

Fund 603

OPEB Trust Fund

Focus

Fund 603, OPEB Trust Fund, was created 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 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.

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 helped reduce the unfunded liability and, consequently, reduced the annual required contribution to Fund 603. The *FY 2009 Revised Budget Plan* includes an additional \$14.9 million from the GASB 45 Liability Reserve in Fund 506 and the FY 2010 Baseline Budget includes a \$9.9 million General Fund transfer to continue making progress towards reducing the County's unfunded actuarial accrued liability.

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 is represented on the Board of Trustees for the pooled trust and actively participates in decision-making to prudently invest accumulated resources for OPEB. It should be noted that the Virginia Pooled OPEB Trust Fund is used for investment purposes only; funds accumulated for OPEB would still be accounted for in Fund 603.

The actuarial valuation as of July 1, 2008 under GASB 45 calculated the County's actuarial accrued liability (AAL), excluding the Schools portion, at approximately \$350.7 million and the unfunded actuarial accrued liability as \$302.5 million, as shown below.

| Valuation Results as of July 1, 2008 | |
|---|-----------|
| (in thousands) | |
| Actuarial Accrued Liability (AAL) | \$350,709 |
| Plan Assets | \$48,207 |
| Unfunded Actuarial Accrued Liability | \$302,502 |
| Annual Required Contribution (ARC) | \$25,393 |

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

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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, 2008 AAL decreased slightly over the July 1, 2007 AAL of \$379.9 million primarily because of favorable retiree claims experience. The differential between actuarial assumptions related to retiree claims and premiums and actual claims experience and premiums is the primary driver behind the liability related to the implicit subsidy. When claims experience is favorable compared to premium increases and actuarial assumptions, the implicit subsidy liability is likely to decline. Conversely, if the County experiences an unanticipated spike in retiree claims expenses, the implicit subsidy liability could increase. The impact of the difference between actuarial assumptions and actual experience is magnified by the fact that, similar to pension benefits, the County must project the impact over a 30-year period. Thus, a small change in the implicit subsidy in a single year is compounded over time.

Primarily as a result of the \$48.2 million transfer from the GASB 45 Liability Reserve in Fund 506, Health Benefits Trust Fund, the County exceeded the FY 2008 annual required contribution (ARC) and a net OPEB asset of \$27.0 million was shown on the County’s FY 2008 financial statements. The ARC as calculated by the actuary at the July 1, 2008 valuation was approximately \$25.4 million. Largely due to the carryover of the FY 2008 net OPEB asset and the additional \$14.9 million transfer from Fund 506 in FY 2009, it is anticipated that the County will be able to maintain the net OPEB asset in FY 2009, as displayed below. It should be noted that \$5.4 million paid from Fund 500, Retiree Health Benefits, was counted towards the County’s contribution in FY 2008. As all activity in Fund 500 has been moved to Fund 603 and all benefit payments are now paid utilizing contributions towards the ARC, these benefit payments cannot be included in the net OPEB asset calculation beginning in FY 2009.

| Net OPEB Asset (in thousands) | | |
|---|---------------------------|-----------------------------|
| | FY 2008 Actual | FY 2009 Estimate |
| Annual Required Contribution (ARC) | \$31,648 | \$25,393 |
| Resources to Apply toward the ARC: | | |
| <i>Transfer from Health Benefits Trust Fund</i> | \$48,200 | \$14,900 |
| <i>Explicit Subsidy Benefits Paid</i> | \$5,400 | N/A |
| <i>Implicit Subsidy Contribution</i> | \$5,081 | \$4,000 |
| Estimated Net OPEB Asset | \$27,033 | \$20,540 |

The ARC will be calculated at each valuation and may change as a result of fluctuations in the liability. The FY 2010 Baseline Budget includes a \$9.9 million transfer from the General Fund for the County’s contribution towards the FY 2010 ARC. (It should be noted that the annual required contribution for FY 2010 will not be calculated until the July 1, 2009 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 Adopted Budget Plan, the benefit and administrative costs related to the subsidy will be paid from Fund 603 as a result of the 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

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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.

| 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 continue 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 2010, the average number of subsidy recipients, including new retirees who are eligible to receive the retiree health benefit subsidy, is expected to increase by 209, or 8.6 percent, from 2,422 in FY 2009 to 2,631 in FY 2010. 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.

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- ◆ Continue to develop a long-term County strategy for Medicare Part D, which may include elimination of the 25 percent increase in the subsidy.

Budget and Staff Resources

| Agency Summary ¹ | | | | |
|----------------------------------|-------------------|-----------------------------------|-----------------------------------|-------------------------------|
| Category | FY 2008 Actual | FY 2009 Adopted Budget Plan | FY 2009 Revised Budget Plan | FY 2010 Baseline Budget |
| Authorized Positions/Staff Years | | | | |
| Regular | 0/ 0 | 1/ 1 | 1/ 1 | 1/ 1 |
| Total Expenditures | \$0 | \$6,290,457 | \$6,290,457 | \$6,680,056 |

| Position Summary ¹ |
|--------------------------------------|
| 1 Accountant II |
| TOTAL POSITIONS |
| 1 Positions / 1.0 Staff Years |

¹ As part of the FY 2009 Adopted Budget Plan, all activity in Fund 500, Retiree Health Benefits, was 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 2010 Funding Adjustments

The following funding adjustments from the FY 2009 Revised Budget Plan are necessary to support the FY 2010 program:

- ◆ **Employee Compensation** **\$4,617**
An increase of \$4,617 in Personnel Services includes salary adjustments necessary to support the County's compensation program.
- ◆ **Benefit Payments** **\$568,682**
An increase of \$568,682 is attributable to a projected increase in the number of retirees receiving the retiree health benefits subsidy.
- ◆ **Investment Services and Administrative Expenses** **(\$183,700)**
A decrease of \$183,700 in Operating Expenses is primarily associated with an anticipated decrease in investment services fees as a result of current market conditions.

Changes to FY 2009 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2009 Revised Budget Plan since passage of the FY 2009 Adopted Budget Plan. Included are all adjustments made as part of the FY 2008 Carryover Review and all other approved changes through September 15, 2008:

- ◆ **Carryover Adjustments** **\$0**
As part of the *FY 2008 Carryover Review*, the Board of Supervisors approved a \$5,000,000 increase in the transfer from the GASB 45 Liability Reserve in Fund 506, Health Benefits Trust Fund, to Fund 603 in order to continue making progress towards reducing the unfunded actuarial accrued liability under GASB 45. As a result of this adjustment, the transfer from Fund 506 totals \$14,900,000 in FY 2009. In addition, it should be noted that as part of the *FY 2008 Carryover Review*, consistent with the movement of all activity of Fund 500, Retiree Health Benefits, to Fund 603 beginning in FY 2009, the FY 2008 ending balance of \$411,433 in Fund 500 was moved to Fund 603.

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FUND STATEMENT

Fund Type G60, Trust Funds

Fund 603, OPEB Trust Fund

| | FY 2008 Actual | FY 2009 Adopted Budget Plan ¹ | FY 2009 Revised Budget Plan | FY 2010 Baseline Budget |
|---|---------------------|--|-----------------------------------|-------------------------------|
| Beginning Balance | \$0 | \$48,200,000 | \$48,212,088 | \$60,364,793 |
| Revenue: | | | | |
| CMS Medicare Part D Subsidy | \$0 | \$968,000 | \$968,000 | \$968,000 |
| Investment Income | 12,088 | 2,163,729 | 2,163,729 | 1,608,900 |
| Total Revenue | \$12,088 | \$3,131,729 | \$3,131,729 | \$2,576,900 |
| Transfer In: | | | | |
| General Fund (001) | \$0 | \$0 | \$0 | \$9,900,000 |
| Retiree Health Benefits (500) | 0 | 0 | 411,433 | 0 |
| Health Benefits Trust Fund (506) | 48,200,000 | 9,900,000 | 14,900,000 | 0 |
| Total Transfer In | \$48,200,000 | \$9,900,000 | \$15,311,433 | \$9,900,000 |
| Total Available | \$48,212,088 | \$61,231,729 | \$66,655,250 | \$72,841,693 |
| Expenditures: | | | | |
| Benefits Paid | \$0 | \$5,783,458 | \$5,783,458 | \$6,352,140 |
| Investment Services | 0 | 350,000 | 350,000 | 148,500 |
| Administrative | 0 | 156,999 | 156,999 | 179,416 |
| Total Expenditures | \$0 | \$6,290,457 | \$6,290,457 | \$6,680,056 |
| Total Disbursements | \$0 | \$6,290,457 | \$6,290,457 | \$6,680,056 |
| Reserved Ending Balance ² | \$48,212,088 | \$54,941,272 | \$60,364,793 | \$66,161,637 |

¹ As part of the FY 2009 Adopted Budget Plan, all activity in Fund 500, Retiree Health Benefits, was 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). The remaining FY 2008 balance in Fund 500 of \$411,433 was 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 \$66.2 million reserve in FY 2010 is applied toward the liability of \$350.1 million calculated as of July 1, 2008.