bill

HIC Plan	Proposed Cash Infusion in June 2023	Proposed Cash Infusion in June 2024	Total Proposed Cash Infusions
Constitutional Officers	\$91,992	\$1,576,017	\$1,668,009

10. Specific Agency or Political Subdivisions Affected: VRS and political subdivisions that have constitutional officers.

11. Technical Amendment Necessary: Yes. VRS is requesting a delayed effective date of January 1, 2024 for the bill. A delayed effective date of January 1, 2024 for this bill will allow time for necessary systems adaptations along with necessary system validation testing. A delayed effective date will also allow for communications and outreach to affected employees and employers and updating web and handbook content. As VRS is implementing major legislation from the 2022 session as well as several critical infrastructure initiatives, and a large number of VRS-related pieces of legislation are being proposed this year, additional time is needed in order to provide for the effective implementation of concurrent legislative initiatives.

12. Other Comments: The bill provides for an increase in the HIC for local constitutional officers and their employees from the current \$1.50 per year of service with a \$45 cap to \$4.00 per year of service with no cap. In order to qualify for the HIC, members must have at least 15 years of creditable service. The bill does not increase the HIC amount for general registrars and their employees and local social services employees.

Additionally, monthly benefits for those eligible local constitutional officers and employees receiving disability income from an eligible VRS plan (either disability retirement or long-term disability) would be increased to the greater of:

- \$120;
- \$4 per year of creditable service at the time of disability retirement; or
- \$4 per year for each year of creditable service at the time of eligibility for long-term disability

Subsection B of § 51.1-1403, which allows a local employer that participates in the Virginia Retirement System to provide an additional HIC benefit of \$1 per month, is amended so that no employer may provide an additional \$1 per month for local constitutional officers and

their employees. The cost impacts provided in this impact statement only reflect the increase from the current \$1.50 to \$4 for local constitutional officers and their employees.

The HIC was first provided effective July 1, 1992 for local employees with at least 15 years of creditable service whose employers elected to provide the benefit. The amount at that time was \$1.50 per year of creditable service, with a monthly cap of \$45, and has remained unchanged since then. As of July 1, 1999, the \$1.50 HIC capped at \$45 was extended to sheriffs, sheriffs' deputies, constitutional officers, and local social service retirees with at least 15 years of creditable service. The HIC benefit is intended to help defray the cost of health care coverage for the retiree only.

The chart below shows the current HIC dollar amounts for eligible retirees.

Eligible Retirees	Service Retirement		Maximum Credit
	Credit Amount per Year of Service	Disability Retiree and Long-Term Disability	
State employees	\$4.00	\$120 or \$4 per year of service, whichever is greater	No Maximum
Teachers	\$4.00	\$4 x the smaller of (a) twice the amount of service credit or (b) the amount of service that would have been earned had the member remained an active employee until age 60	No Maximum
Other school division employees (non-teachers)	\$1.50 Localities may elect to provide an additional \$1.00 per month for each year of service	\$1.50 multiplied by the smaller of (a) twice the amount of service credit or (b) the amount of service that would have been earned had the member remained an active employee until age 60	No Maximum
General registrars and their employees; constitutional officers and their employees; local social service employees	\$1.50	\$45.00	\$45.00

General registrars and their employees; constitutional officers and their employees; local social service employees if political subdivision elects \$1.00 enhancement	\$2.50	\$75.00	\$75.00
Other political subdivision employees as elected by the employer, such as school support personnel	\$1.50	\$45.00	\$45.00

Date: 1/17/2023

Document: HB1789.DOC/VRS