***Agency Sample Notes to the Financial Statements***

***Commonwealth of Virginia State Health Plans Program***

***for Pre-Medicare Retirees***

***For the Fiscal Year Ended June 30, 2023***

***Instructions*** *– The Agency Sample Footnotes to the Financial Statements for the Virginia State Health Plans Program for Pre-Medicare Retirees are based on the data required by GASB Statement No. 75 and the related information in the Implementation Guide. These are provided by the Department of Human Resource Management as a guide for agencies in the development of their GASB 75 note disclosures.*

 *The GASB 75 schedules referenced in this document can be found in the Excel Spreadsheet entitled “2023 GASB 75 Sample Journal Entries and Schedules.xlsx” on the Finance and Administration page of the DHRM website at* [*https://www.dhrm.virginia.gov/finance-and-administration*](https://www.dhrm.virginia.gov/finance-and-administration)*.*

 *Within the sample Notes to the Financial Statements, the sample Required Supplementary Information and the sample Journal Entries there are a number of variable items which each agency must fill in using their own unique information. For each of these items, we have identified the source of the information within schedules. Most all of the data in the schedules is contained in the GASB 75 Valuation report from the DHRM actuary.*

***Covered Employee Payroll (as required by Required Supplementary Information on the last page) is all employee payroll including salary and bonuses for the period.***

***FOR THE SAMPLE JOURNAL ENTRY, an agency can enter the number of its agency in cell B3 of the JE Template Tab of the Excel spreadsheet. Use the dropdown box to select your agency. Entering the number should populate the amounts from the schedules necessary for the journal entries. The number should be verified by reviewing the accompanying schedules in the spread sheet.***

*The information in this document is provided as an additional resource for agencies but each agency is responsible for their own Notes to the Financial Statements. Agencies should review the language and other information provided with their auditors.*

*If you have any questions concerning this information, please contact Denise Sandlin at (804) 371-7990 or email at denise.sandlin@dhrm.virginia.gov****.***

***Agency Sample Notes to the Financial Statements***

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

***For the Fiscal Year Ended June 30, 2023***

**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, [insert agency name] 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.

**Pre-Medicare Retiree Healthcare**

The Commonwealth provides a healthcare plan 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 in) 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 in) 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 that is treated like a cost-sharing plan for financial reporting purposes and is administered by the Department of Human Resource Management. There were approximately 3,647 retirees and 92,839 active employees in the program as of June 30, 2022. 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.

**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, 2022 (one year prior to the end of the fiscal year). The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 8.00 percent for medical and pharmacy and 4.00 percent for dental. The ultimate trend rates used were 4.50 percent for medical and pharmacy and 4.00 percent for dental.

|  |  |
| --- | --- |
| Valuation Date  | Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. |
| Measurement Date | June 30, 2022 (one year prior to the end of the fiscal year) |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level dollar, Closed |
| Effective Amortization Period | 5.86 years |
| Discount Rate | 3.54% |
| Projected Salary Increases | 5.35% to 3.50% based on years of service from 1 year to 20 years or more |
| Medical Trend Under 65 | Medical & Rx: 8.00% to 4.50% Dental: 4.00% |
| Year of Ultimate Trend | 2033 |
| Mortality | Mortality rates vary by participant status and gender |
|  Pre-Retirement: | Pub-2010 Benefits Weighted General Employee Rates projected generationally with a Modified MP-2021 Improvement Scale; females set forward 2 years |
|  Post-Retirement: | Pub-2010 Benefits Weighted General Healthy Retiree Rates projected generationally with a Modified MP-2021 Improvement Scale; 110% of rates for females |
|  Post-Disablement: | Pub-2010 Benefits Weighted General Disabled Rates projected generationally with a Modified MP-2021 Improvement Scale; males and females set forward 3 years |
| Beneficiaries and Survivors: | Pub-2010 Benefits Weighted General Contingent Annuitant Rates projected generationally with a Modified MP-2021 Improvement Scale; 110% of rates for males and females |

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date of June 30, 2022.

*Changes of Assumptions:* The following actuarial assumptions were updated since the June 30, 2021, valuation based on recent experience:

* Retiree Participation – reduced the rate from 40% to 35%

Retiree participation was based on a blend of recent experience and the prior year assumptions.

The trend rates were updated based on economic conditions as of June 30, 2022. Additionally, the discount rate was increased from 2.16% to 3.54% based on the Bond Buyers GO 20 Municipal Bond Index as the measurement date of June 30, 2022.

There were no plan changes in the valuation since the prior year.

**Pre-Medicare Retiree Healthcare OPEB Liabilities, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources**

On June 30, 2023, the employer reported a liability of $Appendix A Column C for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of $363.4 million. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2022, and was determined by an actuarial valuation as of June 30, 2022. The covered employer’s proportion of the Pre-Medicare Retiree Healthcare OPEB liability was based on each employer’s calculated healthcare premium contributions as a percentage of the total employer’s calculated healthcare premium contributions for all participating employers. On June 30, 2022, the participating employer’s proportion was Appendix A Column B% as compared to Appendix A Column E% on June 30, 2021. For the year ended June 30, 2023, the participating employer recognized Pre-Medicare Retiree Healthcare OPEB expense of $Appendix B Column L.

On June 30, 2023, the employer reported deferred outflows of resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

 Deferred Deferred
 Outflows Inflows

(1) Difference between actual and expected experience $Appendix E Column C $Appendix E Column H

(2) Changes in assumptions Appendix E Column E Appendix E Column J

(3) Changes in proportion Appendix E Column F Appendix E Column K

(4) Rounding Adjustment Calculated Calculated

(5) Sub Total $Appendix E Column G $Appendix E Column L

(6) Amounts associated with transactions

 subsequent to the measurement date Appendix H Column B N/A

 (7) Total $ Calculated $Appendix E Column L

$ Appendix H Column B reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2023. 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:

Year End June 30:

2024 $Appendix F Column A

2025 $Appendix F Column B

2026 $Appendix F Column C

2027 $Appendix F Column D

2028 $Appendix F Column E

Total Thereafter $Appendix F Column F

***Sensitivity of the Employer’s Proportionate Share of the OPEB Liability to Changes in the Discount Rate***

The following presents the employer’s proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.54%, as well as what the employer’s proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.54%) or one percentage point higher (4.54%) than the current rate:

 1% Decrease Current Rate 1% Increase
 (2.54%) (3.54%) (4.54%)

OPEB Liability $App A Col G $App A Col H $App A Col I

***Sensitivity of the Employer’s Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Rates***

The following presents the employer’s proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using healthcare cost trend rate of 8.00% decreasing to 4.50%, as well as what the employer’s proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.00% decreasing to 3.50%) or one percentage point higher (9.00% decreasing to 5.50%) than the current rate:

 1% Decrease Trend Rate 1% Increase
 (7.00% (8.00% (9.00%

 decreasing decreasing decreasing
 to 3.50%) to 4.50%) to 5.50%)

OPEB Liability $App A Col J $App A Col K $App A Col L

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### **Required Supplementary Information**

**Commonwealth of Virginia State Health Plans Program**

**for Pre-Medicare Retirees**

**For the Fiscal Year Ended June 30, 2023**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Schedule of Employer's Share of Total OPEB Liability** |  |  |  |  |  |  |
|   | **2018\*** | **2019\*** | **2020\*** | **2021\*** | **2022\*** | **2023\*** |
|   |  |  |  |  |  |  |
| Employer's proportion of the collective total OPEB liability | FY2019 | FY2020  | FY2021  | FY2022  | FY2023 | FY2023 |
| Appendix A Column E% | Appendix A Column E% | Appendix A Column E% | Appendix A Column E% | Appendix A Column E% | Appendix A Column B% |
|   |   |   |   |   |   |
|   |  |  |  |  |  |  |
| Employer's proportionate share of the collective total OPEB liability | $ FY2019 Appendix A Column F | $ FY2020 Appendix A Column F | $ FY2021 Appendix A Column F | $ FY 2022 Appendix A Column F | $FY 2023 Appendix A Column F | $FY 2023 Appendix A Column C |
|   |  |  |  |  |  |  |
| Rounding Adjustment | Calculated | Calculated | Calculated | Calculated | Calculated | Calculated |
|   |  |  |  |  |  |  |
| Employer's covered-employee payroll | $ [Insert Amount] | $ [Insert Amount] | $ [Insert Amount] | $ [Insert Amount] | $ [Insert Amount] | $ [Insert Amount] |
|   |  |  |  |  |  |  |
| Employer's proportionate share of the collective total OPEB Liability as a percentage of its covered-employee payroll | [Calculation: Line 2 divided by Line 4)% | [Calculation: Line 2 divided by Line 4)% | [Calculation: Line 2 divided by Line 4)% | [Calculation: Line 2 divided by Line 4)% | [Calculation: Line 2 divided by Line 4)% | [Calculation: Line 2 divided by Line 4)% |
|  |  |  |  |  |  |  |
|  |  |
| *Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, only six years of data are available. However, additional years will be included as they become available.* |  |
| *\*The amounts presented have a measurement date of the previous fiscal year end.* |  |  |  |  |  |  |

**Notes to Required Supplementary Information**

**For the Fiscal Year Ended June 30, 2023**

There are no assets accumulated in a trust to pay related beneﬁts.

**Changes of benefit terms** – There have been no changes to the benefit provisions since the prior actuarial valuation.

**Changes of assumptions** – The following actuarial assumptions were updated since the June 30, 2021, valuation based on recent experience:

* Retiree Participation – reduced the rate from 40% to 35%

Retiree participation was based on a blend of recent experience and the prior year assumptions.

The trend rates were updated based on economic conditions as of June 30, 2022. Additionally, the discount rate was increased from 2.16% to 3.54% based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date of June 30, 2022.