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. At the Board of Supervisors' direction, staff conducted a comprehensive examination of the corridor policy in FY 2010 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.

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 ad-hoc COLA results in an increase in the employer contribution rate. Staff reviewed the ad-hoc COLA policy at the Board of Supervisors' direction in FY 2010 and 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, it was determined that the financial conditions that must be met in order for a Board of Trustees 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, the Fairfax County Code was changed to require that the retirement system must have an actuarial surplus - demonstrated by having a funding ratio exceeding 100 percent - before an ad-hoc COLA can be considered.

A Deferred Retirement Option Plan (DROP) was added as a benefit 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. It should be noted that when the DROP program was initially implemented, a sunset provision was put into place in order to give the Board of Supervisors the opportunity to examine the impact of the program. This sunset provision was eliminated by the Board of Supervisors in September 2010.

As directed by the Board of Supervisors, and with funding designated at the *FY 2010 Carryover Review*, the Department of Human Resources is currently conducting a comprehensive retirement study with results to be presented to the Board of Supervisors when completed. This study will include a comprehensive review of the long-term liabilities of the retirement systems, as well as recommended options for system affordability and benefit levels.

It should be noted that, in their budget guidance approved with the adoption of the FY 2012 budget, the Board of Supervisors directed staff to, as part of the retirement study mentioned above, review concepts such as a health insurance opt-back-in for retirees, health savings accounts, i.e. Voluntary Employees Beneficiary Associations (VEBAs), and additional changes to the employee contribution to Police retirement. The Board also directed the County Executive to include funding at the FY 2011 Carryover Review for a reduction from 30 to 25 percent in the Social Security offset for service-connected disability retirees in the Uniformed and Employees' Retirement Systems.

The final FY 2012 employer contribution rates for each of the three retirement systems are as follows:

Fund	FY 2011 Rates (%)	FY 2012 Rates (%)	Percentage Point Change (%)	Net General Fund Impact
Uniformed	30.56	33.81	3.25	$4,501,129
Employees'	14.70	17.20	2.50	$7,797,254
Police Officers	28.31	31.30	2.99	$3,052,554
Total				**$15,350,937**

Following the actuarial funding policy currently in effect, contribution rates are adjusted only to fund approved benefits, 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. Capital markets rebounded significantly in FY 2010, and the retirement systems achieved strong positive results for the year. While the very high investment returns achieved in FY 2010 have strengthened the financial position of the systems, the impact of FY 2009 results will continue to affect actuarial funding ratios and contribution requirements. The funding ratio for the Employees' System dropped from 76.0 percent to 72.0 percent; the Police Officers system ratio dropped from 85.0 percent to 82.1 percent; and the Uniformed System ratio dropped from 85.7 percent to 82.1 percent. As the funding ratio of each system fell further outside of the corridor, following established funding policy, the employer contribution rates for each of the systems must be increased to amortize the unfunded liabilities.

Employee Retirement Systems Overview

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. Prior to FY 2011, if the funding ratio fell below 90 percent, the unfunded actuarial accrued liability (UAAL) below 90 percent was amortized over 15 years in order to get back to a 90 percent level. For FY 2011, the employer contribution rates were increased to allow for an amortization to a 91 percent level, in accordance with the phased approach to move towards the 95 percent target. For FY 2012, this change has been maintained to continue to allow for an amortization to a 91 percent level.

- The employer contribution rate for the Uniformed system is required to increase by 3.25 percentage points based on the funding ratio falling further below the 90 percent threshold and maintaining the change in the amortization schedule.

- The employer contribution rate for the Employees' system is required to increase by 2.50 percentage points based on the funding ratio falling further below the 90 percent threshold and maintaining the change in the amortization schedule.

- The employer contribution rate for the Police Officers system is required to increase by 2.99 percentage points based on the funding ratio falling further below the 90 percent threshold and maintaining 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.

Employee Retirement Systems Overview

The following table displays relevant information about each retirement system:

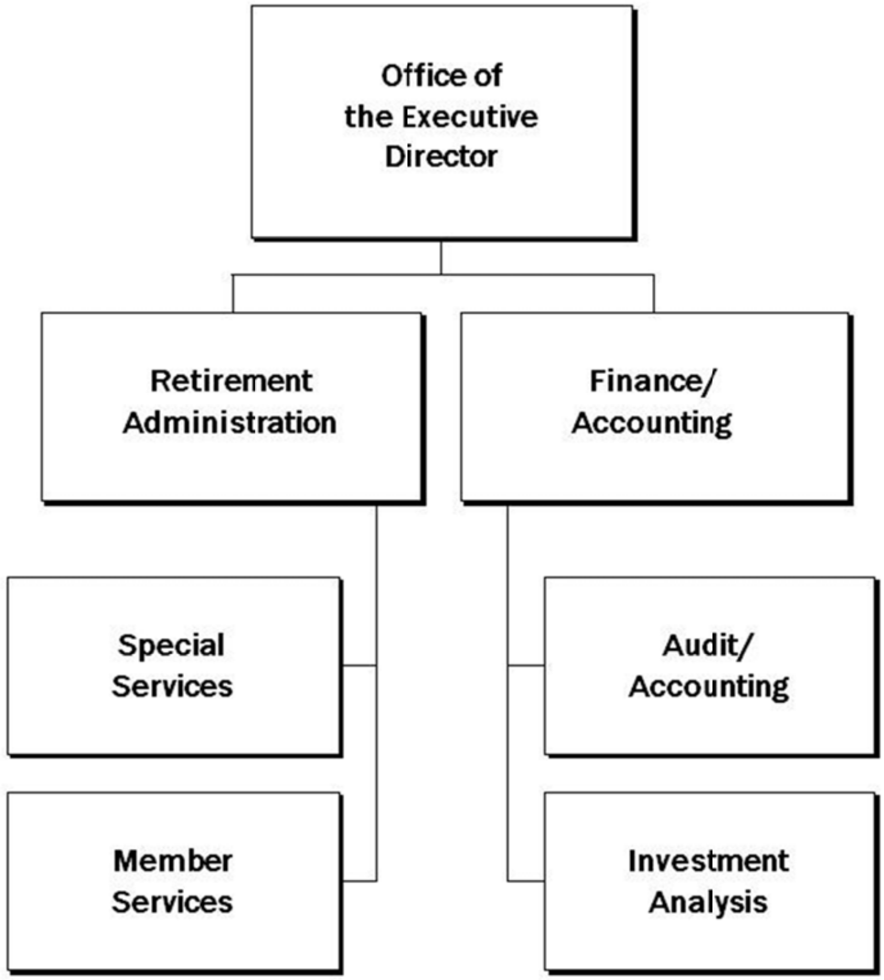
EMPLOYEES COVERED		
Uniformed Retirement	**Fairfax County Employees'**	**Police Officers Retirement**
Fire and Rescue Personnel; Uniformed Office of Sheriff employees; Animal Control Officers; Helicopter Pilots; Non-administrative staff in the Department of Public Safety Communications.	County employees 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 Rate Structure / FY 2012		
Uniformed Retirement	**Fairfax County Employees' Retirement**	**Police Officers Retirement**
33.81%	17.20%	31.30%

INVESTMENT MANAGERS AS OF JUNE 30, 2010		
Uniformed Retirement	**Fairfax County Employees' Retirement**	**Police Officers Retirement**
Acadian Asset Management	Artio Global Investors	Acadian Asset Management
Advisory Research	BlackRock, Inc.	AQR Capital Management
Artio Global Investors	Brandywine Global Investment Management	Bridgewater Associates
Ashmore Investment Management	Bridgewater Associates	Clarivest Asset Management
BlackRock, Inc.	The Clifton Group	The Clifton Group
Brandywine Global Investment Management	Cohen & Steers Capital Management	Cohen & Steers Capital Management
Bridgewater Associates	Columbia Wanger Asset Management	Dodge & Cox Investment Managers
Cohen & Steers Capital Management	Deerfield Capital Management	DoubleLine Capital
Harbourvest Partners	DePrince, Race & Zollo	Goldman Sachs
JP Morgan Investment Management	DoubleLine Capital	Grantham, Mayo, Van Otterloo
King Street Capital	Enhanced Investment Technologies	King Street Capital
Marathon Asset Management	First Quadrant	Loomis Sayles
Morgan Stanley	Grammercy Advisors	Mariner Investment Group
NCM Capital Management	JP Morgan Investment Management	McKinley Capital Management
Optima Management	LSV Asset Management	MetWest Asset Management
Orbimed Advisors	MacKay Shields	Morgan Stanley
Pacific Investment Management Co.	Marathon Asset Management	Oaktree Capital Management
Pantheon Ventures	Morgan Stanley	Pacific Investment Management Co.
Ramius, LLC	Pacific Investment Management Co.	Pzena Investment Management
Standish Mellon Asset Management	Post Advisory Group	Ramius, LLC
UBS Realty Advisors	Pzena Investment Management	Standish Mellon Asset Management
Victory Capital Management	Sands Capital Management	
	Shenkman Capital Management	
	Standish Mellon Asset Management	
	Stark Investments	
	Trust Company of the West	



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, Employee Benefits, 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 from 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 benefits, 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 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. A study is currently underway, and any changes made will be reflected in the required contribution rates for FY 2013.

Budget and Staff Resources

Agency Summary					
Category	FY 2010 Actual	FY 2011 Adopted Budget Plan	FY 2011 Revised Budget Plan	FY 2012 Advertised Budget Plan	FY 2012 Adopted Budget Plan
Authorized Positions/Staff Years					
Regular	24 / 24	24 / 24	25 / 25	25 / 25	25 / 25
Expenditures:					
Personnel Services	$2,437,218	$2,483,684	$2,483,684	$2,722,119	$2,722,119
Operating Expenses	294,880,837	348,226,472	348,226,472	359,468,352	359,468,352
Capital Equipment	0	0	0	0	0
Total Expenditures	$297,318,055	$350,710,156	$350,710,156	$362,190,471	$362,190,471

Position Summary					
	OFFICE OF THE DIRECTOR		Special Services		FINANCE/ACCOUNTING
1	Executive Director	1	Programmer Analyst III	1	Financial Specialist IV
1	Administrative Assistant IV	1	Programmer Analyst II		
		1	Communications Specialist II		Audit/Accounting
	RETIREMENT ADMINISTRATION			1	Accountant I
1	Deputy Director		Membership Services		
2	Administrative Assistants II	1	Management Analyst III		Investment Analysis
		1	Management Analyst II	1	Chief Investment Officer
		3	Retirement Counselors	1	Senior Investment Manager
		4	Administrative Assistants V	2	Investment Managers
		1	Senior Payroll Specialist	1	Investment Analyst
TOTAL POSITIONS[1] 25 Positions / 25.0 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 25/25.0 SYE positions shown above are financed jointly by the three retirement trust funds (Fund 600, Fund 601, and Fund 602).

FY 2012 Funding Adjustments

The following funding adjustments from the FY 2011 Adopted Budget Plan are necessary to support the FY 2012 program. Included are all adjustments recommended by the County Executive that were approved by the Board of Supervisors, as well as any additional Board of Supervisors' actions, as approved in the adoption of the budget on April 26, 2011.

♦ **Employee Compensation** **$0**

It should be noted that no funding is included for pay for performance or market rate adjustments in FY 2012.

♦ **Fringe Benefits** **$232,683**

A net increase of $232,683 in Personnel Services is primarily attributable to health insurance expenses, based on actual enrollment and premium increases.

- **Other Post-Employment Benefits** **$5,752**
  An increase of $5,752 is required to reflect increased costs associated with providing Other Post-Employment Benefits (OPEBs) to retirees, including the Retiree Health Benefits Subsidy. Before FY 2011, costs related to these benefits were paid solely by the General Fund; however, these annual costs are now spread across funds in order to more appropriately reflect benefit-related expenses for the employees 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 2012 Adopted Budget Plan.

- **Benefit Payments** **$6,331,566**
  An increase of $6,331,566 in Operating Expenses reflects increased payments of $6,077,781 to retirees due to a higher number of retirees and higher individual payment levels and an increase in payments to beneficiaries of $843,785, offset by a decrease of $590,000 in the allowance for refunds based on projected turnover of active members.

- **Investment Management Fees** **$4,950,000**
  An increase of $4,950,000 in Operating Expenses reflects an increase in investment management fees due to anticipated gain in assets and the investment strategies adopted by the Boards of Trustees.

- **Computer Software** **$19,704**
  An increase of $19,704 in Operating Expenses due to an increase in system software expenses and maintenance costs.

- **Actuarial Services** **($26,574)**
  A decrease of $26,574 in Operating Expenses reflects a decrease in the costs associated with conducting an actuarial experience study that is required every five years.

- **Investment Consulting Services** **($28,536)**
  A decrease of $28,536 in Operating Expenses reflects a decrease in investment consulting fees associated with contract renewals.

- **Other Operating Expenses** **($4,280)**
  A net decrease of $4,280 in all other Operating Expenses due to the net impact of several adjustments.

Changes to FY 2011 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2011 Revised Budget Plan since passage of the FY 2011 Adopted Budget Plan. Included are all adjustments made as part of the FY 2010 Carryover Review, FY 2011 Third Quarter Review, and all other approved changes through April 12, 2011.

- **Position Changes** **$0**
  As part of the FY 2011 review of County position categories, a conversion of 1/1.0 SYE position was made. The status of limited term positions was reviewed in light of recent changes to federal regulations related to health care and other federal tax requirements. As a result of this review a number of existing limited term positions were converted to Merit Regular status.

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.

	Prior Year Actuals			Current Estimate	Future Estimate
Indicator	FY 2008 Actual	FY 2009 Actual	FY 2010 Estimate/Actual	FY 2011	FY 2012
Output:					
Members: Fairfax County Employees	20,279	20,685	21,297 / 20,696	21,327	21,313
Members: Uniformed	2,907	2,926	3,127 / 3,040	3,043	3,145
Members: Police Officers	2,153	2,140	2,239 / 2,182	2,199	2,229
Return on investment: Fairfax County Employees	$31,057,752	($637,156,651)	$213,953,906 / $516,765,952	$182,360,175	$205,951,893
Return on investment: Uniformed	($22,896,664)	($206,666,367)	$86,391,273 / $135,620,783	$78,443,625	$83,795,904
Return on investment: Police Officers	($52,849,694)	($148,302,988)	$68,774,822 / $146,351,038	$62,907,327	$70,433,212
Efficiency:					
Cost per member: Fairfax County Employees	$60	$71	$75 / $74	$80	$85
Cost per member: Uniformed	$101	$107	$118 / $110	$129	$131
Cost per member: Police Officers	$138	$152	$170 / $155	$183	$186
Investment costs as a percent of assets: Fairfax County Employees	0.46%	0.47%	0.54% / 0.40%	0.54%	0.57%
Investment costs as a percent of assets: Uniformed	0.49%	0.50%	0.54% / 0.42%	0.56%	0.58%
Investment costs as a percent of assets: Police Officers	0.39%	0.42%	0.47% / 0.39%	0.50%	0.54%

Indicator	Prior Year Actuals FY 2008 Actual	FY 2009 Actual	FY 2010 Estimate/Actual	Current Estimate FY 2011	Future Estimate FY 2012
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	1.20%	(23.65%)	7.50% / 25.21%	7.50%	7.50%
Return compared to assumed actuarial rate (7.5%): Uniformed	(2.10%)	(19.96%)	7.50% / 15.53%	7.50%	7.50%
Return compared to assumed actuarial rate (7.5%): Police Officers	(5.70%)	(17.41%)	7.50% / 20.78%	7.50%	7.50%
Large cap domestic equity return compared to S&P 500 Index: S&P 500 Index	(13.10%)	(26.21%)	NA / 14.43%	NA	NA
Large cap domestic equity return compared to S&P 500 Index: Fairfax County Employees	(14.80%)	(24.47%)	NA / 21.74%	NA	NA
Large cap domestic equity return compared to S&P 500 Index: Uniformed	(10.50%)	(30.41%)	NA / 15.74%	NA	NA
Large cap domestic equity return compared to S&P 500 Index: Police Officers	(11.70%)	(30.44%)	NA / 20.59%	NA	NA
Fixed income return compared to the Barclays Capital Aggregate Bond Index: Barclays Capital Aggregate Bond Index	7.10%	6.05%	NA / 9.50%	NA	NA
Fixed income return compared to the Barclays Capital Aggregate Bond Index: Fairfax County Employees	9.20%	8.96%	NA / 30.96%	NA	NA
Fixed income return compared to the Barclays Capital Aggregate Bond Index: Uniformed	10.40%	9.20%	NA / 20.83%	NA	NA
Fixed income return compared to the Barclays Capital Aggregate Bond Index: Police Officers	7.40%	11.91%	NA / 22.22%	NA	NA

Indicator	Prior Year Actuals FY 2008 Actual	FY 2009 Actual	FY 2010 Estimate/Actual	Current Estimate FY 2011	Future Estimate FY 2012
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	(6.3%)	(31.2%)	0.0% / 17.7%	0.0%	0.0%
Deviation from actuarial rate of return (total plan): Uniformed	(9.6%)	(27.5%)	0.0% / 8.0%	0.0%	0.0%
Deviation from actuarial rate of return (total plan): Police Officers	(13.2%)	(24.9%)	0.0% / 13.3%	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Fairfax County Employees	(1.7%)	1.7%	0.0% / 7.3%	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Uniformed	2.6%	(4.2%)	0.0% / 1.3%	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Police Officers	1.4%	(4.2%)	0.0% / 6.2%	0.0%	0.0%
Deviation from Barclays Capital Aggregate (fixed income): Fairfax County Employees	2.1%	2.9%	0.0% / 21.5%	0.0%	0.0%
Deviation from Barclays Capital Aggregate (fixed income): Uniformed	3.3%	3.2%	0.0% / 11.3%	0.0%	0.0%
Deviation from Barclays Capital Aggregate (fixed income): Police Officers	0.3%	5.9%	0.0% / 12.7%	0.0%	0.0%

Performance Measurement Results

During FY 2010, the markets rebounded from the global financial and economic crisis that began during FY 2009, and while not offsetting all of the FY 2009 declines, the retirement systems were able to generate strong investment returns. The rates of return for all three systems for FY 2010 exceeded the long-term return target of 7.5 percent. The Employees' System returned 25.2 percent; the Police Officers System returned 20.8 percent; and the Uniformed System returned 15.5 percent. To provide a context for these returns, it is helpful to compare them to the returns in the major capital markets. For the year ending June 30, 2010, the S&P 500 Index returned 14.4 percent and U.S. small-cap stocks returned 21.5 percent. Among non-U.S. stocks, developed markets were up 6.4 percent and emerging markets rose 23.5 percent. Investments in real assets also had positive returns. The commodity index rose 2.8 percent and real estate investment trusts increased 53.9 percent. The fixed income markets also produced good results and the Barclays Capital Bond index rose by 9.5 percent.

In addition to comparing returns to general market results, they should also be considered relative to the returns achieved by other public pension plans. All three systems had very strong results relative to their peers across the country and were in the top quartile of the BNYMellon public plan universe. The Employees' System ranked first; the Police Officers System ranked second; and the Uniformed System ranked 13th. The dispersion of investment results among the three systems in FY 2010 was attributable to differences in the systems' asset allocation strategies and the varying degrees to which each system's investment management firms added value.

While the very high investment returns achieved in FY 2010 have strengthened the financial position of the systems, the impact of FY 2009 results will continue to affect actuarial funding ratios and contribution requirements. 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 a 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. Funding policy and calculations include an average compound return of 7.5 percent over the long-term. Including the results through FY 2010, the actual compound annual returns achieved since 1981, the earliest date for which data is available, have been 9.1 percent for the Uniformed System, 9.9 percent for the Police Officers System and 10.0 percent for the Employees' System.

FUND STATEMENT

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

	FY 2010 Actual	FY 2011 Adopted Budget Plan	FY 2011 Revised Budget Plan	FY 2012 Advertised Budget Plan	FY 2012 Adopted Budget Plan
Beginning Balance	**$867,187,220**	**$939,120,537**	**$991,072,541**	**$1,048,886,820**	**$1,048,886,820**
Revenue:					
Employer Contributions	$40,771,184	$45,455,503	$45,455,503	$50,121,640	$50,121,640
Employee Contributions	10,936,435	11,579,026	11,579,026	10,521,857	10,521,857
Employee Payback	158,070	100,000	100,000	100,000	100,000
Return on Investments	47,555,954	78,443,265	78,443,265	83,795,904	83,795,904
Total Realized Revenue	$99,421,643	$135,577,794	$135,577,794	$144,539,401	$144,539,401
Unrealized Gain/(Loss) [1]	$88,064,829	$0	$0	$0	$0
Total Revenue	$187,486,472	$135,577,794	$135,577,794	$144,539,401	$144,539,401
Total Available	**$1,054,673,692**	**$1,074,698,331**	**$1,126,650,335**	**$1,193,426,221**	**$1,193,426,221**
Expenditures:					
Administrative Expenses	$778,606	$975,251	$975,251	$1,027,095	$1,027,095
Investment Services	3,867,675	5,040,000	5,040,000	5,800,000	5,800,000
Payments to Retirees	57,716,291	70,345,439	70,345,439	71,368,000	71,368,000
Beneficiaries	640,624	712,825	712,825	755,000	755,000
Refunds	597,955	690,000	690,000	700,000	700,000
Total Expenditures	$63,601,151	$77,763,515	$77,763,515	$79,650,095	$79,650,095
Total Disbursements	**$63,601,151**	**$77,763,515**	**$77,763,515**	**$79,650,095**	**$79,650,095**
Ending Balance [2]	**$991,072,541**	**$996,934,816**	**$1,048,886,820**	**$1,113,776,126**	**$1,113,776,126**

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

[2] 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 2010 Actual	FY 2011 Adopted Budget Plan	FY 2011 Revised Budget Plan	FY 2012 Advertised Budget Plan	FY 2012 Adopted Budget Plan
Beginning Balance	**$2,039,051,396**	**$2,154,412,291**	**$2,469,080,090**	**$2,569,612,621**	**$2,569,612,621**
Revenue:					
County Employer Contributions	$46,139,349	$70,133,160	$70,133,160	$83,312,528	$83,312,528
County Employee Contributions	22,648,489	24,263,211	24,263,211	23,087,072	23,087,072
School Employer Contributions	18,010,646	27,720,691	27,720,691	27,720,691	27,720,691
School Employee Contributions	8,789,230	9,638,152	9,638,152	9,638,152	9,638,152
Employee Payback	295,797	400,000	400,000	400,000	400,000
Return on Investments	163,087,846	182,360,175	182,360,175	205,951,893	205,951,893
Total Realized Revenue	$258,971,357	$314,515,389	$314,515,389	$350,110,336	$350,110,336
Unrealized Gain/(Loss) [1]	$353,678,106	$0	$0	$0	$0
Total Revenue	$612,649,463	$314,515,389	$314,515,389	$350,110,336	$350,110,336
Total Available	**$2,651,700,859**	**$2,468,927,680**	**$2,783,595,479**	**$2,919,722,957**	**$2,919,722,957**
Expenditures:					
Administrative Expenses	$2,568,674	$2,919,394	$2,919,394	$3,037,834	$3,037,834
Investment Services	9,624,929	10,910,000	10,910,000	14,100,000	14,100,000
Payments to Retirees	162,766,575	190,785,036	190,785,036	194,504,000	194,504,000
Beneficiaries	3,585,429	4,058,428	4,058,428	4,392,000	4,392,000
Refunds	4,075,162	5,310,000	5,310,000	4,790,000	4,790,000
Total Expenditures	$182,620,769	$213,982,858	$213,982,858	$220,823,834	$220,823,834
Total Disbursements	**$182,620,769**	**$213,982,858**	**$213,982,858**	**$220,823,834**	**$220,823,834**
Ending Balance [2]	**$2,469,080,090**	**$2,254,944,822**	**$2,569,612,621**	**$2,698,899,123**	**$2,698,899,123**

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

[2] 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 2010 Actual	FY 2011 Adopted Budget Plan	FY 2011 Revised Budget Plan	FY 2012 Advertised Budget Plan	FY 2012 Adopted Budget Plan
Beginning Balance	**$706,622,286**	**$756,995,967**	**$836,033,056**	**$879,532,107**	**$879,532,107**
Revenue:					
Employer Contributions	$23,766,626	$29,049,707	$29,049,707	$31,954,831	$31,954,831
Employee Contributions	10,389,241	10,455,800	10,455,800	10,193,060	10,193,060
Employee Payback	0	50,000	50,000	0	0
Return on Investments	49,108,612	62,907,327	62,907,327	70,433,212	70,433,212
Total Realized Revenue	$83,264,479	$102,462,834	$102,462,834	$112,581,103	$112,581,103
Unrealized Gain/(Loss) [1]	$97,242,426	$0	$0	$0	$0
Total Revenue	$180,506,905	$102,462,834	$102,462,834	$112,581,103	$112,581,103
Total Available	**$887,129,191**	**$859,458,801**	**$938,495,890**	**$992,113,210**	**$992,113,210**
Expenditures:					
Administrative Expenses	$746,773	$912,077	$912,077	$940,542	$940,542
Investment Services	2,845,676	3,500,000	3,500,000	4,500,000	4,500,000
Payments to Retirees	44,379,006	50,750,744	50,750,744	52,087,000	52,087,000
Beneficiaries	2,717,817	3,120,962	3,120,962	3,589,000	3,589,000
Refunds	406,863	680,000	680,000	600,000	600,000
Total Expenditures	$51,096,135	$58,963,783	$58,963,783	$61,716,542	$61,716,542
Total Disbursements	**$51,096,135**	**$58,963,783**	**$58,963,783**	**$61,716,542**	**$61,716,542**
Ending Balance [2]	**$836,033,056**	**$800,495,018**	**$879,532,107**	**$930,396,668**	**$930,396,668**

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

[2] 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.