Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: For the Retirement Systems (Funds 600, 601 and 602), in FY 2011 actual revenues (through May 2011) increased $773.7 million (140%) over the FY 2011 estimate. FY 2011 actual expenditures were $24.8 million (7.1%) less than the *FY 2011 Revised Budget Plan*. What was the total employer contribution to the systems in FY 2010 and FY 2011 and budgeted for FY 2012?

Response: FY 2011 actual expenditures in Fund 600 (Uniformed Retirement), Fund 601 (Fairfax County Employees' Retirement), and Fund 602 (Police Officers Retirement) decreased $24.8 million from the *FY 2011 Revised Budget Plan*, primarily due to lower than projected benefit payments to retirees. FY 2011 actual revenues through May 2011 increased $773.7 million over the estimate made in FY 2009 for the FY 2011 budget, primarily due to higher than anticipated returns on investments. Markets rebounded significantly in FY 2010 and FY 2011, and the County's Retirement Systems generated strong returns while remaining highly focused on risk management.

Actual employer contributions to the Retirement Systems totaled $128.7 million in FY 2010, which included a County contribution of $110.7 million and a Schools contribution of $18.0 million. Actual employer contributions totaled $171.7 million in FY 2011, which included a County contribution of $144.7 million and a Schools contribution of $27.0 million. The FY 2012 Adopted Budget Plan includes a County contribution of $165.4 million and a Schools contribution of $27.7 million, for a total employer contribution of $193.1 million. It should be noted that the School employer contributions cited are those made for School employees who are covered under the Fairfax County Employees' Retirement System.

Employer contributions are calculated using actuarially-determined rates. In order to assure the continued soundness of each fund, an actuarial valuation is performed each year and, if appropriate, an adjustment is made to the employer contribution rates. The County is required to fund the costs associated with adjustments to the employer contribution rates in order to meet its fiduciary obligation to continue to provide appropriate contribution levels. Increases in contribution rates over the past two years have primarily been the result of the global financial crisis in FY 2009, which resulted in significant losses in the value of the invested assets of all three Retirement Systems. As investment results are smoothed into the actuarial valuations over a three-year period to promote stability in the employer contribution rates, the FY 2009 investment results impacted the FY 2011 and FY 2012 rates and will continue to place negative pressure on the rates at the next valuation. In contrast, during both FY 2010 and FY 2011, the systems' investment performance was exceptional. As with the negative returns in FY 2009, these strong investment returns will be smoothed into valuation results over three years; therefore, the full impact of these positive results will not be fully realized for several years.