

Virginia Retirement System

2023 Fiscal Impact Statement

1. **Bill Number:** HB 1789 H1

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

2. **Patron Prior to Substitute:** Filler-Corn

3. **Committee:** Appropriations

4. **Title:** Health insurance credits for certain local officials and employees.

5. **Summary:** The substitute increases annually the amount of the health insurance credit (HIC) received by retired constitutional officers and their employees who rendered at least 30 years of creditable service, as well as such officers and employees receiving long-term disability or retired for disability as described in § 51.1-1403. The substitute 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 pursuant to § 51.1-166. The substitute is effective July 1, 2024.

6. Summary of Impacts

Benefit(s) impacted: Increases annually the amount of health insurance credits received by retired constitutional officers and their employees with a minimum of 30 years of creditable service. The substitute also increases the HIC for such officers and employees receiving long-term disability or retired for disability as described in § 51.1-1403. The substitute increases the HIC by the same percentage as any annual post-retirement supplement (cost of living adjustment, or COLA) that is calculated for employees hired on or after July 1, 2010 (Plan 2) pursuant to § 51.1-166.

Impact to unfunded liability (see Item 9 for details): Adds \$6.5 million to unfunded liabilities of the constitutional officers' HIC plan.

Impact to contribution rate(s) (see Item 9 for details): Increases contribution rates for the constitutional officers' HIC plan requiring an estimated increase in annual contributions of \$659,000 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 \$31,600 NGF in FY 2023 and \$158,200 in FY 2024, and approximately an additional \$36,400 each year thereafter. This includes additional actuarial fees for annual HIC valuations that will depend in part on the resources required for the additional analysis for the separate group described

in the substitute as the substitute adds complexity to the cost allocation component of the valuation process.

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 substitute for communications to employers and participants and handbook and website changes. VRS would also be required to implement extensive programming changes and incur higher actuarial fees related to the new plan provisions in the substitute. The higher actuarial fees will be ongoing.

GF budget impacts (see Item 8 for details): Approximately \$659,000 increase in FY 2024 and successive years for the increase in employer contribution costs.

NGF budget impacts (see Item 8 for details): Approximately \$31,600 NGF in FY 2023 and \$158,200 in FY 2024 and at least an additional \$36,400 each year thereafter for VRS implementation. The additional actuarial fees for annual HIC valuations will depend in part on the resources required for the additional analysis that cannot be determined at this time. The increased annual fees for the actuarial valuation of the HIC plan are estimated at \$36,400, but may be higher, and will be ongoing.

7. Budget Amendment Necessary: Yes.

Item 483. The constitutional officers' HIC plan will require an additional \$659,000 GF in FY 2024 and future years.

Item 498. VRS implementation costs are estimated to be approximately \$31,600 in FY 2023 and \$158,200 in FY 2024, and at least an additional \$36,400 each year thereafter. This does not include the impact to current or future contribution rates or to the funded status of the plan, which are discussed below. The estimated costs take into account system changes that would need to be made upon the effective date of the legislation as well as communications to employers and participants and website changes. There will also be additional actuarial fees for annual HIC valuations that will depend in part on the resources required for additional analysis that cannot be determined as this time. The increased annual fees for the actuarial valuation of the HIC plan is estimated to be \$36,400, but may be higher, and will be ongoing.

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	\$31,600		\$0	\$31,600
2024	\$817,200		\$659,000	\$158,200
2025	\$695,400		\$659,000	\$36,400
2026	\$695,400		\$659,000	\$36,400

2027	\$695,400		\$659,000	\$36,400
2028	\$695,400		\$659,000	\$36,400
2029	\$695,400		\$659,000	\$36,400

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

- 9. Fiscal Implications:** Effective July 1, 2024, the substitute increases the amount of the monthly health insurance credit received by retired constitutional officers and their employees with a minimum of 30 years of creditable service. The substitute also increases the amount of the HIC for such officers and employees receiving long-term disability or retired for disability as described in § 51.1-1403. The substitute 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 pursuant to § 51.1-166.

The proposed annual increase in the HIC for retired constitutional officers and their employees with at least 30 years of service would add approximately \$6.5 million to the unfunded liabilities of the constitutional officers' HIC plan. As of June 30, 2022, the plan had assets of \$7.6 million against liabilities of \$33.2 million, leaving unfunded liabilities of over \$25.6 million. The change would lower the funded status of the plan to approximately 19.1% as shown in Exhibit 1.

Exhibit 1

Estimated Impact on Funded Status of HIC COLA for members with at least 30 years of service			
Employer Group	Funded Status as of June 30, 2022	Funded Status Under Proposed Legislation	Change in Funded Status
Constitutional Officers	22.9%	19.1%	-3.8%

The annual increase in required funding would be approximately \$659,000. 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' HIC plan.

Exhibit 2

Estimated Impact On Unfunded Liability and Annual Funding of Proposed HIC COLA for members with at least 30 years of service				
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	\$6,551,000	0.08%	\$659,000

Exhibit 3 shows the estimated future cost impacts associated with increasing the HIC annually by the Plan 2 COLA for retired constitutional officers and their employees with 30 or more years of total creditable service.

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	659,000	659,000	659,000	659,000	659,000	659,000
Social Services Employees - HIC	-	-	-	-	-	-
General Registrars - HIC	-	-	-	-	-	-
TOTAL General Fund	\$ 659,000	\$ 659,000	\$ 659,000	\$ 659,000	\$ 659,000	\$ 659,000
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	\$ 659,000	\$ 659,000	\$ 659,000	\$ 659,000	\$ 659,000	\$ 659,000

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 HIC plan for constitutional officers for June 2023. The introduced budget also includes an additional contribution scheduled for June 2024 of \$1.5 million for this plan. These additional contributions were proposed to help bring the funding level of this plan up from its current level.

The liabilities generated by increasing the HIC annually by the Plan 2 COLA, \$6.5 million for the local constitutional officers who retire with a minimum of 30 years of service, as the

substitute does, outweigh the proposed infusions of \$1.7 million, which were 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: The Compensation Board, VRS and political subdivisions that have constitutional officers.

11. Technical Amendment Necessary: Yes.

VRS has calculated the costs assuming that the effect of the COLA will be compounded over time, consistent with other VRS COLA provisions. However, the substitute for HB 1789 uses language that could be interpreted to mean that the annual increase in the HIC will always be calculated on the existing \$1.50 credit. Specifically, the language in the HB 1789 substitute provides that the HIC will consist of “the amount provided by clause (i) [of § 51.1-1403(A)] plus an annual increase by the same percentage as any annual post-retirement supplement for retirees[.]” The amount provided by clause (i) is the current \$1.50 HIC. Thus, as written, the substitute arguably provides that the annual increase must be calculated each year using the \$1.50 credit as the basis for the calculation.

This language also differs from the language used in the substitute for a similar bill, HB 2314. That substitute also provides for the same annual increase in the HIC, but only applies to state retirees. That language provides that “the amount of each such monthly health insurance credit payable under this section for retirees who rendered at least 30 years of total creditable service under the Retirement System shall be increased annually by the same percentage as any annual post-retirement supplement for retirees[.]” Thus, the language in the HB 2314 substitute clearly provides that the annual increase in the HIC will be compounded over time.

Amending the substitute for HB 1789 at Line 21 and Line 29 to mirror the language in the HB 2314 substitute would clarify that the annual increase in the HIC for retired constitutional officers and their employees would be compounded over time and would provide language that is consistent with similar legislation (HB 2314). Otherwise, with different language, the statutes appear to provide different methods for calculating the annual increases and therefore could generate different outcomes. Further, amending the language to provide a compound COLA would be consistent with other existing COLA provisions in Title 51.1.

12. Other Comments: The substitute increases the amount of the monthly HIC received by retired local constitutional officers and their employees with a minimum of 30 years of creditable service by applying the Plan 2 COLA amount, as provided by § 51.1-166. The substitute also increases the amount of the HIC for such officers and employees receiving

long-term disability or retired for disability as described in § 51.1-1403 by applying the Plan 2 COLA. The substitute increases the HIC by the same percentage as any post-retirement supplement that is calculated for employees hired on or after July 1, 2010 under § 51.1-166.

The substitute does not increase the HIC amount for general registrars and their employees and local social services employees.

The HIC is intended to help defray the cost of the state retiree health benefits program or the cost of an alternative personal health insurance plan for retiree-only coverage. The HIC was first provided, effective January 1, 1990, for state retirees with at least 15 years of creditable service. The amount at that time was \$1.50 per year of creditable service, with a monthly cap at the lower of \$45 or the cost of the insurance premium. The HIC for state retirees increased to \$2.50 effective July 1, 1993. It was last increased effective July 1, 1999, when it was increased from \$2.50 to \$4.00 and capped at \$120 per month. Finally, the \$120 cap was eliminated effective July 1, 2007.

The HIC was first provided, effective July 1, 1992 for teachers and for local employees with at least 15 years of creditable service whose employers elected to provide the benefit. The amount of the HIC for teachers and local employees at that time was \$1.50 per year of creditable service, with a monthly cap of \$45. The HIC for teachers was increased in 1999 to \$2.50. In 2007 the HIC for teachers was increased to \$4 and the cap was removed. The amount of the HIC for local employees has remained unchanged since 1992. However, beginning in 1998 employees, including local employees, could receive the HIC toward insurance of their own choosing rather than only for employer-sponsored health insurance.

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. Further, effective July 1, 1999, localities could elect to provide retired constitutional officers and general registrars as well as employees of local social services boards an enhanced HIC of \$1 per month per year of service, not to exceed \$30 per month. In 2000, employees of constitutional officers became eligible for the HIC of \$1.50 per month per year of service, capped at \$45.

As of July 1, 2021, the \$1.50 HIC was extended to school division employees other than teachers, with the option for localities to elect to provide an enhanced HIC of \$1 per year of service per month, not to exceed \$30 per month.

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

The substitute is similar to HB 2314 for state retirees.

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