

Fund 73030 OPEB Trust

Focus

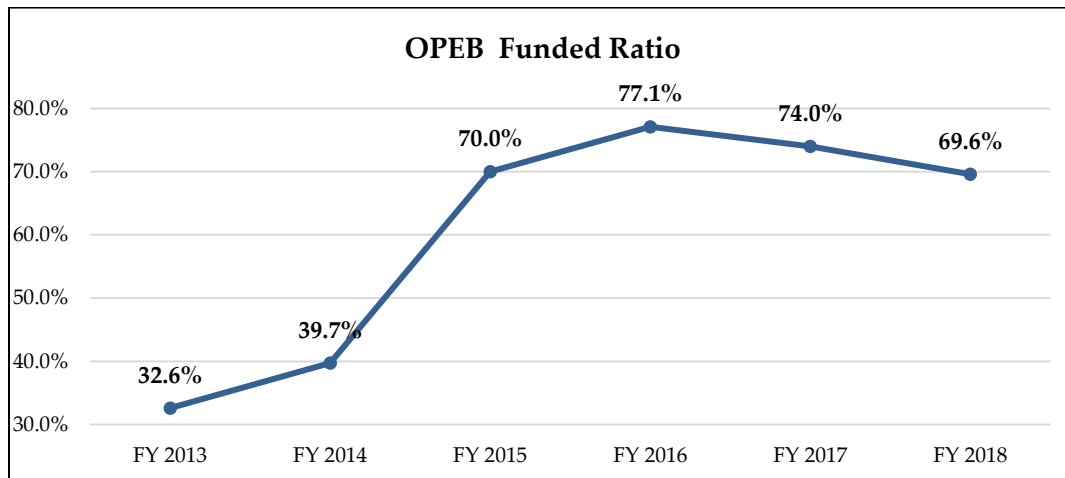
Fund 73030, OPEB Trust, was created to account for the cost of other post-employment benefits (OPEBs) including health care, life insurance, and other non-pension benefits offered to retirees, such as the County's retiree health benefit subsidy.

Beginning in FY 2008, the County's financial statements were required to implement Governmental Accounting Standards Board (GASB) statements related to the reporting of other post-employment benefits. These GASB standards require 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 actuarially determined contribution (ADC). The liability and ADC 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 fund the actuarially determined contribution each year.

The actuarial valuation as of July 1, 2018, calculated the County's actuarial accrued liability, excluding the Schools portion, at approximately \$443.3 million and the unfunded actuarial accrued liability as \$135.0 million, as shown below.

Valuation Results as of July 1, 2018	
(in thousands)	
Actuarial Accrued Liability (AAL)	\$443,269
Plan Assets	\$308,298
Unfunded Actuarial Accrued Liability	\$134,971

The July 1, 2018, AAL of \$443.3 million increased from the July 1, 2017, AAL of \$377.8 million primarily due to actual retiree claims experience. While the AAL fluctuates each year, the funded ratio of the County's OPEB liabilities has increased steadily since the inception of the OPEB Trust Fund. As shown in the chart below, the County's OPEB liabilities were 69.6 percent funded as of July 1, 2018.



Fund 73030 OPEB Trust

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 a corresponding increase in the OPEB funded ratio. 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 OPEB 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 standards 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 ADC each year to recognize actual expenses incurred related to the implicit subsidy.

The FY 2019 ADC has been calculated at \$23.9 million, and will be funded through a combination of a General Fund transfer, contributions from other funds, and the implicit subsidy contribution described above. FY 2019 funding includes a General Fund transfer of \$10.5 million and contributions from other funds of \$2.2 million. The implicit subsidy contribution is calculated by the County's actuaries after the close of the fiscal year and is projected to be similar to the FY 2018 amount of \$11.8 million. The FY 2020 Adopted Budget Plan maintains the General Fund transfer of \$10.5 million while contributions from other funds will increase to \$2.6 million.

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.

Fund 73030 OPEB Trust

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, approved in FY 2018, commences at age 55 and varies by length of service as detailed in the following table. 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 2019, the average number of subsidy recipients, including new retirees who are eligible to receive the retiree health benefit subsidy, is expected to increase by 177, or 4.3 percent, from 4,136 in FY 2018 to 4,313 in FY 2019. 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.

Fund 73030 OPEB Trust

Budget and Staff Resources

Category	FY 2018 Actual	FY 2019 Adopted	FY 2019 Revised	FY 2020 Advertised	FY 2020 Adopted
FUNDING					
Expenditures:					
Personnel Services	\$122,531	\$127,259	\$127,259	\$129,319	\$130,788
Operating Expenses	21,871,164	12,376,270	24,211,270	12,393,570	12,393,570
Total Expenditures	\$21,993,695	\$12,503,529	\$24,338,529	\$12,522,889	\$12,524,358
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					

The 1/1.0 FTE Accountant III position resides in the Retirement Administration Agency and is financed by Fund 73030, OPEB Trust.

FY 2020 Funding Adjustments

The following funding adjustments from the FY 2019 Adopted Budget Plan are necessary to support the FY 2020 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 7, 2019.

- ◆ **Employee Compensation** **\$3,529**
 An increase of \$3,529 in Personnel Services includes \$2,804 for a 2.10 percent market rate adjustment (MRA) for all employees and \$725 for performance-based and longevity increases for non-uniformed merit employees, both effective July 2019.
- ◆ **Administrative Expenses** **\$17,300**
 An increase of \$17,300 in Operating Expenses is primarily associated with anticipated increases in investment services and fees.
- ◆ **General Fund Transfer**
 The General Fund transfer to this fund is \$10,490,000, the same as the FY 2019 Adopted Budget Plan amount. It is anticipated that this transfer level, when combined with contributions from other funds and the implicit subsidy contribution, will fully fund the FY 2019 Actuarially Determined Contribution.

Fund 73030 OPEB Trust

Changes to FY 2019 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2019 Revised Budget Plan since passage of the FY 2019 Adopted Budget Plan. Included are all adjustments made as part of the FY 2018 Carryover Review, FY 2019 Third Quarter Review, and all other approved changes through April 30, 2019.

- ◆ **Third Quarter Adjustments** **\$11,835,000**

As part of the *FY 2019 Third Quarter Review*, the Board of Supervisors approved an increase of \$11,835,000 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 account for the value of the implicit subsidy to the fund, which is necessary to approximate the benefit to retirees for participation in the County's health insurance pools.

Fund 73030 OPEB Trust

FUND STATEMENT

Fund 73030, OPEB Trust

	FY 2018 Actual	FY 2019 Adopted Budget Plan	FY 2019 Revised Budget Plan	FY 2020 Advertised Budget Plan	FY 2020 Adopted Budget Plan
Beginning Balance	\$279,564,003	\$281,638,900	\$308,298,024	\$309,608,995	\$309,608,995
Revenue:					
CMS Medicare Part D Subsidy	\$458,128	\$1,000,000	\$1,000,000	\$500,000	\$500,000
Return on Investments	142,429	108,000	108,000	150,000	150,000
Implicit Subsidy	11,835,001	0	11,835,000	0	0
Other Funds Contributions	1,584,022	2,216,500	2,216,500	2,639,398	2,639,398
Total Realized Revenue	\$14,019,580	\$3,324,500	\$15,159,500	\$3,289,398	\$3,289,398
Unrealized Gain/(Loss) ¹	\$26,218,136	\$0	\$0	\$0	\$0
Total Revenue	\$40,237,716	\$3,324,500	\$15,159,500	\$3,289,398	\$3,289,398
Transfers In:					
General Fund (10001)	\$10,490,000	\$10,490,000	\$10,490,000	\$10,490,000	\$10,490,000
Total Transfers In	\$10,490,000	\$10,490,000	\$10,490,000	\$10,490,000	\$10,490,000
Total Available	\$330,291,719	\$295,453,400	\$333,947,524	\$323,388,393	\$323,388,393
Expenditures:					
Benefits Paid	\$9,835,000	\$12,023,168	\$12,023,168	\$12,023,168	\$12,023,168
Implicit Subsidy	11,835,001	0	11,835,000	0	0
Administrative Expenses	323,694	480,361	480,361	499,721	501,190
Total Expenditures	\$21,993,695	\$12,503,529	\$24,338,529	\$12,522,889	\$12,524,358
Total Disbursements	\$21,993,695	\$12,503,529	\$24,338,529	\$12,522,889	\$12,524,358
Reserved Ending Balance²	\$308,298,024	\$282,949,871	\$309,608,995	\$310,865,504	\$310,864,035

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, 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 \$310.9 million reserve in FY 2020 is applied toward the liability of \$443.3 million calculated as of July 1, 2018.