



County of Fairfax, Virginia

MEMORANDUM

DATE: MAR 18 2013
TO: Board of Supervisors
FROM: Edward L. Long Jr.
County Executive
SUBJECT: Compensation Comparison Request from February 19, 2013, Personnel and Reorganization Committee

As requested at the last Personnel and Reorganization Committee meeting, staff has compiled data regarding compensation adjustments, health, life, and dental insurance and retirement benefits of the seven local competitors used for comparison purposes. Each component is addressed below. Based on the information provided below, it appears that when looking at compensation, benefits and retirement, Fairfax County remains competitive.

COMPENSATION ADJUSTMENTS:

Attachment 1 is a comparison of the base pay increase percentages provided and/or proposed by Fairfax County over the fiscal years 2010 through 2014 to those of other local jurisdictions. The attachment includes a summary page of the increases along with accompanying pages that provide more detailed information and breakdowns by fiscal year.

Assuming all surveyed jurisdictions approve their 2014 budgets as proposed, over the five fiscal years 2010-2014, Fairfax County will be about 1.58% below the average and will rank 6th out of the 8 jurisdictions surveyed. In FY2013, Fairfax did provide the highest percentage increase, which was 2.98% above the average. However, if all other jurisdictions approve their budgets as currently proposed in FY2014, we will be about 3.58% below average and rank at or close to last.

Some additional highlights of the comparison include the following:

- City of Alexandria and Arlington County have consistently provided step increases since FY2011.
- Although Montgomery, Prince George's, and Loudoun Counties were not able to provide step or COLA increases in FY2013, they did provide bonus payments in lieu of these payments.

- In FY2013, Virginia jurisdictions participating in the VRS system did scale adjustments as offsets to the increased employee contribution to the VRS. Some are implementing these offsets over a 5 year period. More detailed information is provided in the fiscal year breakdown pages.

BENEFITS

Health, Life and Dental Insurance

Attachment 2 summarizes the health, life and dental insurance benefits information from our seven local competitors. As you will see, the variances in plan design and cost structure make the comparison complex and challenging to draw conclusions.

Some points worth noting include:

- All jurisdictions are self-insured for health insurance (excluding HMO products).
- Only one jurisdiction (Loudoun County) contributes a higher percentage to the cost of the health insurance premium.
- D.C. provides no retiree coverage; Prince William County does not provide coverage for retirees 65 years or older.
- Fairfax County's utilization of co-insurance is less than that of the others.
- While there was variance, out of pocket maximums and office co-pays were comparable.
- Only one jurisdiction (Montgomery County) had retail pharmacy co-pays that were less than Fairfax County's.
- Fairfax County's basic employer paid life insurance benefit aligns with four of seven comparators, with Loudoun County, Prince George's County and D.C. providing a higher benefit.

While an exact ranking of benefits offerings is not possible, the above comparisons indicate that the Fairfax County benefits package compares very favorably with the seven jurisdictions.

RETIREMENT:

As you will recall, the Board received a comprehensive retirement study in early 2012. As with health benefits, precise comparisons and conclusions are difficult. Attachment 3 is the Executive Summary from that study. The full study can be found at

<http://www.fairfaxcounty.gov/hr/pdf/fairfaxcountyretirementbenefitsbenefitsstudy.pdf>

Generally, the study concluded:

- The County Employees' Retirement System benefit plans are very strong, being more generous than those of the competitor group. This is primarily driven by the defined benefit plan where benefits exceed those of most competitors.
- The County Employees' Retirement System benefits exceed the minimum retirement income needed to support the employee's current lifestyle in retirement.
- The Police Officers Retirement System provides benefits that are comparable to, though slightly lower in value than, the average of the competitor group.
- The Uniformed Retirement System provides benefits that are comparable to, though slightly greater in value than, the average of the competitor group.
- Governance of the plans is strong and consistent with sound practices for pension plan governance.

In response to recommendations in the study, the Board of Supervisors amended the three retirement ordinances as follows:

- Increased the retirement age to 55 and the rule of 80 to 85 (Employees)
- Capped the use of sick leave in the calculation of retirement benefits at 2,080 (all three systems)
- Revised DROP program to remove the Social Security Supplement (Employees and Uniformed)

Please let me know if I can provide additional information or answer further questions.

Attachments

cc: Susan W. Datta, Chief Financial Officer
Patricia D. Harrison, Deputy County Executive
David J. Molchany, Deputy County Executive
David M. Rohrer, Deputy County Executive
Robert A. Stalzer, Deputy County Executive
Susan E. Woodruff, Director, Department of Human Resources

**LOCAL JURISDICTIONS vs FAIRFAX COUNTY
TOTAL BASE PAY INCREASE (Includes Merits/COLAs)**

Jurisdictions	FY2010 Total Increase	FY2011 Total Increase	FY2012 Total Increase	FY2013 Total Increase	FY2014 Total Increase Proposed (updated 3/15/13)	5 yrs Total
Alexandria	0.00%	3.35%	3.35%	3.35%	3.35%	13.40%
Arlington	1.00%	2.50%	2.50%	2.80%	2.80%	11.60%
District of Columbia	6.78%	0.00%	0.00%	2.78%	TBD *****	9.56%
Loudoun	0.00%	0.00%	3.00%	0.00% *	3.00%	6.00%
Montgomery County	3.50%	0.00%	0.00%	0.00% **	6.75%	10.25%
Prince Georges County	0.00%	0.00%	0.00% ***	0.00% ****	1.50% *****	1.50%
Prince William County	0.00%	0.00%	2.00%	3.00%	2.00%	7.00%
Average	1.61%	0.84%	1.55%	1.70%	3.23%	8.47%
Fairfax	0.00%	0.00%	2.00%	4.68%	0.00%	6.68%

* Loudoun provided 2% performance-based bonus (not included in Base Pay)

** Montgomery provided \$2000 as a lump sum on 7/1/12

*** PG provided bonus payment in lieu of COLA and merit increase; \$1000 in FY12, and \$1250 in FY13

**** Union negotiations are drivers in determining proposed increase amounts

***** PG Total increase is 2% but up to 5 unpaid furlough days. After furloughs, net increase is 1.5%.

FY14 Breakdown
(Attachment 1)

Fiscal Year	FY2014 PROPOSED Total Increase (as of 3/15/13)	FY2014 MERIT (step, performance-based increase)	FY2014 COLA / MRA	FY2014 Scale Adjustment	FY2014 (updated 3/15/13) Others / Comments
Alexandria	3.35%	(Declining pay scale with step increase 1-3 steps @ 5%, 4-8 steps @ 3.5%, 9-17 steps @ 2.3%)	0.00%	1% added to the General Pay Scale to offset VRS contribution increase.	Budget proposed 2/26/13. 1% salary increase for employees covered by VRS to offset 1% VRS contribution increase. 2nd year of a phased approach to bring the employee share to 5%. 2.3% one-time pay supplement (the equivalent of 1 step) for employees at the top of their grade if warranted by performance. The living wage will continue to be frozen at the FY 2009 level of \$13.13/hour
Arlington	2.80%	2.8% ave. step increase	0.00%	0.00%	Budget proposed 2/23/13. Mark-up 4/16 Step increases included in the proposed budget. Eliminate 1 holiday (Columbus Day). No change to the Living Wage (\$13.13)
District of Columbia	TBD				we have a \$400m budget surplus, but apparently \$300m is required to be put in our reserve fund. The remaining amount appears primarily earmarked for housing and other social programs; we read in the newspapers there are rumors of across the board increases for employees, but we have been advised of nothing and are preparing nothing at this time
Loudoun	3.00%	3.00%	0.00%	0.00%	Budget proposed 2/6/13. Average 3% merit-based increase included in the proposed budget
Montgomery County	6.75%	3.50%	3.25%	0.00%	Tentative agreement with UFCW (not ratified yet) as of 2/11/13. 3.25% COLA, 3.5% annual salary increments in FY14 & 15. 3% Longevity increments, or 0.5% Lump sum payment for top of grade for employees not receiving a longevity step in FY14 and FY15. County typically mirrors Union's agreement to non-union employees.
Prince Georges County	1.50%	1.50%			2.0% total COLA increase. PG's budget includes up to 5 unpaid furlough days. Net increase = 1.5%
Prince William County	2.00%	2.00%	0.00%	1% VRS adjustment - 2nd year of 5-year phase in adjustment (Salaries will increase 1% : employee VRS contribution increase 1%)	Budget proposed 2/12/13. The proposed 5-year budget plan (FY14-19) provides biennial pay plan adjustment - a 2% market adjustment in FY 14, FY 16 and FY 18, and a 3% merit increase in FY15 and FY17. If Board cuts tax rate, CXO has proposed eliminating 1 holiday- Columbus day.
Average	3.23%				Budget proposed 2/26/13. No salary increase in FY14. Public safety longevity adjustments included in the proposed budget. 91 (mostly vacant) position cuts. Proposed alternative pay adjustments - Market Rate Adjustment in FY15 & 17, Steps/pay for performance in FY16 & 18
Fairfax	0.00%	0.00%	0.00%	0.00%	
FCPS: Teacher Scale					3% offset for VRS with a 1% market scale adjustment, and a 1% transfer from employee contributions to ERFC to employer contribution.
FCPS: US/IA Scale					Same as above
Federal Government	1.00%				1% (Not carried forward by House and Senate)

FY13 Breakdown

Fiscal Year	FY2013 APPROVED Total Increase (5/25/12)	FY2013 MERIT (step, P4P)	FY2013 COLA / MRA	FY2013 Scale Adjustment	FY2013 (updated 12/3/12) Others / Comments
Alexandria	3.35%	2.3-5.0% step increase (Declining pay scale with step increase 1-3 steps @ 5%, 4-8 steps @ 3.5%, 9-17 steps @ 2.3%)	0.00%	2.3%. Added an additional step ("S" ¹⁹ th step) and eliminated 2 lowest steps ("A" and "B") for General Scale. No change to PS scale	1% salary increase for employees covered by VRS to offset 1% VRS contribution increase. Another 1% additional adjustment for FY14.
Arlington	2.80%	2.8% ave. step increase	0.00%	2.3% (Drop step 1 and added new step 19)	Increased Living wage to \$13.13
District of Columbia	2.78%	2.78% ave. steps increase. (3.09% to 3.25% at the early steps, 2.8% at the midpoint, 2.5% at the later steps)	0.00%	0.00%	In FY 13 Reimbursed employees for four FY12 furlough days; adjusted employee share of Health Insurance premium back to 25% from 28%.
Loudoun	0.00%	0.00%	0.00%	Increased Minimum of the pay scale by 2.5% and maximum by 5%	2% bonus (not included in base pay) Employees salaries will be increased by 5% to cover the VRS contribution effective July 2012.
Montgomery County	0.00%	0.00%	0.00%	0.00%	\$2000 as a lump sum on 7/1/12. Management Leadership will receive the greater of \$2000 or 2% of base salary as a lump sum. Longevity will be paid in FY13.
Prince Georges County	0.00%	0.00%	0.00%	0.00%	Employees received bonus payments of \$1250 in FY13 in lieu of a Cost of Living adjustment and merit increase.
Prince William County	3.00%	3.00%	0.00%	1% added to scale max, then 3% added (compounded on the 1% increase)	1:1 VRS Phase in each year for 5 years (Salaries will increase 1% : employee VRS contribution increase 1%)
Average	1.70%				
Fairfax	4.68%	2.5 % for Non-PS (Jan 13) 2.3% Ave. Step for PS	2.18% all employees (July 14, 12. Scale adjustment & pay increase)	2.18% all scales (July 14, 12) 2.5% for Non-PS scales (Jan 13)	

FY12 Breakdown

Fiscal Year	FY2012 APPROVED Total Increase (as of 11/01/11)	FY2012 MERIT (step, P4P)	FY2012 COLA / MRA	FY2012 Scale Adjustment	FY2012 (updated 2/15/13) Others/Comments
Alexandria	3.35%	(Declining pay scale with step increase 1-3 steps @ 5%, 4-8 steps @ 3.5%, 9-17 steps @ 2.3%) 2.3-5.0% step increase	0.00%	2.3%. Added additional step ("R"= 18th step) for Fire, Sheriff, and General pay scale	
Arlington	2.50%	2.5% ave. increase	0.00%	0.00%	
District of Columbia	0.00%	0.00%	0.00%	0.00%	
Loudoun	3.00%	0.00%	3.00%	0.00%	
Montgomery County	0.00%	0.00%	0.00%	0.00%	
Prince Georges County	0.00%	0.00%	0.00%	0.00%	Employees received bonus payments of \$1000 in FY12 in lieu of a Cost of Living adjustment and merit increase.
Prince William County	2.00%	0.00%	2.00%	0.00%	
Average	1.55%				
Fairfax	2.00%	0.00%	2%. BOS approved 2% scale adjustment, and pay increases for employees effective Sep 24, 2011.	2%. BOS approved 2% scale adjustment, and pay increases for employees effective Sep 24, 2011.	

FY11 Breakdown

Fiscal Year	FY2011 Total Increase	FY2011 MERRIT (step, P4P) 2-3-5.0% step increase	FY2011 COLA / MRA	FY2011 Scale Adjustment	FY2011 (updated 2/13/13) Others/Comments
Alexandria	3.35%	(Declining pay scale with step increase 1-3 steps @ 5%, 4-8 steps @ 3.5%, 9-17 steps @ 2.3%)	0.00%	2.3%. Added additional step ("Q"=17th step) for Fire, Police and Sheriff and General pay scales	
Arlington	2.50%	2.5% (No MPA. Steps reinstated; avg step is 2.5%)	0.00%	0.00%	
District of Columbia	0.00%	0.00%	0.00%	0.00%	
Loudoun	0.00%	0.00%	0.00%	0.00%	
Montgomery County	0.00%	0.00%	0.00%	0.00%	
Prince Georges County	0.00%	0.00%	0.00%	0.00%	
Prince William County	0.00%	0.00%	0.00%	0.00%	
Average	0.84%				
Fairfax	0.00%	0.00%	0.00%	0.00%	

FY10 Breakdown

Fiscal Year	FY2010 Total Increase	FY2010 MERIT (step, PAP)	FY2010 COLA / MRA	FY2010 Scale Adjustment	FY2010 (updated 2/1/2013) Others/Comments
Alexandria	0.00%	0.00%	0.00%	0.00%	COLA/MRA = 0%. No merit funded.
Arlington	1.00%	0.00%	1% MPA effective Jan 2010	0.00%	
District of Columbia	6.78%	2.78% ave. step increase	Almost all union employees received a 4% COLA, non-union employees received 0%. (Union employees are approximately 75% of the workforce). 0% Police & Fire, 4% Attorney's union, 4% Union general employees, 0% Non-union general employees.	0.00%	Total increase includes 2.78% ave. Step Increase + 4% COLA for the majority of workforce
Loudoun	0.00%	0.00%	0.00%	0.00%	
Montgomery County	3.50%	3.50%	0.00%	0.00%	The 3.50% listed is the annual service increment provided to all employees. No GWA (general wage adjustment) was awarded in FY10 but Longevity pay was provided to eligible employees (2% for non-union and 3% for public safety staff).
Prince Georges County	0.00%	0.00%	0.00%	0.00%	
Prince William County	0.00%	0.00%	0.00%	0.00%	
Average	1.61%				
Fairfax	0.00%	0.00%	0.00%	0.00%	

SECTION I

EXECUTIVE SUMMARY

Fairfax County engaged Aon Hewitt in November 2010 to undertake a comprehensive review of the County Government's postretirement income and health benefits. Included were benefits for general County Employees, Police Officers, and Uniformed Services. Briefly we found the following:

- Aon Hewitt reviewed Fairfax County's Retirement Policy and Mission statement. We made some comments on certain aspects of the policy but, in general, we believe the statement is sound and provides a useful guide for making decisions about the County's Retirement Plans.
- The program structure – defined benefit pensions and postretirement medical – supports the principal goal of the program – financial security in retirement for career employees – and is consistent with the Fairfax County Retirement Policy and Mission Statement.
- The current program specific provisions support the Fairfax County Retirement Policy and Mission Statement. However, there are opportunities for modifications in the area of eligibility for retirement and the Supplement paid prior to Social Security retirement age.
- The County Employees' Retirement System benefit plans are very strong, being more generous than those of your competitor group. This is primarily driven by the defined benefit plan where benefits exceed those of most competitors.
- The County Employees' Retirement System benefits exceed the minimum retirement income needed to support the employee's current lifestyle in retirement.
- The Police Officers Retirement System provides benefits that are comparable to, though slightly lower in value than, the average of the competitor group.
- The Uniformed Retirement System provides benefits that are comparable to, though slightly greater in value than, the average of the competitor group.
- Governance of the plans is strong and consistent with sound practices for pension plan governance.

Details of our results are included in this study.

The study was completed in six phases.

Phase 1 was a series of discussions with Fairfax County management to discover the County's philosophy with regard to employee benefits in general and retirement benefits in particular. There was a discussion of alternative benefit structures and some general analysis of the current benefit structure versus employee income needs.

During Phase 1 we identified the types of employees covered and the pattern of retirement for each of the groups under review and reviewed plan documents, actuarial reports, retirement handbooks and prior plan studies.

Finally in Phase 1 we identified the employer groups that would be comparators for purposes of benchmarking the Fairfax County Benefit plans. These were:

- Fairfax County Public Schools (Fairfax PS)
- Commonwealth of Virginia (VRS)
- City of Alexandria (Alex)
- Arlington County (Arling)
- Loudoun County (Loudoun)
- Montgomery County (Mont)
- Prince George's County (PG)
- Prince William County (PW)
- Federal Government (Fed)

In Phase 2 we benchmarked the Fairfax County plans for each of the three groups (Employee, Police Officers, and Uniformed) against the benefits of the comparators identified in Phase 1. These benefits were assessed on a present value basis that allowed for comparison of disparate plan provisions.

Phase 3 was a discussion of our preliminary results with Fairfax County management. This allowed a discussion of possible plan changes in both pension and medical benefits. Phase 4 was a refinement of our results and the evaluation of our recommendations by the Plan's actuary. Phase 5 was a presentation of our final results for Fairfax County review. Phase 6 was the preparation of this report. We have identified at the conclusion of our report a number of options which the County might consider, with respect to both the retirement income and retiree health care plans. We also identify those broader issues which will affect the consideration of those options.

We respectfully submit this report as the result of our efforts. The report presents our findings and conclusions, as well as documents the basis for the conclusions we have reached and our recommendations of options for consideration by Fairfax County's management and elected leadership. We would be pleased to answer any questions you have regarding the substance of this report.