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.

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.

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.

As directed by the Board of Supervisors, and with funding designated at the *FY 2010 Carryover Review*, the Department of Human Resources contracted with a benefits consultant to conduct a comprehensive retirement study. Based on the results of this study, the Board of Supervisors, as part of their mark-up of the FY 2013 budget on April 24, 2012, reaffirmed the County's commitment to a defined benefit plan model for current employees and for new hires. The Board also directed staff to prepare revisions to the Fairfax County Code to incorporate several modifications to the retirement systems, to apply only to new employees who are hired after the date the ordinances are revised. These changes include increasing the minimum retirement age from 50 to 55 in the Employees' system, increasing the rule of 80 to the rule of 85 in the Employees' system, removing the pre-Social Security Supplement from DROP accounts in the Employees' system and the Uniformed system, and placing a cap on the use of sick leave for retirement purposes at 2,080 hours for all three retirement systems.

Funding Status

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 FY 2011, and the retirement systems achieved strong positive results for each year. The continued strong investment returns achieved in FY 2011 have strengthened the financial position of the systems and, as these returns are smoothed into valuation results over three years, will continue to positively impact actuarial funding ratios over the next two years. It should also be noted that the impact of the FY 2009 results have now been fully recognized in the funding ratios and contribution requirements. In addition, an actuarial experience study was conducted in FY 2011 to review the actuarial assumptions compared to actual experience over the preceding five years. As a result of that study, a number of assumptions were revised, including changes to the projected rate of inflation and the adoption of a new mortality table that better reflects increases in expected longevity. The FY 2011 investment results and demographic experience, combined with the changes to the actuarial assumptions, affected the funding ratios as demonstrated in the table below. It should be noted that the table below displays the corridor funding ratios, which have been adjusted to reflect the unfunded liability already being amortized as a result of benefit changes and ad hoc retiree COLAs that were adopted since the corridor method was established.

	June 30, 2010	June 30, 2011
Uniformed	82.1%	82.2%
Employees'	72.0%	72.5%
Police Officers	82.1%	83.3%

Employer Contribution Rates

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.

Though the funding ratio of each system increased, the employer contribution rates for each of the systems must be increased due to growth in unfunded liabilities as reflected in the FY 2011 actuarial valuations and due to changes in actuarial assumptions as a result of the experience study. The employer contribution rates for the Employees' System and Uniformed System are also required to increase due to a reduction in the Social Security offset for service-connected disability retirees approved by the Board of Supervisors on July 26, 2011.

The final FY 2013 employer contribution rates for each of the three retirement systems, as well as the cost impact to the General Fund as a result of adjustments, are as follows:

	FY 2012 Rates (%)	FY 2013 Rates (%)	Percentage Point Change (%)	Net General Fund Impact
Uniformed	33.81	35.00	1.19	$1,644,155
Employees'	17.20	19.05	1.85	$6,098,483
Police Officers	31.30	33.15	1.85	$1,886,539
Total				**$9,629,177**

- The employer contribution rate for the Uniformed system is required to increase by 1.19 percentage points based on a reduction in the Social Security offset for service-connected disability retirees (0.06 percentage points), changes to actuarial assumptions as a result of the five-year actuarial experience study (0.30), and FY 2011 experience as reflected in the annual actuarial valuation (0.83).

- The employer contribution rate for the Employees' system is required to increase by 1.85 percentage points based on a reduction in the Social Security offset for service-connected disability retirees (0.01 percentage points), changes to actuarial assumptions as a result of the five-year actuarial experience study (1.03), and FY 2011 experience as reflected in the annual actuarial valuation (0.81).

- The employer contribution rate for the Police Officers system is required to increase by 1.85 percentage points based on changes to actuarial assumptions as a result of the five-year actuarial experience study (1.79 percentage points) and FY 2011 experience as reflected in the annual actuarial valuation (0.06).

It should also be noted that, 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, a change to the amortization schedule was initiated in FY 2011. 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 2013, this change has been maintained to continue to allow for an amortization to a 91 percent level.

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' Retirement	Police Officers Retirement
Fire and Rescue Personnel; Uniformed Sheriff's Office 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' Retirement *	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 CONTRIBUTIONS
(% of Pay)

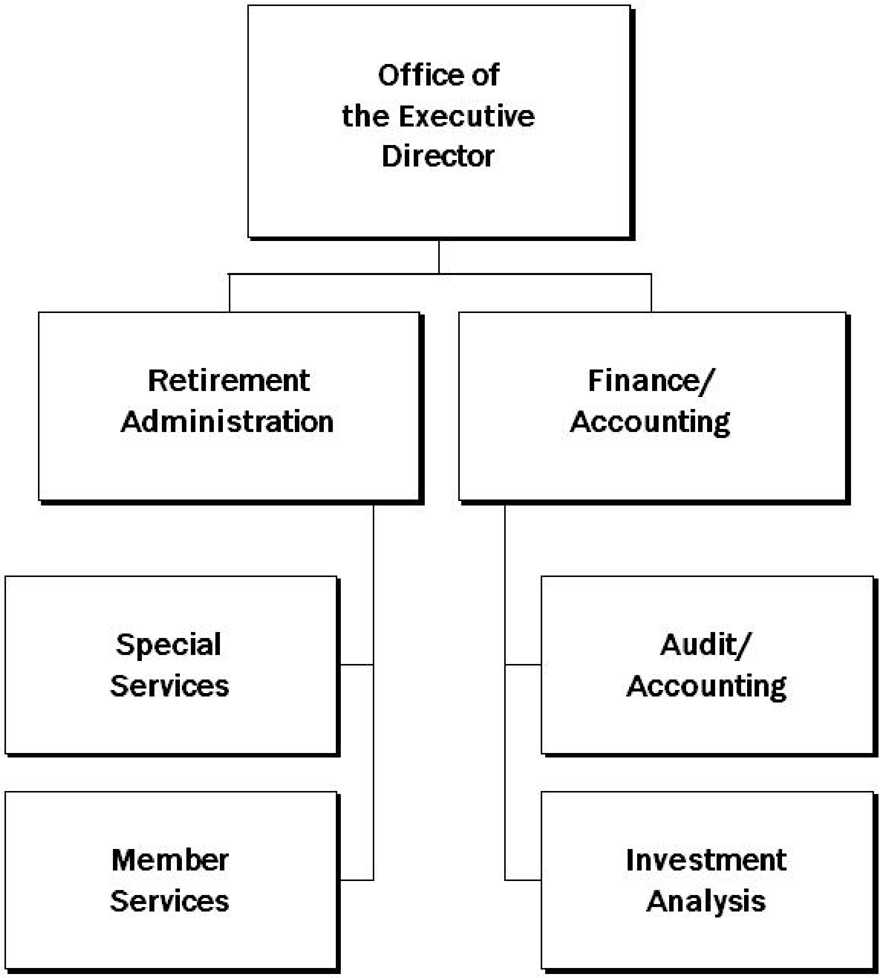
	Uniformed Retirement		Fairfax County Employees' Retirement		Police Officers Retirement
	Plan A	Plan B	Plan A	Plan B	
Up to Wage Base	4.00%	7.08%	4.00%	5.33%	10.00%
Above Wage Base	5.75%	8.83%	5.33%	5.33%	
Plan C	4.00%				
Plan D	7.08%				

FY 2013 EMPLOYER CONTRIBUTIONS
(% of Pay)

Uniformed Retirement	Fairfax County Employees' Retirement	Police Officers Retirement
35.00%	19.05%	33.15%

* The conditions of coverage listed for the Employees' Retirement System do not yet reflect the changes approved by the Board of Supervisors as part of their mark-up of the FY 2013 budget. The Board directed staff to prepare revisions to the Fairfax County Code to increase the minimum retirement age to 55 and increase the rule of 80 to the rule of 85. These changes would apply only to new employees hired after the date the ordinances are revised.

INVESTMENT MANAGERS AS OF JUNE 30, 2011		
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
▪ Artha Capital	▪ Brandywine Global Investment Management	▪ Bluecrest Capital
▪ Artio Global Investors	▪ Bridgewater Associates	▪ Bridgewater Associates
▪ Ashmore Investment Management	▪ The Clifton Group	▪ Clarivest Asset Management
▪ BlackRock, Inc.	▪ Cohen & Steers Capital Management	▪ The Clifton Group
▪ Bluecrest Capital	▪ Columbia Wanger Asset Management	▪ Cohen & Steers Capital Management
▪ Brandywine Global Investment Management	▪ Dearborn Partners	▪ Dodge & Cox Investment Managers
▪ Bridgewater Associates	▪ DePrince, Race & Zollo	▪ DoubleLine Capital
▪ Cohen & Steers Capital Management	▪ DoubleLine Capital	▪ FrontPoint Partners
▪ DoubleLine Capital	▪ Enhanced Investment Technologies	▪ Goldman Sachs
▪ FrontPoint Partners	▪ First Quadrant	▪ Gramercy Advisors
▪ Gramercy Advisors	▪ FrontPoint Partners	▪ Grantham, Mayo, Van Otterloo
▪ Harbourvest Partners	▪ Gramercy Advisors	▪ King Street Capital
▪ JP Morgan Investment Management	▪ JP Morgan Investment Management	▪ Loomis Sayles
▪ King Street Capital	▪ LSV Asset Management	▪ McKinley Capital Management
▪ Marathon Asset Management	▪ MacKay Shields	▪ MetWest Asset Management
▪ NCM Capital Management	▪ Marathon Asset Management	▪ Oaktree Capital Management
▪ Optima Management	▪ Pacific Investment Management Co.	▪ Pacific Investment Management Co.
▪ Orbimed Advisors	▪ Post Advisory Group	▪ Pzena Investment Management
▪ Pacific Investment Management Co.	▪ Pzena Investment Management	▪ Ramius, LLC
▪ Pantheon Ventures	▪ Sands Capital Management	▪ Standish Mellon Asset Management
▪ Ramius, LLC	▪ Shenkman Capital Management	
▪ Standish Mellon Asset Management	▪ Standish Mellon Asset Management	
▪ UBS Realty Advisors	▪ Stark Investments	
▪ Victory Capital Management	▪ 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.

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', Police Officers, 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 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 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. Experience studies of each System were conducted in FY 2011. The assumption changes adopted by the Boards of Trustees as a result of those studies were incorporated in the actuarial valuations for FY 2011 and their impacts are included in the employer contribution rates for FY 2013.

Budget and Staff Resources

Agency Summary

Category	FY 2011 Actual	FY 2012 Adopted Budget Plan	FY 2012 Revised Budget Plan	FY 2013 Advertised Budget Plan	FY 2013 Adopted Budget Plan
Authorized Positions/Staff Years					
Regular	25 / 25	25 / 25	25 / 25	25 / 25	25 / 25
Expenditures:					
Personnel Services	$2,395,066	$2,722,119	$2,752,566	$2,930,865	$2,956,855
Operating Expenses	324,113,187	359,468,352	369,468,352	402,185,475	402,185,475
Capital Equipment	0	0	0	0	0
Total Expenditures	$326,508,253	$362,190,471	$372,220,918	$405,116,340	$405,142,330

Position Summary

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

RETIREMENT ADMINISTRATION
- 1 Deputy Director
- 2 Administrative Assistants II

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

Membership Services
- 1 Management Analyst III
- 1 Management Analyst II
- 1 Financial Specialist II
- 3 Retirement Counselors
- 4 Administrative Assistants V

FINANCE/ACCOUNTING
- 1 Financial Specialist IV

Audit/Accounting
- 1 Accountant I

Investment Analysis
- 1 Chief Investment Officer
- 3 Senior Investment Managers
- 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 2013 Funding Adjustments

The following funding adjustments from the FY 2012 Adopted Budget Plan are necessary to support the FY 2013 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 May 1, 2012.

♦ **Employee Compensation** **$70,347**
An increase of $70,347 in Personnel Services reflects $44,357 for a 2.18 percent market rate adjustment (MRA) in FY 2013, effective July 2012, and $25,990 for a 2.50 percent performance-based scale and salary increase for non-uniformed merit employees, effective January 2013.

♦ **Full Year Impact of FY 2012 Market Rate Adjustment** **$39,894**
As part of the *FY 2011 Carryover Review*, the Board of Supervisors approved an increase of $39,894 in Personnel Services for a 2.0 percent market rate adjustment (MRA), effective September 24, 2011.

- **Fringe Benefits** **$118,745**
  A net increase of $118,745 in Personnel Services is primarily attributable to increases in employer retirement contribution rates and health insurance expenses, based on actual enrollment and premium increases.

- **Other Post-Employment Benefits** **$5,750**
  An increase of $5,750 in Personnel Services reflects required adjustments 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 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 2013 Adopted Budget Plan.

- **Benefit Payments** **$38,806,000**
  An increase of $38,806,000 in Operating Expenses reflects increased payments of $38,898,000 to retirees due to a higher number of retirees and higher individual payment levels and an increase in payments to beneficiaries of $268,000, offset by a decrease of $360,000 in the allowance for refunds based on projected turnover of active members.

- **Investment Management Fees** **$3,945,258**
  An increase of $3,945,258 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 Equipment** **$47,100**
  An increase of $47,100 in Operating Expenses is due to the replacement of agency computers.

- **Actuarial Services** **$38,449**
  An increase of $38,449 in Operating Expenses reflects an increase in the costs associated with conducting an independent actuarial audit that is required every ten years, partially offset by a decrease in costs associated with special ad-hoc actuarial analyses.

- **Computer Software** **$21,140**
  An increase of $21,140 in Operating Expenses is due to an increase in system software expenses and maintenance costs.

- **Office Rent** **($65,079)**
  A decrease of $65,079 in Operating Expenses reflects the renewal of the lease for office space which resulted in a significant reduction in the rental rate.

- **Investment Consulting Services** **($70,815)**
  A decrease of $70,815 in Operating Expenses reflects net savings from the insourcing of investment consulting services for the Police Officers system, partially offset by expected escalation rates for the external investment consultant for the Uniformed system and an allowance for additional external investment analytical services.

- **Other Operating Expenses** **($4,930)**
  A net decrease of $4,930 in all other Operating Expenses reflects the net impact of several adjustments.

Changes to FY 2012 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2012 Revised Budget Plan since passage of the FY 2012 Adopted Budget Plan. Included are all adjustments made as part of the FY 2011 Carryover Review, FY 2012 Third Quarter Review, and all other approved changes through April 24, 2012.

- **Carryover Adjustments** **$30,447**
  As part of the *FY 2011 Carryover Review*, the Board of Supervisors approved funding of $30,447 in Personnel Services for a 2.0 percent market rate adjustment, effective September 24, 2011.

- **Third Quarter Adjustments** **$10,000,000**
  As part of the *FY 2012 Third Quarter Review*, the Board of Supervisors approved an increase of $10,000,000 due to higher than anticipated benefit payments based on year to date experience.

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 2009 Actual	FY 2010 Actual	FY 2011 Estimate/Actual	FY 2012	FY 2013
Output:					
Members: Fairfax County Employees	20,685	20,696	21,327 / 21,851	21,313	22,517
Members: Uniformed	2,926	3,040	3,043 / 3,113	3,145	3,221
Members: Police Officers	2,140	2,182	2,199 / 2,234	2,229	2,291
Return on investment: Fairfax County Employees	($637,156,651)	$516,765,952	$182,360,175 / $618,882,709	$205,951,893	$231,929,513
Return on investment: Uniformed	($206,666,367)	$135,620,783	$78,443,625 / $256,195,643	$83,795,904	$96,297,748
Return on investment: Police Officers	($148,302,988)	$146,351,038	$62,907,327 / $227,929,623	$70,433,212	$81,643,558
Efficiency:					
Cost per member: Fairfax County Employees	$71	$74	$80 / $72	$85	$91
Cost per member: Uniformed	$107	$110	$129 / $112	$131	$136
Cost per member: Police Officers	$152	$155	$183 / $156	$186	$196
Investment costs as a percent of assets: Fairfax County Employees	0.47%	0.40%	0.54% / 0.42%	0.57%	0.54%
Investment costs as a percent of assets: Uniformed	0.50%	0.42%	0.56% / 0.43%	0.58%	0.57%
Investment costs as a percent of assets: Police Officers	0.42%	0.39%	0.50% / 0.37%	0.54%	0.47%

Indicator	Prior Year Actuals FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate/Actual	Current Estimate FY 2012	Future Estimate FY 2013
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	(23.65%)	25.21%	7.50% / 23.61%	7.50%	7.50%
Return compared to assumed actuarial rate (7.5%): Uniformed	(19.96%)	15.53%	7.50% / 24.20%	7.50%	7.50%
Return compared to assumed actuarial rate (7.5%): Police Officers	(17.41%)	20.78%	7.50% / 25.23%	7.50%	7.50%
Large cap domestic equity return compared to S&P 500 Index: S&P 500 Index	(26.21%)	14.43%	NA / 30.69%	NA	NA
Large cap domestic equity return compared to S&P 500 Index: Fairfax County Employees	(24.47%)	21.74%	NA / 32.99%	NA	NA
Large cap domestic equity return compared to S&P 500 Index: Uniformed	(30.41%)	15.74%	NA / 36.12%	NA	NA
Large cap domestic equity return compared to S&P 500 Index: Police Officers	(30.44%)	20.59%	NA / 32.71%	NA	NA
Fixed income return compared to the Barclays Capital Aggregate Bond Index: Barclays Capital Aggregate Bond Index	6.05%	9.50%	NA / 3.90%	NA	NA
Fixed income return compared to the Barclays Capital Aggregate Bond Index: Fairfax County Employees	8.96%	30.96%	NA / 22.81%	NA	NA
Fixed income return compared to the Barclays Capital Aggregate Bond Index: Uniformed	9.20%	20.83%	NA / 11.52%	NA	NA
Fixed income return compared to the Barclays Capital Aggregate Bond Index: Police Officers	11.91%	22.22%	NA / 14.23%	NA	NA

Indicator	Prior Year Actuals FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate/Actual	Current Estimate FY 2012	Future Estimate FY 2013
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	(31.2%)	17.7%	0.0% / 16.1%	0.0%	0.0%
Deviation from actuarial rate of return (total plan): Uniformed	(27.5%)	8.0%	0.0% / 16.7%	0.0%	0.0%
Deviation from actuarial rate of return (total plan): Police Officers	(24.9%)	13.3%	0.0% / 17.7%	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Fairfax County Employees	1.7%	7.3%	0.0% / 2.3%	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Uniformed	(4.2%)	1.3%	0.0% / 5.4%	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Police Officers	(4.2%)	6.2%	0.0% / 2.0%	0.0%	0.0%
Deviation from Barclays Capital Aggregate (fixed income): Fairfax County Employees	2.9%	21.5%	0.0% / 18.9%	0.0%	0.0%
Deviation from Barclays Capital Aggregate (fixed income): Uniformed	3.2%	11.3%	0.0% / 7.6%	0.0%	0.0%
Deviation from Barclays Capital Aggregate (fixed income): Police Officers	5.9%	12.7%	0.0% / 10.3%	0.0%	0.0%

Performance Measurement Results

During FY 2011, the markets continued to rebound from the global financial and economic crisis that began during FY 2009, and the retirement systems were able to generate strong investment returns. The rates of return for all three systems for FY 2011 exceeded the long-term return target of 7.5 percent by a significant amount. The Police Officers System returned 25.2 percent; the Uniformed System returned 24.2 percent; and the Employees' System returned 23.6 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, 2011, the S&P 500 Index returned 30.7 percent and U.S. small-cap stocks returned 37.4 percent. Among non-U.S. stocks, developed markets were up 28.3 percent and emerging markets rose 28.2 percent. Investments in real assets also had positive returns. The commodity index rose 25.9 percent and real estate investment trusts increased 34.1 percent. The fixed income markets produced moderately positive results and the Barclays Capital Bond index rose by 3.9 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 Police Officers System placed in the 6th percentile, the Uniformed System placed in the 11th percentile, and the Employees' System was in the 17th percentile. The dispersion of investment results among the three systems in FY 2011 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 very high investment returns achieved in FY 2011 have strengthened the financial position of the systems, and the shortfalls resulting from the impact of the global financial crisis on FY 2009 results have now been fully included in the 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 2011, the actual compound annual returns achieved since 1981, the earliest date for which data is available, have been 9.6 percent for the Uniformed System, 10.3 percent for the Police Officers System and 10.4 percent for the Employees' System.

FUND STATEMENT

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

	FY 2011 Actual	FY 2012 Adopted Budget Plan	FY 2012 Revised Budget Plan	FY 2013 Advertised Budget Plan	FY 2013 Adopted Budget Plan
Beginning Balance	**$991,072,541**	**$1,048,886,820**	**$1,220,411,972**	**$1,285,296,711**	**$1,284,296,711**
Revenue:					
Employer Contributions	$45,817,015	$50,121,640	$50,121,640	$51,124,073	$51,124,073
Employee Contributions	10,470,025	10,521,857	10,521,857	10,732,294	10,732,294
Employee Payback	51,500	100,000	100,000	100,000	100,000
Return on Investments	105,845,944	83,795,904	83,795,904	96,297,748	96,297,748
Total Realized Revenue	$162,184,484	$144,539,401	$144,539,401	$158,254,115	$158,254,115
Unrealized Gain/(Loss) [1]	$137,444,771	$0	$0	$0	$0
Total Revenue	$299,629,255	$144,539,401	$144,539,401	$158,254,115	$158,254,115
Total Available	**$1,290,701,796**	**$1,193,426,221**	**$1,364,951,373**	**$1,443,550,826**	**$1,442,550,826**
Expenditures:					
Administrative Expenses	$800,232	$1,027,095	$1,031,662	$1,087,527	$1,091,426
Investment Services	4,812,892	5,800,000	5,800,000	6,803,670	6,803,670
Payments to Retirees	63,175,410	71,368,000	72,368,000	80,844,000	80,844,000
Beneficiaries	647,384	755,000	755,000	754,000	754,000
Refunds	853,906	700,000	700,000	940,000	940,000
Total Expenditures	$70,289,824	$79,650,095	$80,654,662	$90,429,197	$90,433,096
Total Disbursements	**$70,289,824**	**$79,650,095**	**$80,654,662**	**$90,429,197**	**$90,433,096**
Ending Balance [2]	**$1,220,411,972**	**$1,113,776,126**	**$1,284,296,711**	**$1,353,121,629**	**$1,352,117,730**

[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 2011 Actual	FY 2012 Adopted Budget Plan	FY 2012 Revised Budget Plan	FY 2013 Advertised Budget Plan	FY 2013 Adopted Budget Plan
Beginning Balance	**$2,469,080,091**	**$2,569,612,621**	**$2,984,863,644**	**$3,114,128,833**	**$3,106,128,833**
Revenue:					
County Employer Contributions	$69,720,292	$83,312,528	$83,312,528	$84,978,779	$84,978,779
County Employee Contributions	22,115,936	23,087,072	23,087,072	23,548,813	23,548,813
School Employer Contributions	26,969,997	27,720,691	27,720,691	28,275,105	28,275,105
School Employee Contributions	8,551,543	9,638,152	9,638,152	9,830,915	9,830,915
Employee Payback	373,597	400,000	400,000	300,000	300,000
Return on Investments	285,435,550	205,951,893	205,951,893	231,929,513	231,929,513
Total Realized Revenue	$413,166,915	$350,110,336	$350,110,336	$378,863,125	$378,863,125
Unrealized Gain/(Loss) [1]	$304,728,546	$0	$0	$0	$0
Total Revenue	$717,895,461	$350,110,336	$350,110,336	$378,863,125	$378,863,125
Total Available	**$3,186,975,552**	**$2,919,722,957**	**$3,334,973,980**	**$3,492,991,958**	**$3,484,991,958**
Expenditures:					
Administrative Expenses	$2,620,090	$3,037,834	$3,059,147	$3,199,428	$3,217,620
Investment Services	11,724,854	14,100,000	14,100,000	16,526,454	16,526,454
Payments to Retirees	179,854,080	194,504,000	202,504,000	219,849,000	219,849,000
Beneficiaries	4,028,802	4,392,000	4,392,000	4,927,000	4,927,000
Refunds	3,884,082	4,790,000	4,790,000	4,280,000	4,280,000
Total Expenditures	$202,111,908	$220,823,834	$228,845,147	$248,781,882	$248,800,074
Total Disbursements	**$202,111,908**	**$220,823,834**	**$228,845,147**	**$248,781,882**	**$248,800,074**
Ending Balance [2]	**$2,984,863,644**	**$2,698,899,123**	**$3,106,128,833**	**$3,244,210,076**	**$3,236,191,884**

[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 2011 Actual	FY 2012 Adopted Budget Plan	FY 2012 Revised Budget Plan	FY 2013 Advertised Budget Plan	FY 2013 Adopted Budget Plan
Beginning Balance	**$836,033,056**	**$879,532,107**	**$1,035,145,961**	**$1,086,005,955**	**$1,085,005,955**
Revenue:					
Employer Contributions	$29,174,611	$31,954,831	$31,954,831	$32,593,928	$32,593,928
Employee Contributions	10,142,459	10,193,060	10,193,060	10,396,921	10,396,921
Employee Payback	0	0	0	0	0
Return on Investments	104,397,063	70,433,212	70,433,212	81,643,558	81,643,558
Total Realized Revenue	$143,714,133	$112,581,103	$112,581,103	$124,634,407	$124,634,407
Unrealized Gain/(Loss) [1]	$109,505,293	$0	$0	$0	$0
Total Revenue	$253,219,426	$112,581,103	$112,581,103	$124,634,407	$124,634,407
Total Available	**$1,089,252,482**	**$992,113,210**	**$1,147,727,064**	**$1,210,640,362**	**$1,209,640,362**
Expenditures:					
Administrative Expenses	$722,639	$940,542	$945,109	$893,127	$897,026
Investment Services	3,488,400	4,500,000	4,500,000	5,015,134	5,015,134
Payments to Retirees	46,584,842	52,087,000	53,087,000	56,164,000	56,164,000
Beneficiaries	2,844,277	3,589,000	3,589,000	3,323,000	3,323,000
Refunds	466,363	600,000	600,000	510,000	510,000
Total Expenditures	$54,106,521	$61,716,542	$62,721,109	$65,905,261	$65,909,160
Total Disbursements	**$54,106,521**	**$61,716,542**	**$62,721,109**	**$65,905,261**	**$65,909,160**
Ending Balance [2]	**$1,035,145,961**	**$930,396,668**	**$1,085,005,955**	**$1,144,735,101**	**$1,143,731,202**

[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.