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, 2017, under GASB 45 calculated the County's actuarial accrued liability, excluding the Schools portion, at approximately $377.8 million and the unfunded actuarial accrued liability as $98.2 million, as shown below.

Valuation Results as of July 1, 2017 **(in thousands)**	
Actuarial Accrued Liability (AAL)	$377,782
Plan Assets	$279,606
Unfunded Actuarial Accrued Liability	$98,176
Annual Required Contribution (ARC)	$20,057

The July 1, 2017, AAL of $377.8 million increased from the July 1, 2016, AAL of $307.3 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 2018 funding includes a General Fund transfer of $10.5 million and contributions from other funds of $1.6 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 $7.7 million. The FY 2019 Advertised Budget Plan maintains the General Fund transfer of $10.5 million while contributions from other funds will increase to $2.2 million.

Primarily due to the County's commitment to fully fund the ARC in the baseline budget, the County had a net OPEB asset of $53.5 million at the end of FY 2017. Based on preliminary estimates of the implicit subsidy contribution, it is projected that current funding levels will fully fund the FY 2018 ARC. As shown in the table below, the net OPEB asset for FY 2018 is estimated to grow to $53.7 million.

Net OPEB Asset
(in thousands)

	FY 2017 Actual	**FY 2018 Estimate**
Annual Required Contribution (ARC)	$14,123	$20,057
Adjustments to ARC	*($451)*	*($456)*
Annual OPEB Cost (AOC)	$13,672	$19,601
Resources to Apply toward the ARC:		
Transfer from the General Fund	*$14,500*	*$10,490*
Contributions from Other Funds	*$1,505*	*$1,584*
Implicit Subsidy Contribution	*$11,165*	*$7,677*
Carryover of Prior Year Asset/(Obligation)	$40,018	$53,516
Net OPEB Asset/(Obligation)	$53,516	$53,666

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.

GASB 74 and 75

Revisions to GASB reporting requirements are in the process of being implemented, as changes to the financial reporting required under GASB 74 were implemented in the FY 2017 Comprehensive Annual Financial Report (CAFR), and additional changes required under GASB 75 will be implemented in the FY 2018 CAFR. One major change under the new GASB rules is that the focus will shift from the net OPEB asset to the overall funded status of the plan. Due to the County's commitment to funding OPEB, as well as the implementation of EGWP mentioned above, the overall OPEB funded status has consistently improved over the past decade from 13.7 percent at the end of FY 2008 to 74.0 percent at the end of FY 2017.

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.

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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 2017 Actual	FY 2018 Adopted	FY 2018 Revised	FY 2019 Advertised
FUNDING				
Expenditures:				
Personnel Services	$117,855	$122,531	$122,531	$127,259
Operating Expenses	20,499,509	10,946,594	10,946,594	12,376,270
Total Expenditures	$20,617,364	$11,069,125	$11,069,125	$12,503,529
AUTHORIZED POSITIONS/FULL-TIME EQUIVALENT (FTE)				
Regular	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 2019 Funding Adjustments

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

- **Employee Compensation** **$4,728**
  An increase of $4,728 in Personnel Services includes $2,871 for a 2.25 percent market rate adjustment (MRA) for all employees and $1,857 for performance-based and longevity increases for non-uniformed merit employees, both effective July 2018.

- **Benefit Payments** **$1,388,046**
  An increase of $1,388,046 in Operating Expenses is attributable to a projected increase in the number of retirees receiving the retiree health benefits subsidy.

- **Administrative Expenses** **$41,630**
  An increase of $41,630 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 $10,490,000, the same as the FY 2018 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 Annual Required Contribution.

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, and all other approved changes through December 31, 2017.

- There have been no adjustments to this fund since approval of the FY 2018 Adopted Budget Plan.

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FUND STATEMENT

Fund 73030, OPEB Trust

	FY 2017 Actual	FY 2018 Adopted Budget Plan	FY 2018 Revised Budget Plan	FY 2019 Advertised Budget Plan
Beginning Balance	$241,257,383	$247,984,849	$279,564,003	$281,638,900
Revenue:				
CMS Medicare Part D Subsidy	$822,268	$1,000,000	$1,000,000	$1,000,000
Investment Income	107,714	70,000	70,000	108,000
Implicit Subsidy[1]	11,165,000	0	0	0
Other Funds Contributions	1,504,836	1,584,022	1,584,022	2,216,500
Total Realized Revenue	$13,599,818	$2,654,022	$2,654,022	$3,324,500
Unrealized Gain/(Loss)[1, 2]	$30,824,166	$0	$0	$0
Total Revenue	$44,423,984	$2,654,022	$2,654,022	$3,324,500
Transfers In:				
General Fund (10001)	$14,500,000	$10,490,000	$10,490,000	$10,490,000
Total Transfers In	$14,500,000	$10,490,000	$10,490,000	$10,490,000
Total Available	$300,181,367	$261,128,871	$292,708,025	$295,453,400
Expenditures:				
Benefits Paid	$9,113,278	$10,635,122	$10,635,122	$12,023,168
Implicit Subsidy[1]	11,165,000	0	0	0
Administrative Expenses[1]	339,086	434,003	434,003	480,361
Total Expenditures	$20,617,364	$11,069,125	$11,069,125	$12,503,529
Total Disbursements	$20,617,364	$11,069,125	$11,069,125	$12,503,529
Reserved Ending Balance[3]	$279,564,003	$250,059,746	$281,638,900	$282,949,871

[1] In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of $1,828,908.13 have been reflected as an increase to FY 2017 revenue to accurately record the unrealized appreciation of investments as of June 2017. Audit adjustments in the amount of $203,807.15 have been reflected as an increase to FY 2017 expenditures to appropriately account for expenditure accruals and investment management fees as of June 2017. In addition, an audit adjustment in the amount of $11,165,000.00 has been reflected as an increase to both FY 2017 revenues and expenditures. This adjustment, which nets to $0, is required to accurately reflect the County's contribution and benefit payments for the implicit subsidy to retirees. These adjustments have been included in the FY 2017 Comprehensive Annual Financial Report (CAFR). Details of the FY 2017 audit adjustments, along with a request for a supplemental appropriation resolution to account for the increase in FY 2017 expenditures, will be included in the FY 2018 Third Quarter Package.

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

[3] 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 $282.9 million reserve in FY 2019 is applied toward the liability of $377.8 million calculated as of July 1, 2017.