



Response to Questions on the 2016 LOBs

Request By: Supervisor Herrity

Relevant LOB(s): N/A

Question: Describe the basic components of the Fairfax County Public School (FCPS) Supplemental Retirement System.

Response prepared by FCPS Staff:

- Background. ERFC was created in 1973 as a supplement to the primary teacher retirement plan, the Virginia Retirement System (VRS). The combination of VRS and ERFC was implemented to be comparable to the Fairfax County Employees' Retirement System (FCERS). At that time, teachers could not retire from VRS until age 60 with 30 years of service. Collective bargaining was present in Fairfax County and teachers made wage concessions to fund ERFC in order to be able to retire at age 55 with 25 years of service, and afford to continue living in Fairfax County.
By 2001, the average retirement age in FCPS had increased beyond age 55; a retirement system designed to facilitate early retirement no longer served the teachers as well. Therefore, the legacy ERFC plan was closed and replaced by ERFC 2001, which applies to all full-time educational and administrative personnel hired on or after July 1, 2001. (Part-time contracted and full-time transportation, custodial, food service, trades and maintenance employees are members of FCERS.)
- Plan Structure. ERFC 2001, a defined benefit plan, was designed to provide a level lifetime benefit that supplements the primary benefit provided by the VRS. The VRS was recently amended and all employees hired on or after January 1, 2014, are enrolled in the VRS hybrid plan, which contains both a defined benefit plan component and a defined contribution plan component.
- Retirement Eligibility. Under the provisions of ERFC 2001, the retirement age increased to 60 with five or more years of service, or at any age with 30 years of service. Under the newly created VRS hybrid plan, retirement eligibility also was raised to the "rule of 90," i.e., age plus service must equal 90.
- Employee Contributions. The ERFC 2001 plan requires an employee contribution of 3 percent. The total employee contribution requirement to the FCPS retirement programs is 8 percent, including the mandatory 5 percent employee contribution to the VRS.
- Benefit Formula. The annual basic benefit in ERFC 2001 is equal to .8 percent of final average compensation times years of credited service. Final average compensation is the average of the 36 consecutive months of highest compensation. Members may opt to choose among three survivor options which reduce the benefit payable. The benefit is subject to an annual cost-of-living adjustment of 3 percent. Employees may make an additional 4 percent contribution to the defined contribution portion of the VRS hybrid plan resulting in a maximum employee contribution of 12 percent.



With the VRS hybrid plan, the defined benefit multiplier was reduced to 1 percent from the 1.7 percent available in Plan 1 and the final average compensation period was increased to 60 months. Thus, the guaranteed portion of the retirement benefit was significantly reduced in the VRS hybrid plan.

- Comparators. In May 2016, Aon Hewitt completed a “*Retirement Plans Study*” which assessed the retirement benefits for newly hired FCPS employees participating in the VRS hybrid plan and the ERFC 2001 plan. The study found that FCPS is not the only employer in surrounding jurisdictions that provides supplemental retirement benefits in addition to the VRS. Alexandria City Public Schools provides a supplementary defined benefit system; Prince William County and Arlington Public Schools provide a match on their defined contribution plans.
 - Contributions. The study found that the contribution requirements that are mandated for FCPS participants are higher than the contribution requirements mandated by any of the surrounding school divisions, the Fairfax County government, and the federal government with the sole exception of the District of Columbia Public Schools, which also requires an 8 percent employee contribution.
 - Benefit levels. For these higher contributions, newly hired FCPS employees are expected to retire with lower retirement benefit values when compared to the Fairfax County Government plans, yet higher values than almost all other surrounding school systems with the exception of the District of Columbia.
 - Replacement Ratios. If an FCPS employee contributes only the mandatory contribution to the VRS hybrid plan, income replacement for shorter-service employees retiring at younger ages is not adequate. Employees can achieve adequate income replacement by taking full advantage of the benefits provided to them under the VRS hybrid plan (by contributing the additional 4 percent allowed) and if reasonable investment returns are earned.
- Recent Experience. Even without the more restrictive eligibility provisions enacted with the VRS hybrid plan and the ERFC 2001 plan, the average age of an FCPS retiree in the legacy ERFC Plan has been increasing in recent years and reached age 62 with 22 years of service in FY 2015. Two factors that may be contributing to delayed retirement are the higher retiree health insurance costs and the higher Social Security benefits available with deferred retirement.

The average monthly legacy ERFC benefit in FY 2016 was \$1,429, which replaced 22 percent of salary. From the Aon Hewitt study, the recommended replacement ratio for the average FCPS salary level is 78 percent. (The replacement ratio is the percentage of an employee’s salary that is needed after retirement to maintain the employee’s pre-retirement standard of living.) VRS, Social Security and personal savings will be required to supply the remaining income need in retirement.