

**2017-2018 Retirement Workgroup
Package for Discussion – March 13, 2018**

	Potential Change for New Hires	3/13/18 Package
1a	MINIMUM RETIREMENT AGE: Increase Minimum Retirement Age in ERS from 55 to 60	<input checked="" type="checkbox"/>
1c	MINIMUM RETIREMENT AGE: Establish a Minimum Retirement Age of 50 in URS/PORS	<input checked="" type="checkbox"/>
2	RETIREMENT ELIGIBILITY: Increase from Rule of 85 to Rule of 90 in ERS	<input checked="" type="checkbox"/>
3a	SALARY AVERAGING: Increase Salary Averaging Period from 3 Years to 5 Years	<input checked="" type="checkbox"/>
4	ELIMINATE PRE-SOCIAL SECURITY SUPPLEMENT: Eliminate Pre-Social Security Supplement in ERS/URS	<input checked="" type="checkbox"/>
9	ELIMINATE 3% FORMULA INCREASE: Eliminate the provision that increases the calculated retirement annuity by 3%	<input checked="" type="checkbox"/>
10	INCREASE EMPLOYEE CONTRIBUTION: Increase the employee contribution rate from 5.33% to 6% (ERS), from 7.08% to 8% (URS), and from 8.65% to 10% (PORS)	<input checked="" type="checkbox"/>
	Employees' System Percent Change in Employer Normal Cost	(24.68%)
	Uniformed System Percent Change in Employer Normal Cost	(20.41%)
	Police Officers System Percent Change in Employer Normal Cost	(18.63%)
	Total Projected GF Savings when Fully Realized based on Current Payroll	\$16.38m

Additional Recommendations:

- There are currently two options (plans C and D) that are open to new hires who become members of the Employees' Retirement System. The changes proposed include offering only one plan to new hires effective January 1, 2019, which will be based on the current plan D.
- Any proposal to eliminate the pre-Social Security supplement should include the implementation of an actuarially cost-neutral benefit payout option that allows retirees to choose to receive a larger annuity before becoming eligible for Social Security age-based benefits in exchange for a lower annuity after Social Security benefits begin. This type of benefit payout option is a common feature of the retirement systems of other jurisdictions in the area.
- The wage types included in the annuity benefit calculation should be reviewed to ensure that the annuity is determined by the employee's base salary.
- Staff should review early service (reduced) retirement criteria and benefit levels to determine whether any changes are recommended based on the proposed changes to retirement eligibility requirements.

**2017-2018 Retirement Workgroup
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Package Overview:

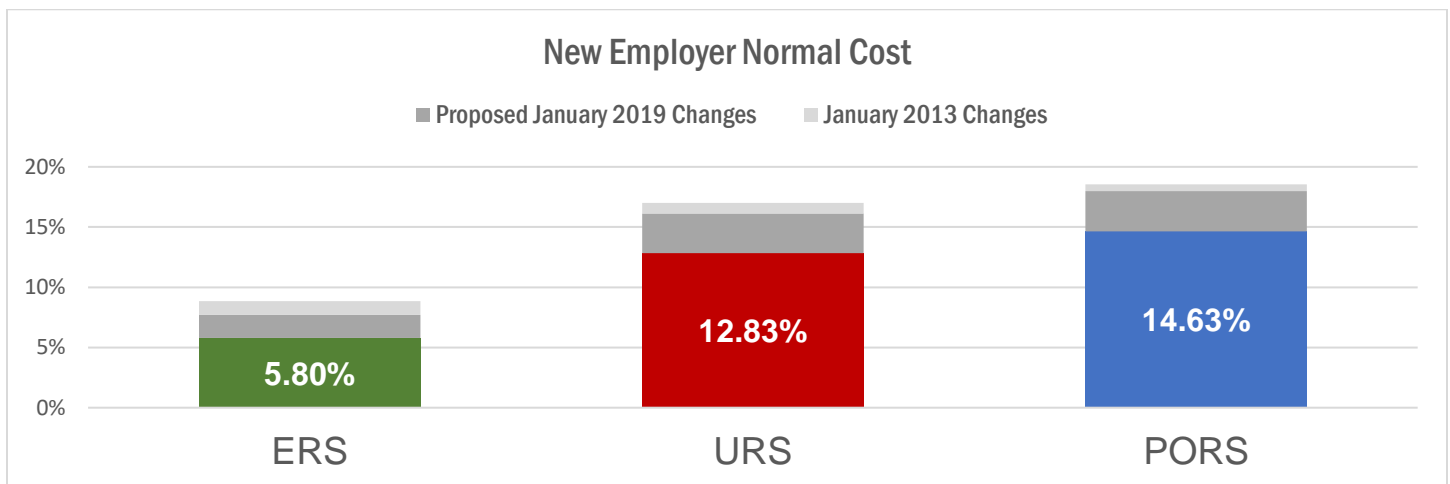
The changes proposed in this package for new employees hired on or after January 1, 2019, are shown in the table below. The plan features in place for employees hired on or before December 31, 2012, as well as the benefits currently offered to new hires, are also shown. Changes are shown in red and bold.

	Employees Hired December 2012 and Prior	Employees Hired January 2013 to December 2018	Employees Hired January 2019 and Later
Employees' Retirement System (ERS)			
Employee Contribution	4.00% (Plan A) 5.33% (Plan B)	4.00% (Plan C) 5.33% (Plan D)	6.00% (Plan E)
Retirement Eligibility	Rule of 80 or Age 65 with 5 Years of Service	Rule of 85 or Age 65 with 5 Years of Service	Rule of 90 or Age 65 with 5 Years of Service
Minimum Retirement Age	50	55	60
Salary Averaging Period	3 Years	3 Years	5 Years
Benefit Level¹	2% per Year of Service, Total then Increased by 3%	2% per Year of Service, Total then Increased by 3%	2% per Year of Service
Pre-Social Security Supplement	1.0% per Year of Service	Removed from DROP Balances	Eliminated
Use of Sick Leave for Retirement Purposes	Unlimited	Capped at 2,080 Hours	Capped at 2,080 Hours
Uniformed Retirement System (URS)			
Employee Contribution	7.08%	7.08%	8.00%
Retirement Eligibility	25 Years of Service or Age 55 with 6 Years of Service	25 Years of Service or Age 55 with 6 Years of Service	25 Years of Service or Age 55 with 6 Years of Service
Minimum Retirement Age	None	None	50
Salary Averaging Period	3 Years	3 Years	5 Years
Benefit Level	2.5% per Year of Service, Total then Increased by 3%	2.5% per Year of Service, Total then Increased by 3%	2.5% per Year of Service
Pre-Social Security Supplement	0.3% per Year of Service	Removed from DROP Balances	Eliminated
Use of Sick Leave for Retirement Purposes	Unlimited	Capped at 2,080 Hours	Capped at 2,080 Hours
Police Officers Retirement System (PORS)			
Employee Contribution	8.65%	8.65%	10.00%
Retirement Eligibility	25 Years of Service or Age 55	25 Years of Service or Age 55	25 Years of Service or Age 55
Minimum Retirement Age	None	None	50
Salary Averaging Period	3 Years	3 Years	5 Years
Benefit Level	2.8% per Year of Service, Total then Increased by 3%	2.8% per Year of Service, Total then Increased by 3%	2.8% per Year of Service
Use of Sick Leave for Retirement Purposes	Unlimited	Capped at 2,080 Hours	Capped at 2,080 Hours

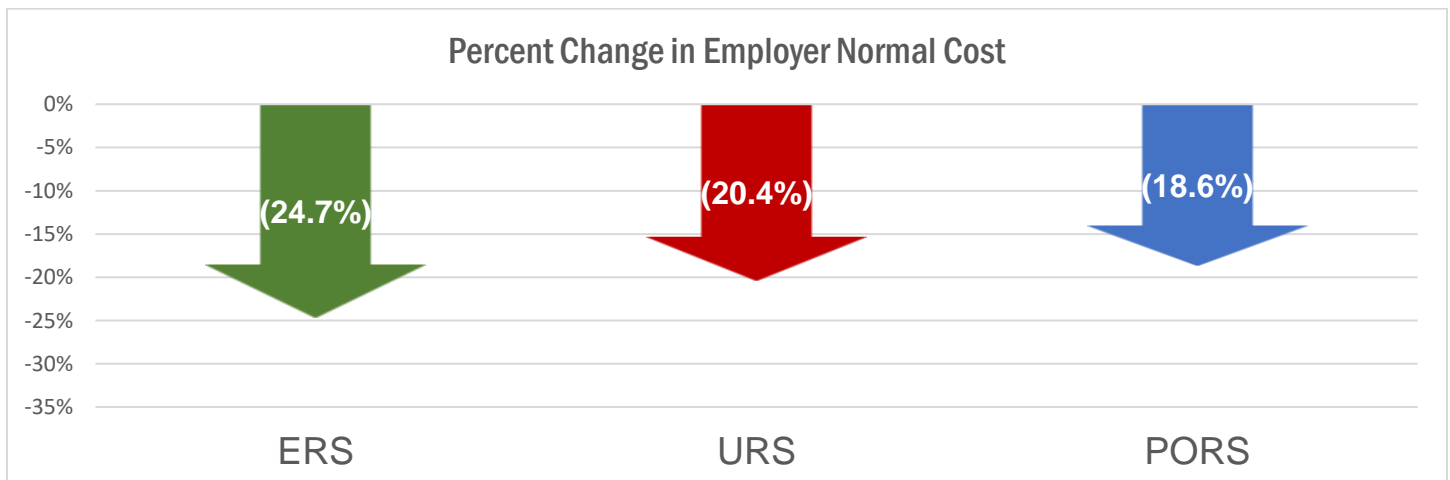
2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

Employer Contribution Rates:

The Normal Cost component of retirement contribution rates represents the contribution required to fund the benefits accrued by active employees during the current year. Changes made to the retirement systems for new hires will only impact the Normal Cost component of the retirement contribution rates; contributions required to amortize the unfunded liability of the systems will not be impacted by changes that only apply to new hires. As a result of the benefit and employee contribution changes outlined above, the employer share of Normal Cost will decrease from 7.70% to 5.80% of pay in the Employees' system, from 16.12% to 12.83% of pay in the Uniformed system, and from 17.98% to 14.63% of pay in the Police Officers system. The chart below includes the reductions in the employer share of Normal Cost resulting from the January 1, 2013, plan changes in light gray, the reductions resulting from the proposed changes effective January 1, 2019, in dark gray, and the employer share of Normal Cost for new hires after the proposed changes in green, red, and blue.

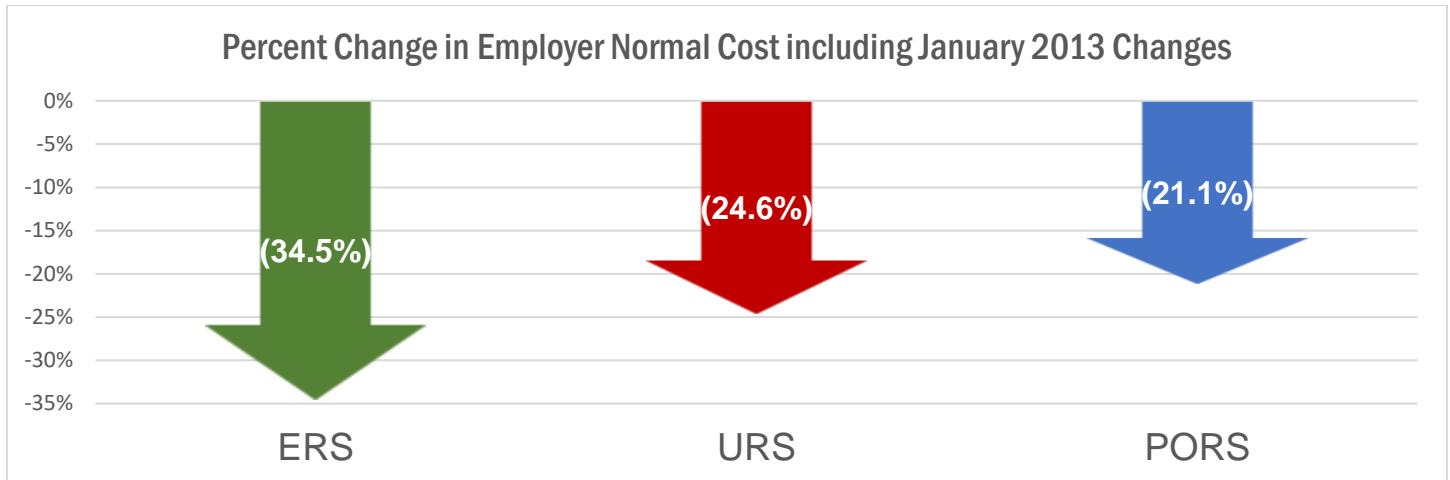


These employer Normal Cost decreases are shown in the chart below expressed as a percentage of current employer Normal Cost. There is a decrease of 24.7% (from 7.70% to 5.80%) in the Employees' system, 20.4% (from 16.12% to 12.83%) in the Uniformed system, and 18.6% (from 17.98% to 14.63%) in the Police Officers system.

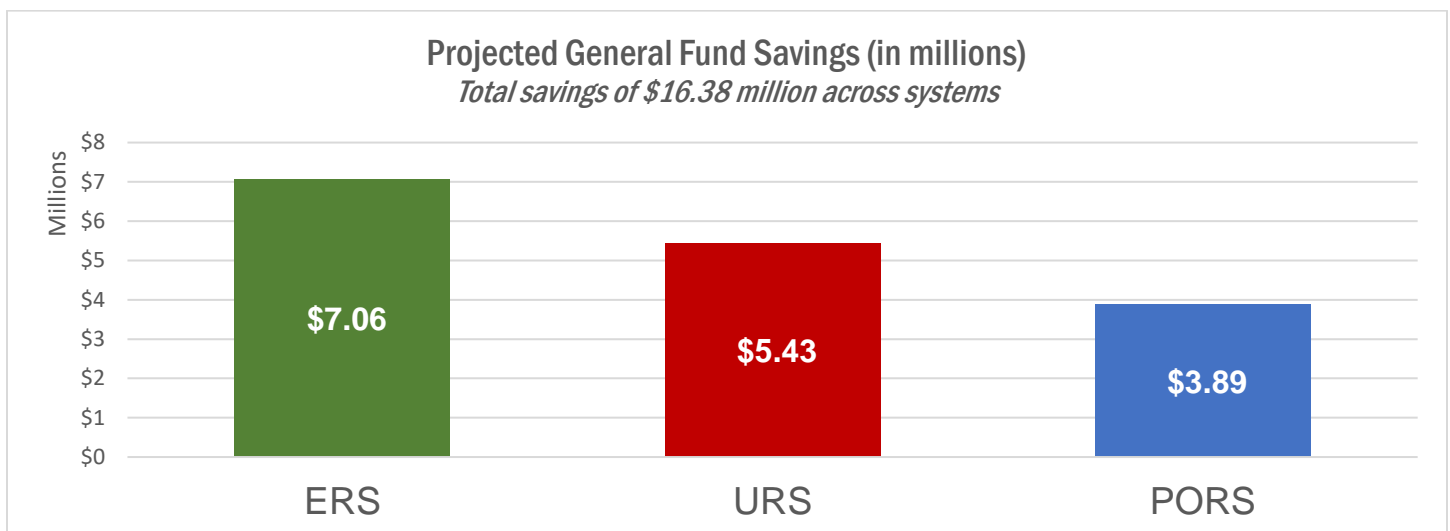


2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

Including the changes effective January 1, 2013, the employer share of Normal Cost has decreased 34.5% (from 8.86% to 5.80%) in the Employees' system, 24.6% (from 17.01% to 12.83%) in the Uniformed system, and 21.1% (from 18.54% to 14.63%) in the Police Officers system.



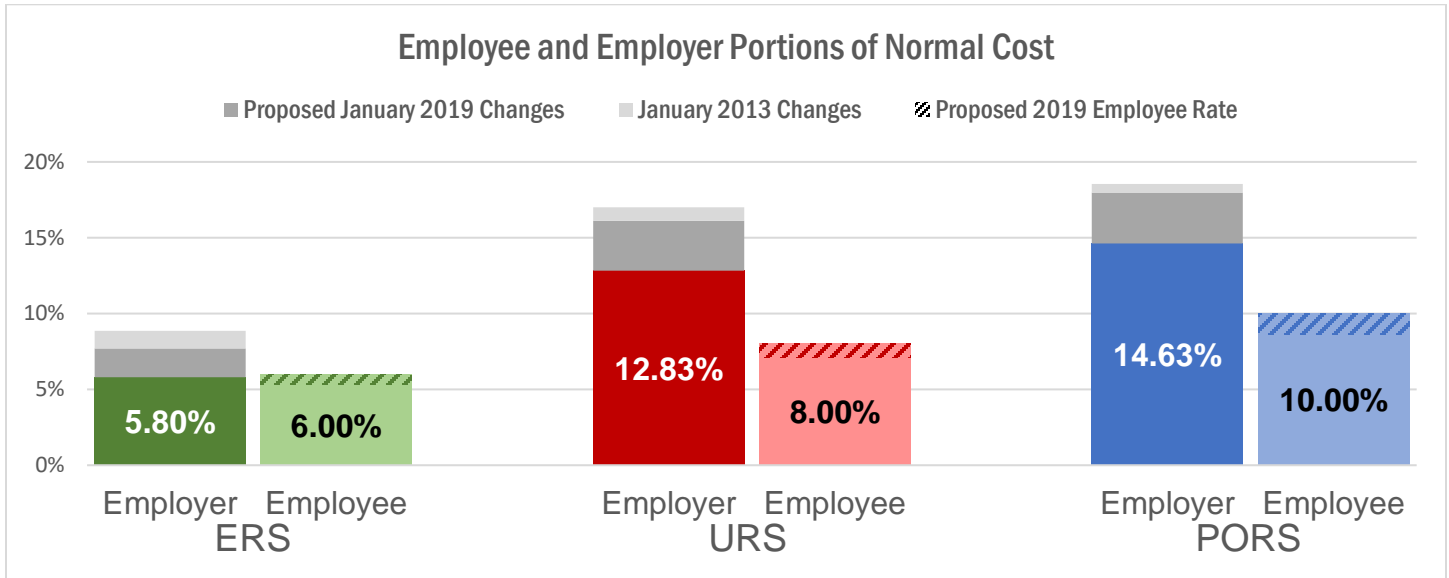
General Fund savings of the proposed changes for new hires, when fully implemented and based on the current General Fund payroll level, are estimated at \$16.38 million as shown in the chart below. Changes that apply only to new hires typically result in savings that are realized gradually over many years, and are not fully realized until all employees who were hired under the current or previous retirement plans are replaced by employees hired under the revised provisions. However, the County's retirement funding policy requires that employer contribution rates not be reduced until each system is fully funded. As a result, no savings are anticipated to be realized until the systems are 100% funded.



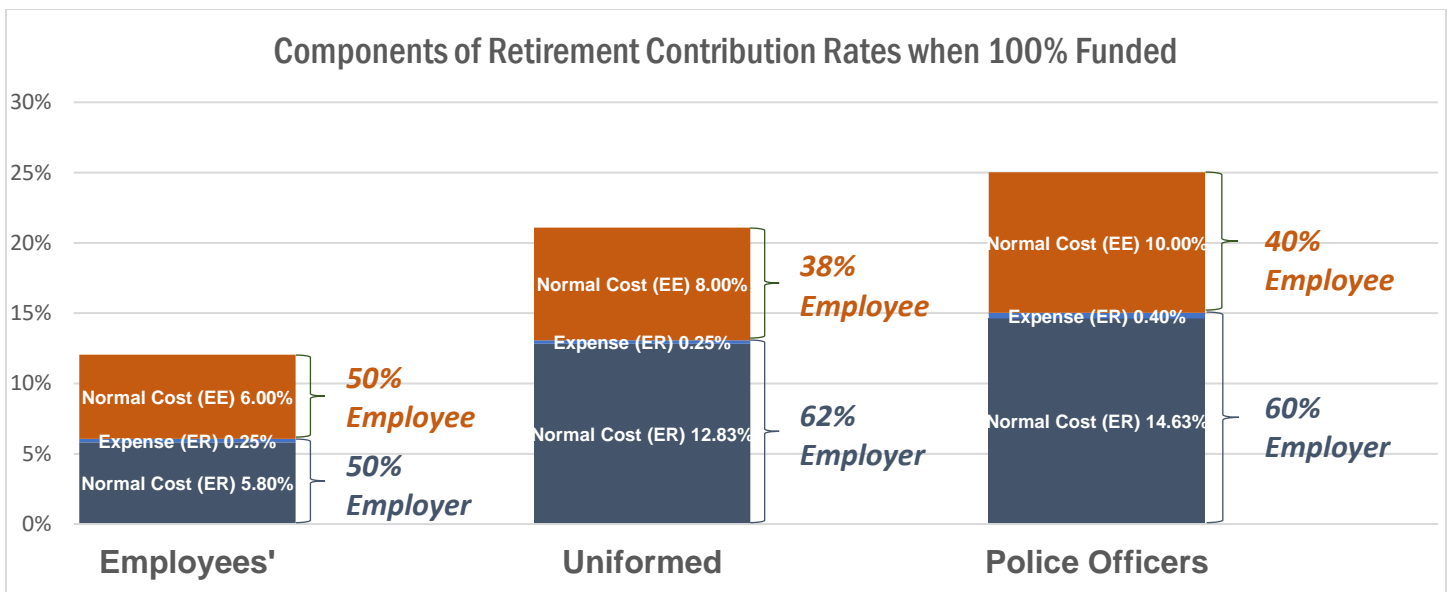
2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

Employee Contribution Rates:

The proposed package includes employee contribution rates for new hires on or after January 1, 2019, of 6% in the Employees' system, 8% in the Uniformed system, and 10% in the Police Officers system. The chart below provides a comparison of the proposed employer and employee contribution rates for each system.



When the retirement systems are fully funded, contributions related to the amortization of the unfunded liability will no longer be required. Total contributions will include the Normal Cost, funded through a combination of employee and employer contributions, and administrative expenses, funded by employer contributions. The chart below shows these contributions based on the proposed changes for new hires effective January 1, 2019. With the proposed changes, employee contributions will account for 50% of contributions when fully funded in the Employees' system, 38% in the Uniformed system, and 40% in the Police Officers system.

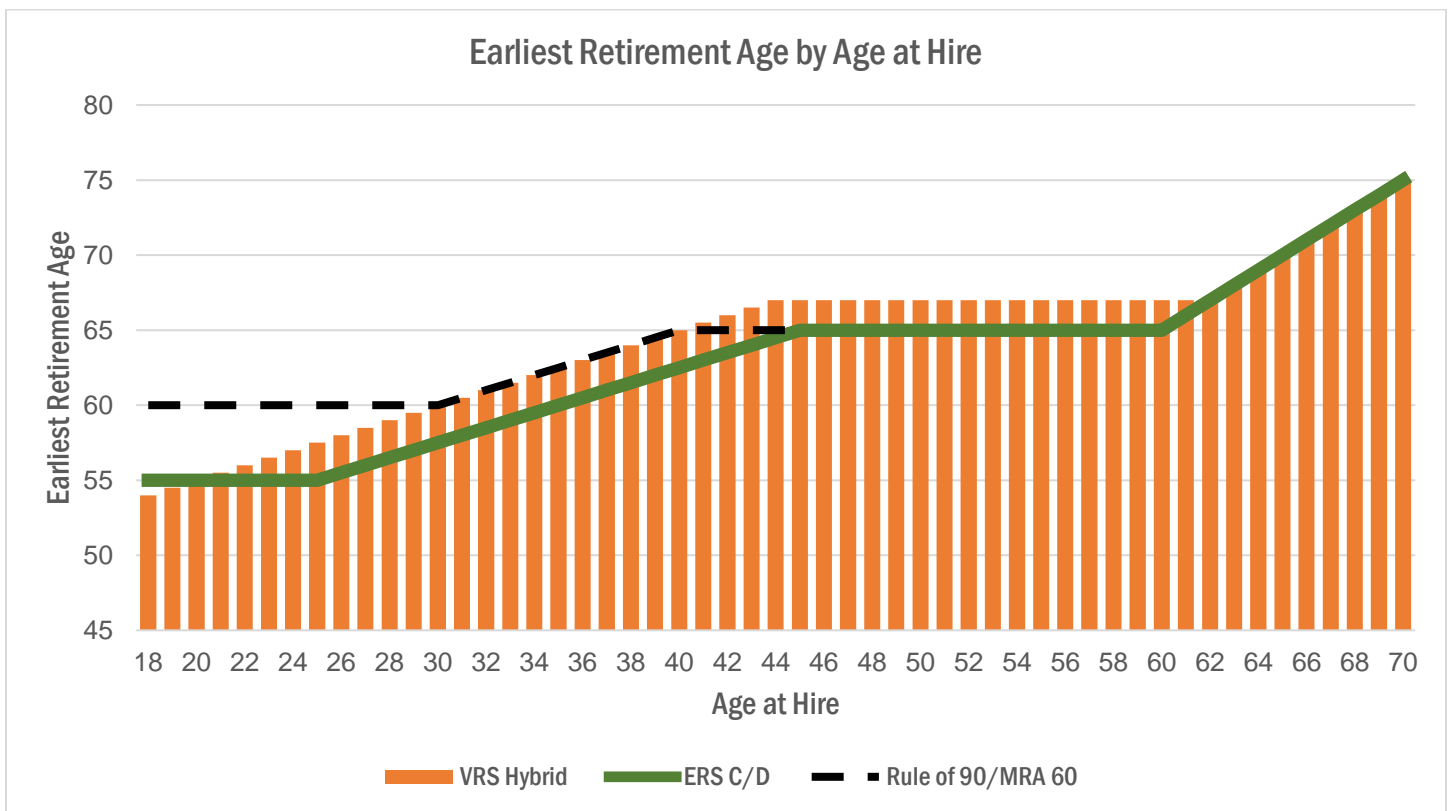


2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

Retirement Eligibility:

The chart below provides a comparison of retirement eligibility requirements for non-public safety employees in the VRS Hybrid Plan (orange columns), which covers new hires of many other Virginia jurisdictions, and the Employees’ system plans C and D (green line), which cover current new hires in Fairfax, to the requirements as proposed in this package (dotted line). It should be noted that the chart does not include the impact of sick leave on retirement eligibility.

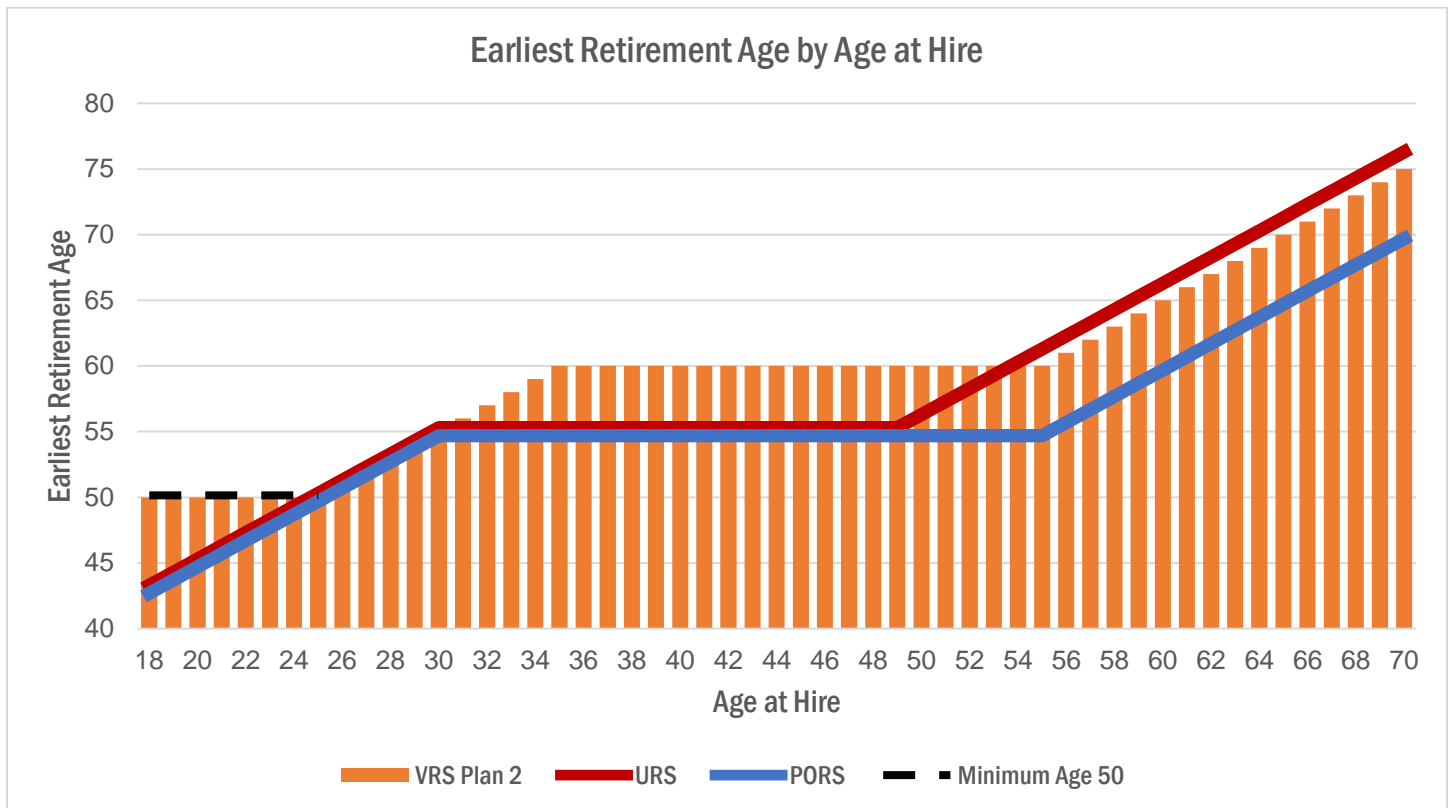
- Eligibility requirements would exceed VRS for employees hired under the age of 30, as the proposed package includes a minimum retirement age of 60 while the VRS Hybrid Plan does not have a minimum retirement age.
- Eligibility requirements would match VRS for employees hired between the ages of 30 and 40, based on the application of the Rule of 90.
- For employees hired over the age of 40, the proposed package includes no change to the current retirement requirement of age 65 with 5 years of service, while the VRS Hybrid Plan allows retirement at normal Social Security retirement age with 5 years of service.



2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

The following chart provides a comparison of retirement eligibility requirements for public safety employees in VRS Plan 2 (orange columns), which covers new hires of many other Virginia jurisdictions, the current Uniformed system (red line) requirements for new hires, and the current Police Officers system (blue line) requirements for new hires to the requirements as proposed in this package (dotted line). It should be noted that the chart does not include the impact of sick leave on retirement eligibility.

- Eligibility requirements would match VRS for employees hired under the age of 25, as the proposed package includes a minimum retirement age of 50 that will match the VRS minimum retirement age.
- Eligibility requirements remain unchanged for employees hired at age 25 or older.



Retirement Benefit Examples:

The following pages provide examples of various age and service combinations and the projected retirement benefits of each. In each chart, the gray columns portray the retirement benefits currently in effect, while the columns in color reflect the revised retirement eligibility requirements and benefit levels proposed in this package. Examples include scenarios based on the current average age of new hires, age 18 new hires, and age 21 new hires. It should be noted that, in each scenario, the hypothetical employee is assumed to be 18 years old in 2019, and the County’s pay scales are assumed to increase each year due to cost of living adjustments until each employee retires when first eligible in the 2050s and 2060s. As a result, the salaries and retirement annuities that are shown in future years are significantly higher than those currently received by employees and retirees in similar pay grades.

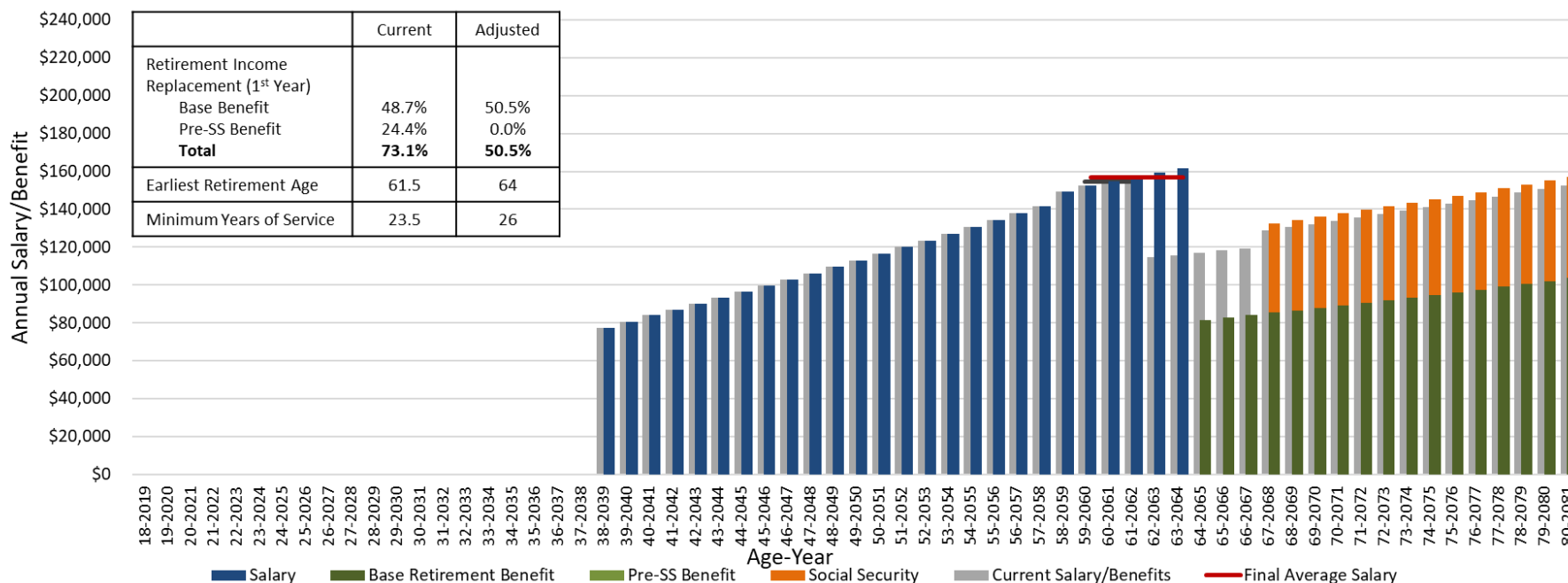
2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

Employees' Retirement System

March 13, 2018 Package: Average Age Hire

- New Hire in 2039 at Age 38, Hired at 24% of Scale
- Assume S-21 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
- Assumes 1.5% annual County retiree COLA
- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Average New Hire



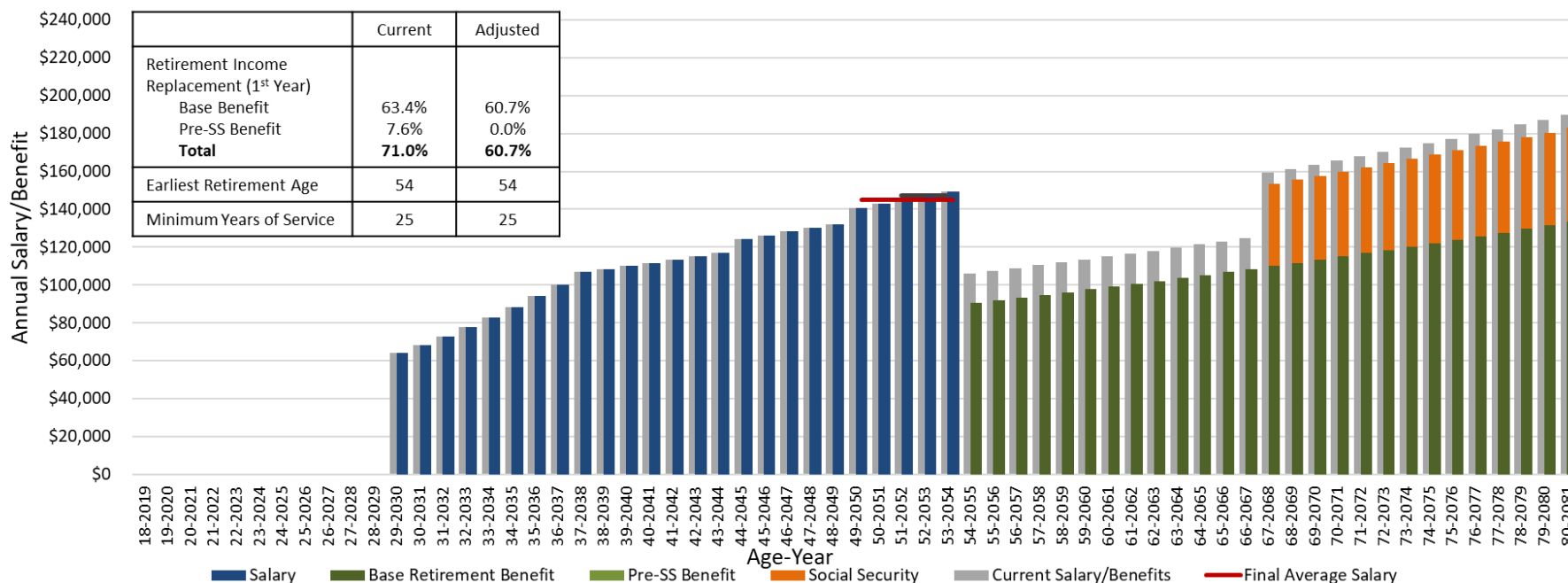
2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

Uniformed Retirement System

March 13, 2018 Package: Average Age Hire

- New Hire in 2030 at Age 29, Hired at Step 1
- Assume F-18 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
- Assumes 1.5% annual County retiree COLA
- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Average New Hire



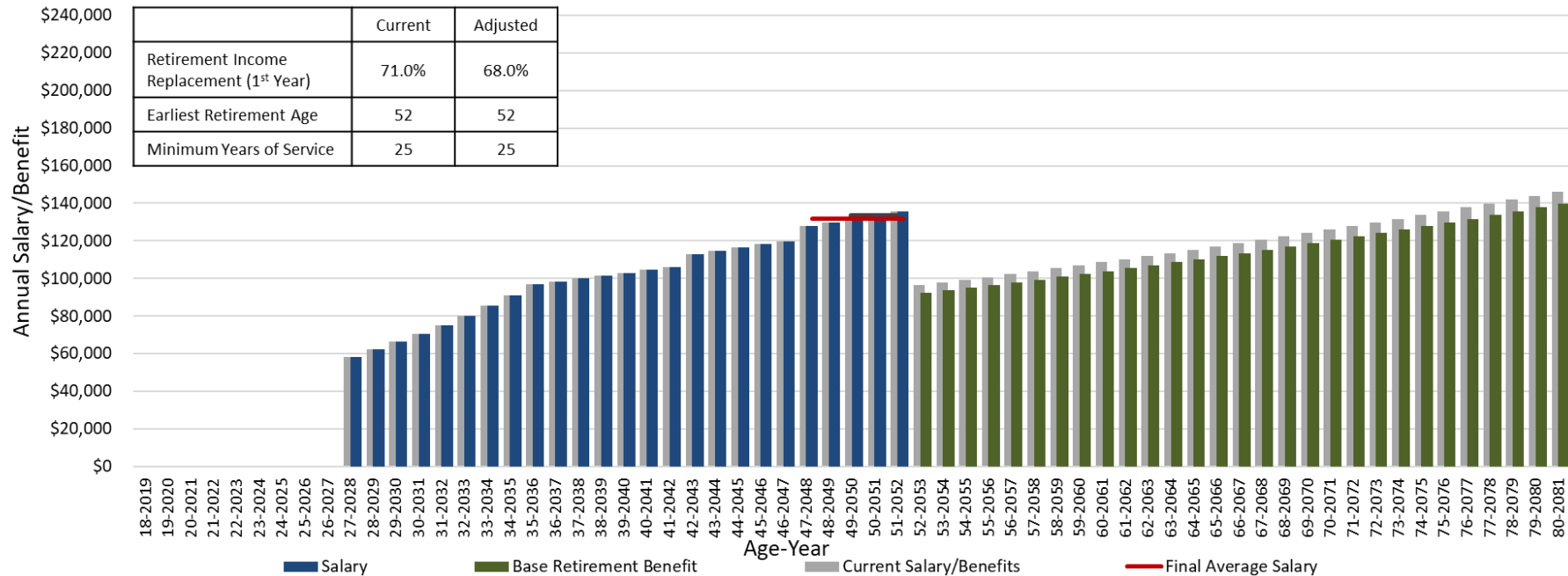
**2017-2018 Retirement Workgroup
Package for Discussion – March 13, 2018**

Police Officers Retirement System

March 13, 2018 Package: Average Age Hire

- New Hire in 2028 at Age 27, Hired at Step 1
- Assume O-17 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
- Assumes 1.5% annual County retiree COLA
- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Average New Hire



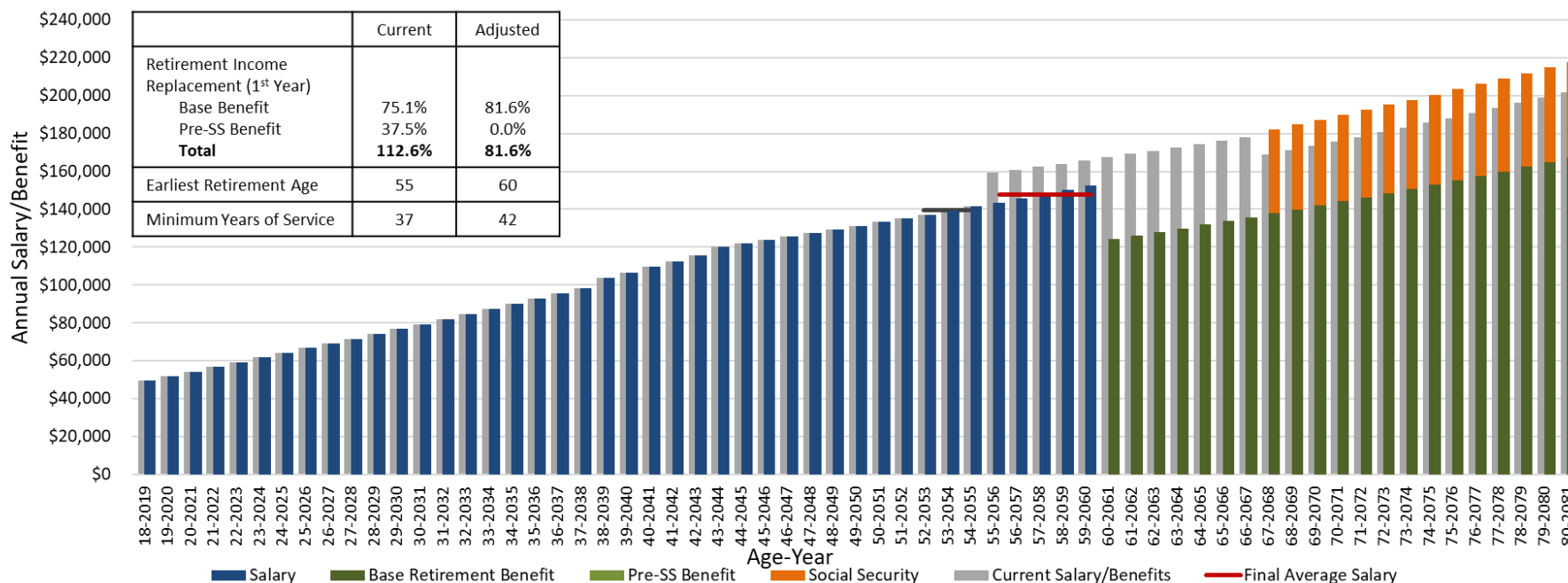
2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

Employees' Retirement System

March 13, 2018 Package: Age 18 Hire

- New Hire in 2019 at Age 18, Hired at 0% of Scale
- Assume S-21 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
- Assumes 1.5% annual County retiree COLA
- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Age 18 New Hire



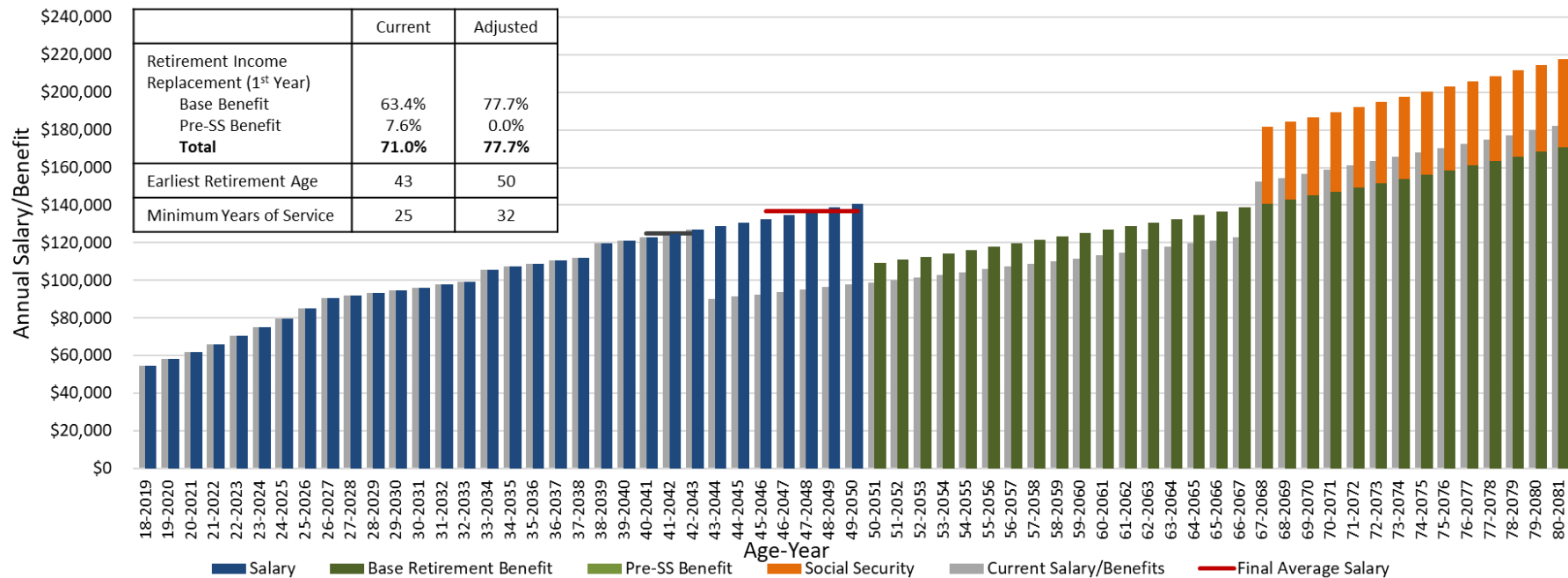
2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

Uniformed Retirement System

March 13, 2018 Package: Age 18 Hire

- New Hire in 2019 at Age 18, Hired at Step 1
- Assume F-18 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
- Assumes 1.5% annual County retiree COLA
- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Age 18 New Hire



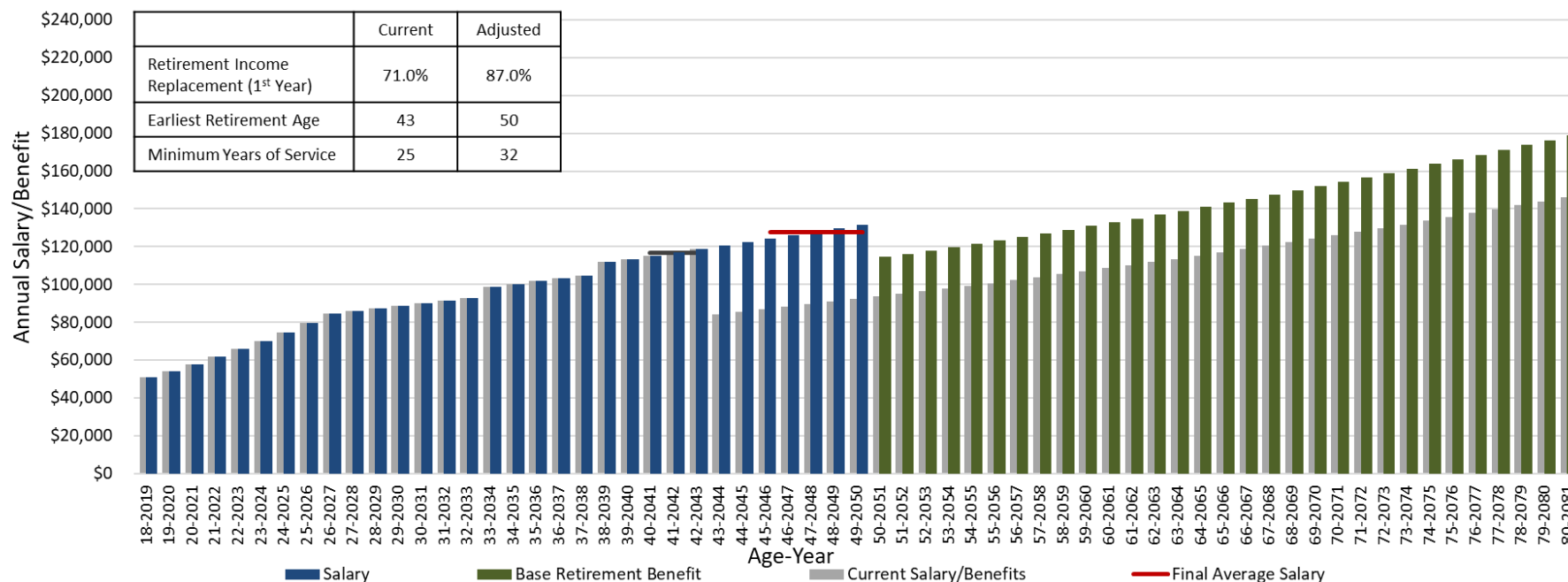
2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

Police Officers Retirement System

March 13, 2018 Package: Age 18 Hire

- New Hire in 2019 at Age 18, Hired at Step 1
- Assume O-17 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
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Projected Retirement Benefit Based on Age 18 New Hire



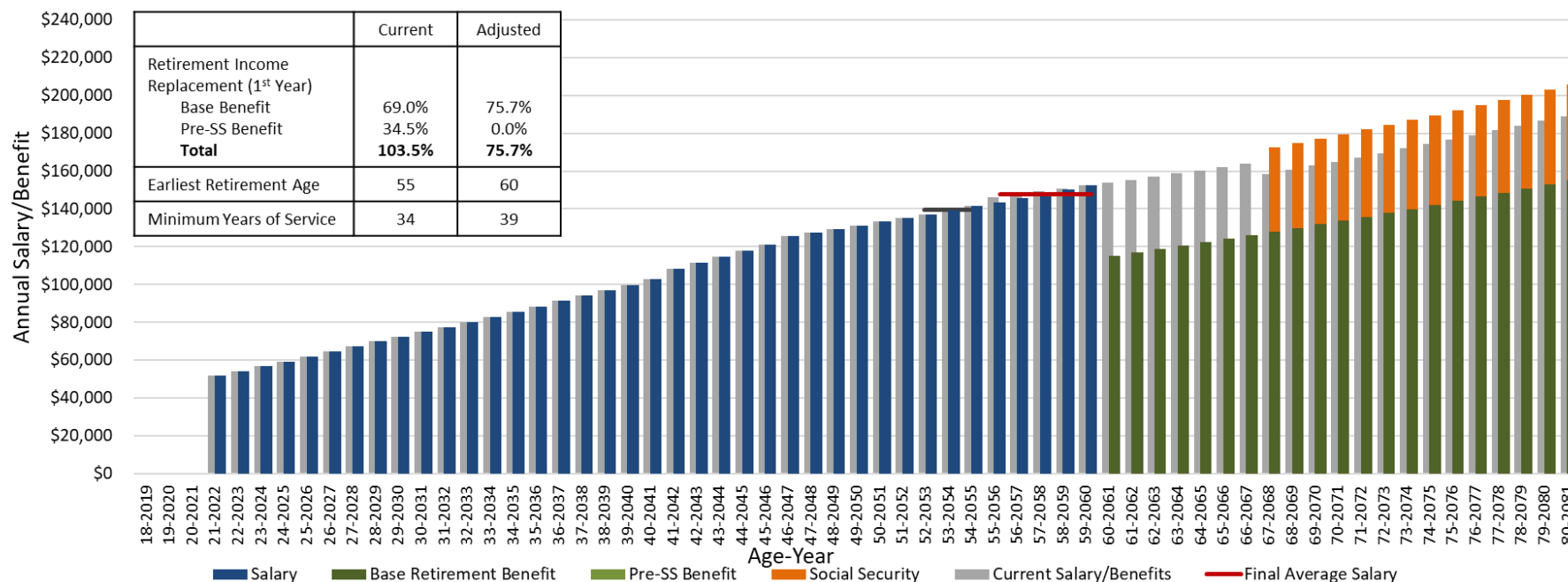
2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

Employees' Retirement System

March 13, 2018 Package: Age 21 Hire

- New Hire in 2019 at Age 21, Hired at 0% of Scale
- Assume S-21 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
- Assumes 1.5% annual County retiree COLA
- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Age 18 New Hire



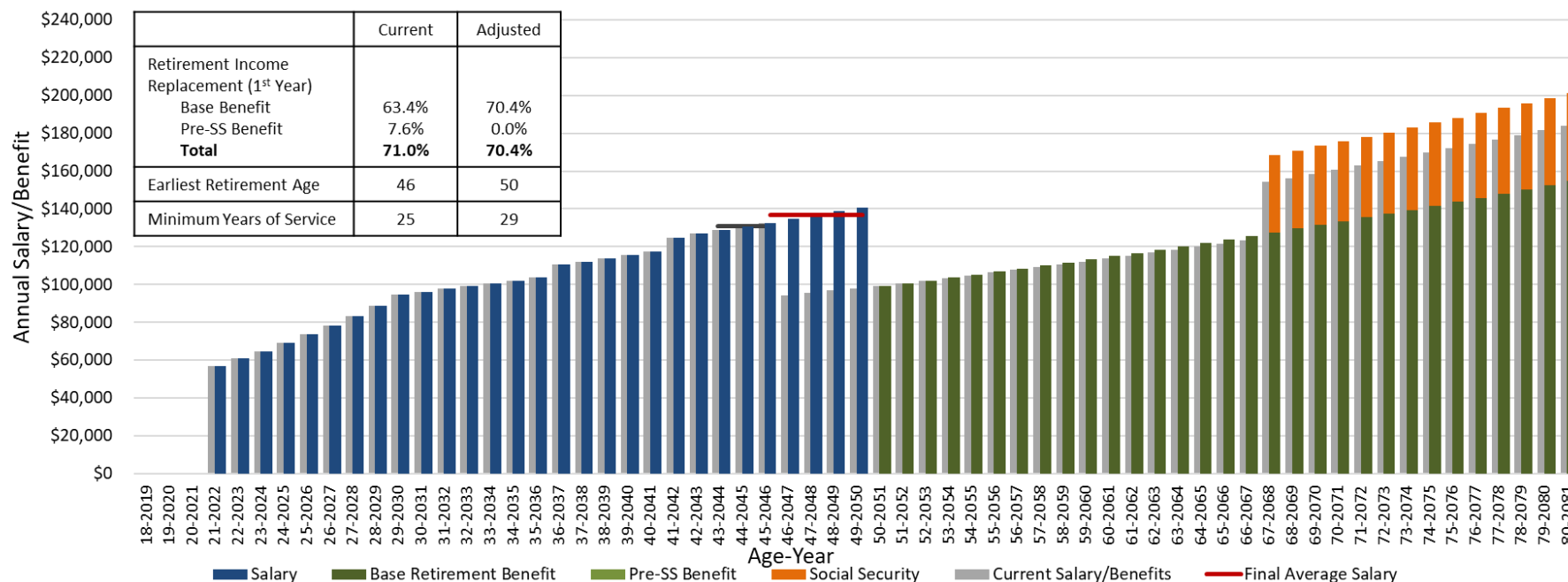
2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

Uniformed Retirement System

March 13, 2018 Package: Age 21 Hire

- New Hire in 2019 at Age 21, Hired at Step 1
- Assume F-18 with no promotions
- Retiring at earliest age for unreduced benefits
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Projected Retirement Benefit Based on Age 18 New Hire



2017-2018 Retirement Workgroup Package for Discussion – March 13, 2018

Police Officers Retirement System

March 13, 2018 Package: Age 21 Hire

- New Hire in 2019 at Age 21, Hired at Step 1
- Assume O-17 with no promotions
- Retiring at earliest age for unreduced benefits
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- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Age 18 New Hire

