Fund 73030
OPEB Trust

Focus

Fund 73030, OPEB Trust, was created to capture long-term investment returns and make progress towards reducing the unfunded actuarial accrued liability under Governmental Accounting Standards Board (GASB) Statement No. 45 and funds the cost of other post-employment benefits (OPEBs) including health care, life insurance, and other non-pension benefits offered to retirees, such as the County's retiree health benefit subsidy.

GASB 45

Beginning in FY 2008, the County's financial statements were required to implement GASB 45 for other post-employment benefits. This standard addresses how local governments should account for and report their costs related to post-employment health care and other non-pension benefits. Historically, the County funded these benefits on a pay-as-you-go basis. GASB 45 requires that the County accrue the cost of other post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability to accurately account for the total future cost of post-employment benefits and the financial impact on the County. This funding methodology mirrors the funding approach used for pension benefits. A valuation is performed to calculate the County's actuarial accrued liability (AAL) and the associated annual required contribution (ARC). The liability and ARC are calculated annually, and adjustments are made due to benefit enhancements, medical trend experience, and normal growth assumptions. It is the County's policy to maintain a net OPEB asset, which demonstrates that the County has met its obligations to adequately fund the annual required contribution each year.

The actuarial valuation as of July 1, 2016 under GASB 45 calculated the County's actuarial accrued liability, excluding the Schools portion, at approximately $307.3 million and the unfunded actuarial accrued liability as $70.4 million, as shown below.

Valuation Results as of July 1, 2016 (in thousands)	
Actuarial Accrued Liability (AAL)	$307,296
Plan Assets	$236,875
Unfunded Actuarial Accrued Liability	$70,421
Annual Required Contribution (ARC)	$14,123

The July 1, 2016 AAL of $307.3 million decreased from the July 1, 2015 AAL of $317.6 million primarily due to actual retiree claims experience.

The implementation of an Employer Group Waiver Plan (EGWP) for Medicare retiree prescription drug coverage in January 2016 resulted in a significant decrease in the calculation of the July 1, 2015, AAL and FY 2016 ARC. The EGWP is a standard Medicare Part D plan with enhanced coverage that allows the County to maximize prescription drug subsidies from the federal government and pharmaceutical manufacturers. This plan replaced the prescription drug coverage that was previously provided to Medicare retirees through the County's self-insured health plans and the Retiree Drug Subsidy (RDS) that the County previously received from the Centers for Medicare and Medicaid Services. GASB accounting rules allow EGWP revenue to directly offset plan costs in the GASB valuation, impacting the AAL, whereas the RDS could not be reflected in the liability calculations. This change has had a significant impact on the County's GASB 45 liability, which continues to be reflected in the current valuation.

The actuarial accrued liability includes the retiree health benefit subsidy, which is paid out to County retirees, as well as the liability associated with an "implicit" subsidy provided to retirees. As premiums for the County's self-insured health plans are set using the blended experience of active employees and retirees, retiree premiums are lower than if they were set solely using the experience of the retiree group. GASB 45 requires that the County calculate and include the liability for this implicit subsidy. The differential between actuarial assumptions related to retiree claims and premiums and actual claims experience and premiums is the primary driver behind the liability related to the implicit subsidy. When claims experience is favorable compared to premium increases and actuarial assumptions, the implicit subsidy liability is likely to decline. Conversely, if the County experiences an unanticipated spike in retiree claims expenses, the implicit subsidy liability could increase. The impact of the difference between actuarial assumptions and actual experience is magnified by the fact that, similar to pension benefits, the County must project the impact over a 30-year period. Thus, a small change in the implicit subsidy in a single year is compounded over time. It should be noted that the County is credited an effective contribution towards the ARC each year to recognize actual expenses incurred related to the implicit subsidy.

The ARC is funded through a combination of a General Fund transfer, contributions from other funds, and the implicit subsidy contribution described above. FY 2017 funding includes a General Fund transfer of $14.5 million and contributions from other funds of $1.5 million. The implicit subsidy contribution is calculated by the County's actuaries after the close of the fiscal year and is projected to decrease to $6.3 million. The FY 2018 Adopted Budget Plan includes a reduction in the General Fund transfer to $10.5 million primarily due to the significant decrease in the ARC that has been realized since FY 2015 due to the implementation of an Employer Group Waiver Plan for Medicare retirees. Contributions from other funds will increase slightly to $1.6 million in FY 2018.

Primarily due to the County's commitment to fully fund the ARC in the baseline budget, the County had a net OPEB asset of $40.0 million at the end of FY 2016. Based on preliminary estimates of the implicit subsidy contribution, it is projected that current funding levels will fully fund the FY 2017 ARC. As shown in the table below, the net OPEB asset for FY 2017 is estimated to grow to $50.2 million.

Net OPEB Asset
(in thousands)

	FY 2016 Actual	FY 2017 Estimate
Annual Required Contribution (ARC)	$13,338	$14,123
Adjustments to ARC	*($214)*	*($451)*
Annual OPEB Cost (AOC)	$13,124	$13,672
Resources to Apply toward the ARC:		
Transfer from the General Fund	*$21,000*	*$14,500*
Contributions from Other Funds	*$3,477*	*$1,505*
Implicit Subsidy Contribution	*$9,644*	*$6,326*
Carryover of Prior Year Asset/(Obligation)	$19,021	$40,018
Net OPEB Asset/(Obligation)	$40,018	$48,677

After exploring numerous alternatives as to how to prudently invest and accumulate resources for OPEB, County staff recommended, and the Board of Supervisors approved on February 25, 2008, County participation in the Virginia Pooled OPEB Trust Fund in cooperation with the Virginia Municipal League (VML)/Virginia Association of Counties (VACo) Finance Program and other jurisdictions in the Commonwealth of Virginia. The County is represented on the Board of Trustees for the pooled trust and actively participates in decision-making to prudently invest accumulated resources for OPEB. The Virginia Pooled OPEB Trust Fund is used for investment purposes only; funds accumulated for OPEB are still accounted for in Fund 73030.

Retiree Health Benefit Subsidy

The County provides monthly subsidy payments to eligible retirees to help pay for health insurance in a County health plan. The current monthly subsidy commences at age 55 and varies by length of service as detailed in the following table. These amounts, effective July 2017, are a $10 increase over the subsidies that were last adjusted in FY 2006. Employees who retired prior to July 1, 2003, are eligible for the greater of the amounts shown in the table below and an amount calculated based on the subsidy structure that was in place prior to July 2003. The retiree health benefit subsidy is provided to retirees on a discretionary basis, and the Board of Supervisors reserves the right to reduce or eliminate the benefit in the future if the cost of the subsidy becomes prohibitive or an alternative is chosen to aid retirees in meeting their health insurance needs.

Retiree Health Benefit Subsidy

Years of Service at Retirement	Monthly Subsidy
5 to 9	$40
10 to 14	$75
15 to 19	$165
20 to 24	$200
25 or more	$230

In FY 2006, the Board of Supervisors approved an additional benefit to Health Department employees who remained in the Virginia Retirement System (VRS) after their conversion from state to County employment in 1995. Current and future retirees who participate in a County health plan are eligible to receive the differential between the County retiree health benefit subsidy for which the employee is eligible based on years of service, as shown in the table above, and that provided by VRS, which has a maximum of $120 per month. Furthermore, effective July 1, 2006, the County began providing the maximum retiree health benefit subsidy shown in the table above to those police officers who were hired before July 1, 1981 and retired or will retire with full retirement benefits with 20, but less than 25, years of service. These police officers previously received a subsidy of $190 per month.

During FY 2018, the average number of subsidy recipients, including new retirees who are eligible to receive the retiree health benefit subsidy, is expected to increase by 202, or 5.2 percent, from 3,868 in FY 2017 to 4,070 in FY 2018. Estimates of the average number of subsidy recipients are based on a review of the projected number of retirements and health subsidy eligibility for personnel already retired from the Fairfax County Employees', Uniformed, and Police Officers Retirement Systems. Retirees who become eligible to receive the subsidy are paid based on the period of eligibility within the fiscal year, which may or may not comprise a full year of payments.

Budget and Staff Resources

Category	FY 2016 Actual	FY 2017 Adopted	FY 2017 Revised	FY 2018 Advertised	FY 2018 Adopted
FUNDING					
Expenditures:					
Personnel Services	$117,009	$120,654	$120,654	$122,531	$122,531
Operating Expenses	18,415,428	10,196,716	16,522,716	10,946,594	10,946,594
Capital Equipment	0	0	0	0	0
Total Expenditures	$18,532,437	$10,317,370	$16,643,370	$11,069,125	$11,069,125
AUTHORIZED POSITIONS/FULL-TIME EQUIVALENT (FTE)					
Regular	1 / 1	1 / 1	1 / 1	1 / 1	1 / 1

1 Accountant III

TOTAL POSITIONS
1 Position / 1.0 FTE

It should be noted that the 1/1.0 FTE Accountant III position resides in the Retirement Administration Agency and is financed by Fund 73030, OPEB Trust.

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** **$1,877**

An increase of $1,877 in Personnel Services is for performance-based and longevity increases for non-uniformed merit employees effective July 2017.

♦ **Benefit Payments** **$742,659**

An increase of $742,659 in Operating Expenses is attributable to a projected increase in the number of retirees receiving the retiree health benefits subsidy and a $10 increase in the Retiree Health Benefit Subsidy.

♦ **Administrative Expenses** **$7,219**

An increase of $7,219 in Operating Expenses is primarily associated with anticipated increases in investment services and actuarial fees.

- **General Fund Transfer**
  The General Fund transfer to this fund is decreased by a net of $5,510,000. This net adjustment includes a decrease of $6,000,000 to recognize reduced General Fund contribution requirements as a result of the implementation of the Employer Group Waiver Plan for Medicare retiree prescription drug coverage in January 2016. This reduction, combined with the reduction of $10 million that was included in the FY 2017 Adopted Budget Plan, results in total recurring General Fund savings of $16 million as a result of the EGWP. This decrease is partially offset by an increase of $490,000 to fund increased benefit payments as a result of an adjustment to the Retiree Health Benefit Subsidy, which was last adjusted January 1, 2006. An increase of $10 per month results in a subsidy that ranges from $40 to $230 per month depending on years of service. This increase in the Retiree Health Benefit Subsidy will be included in the July 1, 2017, actuarial valuation of the County's actuarial accrued liability under GASB 45.

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.

- **Third Quarter Adjustments** **$6,326,000**
  As part of the *FY 2016 Third Quarter Review*, the Board of Supervisors approved an increase of $6,326,000 to appropriately reflect the County's contribution and benefit payments for the implicit subsidy for retirees. This increase to both revenues and expenditures is required to offset anticipated audit adjustments that are posted to the fund at the end of the fiscal year to reflect all activities for GASB 45. It should be noted that the General Fund transfer to this fund was decreased by $1,500,000 as part of the *FY 2016 Third Quarter Review* to recognize reduced General Fund contribution requirements as a result of implementation of the Employer Group Waiver Plan (EGWP) for Medicare retiree prescription drug coverage in January 2016.

FUND STATEMENT

Fund 73030, OPEB Trust

	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	$224,667,263	$240,424,069	$241,257,383	$249,484,849	$247,984,849
Revenue:					
CMS Medicare Part D Subsidy	$1,419,231	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Investment Income	69,347	40,000	40,000	70,000	70,000
Implicit Subsidy	9,644,000	0	6,326,000	0	0
Other Funds Contributions	3,476,866	1,504,836	1,504,836	1,584,022	1,584,022
Total Realized Revenue	$14,609,444	$2,544,836	$8,870,836	$2,654,022	$2,654,022
Unrealized Gain/(Loss)[1]	($486,887)	$0	$0	$0	$0
Total Revenue	$14,122,557	$2,544,836	$8,870,836	$2,654,022	$2,654,022
Transfers In:					
General Fund (10001)	$21,000,000	$16,000,000	$14,500,000	$10,490,000	$10,490,000
Total Transfers In	$21,000,000	$16,000,000	$14,500,000	$10,490,000	$10,490,000
Total Available	$259,789,820	$258,968,905	$264,628,219	$262,628,871	$261,128,871
Expenditures:					
Benefits Paid	$8,613,270	$9,892,463	$9,892,463	$10,635,122	$10,635,122
Implicit Subsidy	9,644,000	0	6,326,000	0	0
Administrative Expenses	275,167	424,907	424,907	434,003	434,003
Total Expenditures	$18,532,437	$10,317,370	$16,643,370	$11,069,125	$11,069,125
Total Disbursements	$18,532,437	$10,317,370	$16,643,370	$11,069,125	$11,069,125
Reserved Ending Balance[2]	$241,257,383	$248,651,535	$247,984,849	$251,559,746	$250,059,746

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

[2] The Reserved Ending Balance in Fund 73030, OPEB Trust Fund, represents the amount of assets held in reserve by the County to offset the estimated Actuarial Accrued Liability for other post-employment benefits. The balance is anticipated to grow each year as a result of contributions and investment returns. The $250.1 million reserve in FY 2018 is applied toward the liability of $307.3 million calculated as of July 1, 2016.