



**Department of Human Resource Management**

**Commonwealth of Virginia State Health Plans Program  
For Pre-Medicare Retirees**

**GASB No. 75 Schedules**

**For the Fiscal Year Ending June 30, 2019  
with select information for fiscal year 2020**

**Measurement Date June 30, 2019**

## Table of Contents

Independent Auditor's Report	1
DHRM Pre-Medicare Retirees	
Schedule of Employer Allocations	4
DHRM Pre-Medicare Retirees	
Schedule of OPEB Liability and Expense	4
DHRM Pre-Medicare Retirees	
Schedule of Deferred Outflows and Deferred Inflows of Resources	5
DHRM Pre-Medicare Retirees	
Schedule of Benefit Payments	5
DHRM Pre-Medicare Retirees	
Notes to GASB No. 75 Schedules	6



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August 10, 2020

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## INDEPENDENT AUDITOR'S REPORT

### **Report on the Schedules**

We have audited the accompanying schedule of employer allocations of the **Department of Human Resource Management State Health Plans Program for Pre-Medicare Retirees**, as of and for the year ended June 30, 2019 and the related notes. We have also audited the total for all state employers of the columns titled OPEB liability as of and for the year ended June 30, 2019, and total OPEB expense as of and for the year ended June 30, 2019, included in the accompanying schedule of OPEB liability and OPEB expense of the Department of Human Resources Management State Health Plans Program for Pre-Medicare Retirees, and the related notes. In addition, we have audited the total for all state employers of the columns titled total deferred outflows of resources and total deferred inflows of resources included in the accompanying schedule of deferred outflows and deferred inflows of resources of the Department of Human Resources Management State Health Plans Program for Pre-Medicare Retirees, as of and for the year ended June 30, 2019, and the related notes. We have also audited the accompanying schedule of benefit payments of the Department of Human Resources Management State Health Plans Program for Pre-Medicare Retirees as of and for the year ended June 30, 2020.

### *Management's Responsibility for the Schedules*

The Department of Human Resource Management's management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

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### *Auditor's Responsibility*

Our responsibility is to express an opinion on the schedule of employer allocations, the schedule of benefit payments, and the columns titled OPEB liability, total OPEB expense, total deferred outflows of resources, and total deferred inflows of resources (specified column totals) included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations, the schedule of benefit payments, and specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Department of Human Resource Management, as well as evaluating the overall presentation of the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

### *Opinions*

In our opinion, the schedules referred to above for the Department of Human Resources Management State Health Plans Program for Pre-Medicare Retirees present fairly, in all material respects, the employer allocations and the OPEB liability for the total of all participating state employers as of and for the year ended June 30, 2019; total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense as of and for the year ended June 30, 2019, for the total of all participating employers; and benefit payments as of and for the year ended June 30, 2020, in accordance with accounting principles generally accepted in the United States of America.

### *Restriction of Use*

Our report is intended solely for the information and use of management of the Department of Human Resource management, the Commonwealth Joint Legislative Audit and Review Commission, and the Department of Human Resource Management State Health Plans Program for Pre-Medicare Retirees employers and their auditors, and is not intended to be and should not be used by anyone other than these specified parties.

Martha S. Mavredes  
AUDITOR OF PUBLIC ACCOUNTS

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**Department of Human Resource Management**  
**State Health Plans Program for Pre-Medicare Retirees**  
**Schedule of Employer Allocations**  
**For Fiscal Year Ended June 30, 2019**

Employer Code	Employer Name	June 30, 2019	
		Employer Contributions	Employer Allocation Percentage
20600	VCU Health System Authority	\$ 4,671,690	0.39109%
36000	Fort Monroe Authority	315,489	0.02641%
40700	Virginia Port Authority	21,714	0.00182%
	All Other State Agencies	1,189,526,401	99.58068%
	Total for All State Employers	1,194,535,294	100.00000%

The accompanying notes are an integral part of the Schedule of Employer Allocations.

**Department of Human Resource Management**  
**State Health Plans Program for Pre-Medicare Retirees**  
**Schedule of OPEB Liability and OPEB Expense**  
**For the Fiscal Year Ended June 30, 2019**

Employer Code	Employer Name	OPEB Liability June 30, 2019	Total OPEB Expense FY 2019
20600	VCU Health Systems Authority	\$2,655,024	(\$632,480)
36000	Fort Monroe Authority	\$179,301	(\$8,859)
40700	Virginia Port Authority	\$12,340	(\$10,413)
	All Other State Agencies	676,033,758	(\$74,925,303)
	Total for All State Employers	\$678,880,423	(\$75,577,055)

The accompanying notes are an integral part of the Schedule OPEB Liability and OPEB Expense.

**Department of Human Resource Management**  
**State Health Plans Program for Pre-Medicare Retirees**  
**Schedule Of Deferred Outflows and Deferred Inflows of Resources**  
**For the Fiscal Year Ended June 30, 2019**

Employer Code	Employer	Deferred Outflows of Resources				Deferred Inflows of Resources			
		Difference Between Expected and Actual Experience	Change of Assumptions	Changes In Proportionate Share	Total Deferred Outflows of Resources	Difference Between Expected and Actual Experience	Change of Assumptions	Changes In Proportionate Share	Total Deferred Inflows of Resources
20600	VCU Health Systems Authority	\$ -	\$ -	\$ -	\$ -	\$1,347,193	\$1,839,440	\$1,433,279	\$4,619,912
36000	Fort Monroe Authority	-	-	87,042	87,042	90,979	124,221	50,642	265,842
40700	Virginia Port Authority	-	-	-	-	6,262	8,550	39,243	54,055
	All Other State Agencies	-	-	45,052,622	45,052,622	343,028,221	468,366,257	43,616,500	855,010,978
	Total for All State Employers	\$ -	\$ -	\$45,139,664	\$45,139,664	\$344,472,655	\$470,338,468	\$45,139,664	\$859,950,787

The accompanying notes are an integral part of the Schedule of Deferred Outflows and Deferred Inflows of Resources.

**Department of Human Resource Management**  
**State Health Plans Program for Pre-Medicare Retirees**  
**Schedule of Benefit Payments**  
**For Fiscal Year Ended June 30, 2020**

Employer Code	Employer Name	Benefit Payments FY 2020
20600	VCU Health Systems Authority	113,036
36000	Fort Monroe Authority	7,634
40700	Virginia Port Authority	525
	All Other State Agencies	28,781,813
	Total for All State Employers	28,903,008

The accompanying notes are an integral part of the Schedule of Benefit Payments.

**Department of Human Resource Management**  
**State Health Plans Program for Pre-Medicare Retirees**  
**Notes to GASB No. 75 Schedules**  
**For the fiscal Year Ended June 30, 2019**

**Note 1: Summary of Significant Accounting Policies**

***Pre-Medicare Retiree Healthcare Plan***

Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes. This program was established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. It is the same health insurance program offered to active employees and managed by the Virginia Department of Human Resource Management. After retirement, the Commonwealth of Virginia no longer subsidizes the retiree's premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, retiree rates are effectively lower than what might otherwise be available outside of this benefit.

**Note 2: General Information about Pre-Medicare Retiree Healthcare**

The Department of Human Resource Management (Human Resource Management) is an agency of the Commonwealth of Virginia. Human Resource Management is the administrator of the Commonwealth's employee health insurance program. The Commonwealth provides a health benefits program established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare.

Following are eligibility requirements for Virginia Retirement System retirees:

- You are a retiring state employee who is eligible for a monthly retirement benefit from the Virginia Retirement System (VRS), and
- You start receiving (do not defer) your retirement benefit immediately upon retirement\*, and
- Your last employer before retirement was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage as an active employee in the State Health Benefits Program until your retirement date (not including Extended Coverage/COBRA), and
- You enroll no later than 31 days from your retirement date.

*\*For VRS retirees, this means that your employing agency reported a retirement contribution or leave without pay status for retirement in the month immediately prior to your retirement date. Some faculty members may also be eligible if they are paid on an alternate pay cycle but maintain eligibility for active coverage until their retirement date.*



Effective January 1, 2017\*\*, following are eligibility requirements for Optional Retirement Plan retirees:

- You are a terminating state employee who participates in one of the qualified Optional Retirement Plans, and
- Your last employer before termination was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage in the State Employee Health Benefits Program for active employees at the time of your termination, and
- You meet the age and service requirements for an immediate retirement benefit under the non-ORP Virginia Retirement System plan that you would have been eligible for on your date of hire had you not elected the ORP, and
- You enroll in the State Retiree Health Benefits Program no later than 31 days from the date you lose coverage (or lose eligibility for coverage) in the State Health Benefits Program for active employees due to your termination of employment.

\*\*This change applies to ORP terminations effective January 1, 2017, or later. Eligibility for those who terminated employment prior to January 1 should be determined based on the policy in place at the time of their termination.

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan and is administered by Human Resource Management. There were approximately 4,800 retirees and 89,000 active employees in the program in fiscal year 2019. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

### **Note 3: Actuarial Assumptions and Methods**

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2019. Human Resource Management selected the economic, demographic and health care claim cost assumptions and prescribed them for use for purposes of compliance with GASB 75. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 7.00 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 4.50 percent for medical and pharmacy and 4.0 percent for dental.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.25 years
Discount Rate	3.51%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 7.00% to 4.50% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2029
Mortality	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates; males setback 1 year, 85% of rates; females setback 1 year
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year
Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date of June 30, 2019.

Changes of Assumptions: The following actuarial assumptions were updated since the June 30, 2018 valuation based on recent experience:

- Spousal Coverage – reduced the rate from 35% to 25%
- Retiree Participation - reduced the rate from 60% to 50%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect modified pre-retirement Mortality base rates to exclude age over 65 instead of apply mortality improvement projection scale BB. The excise tax was modified to reflect updated projection of the tax thresholds. Trend rates were updated based on economic conditions as of 6/30/2019. Additionally, the discount rate was decreased from 3.87% to 3.51% based on the Bond Buyers GO 20 Municipal Bond Index.

**Note 4: Pre-Medicare Retiree Healthcare OPEB Liability**

The Commonwealth's Pre-Medicare Retiree Healthcare total OPEB liability of \$678.9 million was measured as of June 30, 2019, and was determined by an actuarial valuation as of June 30, 2019.

### Changes in the Total OPEB Liability

	<b>Total OPEB Liability</b>
<b>Balance at 6/30/18</b>	\$ 1,005.6
<b>Changes for the year:</b>	
Service cost	72.7
Interest	40.9
Changes of benefit terms	0.0
Difference between Expected and Actual Experience	(216.9)
Changes of Assumptions	(182.2)
Benefit Payments	(41.3)
Rounding Adjustment	0.1
<b>Net Changes</b>	<u>(326.7)</u>
<b>Balance at 6/30/19</b>	<u>\$ 678.9</u>

### Sensitivity Analysis

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the Commonwealth, as well as what the Commonwealth's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.51 percent) or 1-percentage-point higher (4.51 percent) than the current discount rate:

	<b>1% Decrease (2.51%)</b>	<b>Current Rate (3.51%)</b>	<b>1% Increase (4.51%)</b>
Total OPEB liability	\$726.2	\$678.9	\$634.5

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The following presents the total OPEB liability of the Commonwealth, as well as what the Commonwealth's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.00 percent decreasing to 3.50 percent) or 1-percentage-point higher (8.00 percent decreasing to 5.50 percent) than the current healthcare cost trend rates:

	<b>1% Decrease (6.00% decreasing to 3.50%)</b>	<b>Trend Rate (7.00% decreasing to 4.50%)</b>	<b>1% Increase (8.00% decreasing to 5.50%)</b>
Total OPEB Liability	\$606.3	\$678.9	\$764.8

**Note 5: Deferred Outflows/Inflows of Resources**

For the year ended June 30, 2019, the Commonwealth recognized OPEB expense of \$75.6 million. At June 30, 2019, the Commonwealth reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (\$ millions):

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	\$ 0.0	\$ (344.5)
Change of Assumptions	0.0	(470.3)
Changes in proportion	45.1	(45.1)
Rounding Adjustment	0.1	(0.1)
Sub Total	\$ 45.2	\$ (860.0)
Amounts associated with transactions subsequent to the measurement date	28.9	N/A
Total	\$ 74.1	\$ (860.0)

\$28.9 million reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transaction subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows (\$ millions):

<u>Year End June 30:</u>	
2020	\$(189.3)
2021	\$(189.3)
2022	\$(189.3)
2023	\$(154.9)
2024	\$ (76.2)
Thereafter	\$ (16.0)

**Note 6: Employer Contributions**

To establish each employer's portion of the OPEB liability, Human Resource Management uses each employer's premium contribution as a percentage of the total contributions collected for each year. The total employer contributions for fiscal year 2019 were \$1,194,535,294. Once each percentage is calculated, the percentage for each employer is multiplied by the total OPEB liability in order to determine each employer's portion of the OPEB liability.

**Note 7: Benefit Payments**

Total benefit payments represent actual payments made subsequent to the measurement date of June 30, 2019. The amount also includes administrative expenses directly related to the OPEB subsequent to the measurement date. The total benefit payment amount is allocated to each employer based on the employer's percentage of total employer contributions. Total benefit payments subsequent to the measurement date of June 30, 2019 are:

Pre-Medicare Retiree Claims	\$ 77,313,875
Pre-Medicare Retiree Contributions	(51,751,156)
OPEB Administrative Expenses	<u>3,340,289</u>
Benefit Payments	28,903,008

**Note 8: Contact Information for DHRM**

Please contact The Department of Human Resource Management for questions and concerns:

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