Fund 73030: OPEB Trust

Focus

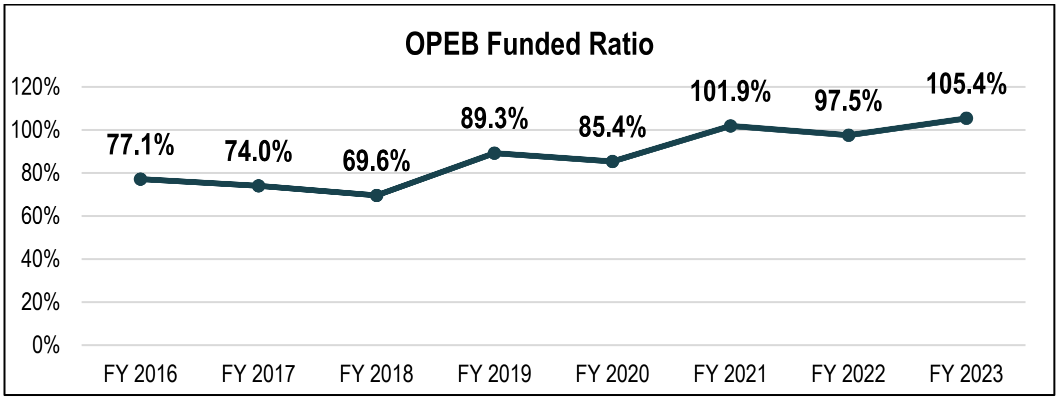
Fund 73030, OPEB Trust, accounts for the cost of other post-employment benefits (OPEBs) including health care, life insurance, and other non-pension benefits offered to retirees, such as the County's retiree health benefit subsidy.

The County's financial statements are 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 AAL 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, 2023, calculated the County's actuarial accrued liability, excluding the Fairfax County Public Schools portion, at approximately $383.2 million. This amount is fully funded with excess plan assets of $20.6 million, resulting in a negative unfunded actuarial accrued liability as shown below.

Valuation Results as of July 1, 2023 (in thousands)	
Actuarial Accrued Liability (AAL)	$383,226
Plan Assets	403,798
Unfunded Actuarial Accrued Liability	($20,572)

The July 1, 2023, AAL of $383.2 million decreased from the July 1, 2022, AAL of $392.2 million primarily due to changes in claims experience and other assumptions that have been updated to reflect more recent experience. The decrease in the AAL is partially offset by changes in trend rate assumptions and updated retiree contributions. The County's assumed actuarial rate of return is 6.25 percent with an amortization period of 20 years. 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 105.4 percent funded as of July 1, 2023.



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 U.S. 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 2024 ARC has been calculated at $8.7 million, a decrease of $0.5 million from the FY 2023 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 2024 funding included a General Fund transfer of $1.5 million and contributions from other funds of $1.1 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 2023 amount of $9.1 million. The FY 2025 Advertised Budget Plan includes a General Fund transfer of $1.0 million as well as contributions from other funds of just over $0.5 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 at least 20, but less than 25, years of service. These police officers previously received a subsidy of $190 per month.

During FY 2025, the average number of subsidy recipients, including new retirees who are eligible to receive the retiree health benefit subsidy, is expected to increase by 179, or 3.9 percent, from 4,597 in FY 2024 to 4,776 in FY 2025. 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 2023 Actual	FY 2024 Adopted	FY 2024 Revised	FY 2025 Advertised
FUNDING				
Expenditures:				
Personnel Services	$139,854	$150,187	$150,187	$155,514
Operating Expenses	22,401,823	14,864,482	14,864,482	15,597,298
Total Expenditures	**$22,541,677**	**$15,014,669**	**$15,014,669**	**$15,752,812**
AUTHORIZED POSITIONS/FULL-TIME EQUIVALENT (FTE)				
Regular	1 / 1	1 / 1	1 / 1	1 / 1

FY 2025 Funding Adjustments

The following funding adjustments from the FY 2024 Adopted Budget Plan are necessary to support the FY 2025 program:

Employee Compensation **$5,327**

An increase of $5,327 in Personnel Services includes $3,223 for a 2.00 percent market rate adjustment (MRA) for all employees and $2,104 for performance-based and longevity increases for non-uniformed merit employees, both effective July 2024.

Benefits Paid **$720,581**

An increase of $720,581 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 2024 experience.

Administrative Expenses **$12,235**

An increase of $12,235 in Operating Expenses is primarily associated with anticipated increases in investment services.

General Fund Transfer

The General Fund transfer is decreased by $500,000 from the FY 2024 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 2025 ARC.

Changes to FY 2024 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2024 Revised Budget Plan since passage of the FY 2024 Adopted Budget Plan. Included are all adjustments made as part of the FY 2023 Carryover Review and all other approved changes through December 31, 2023.

There have been no adjustments to this fund since approval of the FY 2024 Adopted Budget Plan.

Position Detail

The FY 2025 Advertised Budget Plan includes the following positions:

OPEB TRUST - 1 Position	
1	Accountant III

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 2023 Actual	FY 2024 Adopted Budget Plan	FY 2024 Revised Budget Plan	FY 2025 Advertised Budget Plan
Beginning Balance	**$382,374,167**	**$375,786,496**	**$403,797,578**	**$397,752,512**
Revenue:				
CMS Medicare Part D Subsidy[1]	$2,328,956	$2,368,975	$2,368,975	$2,471,895
Return on Investments[1]	2,182,211	4,000,304	4,000,304	2,157,914
Implicit Subsidy[1]	9,126,063	0	0	0
Other Funds Contributions	1,416,895	1,100,324	1,100,324	515,020
Total Realized Revenue	**$15,054,125**	**$7,469,603**	**$7,469,603**	**$5,144,829**
Unrealized Gain/(Loss)[1,2]	$26,410,963	$0	$0	$0
Total Revenue	**$41,465,088**	**$7,469,603**	**$7,469,603**	**$5,144,829**
Transfers In:				
General Fund (10001)	$2,500,000	$1,500,000	$1,500,000	$1,000,000
Total Transfers In	**$2,500,000**	**$1,500,000**	**$1,500,000**	**$1,000,000**
Total Available	**$426,339,255**	**$384,756,099**	**$412,767,181**	**$403,897,341**
Expenditures:				
Benefits Paid	$13,001,163	$14,411,635	$14,411,635	$15,132,216
Implicit Subsidy[1]	9,126,063	0	0	0
Administrative Expenses[1]	414,451	603,034	603,034	620,596
Total Expenditures	**$22,541,677**	**$15,014,669**	**$15,014,669**	**$15,752,812**
Total Disbursements	**$22,541,677**	**$15,014,669**	**$15,014,669**	**$15,752,812**
Reserved Ending Balance[3]	**$403,797,578**	**$369,741,430**	**$397,752,512**	**$388,144,529**

[1] In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of $21,571,848.00 have been reflected as an increase to FY 2023 revenue to accurately record interest revenue in the proper fiscal period, revenue accrual, the unrealized appreciation of investments as of June 2023, and the net gain of sale of investments as of June 2023. Additionally, audit adjustments in the amount of $47,526.41 have been reflected as an increase to FY 2023 expenditures primarily due to payments of program fees as of June 2023. An audit adjustment in the amount of $9,126,063.00 has been reflected as an increase to both FY 2023 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 2023. Details of the audit adjustments will be included in Attachment IV of the FY 2024 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 $388.1 million reserve in FY 2025 is applied toward the liability of $383.2 million calculated as of July 1, 2023.