



## Response to Questions on the 2016 LOBs

**Request By:** Supervisor Smyth

**Relevant LOB(s):** LOB #311

**Question:** How many jurisdictions offer pre-Social Security Supplements to their retirees and what are the associated costs compared to Fairfax County’s program?

**Response:**

The pre-Social Security Supplement included in the provisions of the Employees’ Retirement System and the Uniformed Retirement System is intended to provide retirees with a similar level of retirement income before becoming eligible for age-based Social Security benefits. The supplement provides additional income before the retiree reaches normal Social Security retirement age, and ceases to be paid after the retiree attains that age. Many of the retirement systems offered by other governments in the region include mechanisms to integrate pension benefits with Social Security benefits.

Some retirement systems include these Social Security leveling features as an automatic component of the benefit calculation, while other systems provide Social Security leveling as a benefit payment option that can be elected by the retiree. Most notably, the Virginia Retirement System (VRS), which covers most Virginia jurisdictions, includes a benefit payment option to level Social Security benefits that is available to all retirees as well as a pre-Social Security supplement for hazardous duty employees. The Social Security leveling mechanisms of the jurisdictions that were used in the January 2012 retirement study are shown in table below.

| <b>Jurisdiction</b>           | <b>General Employees</b> | <b>Public Safety</b>     |
|-------------------------------|--------------------------|--------------------------|
| Fairfax County                | Supplement               | Supplement <sup>1</sup>  |
| Federal Government            | Supplement <sup>2</sup>  | Supplement <sup>2</sup>  |
| Commonwealth of Virginia      | Option <sup>3</sup>      | Supplement <sup>4</sup>  |
| Fairfax County Public Schools | Option <sup>3</sup>      | N/A                      |
| City of Alexandria            | Option <sup>3</sup>      | None <sup>5</sup>        |
| Arlington County              | Option <sup>6</sup>      | Option <sup>6</sup>      |
| Loudoun County                | Option <sup>3</sup>      | Supplement <sup>4</sup>  |
| Montgomery County             | None <sup>7</sup>        | Supplement <sup>8</sup>  |
| Prince George’s County        | Option <sup>9</sup>      | Option <sup>9</sup>      |
| Prince William County         | Option <sup>3</sup>      | Supplement <sup>10</sup> |

<sup>1</sup> Fairfax County uniformed public safety personnel that are members of the Uniformed Retirement System receive a pre-Social Security supplement. However, Fairfax County police officers do not contribute to Social Security based on their employment as Fairfax County police officers, and therefore a pre-Social Security supplement is not included in the design of the Police Officers Retirement System.



<sup>2</sup> Under the Federal Employees Retirement System (FERS), an annuity supplement is paid until age 62 to retirees that qualify for an unreduced annuity. The annuity supplement is calculated by first estimating the retiree's Social Security benefit at age 62 based on a 40-year career. The estimated Social Security benefit is then reduced by the fraction of a 40-year career that was worked under FERS to determine the annuity supplement. The annuity supplement is subject to an earnings test, and is reduced by \$1 for every \$2 of earnings over the Social Security minimum level of earnings. While federal employees who retire before the age of 62 are eligible for this annuity supplement, the basic annuity formula for those who retire at age 62 or older with at least 20 years of service uses a higher benefit multiplier than those who retire under age 62 or with less than 20 years of service.

<sup>3</sup> Employees covered under VRS (Plan 1, Plan 2, and the Hybrid Plan) may elect the Advance Pension Option at retirement. Under this option, the VRS annuity is temporarily increased until an age of the retiree's choosing, between the ages of 62 and the retiree's normal Social Security retirement age. The VRS annuity is permanently reduced once the retiree reaches the specified age.

<sup>4</sup> Employees covered under VRS that retire with at least 20 years of hazardous duty service are eligible for a hazardous duty supplement. The supplement is currently \$13,548 per year, and is payable from retirement until the retiree reaches normal Social Security retirement age.

<sup>5</sup> Alexandria public safety employees are covered under the Firefighters and Police Officers Pension Plan, which does not include a Social Security leveling mechanism.

<sup>6</sup> Retirees in the Arlington County Employees' Retirement System may elect a Social Security Option as an annuity payment option. Under this option, the annuity is temporarily increased either until age 62 or until the retiree reaches normal Social Security retirement age, at which time the annuity is permanently reduced.

<sup>7</sup> Montgomery County's non-public safety employees participate in a defined contribution retirement plan.

<sup>8</sup> Montgomery County's public safety retirement plans are integrated with Social Security by employing a higher benefit formula prior to normal Social Security retirement age and a lower formula after.

<sup>9</sup> Some retirement plans offered by Prince George's County allow an optional form of payment in which the benefit level is increased prior to receiving Social Security benefits and decreased after. This option provides a level total income when including Social Security benefits while maintaining an equivalent actuarial value of benefits provided by the retirement plan.

<sup>10</sup> Prince William County public safety personnel are members of VRS but also benefit from the county's Supplemental Police & Fire Retirement Plan, which can result in a supplement prior to Social Security that is greater than the hazardous duty supplement provided under VRS.

In the retirement systems where Social Security leveling is accomplished through a benefit payout option that can be elected by the retiree, the option is generally designed to be actuarially equivalent to the normal benefit payout structure, with no increase in cost to the system and no increase in the total projected benefit paid to the retiree. For those systems that have a supplement as part of the benefit plan design, the value of the benefit provided to the retiree will vary by the retiree's salary history, years of service, and age. An actuarial valuation of the benefits provided by the various plans would be required in order to estimate the comparative costs of each. The most recent comparison was the January 2012 retirement study, which can



be found at <http://www.fairfaxcounty.gov/hr/news/retirement-study.htm>. Additionally, while the value of any supplement varies, so does the value of the base benefit of each system. As such, it is important to consider the total value of the benefit of each system when comparing the value of the Social Security leveling mechanisms.

Many jurisdictions shown in the table above include Social Security leveling as a payout option to general employees, while only the federal government provides a supplement to general employees. The January 2012 retirement study showed the supplement provided by the federal government to be less valuable than the benefit provided by Fairfax County. This is largely due to the shorter period over which the federal subsidy is paid, as it is paid until age 62 while the County supplement is paid until the retiree is eligible for unreduced Social Security benefits. In addition, the federal subsidy is subject to an earnings test, and is reduced if the retiree continues to work and earns more than the Social Security minimum level of earnings.

Five of the jurisdictions shown in the table above provide a supplement to uniformed employees, while two provide Social Security leveling as a payout option and one does not have a similar mechanism. The January 2012 retirement study found the Fairfax County supplement to have the lowest value of those jurisdictions that provide a supplement. However, the study found the value of the total pension benefit for Fairfax County uniformed retirees to be second only to the federal government.