Employee Retirement Systems Overview

Fairfax County employee retirement systems include the Fairfax County Employees' Retirement System (Fund 73000), the Uniformed Retirement System (Fund 73010), and the Police Officers Retirement System (Fund 73020). 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 Fairfax County Employees' Retirement Trust Fund, the employer's contribution comes from Agency 89, Employee Benefits, for County employees in General Fund agencies, the employee's agency for County employees in non-General Fund agencies, and Fairfax County Public Schools (FCPS) for school employees. 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 40090, E-911, for the non-administrative staff in the Department of Public Safety Communications. 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. If the funding ratio falls below 90 percent, the unfunded actuarial accrued liability below 90 percent is amortized over 15 years in order to return the funding ratio to 90 percent. 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. However, 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 the County will gradually increase the funding to the systems to allow amortization of the unfunded actuarial accrued liability to 100 percent. The employer contribution rates were increased in FY 2011 to allow for amortization to a 91 percent level. In FY 2015, employer contribution rates are further increased to allow for amortization to a 93 percent level. It is anticipated that increases in the employer contribution rates will continue each year to fund amortization to a 100 percent level by the end of the decade.

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 is considered a benefit enhancement and 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, the Department of Human Resources contracted with a benefits consultant to conduct a comprehensive review of the retirement plans. The consultant's report was presented in February and March 2012. Based on the results of this study, the Board of Supervisors adopted several modifications to the retirement systems, which apply only to new employees who are hired on or after January 1, 2013. These changes include:

- Increasing the minimum retirement age for normal service retirement from 50 to 55 in the Employees' system;
- Increasing the rule of 80 (age plus years of service) to the rule of 85 in the Employees' system;
- Placing a cap on the use of sick leave for purposes of determining retirement eligibility and benefits at 2,080 hours for all three retirement systems; and
- For the DROP program, removing the pre-Social Security supplement from balances accumulated during the DROP period in the Employees' and Uniformed systems. It should be noted that, as members of the Police Officers system do not participate in Social Security, they do not receive a pre-Social Security supplement.

No changes were made to benefits for current employees. The savings resulting from these changes are incorporated in the employer contribution rates beginning in FY 2015. Although initial savings are minimal, as more employees are hired under these new plan provisions, savings are expected to grow over time.

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, though the investment returns for the three retirement systems were mixed in FY 2012. FY 2013 was another good year for investment returns with all three systems exceeding the 7.5 percent assumed rate of return. The Employees' system returned 8.1 percent, the Uniformed system was up 10.5 percent, and the Police Officers system returned 9.7 percent. The FY 2013 investment results, contribution levels, and liability experience 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, 2012	June 30, 2013
Employees'	73.1%	74.2%
Uniformed	81.1%	82.4%
Police Officers	82.9%	84.2%

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.

While the funding ratios for each of the three retirement systems increased, the employer contribution rates for all three systems are increased based on a change to the amortization schedule to increase the amortization level from 91 percent to 93 percent. The employer contribution rates for the Employees' system and the 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 November 19, 2013. The employer contribution rate for the Police Officers system is also required to increase due to a reduction in the employee contribution rate from 10.00 percent to 9.32 percent, which is the first reduction in the two year phased reduction from 10.00 percent to 8.65 percent that was described in the FY 2014 and FY 2015 Multi-Year Budget of the FY 2014 Adopted Budget Plan.

The proposed FY 2015 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 2014 Rates (%)	FY 2015 Rates (%)	Percentage Point Change (%)	Net General Fund Impact
Employees'	19.30	20.18	0.88	$2,866,804
Uniformed	36.43	37.90	1.47	$2,044,740
Police Officers	33.87	36.23	2.36	$2,249,541
Total				**$7,161,085***

* The General Fund impact reflected in the table is based solely on rate changes and does not include other adjustments, including the impact of new positions, employee pay increases, or year-to-date experience.

- The employer contribution rate for the Employees' system is required to increase by 0.88 percentage points based on a reduction in the Social Security offset for service-connected disability retirees (0.03 percentage points) and an increase in the amortization schedule from 91 percent to 93 percent (1.22), partially offset by FY 2013 experience as reflected in the annual actuarial valuation (-0.37).

- The employer contribution rate for the Uniformed system is required to increase by 1.47 percentage points based on a reduction in the Social Security offset for service-connected disability retirees (0.11 percentage points) and an increase in the amortization schedule from 91 percent to 93 percent (2.06), partially offset by FY 2013 experience as reflected in the annual actuarial valuation (-0.70).

- The employer contribution rate for the Police Officers system is required to increase by 2.36 percentage points based on a reduction in the employee contribution rate (0.68 percentage points) and an increase in the amortization schedule from 91 percent to 93 percent (2.48), partially offset by FY 2013 experience as reflected in the annual actuarial valuation (-0.80).

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 if hired before 1/1/13; or 85 if hired on or after 1/1/13. Not before age 50 if hired before 1/1/13; or age 55 if hired on or after 1/1/13. For reduced "early retirement" benefits, when age and years of service combined equal 75.	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.

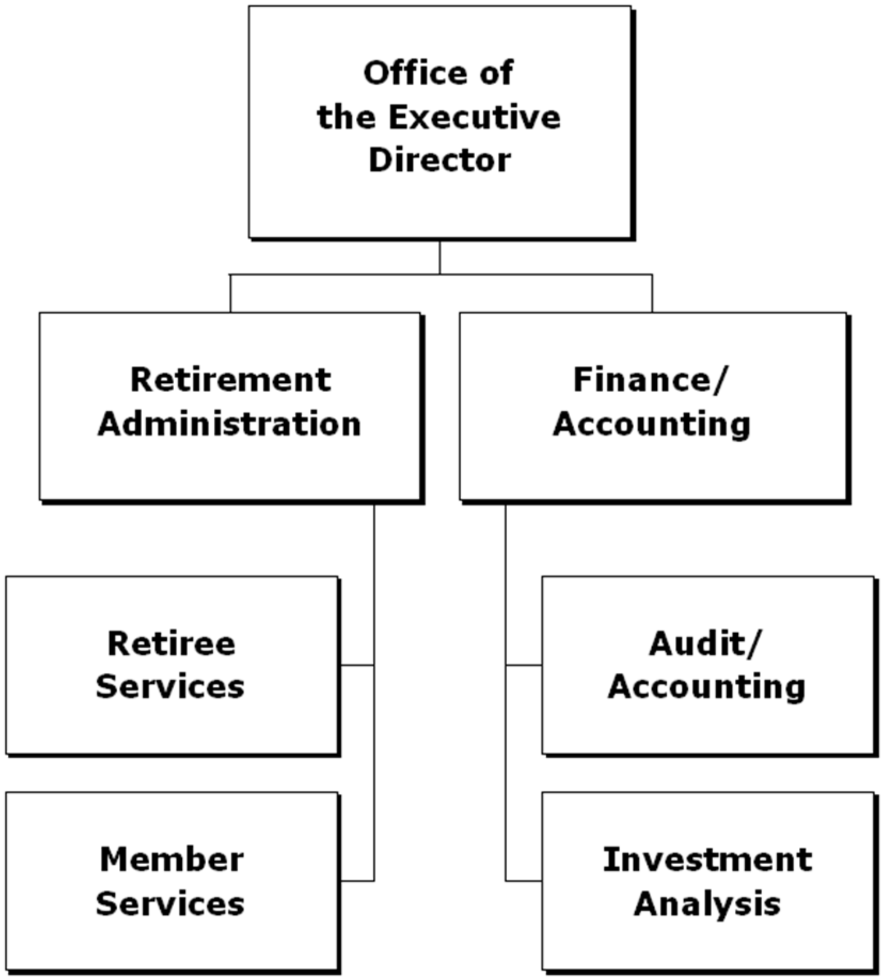
EMPLOYEE CONTRIBUTIONS[1]
(% of Pay)

	Uniformed Retirement					Fairfax County Employees' Retirement				Police Officers Retirement	
	Plan A	Plan B	Plan C	Plan D	Plan E	Plan A	Plan B	Plan C	Plan D	Plan A	Plan B
Up to Wage Base	4.00%	7.08%	4.00%	7.08%	7.08%	4.00%	5.33%	4.00%	5.33%	9.32%	9.32%
Above Wage Base	5.75%	8.83%				5.33%		5.33%			

FY 2015 EMPLOYER CONTRIBUTIONS (% of Pay)		
Uniformed Retirement	**Fairfax County Employees' Retirement**	**Police Officers Retirement**
37.90%	20.18%	36.23%

[1] As of January 1, 2013, new hires in the Uniformed Retirement System are automatically enrolled in Plan E, new hires in the Fairfax County Employees' Retirement System are automatically enrolled in Plan C with the option to switch to Plan D within their first thirty days of employment, and new hires in the Police Officers Retirement System are automatically enrolled in Plan B. Additional plans listed above are earlier plan designs that apply to employees hired prior to January 1, 2013. For additional information regarding the County's retirement plans, please refer to the Retirement Administration Agency website at http://www.fairfaxcounty.gov/retirement/.

INVESTMENT MANAGERS AS OF JUNE 30, 2013		
Uniformed Retirement	**Fairfax County Employees' Retirement**	**Police Officers Retirement**
▪ Acadian Asset Management ▪ Advisory Research ▪ Anchorage Capital Group ▪ Artha Capital ▪ Ashmore Investment Management ▪ Bluecrest Capital ▪ Brandywine Global Investment Management ▪ Bridgewater Associates ▪ The Clifton Group ▪ Cohen & Steers Capital Management ▪ Criterion Capital Management ▪ Czech Asset Management ▪ Davidson Kempner Institutional Partners ▪ DoubleLine Capital ▪ FrontPoint Partners ▪ Gramercy Advisors ▪ Gresham Investment Management ▪ Harbourvest Partners ▪ JP Morgan Investment Management ▪ King Street Capital Management ▪ Marathon Asset Management ▪ Orbimed Healthcare Fund Management ▪ Pacific Investment Management Co. ▪ Pantheon Ventures ▪ Ramius Starboard Value ▪ Standish Mellon Asset Management ▪ UBS Realty Advisors ▪ Victory Capital Management ▪ Wellington Management Company	▪ BlackRock, Inc. ▪ Brandywine Global Investment Management ▪ Bridgewater Associates ▪ The Clifton Group ▪ Cohen & Steers Capital Management ▪ Columbia Wanger Asset Management ▪ Czech Asset Management ▪ DePrince, Race & Zollo ▪ DoubleLine Capital ▪ Eagle Trading Systems ▪ First Eagle Investment Management ▪ FrontPoint Partners ▪ Gramercy Advisors ▪ INTECH Investment Management ▪ JP Morgan Investment Management ▪ LSV Asset Management ▪ MacKay Shields ▪ Marathon Asset Management ▪ Pacific Investment Management Co. ▪ Post Advisory Group ▪ Pzena Investment Management ▪ Sands Capital Management ▪ Shenkman Capital Management ▪ Standish Mellon Assistant Management ▪ Stark Investments ▪ WCM Asset Management ▪ Trust Company of the West	▪ Acadian Asset Management ▪ AQR Capital Management ▪ BlackRock, Inc. ▪ Bluecrest Capital ▪ Bridgewater Associates ▪ The Clifton Group ▪ Cohen & Steers Capital Management ▪ Czech Asset Management ▪ DoubleLine Capital ▪ First Eagle Investment Management ▪ FrontPoint Partners ▪ Gramercy Advisors ▪ King Street Capital ▪ Loomis Sayles ▪ Oaktree Capital Management ▪ Pacific Investment Management Co. ▪ Pzena Investment Management ▪ Starboard ▪ WCM Asset Management



Mission

As an agent of the Boards of Trustees of the Employees', Uniformed, and Police Officers 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 Retirement Administration Agency supports the following County Vision Element:

Exercising Corporate Stewardship

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 Employees' Retirement System, employer contributions come from Agency 89, Employee Benefits, for County employees in General Fund agencies, the employee's agency for County employees in non-General Fund agencies, and Fairfax County Public Schools (FCPS) for school employees. 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 40090, E-911, for the non-administrative staff in the Department of Public Safety Communications. 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, the County will gradually increase the funding to the systems to allow amortization of the unfunded actuarial accrued liability to 100 percent in order to improve the systems' financial position. It is anticipated that increases in the employer contribution rates will continue each year to fund amortization to a 100 percent level by the end of the decade.

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 last 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 were included in the employer contribution rates beginning in FY 2013.

Budget and Staff Resources

Category	FY 2013 Actual	FY 2014 Adopted	FY 2014 Revised	FY 2015 Advertised
FUNDING				
Expenditures:				
Personnel Services	$2,962,411	$3,083,494	$3,106,370	$3,363,059
Operating Expenses	374,075,596	432,433,442	432,433,442	471,078,983
Capital Equipment	0	0	0	0
Total Expenditures	$377,038,007	$435,516,936	$435,539,812	$474,442,042
AUTHORIZED POSITIONS/FULL-TIME EQUIVALENT (FTE)				
Regular	25 / 25	25 / 25	25 / 25	25 / 25

OFFICE OF THE DIRECTOR
1 Executive Director
1 Administrative Assistant IV

RETIREMENT ADMINISTRATION
1 Deputy Director
2 Administrative Assistants II

Retiree 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 FTE

[1] It should be noted that 1/1.0 FTE Accountant III position resides in the Retirement Administration Agency, but is accounted for and financed by Fund 73030, OPEB Trust Fund. The 25/25.0 FTE positions shown above are financed jointly by the three retirement trust funds (Fund 73000, Fund 73010, and Fund 73020).

FY 2015 Funding Adjustments

The following funding adjustments from the FY 2014 Adopted Budget Plan are necessary to support the FY 2015 program.

- **Employee Compensation** **$35,133**
  An increase of $35,133 in Personnel Services reflects funding for a 1.29 percent market rate adjustment for all employees in FY 2015, effective July 2014.

- **Personnel Services** **$148,854**
  A net increase of $148,854 in Personnel Services reflects adjustments necessary to align the Personnel Services budget with actual expenditure levels.

- **Fringe Benefits** **$111,951**
  A net increase of $111,951 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** **($16,373)**
  A decrease of $16,373 in Personnel Services reflects required adjustments associated with providing Other Post-Employment Benefits (OPEBs) to retirees, including the Retiree Health Benefits Subsidy. For more information on Other Post-Employment Benefits, please refer to Fund 73030, OPEB Trust Fund, in Volume 2 of the FY 2015 Advertised Budget Plan.

- **Benefit Payments** **$38,962,000**
  An increase of $38,962,000 in Operating Expenses reflects increased payments of $38,258,000 to retirees due to a higher number of retirees and higher individual payment levels and an increase in payments to beneficiaries of $704,000. It should be noted that, since benefits are pre-funded during an employee's active career, the employer contribution rates as calculated through the actuarial valuation process already reflect the increased level of benefit payments.

- **Investment Management Fees** **($400,000)**
  A decrease of $400,000 in Operating Expenses reflects an adjustment to investment management fees based on actual experience.

- **PC Replacement** **$14,542**
  An increase of $14,542 is included for PC replacement charges to reflect both updated inventory counts and revised costs, primarily associated with licenses and software requirements, following the review of the PC Replacement Program conducted in FY 2014.

- **Other Operating Expenses** **$68,999**
  A net increase of $68,999 in all other Operating Expenses reflects the net impact of several adjustments.

Changes to FY 2014 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2014 Revised Budget Plan since passage of the FY 2014 Adopted Budget Plan. Included are all adjustments made as part of the FY 2013 Carryover Review, and all other approved changes through December 31, 2013:

- **Carryover Adjustments** **$22,876**

  As part of the *FY 2013 Carryover Review*, the Board of Supervisors approved funding of $22,876 in Personnel Services for a one-time compensation adjustment of $850 for merit employees paid in November 2013.

Key Performance Measures

Indicator	Prior Year Actuals FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate/Actual	Current Estimate FY 2014	Future Estimate FY 2015
Retirement Administration Agency					
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	16.1%	1.0%	0.0%/0.6%	0.0%	0.0%
Deviation from actuarial rate of return (total plan): Uniformed	16.7%	(7.8%)	0.0%/3.0%	0.0%	0.0%
Deviation from actuarial rate of return (total plan): Police Officers	17.7%	(8.1%)	0.0%/2.2%	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Fairfax County Employees	2.3%	(4.8%)	0.0%/3.7%	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Uniformed	5.4%	8.1%	0.0%/3.4%	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Police Officers	2.0%	1.1%	0.0%/7.0%	0.0%	0.0%
Deviation from Barclays Capital Aggregate (fixed income): Fairfax County Employees	18.9%	13.0%	0.0%/4.6%	0.0%	0.0%
Deviation from Barclays Capital Aggregate (fixed income): Uniformed	7.6%	(0.2%)	0.0%/8.6%	0.0%	0.0%
Deviation from Barclays Capital Aggregate (fixed income): Police Officers	10.3%	0.2%	0.0%/7.4%	0.0%	0.0%

A complete list of performance measures can be viewed at www.fairfaxcounty.gov/dmb/fy2015/advertised/pm/73010.pdf

Performance Measurement Results

During FY 2013, domestic equity markets posted positive returns but many fixed income markets were negative. Overall, it was a solid year for investment performance with the Employees' system posting gross returns of 8.1 percent, the Uniformed system up 10.5 percent and the Police Officers system up 9.7 percent. The Employees' system, with significant exposure to the fixed income markets and less exposure to equities, had the lowest return as fixed income markets lagged for the year. To provide a context for these returns, the median return in the BNY Mellon public fund universe had a gross return of 12.4 percent. All three systems are more risk balanced and have less exposure to equity markets than the average public fund. To put these returns in the context of the capital markets, the S&P 500 Index was up 20.6 percent and the Barclay's Aggregate Bond Index was down by 0.7 percent. Yields on the 10-year U.S. Treasury bond increased from 1.73 percent at the beginning of the year to 2.52 percent at the end. In addition, reflecting progress on a solution to the crisis in Europe, non-U.S. equities increased by 19.1 percent in the developed markets and a lower 3.2 percent in the emerging markets over concerns about future access to international capital markets. The commodity index also declined by over 8.0 percent.

In addition to comparing one-year returns to general market results, the long-term investments of the retirement systems should also be considered over multi-year periods relative to the returns achieved by other public pension plans. For the last three-year period, all three systems had strong results relative to their peers across the country in the BNY Mellon public fund universe. The Employees' system was near the top, placing in the 4th percentile and returning a gross 13.5 percent per year, beating the median public plan return of 11.6 percent by almost two percent; the Police Officers system placed in the 62nd percentile returning 11.3 percent per year; and the Uniformed system placed in the 65th percentile returning 11.2 percent per year. The dispersion of investment results among the three systems over this period is attributable to many factors including differences in the systems' asset allocation strategies and the varying degrees to which each system's external investment managers added value.

FY 2013 results were above the assumed actuarial rate of return and the very high investment returns achieved over the last three-year period have strengthened the financial position of the systems. 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 2013, the actual compound annual returns achieved since 1981, the earliest date for which data is available, have been 10.3 percent for the Employees' system, 9.3 percent for the Uniformed system, and 10.0 percent for the Police Officers system.

FUND STATEMENT

Fund 73000, Fairfax County Employees' Retirement

	FY 2013 Actual	FY 2014 Adopted Budget Plan	FY 2014 Revised Budget Plan	FY 2015 Advertised Budget Plan
Beginning Balance	$3,172,646,122	$3,302,709,173	$3,353,926,900	$3,490,508,788
Revenue:				
County Employer Contributions [1]	$91,842,173	$99,331,566	$99,331,566	$98,471,005
County Employee Contributions [1]	23,258,913	23,238,040	23,238,040	23,668,858
School Employer Contributions [1]	35,705,650	33,050,727	33,050,727	39,888,355
School Employee Contributions [1]	8,841,092	9,701,177	9,701,177	9,209,176
Employee Payback	451,922	150,000	150,000	360,000
Return on Investments [1]	279,356,708	243,681,230	243,681,230	256,864,454
Total Realized Revenue	$439,456,458	$409,152,740	$409,152,740	$428,461,848
Unrealized Gain/(Loss) [1,2]	($19,989,845)	$0	$0	$0
Total Revenue	$419,466,613	$409,152,740	$409,152,740	$428,461,848
Total Available	$3,592,112,735	$3,711,861,913	$3,763,079,640	$3,918,970,636
Expenditures:				
Administrative Expenses [1]	$2,924,486	$3,419,496	$3,435,508	$3,660,298
Investment Services [1]	12,944,111	18,888,344	18,888,344	19,488,344
Payments to Retirees	214,728,028	238,677,000	238,677,000	264,261,000
Beneficiaries	4,600,814	5,120,000	5,120,000	5,483,000
Refunds	2,988,396	6,450,000	6,450,000	6,450,000
Total Expenditures	$238,185,835	$272,554,840	$272,570,852	$299,342,642
Total Disbursements	$238,185,835	$272,554,840	$272,570,852	$299,342,642
Ending Balance [3]	$3,353,926,900	$3,439,307,073	$3,490,508,788	$3,619,627,994

[1] In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of $135,474,448.67 have been reflected as a decrease to FY 2013 revenue, primarily associated with adjustments necessary to record a net loss from the unrealized depreciation of investments, as well as to record interest and dividend revenue in the proper fiscal period. In addition, audit adjustments in the amount of $121,164.75 have been reflected as an increase to FY 2013 expenditures in order to appropriately account for administrative expenses and investment management fees. The audit adjustments have been included in the FY 2013 Comprehensive Annual Financial Report (CAFR). Details of the FY 2013 audit adjustments will be included in the FY 2014 Third Quarter Package.

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

[3] 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 73010, Uniformed Retirement

	FY 2013 Actual	FY 2014 Adopted Budget Plan	FY 2014 Revised Budget Plan	FY 2015 Advertised Budget Plan
Beginning Balance	$1,208,858,858	$1,276,679,877	$1,318,808,530	$1,385,682,607
Revenue:				
Employer Contributions	$53,722,160	$54,325,025	$54,325,025	$58,579,149
Employee Contributions	10,858,333	10,989,176	10,989,176	10,946,770
Employee Payback	79,525	100,000	100,000	140,000
Return on Investments [1]	110,547,346	94,707,791	94,707,791	102,650,234
Total Realized Revenue	$175,207,364	$160,121,992	$160,121,992	$172,316,153
Unrealized Gain/(Loss) [1,2]	$15,214,955	$0	$0	$0
Total Revenue	$190,422,319	$160,121,992	$160,121,992	$172,316,153
Total Available	$1,399,281,177	$1,436,801,869	$1,478,930,522	$1,557,998,760
Expenditures:				
Administrative Expenses	$885,386	$1,179,844	$1,183,276	$1,238,696
Investment Services [1]	4,893,154	6,877,639	6,877,639	6,877,639
Payments to Retirees	73,029,820	83,459,000	83,459,000	92,234,000
Beneficiaries	884,892	878,000	878,000	1,091,000
Refunds	779,395	850,000	850,000	850,000
Total Expenditures	$80,472,647	$93,244,483	$93,247,915	$102,291,335
Total Disbursements	$80,472,647	$93,244,483	$93,247,915	$102,291,335
Ending Balance [3]	$1,318,808,530	$1,343,557,386	$1,385,682,607	$1,455,707,425

[1] In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of $38,501,015.13 have been reflected as a decrease to FY 2013 revenue, primarily associated with adjustments necessary to record a net loss from the unrealized depreciation of investments, as well as to record interest and dividend revenue in the proper fiscal period. In addition, audit adjustments in the amount of $135,420.63 have been reflected as an increase to FY 2013 expenditures in order to appropriately account for investment management fees. The audit adjustments have been included in the FY 2013 Comprehensive Annual Financial Report (CAFR). Details of the FY 2013 audit adjustments will be included in the FY 2014 Third Quarter Package.

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

[3] 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 73020, Police Retirement

	FY 2013 Actual	FY 2014 Adopted Budget Plan	FY 2014 Revised Budget Plan	FY 2015 Advertised Budget Plan
Beginning Balance	$1,017,445,487	$1,076,170,734	$1,102,516,612	$1,158,150,658
Revenue:				
Employer Contributions	$34,011,347	$34,992,420	$34,992,420	$36,971,649
Employee Contributions	10,258,858	10,555,783	10,555,783	9,510,104
Employee Payback	0	0	0	20,000
Return on Investments[1]	71,383,969	79,806,888	79,806,888	85,882,332
Total Realized Revenue	$115,654,174	$125,355,091	$125,355,091	$132,384,085
Unrealized Gain/(Loss)[1,2]	$27,796,476	$0	$0	$0
Total Revenue	$143,450,650	$125,355,091	$125,355,091	$132,384,085
Total Available	$1,160,896,137	$1,201,525,825	$1,227,871,703	$1,290,534,743
Expenditures:				
Administrative Expenses	$673,125	$951,444	$954,876	$1,014,896
Investment Services	2,139,089	5,023,169	5,023,169	4,023,169
Payments to Retirees	52,144,877	59,442,000	59,442,000	63,341,000
Beneficiaries	3,121,587	3,541,000	3,541,000	3,669,000
Refunds	300,847	760,000	760,000	760,000
Total Expenditures	$58,379,525	$69,717,613	$69,721,045	$72,808,065
Total Disbursements	$58,379,525	$69,717,613	$69,721,045	$72,808,065
Ending Balance[3]	$1,102,516,612	$1,131,808,212	$1,158,150,658	$1,217,726,678

[1] In order to account for revenues in the proper fiscal year, audit adjustments in the amount of $48,966,991.53 have been reflected as a decrease to FY 2013 revenue, primarily associated with adjustments necessary to record a net loss from the unrealized depreciation of investments, as well as to record interest and dividend revenue in the proper fiscal period. The audit adjustments have been included in the FY 2013 Comprehensive Annual Financial Report (CAFR). Details of the FY 2013 audit adjustments will be included in the FY 2014 Third Quarter Package.

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

[3] 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.