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. Historically, the County funded these benefits on a pay-as-you-go basis. GASB 45 requires that the County accrue the cost of 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. A valuation is performed to calculate the County's actuarial accrued liability and the associated annual required contribution (ARC). The liability and ARC are calculated annually, and adjustments are made due to benefit enhancements, medical trend experience, and normal growth assumptions.

The liability includes the 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. 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.

The actuarial valuation as of July 1, 2009 under GASB 45 calculated the County's actuarial accrued liability (AAL), excluding the Schools portion, at approximately $441.3 million and the unfunded actuarial accrued liability as $391.1 million, as shown below.

Valuation Results as of July 1, 2009 (in thousands)	
Actuarial Accrued Liability (AAL)	$441,300
Plan Assets	$50,200
Unfunded Actuarial Accrued Liability	$391,100
Annual Required Contribution (ARC)	$32,600

It should be noted that the July 1, 2009 AAL of $441.3 million increased over the July 1, 2008 AAL of $350.7 million due to unfavorable retiree claims experience, lower than expected return on assets, and changes in medical trending assumptions.

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 County's unfunded liability. Through excess revenues received from employer contributions and additional General Fund contributions, a reserve of $48.2 million was accumulated and transferred to the newly created Fund 603, OPEB Trust Fund, at the *FY 2007 Carryover Review*. This $48.2 million in initial funding helped reduce the unfunded liability and fully funded the FY 2008 annual required contribution. The *FY 2009 Revised Budget*

Plan included an additional $14.9 million transfer from the GASB 45 Liability Reserve in Fund 506 which counted towards the FY 2009 ARC. In FY 2010, contributions towards the ARC were made through a $9.9 million General Fund transfer. The FY 2011 Advertised Budget Plan maintains this $9.9 million General Fund transfer. Additionally, in recognition of the fact that the OPEB liability is calculated based on all County positions and not only those funded by the General Fund, beginning in FY 2011, funds not supported by General Fund dollars will begin making contributions. It is anticipated that these contributions will total approximately $3.1 million in FY 2011.

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 are still accounted for in Fund 603.

Primarily due to the carryover of the FY 2008 net OPEB asset of $27.0 million and the $14.9 million transfer from Fund 506 in FY 2009, a net OPEB asset was shown on the County's FY 2009 financial statements. Additionally, with the $9.9 million General Fund transfer and assumed implicit subsidy contributions, it is anticipated that the County will maintain a net OPEB asset in FY 2010, as displayed in the chart below.

Net OPEB Asset
(in thousands)

	FY 2009 Actual	FY 2010 Estimate
Annual Required Contribution (ARC)	$24,764	$32,600
Resources to Apply toward the ARC:		
Transfer from the General Fund	*$0*	*$9,900*
Transfer from Health Benefits Trust Fund	*$14,900*	*$0*
Implicit Subsidy Contribution	*$6,657*	*$8,400*
Carryover of Prior Year Asset	$27,033	$23,826
Net OPEB Asset	$23,826	$9,526

It is the County's policy to maintain a positive net OPEB asset, which demonstrates that the County has met its obligations to adequately fund the annual required contribution each year. Because the County prepared early for the implementation of GASB 45 and was able to accumulate $48.2 million in initial funding, a net OPEB asset has been maintained and carried forward each year, helping to offset each subsequent year's ARC requirements. For example, for FY 2010, the County will contribute a projected $18.3 million towards the $32.6 million ARC. However, because of the carryover of the prior year asset, the County will maintain a positive net OPEB asset of approximately $9.5 million. This asset, as well as the $9.9 million transfer from the General Fund and the projected $3.1 million in contributions from Other Funds included in the FY 2011 Advertised Budget Plan, will be applied towards the FY 2011 ARC, which will not be calculated until the July 1, 2010 valuation in the fall of 2010. As the net OPEB asset and the amount able to be carried forward declines, it becomes imperative that the County allocate resources to fully fund the ARC each year.

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 were moved to 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 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 2011, the average number of subsidy recipients, including new retirees who are eligible to receive the retiree health benefit subsidy, is expected to increase by 207, or 7.9 percent, from 2,631 in FY 2010 to 2,838 in FY 2011. 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.

Fund 603
OPEB Trust Fund

- 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.

Budget and Staff Resources

Agency Summary[1]				
Category	FY 2009 Actual	FY 2010 Adopted Budget Plan	FY 2010 Revised Budget Plan	FY 2011 Advertised Budget Plan
Authorized Positions/Staff Years				
Regular	1/ 1	1/ 1	1/ 1	1/ 1
Total Expenditures	**$12,686,979**	**$6,677,881**	**$6,677,881**	**$6,842,229**

Position Summary[1]
1 Accountant III
TOTAL POSITIONS
1 Positions / 1.0 Staff Year

[1] It should be noted that the 1/1.0 SYE Accountant III position resides in the Retirement Administration Agency and is financed by Fund 603, OPEB Trust Fund.

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.

- **Benefit Payments** **$325,348**
  An increase of $325,348 is attributable to a projected increase in the number of retirees receiving the retiree health benefits subsidy.

- **Administrative Expenses** **($161,000)**
  A decrease of $161,000 in Operating Expenses is primarily due to a budget alignment with accounting procedures for investment management fees, as these fees are netted out of investment income and not shown as a fund expenditure.

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:

- There have been no revisions to this fund since approval of the FY 2010 Adopted Budget Plan.

Fund 603
OPEB Trust Fund

FUND STATEMENT

Fund Type G60, Trust Funds | **Fund 603, OPEB Trust Fund**

	FY 2009 Actual	FY 2010 Adopted Budget Plan	FY 2010 Revised Budget Plan	FY 2011 Advertised Budget Plan
Beginning Balance	**$48,212,088**	**$59,964,793**	**$51,792,775**	**$57,591,794**
Revenue:				
CMS Medicare Part D Subsidy	$1,070,682	$968,000	$968,000	$1,100,000
Investment Income	60,812	1,608,900	1,608,900	75,000
Implicit Subsidy[1]	6,657,000	0	0	0
Other Funds Contributions	0	0	0	3,101,577
Total Realized Revenue	$7,788,494	$2,576,900	$2,576,900	$4,276,577
Unrealized Gain/(Loss)	($6,832,261)	$0	$0	$0
Total Revenue	$956,233	$2,576,900	$2,576,900	$4,276,577
Transfer In:				
General Fund (001)	$0	$9,900,000	$9,900,000	$9,900,000
Retiree Health Benefits (500)[2]	411,433	0	0	0
Health Benefits Trust Fund (506)	14,900,000	0	0	0
Total Transfer In	$15,311,433	$9,900,000	$9,900,000	$9,900,000
Total Available	**$64,479,754**	**$72,441,693**	**$64,269,675**	**$71,768,371**
Expenditures:				
Benefits Paid	$5,810,805	$6,352,140	$6,352,140	$6,677,488
Implicit Subsidy[1]	6,657,000	0	0	0
Administrative	219,174	325,741	325,741	164,741
Total Expenditures	$12,686,979	$6,677,881	$6,677,881	$6,842,229
Total Disbursements	**$12,686,979**	**$6,677,881**	**$6,677,881**	**$6,842,229**
Reserved Ending Balance[3]	**$51,792,775**	**$65,763,812**	**$57,591,794**	**$64,926,142**

[1] In order to account for revenues and expenditures in the proper fiscal period, an audit adjustment in the amount of $6,657,000 has been reflected for both FY 2009 revenues and expenditures. This adjustment, which nets to $0, is required to accurately reflect the County's contribution and benefit payments for the implicit subsidy for retirees. The implicit subsidy is paid from the General Fund, but it is shown in Fund 603, OPEB Trust Fund, to appropriately reflect all activities for GASB 45 in a single fund. The audit adjustment has 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]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 $65.0 million reserve in FY 2011 is applied toward the liability of $441.3 million calculated as of July 1, 2009.