LOB #311:

RETIREMENT PLAN BENEFIT PAYMENTS

Purpose

This Line of Business includes all benefit payments to County retirees and their beneficiaries from the Employees' Retirement System, Uniformed Retirement System, and Police Officers Retirement System.

Description

The benefit provisions of each retirement system are established by Fairfax County Code. Each system provides normal service retirement and early service retirement benefits for members who attain age or service requirements. Coverage for service-connected disability benefits is immediate upon membership in the system. Ordinary (non-service-related) disability benefits are provided after five years of service. Members are vested after five years of service and are eligible for benefits at the early or normal service retirement date.

The Board of Supervisors adopted several modifications to the retirement systems which apply only to new employees who are hired on or after January 1, 2013. These changes include increasing the minimum retirement age for normal service retirement from 50 to 55 in the Employees' system; increasing the rule of 80 (age plus years of service) to the rule of 85 in the Employees' system; placing a cap on the use of sick leave for purposes of determining retirement eligibility and benefits at 2,080 hours for all three retirement systems; and, for the Deferred Retirement Option Plan (DROP), removing the pre-Social Security supplement from balances accumulated during the DROP period in the Employees' and Uniformed systems. No changes were made to benefits for current employees.

Each system is funded from employee contributions based on a fixed percentage of pay, employer contributions based on a variable percentage of employee pay as determined by actuarial analysis, and return on investments. Some revenues are also generated through employee payback, a process by which employees who have left the County can make a "payback" contribution and return to their previous standing in the retirement system upon their return to County employment.

In order to assure the continued soundness of each fund, an actuarial valuation is conducted annually and, if appropriate, an adjustment is made to the employer contribution rate. The County has used a corridor approach to employer contributions since FY 2002. In the corridor method of funding, a fixed contribution rate is assigned to each system and the County contributes at the fixed rate unless the system's funding ratio falls outside the pre-selected corridor of 90-120 percent or if benefit enhancements are approved. If the funding ratio falls below 90 percent, the unfunded actuarial accrued liability below 90 percent is amortized over a conservative 15-year period, and this amount is included in the annual employer contribution for each fund.

The corridor approach cushioned the County from dramatic rate increases while maintaining strong funding ratios for several years. However, the global financial crisis during FY 2009 resulted in significant losses in the value of the invested assets of all three retirement systems. Because only 90 percent of the unfunded liability is amortized and included in the employer contribution under the corridor approach, the funding ratios have improved, but at a slower pace than desired. As a result, the County has taken multiple steps to increase the amortization level of the unfunded liability from its original level of 90 percent to 95 percent in FY 2016. These increases will continue so that the County will amortize 100 percent of the unfunded liability by FY 2020 at the latest, fully funding the Annual Required Contribution for all systems while still using a conservative 15-year amortization period.

Benefits

Pension benefits are part of the total compensation package that helps the County attract and retain employees.

Mandates

The Commonwealth of Virginia requires that jurisdictions either participate in the Virginia Retirement System (VRS) or establish their own retirement system. Jurisdictions that establish their own retirement system must provide benefits that are at least two-thirds of the benefits provided by VRS.

Trends and Challenges

Employer contribution amounts can be volatile since they are dependent on investment returns that vary over time. This volatility is partially mitigated by the use of smoothed investment returns in the calculation of employer contribution levels. In addition, the size of system pension liabilities may increase at a faster rate than expected due to demographic trends and differences from assumptions used by the actuary to calculate the projected size of system liabilities. For example, as people live longer than expected, the size of the pension liability will grow faster than expected. Each system may also need to update its actuarial assumptions based on a 5-year experience study that will be completed in early 2016, impacting FY 2018 employer contribution rates. Changes in assumptions can increase the size of the pension liability.

Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
LOB #311: Retirement Plan Benefit Payments			
FUNDING			
Expenditures:			
Operating Expenses	$379,866,680	$411,543,987	$450,616,000
Total Expenditures	$379,866,680	$411,543,987	$450,616,000
Revenue:			
General Fund Employer Contributions	$147,192,484	$159,956,954	$177,051,412
Other County Employer Contributions	34,585,874	36,813,704	26,144,703
County Employee Contributions	43,994,752	43,953,559	44,183,301
School Employer Contributions	36,182,874	38,435,374	40,606,822
School Employee Contributions	8,853,934	8,980,091	9,131,453
Employee Payback	407,509	147,255	620,000
Total Revenue	$271,217,427	$288,286,937	$297,737,691
POSITIONS Authorized Positions/Full-Time Equivalents (FTEs)			
Positions:			
Regular	0 / 0	0 / 0	0 / 0
Total Positions	0 / 0	0 / 0	0 / 0

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Amortization level of unfunded liability	91%	91%	93%	95%	97%
Employees' Retirement System					
Employer contribution rate	19.05%	19.30%	20.18%	21.99%	22.91%
Employee contribution rate	4.00%/5.33%	4.00%/5.33%	4.00%/5.33%	4.00%/5.33%	4.00%/5.33%
Uniformed Retirement System					
Employer contribution rate	35.00%	36.43%	37.90%	38.83%	38.84%
Employee contribution rate	7.08%	7.08%	7.08%	7.08%	7.08%
Police Officers Retirement System					
Employer contribution rate	33.15%	33.87%	36.82%	37.98%	38.98%
Employee contribution rate	10.00%	10.00%	8.65%	8.65%	8.65%

The County has steadily increased the amortization level of the unfunded liability for all three retirement systems from 90 percent in FY 2010 to 95 percent in FY 2016. These increases will continue until 100 percent of the unfunded liability is being amortized. The actuarially determined employer contribution rates have increased as a result of the adjustments to the amortization level, though these increases have been moderated due to offsetting asset and liability gains. Employee contribution rates, which are set by Fairfax County Code, have remained unchanged for the Employees' and Uniformed systems. The employee contribution rate for the Police Officers system was reduced in FY 2015 by the Board of Supervisors from 10.00 percent to 8.65 percent.