Fund 73030
OPEB Trust Fund

Focus

Fund 73030 (formerly 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. It is the County's policy to maintain a net OPEB asset, which demonstrates that the County has met its obligations to adequately fund the annual required contribution each year.

The actuarial valuation as of July 1, 2012 under GASB 45 calculated the County's actuarial accrued liability (AAL), excluding the Schools portion, at approximately $503.8 million and the unfunded actuarial accrued liability as $400.5 million, as shown below.

Valuation Results as of July 1, 2012 (in thousands)	
Actuarial Accrued Liability (AAL)	$503,786
Plan Assets	$103,270
Unfunded Actuarial Accrued Liability	$400,516
Annual Required Contribution (ARC)	$38,858

It should be noted that the July 1, 2012 AAL of $503.8 million increased from the July 1, 2011 AAL of $474.2 million primarily due to actual retiree claims experience.

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. It should be noted that the County is credited an effective contribution towards the ARC each year to recognize actual expenses incurred related to the implicit subsidy, i.e. the difference between retiree claims and retiree premiums.

The ARC is funded through the combination of a General Fund transfer, contributions from other funds, and the implicit subsidy contribution described above. FY 2013 funding includes a General Fund transfer of $28.0 million and contributions from other funds of $4.2 million. It should be noted that the implicit subsidy contribution is calculated by the County's actuaries after the close of the fiscal year, but has been estimated to remain at the FY 2012 level of $10.0 million. The FY 2014 Adopted Budget Plan maintains the General Fund transfer at $28.0 million and increases contributions from other funds to $4.3 million.

Primarily due to the County's commitment to fully fund the ARC in the baseline budget and a higher than anticipated implicit subsidy contribution, the County had a net OPEB asset of $2.0 million at the end of FY 2012. Based on preliminary estimates of the implicit subsidy contribution, it is projected that current funding levels will fully fund the FY 2013 ARC, resulting in a net OPEB asset of $5.3 million for FY 2013 as displayed in the chart below.

Net OPEB Asset
(in thousands)

	FY 2012 Actual	FY 2013 Estimate
Annual Required Contribution (ARC)	$37,640	$38,858
Adjustments to ARC	*$60*	*($26)*
Annual OPEB Cost (AOC)	$37,700	$38,832
Resources to Apply toward the ARC:		
Transfer from the General Fund	*$27,737*	*$28,000*
Contributions from Other Funds	*$3,849*	*$4,183*
Implicit Subsidy Contribution	*$9,953*	*$9,953*
Carryover of Prior Year Asset/(Obligation)	($1,797)	$2,042
Net OPEB Asset/(Obligation)	$2,042	$5,346

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 73030.

Retiree Health Benefit Subsidy

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. 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 25 percent increase approved by the Board of Supervisors in response to the implementation of the 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 completely offsets 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.

Primarily as a result of the March 2010 passage of comprehensive health care reform legislation, the health care environment is in the midst of significant changes. Staff is continuing to examine the impact of reform on the County's current benefit options and will be developing a long-term strategy to provide cost-effective and comprehensive health care coverage to retirees.

During FY 2014, the average number of subsidy recipients, including new retirees who are eligible to receive the retiree health benefit subsidy, is expected to increase by 299, or 9.2 percent, from 3,238 in FY 2013 to 3,537 in FY 2014. Estimates of the average number of subsidy recipients are based on a review of the projected number of retirements and health subsidy eligibility for personnel already retired from the Fairfax County Employees', Uniformed, and Police Officers Retirement Systems. Retirees who become eligible to receive the subsidy are paid based on the period of eligibility within the fiscal year, which may or may not comprise a full year of payments. It should be noted that in FY 2006, the Board of Supervisors approved an additional benefit to Health Department employees who remained in the Virginia Retirement System (VRS) after their conversion from state to County employment in 1995. Current and future retirees who participate in a County health plan are eligible to receive the differential between the County retiree health benefit subsidy for which the employee is eligible based on years of service, which currently has a maximum of $220 per month, and that provided by VRS, which has a maximum of $120 per month. Furthermore, effective July 1, 2006, the County began providing the maximum retiree health benefit subsidy of $220 per month to those Police officers who were hired before

July 1, 1981 and retired or will retire with full retirement benefits with 20, but less than 25, years of service. These Police officers previously received a subsidy of $190 per month.

Initiatives

- Provide an appropriate funding level to support the retiree health benefit subsidy and make progress towards reducing the County's unfunded OPEB liability.
- Continue to allow for the timely and accurate distribution of retiree health benefit subsidy payments.
- Estimate actuarial liabilities to comply with GASB's accounting requirements for post-employment benefits other than pensions.
- Invest fund assets appropriately in order to facilitate the capture of long-term investment returns.
- Continue to develop, considering the impacts of health care reform, a long-term County strategy to provide retiree medical benefits.

Budget and Staff Resources

Category	FY 2012 Actual	FY 2013 Adopted	FY 2013 Revised	FY 2014 Advertised	FY 2014 Adopted
FUNDING					
Expenditures:					
Personnel Services	$105,602	$109,631	$109,631	$110,956	$110,956
Operating Expenses	17,087,393	7,517,685	17,822,685	8,307,319	8,307,319
Capital Equipment	0	0	0	0	0
Total Expenditures	$17,192,995	$7,627,316	$17,932,316	$8,418,275	$8,418,275
AUTHORIZED POSITIONS/FULL-TIME EQUIVALENT (FTE)					
Regular	1 / 1	1 / 1	1 / 1	1 / 1	1 / 1

1 Accountant III

TOTAL POSITIONS
1 Position / 1.0 FTE

It should be noted that the 1/1.0 FTE Accountant III position resides in the Retirement Administration Agency and is financed by Fund 73030, OPEB Trust Fund.

Fund 73030
OPEB Trust Fund

FY 2014 Funding Adjustments

The following funding adjustments from the FY 2013 Adopted Budget Plan are necessary to support the FY 2014 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 30, 2013.

- **Employee Compensation** **$1,325**
  An increase of $1,325 in Personnel Services reflects the full year impact of the FY 2013 2.5 percent performance-based scale and salary increase, effective January 2013, for non-uniformed employees. It should be noted that no funding is included for additional employee compensation for this fund in FY 2014.

- **Benefit Payments** **$695,282**
  An increase of $695,282 in Operating Expenses is attributable to a projected increase in the number of retirees receiving the retiree health benefits subsidy.

- **Administrative Expenses** **$94,352**
  An increase of $94,352 in Operating Expenses is primarily associated with an anticipated increase in investment services and actuarial fees.

Changes to FY 2013 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2013 Revised Budget Plan since passage of the FY 2013 Adopted Budget Plan. Included are all adjustments made as part of the FY 2012 Carryover Review, FY 2013 Third Quarter Review, and all other approved changes through April 23, 2013.

- **Third Quarter Adjustments** **$10,305,000**
  As part of the *FY 2013 Third Quarter Review*, the Board of Supervisors approved an increase of $10,305,000, primarily to appropriately reflect the County's contribution and benefit payments for the implicit subsidy for retirees. An increase of $10,105,000 to both revenues and expenditures is required to offset anticipated audit adjustments that are posted to the fund at the end of the fiscal year to reflect all activities under GASB 45. The remaining increase of $200,000 is due to increases in required benefit payments based on year-to-date experience.

Fund 73030
OPEB Trust Fund

FUND STATEMENT

Fund 73030, OPEB Trust Fund

	FY 2012 Actual	FY 2013 Adopted Budget Plan	FY 2013 Revised Budget Plan	FY 2014 Advertised Budget Plan	FY 2014 Adopted Budget Plan
Beginning Balance	$87,050,168	$112,690,645	$113,693,810	$139,609,727	$139,409,727
Revenue:					
CMS Medicare Part D Subsidy	$1,495,907	$1,300,000	$1,300,000	$1,300,000	$1,300,000
Investment Income	52,783	60,000	60,000	60,000	60,000
Implicit Subsidy	9,953,000	0	10,105,000	0	0
Other Funds Contributions	3,848,764	4,183,233	4,183,233	4,321,540	4,321,540
Total Realized Revenue	$15,350,454	$5,543,233	$15,648,233	$5,681,540	$5,681,540
Unrealized Gain/(Loss) [1]	$749,183	$0	$0	$0	$0
Total Revenue	$16,099,637	$5,543,233	$15,648,233	$5,681,540	$5,681,540
Transfers In:					
General Fund (10001)	$27,737,000	$28,000,000	$28,000,000	$28,000,000	$28,000,000
Total Transfers In	$27,737,000	$28,000,000	$28,000,000	$28,000,000	$28,000,000
Total Available	$130,886,805	$146,233,878	$157,342,043	$173,291,267	$173,091,267
Expenditures:					
Benefits Paid	$7,026,009	$7,426,517	$7,626,517	$8,121,799	$8,121,799
Implicit Subsidy	9,953,000	0	10,105,000	0	0
Administrative	213,986	200,799	200,799	296,476	296,476
Total Expenditures	$17,192,995	$7,627,316	$17,932,316	$8,418,275	$8,418,275
Total Disbursements	$17,192,995	$7,627,316	$17,932,316	$8,418,275	$8,418,275
Reserved Ending Balance [2]	$113,693,810	$138,606,562	$139,409,727	$164,872,992	$164,672,992

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

[2] The Reserved Ending Balance in Fund 73030, 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 $164.7 million reserve in FY 2014 is applied toward the liability of $503.8 million calculated as of July 1, 2012.