

Fairfax County Post-Retirement Benefits Review



RETIREMENT INCOME BENEFITS
AND HEALTH CARE BENEFITS

prm CONSULTING
GROUP

AON Hewitt

Retirement Plans

Fairfax County Retirement Policy

- Promulgated in January, 2001
- Addresses Retirement Income and Health Care benefits
- Mission Statement:

As a progressive employer, Fairfax County strives to provide a responsible, tax efficient, competitive retirement program as a significant source of financial security for career employees as well as valuable benefits for all employees as recognition of their employment with the County.

Retirement Plans

Fairfax County Retirement Policy

- A defined benefit plan provides the cornerstone for retirement income
 - Not explicitly required
 - But by implication
 - Most efficient way to achieve an intended level of income replacement
 - Purchasing power protection
 - Early retirement ages
- Statutory framework in the Commonwealth (Code of Virginia)

Retirement Plans

BENCHMARKING RESULTS

Fairfax plans included

- Both Employee Retirement System Plans – Plans A and B
- Police Officers Retirement System
- Uniformed Retirement System – Plan D
- CIGNA Open Access Plus (OAP) High Option Plan with Prescription Drugs

Retirement Plans

BENCHMARKING RESULTS

Peer group plans

- 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)

Retirement Income Plans

BENCHMARKING RESULTS

Selecting employee examples

- Purpose – to replicate current and likely future experience
 - Actuarial valuations and experience studies
 - Supplemental information provided by the County
- Base assumption – varies by plan
 - General employees –
 - Age 65 with 25 years of service, \$65,000 salary
 - Age 61 with 21 years of service, \$65,000 salary
 - Additional examples using 63/18, 55/25, 57/23
 - Police Officers – Age 51 with 26 years of service, \$90,000 salary
 - Uniformed Plan – Age 52 with 26 years of service, \$90,000 salary

Retirement Income Plans

BENCHMARKING RESULTS

Presentation methodology

- Uses a “present value” approach
 - The cost if that benefit was provided by an insurance company
 - Uses the Plan’s actuarial assumptions
 - Capture the value of all plan features
- Values shown
 - Basic benefit – benefit payable for life
 - Does not include supplements
 - Value of that benefit as a life annuity
 - Value of any supplement and the C-O-L provisions
 - Total Value of the benefit
 - Value of Employee contributions
 - Value of Fairfax County’s contributions

Retirement Income Plans

BENCHMARKING RESULTS

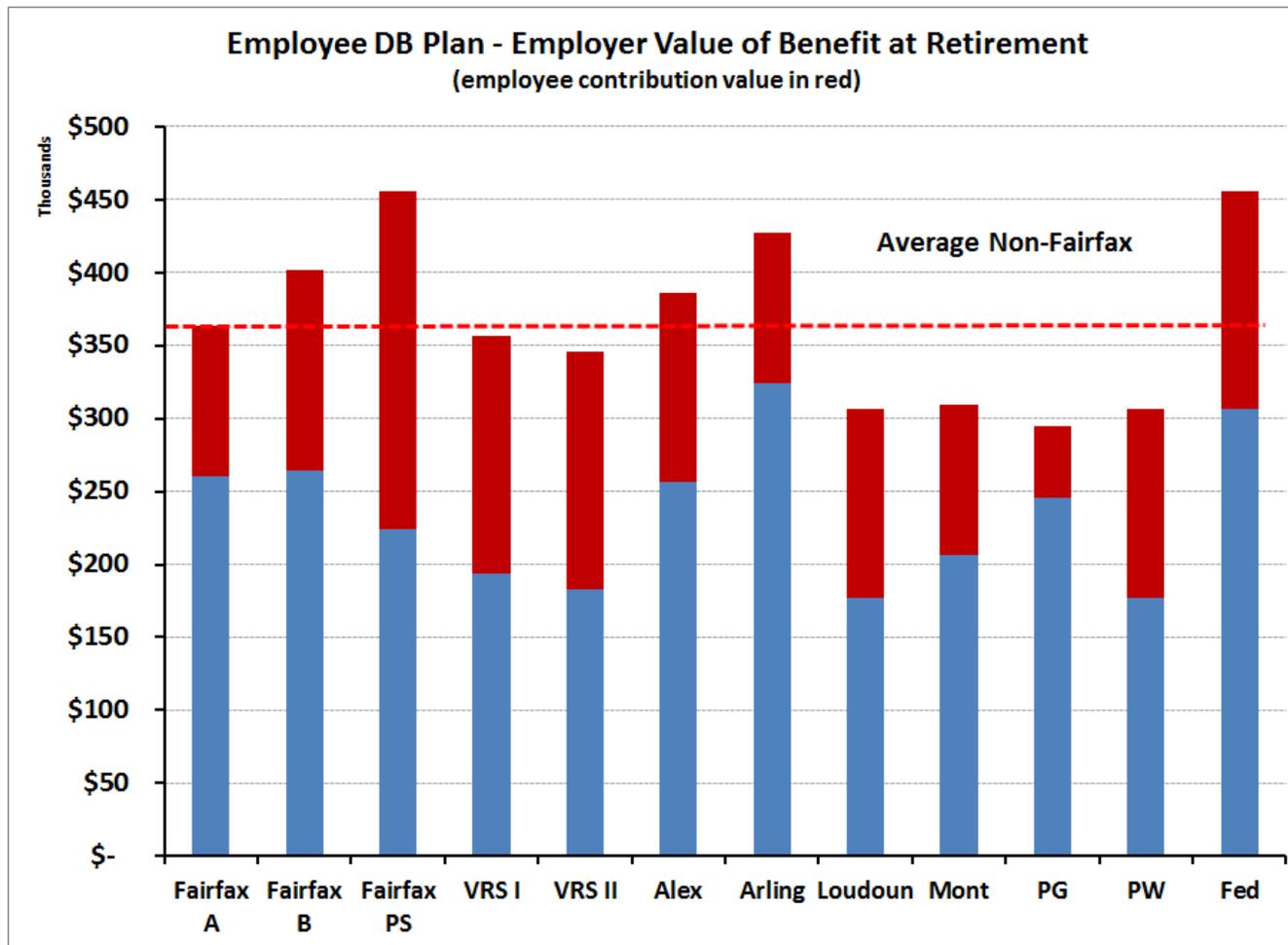
Reference Employee	
Age	65
Past Service	25
Retirement Age	65
Base Salary	65,000
Total Salary	65,000

Results

	Fairfax A	Fairfax B
Basic Benefit	28,984	32,204
Value of Basic Benefit	276,423	307,137
Value of the Supplement	15,501	15,501
Value of C-O-L Provisions	71,169	79,076
Total Value of Benefit	363,092	401,714
Value of Employee Contributions	103,206	137,522
Employer Provided Value of Benefit	259,887	264,192

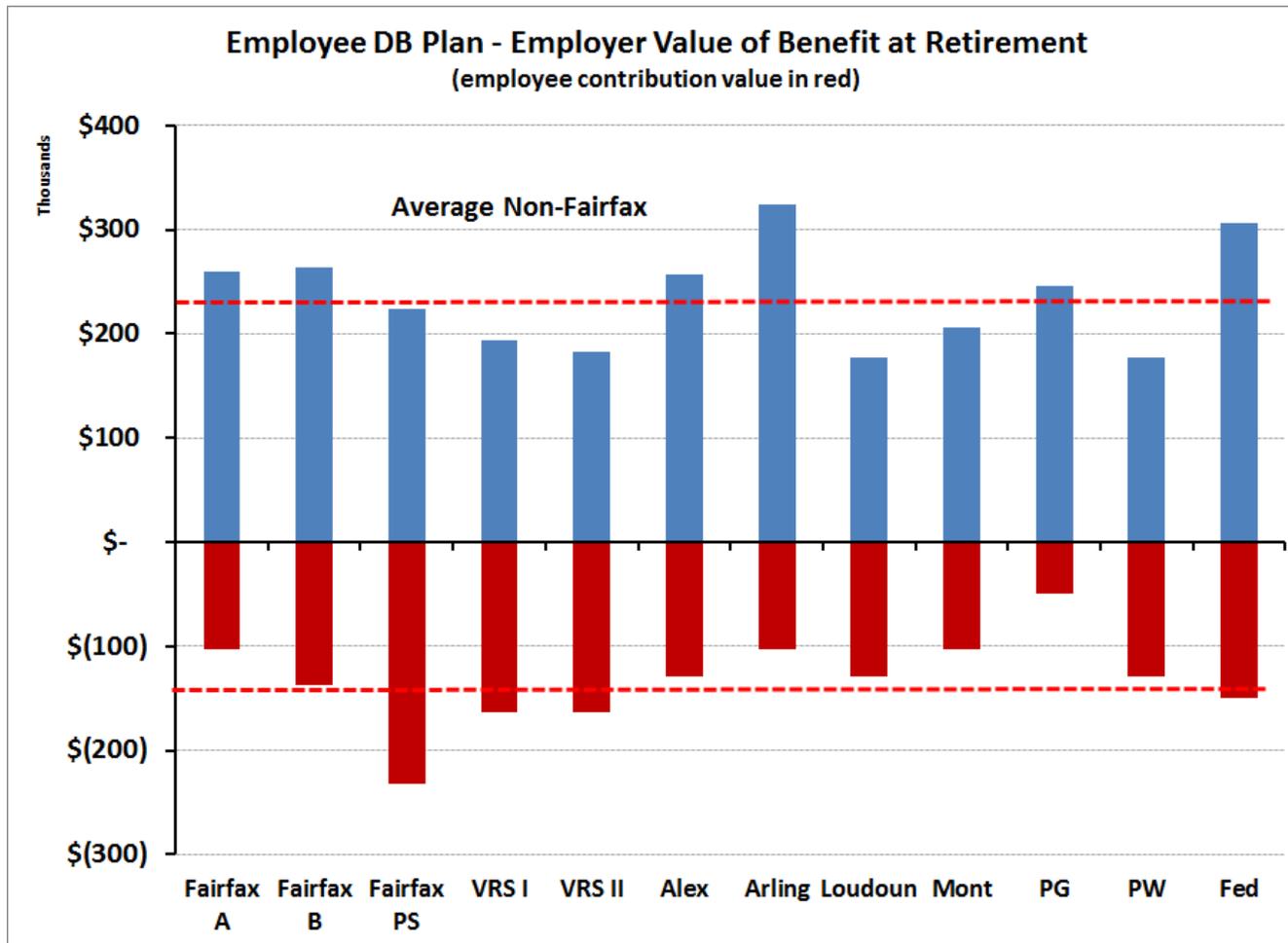
Retirement Income Plans

BENCHMARKING RESULTS – AGE 65 / 25 YOS / \$65,000



Retirement Income Plans

BENCHMARKING RESULTS – AGE 65 / 25 YOS / \$65,000



Retirement Income Plans

BENCHMARKING RESULTS

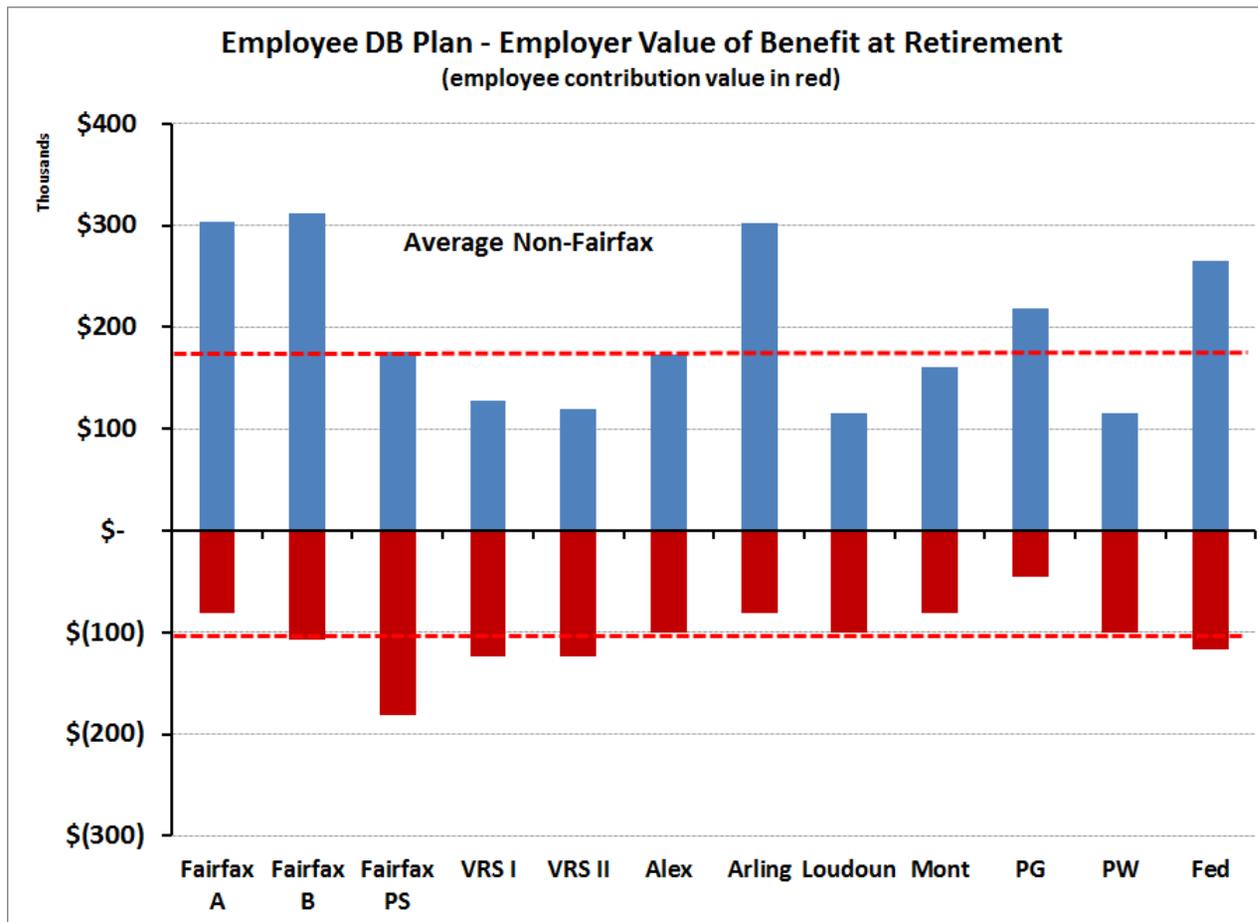
Reference Employee	
Age	61
Past Service	21
Retirement Age	61
Base Salary	65,000
Total Salary	65,000

Results

	Fairfax A	Fairfax B
Basic Benefit	24,346	27,051
Value of Basic Benefit	251,352	279,280
Value of the Supplement	55,818	55,818
Value of C-O-L Provisions	76,433	84,573
Total Value of Benefit	383,602	419,671
Value of Employee Contributions	80,467	107,223
Employer Provided Value of Benefit	303,135	312,448

Retirement Income Plans

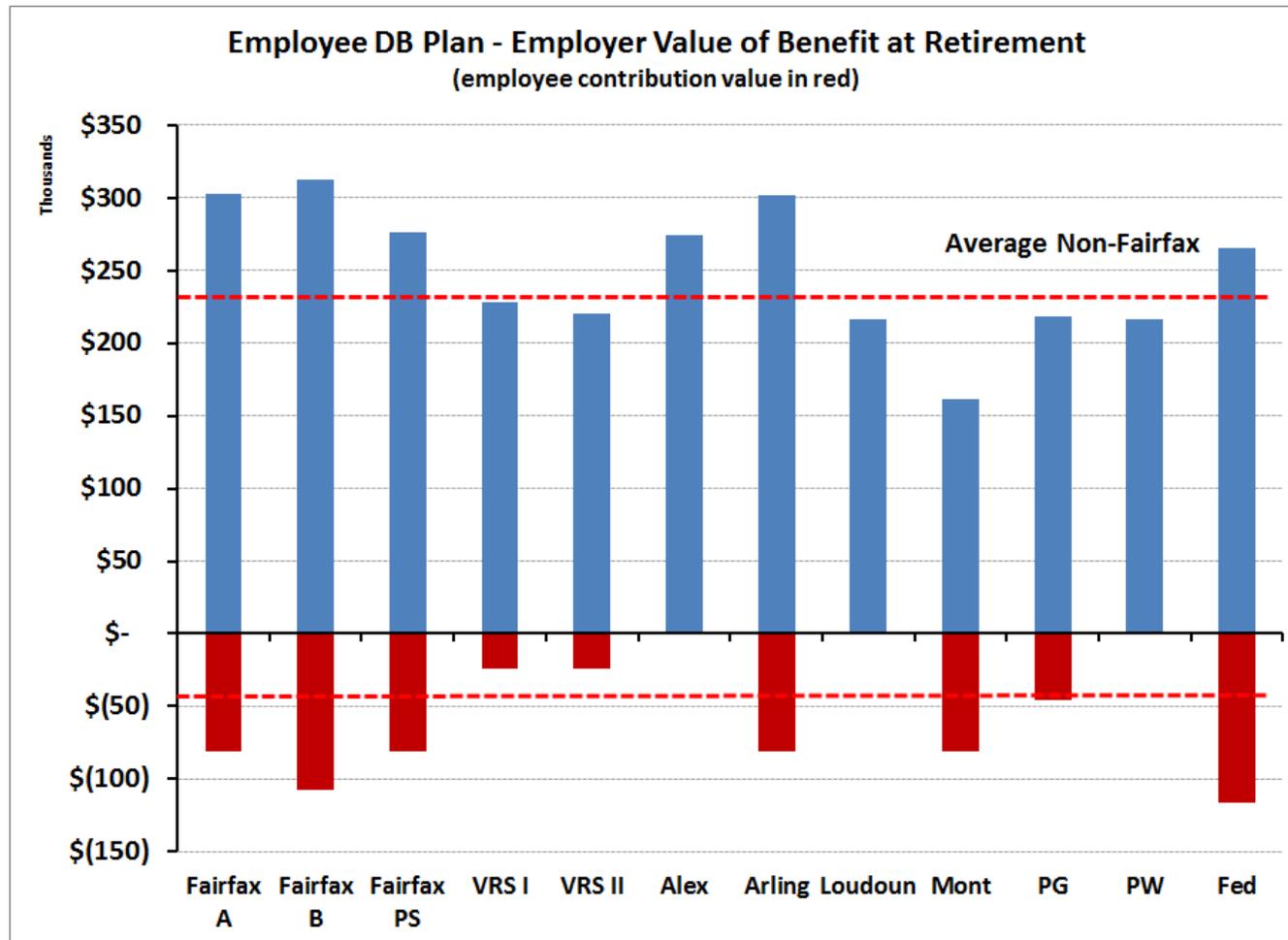
BENCHMARKING RESULTS – AGE 61 / 21 YOS / \$65,000



Note:
 Certain benefits are reduced for early payment
 VRS reduced 24%
 Alex supplemental reduced 47%
 PG state portion reduced 6%

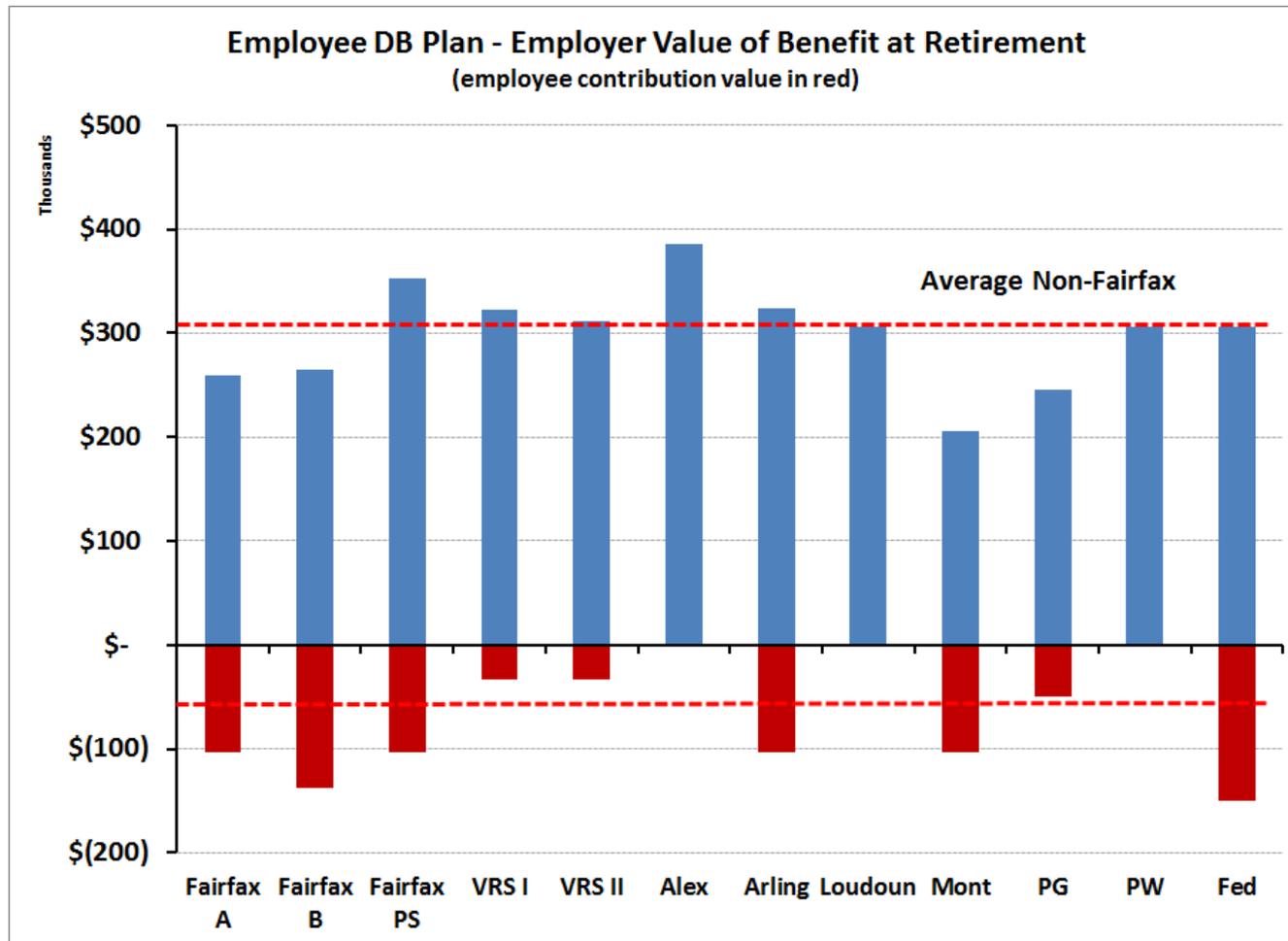
Retirement Income Plans

BENCHMARKING RESULTS – AGE 61 / 21 YOS / \$65,000 WITH
VRS CONTRIBUTIONS TREATED AS EMPLOYER CONTRIBUTIONS



Retirement Income Plans

BENCHMARKING RESULTS – AGE 65 / 25 YOS / \$65,000
 WITH VRS CONTRIBUTIONS TREATED AS EMPLOYER CONTRIBUTIONS



Retiree Healthcare Plans

BENCHMARKING RESULTS

Presentation methodology

- Uses a “present value” approach similar to retirement income displays
 - Same General employee examples used in report illustrations
 - In general, differential in health care benefits does not exist for Police and Uniformed employees vs. General employees
 - Prince George’s County is only exception in comparator group as they charge less to Police and Uniformed retirees for prescription drug coverage
- Value of the total retirement health care benefit very dependent on length of pre-Medicare coverage status
 - Pre-Medicare coverage most expensive, and valuable to retirees, given the absence of Medicare as the primary payer of health services
 - Service at retirement is an important driver of portion paid by retirees vs. portion paid by employer in general across all comparators
 - Salary at retirement has no impact on value of health care benefit

Retiree Healthcare Plans

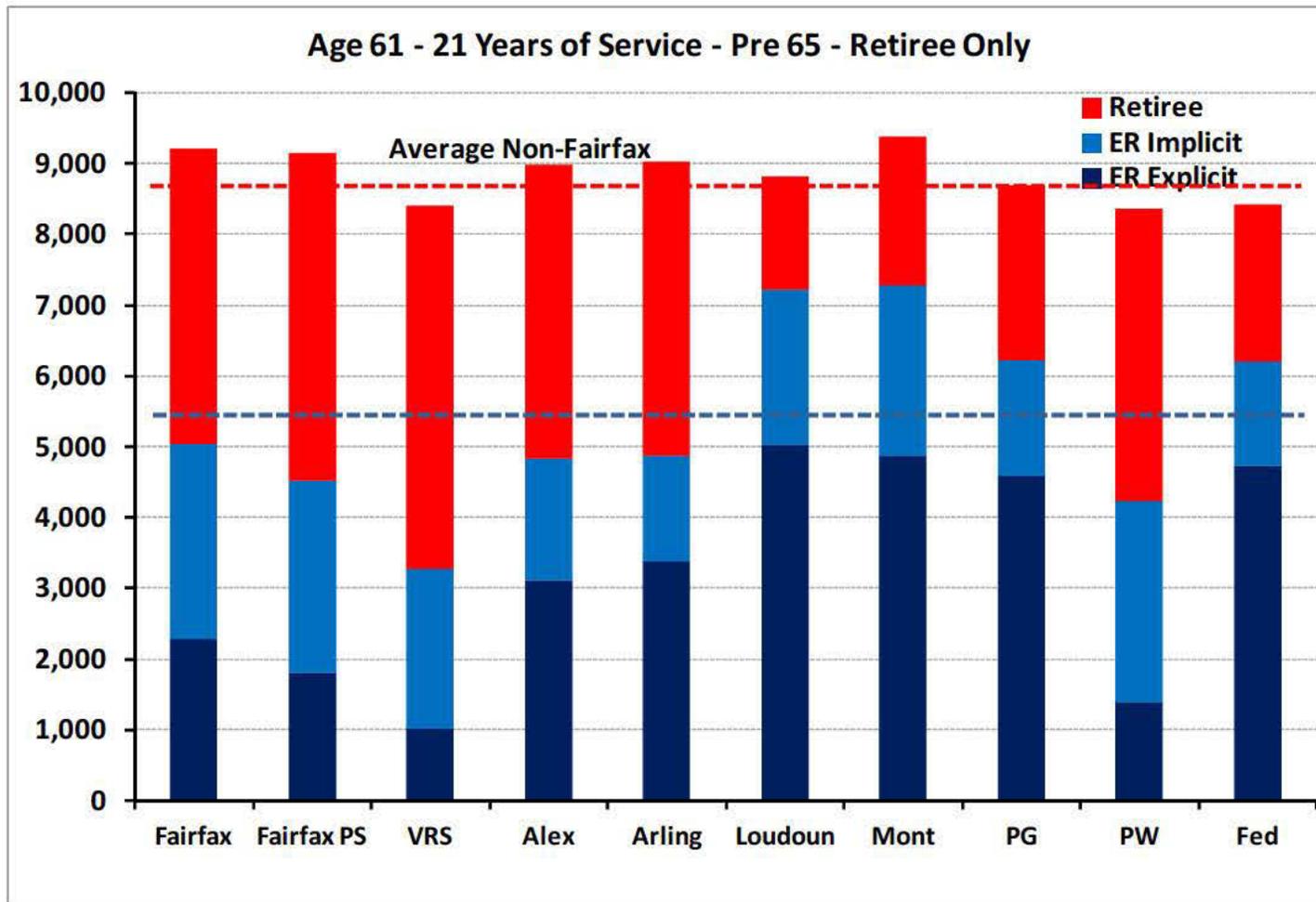
BENCHMARKING RESULTS

	Pre-Medicare	Medicare
Age in 2011	Under 65	65 or older
Years of Service at Retirement	21	21
County's Average Total Cost of Coverage in 2011 (Retiree Only Coverage)	\$9,204	\$6,091
Retiree Cost of Coverage	\$4,166	\$2,124
County's Explicit Cost of Coverage	\$2,280	\$2,280
County's Implicit Cost of Coverage	\$2,758	\$1,687

- **Cost of Coverage:**
 - Retiree's cost based on service at retirement and published premium strategy
 - Explicit cost is County's flat dollar reimbursement, based on service of retiree
 - Implicit cost is cost of coverage borne almost entirely by the County, with some portion paid by active employees in premiums they are charged for health coverage
- **Splits in cost of coverage, including existence of implicit subsidies, are common across comparator group**

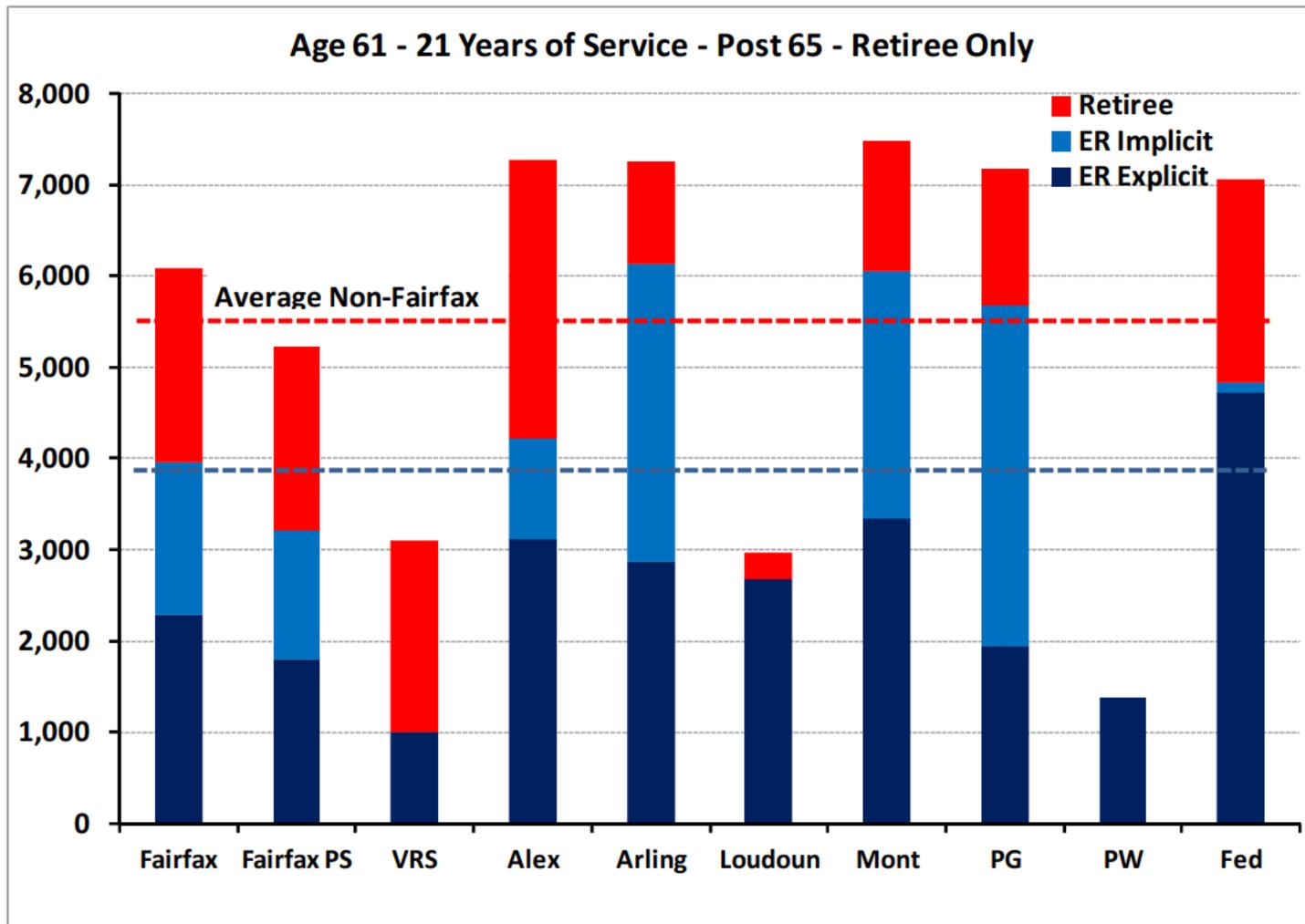
Retiree Healthcare Plans

BENCHMARKING RESULTS



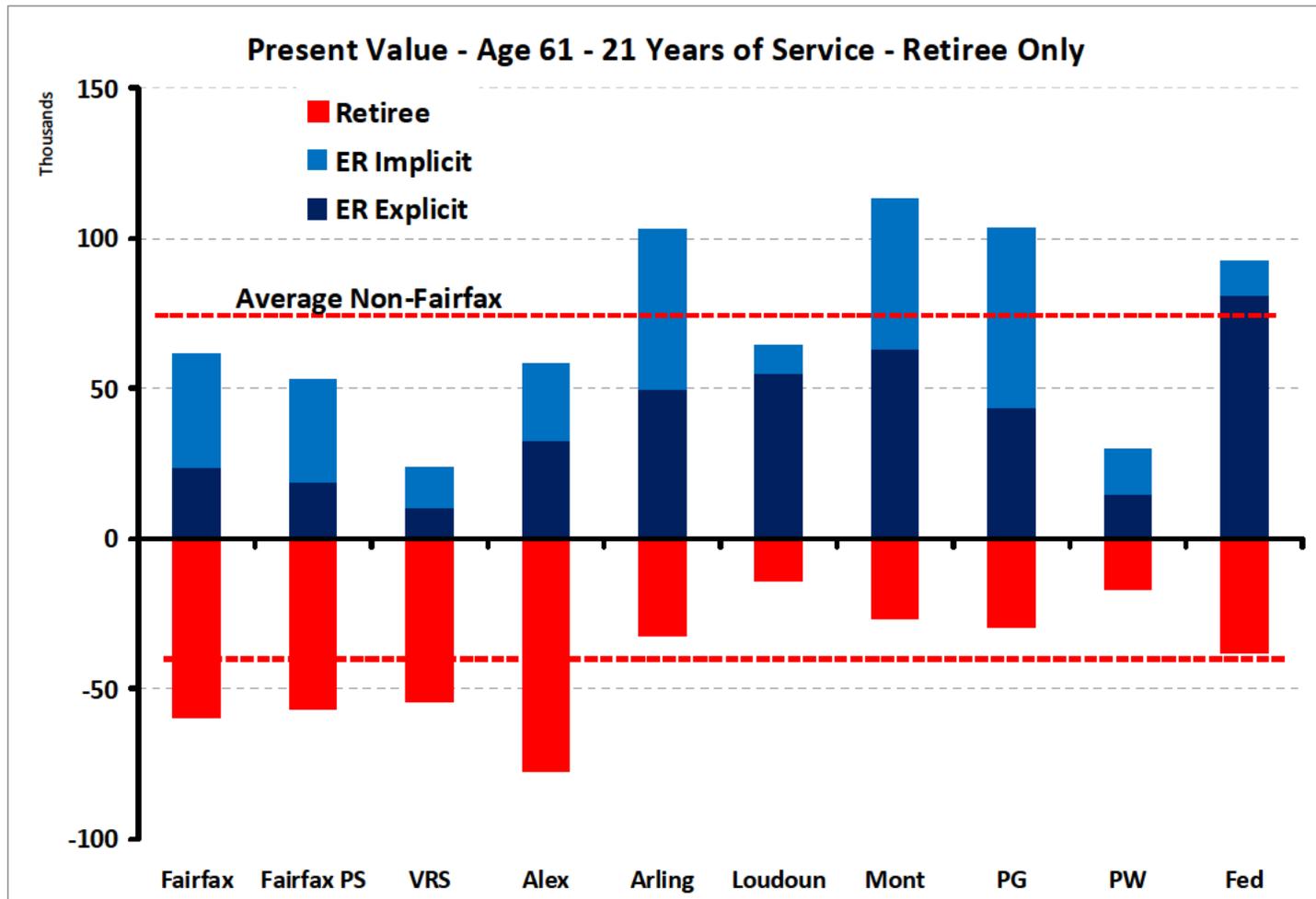
Retiree Healthcare Plans

BENCHMARKING RESULTS

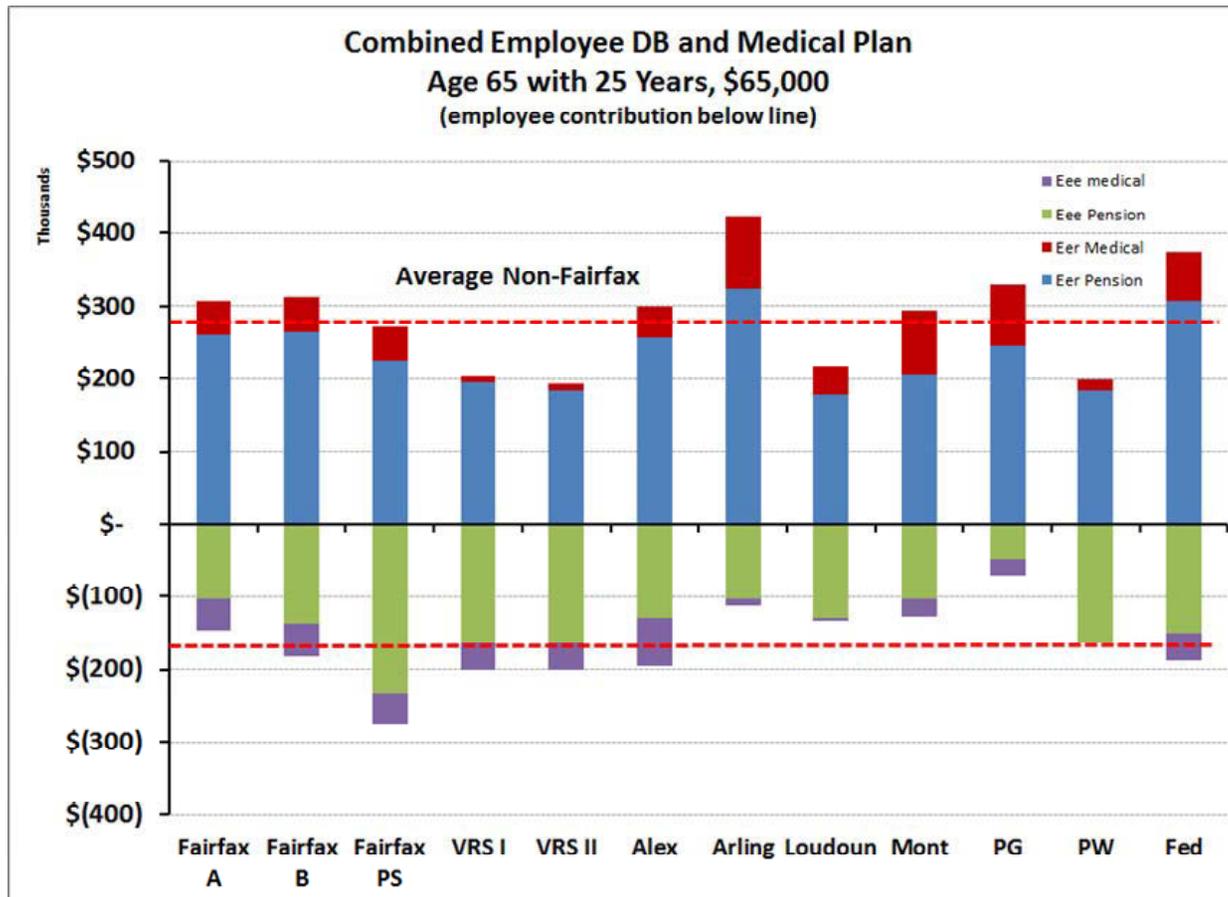


Retiree Healthcare Plans

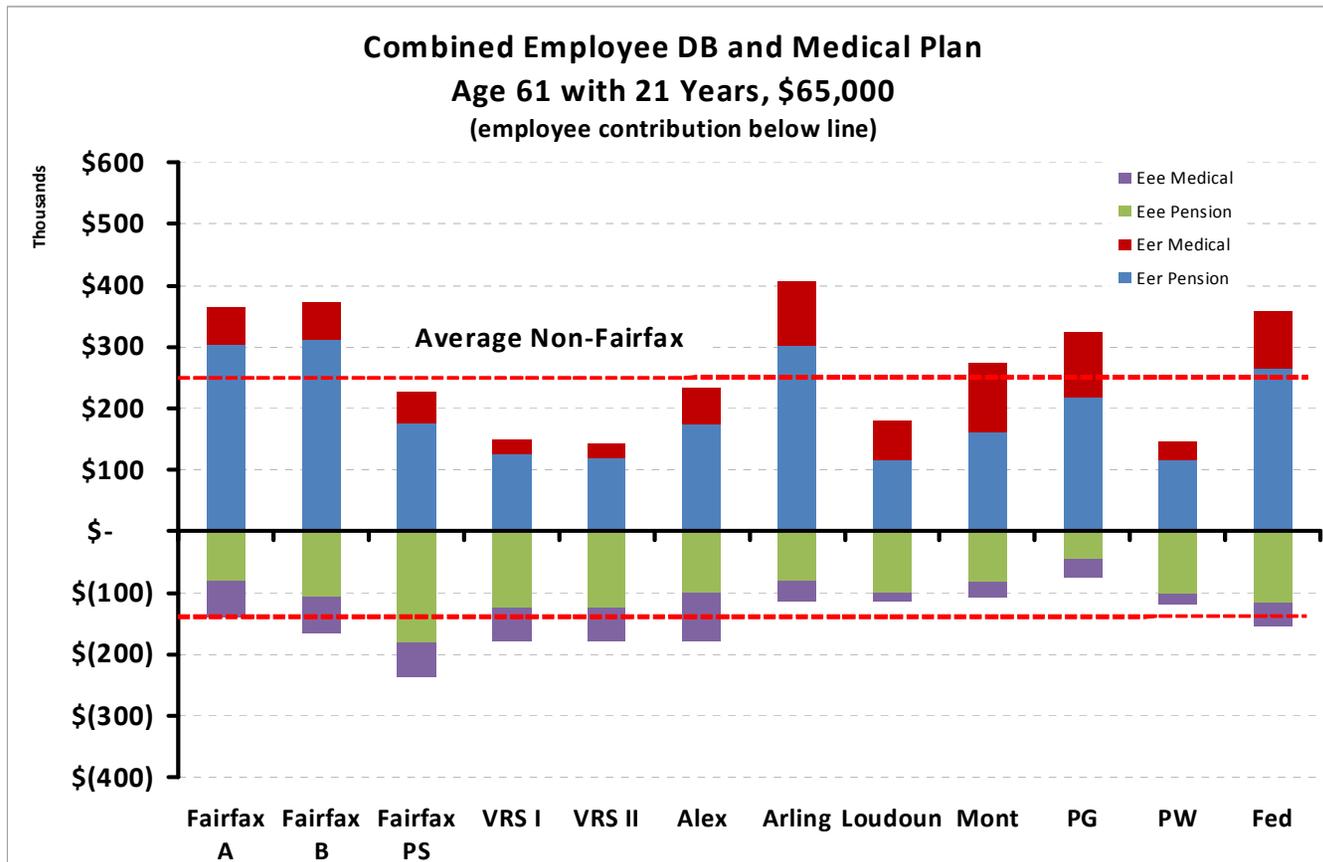
BENCHMARKING RESULTS



Total Retirement Benchmarking



Total Retirement Benchmarking



Retirement Income Plans

BENCHMARKING RESULTS – Police Officers

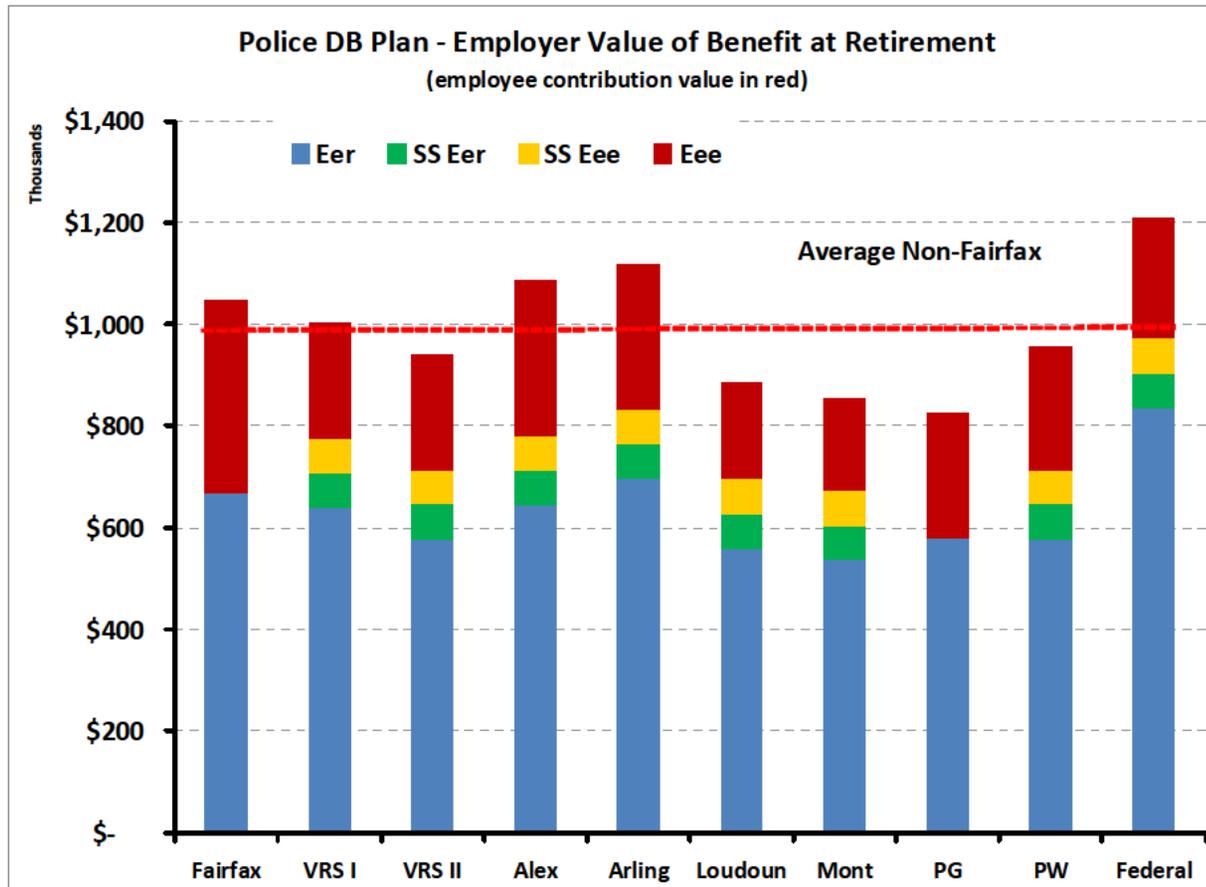
Reference Employee	
Age	51
Past Service	26
Retirement Age	51
Base Salary	90,000
Total Salary	90,000

Results

	Fairfax
Basic Benefit	64,923
Value of Basic Benefit	763,110
Value of the Supplement	-
Value of Social Security	-
Value of C-O-L Provisions	284,067
Defined Contribution Balance	-
Total Value of Benefit	1,047,178
Value of Employee Contributions	378,611
Value of Employee 1/2 Social Security	-
Employer Provided Value of Benefit	668,566

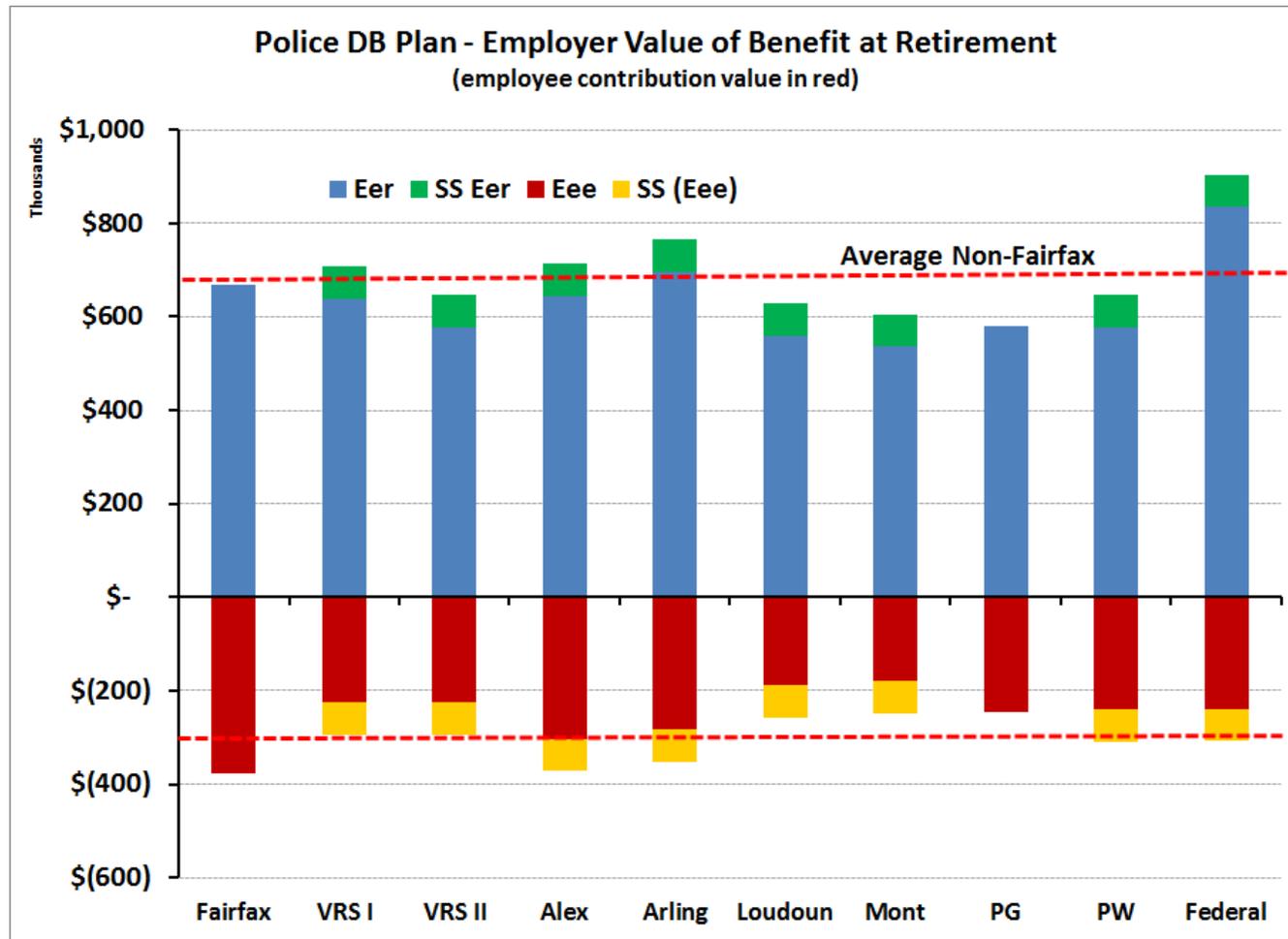
Benchmarking—Police Officers

BENCHMARKING RESULTS – AGE 51 / 26 YOS / \$90,000



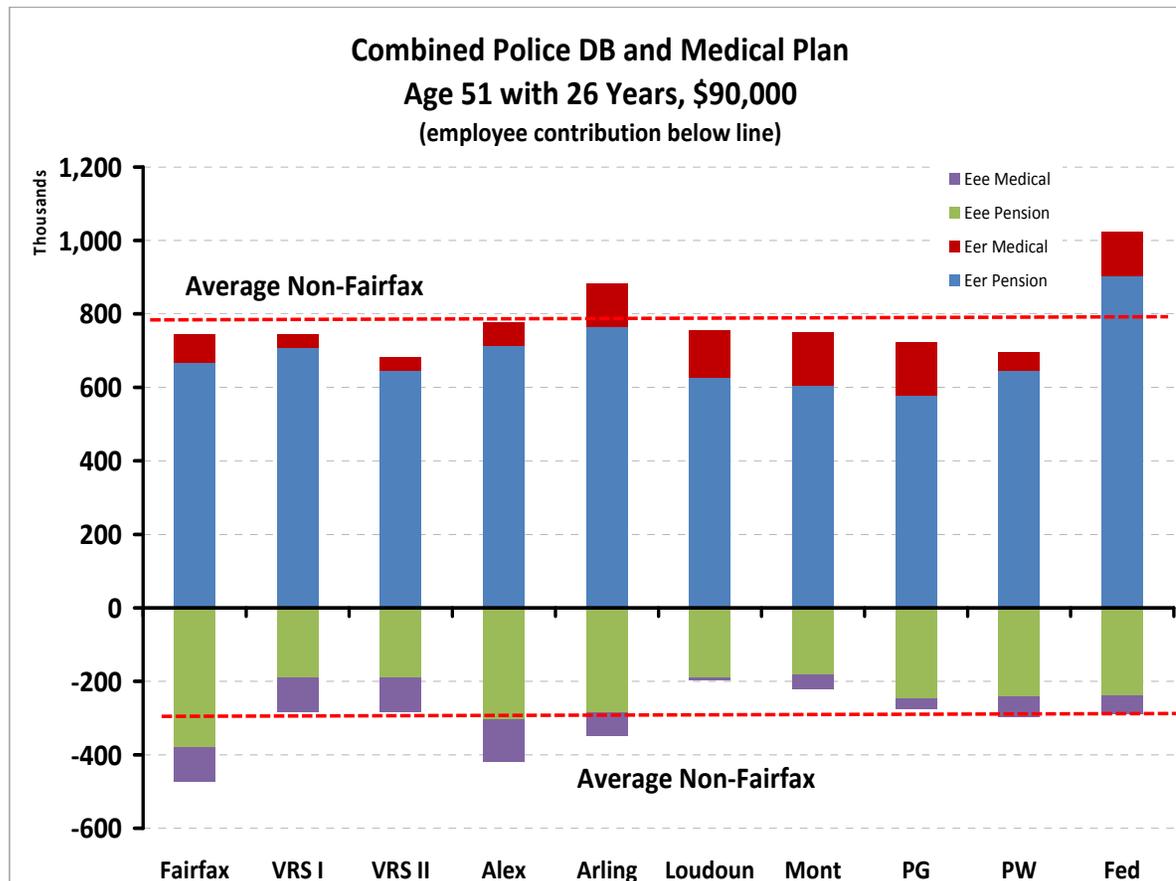
Benchmarking—Police Officers

BENCHMARKING RESULTS – AGE 51 / 26 YOS / \$90,000



Benchmarking—Police Officers

BENCHMARKING RESULTS – AGE 51 / 26 YOS / \$90,000



Retirement Income Plans

BENCHMARKING RESULTS – Uniformed Plan

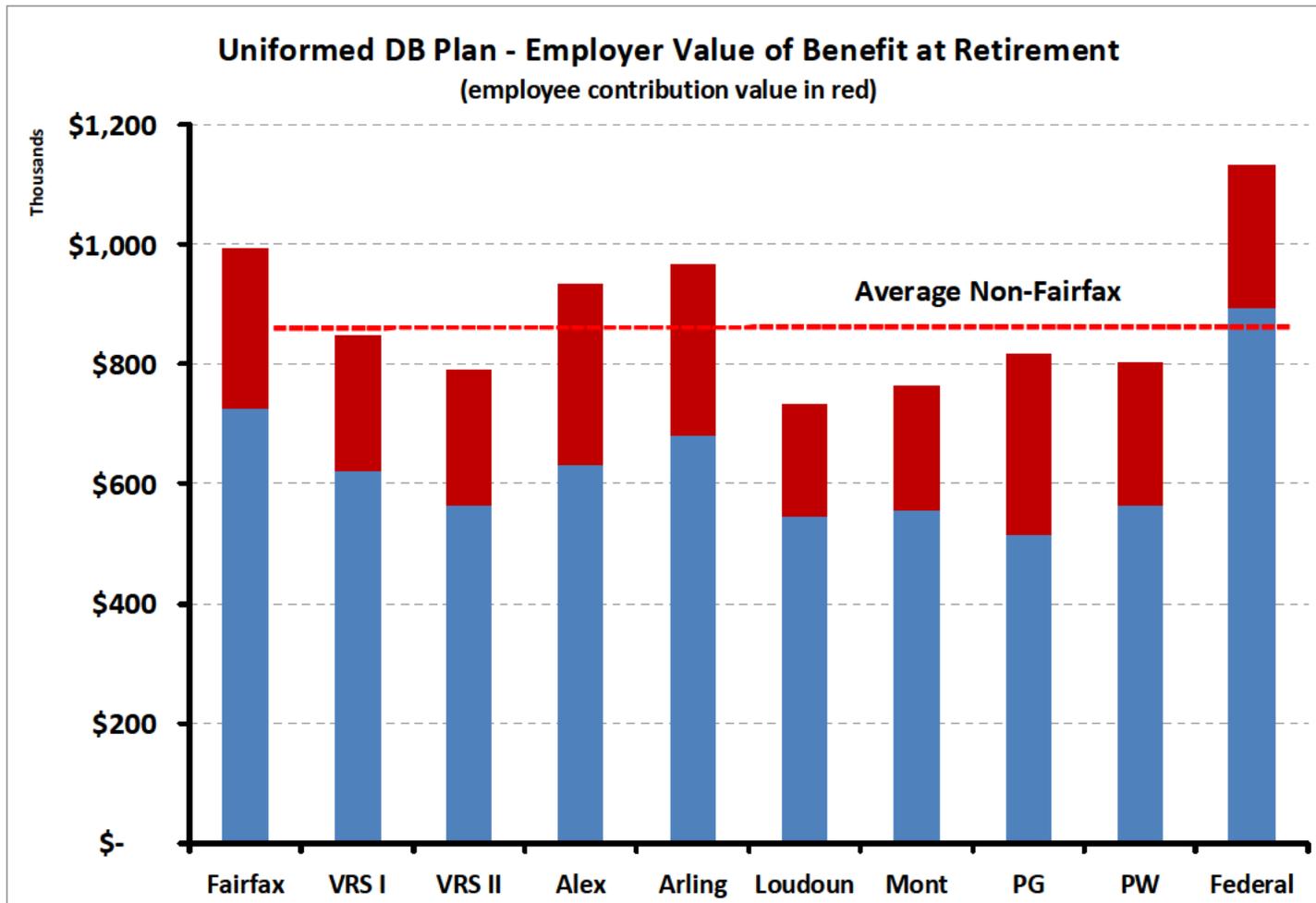
Reference Employee	
Age	52
Past Service	26
Retirement Age	52
Base Salary	90,000
Total Salary	90,000

Results

	Fairfax
Basic Benefit	57,967
Value of Basic Benefit	675,239
Value of the Supplement	61,791
Value of C-O-L Provisions	257,821
Defined Contribution Balance	-
Total Value of Benefit	994,851
Value of Employee Contributions	268,057
Employer Provided Value of Benefit	726,794

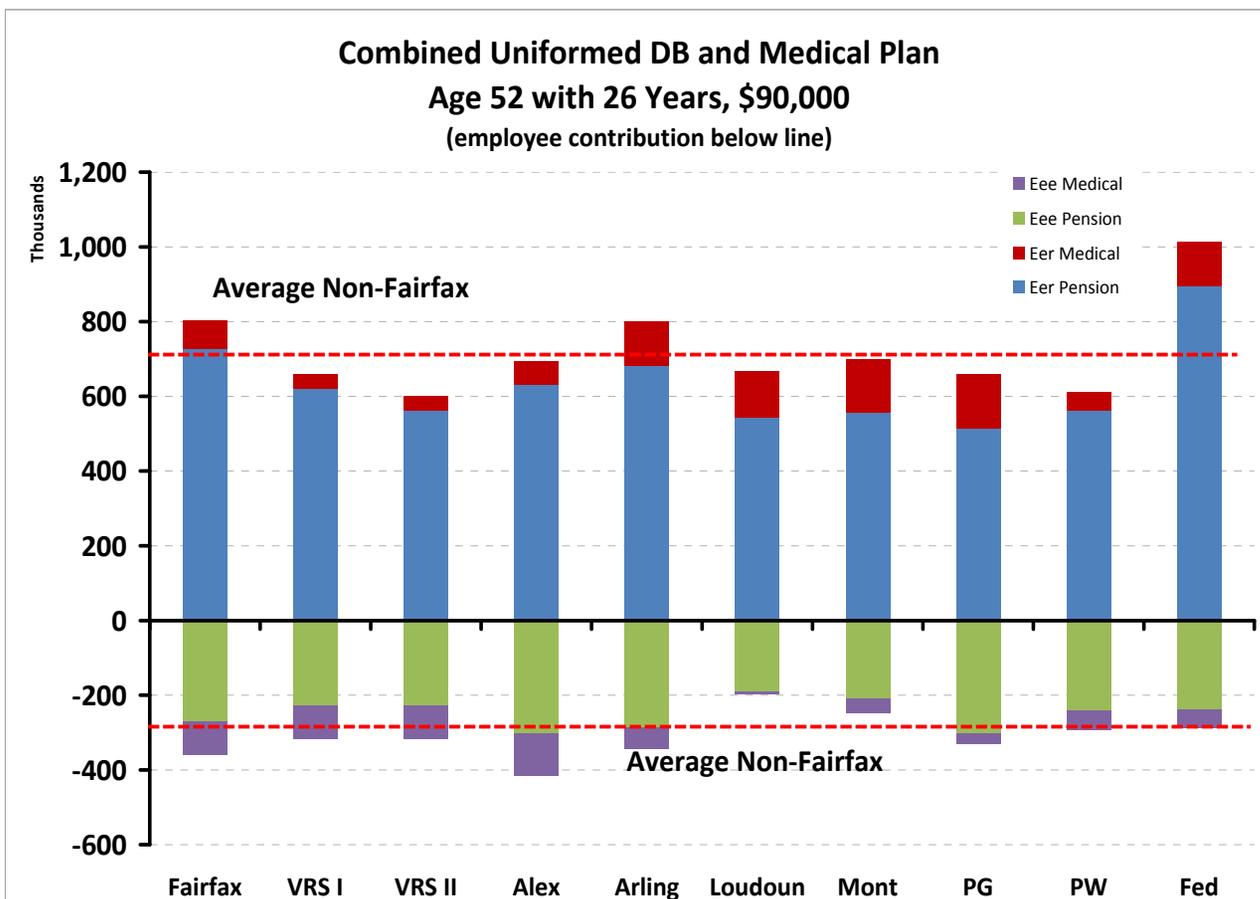
Benchmarking—Uniformed Plan

BENCHMARKING RESULTS – AGE 52 / 26 YOS / \$90,000



Benchmarking—Uniformed Plan

BENCHMARKING RESULTS – AGE 52 / 26 YOS / \$90,000



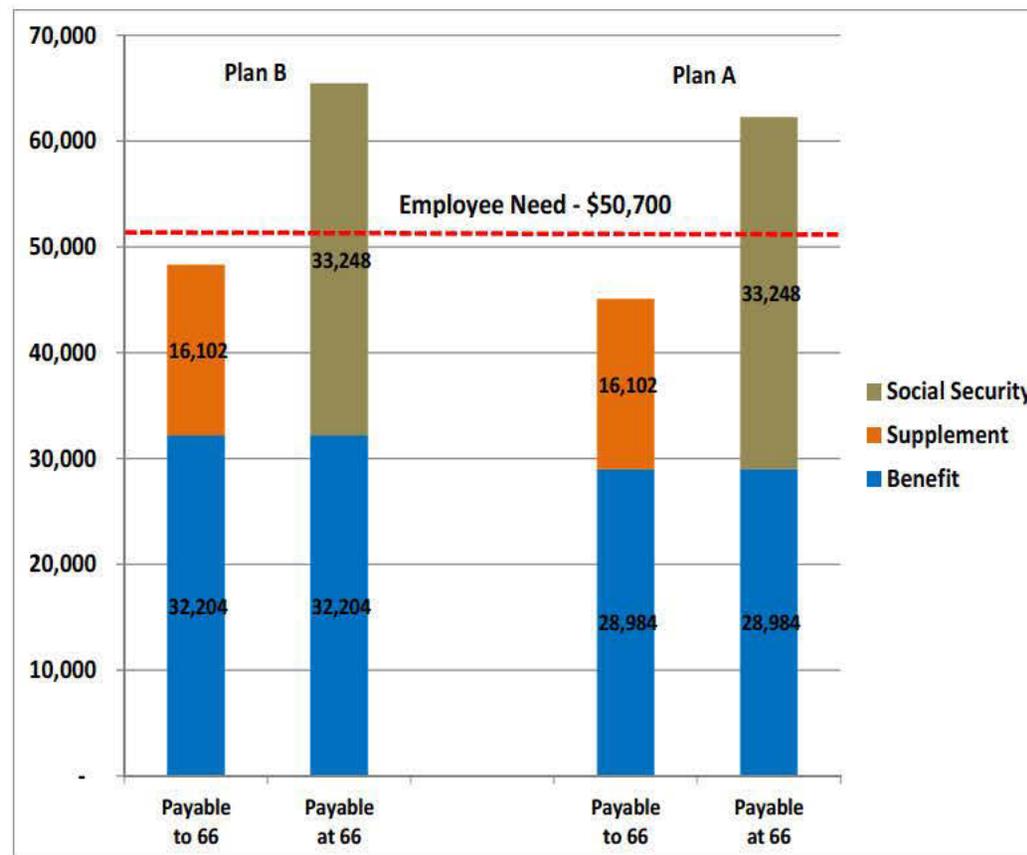
Income Needs at Retirement

Income Before Retirement	From Social Security	Private and Employer Plan	Replacement Needed
\$30,000	59%	31%	90%
\$40,000	54%	31%	85%
\$50,000	51%	30%	81%
\$60,000	46%	32%	78%
\$70,000	42%	35%	77%
\$80,000	39%	38%	77%
\$90,000	36%	42%	78%
\$150,000	23%	61%	84%

Income Needs at Retirement

EMPLOYEE PLAN

If \$65,000 employee takes Social Security at Normal Retirement (age 66)



Income Needs at Retirement

At age 57, 25 YOS, \$65,000 salary	Plan B	Plan A
Present Value of the Social Security benefit	\$188,000	\$188,000
Present Value of the Supplement	\$116,000	\$116,000
Present Value of the Basic Benefit	\$469,000	\$422,000
Total Present Value	\$773,000	\$726,000
% of lifetime need provided	104.6%	98.2%

At age 62, 25 YOS, \$65,000 salary	Plan B	Plan A
Present Value of the Social Security benefit	\$279,000	\$279,000
Present Value of the Supplement	\$57,000	\$57,000
Present Value of the Basic Benefit	\$419,000	\$377,000
Total Present Value	\$755,000	\$713,000
% of lifetime need provided	114.6%	108.2%

Defined Benefit vs. Defined Contribution Plans

A defined benefit plan is more efficient at providing retirement income than a defined contribution plan

- Less value is lost when employee turnover is highest – early ages, short service
- Employer returns generally beat employee directed returns
 - Expect a 1% to 2% lower return

The Deferred Retirement Option Program

A Deferred Retirement Option Program (DROP) is common in Police and Uniformed Plans

- Much less so for the general employee population

Encourages a longer working period for employees

- Retains needed institutional memory and skills
- Allows planning for replacement
- Defers cost of hiring for the position
- Has little or no cost if employees truly defer retirement
- Can have higher cost if employees only use it to enhance retirement income without a retirement deferral

Plan Governance, Oversight and Investment Issues

Study reviewed administration of the three systems

- The three plans reviewed are managed as completely separate entities
- The documentation we reviewed indicates that all three boards employ sound practices in conformity with how those practices are described in documents which set forth widely accepted standards for plan oversight and governance
- Investment performance was determined to be among the leaders nationwide—particularly strong relative to median results in recent years
- Plans have different employee populations with differing retirement patterns, salary progressions
- Generally it is appropriate to have separate plan management

The investment advisory role in which specific investment managers are selected could be consolidated across the plans

- Would potentially reduce manager fees and reduce costs
- Would have no effect on the independence of the Plans

Options for Consideration

Fundamental questions are posed in report that must be considered in assessing next steps. Focus on:

- Current and future fiscal environment for the County
- Competitive labor market and the role of total compensation in attracting and retaining talent
- Employee morale implications in a constrained wage environment
- Regulatory environment (state and federal) surrounding retirement income programs and retiree health
- The roles of the Social Security Supplement and DROP features
 - These two features essentially work at cross purposes
- Where are savings possible and advisable? How could they be realized and then utilized?

Options for Consideration

Study outlines several options for further evaluation:

- **Employee**
 - Raise the minimum retirement age from 50 to 55
 - Increase the Rule of 80 to Rule of 85
- **Police and Uniformed**
 - Review Years of Service requirement for full pension
 - Minimum age requirement for full retirement
- **All**
 - Modify use of Sick Leave for
 - Normal Retirement Date eligibility
 - Benefit service
 - Final Average Pay
- **Employee and Uniformed**
 - Modify Social Security Supplement
- Continue to evaluate options for retiree healthcare

Questions
