Employee Retirement Systems Overview

Fairfax County employee retirement systems include the Fairfax County Employees' Retirement System (Fund 73000), the Uniformed Retirement System (Fund 73010), and the Police Officers Retirement System (Fund 73020). Each of these systems is funded from employees' contributions based on a fixed percentage of pay, County contributions based on a variable percentage of employee pay as determined by actuarial analysis, and return on investments. County contributions are paid from multiple sources, including the General Fund, General Fund-Supported and Other Funds, and Fairfax County Public Schools.

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. In addition, an experience study – which compares actual experience to actuarial assumptions, both economic and demographic – is conducted once every five years to ensure that the plan is being valued appropriately. Experience studies of each system were conducted in FY 2016. The assumption changes adopted by the Boards of Trustees as a result of those studies were incorporated in the actuarial valuations for FY 2016 and their impacts are included in the employer contribution rates beginning in FY 2018. The next experience study will take place in FY 2021 and any impact to the employer contribution rates as a result of assumption changes will be included in FY 2023.

Funding Policy

At the end of FY 2001, the funding ratios for the County's three retirement systems ranged from 97 percent to 102 percent. In FY 2002, the Board of Supervisors adopted a corridor approach to employer contributions, which was designed by the County's actuaries to set annual contributions at the level necessary to maintain strong funding ratios in each of the plans while reducing the volatility in the employer contribution rates that is typical for plans that are near fully-funded. 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 adjustments 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 improve the financial position of the retirement systems. These steps include increasing contribution levels and limiting increases in liabilities:

- In FY 2010, the requirements regarding the award of ad-hoc Cost-of-Living Adjustments (COLAs) were tightened. Retirees are eligible to receive an annual base COLA which is the lesser of the Consumer Price Index (CPI) for the 12 months ending on the previous year's March 31, or 4.0 percent. If certain conditions are met, an additional 1.0 percent ad-hoc COLA can be awarded at the discretion of each retirement system's Board of Trustees. This additional ad-hoc COLA is considered a benefit enhancement and results in an increase in the employer contribution rate. Staff reviewed the ad-hoc COLA policy at the Board of Supervisors' direction in FY 2010, and it was determined that the financial conditions that must be met in order for a Board of Trustees to consider granting an ad-hoc COLA should be strengthened, especially since the granting of such a COLA impacts the employer contribution rates and, thus, requires County funding. As a result, the Fairfax County Code was changed to require that the retirement system must have an actuarial surplus, demonstrated by having a funding ratio exceeding 100 percent, before an ad-hoc COLA can be considered.

- In FY 2011, the employer contribution rates were increased by adjusting the amortization level of the unfunded liability from 90 percent to 91 percent.

- In FY 2012, the Department of Human Resources, as directed by the Board of Supervisors, contracted with a benefits consultant to conduct a comprehensive review of the retirement plans. The consultant's report was presented in February and March 2012. Based on the results of this study, 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. The savings resulting from these changes have been incorporated in the employer contribution rates. Although initial savings are minimal, savings are expected to grow as more employees are hired under these new plan provisions.

- In FY 2015, the employer contribution rates were increased by adjusting the amortization level of the unfunded liability from 91 percent to 93 percent.

- In FY 2016, the employer contribution rates were increased by adjusting the amortization level of the unfunded liability from 93 percent to 95 percent.

- In FY 2017, the employer contribution rates were increased by adjusting the amortization level of the unfunded liability from 95 percent to 97 percent.

Despite the changes made both to the retirement systems and the employer funding levels, mixed investment returns in recent years have resulted in the funding ratios for each of the retirement systems decreasing slightly, and currently range from 70 percent to 82 percent. The County is committed to further strengthening the financial position of the systems, and has established a goal to reach a 90 percent funded status for all plans by FY 2025. In order to meet this goal, the Board of Supervisors approved, as part of the adoption of the FY 2016 Adopted Budget Plan, the following multi-year strategy:

- Increases in the employer contribution rates will continue so that the County will include amortization of 100 percent of the unfunded liability in the actuarially determined contributions for all systems by FY 2020 at the latest. The County will continue to use a conservative 15-year amortization period.

- Until each system reaches 100 percent funded status, employer contributions to that system will not be reduced. Various factors, such as the historical trend of the County's investment returns exceeding the assumed rate of return, could allow employer contribution rates to be reduced from current levels. However, the County is committed to maintaining the rates and redirecting any potential savings into further improvement in the systems' funded positions.

- Any additional unfunded liability created as a result of approved benefit enhancements, such as ad-hoc COLAs, will be fully funded. It is the intent that no adjustments to benefit levels will reduce the funded status of any of the systems.

In keeping with this strategy, the employer contribution rates in the FY 2018 Adopted Budget Plan include increases to adjust the amortization level of the unfunded liability from 97 percent to 98 percent. Additional increased funding required as a result of this multi-year approach will be included in the County's financial forecasts.

Funding Status

All three systems failed to reach the 7.5 percent assumed rate of investment return in FY 2016. The Employees' system was down 0.4 percent, the Uniformed system was down 0.8 percent, and the Police Officers system returned 1.0 percent. In addition, an actuarial experience study was conducted in FY 2016 to review the actuarial assumptions compared to actual experience over the preceding five years. As a result of the study, a number of assumptions were revised, including a reduction to the assumed long-term rate of return of the systems from 7.5 percent to 7.25 percent, a corresponding reduction to the projected rate of inflation, and adjustments to the mortality table. The FY 2016 investment results, contribution levels, and liability experience, as well as the assumption changes resulting from the five-year experience study, affected the funding ratios as demonstrated in the table below. The table below displays the market value of each system's assets as a percentage of the total plan liability as published in the County's Comprehensive Annual Financial Report (CAFR) and as required under new GASB requirements. It should be noted that since these calculations utilize asset figures as of a point in time (not smoothed as under previous methodologies), the funding ratios calculated are subject to volatility based on market returns.

	June 30, 2015	June 30, 2016*
Employees'	74.2%	70.2%
Uniformed	81.0%	77.2%
Police Officers	84.8%	81.4%

* The June 30, 2016 funding ratios will be included in the FY 2017 County CAFR

Employer Contribution Rates

As a result of the County's policy to increase the employer contribution rates to include amortization of 100 percent of the unfunded liability in the actuarially determined contributions for each of the systems by FY 2020, the employer contribution rates for all three systems include the impact of a change to the amortization schedule to increase the amortization of the unfunded actuarial accrued liability from 97 percent to 98 percent. This change results in an increase in the employer contribution rate for the Employee's system. However, savings resulting from FY 2016 experience and assumption changes fully offset the required increase from this change in the Uniformed and Police Officers systems, resulting in no net increase in the employer contribution rates for those systems.

In addition, this is the second year of a Board-directed 3-year plan to enhance benefits for service-connected disability retirees by eliminating the Social Security offset in the Employees' and Uniformed systems. A reduction to the offset from 10 percent to 5 percent in FY 2018 will not impact the FY 2018 employer contribution rates, though a nominal increase in the rates may be required for the final step in the elimination of the offset. However, following Board of Supervisors policy to fully fund any increase in liability that results from a benefit enhancement in the year that the enhancement is approved, an increase of $1.4 million was included as part of the *FY 2017 Third Quarter Review* to fund the increased liability resulting from this decrease in the Social Security offset for service-connected disability retirees.

The final FY 2018 employer contribution rates for each of the three retirement systems, as well as the cost impact to the General Fund as a result of adjustments, are as follows:

	FY 2017 Rates (%)	FY 2018 Rates (%)	Percentage Point Change (%)	Net General Fund Impact
Employees'	22.91	25.29	2.38	$8,567,325
Uniformed	38.84	38.84	0.00	$0
Police Officers	38.98	38.98	0.00	$0
Total				**$8,567,325***

* The General Fund impact reflected in the table is based solely on rate changes and does not include other adjustments, including the impact of new positions, employee pay increases, or year-to-date experience.

- The employer contribution rate for the Employees' system is required to increase by 2.38 percentage points due to an increase in the amortization schedule from 97 percent to 98 percent (0.66) and due to valuation results based on FY 2016 experience and the five-year experience study (1.72).

- There is no change in the employer contribution rate for the Uniformed system. The required increase in the contribution rate based on an increase in the amortization schedule from 97 percent to 98 percent (1.04) is more than offset by a decrease due to valuation results based on FY 2016 experience and the five-year experience study (-1.19). However, the employer contribution rate is maintained at the FY 2017 level as a result of the County's commitment to not reduce the contribution rate until the system reaches 100 percent funded status.

- There is no change in the employer contribution rate for the Police Officers system. The required increase in the contribution rate based on an increase in the amortization schedule from 97 percent to 98 percent (1.29) is more than offset by a decrease due to valuation results based on FY 2016 experience and the five-year experience study (-2.31). However, the employer contribution rate is maintained at the FY 2017 level as a result of the County's commitment to not reduce the contribution rate until the system reaches 100 percent funded status.

For more information on the General Fund impact of these employer contribution rate changes, please refer to the Agency 89, Employee Benefits, narrative in the Nondepartmental program area section of Volume 1.

Employee Retirement Systems Overview

The following table displays relevant information about each retirement system:

EMPLOYEES COVERED		
Uniformed Retirement	**Employees' Retirement**	**Police Officers Retirement**
Fire and Rescue Personnel; Uniformed Sheriff's Office employees; Animal Control Officers; Helicopter Pilots; Non-administrative staff in the Department of Public Safety Communications.	County employees not covered under Uniformed or Police Officers system; certain FCPS employees including food service, custodial, bus drivers, part-time and substitute teachers, maintenance staff.	Fairfax County Police Officers.

CONDITIONS OF COVERAGE		
Uniformed Retirement	**Employees' Retirement**	**Police Officers Retirement**
At age 55 with 6 years of service or after 25 years of service.	At age 65 with 5 years of service or earlier when age and years of service combined equal 80 if hired before 1/1/13; or 85 if hired on or after 1/1/13. Not before age 50 if hired before 1/1/13; or age 55 if hired on or after 1/1/13. For reduced "early retirement" benefits, when age and years of service combined equal 75.	At age 55 or after 20 years of police service if hired before 7/1/81; or 25 years of service if hired on or after 7/1/81.

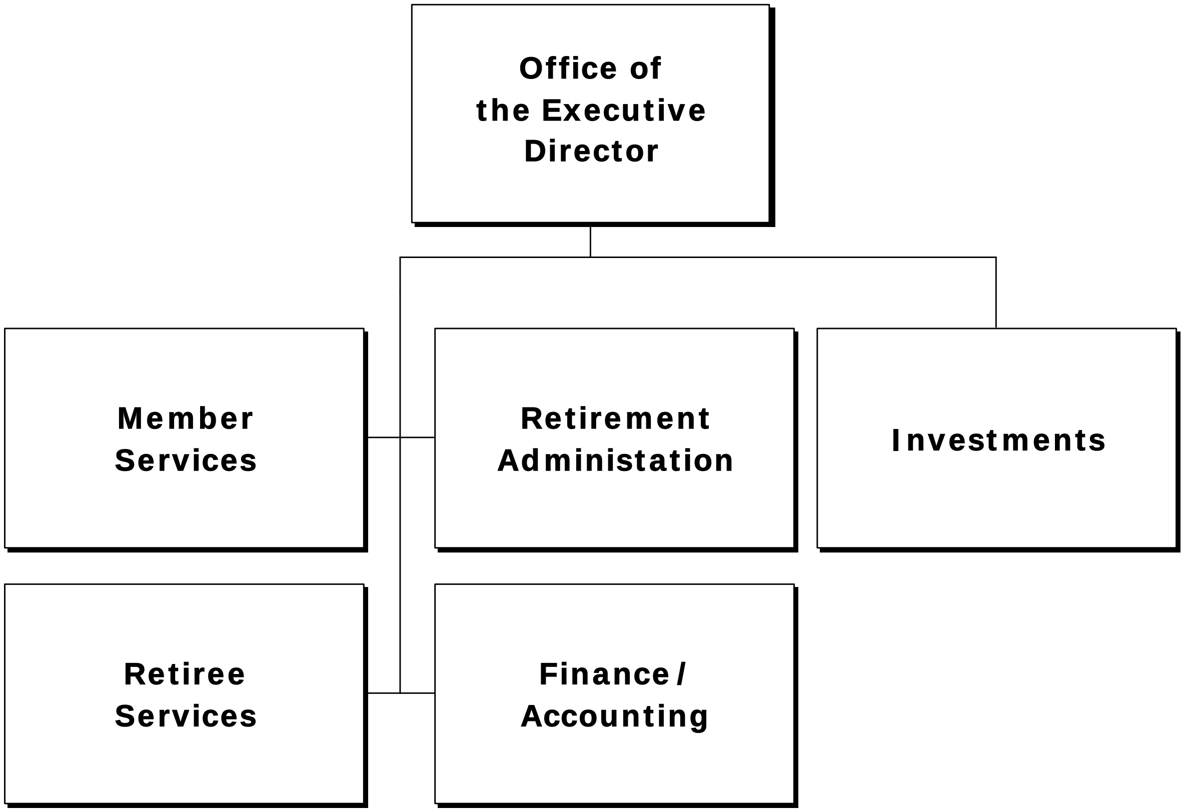
EMPLOYEE CONTRIBUTIONS[1]
(% of Pay)

	Uniformed Retirement					Employees' Retirement				Police Officers Retirement	
	Plan A	Plan B	Plan C	Plan D	Plan E	Plan A	Plan B	Plan C	Plan D	Plan A	Plan B
Up to Wage Base	4.00%	7.08%	4.00%	7.08%	7.08%	4.00%	5.33%	4.00%	5.33%	8.65%	8.65%
Above Wage Base	5.75%	8.83%				5.33%		5.33%			

FY 2018 EMPLOYER CONTRIBUTIONS (% of Pay)		
Uniformed Retirement	**Employees' Retirement**	**Police Officers Retirement**
38.84%	25.29%	38.98%

[1] As of January 1, 2013, new hires in the Uniformed Retirement System are automatically enrolled in Plan E, new hires in the Fairfax County Employees' Retirement System are automatically enrolled in Plan C with the option to switch to Plan D within their first thirty days of employment, and new hires in the Police Officers Retirement System are automatically enrolled in Plan B. Additional plans listed above are earlier plan designs that apply to employees hired prior to January 1, 2013. For additional information regarding the County's retirement plans, please refer to the Retirement Administration Agency website at http://www.fairfaxcounty.gov/retirement/.

INVESTMENT MANAGERS AS OF JUNE 30, 2016		
Uniformed Retirement	**Employees' Retirement**	**Police Officers Retirement**
Acadian Asset Management	Aberdeen Asset Management	Acadian Asset Management
Anchorage Capital Group	AQR Capital Management	AQR Capital Management
AQR Capital Management	Axiom International Small Cap	BlackRock, Inc.
Ashmore Investment Management	BlackRock, Inc.	Bluecrest Capital
Brandywine Global Investment Management	Brandywine Global Investment Management	Bridgewater Associates
Bridgewater Associates	Bridgewater Associates	The Clifton Group
Cohen & Steers Capital Management	Cohen & Steers Capital Management	Cohen & Steers Capital Management
Criterion Capital Management	Columbia Wanger Asset Management	Czech Asset Management
Czech Asset Management	Czech Asset Management	DoubleLine Capital
Davidson Kempner Institutional Partners, LP	DePrince, Race & Zollo	Emerging Sovereign Group
DoubleLine Capital	DoubleLine Capital	First Eagle Investment Management
Garcia Hamilton	Eagle Trading Systems	King Street Capital
Gresham Investment Management	Emerging Sovereign Group	Loomis Sayles & Company
Harbourvest Partners	First Eagle Investment Management	Oaktree Capital Management
JP Morgan Investment Management	Hoisington Management	Pacific Investment Management Company
King Street Capital Management	JP Morgan Investment Management	Sands Capital Management
Marathon Asset Management	Lazard Asset Management	Standish Mellon Asset Management
Manulife Asset Management	LSV Asset Management	Starboard Value, LP
Orbimed Healthcare Fund Management	MacKay Shields	Systematica Investment Services
Pacific Investment Management Co.	Marathon Asset Management, LLP	Vanguard Group
Pantheon Ventures	Millennium Management, LLC	WCM Asset Management
Parametric	Nicholas Company	
Siguler Guff & Company, LP	Neuberger Berman Group, LLC	
Standish Mellon Asset Management	Pacific Investment Management Company	
Systematica Investments Limited	Parametric Portfolio Advisors	
Starboard Value, LP	Post Advisory Group	
UBS Realty	Pzena Investment Management	
Wellington Management, LLP	Quantitative Management Associates	
	QMS Capital Management Inc.	
	Research Affiliates	
	Sands Capital Management	
	Standish Mellon Asset Management	
	Stark Investments	
	WCM Asset Management	



Mission

As an agent of the Boards of Trustees of the Employees', Uniformed, and Police Officers Retirement Systems, the mission of the Retirement Administration Agency is to administer the systems according to the terms established by the County of Fairfax and to do so in a manner that:

- Safeguards and invests the assets of the systems;
- Maximizes cost effectiveness of the retirement programs by optimizing long-term investment returns within an acceptable level of variation in required funding and by maintaining efficient administrative operations;
- Maximizes the value of retirement plans in retaining County personnel through communications, education, and counseling programs and by providing quality service;
- Fulfills the obligations of the systems to retirees by providing timely and accurate payments and by providing quality service; and
- Provides technical support and advice to County management and the Board of Supervisors regarding retirement benefits.

Focus

The Retirement Administration Agency contributes to the County's corporate stewardship through sound management of County resources and assets. To accomplish its specific mission, the Retirement Administration Agency will focus on:

- Support for the Boards of Trustees;
- Services to active employees and retirees;
- Accurate accounting and control of plan assets;
- Accuracy of data;
- Cost efficiency of processes; and
- Investment return and risk control.

Under the direction of the Boards of Trustees for the Fairfax County Employees', Police Officers, and Uniformed Retirement Systems, the Retirement Administration Agency processes benefit payments to eligible Fairfax County retirees and beneficiaries. The agency also processes payments for the retiree health benefit subsidy and provides counseling and comprehensive information pertaining to benefits to active and retired County employees.

The Retirement Administration Agency supports the following County Vision Element:

Exercising Corporate Stewardship

The agency receives revenues from various sources, including employee and employer contributions to the various retirement systems, employee payback, and return on investments, to finance the three employee retirement systems. Employee contributions are based on a fixed percentage of pay. For the Employees' Retirement System, employer contributions come from Agency 89, Employee Benefits, for County employees in General Fund agencies, the employee's agency for County employees in non-General Fund agencies, and Fairfax County Public Schools (FCPS) for school employees. For the Uniformed Retirement System, employer contributions come from two sources: Agency 89, Employee Benefits, for uniformed public safety employees in General Fund agencies and Fund 40090, E-911, for the non-administrative staff in the Department of Public Safety Communications. Employer contributions for the Police Officers Retirement System come solely from Agency 89, Employee Benefits, in the County's General Fund.

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. Additionally, significant revenues are achieved through returns on fund investments. Revenue projections are based on an assumed actuarial rate of return of 7.25 percent.

Budget and Staff Resources

Category	FY 2016 Actual	FY 2017 Adopted	FY 2017 Revised	FY 2018 Advertised	FY 2018 Adopted
FUNDING					
Expenditures:					
Personnel Services	$3,245,770	$3,692,131	$3,692,131	$3,813,072	$3,813,072
Operating Expenses	458,141,717	504,263,516	504,219,516	536,602,754	536,602,754
Capital Equipment	0	0	44,000	0	0
Total Expenditures	$461,387,487	$507,955,647	$507,955,647	$540,415,826	$540,415,826
AUTHORIZED POSITIONS/FULL-TIME EQUIVALENT (FTE)					
Regular	25 / 25	25 / 25	26 / 26	25 / 25	26 / 26

OFFICE OF THE DIRECTOR
1 Executive Director
1 Administrative Assistant IV

RETIREMENT ADMINISTRATION
1 Communications Specialist II
1 Programmer Analyst III
1 Programmer Analyst II
1 Administrative Assistant V
2 Administrative Assistants II

Retiree Services
1 Financial Specialist IV
1 Management Analyst II
4 Administrative Assistants V

Membership Services
1 Management Analyst III
1 Financial Specialist II
4 Retirement Counselors

FINANCE/ACCOUNTING
1 Accountant I

INVESTMENTS
3 Senior Investment Officers
1 Investment Operations Manager
1 Investment Analyst

TOTAL POSITIONS[1]
26 Positions / 26.0 FTE

[1] It should be noted that 1/1.0 FTE Accountant III position resides in the Retirement Administration Agency, but is accounted for and financed by Fund 73030, OPEB Trust Fund. The 26/26.0 FTE positions shown above are financed jointly by the three retirement trust funds (Fund 73000, Fund 73010, and Fund 73020).

FY 2018 Funding Adjustments

The following funding adjustments from the FY 2017 Adopted Budget Plan are necessary to support the FY 2018 program. Included are all adjustments recommended by the County Executive that were approved by the Board of Supervisors, as well as any additional Board of Supervisors' actions, as approved in the adoption of the budget on May 2, 2017.

♦ **Employee Compensation** **$61,852**
An increase of $61,852 in Personnel Services includes $53,167 for performance-based and longevity increases for non-uniformed merit employees effective July 2017, as well as $8,685 for employee pay increases for specific job classes identified in the County's Benchmark class survey of comparator jurisdictions.

♦ **Personnel Services** **$29,261**
A net increase of $29,261 in Personnel Services reflects adjustments necessary to align the Personnel Services budget with actual expenditure levels.

♦ **Fringe Benefits** **$28,526**
A net increase of $28,526 in Personnel Services is primarily attributable to increases in employer retirement contribution rates and health insurance expenses, based on actual enrollment and premium increases.

- **Other Post-Employment Benefits** **$1,302**
  An increase of $1,302 in Personnel Services reflects required adjustments associated with providing Other Post-Employment Benefits (OPEBs) to retirees, including the Retiree Health Benefits Subsidy. For more information on Other Post-Employment Benefits, please refer to Fund 73030, OPEB Trust Fund, in Volume 2 of the FY 2018 Adopted Budget Plan.

- **Benefit Payments** **$32,844,627**
  An increase of $32,844,627 in Operating Expenses reflects increased payments of $31,301,269 to retirees due to a higher number of retirees and higher individual payment levels, and an increase in payments to beneficiaries of $1,543,358. It should be noted that, since benefits are pre-funded during an employee's active career, the employer contribution rates as calculated through the actuarial valuation process already reflect the increased level of benefit payments.

- **Investment Management Fees** **($305,152)**
  A decrease of $305,152 in Operating Expenses reflects an adjustment to investment management fees based on actual experience.

- **Other Operating Expenses** **($200,237)**
  A net decrease of $200,237 in all other Operating Expenses reflects the net impact of several adjustments based on actual experience.

Changes to FY 2017 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2017 Revised Budget Plan since passage of the FY 2017 Adopted Budget Plan. Included are all adjustments made as part of the FY 2016 Carryover Review, FY 2017 Third Quarter Review, and all other approved changes through April 30, 2017.

- **Position Adjustment** **$0**
  During FY 2017, the County Executive approved the redirection of 1/1.0 FTE Retirement Counselor position due to workload requirements associated with communications, education, and counseling of County retirement systems for staff.

Key Performance Measures

Indicator	Prior Year Actuals: FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate/Actual	Current Estimate FY 2017	Future Estimate FY 2018
Retirement Administration Agency					
Percent of retiree payments processed on time: Fairfax County Employees	100%	100%	100%/100%	100%	100%
Percent of retiree payments processed on time: Uniformed	100%	100%	100%/100%	100%	100%
Percent of retiree payments processed on time: Police Officers	100%	100%	100%/100%	100%	100%
Deviation from actuarial rate of return (total plan): Fairfax County Employees	7.4%	(7.1%)	0.0%/(7.9%)	0.0%	0.0%
Deviation from actuarial rate of return (total plan): Uniformed	8.6%	(6.0%)	0.0%/(8.4%)	0.0%	0.0%
Deviation from actuarial rate of return (total plan): Police Officers	8.7%	(4.2%)	0.0%/(6.5%)	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Fairfax County Employees	0.4%	(2.3%)	0.0%/(9.4%)	1.0%	1.0%
Deviation from S&P 500 (large cap equities): Uniformed	27.8%	NA	0.0%/(2.8%)	1.0%	1.0%
Deviation from S&P 500 (large cap equities): Police Officers	1.4%	4.4%	0.0%/0.6%	1.0%	1.0%
Deviation from Barclays Capital Aggregate (fixed income): Fairfax County Employees	8.9%	(1.5%)	0.0%/(2.4%)	0.5%	0.5%
Deviation from Barclays Capital Aggregate (fixed income): Uniformed	3.9%	(1.2%)	0.0%/(2.1%)	0.5%	0.5%
Deviation from Barclays Capital Aggregate (fixed income): Police Officers	4.1%	2.2%	0.0%/(2.8%)	0.5%	0.5%

A complete list of performance measures can be viewed at www.fairfaxcounty.gov/dmb/fy2018/adopted/pm/73010.pdf

Performance Measurement Results

System returns in FY 2016 were between negative 1 percent and positive 1 percent. Overall, it was a difficult year for investment performance with the Employees' system down 0.4 percent, the Uniformed system down 0.8 percent, and the Police Officers system up 1.0 percent. U.S. equity markets provided mixed returns in FY 2016 as episodes of heightened market volatility interrupted an otherwise positive market environment. Domestic bond markets proved attractive during these periods of disruption providing a desired safe haven for investors and delivering strong returns. On the international side, non-U.S. developed equities edged lower as U.S. dollar strength cut into returns and political turmoil led by the U.K.'s decision to leave the EU sent a wave of volatility through the market. Despite easy policy from central banks in Europe and Japan, continuing growth concerns also contributed to negative equity returns. The U.S. economy appeared to exhibit continued resilience in the face of global market conditions and geo-political events. More consistently positive economic news for the U.S. helped push domestic equity prices higher. Notwithstanding, yields on most fixed income securities narrowed on greater demand for safe haven assets, even as the economy grew at a moderately-healthy pace and unemployment receded further. The large-cap domestic equity market, as measured by the S&P 500 Index, capped off the fiscal year with a 4.0 percent return even as most smaller-cap domestic indices posted losses. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned

6.0 percent over the same period. Yields on the 10 year U.S. Treasury bond decreased slightly, from 1.78 percent at the beginning of the year to 1.49 percent at the end, nearing its all-time low. The global equity market, as measured by the MSCI All Country World Index, returned negative 3.7 percent for the fiscal year, reflecting a blend of the positive results in the U.S. and the negative performance in the non-U.S. developed markets and emerging markets.

Compared to their peers across the country in the BNY Mellon public fund universe for FY 2016, the Employees' system gross return for the year was 0.0 percent, placing it in the 66th percentile; the Police Officers system gross return for the year was 1.1 percent, placing it in the 44th percentile; and the Uniformed system gross return for the year was -0.6 percent, placing it in the 79th percentile. In addition to comparing one-year returns to general market results, the long-term investments of the retirement systems should also be considered over multi-year periods relative to the returns achieved by other public pension plans. For the last ten-year period, all three systems had favorable results relative to their peers. The Employees' system placed in the 6th percentile and returned a gross 6.6 percent per year; the Police Officers system placed in the 11th percentile returning 6.4 percent per year; and the Uniformed system placed in the 44th percentile returning 5.8 percent per year.

Employer contribution rates and funding ratios are calculated based on a number of actuarial assumptions, including an actuarially determined rate of return. The actuarial rate of return uses a smoothing methodology to phase in total recognition of a given year's returns above or below the long-term expected rate of 7.25 percent. This smoothing is done to mitigate volatility in funding requirements, recognizing the cyclical nature of capital market returns. However, this smoothing process does not include the impact of any liability gains or losses, which are determined by comparing actual experience, such as rates of retirement and death, against actuarial assumptions. Funding policy and calculations include an average compound return of 7.25 percent over the long-term. Including the results through FY 2016, the actual compound annual returns achieved since 1981, the earliest date for which data is available, have been 9.8 percent for the Employees' system, 8.9 percent for the Uniformed system, and 9.7 percent for the Police Officers system.

FUND STATEMENT

Fund 73000, Fairfax County Employees' Retirement

	FY 2016 Actual	FY 2017 Adopted Budget Plan	FY 2017 Revised Budget Plan	FY 2018 Advertised Budget Plan	FY 2018 Adopted Budget Plan
Beginning Balance	$3,693,354,953	$3,853,558,203	$3,590,089,599	$3,762,686,034	$3,762,686,034
Revenue:					
County Employer Contributions	$113,410,197	$121,259,386	$121,259,386	$131,810,012	$131,810,012
County Employee Contributions	25,171,671	25,754,853	25,754,853	28,043,474	28,043,474
School Employer Contributions	42,370,176	47,178,801	47,178,801	51,189,988	51,189,988
School Employee Contributions	9,054,460	9,709,405	9,709,405	10,486,739	10,486,739
Employee Payback	400,930	380,000	380,000	450,000	450,000
Return on Investments	423,455,704	284,366,391	284,366,391	273,306,830	273,306,830
Total Realized Revenue	$613,863,138	$488,648,836	$488,648,836	$495,287,043	$495,287,043
Unrealized Gain/(Loss)[1]	($426,017,091)	$0	$0	$0	$0
Total Revenue	$187,846,047	$488,648,836	$488,648,836	$495,287,043	$495,287,043
Total Available	$3,881,201,000	$4,342,207,039	$4,078,738,435	$4,257,973,077	$4,257,973,077
Expenditures:					
Administrative Expenses	$3,484,461	$3,925,057	$3,969,057	$4,047,173	$4,047,173
Investment Services	12,724,996	17,188,344	17,144,344	17,400,000	17,400,000
Payments to Retirees	265,036,552	282,339,000	282,339,000	305,710,000	305,710,000
Beneficiaries	5,764,081	6,100,000	6,100,000	6,700,000	6,700,000
Refunds	4,101,311	6,500,000	6,500,000	6,500,000	6,500,000
Total Expenditures	$291,111,401	$316,052,401	$316,052,401	$340,357,173	$340,357,173
Total Disbursements	$291,111,401	$316,052,401	$316,052,401	$340,357,173	$340,357,173
Ending Balance[2]	$3,590,089,599	$4,026,154,638	$3,762,686,034	$3,917,615,904	$3,917,615,904

[1] Unrealized gain/(loss) will be reflected as an actual revenue at the end of each fiscal year.

[2] The Employees' Retirement Fund maintains fund balances at adequate levels relative to projected requirements. The fund balance fluctuates annually primarily due to interest on investments.

FUND STATEMENT

Fund 73010, Uniformed Retirement

	FY 2016 Actual	FY 2017 Adopted Budget Plan	FY 2017 Revised Budget Plan	FY 2018 Advertised Budget Plan	FY 2018 Adopted Budget Plan
Beginning Balance	$1,525,612,553	$1,612,568,947	$1,498,698,232	$1,590,375,964	$1,590,375,964
Revenue:					
Employer Contributions	$65,548,338	$67,165,306	$67,165,306	$69,085,719	$69,085,719
Employee Contributions	11,980,615	12,259,356	12,259,356	12,411,709	12,411,709
Employee Payback	39,832	170,000	170,000	150,000	150,000
Return on Investments	41,467,646	119,753,089	119,753,089	112,839,359	112,839,359
Total Realized Revenue	$119,036,431	$199,347,751	$199,347,751	$194,486,787	$194,486,787
Unrealized Gain/(Loss)[1]	($50,244,437)	$0	$0	$0	$0
Total Revenue	$68,791,994	$199,347,751	$199,347,751	$194,486,787	$194,486,787
Total Available	$1,594,404,547	$1,811,916,698	$1,698,045,983	$1,784,862,751	$1,784,862,751
Expenditures:					
Administrative Expenses	$1,140,596	$1,384,380	$1,384,380	$1,274,840	$1,274,840
Investment Services	4,029,644	5,977,639	5,977,639	5,460,000	5,460,000
Payments to Retirees	88,565,439	98,068,000	98,068,000	101,675,419	101,675,419
Beneficiaries	1,164,746	1,390,000	1,390,000	1,400,358	1,400,358
Refunds	805,890	850,000	850,000	850,000	850,000
Total Expenditures	$95,706,315	$107,670,019	$107,670,019	$110,660,617	$110,660,617
Total Disbursements	$95,706,315	$107,670,019	$107,670,019	$110,660,617	$110,660,617
Ending Balance[2]	$1,498,698,232	$1,704,246,679	$1,590,375,964	$1,674,202,134	$1,674,202,134

[1] Unrealized gain/(loss) will be reflected as an actual revenue at the end of each fiscal year.

[2] The Uniformed Retirement Fund maintains fund balances at adequate levels relative to projected requirements. The fund balance fluctuates annually primarily due to interest on investments.

FUND STATEMENT

Fund 73020, Police Retirement

	FY 2016 Actual	FY 2017 Adopted Budget Plan	FY 2017 Revised Budget Plan	FY 2018 Advertised Budget Plan	FY 2018 Adopted Budget Plan
Beginning Balance	$1,280,910,163	$1,349,159,817	$1,270,385,148	$1,338,757,976	$1,338,757,976
Revenue:					
Employer Contributions	$40,646,884	$43,122,471	$43,122,471	$43,122,471	$43,122,471
Employee Contributions	9,252,963	9,556,292	9,556,292	9,750,760	9,750,760
Employee Payback	71,103	30,000	30,000	75,000	75,000
Return on Investments	39,144,315	99,897,292	99,897,292	94,752,604	94,752,604
Total Realized Revenue	$89,115,265	$152,606,055	$152,606,055	$147,700,835	$147,700,835
Unrealized Gain/(Loss)[1]	($25,070,509)	$0	$0	$0	$0
Total Revenue	$64,044,756	$152,606,055	$152,606,055	$147,700,835	$147,700,835
Total Available	$1,344,954,919	$1,501,765,872	$1,422,991,203	$1,486,458,811	$1,486,458,811
Expenditures:					
Administrative Expenses	$864,501	$1,085,058	$1,085,058	$993,186	$993,186
Investment Services	2,955,459	4,223,169	4,223,169	4,224,000	4,224,000
Payments to Retirees	66,458,431	73,916,000	73,916,000	78,238,850	78,238,850
Beneficiaries	3,894,192	4,249,000	4,249,000	5,182,000	5,182,000
Refunds	397,188	760,000	760,000	760,000	760,000
Total Expenditures	$74,569,771	$84,233,227	$84,233,227	$89,398,036	$89,398,036
Total Disbursements	$74,569,771	$84,233,227	$84,233,227	$89,398,036	$89,398,036
Ending Balance[2]	$1,270,385,148	$1,417,532,645	$1,338,757,976	$1,397,060,775	$1,397,060,775

[1] Unrealized gain/(loss) will be reflected as an actual revenue at the end of each fiscal year.

[2] The Police Retirement Fund maintains fund balances at adequate levels relative to projected requirements. The fund balance fluctuates annually primarily due to interest on investments.