# Employee Retirement Systems Overview

Fairfax County employee retirement systems include the Uniformed Retirement System (Fund 600), the Fairfax County Employees' Retirement System (Fund 601), and the Police Officers Retirement System (Fund 602). Each of these systems is funded from employees' contributions based on a fixed percentage of pay, County contributions based on a variable percentage of employee pay as determined by actuarial analysis, and return on investments. In order to assure the continued soundness of each fund, an actuarial valuation is conducted annually and, if appropriate, an adjustment is made to the employer contribution rate.

For the Uniformed Retirement Trust Fund, the employer's contribution comes from two sources: Agency 89, Employee Benefits, in the County's General Fund, for uniformed public safety employees in General Fund agencies and Fund 120, E-911, for the non-administrative staff in the Department of Public Safety Communications. For the Fairfax County Employees' Retirement Trust Fund, the employer's contribution comes from two sources: Agency 89, Employee Benefits, for County employees and Fairfax County Public Schools (FCPS) for school employees. For the Police Officers Retirement Trust Fund, the full amount of the employer's contribution comes from Agency 89, Employee Benefits, in the County's General Fund.

On March 18, 2002 the Board of Supervisors adopted a corridor approach to employer contributions. The corridor approach adds further stability to the employer contribution rates and continues to adequately fund the retirement systems. In the corridor method of funding, a fixed contribution rate is assigned to each system and the County contributes at the fixed rate unless the system's funding ratio falls outside the pre-selected corridor of 90-120 percent or if benefit enhancements are approved.

In addition, retirees are eligible to receive a Cost-of-Living Adjustment (COLA) composed of a base COLA which is the lesser of the Consumer Price Index (CPI) for the 12 months ending on the previous year's March 31, or 4.0 percent. If certain conditions are met, an additional 1.0 percent COLA can be awarded at the discretion of each retirement system's Board of Trustees. This additional COLA is considered a benefit enhancement and results in an increase in the employer contribution rate.

**In their budget guidance approved with the adoption of the FY 2010 budget, the Board of Supervisors directed staff to review the requirements placed on the County's retirement systems as a result of the economic downturn.** As the County continues to address increasing benefit costs, the volatility of the financial markets and uncertainty about future funding flexibility, the Board felt it was an opportune time to examine and refine a number of policies related to the County's retirement systems, including the additional 1.0 percent ad-hoc COLA and the corridor funding approach.

Staff conducted a comprehensive examination of the current corridor policy and concluded that the corridor approach should be maintained, as it has cushioned the County from dramatic rate increases in the past and is currently providing insulation from the global financial crisis. However, recognizing the difficult economic environment and the impact on investment returns, it is unlikely that the funding ratios for the three systems will increase significantly over the next few years based on the current corridor parameters. Consequently, the corridor will remain at 90-120 percent, as codified in the Fairfax County Code, but every effort will be made to gradually move towards a narrower corridor of 95-105 percent. This solution will allow the County to maintain the flexibility afforded by the current policy with the understanding that increasing contributions to the retirement systems, when feasible from a budgetary perspective, will improve the systems' financial position. At a future date, when the funding ratios of the systems have risen above 95 percent, consideration will be given to formally revising the corridor to 95-105 percent.

Similarly, in its examination of the ad-hoc COLA policy, staff concluded that it is important for an individual Board of Trustees to maintain the discretion to grant an ad-hoc COLA for its retirees and that the criteria used to grant a COLA among the three systems be consistent. However, the financial conditions that must be met in order for a Board to consider granting an ad-hoc COLA should be strengthened, especially since the granting of such a COLA impacts the employer contribution rates and, thus, requires County funding. As a result, it is recommended that the financial criteria be revised whereby the system must have an actuarial surplus – demonstrated by having a funding ratio exceeding 100 percent – before an ad-hoc COLA can be considered. It should be noted that, given the current economic conditions, it is highly unlikely that the financial criteria, under either the current or proposed methodologies, would be met in order for an ad-hoc COLA to be considered by any of the three retirement systems in the foreseeable future.

# Employee Retirement Systems Overview

The projected FY 2011 employer contribution rates for each of the three retirement systems are as follows:

| Fund | FY 2010 Rates (%) | FY 2011 Rates (%) | Percentage Point Change (%) | Net General Fund Impact |
|---|---|---|---|---|
| **Uniformed** | 26.46 | 30.56 | 4.10 | $5,670,046 |
| **Employees'** | 9.71 | 14.70 | 4.99 | $15,242,861 |
| **Police Officers** | 22.84 | 28.31 | 5.47 | $5,607,279 |
| **Total** | | | | **$26,520,186** |

Following the actuarial funding policy currently in effect, contribution rates are adjusted only to fund approved benefit enhancements, to acknowledge changes in actuarial assumptions, both financial and demographic, and to recognize funding adjustments required when the funding ratio falls below 90 percent or rises above 120 percent. The global financial crisis during FY 2009 resulted in significant losses in the value of the invested assets of all three retirement systems. The funding ratios for the Uniformed and Police Officers system dropped outside of the corridor, decreasing from 92.3 to 85.7 percent and 91.7 to 85.0 percent, respectively. The funding ratio for the Employees' system fell further below the 90 percent threshold, decreasing from 85.3 to 76.0 percent. As the funding ratio of each system is outside of the corridor, and following established funding policy, the employer contribution rates for each of the systems must be increased to amortize the unfunded liabilities created by the fall in asset values.

In line with the recommendation to move gradually to a 95-105 percent corridor and in recognition of the need to increase the employer contribution rates in order to improve the systems' financial position, additional increases are included based on a change to the amortization schedule. Currently, if the funding ratio falls below 90 percent, the unfunded actuarial accrued liability (UAAL) below 90 percent is amortized over 15 years in order to get back to a 90 percent level. For FY 2011, the employer contribution rates have been increased to allow for an amortization to a 91 percent level in accordance with the phased approach to move towards the 95 percent target.

- The employer contribution rate for the Uniformed system is required to increase by 3.32 percentage points based on the funding ratio falling below the 90 percent threshold and an additional 0.78 percentage points based on the change in the amortization schedule.

- The employer contribution rate for the Employees' system is required to increase by 4.51 percentage points based on the funding ratio falling further below the 90 percent threshold and an additional 0.48 percentage points based on the change in the amortization schedule.

- The employer contribution rate for the Police Officers system is required to increase by 4.56 percentage points based on the funding ratio falling below the 90 percent threshold and an additional 0.91 percentage points based on the change in the amortization schedule.

For more information on the General Fund impact of these employer contribution rate changes, please refer to the Agency 89, Employee Benefits, narrative in the Nondepartmental program area section of Volume 1.

It should be noted that a Deferred Retirement Option Plan (DROP) was added as a benefit enhancement for members of the Uniformed and Police Officers Retirement Systems in FY 2004 and was added for members of the Employees' Retirement System in FY 2006.

# Employee Retirement Systems Overview

The following table displays relevant information about each retirement system:

| EMPLOYEES COVERED | | |
|---|---|---|
| **Uniformed Retirement** | **Fairfax County Employees'** | **Police Officers Retirement** |
| Fire and Rescue Personnel; Uniformed Office of Sheriff employees; Animal Control Officers; Helicopter Pilots; Non-administrative staff in the Department of Public Safety Communications. | County employees not covered under Uniformed or Police Officers system; certain FCPS employees including food service, custodial, bus drivers, part-time and substitute teachers, maintenance staff. | Fairfax County Police Officers. |
| **CONDITIONS OF COVERAGE** | | |
| **Uniformed Retirement** | **Fairfax County Employees'** | **Police Officers Retirement** |
| At age 55 with 6 years of service or after 25 years of service. | At age 65 with 5 years of service or earlier when age and years of service combined equal 80 or, for reduced "early retirement" benefits, 75. Not before age 50. | At age 55 or after 20 years of police service if hired before 7/1/81; or 25 years of service if hired on or after 7/1/81. |

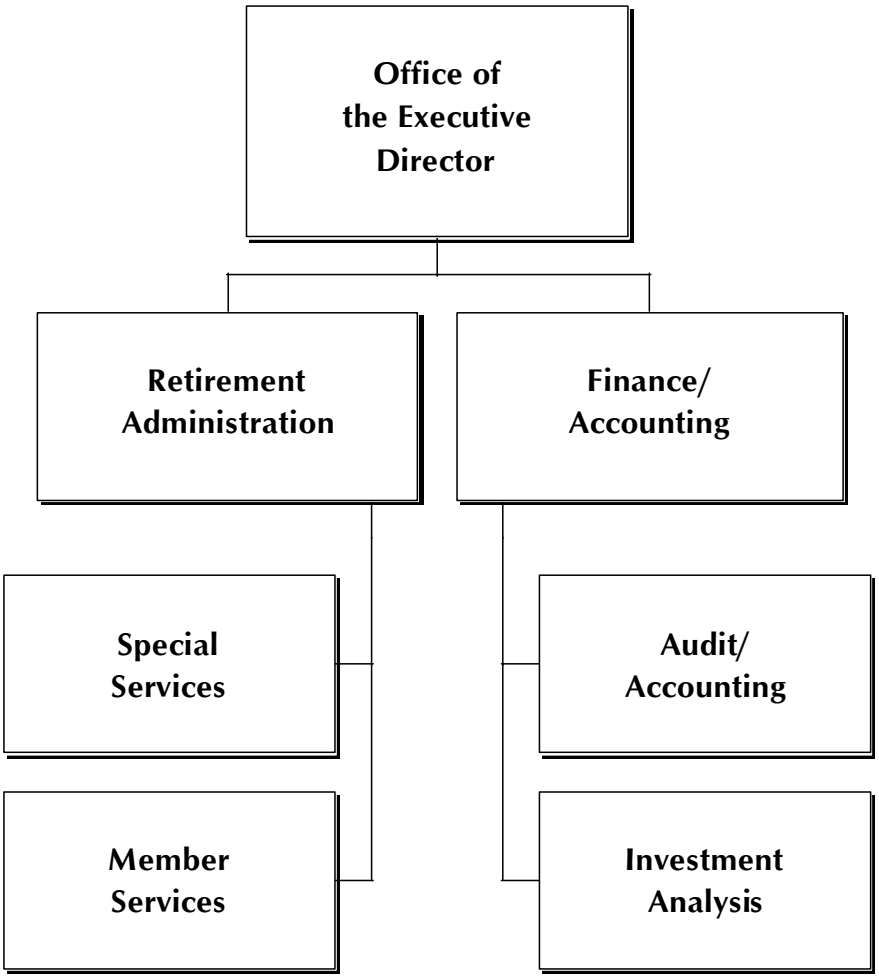
| EMPLOYEE CONTRIBUTION | | | | | |
|---|---|---|---|---|---|
| | **Uniformed Retirement** | | **Fairfax County Employees' Retirement** | | **Police Officers Retirement** |
| | Plan A | Plan B | Plan A | Plan B | |
| Up to Wage Base | 4.00% | 7.08% | 4.00% | 5.33% | 10.00% of Pay |
| Above Wage Base | 5.33% | 8.83% | 5.33% | 5.33% | |
| Plan C | 4.00% | | | | |
| Plan D | 7.08% | | | | |

| EMPLOYER CONTRIBUTION<br>Rate Structure / FY 2011 | | |
|---|---|---|
| **Uniformed Retirement** | **Fairfax County Employees' Retirement** | **Police Officers Retirement** |
| 30.56% | 14.70% | 28.31% |

# Employee Retirement Systems Overview

| INVESTMENT MANAGERS AS OF JUNE 30, 2009 | | |
|---|---|---|
| **Uniformed Retirement** | **Fairfax County Employees' Retirement** | **Police Officers Retirement** |
| ▪ Acadian Asset Management<br>▪ Advisory Research<br>▪ Artio Global Investors<br>▪ Ashmore Investment Management<br>▪ Barclays Global Investors<br>▪ Brandywine Global Investment Management<br>▪ Bridgewater Associates<br>▪ Cohen & Steers Capital Management<br>▪ Harbourvest Partners<br>▪ JP Morgan Investment Management<br>▪ King Street Capital<br>▪ Marathon Asset Management<br>▪ Morgan Stanley<br>▪ NCM Capital Management<br>▪ Optima Management<br>▪ Orbimed Advisors<br>▪ Pacific Investment Management Co.<br>▪ Pantheon Ventures<br>▪ Ramius, LLC<br>▪ Standish Mellon Asset Management<br>▪ Trust Company of the West<br>▪ UBS Realty Advisors<br>▪ Victory Capital Management | ▪ Artio Global Investors<br>▪ Barclays Global Investors<br>▪ Brandywine Global Investment Management<br>▪ Bridgewater Associates<br>▪ The Clifton Group<br>▪ Cohen & Steers Capital Management<br>▪ Columbia Wanger Asset Management<br>▪ Deerfield Capital Management<br>▪ DePrince, Race & Zollo<br>▪ Enhanced Investment Technologies<br>▪ First Quadrant<br>▪ Grammercy Advisors<br>▪ JP Morgan Investment Management<br>▪ LSV Asset Management<br>▪ MacKay Shields<br>▪ Marathon Asset Management<br>▪ Morgan Stanley<br>▪ Pacific Investment Management Co.<br>▪ Post Advisory Group<br>▪ Pzena Investment Management<br>▪ Sands Capital Management<br>▪ Shenkman Capital Management<br>▪ Standish Mellon Asset Management<br>▪ Stark Investments<br>▪ Trust Company of the West | ▪ Acadian Asset Management<br>▪ AQR Capital Management<br>▪ Clarivest Asset Management<br>▪ Cohen & Steers Capital Management<br>▪ Dodge & Cox Investment Managers<br>▪ Goldman Sachs<br>▪ Grantham, Mayo, Van Otterloo<br>▪ Loomis Sayles<br>▪ Mariner Investment Group<br>▪ McKinley Capital Management<br>▪ Morgan Stanley<br>▪ Oaktree Capital Management<br>▪ Pacific Investment Management Co.<br>▪ Pzena Investment Management<br>▪ Ramius, LLC<br>▪ Standish Mellon Asset Management<br>▪ Trust Company of the West |

# Retirement Administration Agency




## Mission

As an agent of the Boards of Trustees of the Employees', Police Officers, and Uniformed Retirement Systems, the mission of the Retirement Administration Agency is to administer the systems according to the terms established by the County of Fairfax and to do so in a manner that:

- Safeguards and invests the assets of the systems;
- Maximizes cost effectiveness of the retirement programs by optimizing long-term investment returns within an acceptable level of variation in required funding and by maintaining efficient administrative operations;
- Maximizes the value of retirement plans in retaining County personnel through communications, education, and counseling programs and by providing quality service;
- Fulfills the obligations of the systems to retirees by providing timely and accurate payments and by providing quality service; and
- Provides technical support and advice to County management and the Board of Supervisors regarding retirement benefits.

# Retirement Administration Agency

## Focus

The Retirement Administration Agency contributes to the County's corporate stewardship through sound management of County resources and assets. To accomplish its specific mission, the Retirement Administration Agency will focus on:

- Support for the Boards of Trustees;
- Services to active employees and retirees;
- Accurate accounting and control of plan assets;
- Accuracy of data;
- Cost efficiency of processes; and
- Investment return and risk control.

Under the direction of the Boards of Trustees for the Fairfax County Employees' Retirement, Police Officers Retirement, and Uniformed Retirement Systems, the Retirement Administration Agency processes benefit payments to eligible Fairfax County retirees and beneficiaries. The agency also processes payments for the retiree health benefit subsidy and provides counseling and comprehensive information pertaining to benefits to active and retired County employees.

The agency receives revenues from various sources, including employee and employer contributions to the various retirement systems, employee payback, and return on investments, to finance the three employee retirement systems. Employee contributions are based on a fixed percentage of pay. For the Uniformed Retirement System, employer contributions come from two sources: Agency 89 for uniformed public safety employees in General Fund agencies and Fund 120, E-911, for the non-administrative staff in the Department of Public Safety Communications. For the Employees' Retirement System, employer contributions come from Agency 89, Employee Benefits, for County employees and Fairfax County Public Schools (FCPS) for school employees. Employer contributions for the Police Officers Retirement System come solely from Agency 89, Employee Benefits, in the County's General Fund. Adjustments are made to the employer's contribution rate only to fund approved benefit enhancements, to acknowledge changes in actuarial assumptions, both financial and demographic, and to recognize funding adjustments required when the funding ratio falls out of the 90 to 120 percent funding corridor. It should be noted that, at the direction of the Board, staff conducted a comprehensive examination of the corridor policy in FY 2010 and concluded that the corridor approach should be maintained. However, recognizing the difficult economic environment and the impact on investment returns, it is unlikely that the funding ratios for the three systems will increase significantly over the next few years based on the current corridor parameters. Consequently, the corridor will remain at 90-120 percent, as codified in the Fairfax County Code, but every effort will be made to gradually move towards a narrower corridor of 95-105 percent. At a future date, when the funding ratios of the systems have risen above 95 percent, consideration will be given to formally revising the corridor to 95-105 percent.

Some revenues are also generated through employee payback, a process by which employees who have left the County can make a "payback" contribution and return to their previous standing in the retirement system upon their return to County employment. Additionally, significant revenues are achieved through returns on fund investments. Revenue projections are based on an assumed actuarial rate of return of 7.5 percent. An actuarial valuation is conducted annually for each of the three funds to assure the continued soundness of the retirement systems. In addition, an experience study – which compares actual experience to actuarial assumptions, both economic and demographic – is conducted once every five years to ensure that the plan is being valued appropriately. Such an experience study was last conducted in FY 2006, with assumption changes made that impacted the employer contribution rates in FY 2007. The next study will take place in FY 2011 and any changes made will be reflected in the required contribution rates for FY 2012.

## Budget and Staff Resources

| Agency Summary | | | | |
|---|---|---|---|---|
| Category | FY 2009 Actual | FY 2010 Adopted Budget Plan | FY 2010 Revised Budget Plan | FY 2011 Advertised Budget Plan |
| Authorized Positions/Staff Years | | | | |
| Regular | 24/ 24 | 24/ 24 | 24/ 24 | 24/ 24 |
| Expenditures: | | | | |
| Personnel Services | $2,227,042 | $2,419,458 | $2,419,458 | $2,483,684 |
| Operating Expenses | 292,593,592 | 317,783,795 | 317,808,546 | 348,226,472 |
| Capital Equipment | 0 | 0 | 0 | 0 |
| **Total Expenditures** | **$294,820,634** | **$320,203,253** | **$320,228,004** | **$350,710,156** |

**Position Summary**

**OFFICE OF THE DIRECTOR**
1 Executive Director
1 Administrative Assistant IV

**RETIREMENT ADMINISTRATION**
1 Deputy Director
1 Administrative Assistant II

**Special Services**
1 Programmer Analyst III
1 Programmer Analyst II
1 Communications Specialist II

**Membership Services**
1 Management Analyst III
4 Retirement Counselors
5 Administrative Assistants V

**FINANCE/ACCOUNTING**
1 Financial Specialist IV

**Audit/Accounting**
1 Accountant I

**Investment Analysis**
1 Chief Investment Officer
1 Senior Investment Manager
2 Investment Managers
1 Investment Analyst

**TOTAL POSITIONS**[1]
**24 Positions / 24.0 Staff Years**

[1] It should be noted that 1/1.0 SYE Accountant III resides in the Retirement Administration Agency, but is accounted for and financed by Fund 603, OPEB Trust Fund. The 24/24.0 SYE positions shown above are financed jointly by the three retirement trust funds (Fund 600, Fund 601, and Fund 602).

## FY 2011 Funding Adjustments

*The following funding adjustments from the FY 2010 Adopted Budget Plan are necessary to support the FY 2011 program:*

- **Employee Compensation** **$0**
  It should be noted that no funding is included for pay for performance or market rate adjustments in FY 2011.

- **Other Post-Employment Benefits** **$64,226**
  An increase of $64,226 reflects the cost of providing Other Post-Employment Benefits (OPEBs) to retirees, including the Retiree Health Benefits Subsidy. Historically, costs related to these benefits have been paid by the General Fund; however, beginning in FY 2011, these annual costs will be spread to other funds in order to more appropriately reflect benefit-related expenses within each fund. For more information on Other Post-Employment Benefits, please refer to Fund 603, OPEB Trust Fund, in Volume 2 of the FY 2011 Advertised Budget Plan.

- **Benefit Payments** **$36,208,264**
  An increase of $36,208,264 in Operating Expenses reflects increased payments of $35,451,516 to retirees due to a higher number of retirees and higher individual payment levels and an increase in payments to beneficiaries of $1,122,748, offset by a decrease of $366,000 in the allowance for refunds based on projected turnover of active members.

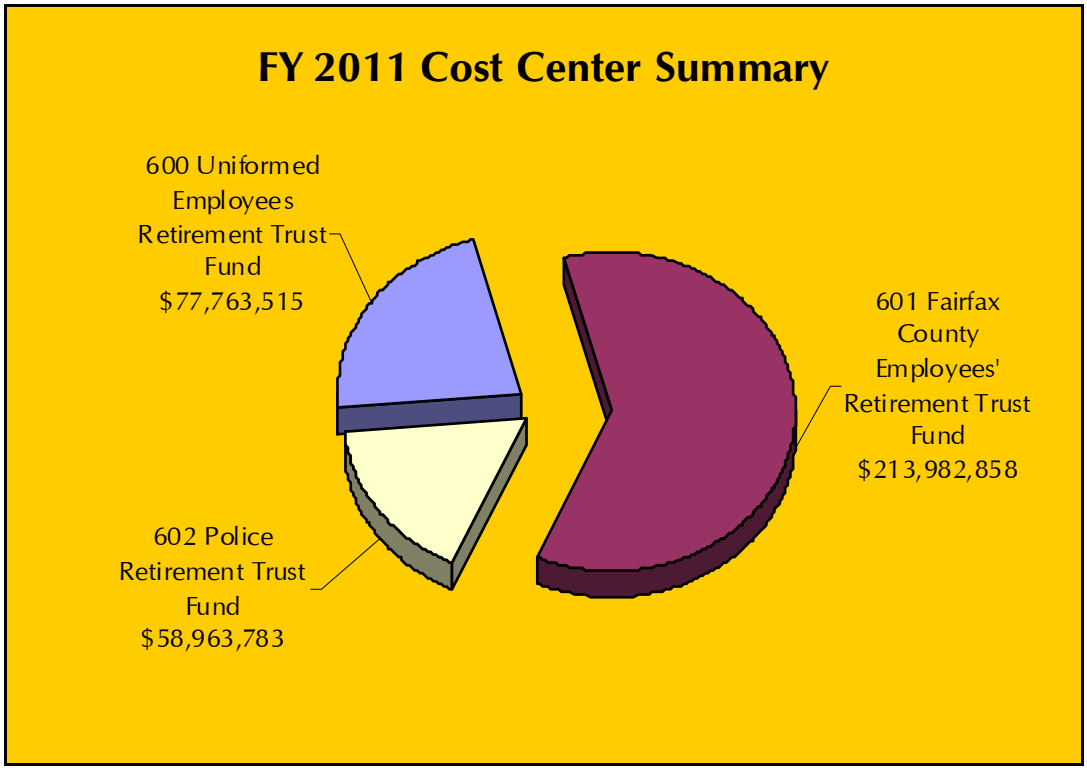
- **Investment Management Fees** **($5,720,000)**
  A decrease of $5,720,000 in Operating Expenses reflects a decrease in investment management fees due to the projected loss in assets and the investment strategies adopted by the Boards of Trustees.

- **Computer Software and Equipment** **($177,720)**
  A decrease of $177,720 in Operating Expenses due to fewer requirements for system changes and replacements of personal computers than anticipated.

- **Actuarial Services** **$48,001**
  An increase of $48,001 in Operating Expenses due to the cost of conducting an actuarial experience study that is required every five years.

- **Investment Consulting Services** **$31,718**
  An increase of $31,718 in Operating Expenses for investment consulting as a result of increases associated with contract renewals and reassignment.

- **Other Operating Expenses** **$52,414**
  A net increase of $52,414 in all other Operating Expenses due to the net impact of several adjustments.




## Changes to FY 2010 Adopted Budget Plan

*The following funding adjustments reflect all approved changes in the FY 2010 Revised Budget Plan since passage of the FY 2010 Adopted Budget Plan. Included are all adjustments made as part of the FY 2009 Carryover Review, and all other approved changes through December 31, 2009:*

- **Carryover Adjustments** **$24,751**
  As part of the *FY 2009 Carryover Review*, the Board of Supervisors approved encumbered carryover in Operating Expenses of $24,751 primarily associated with the maintenance of the agency's retirement database.

## Key Performance Measures

### Objectives

- To maintain at 100 percent the number of retiree benefit payments processed on time.
- To achieve at least a 7.5 percent return on investment over rolling three year periods.
- To achieve realized return on investment commensurate with the S&P 500 Index and the Barclays Capital Aggregate Bond Index.

| Indicator | Prior Year Actuals | | | Current Estimate | Future Estimate |
|---|---|---|---|---|---|
| | FY 2007 Actual | FY 2008 Actual | FY 2009 Estimate/Actual | FY 2010 | FY 2011 |
| **Output:** | | | | | |
| Members: Fairfax County Employees | 20,272 | 20,279 | 20,830 / 20,685 | 21,297 | 21,327 |
| Members: Uniformed | 2,924 | 2,907 | 3,053 / 2,926 | 3,127 | 3,043 |
| Members: Police Officers | 2,160 | 2,153 | 2,203 / 2,140 | 2,239 | 2,199 |
| Return on investment: Fairfax County Employees | $371,225,595 | $31,057,752 | $214,238,398 / ($637,156,651) | $213,953,906 | $182,360,175 |
| Return on investment: Uniformed | $172,227,261 | ($22,896,664) | $87,793,261 / ($206,666,367) | $86,391,273 | $78,443,625 |
| Return on investment: Police Officers | $142,450,547 | ($52,849,694) | $72,937,475 / ($148,302,988) | $68,774,822 | $62,907,327 |
| **Efficiency:** | | | | | |
| Cost per member: Fairfax County Employees | $81 | $60 | $74 / $71 | $75 | $80 |
| Cost per member: Uniformed | $127 | $101 | $118 / $107 | $118 | $129 |
| Cost per member: Police Officers | $151 | $138 | $168 / $152 | $170 | $183 |
| Investment costs as a percent of assets: Fairfax County Employees | 0.44% | 0.46% | 0.53% / 0.47% | 0.54% | 0.54% |
| Investment costs as a percent of assets: Uniformed | 0.43% | 0.49% | 0.53% / 0.50% | 0.54% | 0.56% |
| Investment costs as a percent of assets: Police Officers | 0.41% | 0.39% | 0.53% / 0.42% | 0.47% | 0.50% |

# Retirement Administration Agency

| Indicator | Prior Year Actuals FY 2007 Actual | FY 2008 Actual | FY 2009 Estimate/Actual | Current Estimate FY 2010 | Future Estimate FY 2011 |
|---|---|---|---|---|---|
| **Service Quality:** | | | | | |
| Percent of retiree checks issued within schedule time frame: Fairfax County Employees | 100% | 100% | 100% / 100% | 100% | 100% |
| Percent of retiree checks issued within schedule time frame: Uniformed | 100% | 100% | 100% / 100% | 100% | 100% |
| Percent of retiree checks issued within schedule time frame: Police Officers | 100% | 100% | 100% / 100% | 100% | 100% |
| Return compared to assumed actuarial rate (7.5%): Fairfax County Employees | 14.75% | 1.20% | 7.50% / (23.65%) | 7.50% | 7.50% |
| Return compared to assumed actuarial rate (7.5%): Uniformed | 17.83% | (2.10%) | 7.50% / (19.96%) | 7.50% | 7.50% |
| Return compared to assumed actuarial rate (7.5%): Police Officers | 17.50% | (5.70%) | 7.50% / (17.41%) | 7.50% | 7.50% |
| Large cap domestic equity return compared to S&P 500 Index: S&P 500 Index | 20.59% | (13.10%) | NA / (26.21%) | NA | NA |
| Large cap domestic equity return compared to S&P 500 Index: Fairfax County Employees | 23.33% | (14.80%) | NA / (24.47%) | NA | NA |
| Large cap domestic equity return compared to S&P 500 Index: Uniformed | 18.54% | (10.50%) | NA / (30.41%) | NA | NA |
| Large cap domestic equity return compared to S&P 500 Index: Police Officers | 22.28% | (11.70%) | NA / (30.44%) | NA | NA |
| Fixed income return compared to the Barclays Capital Aggregate Bond Index: Barclays Capital Aggregate Bond Index | 6.12% | 7.10% | NA / 6.05% | NA | NA |
| Fixed income return compared to the Barclays Capital Aggregate Bond Index: Fairfax County Employees | 6.76% | 9.20% | NA / 8.96% | NA | NA |
| Fixed income return compared to the Barclays Capital Aggregate Bond Index: Uniformed | 5.79% | 10.40% | NA / 9.20% | NA | NA |
| Fixed income return compared to the Barclays Capital Aggregate Bond Index: Police Officers | 6.65% | 7.40% | NA / 11.91% | NA | NA |

# Retirement Administration Agency

| Indicator | Prior Year Actuals FY 2007 Actual | FY 2008 Actual | FY 2009 Estimate/Actual | Current Estimate FY 2010 | Future Estimate FY 2011 |
|---|---|---|---|---|---|
| **Outcome:** | | | | | |
| Percent of retiree payments processed on time: Fairfax County Employees | 100% | 100% | 100% / 100% | 100% | 100% |
| Percent of retiree payments processed on time: Uniformed | 100% | 100% | 100% / 100% | 100% | 100% |
| Percent of retiree payments processed on time: Police Officers | 100% | 100% | 100% / 100% | 100% | 100% |
| Deviation from actuarial rate of return (total plan): Fairfax County Employees | 7.3% | (6.3%) | 0.0% / (31.2%) | 0.0% | 0.0% |
| Deviation from actuarial rate of return (total plan): Uniformed | 10.3% | (9.6%) | 0.0% / (27.5%) | 0.0% | 0.0% |
| Deviation from actuarial rate of return (total plan): Police Officers | 10.0% | (13.2%) | 0.0% / (24.9%) | 0.0% | 0.0% |
| Deviation from S&P 500 (large cap equities): Fairfax County Employees | 2.7% | (1.7%) | 0.0% / 1.7% | 0.0% | 0.0% |
| Deviation from S&P 500 (large cap equities): Uniformed | (2.1%) | 2.6% | 0.0% / (4.2%) | 0.0% | 0.0% |
| Deviation from S&P 500 (large cap equities): Police Officers | 1.7% | 1.4% | 0.0% / (4.2%) | 0.0% | 0.0% |
| Deviation from Barclays Capital Aggregate (fixed income): Fairfax County Employees | 0.6% | 2.1% | 0.0% / 2.9% | 0.0% | 0.0% |
| Deviation from Barclays Capital Aggregate (fixed income): Uniformed | (0.3%) | 3.3% | 0.0% / 3.2% | 0.0% | 0.0% |
| Deviation from Barclays Capital Aggregate (fixed income): Police Officers | 0.5% | 0.3% | 0.0% / 5.9% | 0.0% | 0.0% |

## Performance Measurement Results

The global financial and economic crisis that began during FY 2009 resulted in steep declines in the capital markets. The rates of return for all three systems for FY 2009 were negative, with the Uniformed system experiencing a 20.0 percent decline, the Employees' system experiencing a 23.7 percent decline, and the Police Officers system experiencing a 17.4 percent decline. Investments in all assets other than government bonds experienced severe losses with capital market returns the worst since the Great Depression years. For the year ending June 30, 2009, the S&P 500 Index was down 26.2 percent, and U.S. small-cap stocks were down 25.0 percent. Among non-U.S. stocks, developed markets dropped 31.0 percent and emerging markets fell 27.8 percent. Investments in real assets also suffered with the commodity index falling 47.1 percent and real estate investment trusts down 43.3 percent. While many fixed income assets also lost value, with positive results in U.S Treasury Bonds, the Barclays Capital Bond index was up 6.1 percent for the year. The dispersion of investment results among the three systems in FY 2009 is attributable to differences in the systems' asset allocation strategies and the varying degrees to which each system's investment management firms added value.

The decline in revenue will result in a deterioration of the funding ratios for all three systems. Since the change in liabilities will not be known until the actuarial valuation is completed, the magnitude of the change in funding ratios cannot be projected at this time. Employer contribution rates and funding ratios are calculated based on a number of actuarial assumptions, including an actuarially determined rate of return. The actuarial rate of return uses smoothing methodology to phase in total recognition of a given year's returns above or below the long-term expected rate of 7.5 percent. This smoothing is done to mitigate volatility in funding requirements, recognizing the cyclical nature of capital market returns. However, this smoothing process does not include the impact of any liability gains or losses, which are determined by comparing actual experience, such as rates of retirement and death, against actuarial assumptions. While the investment losses in FY 2009 will reduce the funded ratio, the retirement systems are managed with a long-term perspective on funding and investment. Funding policy and calculations include an average compound return of 7.5 percent over the long term. Including the results through FY 2009, the actual compound annual returns achieved since 1981, the earliest date for which data is available, have been 8.9 percent for the Uniformed system, 9.5 percent for the Employees' system and 9.5 percent for the Police Officers system.

## FUND STATEMENT

**Fund Type G60, Pension Trust Funds** **Fund 600, Uniformed Retirement**

| | FY 2009 Actual | FY 2010 Adopted Budget Plan | FY 2010 Revised Budget Plan | FY 2011 Advertised Budget Plan |
|---|---|---|---|---|
| **Beginning Balance** | **$1,081,289,955** | **$1,158,035,336** | **$867,187,221** | **$939,120,537** |
| Revenue: | | | | |
| Employer Contributions | $40,855,101 | $41,137,918 | $41,137,918 | $45,455,503 |
| Employee Contributions | 11,686,105 | 11,579,026 | 11,579,026 | 11,579,026 |
| Employee Payback | 64,706 | 150,000 | 150,000 | 100,000 |
| Return on Investments[1] | (27,477,977) | 86,391,273 | 86,391,273 | 78,443,265 |
| Total Realized Revenue | $25,127,935 | $139,258,217 | $139,258,217 | $135,577,794 |
| Unrealized Gain/(Loss)[1,2] | ($179,188,390) | $0 | $0 | $0 |
| Total Revenue | ($154,060,455) | $139,258,217 | $139,258,217 | $135,577,794 |
| **Total Available** | **$927,229,500** | **$1,297,293,553** | **$1,006,445,438** | **$1,074,698,331** |
| Expenditures: | | | | |
| Administrative Expenses | $765,812 | $919,611 | $923,324 | $975,251 |
| Investment Services[1] | 4,496,831 | 6,150,000 | 6,150,000 | 5,040,000 |
| Payments to Retirees | 53,521,211 | 58,966,172 | 58,966,172 | 70,345,439 |
| Beneficiaries | 601,742 | 605,405 | 605,405 | 712,825 |
| Refunds | 656,683 | 680,000 | 680,000 | 690,000 |
| Total Expenditures | $60,042,279 | $67,321,188 | $67,324,901 | $77,763,515 |
| **Total Disbursements** | **$60,042,279** | **$67,321,188** | **$67,324,901** | **$77,763,515** |
| **Ending Balance[3]** | **$867,187,221** | **$1,229,972,365** | **$939,120,537** | **$996,934,816** |

[1] In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of $1,627,648.04 have been reflected as an increase to FY 2009 revenue, primarily associated with an adjustment necessary to record interest and dividend revenue in the proper fiscal period. In addition, an audit adjustment in the amount of $342,247.55 has been reflected as an increase to FY 2009 expenditures in order to appropriately account for investment management and securities lending expenses. The audit adjustments have been included in the FY 2009 Comprehensive Annual Financial Report (CAFR). Details of the FY 2009 audit adjustments will be included in the FY 2010 Third Quarter package.

[2] Unrealized gain/loss will be reflected as an actual revenue at the end of each fiscal year.

[3] The Uniformed Retirement Fund maintains fund balances at adequate levels relative to projected requirements. The fund balance fluctuates annually primarily due to interest on investments.

## FUND STATEMENT

**Fund Type G60, Pension Trust Funds** **Fund 601, Fairfax County Employees' Retirement**

| | FY 2009 Actual | FY 2010 Adopted Budget Plan | FY 2010 Revised Budget Plan | FY 2011 Advertised Budget Plan |
|---|---|---|---|---|
| **Beginning Balance** | **$2,763,876,655** | **$2,880,668,056** | **$2,039,051,397** | **$2,154,412,291** |
| Revenue: | | | | |
| County Employer Contributions | $46,093,913 | $48,850,397 | $48,850,397 | $70,133,160 |
| County Employee Contributions | 24,297,249 | 24,263,211 | 24,263,211 | 24,263,211 |
| School Employer Contributions | 19,097,489 | 19,308,509 | 19,308,509 | 27,720,691 |
| School Employee Contributions | 9,400,764 | 9,638,152 | 9,638,152 | 9,638,152 |
| Employee Payback | 229,178 | 400,000 | 400,000 | 400,000 |
| Return on Investments[1] | (365,411,667) | 213,953,906 | 213,953,906 | 182,360,175 |
| Total Realized Revenue | ($266,293,074) | $316,414,175 | $316,414,175 | $314,515,389 |
| Unrealized Gain/(Loss)[1,2] | ($271,744,984) | $0 | $0 | $0 |
| Total Revenue | ($538,038,058) | $316,414,175 | $316,414,175 | $314,515,389 |
| **Total Available** | **$2,225,838,597** | **$3,197,082,231** | **$2,355,465,572** | **$2,468,927,680** |
| Expenditures: | | | | |
| Administrative Expenses | $2,444,421 | $2,983,889 | $3,001,214 | $2,919,394 |
| Investment Services[1] | 15,476,918 | 14,970,000 | 14,970,000 | 10,910,000 |
| Payments to Retirees | 162,306,508 | 173,829,285 | 173,829,285 | 190,785,036 |
| Beneficiaries | 3,303,200 | 3,512,782 | 3,512,782 | 4,058,428 |
| Refunds | 3,256,153 | 5,740,000 | 5,740,000 | 5,310,000 |
| Total Expenditures | $186,787,200 | $201,035,956 | $201,053,281 | $213,982,858 |
| **Total Disbursements** | **$186,787,200** | **$201,035,956** | **$201,053,281** | **$213,982,858** |
| **Ending Balance[3]** | **$2,039,051,397** | **$2,996,046,275** | **$2,154,412,291** | **$2,254,944,822** |

[1] In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of $11,394,029.52 have been reflected as an increase to FY 2009 revenue, primarily associated with adjustments necessary to record interest and dividend revenue in the proper fiscal period, as well as to record a net realized gain from the sale of investments. In addition, an audit adjustment in the amount of $1,765,061.69 has been reflected as an increase to FY 2009 expenditures in order to appropriately account for investment management and securities lending expenses. The audit adjustments have been included in the FY 2009 Comprehensive Annual Financial Report (CAFR). Details of the FY 2009 audit adjustments will be included in the FY 2010 Third Quarter Package.

[2] Unrealized gain/loss will be reflected as an actual revenue at the end of each fiscal year.

[3] The Employees' Retirement Fund maintains fund balances at adequate levels relative to projected requirements. The fund balance fluctuates annually primarily due to interest on investments.

## FUND STATEMENT

**Fund Type G60, Pension Trust Funds** **Fund 602, Police Retirement**

| | FY 2009 Actual | FY 2010 Adopted Budget Plan | FY 2010 Revised Budget Plan | FY 2011 Advertised Budget Plan |
|---|---|---|---|---|
| **Beginning Balance** | **$868,161,043** | **$922,776,810** | **$706,622,288** | **$759,995,967** |
| Revenue: | | | | |
| Employer Contributions | $23,508,402 | $24,159,474 | $24,159,474 | $29,049,707 |
| Employee Contributions | 11,246,986 | 12,239,205 | 12,239,205 | 10,455,800 |
| Employee Payback | 0 | 50,000 | 50,000 | 50,000 |
| Return on Investments[1] | (49,780,303) | 68,774,822 | 68,774,822 | 62,907,327 |
| Total Realized Revenue | ($15,024,915) | $105,223,501 | $105,223,501 | $102,462,834 |
| Unrealized Gain/(Loss)[1,2] | ($98,522,685) | $0 | $0 | $0 |
| Total Revenue | ($113,547,600) | $105,223,501 | $105,223,501 | $102,462,834 |
| **Total Available** | **$754,613,443** | **$1,028,000,311** | **$811,845,789** | **$862,458,801** |
| Expenditures: | | | | |
| Administrative Expenses | $681,834 | $884,583 | $888,296 | $912,077 |
| Investment Services[1] | 3,080,197 | 4,050,000 | 4,050,000 | 3,500,000 |
| Payments to Retirees | 41,040,383 | 43,634,246 | 43,634,246 | 50,750,744 |
| Beneficiaries | 2,426,938 | 2,651,280 | 2,651,280 | 3,120,962 |
| Refunds | 761,803 | 626,000 | 626,000 | 680,000 |
| Total Expenditures | $47,991,155 | $51,846,109 | $51,849,822 | $58,963,783 |
| **Total Disbursements** | **$47,991,155** | **$51,846,109** | **$51,849,822** | **$58,963,783** |
| **Ending Balance[3]** | **$706,622,288** | **$976,154,202** | **$759,995,967** | **$803,495,018** |

[1] In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of $7,257,448.45 have been reflected as an increase to FY 2009 revenue, primarily as a result of a net gain from the unrealized appreciation of investments, as well as to record interest revenue in the proper fiscal period. In addition, an audit adjustment in the amount of $155,908.27 has been reflected as an increase to FY 2009 expenditures in order to appropriately account for securities lending expenses. The audit adjustments have been included in the FY 2009 Comprehensive Annual Financial Report (CAFR). Details of the FY 2009 audit adjustments will be included in the FY 2010 Third Quarter Package.

[2] Unrealized gain/loss will be reflected as an actual revenue at the end of each fiscal year.

[3] The Police Retirement Fund maintains fund balances at adequate levels relative to projected requirements. The fund balance fluctuates annually primarily due to interest on investments.