Response to Questions on the FY 2009 Advertised Budget Plan

Request By: Supervisor Frey

Question: Provide an accounting of funds for the Health Benefits Trust Fund and County Retirement funds since FY 2000.

Response: Utilizing expenditure data from FY 2000 to FY 2007, the most recent year for which actual data is available, the growth in the Health Benefits Trust Fund and the County's three retirement funds (Uniformed, Employees', and Police Officers) is explained in further detail, by fund, below.

Health Benefits Trust Fund

Health Benefits Trust Fund actual expenditures grew from $29.6 million in FY 2000 to $75.0 million in FY 2007, averaging a 14.6 percent annual increase. Many factors have contributed to the growth in expenditures, including additional participation in the self-insured plans as well as the change of the CIGNA health plan from a fully-insured to a self-insured product in 2007. However, the largest portion of the increase can be attributed to medical inflation, which accounts for approximately 9.4 percent of the 14.6 percent annual increase. Additional information on the factors contributing to the growth in the fund is offered below:

- The number of benefits-eligible active County employees grew 7.5 percent, from 11,108 in FY 2000 to 11,936 in FY 2007. In addition, the number of retirees electing participation in a County health plan increased from 1,738 in FY 2000 to approximately 2,500 in FY 2007, a 43.8 percent increase.

- Health plan participants have also increasingly moved away from managed plans (i.e. the fully-insured Kaiser HMO) to the plans within the self-insured fund that offer more flexibility. In FY 2000, participants in the self-insured plans made up just over half of all County employees who elected County health insurance. By the end of FY 2007, the percentage of employees choosing the self-insured alternatives was 80 percent. Included in this shift was the addition of the CIGNA Open Access Plan, as well as the County's new Davis Vision plan, to the self-insured fund in January 2007. This action was taken in order to allow the County to more fully manage the CIGNA plan and control premium adjustments. The move from fully-insured to self-insured had no General Fund impact, although it did increase the size of the self-insured fund due to the increased revenues flowing into the fund and the additional expenses. This growth in participation of self-insured products has contributed to the increase in expenditures during this timeframe.

- In addition, rapidly escalating health care costs have contributed significantly to the overall growth of the fund. For the CareFirst health plans, which are the only plans self-insured during this entire timeframe, medical inflation accounted for a 64.5 percent increase in claims expenses from FY 2000 to FY 2007.

Retirement Funds

Uniformed Retirement System

Uniformed Retirement System Trust Fund actual expenditures grew from $21.5 million in FY 2000 to $58.0 million in FY 2007, averaging a 15.6 percent annual increase. Contributing factors to the growth in expenditures include growth in retiree population, increases in the average benefit as a result of cost-of-living increases and higher levels of compensation at time of retirement, and benefit enhancements approved by the Board of Supervisors:

- Since FY 2000, the number of retirees and beneficiaries receiving benefits grew 56.0 percent, from 589 in FY 2000 to 919 in FY 2007.

- The cumulative impact of Cost of Living Adjustments (COLAs) during this timeframe was 23.2 percent. Retirees are eligible for COLAs which are based on the change to the CPI-U of the Washington Metropolitan Area for the year ending in March up to a maximum of 4 percent. An additional 1 percent COLA may be granted if there is an actuarial surplus. The cost of this ad-hoc COLA increases the County's employer contribution rate and is therefore considered a benefit enhancement. From FY 2001 to FY 2007, an additional 0.3 percent ad-hoc COLA was granted for the system in one year (FY 2001) and a 1.0 percent ad-hoc COLA was granted in two years (FY 2002 and FY 2003).

- During this timeframe, salary adjustments have contributed to the average final compensation against which retirement benefits are calculated. As many recent retirees in the Uniformed system would likely have been in longevity steps and not eligible for merit increments, the compensation adjustments relevant for this timeframe (FY 1999 to FY 2007, as average final compensation encompasses three years) total approximately 26.9 to 39.9 percent (depending on the employee's agency) based on Market Rate Adjustment and other across-the-board increases.

- In addition, several benefit enhancements for the system have been approved by the Board of Supervisors during this timeframe, including:

    - In FY 2001, the multiplier for plans C and D was increased from 2.3 to 2.5 percent (an 8.7 percent increase) and the multiplier for Plans A and B was increased from 1.8 to 2.0 percent (an 11.1 percent increase) for normal service retirement benefits.

    - In FY 2003, a pre-social security multiplier of 0.3 percent for Plans C and D and 0.2 percent for Plans A and B was implemented.

    - In FY 2004, the Deferred Retirement Option Plan (DROP) was implemented.

    - In FY 2005, an average special increase of 12 percent in retirement benefits was approved for pre-March 2002 retirees.

    - In FY 2006, all non-administrative staff in the Department of Public Safety Communications was transferred from the Employees' to the Uniformed system.

Employees' Retirement System

Fairfax County Employees' Retirement System Trust Fund actual expenditures grew from $72.6 million in FY 2000 to $156.8 million in FY 2007, averaging an 11.8 percent annual increase. Contributing factors to the growth in expenditures include growth in retiree population, increases in the average benefit as a result of cost-of-living increases and higher levels of compensation at time of retirement, and benefit enhancements approved by the Board of Supervisors:

- Since FY 2000, the number of retirees and beneficiaries receiving benefits grew 42.6 percent, from 3,757 retirees in FY 2000 to 5,358 in FY 2007.

- The cumulative impact of COLAs during this timeframe was 22.9 percent. Retirees are eligible for COLAs which are based on the change to the CPI-U of the Washington Metropolitan Area for the year ending in March up to a maximum of 4 percent. An additional 1 percent COLA may be granted if there is an actuarial surplus. The cost of this ad-hoc COLA increases the County's employer contribution rate and is therefore considered a benefit enhancement. From FY 2001 to FY 2007, an additional 1 percent ad-hoc COLA was granted for the system in two years (FY 2002 and FY 2003).

- During this timeframe, salary adjustments have contributed to the average final compensation against which retirement benefits are calculated. Based on the average Pay for Performance increases each year and Cost of Living Adjustments in FY 2001 and FY 2002, the compensation adjustments relevant for this timeframe (FY 1999 to FY 2007, as average final compensation encompasses three years) total approximately 50.7 percent.

- In addition, several benefit enhancements for the system have been approved by the Board of Supervisors during this timeframe, including:

    - In FY 2001, an extension of the supplemental benefit until the date of full Social Security benefits was approved for Plans A and B.

    - In FY 2006, DROP was implemented.

Police Officers Retirement System

Police Officers Retirement System Trust Fund actual expenditures grew from $24.5 million in FY 2000 to $46.8 million in FY 2007, averaging a 9.9 percent annual increase. Contributing factors to the growth in expenditures include growth in retiree population, increases in the average benefit as a result of cost-of-living increases and higher levels of compensation at time of retirement, and benefit enhancements approved by the Board of Supervisors:

- Since FY 2000, the number of retirees and beneficiaries receiving benefits grew 29.3 percent, from 583 retirees in FY 2000 to 754 in FY 2007.

- The cumulative impact of COLAs during this timeframe was 25.6 percent. Retirees are eligible for COLAs which are based on the change to the CPI-U of the Washington Metropolitan Area for the year ending in March up to a maximum of 4 percent. An additional 1 percent COLA may be granted if there is an actuarial surplus. The cost of this ad-hoc COLA increases the County's employer contribution rate and is therefore considered a benefit enhancement. From FY 2001 to FY 2007, an additional 1 percent ad-hoc COLA was granted for the system in four years (FY 2002, FY 2005-FY 2007) and an additional 0.67 percent ad-hoc COLA was granted in FY 2003.

- During this timeframe, salary adjustments have contributed to the average final compensation against which retirement benefits are calculated. As many recent retirees in the Police Officers system would likely have been in longevity steps and not eligible for merit increments, the compensation adjustments relevant for this timeframe (FY 1999 to FY 2007, as average final compensation encompasses three years) total approximately 35.6 percent, based on Market Rate Adjustment and other across-the-board increases.

- In addition, two benefit enhancements for the system have been approved by the Board of Supervisors during this timeframe, including:

    - In FY 2001, the multiplier was increased from 2.5 to 2.8 percent (a 12 percent increase) for normal service retirement benefits.

    - In FY 2004, DROP was implemented.