

## RETIREMENT WORKGROUP UPDATE

The Retirement Workgroup held eight meetings between November 2017 and April 2018. The workgroup includes the following individuals:

- Mason District Supervisor Penny Gross, Personnel Committee chairman
- Braddock District Supervisor John Cook
- Seema Ajrawat, Finance Director, Housing and Community Development (HCD)
- Randy Creller, immediate past chairman of the Employees Advisory Council (EAC)
- Terry Kellogg, Benefits Specialist, Fairfax County Public Schools (FCPS)
- Lieutenant James Krause, Fairfax County Police Department
- Captain Ron Kuley, International Association of Fire Fighters (IAFF) Local 2068
- Tammy Wondong-Ware, President, Fairfax County Chapter, Service Employees' International Union (SEIU)
- John Yeatman, retiree, elected member of the Employees' Retirement Board

The attached package was presented to the workgroup for consideration at its final meeting this morning at 9:30 a.m. After discussion, a motion to recommend a package consisting of a subset of the attached potential changes failed on a vote of 3 to 4, with one member abstaining and one member absent. A second motion that proposed an alternative package of changes failed to receive a second. The workgroup adjourned without reaching consensus on a recommendation for the Board of Supervisors.

**2017-2018 Retirement Workgroup**  
**April 3, 2018**

**Final Items for Consideration**

*(To be forwarded to the full Board at the Budget Committee Meeting at 3:00pm)*

**General principles agreed upon:**

- Parameters of new proposed plan outlined on following pages. In addition:
  - Reaffirm commitment to defined benefit plan
  - New plan will apply to employees hired January 1, 2019 and beyond
  - New plan must be sustainable over the long-run; do not create new plans for new employees every few years
- Support the institution of a retirement "education" template that could be used by managers during annual evaluation process, mainly to remind employees of the need to pay attention to their retirement planning.
- Work with the County Executive to develop a template for transfer of knowledge/succession planning by employees who enter DROP. Manager would be responsible for ensuring that the transfer of knowledge starts at the beginning of the DROP period and continues throughout.
- County should continue to monitor health care costs and the health insurance marketplace for opportunities which could reduce costs for retirees.

**Additional context for the long-term impact:**

After the March 13 meeting, the County's actuary provided the information in the following table regarding the impact of the proposed package on the timeline to reach full funding for each system:

	Employees'	Uniformed	Police
No Changes	December 2032	March 2031	November 2031
New Package	June 2032	October 2030	June 2031
Months Early	6 Months	5 Months	5 Months

The proposed benefit changes will place downward pressure on contribution rates. However, given that these changes will impact only new hires as of January 1, 2019, this impact grows very slowly over time.

By holding actual contribution rates steady, the excess funding will be utilized to move to full funding faster. This will also allow for flexibility in the contribution rates which can help to prevent rate increases in the case of a significant market downturn.

While the time to reach fully funded status is not substantially reduced, this is due to the time required to pay off the existing unfunded liability based on benefits already accrued. One of the primary benefits of the changes proposed is that they will help to minimize the accrual of future obligations. Once the plans are fully funded, the reduced normal cost will make it more likely that future funding costs will be manageable for the County. In the event of another market downturn, the County will be able to focus on paying for the unfunded liability without being overburdened by funding accruals for that year.

**2017-2018 Retirement Workgroup  
April 3, 2018**

**Summary of Potential Changes**

	Potential Change for New Hires	3/13/18 Package
1a	<b>MINIMUM RETIREMENT AGE:</b> Increase Minimum Retirement Age in ERS from 55 to 60	☑
1c	<b>MINIMUM RETIREMENT AGE:</b> Establish a Minimum Retirement Age of 50 in URS/PORS	☑
2	<b>RETIREMENT ELIGIBILITY:</b> Increase from Rule of 85 to Rule of 90 in ERS	☑
3a	<b>SALARY AVERAGING:</b> Increase Salary Averaging Period from 3 Years to 5 Years	☑
4	<b>ELIMINATE PRE-SOCIAL SECURITY SUPPLEMENT:</b> Eliminate Pre-Social Security Supplement in ERS/URS	☑
9	<b>ELIMINATE 3% FORMULA INCREASE:</b> Eliminate the provision that increases the calculated retirement annuity by 3%	☑
10	<b>INCREASE EMPLOYEE CONTRIBUTION:</b> Increase the employee contribution rate from 5.33% to 6% (ERS), from 7.08% to 8% (URS), and from 8.65% to 10% (PORS)	☑
	Employees' System Percent Change in Employer Normal Cost	(24.68%)
	Uniformed System Percent Change in Employer Normal Cost	(20.41%)
	Police Officers System Percent Change in Employer Normal Cost	(18.63%)
	<b>Total Projected GF Savings when Fully Realized based on Current Payroll</b>	<b>\$16.38m</b>

**Additional Recommendations:**

- There are currently two options (plans C and D) that are open to new hires who become members of the Employees' Retirement System. The changes proposed include offering only one plan to new hires effective January 1, 2019, which will be based on the current plan D.
- Any proposal to eliminate the pre-Social Security supplement should include the implementation of an actuarially cost-neutral benefit payout option that allows retirees to choose to receive a larger annuity before becoming eligible for Social Security age-based benefits in exchange for a lower annuity after Social Security benefits begin. This type of benefit payout option is a common feature of the retirement systems of other jurisdictions in the area.
- Staff should review early service (reduced) retirement criteria and benefit levels to determine whether any changes are recommended based on the proposed changes to retirement eligibility requirements, especially the increase in the minimum retirement age to 60 in the Employees' system.

**2017-2018 Retirement Workgroup  
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**Package Overview:**

The changes proposed in this package for new employees hired on or after January 1, 2019, are shown in the table below. The plan features in place for employees hired on or before December 31, 2012, as well as the benefits currently offered to new hires, are also shown. Changes are shown in red and bold.

	Employees Hired December 2012 and Prior	Employees Hired January 2013 to December 2018	Employees Hired January 2019 and Later
<b>Employees' Retirement System (ERS)</b>			
<b>Employee Contribution</b>	4.00% (Plan A) 5.33% (Plan B)	4.00% (Plan C) 5.33% (Plan D)	<b>6.00% (Plan E)</b>
<b>Retirement Eligibility</b>	Rule of 80 or Age 65 with 5 Years of Service	Rule of 85 or Age 65 with 5 Years of Service	<b>Rule of 90</b> or Age 65 with 5 Years of Service
<b>Minimum Retirement Age</b>	50	55	<b>60</b>
<b>Salary Averaging Period</b>	3 Years	3 Years	<b>5 Years</b>
<b>Benefit Level<sup>1</sup></b>	2% per Year of Service, Total then Increased by 3%	2% per Year of Service, Total then Increased by 3%	<b>2% per Year of Service</b>
<b>Pre-Social Security Supplement</b>	1.0% per Year of Service	Removed from DROP Balances	<b>Eliminated</b>
<b>Use of Sick Leave for Retirement Purposes</b>	Unlimited	Capped at 2,080 Hours	Capped at 2,080 Hours
<b>Uniformed Retirement System (URS)</b>			
<b>Employee Contribution</b>	7.08%	7.08%	<b>8.00%</b>
<b>Retirement Eligibility</b>	25 Years of Service or Age 55 with 6 Years of Service	25 Years of Service or Age 55 with 6 Years of Service	25 Years of Service or Age 55 with 6 Years of Service
<b>Minimum Retirement Age</b>	None	None	<b>50</b>
<b>Salary Averaging Period</b>	3 Years	3 Years	<b>5 Years</b>
<b>Benefit Level</b>	2.5% per Year of Service, Total then Increased by 3%	2.5% per Year of Service, Total then Increased by 3%	<b>2.5% per Year of Service</b>
<b>Pre-Social Security Supplement</b>	0.3% per Year of Service	Removed from DROP Balances	<b>Eliminated</b>
<b>Use of Sick Leave for Retirement Purposes</b>	Unlimited	Capped at 2,080 Hours	Capped at 2,080 Hours
<b>Police Officers Retirement System (PORS)</b>			
<b>Employee Contribution</b>	8.65%	8.65%	<b>10.00%</b>
<b>Retirement Eligibility</b>	25 Years of Service or Age 55	25 Years of Service or Age 55	25 Years of Service or Age 55
<b>Minimum Retirement Age</b>	None	None	<b>50</b>
<b>Salary Averaging Period</b>	3 Years	3 Years	<b>5 Years</b>
<b>Benefit Level</b>	2.8% per Year of Service, Total then Increased by 3%	2.8% per Year of Service, Total then Increased by 3%	<b>2.8% per Year of Service</b>
<b>Use of Sick Leave for Retirement Purposes</b>	Unlimited	Capped at 2,080 Hours	Capped at 2,080 Hours