

Virginia Retirement System

2023 Fiscal Impact Statement

1. **Bill Number:** HB 1789 S1

House of Origin ☐ Introduced ☐ Substitute ☐ Engrossed

Second House ☐ In Committee ☒ Substitute ☐ Enrolled

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

3. **Committee:** Finance and 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:** Beginning July 1, 2024, raises the amount of monthly health insurance credits (HIC) received by retired constitutional officers and their employees with a minimum of 15 years of creditable service from \$1.50 to \$1.75 per month per year of creditable service not to exceed \$52.50 per month.

6. **Summary of Impacts**

Benefit(s) impacted: The substitute increases the health insurance credit (HIC) for retired constitutional officers and their employees with a minimum of 15 years of creditable service from \$1.50 to \$1.75 per month per year of creditable service not to exceed \$52.50. In the case of retirement for disability, the substitute increases the HIC to \$52.50 per month. 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 \$5.5 million to unfunded liabilities of the constitutional officers' health insurance credit plan. The cash infusions included in the introduced budget for June 2023 and June 2024 will partially offset the increase in liability from the substitute and provide a net increase in liability of approximately \$3.9 million.

Impact to contribution rate(s) (see Item 9 for details): The cash infusions included in the introduced budget partially offset the increase in contribution rates for the constitutional officers' health insurance credit plan under the substitute. The substitute will require an estimated increase in annual contributions of \$390,000 per year.

Specific Agency or Political Subdivisions Affected (see Item 10): The Compensation Board, VRS and political subdivisions that have 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 \$8,800 NGF in FY 2023 and \$70,500 NGF in FY 2024.

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, 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): None at this time. Since the substitute is effective July 1, 2024, any increase in employer contribution rates for the change in HIC will be included in the contribution rates for the biennium beginning in FY 2025.

NGF budget impacts (see Item 8 for details): Approximately \$8,800 NGF in FY 2023 and \$70,500 NGF in FY 2024 for VRS implementation.

7. Budget Amendment Necessary: Yes.

Item 498. VRS would require a NGF appropriation to cover implementation costs of approximately \$70,500 in FY 2024 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 in section 9.

8. Fiscal Impact Estimates: A detailed breakdown of estimated costs for the substitute is shown in section 9.

9. Fiscal Implications: Effective July 1, 2024, the substitute 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 \$1.75 per year of creditable service not to exceed \$52.50.

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 \$52.50.

It should be noted that the introduced budget includes additional cash infusions for the HIC plan for constitutional officers. These additional contributions were proposed to help bring the funding level of this plan up from its current status of just over 22.9%.

The proposed increase in the HIC benefit to \$1.75 not to exceed \$52.50 would add \$5.5 million to the unfunded liabilities of the constitutional officers' HIC plan. The change would lower the funded status of the constitutional officers' HIC plan by 3.3% as shown in Exhibit 1 below however the planned cash infusions in June of 2023 and 2024 would bring the funded status back up by 1% providing a net decrease of approximately 2.4% following the increase in benefit level.

Exhibit 1

Estimated Impact on Funded Status of Proposed \$1.75 HIC			
Employer Group	Funded Status as of June 30, 2022	Funded Status Increasing to \$1.75	Funded Status Increasing to \$1.75 After Cash Infusions in 2023 and 2024
Constitutional Officers	22.9%	19.6%	20.5%

With the cash infusions in FY 2023 and FY 2024 in the introduced budget, the annual increase in required funding would be approximately \$390,000. 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' health insurance credit plan.

Exhibit 2

Estimated Impact On Unfunded Liability and Annual Funding of Proposed \$1.75 HIC					
Employer Group	Unfunded Liability as of June 30, 2022	Increase in Unfunded Liability	Increase in Unfunded Liability After Cash Infusions in 2023 & 2024	Increase in Annual Cost as Percentage of Covered Payroll	Estimated Increase in Annual Funding
Constitutional Officers	\$25,605,000	\$5,534,000	\$3,866,000	0.05%	\$390,000

Exhibit 3 shows the estimated future cost impacts associated with increasing the HIC benefit to \$1.75 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	390,000	390,000	390,000	390,000	390,000	390,000
Social Services Employees - HIC	-	-	-	-	-	-
General Registrars - HIC	-	-	-	-	-	-
TOTAL General Fund	\$ 390,000	\$ 390,000	\$ 390,000	\$ 390,000	\$ 390,000	\$ 390,000
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	\$ 390,000	\$ 390,000	\$ 390,000	\$ 390,000	\$ 390,000	\$ 390,000

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.

The proposed cash infusions that were intended to increase the plan funded status will help pay for a portion of the increase in benefit level, however the funded status will decrease rather than increase as originally intended as the cost to increase the benefit level is \$3.9 million more than the cash infusions proposed for the plan as shown below in Exhibit 4.

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: No.

12. Other Comments: The substitute increases the amount of the HIC for local constitutional officers and their employees with at least 15 years of creditable service from the current \$1.50 per year of service with a \$45 cap to \$1.75 per year of service not to exceed \$52.50.

The substitute increases the HIC for local constitutional officers on disability retirement to \$52.50 per month. The benefit is intended to help defray the cost of retiree health insurance for retiree-only coverage. The substitute does not increase the HIC amount for general registrars and their employees and local social services employees.

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 not amended in the substitute. The cost impacts provided in this impact statement only reflect the increase from the current \$1.50 to \$1.75 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

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