

Fund 603

OPEB Trust Fund

Focus

Fund 603, OPEB Trust Fund, was created in order to capture long-term investment returns and make progress towards reducing the unfunded actuarial accrued liability under GASB 45 and funds the cost of other post-employment benefits (OPEBs) including health care, life insurance, and other non-pension benefits offered to retirees, such as the County's retiree health benefit subsidy.

GASB 45

Beginning in FY 2008 the County's financial statements were required to implement Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits. This standard addresses how local governments should account for and report their costs related to post-employment health care and other non-pension benefits, such as the County's retiree health benefit subsidy. Historically, the County's subsidy was funded on a pay-as-you-go basis. GASB 45 requires that the County accrue the cost of the retiree health subsidy and other post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the County. This funding methodology mirrors the funding approach used for pension benefits.

In order to begin preparing for the implementation of GASB 45, a reserve was established in Fund 506, Health Benefits Trust Fund, as part of the *FY 2005 Carryover Review* to begin to address the unfunded liability, and an amount of \$10.0 million was set aside in this reserve from excess revenues received from employer contributions. In FY 2007, the County allocated an additional \$8.2 million as a transfer from the General Fund for this reserve as part of the FY 2007 Adopted Budget Plan, as well as an additional \$21.8 million as part of the *FY 2006 Carryover Review*. The FY 2008 Adopted Budget Plan maintained the \$8.2 million General Fund transfer to the reserve in Fund 506, bringing the balance to \$48.2 million. The County created Fund 603 as part of the FY 2008 Adopted Budget Plan and transferred the reserve to the new fund at the *FY 2007 Carryover Review*. This \$48.2 million in initial funding will reduce the unfunded liability and, consequently, reduce the annual required contribution to Fund 603.

After exploring numerous alternatives as to how to prudently invest and accumulate resources for OPEB, County staff recommended and the Board of Supervisors approved on February 25, 2008 County participation in the Virginia Pooled OPEB Trust Fund in cooperation with the Virginia Municipal League (VML)/Virginia Association of Counties (VACo) Finance Program and other jurisdictions in the Commonwealth of Virginia. The County will be represented on the Board of Trustees for the pooled trust and will actively participate in decision-making to prudently invest accumulated resources for OPEB. It should be noted that the Virginia Pooled OPEB Trust Fund would be used for investment purposes only; funds accumulated for OPEB would still be accounted for in Fund 603.

The actuarial valuation as of July 1, 2007 under GASB 45 calculated the County's actuarial accrued liability (AAL), excluding the Schools portion, at approximately \$379.9 million, as shown below.

Valuation Results as of July 1, 2007	
(in thousands)	
Unfunded Actuarial Accrued Liability	\$379,856

This liability will be recalculated at the next valuation and will include adjustments due to benefit enhancements, medical trend experience, and normal growth assumptions. The liability includes the annual retiree health benefit subsidy, which is paid out to County retirees, as well as the liability associated with an "implicit" subsidy provided to retirees. As premiums for the County's self-insured health plans are set using the blended experience of active employees and retirees, retiree premiums are lower than if they were set solely using the experience of the retiree group. GASB 45 requires that the County calculate and include the liability for this implicit subsidy. It should be noted that the July 1, 2007 AAL increased over the initial liability calculation of \$191 million primarily because growth in retiree claims outpaced retiree premium increases as a result of premium increases being held to a moderate level. Increases were moderate based on the fact that premiums for the County's health insurance plans are set based on the claim experience of the group as a

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whole and not solely on retiree experience. The increased differential between retiree claims and premiums resulted in an increase in the implicit subsidy and, therefore, an increase in the liability. Conversely, in future years, if retiree claims grow at a slower rate than premiums, the overall liability would actually decrease. The impact of the difference between actuarial assumptions and actual experience is magnified by the fact that, similar to pension benefits, the County must now project the impact over a 30-year period. Thus, a small change in the implicit subsidy in a single year is compounded over time.

The annual required contribution (ARC) as calculated by the actuary at the July 1, 2007 valuation was approximately \$31.6 million. However, due primarily to the \$48.2 million set aside in the GASB 45 liability reserve in Fund 506, as well as annual contributions in FY 2008 towards the retiree health benefit subsidy in Fund 500, Retiree Health Benefits, and the implicit subsidy in the General Fund, it is anticipated that the County will surpass the annual required contribution in FY 2008. As a result, it is estimated that a net OPEB asset will be shown as part of the County's FY 2008 financial statements, as shown below.

Annual Required Contribution as of the July 1, 2007 Valuation (in thousands)	
Annual Required Contribution (ARC)	\$31,648
Resources to Apply toward the ARC:	
<i>GASB 45 Liability Reserve</i>	<i>\$48,200</i>
<i>Retiree Health Benefit Subsidy</i>	<i>\$4,611</i>
<i>Estimated Implicit Contribution</i>	<i>\$4,000</i>
Estimated Net OPEB Asset	\$25,163

The ARC will be calculated at each valuation and may change as a result of fluctuations in the liability. In FY 2009, the County's contribution towards the ARC will be made through a transfer from Fund 506 as a result of excess revenues received from employer contributions. (It should be noted that the annual required contribution for FY 2009 will not be calculated until the next valuation.) Any future balances identified in Fund 506 as a result of excess revenues received from employer contributions will also be considered for possible transfer to Fund 603 to assist in addressing the County's unfunded OPEB liability.

Retiree Health Benefit Subsidy

The County's retiree health benefit subsidy was previously funded out of Fund 500, Retiree Health Benefits; however, as part of the FY 2009 Advertised Budget Plan, the benefit and administrative costs related to the subsidy will be paid from Fund 603 as a result of implementation of GASB 45. The County provides monthly subsidy payments to eligible retirees to help pay for health insurance. Prior to July 2003, the monthly subsidy was \$100 for all eligible retirees. The current monthly subsidy, approved in FY 2006, commences at age 55 and varies by length of service as detailed in the following table. It should be noted that for those retired prior to July 2003, the monthly subsidy is the greater of \$100 and the amounts below. There is not a reduction in subsidy payments for employees who retired prior to July 1, 2003 but do not meet the revised requirements for years of service. However, those employees who retired prior to July 1, 2003 with 15 or more years of service were eligible for the increased subsidy as of July 1, 2003. It should be noted that the retiree health benefit subsidy is provided to retirees on a discretionary basis, and the Board of Supervisors reserves the right to reduce or eliminate the benefit in the future if the cost of the subsidy becomes prohibitive or an alternative is chosen to aid retirees in meeting their health insurance needs.

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Retiree Health Benefit Subsidy	
Years of Service at Retirement	Monthly Subsidy
5 to 9	\$30
10 to 14	\$65
15 to 19	\$155
20 to 24	\$190
25 or more	\$220

The current subsidy structure became effective January 1, 2006 and includes a temporary 25 percent increase approved by the Board of Supervisors in response to the implementation of the new Medicare Part D prescription drug benefit. This increase qualified the County's self-insured health insurance plan to be deemed as actuarially equivalent to the Medicare Part D program. Employers who offer an actuarially equivalent program are eligible to receive a subsidy from the Centers for Medicare and Medicaid Services (CMS) based on retiree enrollment in their plans. The County receives the CMS subsidy on retirees and spouses enrolled in the County's self-insured health plan who do not enroll in Medicare Part D. The federal funding from CMS is expected to completely offset the cost of the 25 percent increase to the retiree subsidy. In addition to the increase, the subsidy structure was changed so that retirees no longer receive a reduced subsidy upon reaching the age of Medicare eligibility. County staff are continuing to work on developing a long-term County strategy for Medicare Part D, which may include elimination of the 25 percent increase in the subsidy at some point in the future. Final recommendations regarding Medicare Part D options will be presented to the Board of Supervisors upon a thorough examination of Medicare Part D plans.

During FY 2009, the average number of subsidy recipients, including new retirees who are eligible to receive the retiree health benefit subsidy, is expected to increase by 92, or 3.9 percent, from 2,330 in FY 2008 to 2,422 in FY 2009. Estimates of the average number of subsidy recipients are based on a review of the projected number of retirements and health subsidy eligibility for personnel already retired from the Fairfax County Employees', Uniformed, and Police Officers Retirement Systems. Retirees who become eligible to receive the subsidy are paid based on the period of eligibility within the fiscal year, which may or may not comprise a full year of payments. It should be noted that in FY 2006, the Board of Supervisors approved an additional benefit to Health Department employees who remained in the Virginia Retirement System (VRS) after their conversion from state to County employment in 1995. Current and future retirees who participate in a County health plan are eligible to receive the differential between the County retiree health benefit subsidy for which the employee is eligible based on years of service, which currently has a maximum of \$220 per month, and that provided by VRS, which has a maximum of \$120 per month. Furthermore, effective July 1, 2006, the County began providing the maximum retiree health benefit subsidy of \$220 per month to those Police officers who were hired before July 1, 1981 and retired or will retire with full retirement benefits with 20, but less than 25, years of service. These Police officers previously received a subsidy of \$190 per month.

Initiatives

- ◆ Provide an appropriate funding level to support the retiree health benefit subsidy and make progress towards reducing the County's unfunded OPEB liability.
- ◆ Continue to allow for the timely and accurate distribution of retiree health benefit subsidy payments.
- ◆ Estimate actuarial liabilities to comply with GASB's accounting requirements for post-employment benefits other than pensions.
- ◆ Invest fund assets appropriately in order to facilitate the capture of long-term investment returns.
- ◆ Continue to develop a long-term County strategy for Medicare Part D, which may include elimination of the 25 percent increase in the subsidy.

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Budget and Staff Resources

Agency Summary¹					
Category	FY 2007 Actual	FY 2008 Adopted Budget Plan	FY 2008 Revised Budget Plan	FY 2009 Advertised Budget Plan	FY 2009 Adopted Budget Plan
Authorized Positions/Staff Years					
Regular	0/ 0	0/ 0	0/ 0	1/ 1	1/ 1
Total Expenditures	\$0	\$0	\$0	\$6,289,416	\$6,290,457

Position Summary¹	
1 Accountant II (T)	
TOTAL POSITIONS	
1 Positions (1 T) / 1.0 Staff Years (1.0 T)	(T) Denotes transferred position

¹ As part of the FY 2009 Advertised Budget Plan, all activity in Fund 500, Retiree Health Benefits, is moved to Fund 603, OPEB Trust Fund, including 1/1.0 SYE Accountant II position. It should be noted that the retiree health benefit subsidy will continue to be administered by and the position will continue to reside in the Retirement Administration Agency and be financed by Fund 603, OPEB Trust Fund.

FY 2009 Funding Adjustments

The following funding adjustments from the FY 2008 Revised Budget Plan are necessary to support the FY 2009 program:

- ◆ **Employee Compensation** **\$100,590**
 An increase of \$100,590 in Personnel Services is attributable to the transfer of 1/1.0 SYE Accountant II position from Fund 500, Retiree Health Benefits to Fund 603. This amount includes funding for salary and fringe benefits. As a result of budget constraints, compensation adjustments for County employees have been reduced. For FY 2009, employee increases as part of the pay for performance system have been discounted by 50 percent and the impact of the lower pay for performance funding is reflected above.
- ◆ **Benefit Payments** **\$5,783,458**
 An increase of \$5,783,458 is attributable to the transfer of benefit payments for the retiree health benefit subsidy from Fund 500, Retiree Health Benefits to Fund 603. It should be noted that this amount includes an increase of \$324,788 over the *FY 2008 Revised Budget Plan* amount of \$5,458,670 in Fund 500. This increase is due to the projected increase in the number of retirees receiving the subsidy.
- ◆ **Investment Services and Administrative Expenses** **\$405,368**
 An increase of \$405,368 in Operating Expenses is associated with anticipated investment services fees and administrative expenses.

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Board of Supervisors' Adjustments

The following funding adjustments reflect all changes to the FY 2009 Advertised Budget Plan, as approved by the Board of Supervisors on April 28, 2008:

- ◆ **Pay for Performance** **\$1,041**
An increase of \$1,041 in Personnel Services is associated with the decision by the Board of Supervisors to eliminate the 50 percent reduction to employee increases as part of the pay for performance system. A reduction to pay for performance increases had been proposed in the FY 2009 Advertised Budget Plan due to budget constraints. However, as a result of the Board's decision, employees will be eligible for the full compensation increase for which they qualify based on performance.

- ◆ **Reduced Transfer from GASB 45 Liability Reserve** **\$0**
The Board of Supervisors approved a \$5,100,000 reduction in the transfer from the GASB 45 Liability Reserve in Fund 506, Health Benefits Trust Fund, to Fund 603. A \$15,000,000 transfer was proposed as part of the FY 2009 Advertised Budget Plan for the County's contribution towards the ARC (annual required contribution) to address the actuarial accrued liability under GASB 45. As a result of the Board decision, the contribution towards the ARC will be reduced from \$15,000,000 to \$9,900,000 in FY 2009.

Changes to FY 2008 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2008 Revised Budget Plan since passage of the FY 2008 Adopted Budget Plan. Included are all adjustments made as part of the FY 2007 Carryover Review and all other approved changes through December 31, 2007:

- ◆ **Carryover Adjustments** **\$0**
As part of the FY 2007 Carryover Review, the Board of Supervisors approved the transfer of \$48,200,000 from the GASB 45 Liability Reserve in Fund 506, Health Benefits Trust Fund, to Fund 603 in order to begin to invest the funds accumulated to capture long-term investment returns and make progress towards reducing the unfunded actuarial accrued liability under GASB 45.

The following funding adjustments reflect all approved changes to the FY 2008 Revised Budget Plan from January 1, 2008 through April 21, 2008. Included are all adjustments made as part of the FY 2008 Third Quarter Review:

- ◆ The Board of Supervisors made no adjustments to this fund.

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FUND STATEMENT

Fund Type G60, Trust Funds

Fund 603, OPEB Trust Fund

	FY 2007 Actual	FY 2008 Adopted Budget Plan	FY 2008 Revised Budget Plan	FY 2009 Advertised Budget Plan ¹	FY 2009 Adopted Budget Plan
Beginning Balance	\$0	\$0	\$0	\$48,200,000	\$48,200,000
Revenue:					
CMS Medicare Part D Subsidy	\$0	\$0	\$0	\$968,000	\$968,000
Interest on Investment	0	0	0	2,163,729	2,163,729
Total Revenue	\$0	\$0	\$0	\$3,131,729	\$3,131,729
Transfer In:					
Health Benefits Trust Fund (506)	\$0	\$0	\$48,200,000	\$15,000,000	\$9,900,000
Total Transfer In	\$0	\$0	\$48,200,000	\$15,000,000	\$9,900,000
Total Available	\$0	\$0	\$48,200,000	\$66,331,729	\$61,231,729
Expenditures:					
Benefits Paid	\$0	\$0	\$0	\$5,783,458	\$5,783,458
Investment Services	0	0	0	350,000	350,000
Administrative	0	0	0	155,958	156,999
Total Expenditures	\$0	\$0	\$0	\$6,289,416	\$6,290,457
Total Disbursements	\$0	\$0	\$0	\$6,289,416	\$6,290,457
Reserved Ending Balance²	\$0	\$0	\$48,200,000	\$60,042,313	\$54,941,272

¹ As part of the FY 2009 Advertised Budget Plan, all activity in Fund 500, Retiree Health Benefits, has been transferred to Fund 603, OPEB Trust Fund in order to address the implementation of Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits (OPEBs). It should be noted that any balances remaining in Fund 500 at the end of FY 2008 will be moved to Fund 603 as part of the *FY 2008 Carryover Review*.

² The Reserved Ending Balance in Fund 603, OPEB Trust Fund represents the amount of assets held in reserve by the County to offset the estimated Unfunded Actuarial Accrued Liability for other post employment benefits. The balance is anticipated to grow each year as a result of contributions and investment returns. The \$54.9 million reserve in FY 2009 will be applied toward the liability of \$379.9 million calculated as of July 1, 2007.