Fairfax County FY 2010 Budget

Response to Questions on the FY 2010 Advertised Budget Plan

Request By: Chairman Bulova

Question: What would the cost be if retirement was adjusted to reflect the loss of pay increases?

Response: Based on the severe impact of recent market conditions on the Retirement Systems' assets, unless there is an extraordinary market rally in the coming months, it is anticipated that there will be a substantial drop in Retirement System funding levels and a significant corresponding increase in employer contribution rates for FY 2011. A freeze in salaries, as proposed in the FY 2010 Advertised Budget Plan for FY 2010, without any attempt to reflect the loss of pay increases for retirement purposes would result in actuarial gains to the systems which would help mitigate some of the investment losses.

From an administrative standpoint, the best way to attempt to reflect the loss of pay increases would be the use of a flat rate percentage salary adjustment for all members of the three Retirement Systems who were employed as of June 30, 2009. (Those hired during FY 2010 would not be affected by the freeze.) The actuary has provided the following estimates of the employer contribution rate impact, and dollar cost, of a 3 percent and 4 percent salary adjustment utilized only for retirement purposes.

	Employees'	Uniformed	Police Officers	Annual Cost
3% Adjustment				
Rate Impact	0.86%	1.61%	1.72%	
Dollar Cost	$1,874,000	$382,000	$816,000	$3,072,000
4% Adjustment				
Rate Impact	1.17%	2.18%	2.36%	
Dollar Cost	$3,631,000	$1,154,000	$1,423,000	$6,208,000

It should be noted that the impact of the salary adjustments has been amortized over a standard 15 year schedule. Therefore, the estimated total cost of the adjustment would be $46.1 to $93.1 million.