

Fund 73030: OPEB Trust

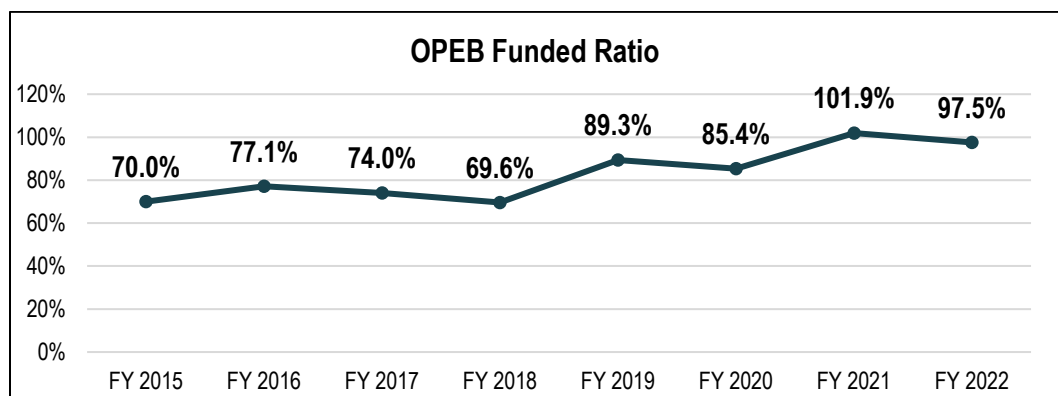
Focus Fund 73030, OPEB Trust, was created to account for the cost of other post-employment benefits (OPEBs) including health care, life insurance, and other non-pension benefits offered to retirees, such as the County’s retiree health benefit subsidy.

Beginning in FY 2008, the County’s financial statements were required to implement Governmental Accounting Standards Board (GASB) statements related to the reporting of other post-employment benefits. These GASB standards require 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 (AAL) and the associated actuarially determined 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 fund the actuarially determined contribution each year.

The actuarial valuation as of July 1, 2022, calculated the County’s actuarial accrued liability, excluding the Schools portion, at approximately \$392.2 million and the unfunded actuarial accrued liability as \$9.8 million, as shown below.

Valuation Results as of July 1, 2022 (in thousands)	
Actuarial Accrued Liability (AAL)	\$392,180
Plan Assets	382,374
Unfunded Actuarial Accrued Liability	\$9,806

The July 1, 2022, AAL of \$392.2 million decreased from the July 1, 2021, AAL of \$415.8 million primarily due to changes in economic assumptions including updates to baseline claims and EGWP subsidies, as well as retiree contributions that reflect more recent experience. The County’s assumed actuarial rate of return is 6.25 percent with 20 years for the amortization period. While the AAL fluctuates each year, the County continues to demonstrate commitment to improve the funded positions, and funded ratio of the County’s OPEB liabilities has increased since the inception of the OPEB Trust Fund. As shown in the chart below, the County’s OPEB liabilities were 97.5 percent funded as of July 1, 2022.



The implementation of an Employer Group Waiver Plan (EGWP) for Medicare retiree prescription drug coverage in January 2016 resulted in a significant decrease in the calculation of the July 1, 2015, AAL, and a corresponding increase in the OPEB funded ratio. The EGWP is a standard

Medicare Part D plan with enhanced coverage that allows the County to maximize prescription drug subsidies from the federal government and pharmaceutical manufacturers. This plan replaced the prescription drug coverage that was previously provided to Medicare retirees through the County's self-insured health plans and the Retiree Drug Subsidy (RDS) that the County previously received from the Centers for Medicare and Medicaid Services. GASB accounting rules allow EGWP revenue to directly offset plan costs in the GASB valuation, impacting the AAL, whereas the RDS could not be reflected in the liability calculations. This change has had a significant impact on the County's OPEB liability, which continues to be reflected in the current valuation.

The actuarial accrued 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 standards 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 an amortization 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.

The FY 2023 ARC has been calculated at \$9.3 million, a decrease of \$2.5 million from the FY 2022 ARC primarily due to actual retiree claims experience and will be funded through a combination of a General Fund transfer, contributions from other funds, and the implicit subsidy contribution described above. FY 2023 funding included a General Fund transfer of \$2.5 million and contributions from other funds of \$1.4 million. The implicit subsidy contribution is calculated by the County's actuaries after the close of the fiscal year and is projected to be slightly less than the FY 2022 amount of \$10.1 million. The FY 2024 Advertised Budget Plan includes a decrease in the General Fund transfer to \$1.5 million, and contributions from other funds will also reflect a slight decrease to \$1.1 million.

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. 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 in a County health plan. The current monthly subsidy, approved in FY 2018, commences at age 55 and varies by length of service as detailed in the following table. Employees who retired prior to July 1, 2003, are eligible for the greater of the amounts shown in the table below and an amount calculated based on the subsidy structure that was in place prior to July 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	\$40
10 to 14	\$75
15 to 19	\$165
20 to 24	\$200
25 or more	\$230

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, as shown in the table above, 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 shown in the table above 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.

During FY 2024, the average number of subsidy recipients, including new retirees who are eligible to receive the retiree health benefit subsidy, is expected to increase by 164, or 3.6 percent, from 4,510 in FY 2023 to 4,674 in FY 2024. 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.

Budget and Staff Resources

Category	FY 2022 Actual	FY 2023 Adopted	FY 2023 Revised	FY 2024 Advertised
FUNDING				
Expenditures:				
Personnel Services	\$132,164	\$139,854	\$139,854	\$145,098
Operating Expenses	22,478,587	14,220,374	14,220,374	14,864,482
Total Expenditures	\$22,610,751	\$14,360,228	\$14,360,228	\$15,009,580
AUTHORIZED POSITIONS/FULL-TIME EQUIVALENT (FTE)				
Regular	1 / 1	1 / 1	1 / 1	1 / 1

**FY 2024
Funding
Adjustments**

The following funding adjustments from the FY 2023 Adopted Budget Plan are necessary to support the FY 2024 program:

Employee Compensation **\$5,244**

An increase of \$5,244 in Personnel Services includes \$2,958 for a 2.00 percent market rate adjustment (MRA) for all employees and \$2,286 for performance-based and longevity increases for non-uniformed merit employees, both effective July 2023.

Benefits Paid **\$686,268**

An increase of \$686,268 in Benefits Paid is attributable to a projected increase in the number of retirees receiving the retiree health benefits subsidy and year-to-date FY 2023 experience.

Administrative Expenses **(\$42,160)**

A decrease of \$42,160 in Operating Expenses is primarily associated with anticipated decreases in investment services.

General Fund Transfer

The General Fund transfer to this fund is decreased by \$1,000,000 from the FY 2023 Adopted Budget Plan level based on a decrease in the Annual Required Contribution (ARC) that is primarily the result of actual retiree claims experience. It is anticipated that this decreased transfer level, when combined with contributions from other funds and the implicit subsidy contribution, will fully fund the FY 2024 ARC.

**Changes to
FY 2023
Adopted
Budget Plan**

The following funding adjustments reflect all approved changes in the FY 2023 Revised Budget Plan since passage of the FY 2023 Adopted Budget Plan. Included are all adjustments made as part of the FY 2022 Carryover Review and all other approved changes through December 31, 2022:

There have been no adjustments to this fund since approval of the FY 2023 Adopted Budget Plan.

Position Detail

The FY 2024 Advertised Budget Plan includes the following position:

OPEB TRUST - 1 Position

1	Accountant III
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The 1/1.0 FTE Accountant III position resides in the Retirement Administration Agency and is financed by Fund 73030, OPEB Trust.

FUND STATEMENT

Category	FY 2022 Actual	FY 2023 Adopted Budget Plan	FY 2023 Revised Budget Plan	FY 2024 Advertised Budget Plan
Beginning Balance	\$423,896,369	\$417,524,375	\$382,374,167	\$375,786,496
Revenue:				
CMS Medicare Part D Subsidy	\$2,013,058	\$200,000	\$200,000	\$2,368,975
Return on Investments ¹	4,000,304	3,655,662	3,655,662	4,000,304
Implicit Subsidy ¹	10,107,320	0	0	0
Other Funds Contributions	1,883,974	1,416,895	1,416,895	1,100,324
Total Realized Revenue	\$18,004,656	\$5,272,557	\$5,272,557	\$7,469,603
Unrealized Gain/(Loss) ^{1,2}	(\$41,916,107)	\$0	\$0	\$0
Total Revenue	(\$23,911,451)	\$5,272,557	\$5,272,557	\$7,469,603
Transfers In:				
General Fund (10001)	\$5,000,000	\$2,500,000	\$2,500,000	\$1,500,000
Total Transfers In	\$5,000,000	\$2,500,000	\$2,500,000	\$1,500,000
Total Available	\$404,984,918	\$425,296,932	\$390,146,724	\$384,756,099
Expenditures:				
Benefits Paid	\$12,038,676	\$13,725,367	\$13,725,367	\$14,411,635
Implicit Subsidy ¹	10,107,320	0	0	0
Administrative Expenses	464,755	634,861	634,861	597,945
Total Expenditures	\$22,610,751	\$14,360,228	\$14,360,228	\$15,009,580
Total Disbursements	\$22,610,751	\$14,360,228	\$14,360,228	\$15,009,580
Reserved Ending Balance³	\$382,374,167	\$410,936,704	\$375,786,496	\$369,746,519

¹ In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of \$19,709,087.86 have been reflected as a decrease to FY 2022 revenue to accurately record interest revenue in the proper fiscal period and the unrealized appreciation of investments as of June 2022. An audit adjustment in the amount of \$10,107,320.00 has been reflected as an increase to both FY 2022 revenues and expenditures. This adjustment, which nets to \$0, is required to accurately reflect the County's contribution and benefit payments for the implicit subsidy to retirees. The Annual Comprehensive Financial Report (ACFR) reflects all audit adjustments in FY 2022. Details of the audit adjustments will be included in the FY 2023 Third Quarter Package.

² Unrealized gain/(loss) is reflected as an actual revenue at the end of the fiscal year.

³ The Reserved Ending Balance in Fund 73030, OPEB Trust, represents the amount of assets held in reserve by the County to offset the estimated Actuarial Accrued Liability for other post-employment benefits. The \$369.7 million reserve in FY 2024 is applied toward the liability of \$392.2 million calculated as of July 1, 2022.