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 were 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.

- In FY 2018, the employer contribution rates were increased by adjusting the amortization level of the unfunded liability from 97 percent to 98 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 83 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. 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 2019 Adopted Budget Plan include increases to adjust the amortization level of the unfunded liability from 98 percent to 99 percent. Additional increased funding required as a result of this multi-year approach will be included in the County's financial forecasts.

Funding Status

Two of the three systems' investment returns exceeded the 7.25 percent assumed rate of investment return in FY 2017, while one returned slightly under this assumed rate of return. The Employees' system was up 6.8 percent, the Uniformed system was up 10.8 percent, and the Police Officers system returned 9.3 percent. The FY 2017 investment results, contribution levels, and liability experience 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, 2016	June 30, 2017*
Employees'	70.2%	69.9%
Uniformed	77.2%	80.9%
Police Officers	81.4%	83.2%

* The June 30, 2017 funding ratios will be included in the FY 2018 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 98 percent to 99 percent. This change results in an increase in the employer contribution rate for the Employees' and Police Officers systems. However, savings resulting from FY 2017 experience fully offset the required increase from this change in the Uniformed system, resulting in no net increase in the employer contribution rates for that system.

In addition, this is the final 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. The elimination of the 5 percent offset in FY 2019 will not impact the FY 2019 employer contribution rates. 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 $1.5 million was included as part of the *FY 2018 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 2019 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 2018 Rates (%)	FY 2019 Rates (%)	Percentage Point Change (%)	Net General Fund Impact
Employees'	25.29	27.14	1.85	$6,838,700
Uniformed	38.84	38.84	0.00	$0
Police Officers	38.98	40.10	1.12	$1,274,592
Total				**$8,113,292***

* 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 1.85 percentage points due to an increase in the amortization schedule from 98 percent to 99 percent (0.67) and due to valuation results based on FY 2017 experience (1.18).

- There is no change in the employer contribution rate for the Uniformed system. The required contribution rate including an increase in the amortization schedule from 98 percent to 99 percent is lower than the FY 2018 adopted contribution rate. Therefore, the employer contribution rate is maintained at the FY 2018 level as a result of the County's commitment to not reduce the contribution rate until the system reaches 100 percent funded status.

- The employer contribution rate for the Police Officers system is required to increase by 1.12 percentage points due to an increase in the amortization schedule from 98 percent to 99 percent (1.31), partially offset by a decrease due to valuation results based on FY 2017 experience (-0.19).

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 Protection Police 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)

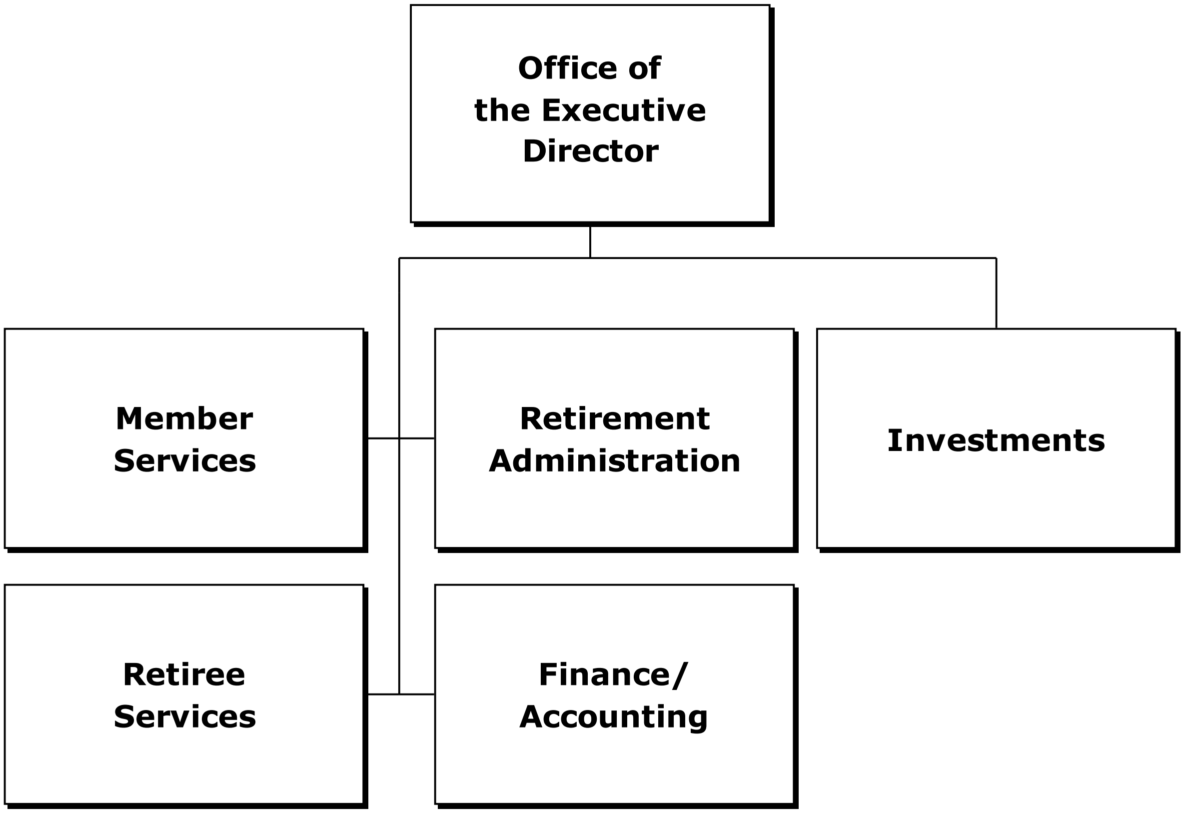
<table>
<tr><th rowspan="2"></th><th colspan="5">Uniformed Retirement</th><th colspan="4">Employees' Retirement</th><th colspan="2">Police Officers Retirement</th></tr>
<tr><th>Plan A</th><th>Plan B</th><th>Plan C</th><th>Plan D</th><th>Plan E</th><th>Plan A</th><th>Plan B</th><th>Plan C</th><th>Plan D</th><th>Plan A</th><th>Plan B</th></tr>
<tr><td>Up to Wage Base</td><td>4.00%</td><td>7.08%</td><td rowspan="2">4.00%</td><td rowspan="2">7.08%</td><td rowspan="2">7.08%</td><td>4.00%</td><td rowspan="2">5.33%</td><td>4.00%</td><td rowspan="2">5.33%</td><td rowspan="2">8.65%</td><td rowspan="2">8.65%</td></tr>
<tr><td>Above Wage Base</td><td>5.75%</td><td>8.83%</td><td>5.33%</td><td>5.33%</td></tr>
</table>

FY 2019 EMPLOYER CONTRIBUTIONS
(% of Pay)

Uniformed Retirement	Employees' Retirement	Police Officers Retirement
38.84%	27.14%	40.10%

[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, 2017		
Uniformed Retirement	**Employees' Retirement**	**Police Officers Retirement**
▪ Acadian Asset Management ▪ Alcentra ▪ Anchorage Capital Group ▪ AQR Capital Management ▪ Ashmore Investment Management ▪ Brandywine Global Investment Management ▪ Bridgewater Associates ▪ Cohen & Steers Capital Management ▪ Criterion Capital Management ▪ Czech Asset Management ▪ Davidson Kempner Institutional Partners, LP ▪ DoubleLine Capital ▪ Garcia Hamilton ▪ Goldentree ▪ Gresham Investment Management ▪ Harbourvest Partners ▪ JP Morgan Investment Management ▪ Kabouter International ▪ King Street Capital Management ▪ Manulife Asset Management ▪ Marathon Asset Management ▪ Millenium Management ▪ Orbimed Healthcare Fund Management ▪ Pacific Investment Management Co. ▪ Pantheon Ventures ▪ Parametric Portfolio Associates ▪ Siguler Guff & Company, LP ▪ Standish Mellon Asset Management ▪ Systematica Investments Limited ▪ Starboard Value, LP ▪ UBS Realty ▪ Wellington Management, LLP	▪ Aberdeen Asset Management ▪ Alpha Simplex ▪ AQR Capital Management ▪ Axiom International Small Cap ▪ BlackRock, Inc. ▪ Brandywine Global Investment Management ▪ Bridgewater Associates ▪ Capstone ▪ Cohen & Steers Capital Management ▪ Czech Asset Management ▪ DePrince, Race & Zollo ▪ Deutsche Asset Management ▪ DoubleLine Capital ▪ Eagle Trading Systems ▪ Emerging Sovereign Group ▪ First Eagle Investment Management ▪ Hoisington Management ▪ JP Morgan Investment Management ▪ Lazard Asset Management ▪ LSV Asset Management ▪ MacKay Shields ▪ Marathon Asset Management, LLP ▪ Millennium Management, LLC ▪ Neuberger Berman Group, LLC ▪ Nicholas Company ▪ Pacific Investment Management Company ▪ Parametric Portfolio Advisors ▪ Post Advisory Group ▪ QMS Capital Management Inc. ▪ Quantitative Management Associates ▪ Sands Capital Management ▪ Shenkman ▪ Standish Mellon Asset Management ▪ Stark Investments ▪ WCM Asset Management	▪ Acadian Asset Management ▪ Alpha Simplex ▪ AQR Capital Management ▪ BlackRock, Inc. ▪ Bluecrest Capital ▪ Bridgewater Associates ▪ Cohen & Steers Capital Management ▪ Czech Asset Management ▪ Deutsche Asset Management ▪ DoubleLine Capital ▪ Emerging Sovereign Group ▪ First Eagle Investment Management ▪ King Street Capital ▪ Loomis Sayles & Company ▪ Neuberger Berman Group ▪ Pacific Investment Management Company ▪ Parametric Portfolio Associates ▪ Sands Capital Management ▪ Solus ▪ Standish Mellon Asset Management ▪ Starboard Value, LP ▪ 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.

Retirement Administration Agency

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. 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.

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 2017 Actual	FY 2018 Adopted	FY 2018 Revised	FY 2019 Advertised	FY 2019 Adopted
FUNDING					
Expenditures:					
Personnel Services	$3,240,559	$3,813,072	$3,813,072	$3,901,776	$3,901,776
Operating Expenses	512,527,018	536,602,754	588,757,864	640,336,339	640,336,339
Total Expenditures	**$515,767,577**	**$540,415,826**	**$592,570,936**	**$644,238,115**	**$644,238,115**
AUTHORIZED POSITIONS/FULL-TIME EQUIVALENT (FTE)					
Regular	26 / 26	26 / 26	26 / 26	26 / 26	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. 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 2019 Funding Adjustments

The following funding adjustments from the FY 2018 Adopted Budget Plan are necessary to support the FY 2019 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 1, 2018.

- **Employee Compensation** **$137,811**
  An increase of $137,811 in Personnel Services includes $78,247 for a 2.25 percent market rate adjustment (MRA) for all employees and $59,564 for performance-based and longevity increases for non-uniformed merit employees, both effective July 2018.

- **Personnel Services** **($40,672)**
  A net decrease of $40,672 in Personnel Services reflects savings to align the budget with actual expenditure levels.

- **Fringe Benefits** **($21,216)**
  A net decrease of $21,216 in Fringe Benefits is primarily attributable to decreases based on actual enrollment experience, partially offset by increases in employer retirement contribution rates and health insurance expenses.

- **Other Post-Employment Benefits** **$12,781**
  An increase of $12,781 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, in Volume 2 of the FY 2019 Adopted Budget Plan.

- **Benefit Payments** **$60,514,914**
  An increase of $60,514,914 in Operating Expenses reflects increased payments of $60,654,201 to retirees due to a higher number of retirees and higher individual payment levels, partially offset by a decrease in payments to beneficiaries of $98,287 and a decrease in refunds of $41,000. 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** **$43,134,622**
  An increase of $43,134,622 in Operating Expenses reflects an adjustment to investment management fees due to a change in how investment management fees are recorded. These fees were previously netted out of investment income, but are now reflected as investment services fess to more accurately report total revenues and expenditures.

- **Other Operating Expenses** **$84,049**
  A net increase of $84,049 in all other Operating Expenses reflects the net impact of several adjustments based on actual experience.

Changes to FY 2018 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2018 Revised Budget Plan since passage of the FY 2018 Adopted Budget Plan. Included are all adjustments made as part of the FY 2017 Carryover Review, FY 2018 Third Quarter Review, and all other approved changes through April 30, 2018.

- **Carryover Adjustments** **$155,110**
  As part of the *FY 2017 Carryover Review*, the Board of Supervisors approved funding of $155,110 in encumbered funding in Operating Expenses associated with the agency's relocation to the Greenwood Building.

- **Third Quarter Adjustments** **$52,000,000**
  As part of the *FY 2018 Third Quarter Review*, the Board of Supervisors approved an increase of $52,000,000 in Operating Expenses due to a change in how investment management fees are recorded. These fees were previously netted out of investment income, but are now reflected as investment services fees to more accurately report total revenues and expenditures.

Key Performance Measures

Indicator	Prior Year Actuals FY 2015 Actual	FY 2016 Actual	FY 2017 Estimate/Actual	Current Estimate FY 2018	Future Estimate FY 2019
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	(7.1%)	(7.9%)	0.0%/(0.4%)	0.0%	0.0%
Deviation from actuarial rate of return (total plan): Uniformed	(6.0%)	(8.4%)	0.0%/3.5%	0.0%	0.0%
Deviation from actuarial rate of return (total plan): Police Officers	(4.2%)	(6.5%)	0.0%/2.1%	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Fairfax County Employees	(2.3%)	(9.4%)	0.0%/(12.9%)	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Uniformed	NA	(2.8%)	0.0%/19.3%	0.0%	0.0%
Deviation from S&P 500 (large cap equities): Police Officers	4.4%	0.6%	0.0%/3.7%	0.0%	0.0%
Deviation from Barclays Capital Aggregate (fixed income): Fairfax County Employees	(1.5%)	(2.4%)	0.0%/5.7%	0.0%	0.0%
Deviation from Barclays Capital Aggregate (fixed income): Uniformed	(1.2%)	(2.1%)	0.0%/8.1%	0.0%	0.0%
Deviation from Barclays Capital Aggregate (fixed income): Police Officers	2.2%	(2.8%)	0.0%/8.4%	0.0%	0.0%

A complete list of performance measures can be viewed at
https://www.fairfaxcounty.gov/budget/fy-2019-adopted-performance-measures-pm

Performance Measurement Results

System returns in FY 2017 were between 7 percent and 11 percent. Overall, it was a good year for investment performance with the Employees' system up 6.8 percent, the Uniformed system up 10.8 percent, and the Police Officers system up 9.3 percent. U.S. equity markets continued on their upward path in FY 2017 as international stocks joined the rally. Domestic equities dominated the first half of the fiscal year, getting a boost after the U.S. election, but ultimately gave way to international stocks in 2017 as receding political fears in Europe and solid growth in emerging markets spurred performance. As a result of positive global and U.S. growth, the Federal Reserve embarked on a path of raising rates and curtailing its easing program. This ultimately led to modest and even negative fixed income returns, though U.S. credit issues experienced spread compression and performed well. The large cap domestic equity market, as measured by the S&P 500 Index, capped off the fiscal year with a 17.9 percent return with all smaller cap domestic equity indices posting even greater returns. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned negative 0.3 percent over the same period. The global equity market, as measured by the MSCI All Country World Index (net), returned 18.8 percent for the fiscal year, proving to be one of the higher yielding asset classes. Emerging markets posted even higher returns with the MSCI Emerging Markets of 23.7 percent over the fiscal year.

Compared to their peers across the country in the BNY Mellon public fund universe for FY 2017, the Employees' system gross return for the year was 7.5 percent, placing it in the 96th percentile; the Police Officers system gross return for the year was 10.0 percent, placing it in the 87th percentile; and the Uniformed system gross return for the year was 11.5 percent, placing it in the 68th 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 25th percentile and returned a gross 5.9 percent per year; the Police Officers system placed in the 38th percentile returning 5.7 percent per year; and the Uniformed system placed in the 61st percentile returning 5.2 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 2017, the actual compound annual returns achieved since 1981, the earliest date for which data is available, have been 10.3 percent for the Employees' system, 9.5 percent for the Uniformed system, and 10.2 percent for the Police Officers system.

FUND STATEMENT

Fund 73000, Fairfax County Employees' Retirement

	FY 2017 Actual	FY 2018 Adopted Budget Plan	FY 2018 Revised Budget Plan	FY 2019 Advertised Budget Plan	FY 2019 Adopted Budget Plan
Beginning Balance	**$3,590,089,599**	**$3,762,686,034**	**$3,749,393,253**	**$3,924,963,928**	**$3,904,168,013**
Revenue:					
County Employer Contributions	$121,891,716	$131,810,012	$131,810,012	$153,520,634	$153,520,634
County Employee Contributions	25,932,033	28,043,474	28,043,474	30,194,438	30,194,438
School Employer Contributions	45,419,892	51,189,988	51,189,988	57,479,366	57,479,366
School Employee Contributions	9,280,192	10,486,739	10,486,739	10,805,562	10,805,562
Employee Payback	263,798	450,000	450,000	450,000	450,000
Return on Investments[1]	172,682,445	273,306,830	296,306,830	317,877,565	317,877,565
Total Realized Revenue	$375,470,076	$495,287,043	$518,287,043	$570,327,565	$570,327,565
Unrealized Gain/(Loss)[2]	$105,531,582	$0	$0	$0	$0
Total Revenue	$481,001,658	$495,287,043	$518,287,043	$570,327,565	$570,327,565
Total Available	**$4,071,091,257**	**$4,257,973,077**	**$4,267,680,296**	**$4,495,291,493**	**$4,474,495,578**
Expenditures:					
Administrative Expenses[1]	$3,262,250	$4,047,173	$4,202,283	$4,196,424	$4,196,424
Investment Services[1]	33,505,181	17,400,000	40,400,000	38,930,614	38,930,614
Payments to Retirees	275,070,326	305,710,000	305,710,000	349,183,667	349,183,667
Beneficiaries	6,188,361	6,700,000	6,700,000	6,701,382	6,701,382
Refunds	3,671,886	6,500,000	6,500,000	6,453,000	6,453,000
Total Expenditures	$321,698,004	$340,357,173	$363,512,283	$405,465,087	$405,465,087
Total Disbursements	**$321,698,004**	**$340,357,173**	**$363,512,283**	**$405,465,087**	**$405,465,087**
Ending Balance[3]	**$3,749,393,253**	**$3,917,615,904**	**$3,904,168,013**	**$4,089,826,406**	**$4,069,030,491**

[1] In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of $8,251,078.78 have been reflected as a decrease to FY 2017 revenue, primarily associated with adjustments necessary to record a net loss from the sale of investments, as well as to record interest and dividend revenue in the proper fiscal period. In addition, audit adjustments in the amount of $12,544,835.98 have been reflected as an increase to FY 2017 expenditures in order to appropriately account for investment management fees. The audit adjustments have been included in the FY 2017 Comprehensive Annual Financial Report (CAFR). Details of the FY 2017 audit adjustments were included in the FY 2018 Third Quarter package.

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

[3] 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 2017 Actual	FY 2018 Adopted Budget Plan	FY 2018 Revised Budget Plan	FY 2019 Advertised Budget Plan	FY 2019 Adopted Budget Plan
Beginning Balance	**$1,498,698,232**	**$1,590,375,964**	**$1,645,259,503**	**$1,729,315,318**	**$1,729,085,673**
Revenue:					
Employer Contributions	$67,410,252	$69,085,719	$69,085,719	$70,000,000	$70,000,000
Employee Contributions	12,170,488	12,411,709	12,411,709	12,600,000	12,600,000
Employee Payback	52,980	150,000	150,000	150,000	150,000
Return on Investments[1]	112,111,421	112,839,359	125,839,359	141,508,718	141,508,718
Total Realized Revenue	$191,745,141	$194,486,787	$207,486,787	$224,258,718	$224,258,718
Unrealized Gain/(Loss)[1,2]	$61,012,489	$0	$0	$0	$0
Total Revenue	$252,757,630	$194,486,787	$207,486,787	$224,258,718	$224,258,718
Total Available	**$1,751,455,862**	**$1,784,862,751**	**$1,852,746,290**	**$1,953,574,036**	**$1,953,344,391**
Expenditures:					
Administrative Expenses[1]	$1,098,830	$1,274,840	$1,274,840	$1,255,237	$1,255,237
Investment Services[1]	11,488,659	5,460,000	18,460,000	17,212,572	17,212,572
Payments to Retirees	91,662,099	101,675,419	101,675,419	117,473,375	117,473,375
Beneficiaries	1,182,524	1,400,358	1,400,358	1,400,358	1,400,358
Refunds	764,247	850,000	850,000	854,000	854,000
Total Expenditures	$106,196,359	$110,660,617	$123,660,617	$138,195,542	$138,195,542
Total Disbursements	**$106,196,359**	**$110,660,617**	**$123,660,617**	**$138,195,542**	**$138,195,542**
Ending Balance[3]	**$1,645,259,503**	**$1,674,202,134**	**$1,729,085,673**	**$1,815,378,494**	**$1,815,148,849**

[1] In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of $3,682,452.20 have been reflected as an increase to FY 2017 revenue, primarily associated with adjustments necessary to record a net gain from the sale of assets, as well as to record interest and dividend revenue in the proper fiscal period. In addition, audit adjustments in the amount of $3,912,096.46 have been reflected as an increase to FY 2017 expenditures in order to appropriately account for investment management fees. The audit adjustments have been included in the FY 2017 Comprehensive Annual Financial Report (CAFR). Details of the FY 2017 audit adjustments were included in the FY 2018 Third Quarter package.

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

[3] 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 2017 Actual	FY 2018 Adopted Budget Plan	FY 2018 Revised Budget Plan	FY 2019 Advertised Budget Plan	FY 2019 Adopted Budget Plan
Beginning Balance	**$1,270,385,148**	**$1,338,757,976**	**$1,365,839,965**	**$1,436,380,504**	**$1,424,142,764**
Revenue:					
Employer Contributions	$43,381,151	$43,122,471	$43,122,471	$45,000,000	$45,000,000
Employee Contributions	9,622,919	9,750,760	9,750,760	10,100,000	10,100,000
Employee Payback	8,699	75,000	75,000	75,000	75,000
Return on Investments[1]	169,919,665	94,752,604	110,752,604	115,924,345	115,924,345
Total Realized Revenue	$222,932,434	$147,700,835	$163,700,835	$171,099,345	$171,099,345
Unrealized Gain/(Loss)[1,2]	($39,604,403)	$0	$0	$0	$0
Total Revenue	$183,328,031	$147,700,835	$163,700,835	$171,099,345	$171,099,345
Total Available	**$1,453,713,179**	**$1,486,458,811**	**$1,529,540,800**	**$1,607,479,849**	**$1,595,242,109**
Expenditures:					
Administrative Expenses[1]	$799,213	$993,186	$993,186	$1,036,291	$1,036,291
Investment Services[1]	13,898,004	4,224,000	20,224,000	14,075,436	14,075,436
Payments to Retirees	68,365,344	78,238,850	78,238,850	79,621,428	79,621,428
Beneficiaries	4,169,044	5,182,000	5,182,000	5,082,331	5,082,331
Refunds	641,609	760,000	760,000	762,000	762,000
Total Expenditures	$87,873,214	$89,398,036	$105,398,036	$100,577,486	$100,577,486
Total Disbursements	**$87,873,214**	**$89,398,036**	**$105,398,036**	**$100,577,486**	**$100,577,486**
Ending Balance[3]	**$1,365,839,965**	**$1,397,060,775**	**$1,424,142,764**	**$1,506,902,363**	**$1,494,664,623**

[1] In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of $7,335,206.67 have been reflected as a decrease to FY 2017 revenue, primarily associated with adjustments necessary to record a net loss due to the unrealized depreciation of investments. In addition, audit adjustments in the amount of $4,902,534.58 have been reflected as an increase to FY 2017 expenditures in order to appropriately account for investment management fees. The audit adjustments have been included in the FY 2017 Comprehensive Annual Financial Report (CAFR). Details of the FY 2017 audit adjustments were included in the FY 2018 Third Quarter package.

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

[3] 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.