Retirement System Review: Overview and Demographics

Board of Supervisors Personnel Committee Meeting

Philip Hagen, Senior Budget Analyst

June 13, 2017
Agenda

- County Retirement Systems
  - Plan Design
  - Funding Status
  - January 2013 Changes

- Employee/Retiree Demographics
  - ERS Plan Selection
  - Age Distribution
  - Turnover
  - Retirement Eligibility
  - Final Average Salary
  - Pre-Social Security Supplement
  - Deferred Retirement Option Program (DROP)
  - Mortality

- Discussion
Current Plans

Design and Funding Status
Retirement System Membership

- Employees’ Retirement System (ERS)
  - County employees not covered under PORS or URS
  - Schools employees not covered under VRS

- Uniformed Retirement System (URS)
  - Uniformed Fire and Rescue personnel
  - Uniformed Sheriff’s Office personnel
  - Non-administrative Public Safety Communications staff
  - Helicopter pilots
  - Animal control officers

- Police Officers Retirement System (PORS)
  - Uniformed police officers

Membership by System

Membership as of 6/30/2016. Does not include surviving beneficiaries or deferred vested benefits. DROP enrollees are included in the retiree count.
## Benefit Features of Retirement Plans

### Plans currently in effect for new hires

<table>
<thead>
<tr>
<th></th>
<th>Employees’ Retirement System</th>
<th>Uniformed Retirement System</th>
<th>Police Officers Retirement System</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee Contribution</strong></td>
<td>4.00% (Plan C)(^1)</td>
<td>7.08%</td>
<td>8.65%</td>
</tr>
<tr>
<td></td>
<td>5.33% (Plan D)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Normal Retirement Eligibility</strong></td>
<td>Rule of 85 (Age plus Service) or Age 65 with 5 Years of Service</td>
<td>25 Years of Service or Age 55 with 6 Years of Service</td>
<td>25 Years of Service or Age 55</td>
</tr>
<tr>
<td><strong>Benefit Multiplier</strong></td>
<td>1.8% (Plan C)(^1)</td>
<td>2.5%</td>
<td>2.8%</td>
</tr>
<tr>
<td></td>
<td>2.0% (Plan D)</td>
<td></td>
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</tr>
<tr>
<td><strong>Pre-Social Security Supplement Multiplier</strong></td>
<td>1.0%</td>
<td>0.3%</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Minimum Retirement Age</strong></td>
<td>55</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Salary Averaging Period</strong></td>
<td>3 Years</td>
<td>3 Years</td>
<td>3 Years</td>
</tr>
</tbody>
</table>

\(^1\) For ERS Plan C, employees contribute 5.33% of any salary in excess of the Social Security Wage Base, and the benefit multiplier is 2% for the portion of Final Average Salary that exceeds the Social Security Breakpoint.
Average Salary by System

Average Salary
As of June 30, 2016

ERS (County) - $60,528
ERS (Schools) - $30,949
URS - $83,242
PORS - $79,684
Contribution Rates

FY 2018 Employee and Employer Contribution Rates

- **Employee Contribution**
  - Uniformed Police Officers
    - Normal Cost: 8.74%
    - Amortization: 16.30%
    - Expense: 0.25%

- **Uniformed**
  - Normal Cost: 20.19%
  - Amortization: 18.39%
  - Expense: 0.25%

- **Police Officers**
  - Normal Cost: 22.38%
  - Amortization: 16.30%
  - Expense: 0.30%

- **Employer Contribution**
  - Uniformed Police Officers
    - Normal Cost: 5.33%


June 13, 2017
Retirement System Review
Employees’ System History and Projections

Funding Ratios and Contribution Rates

FY 2000 through FY 2034

Fiscal Year

<table>
<thead>
<tr>
<th>Year</th>
<th>EE Contribution</th>
<th>ER Contribution</th>
<th>Funding Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>6% 5% (\uparrow)</td>
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June 13, 2017

Retirement System Review
Uniformed System History and Projections

Funding Ratios and Contribution Rates

FY 2000 through FY 2034

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Retirement System Review
Police Officers System History and Projections

Funding Ratios and Contribution Rates

FY 2000 through FY 2034

Fiscal Year

EE Contribution

ER Contribution

Funding Ratio

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Retirement System Review
**History of Investment Returns Since 1981**

Return Net of Fees

- **FY 1981 – 1989 Average Return**: 13.5% 13.1% 13.8%
- **FY 1990 – 1999 Average Return**: 12.6% 11.6% 12.8%
- **FY 2000 – 2009 Average Return**: 3.1% 2.8% 2.6%
- **FY 2010 – 2016 Average Return**: 11.0% 9.1% 10.4%

Since 1981, the average returns have been 9.8%, 8.9%, and 9.7% respectively.
January 2013 Changes
## Summary of January 2013 Changes

<table>
<thead>
<tr>
<th>Minimum Retirement Age for Normal Service Retirement</th>
<th>Increased from age 50 to age 55</th>
<th>No change</th>
<th>No change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Service Retirement Eligibility</td>
<td>Increased from Rule of 80 (Years plus Service) to Rule of 85 (Years plus Service)</td>
<td>No change</td>
<td>No change</td>
</tr>
<tr>
<td>Pre-Social Security Supplement and DROP</td>
<td>Removed Pre-Social Security supplement from balances accumulated during the DROP Period</td>
<td>Not applicable</td>
<td></td>
</tr>
<tr>
<td>Use of Sick Leave</td>
<td>Placed a cap on the use of sick leave for purposes of determining retirement eligibility and benefits at 2,080 hours</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Current/Future Employees
Transition from Pre-2013 to Post-2013 Systems

Employees’ System

 Retirement System Review

June 13, 2017
Demographics
Employees’ System: Plan Selection
Employees’ System: Plan Selection

- When hired, members of the Employees’ System must choose between Plan C and Plan D

<table>
<thead>
<tr>
<th></th>
<th>Plan C¹</th>
<th>Plan D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Contribution</td>
<td>4.00%</td>
<td>5.33%</td>
</tr>
<tr>
<td>Benefit Multiplier</td>
<td>1.8%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

- Actuarial Analysis indicates that, while Plan D provides a greater benefit to retirees, it has a slightly lower employer normal cost

<table>
<thead>
<tr>
<th></th>
<th>Plan C¹</th>
<th>Plan D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Normal Cost</td>
<td>12.34%</td>
<td>13.33%</td>
</tr>
<tr>
<td>Less Employee Contribution</td>
<td>(4.00%)</td>
<td>(5.33%)</td>
</tr>
<tr>
<td>Net Employer Normal Cost</td>
<td>8.34%</td>
<td>8.00%</td>
</tr>
</tbody>
</table>

¹ For ERS Plan C, employees contribute 5.33% of any salary in excess of the Social Security Wage Base, and the benefit multiplier is 2% for the portion of Final Average Salary that exceeds the Social Security Breakpoint.
The majority of employees have consistently opted into the plan with a greater benefit.

Plan C: 30%
Plan D: 70%
Employees’ System: Plan Selection by Grade
Recent Hires – Plans C/D
Age Distribution
Current Employees

Age Distribution

Average Age:
- PORS: 39.0
- URS: 40.9
- ERS: 47.1
Recent Hires

Age Distribution

Average Age:
- PORS: 26.7
- URS: 29.0
- ERS: 37.9
Current Retirees (Normal Retirement)¹

Age Distribution

![Graph showing age distribution of retirees]

**Average Age:**
- URS: 63.0
- PORS: 63.4
- ERS: 69.6

¹ Includes all retirees currently receiving an annuity based on a normal (unreduced) retirement. Does not include early retirements, disability retirements, deferred vested benefits, or survivor benefits.
Turnover
Turnover

- Average of approximately 500 merit employee resignations per year (not including retirement, disciplinary action, disability or death)
- Approximately 50% of resignations in each system were employees with less than 3 years of service
- Average years of service at resignation:
  - ERS – 4.2
  - URS – 3.9
  - PORS – 5.0
Turnover

Age at Time of Resignation

Average Age:
- PORS 32.6
- URS 33.3
- ERS 38.5
Turnover
Age at Time of Resignation for Employees with Less than 5 Years of Service
Retirement Eligibility
# Retirement Eligibility

## Overview

<table>
<thead>
<tr>
<th></th>
<th>Employees’ Retirement System Plans A/B (hired before 2013)</th>
<th>Employees’ Retirement System Plans C/D (hired after 2013)</th>
<th>Uniformed Retirement System</th>
<th>Police Officers Retirement System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Retirement Eligibility</td>
<td>Rule of 80 or Age 65 with 5 Years of Service</td>
<td>Rule of 85 or Age 65 with 5 Years of Service</td>
<td>25 Years of Service or Age 55 with 6 Years of Service</td>
<td>25 Years of Service or Age 55</td>
</tr>
<tr>
<td>Minimum Retirement Age</td>
<td>50</td>
<td>55</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Minimum Retirement Age

- **50** for Employees’ Retirement System Plans A/B (hired before 2013)
- **55** for Employees’ Retirement System Plans C/D (hired after 2013)
- **NA** for Uniformed Retirement System
- **NA** for Police Officers Retirement System

*Retirement Eligibility Rule of 80 or Age 65 with 5 Years of Service
Rule of 85 or Age 65 with 5 Years of Service
25 Years of Service or Age 55 with 6 Years of Service

Minimum Retirement Age

- **50** for Employees’ Retirement System Plans A/B (hired before 2013)
- **55** for Employees’ Retirement System Plans C/D (hired after 2013)
- **NA** for Uniformed Retirement System
- **NA** for Police Officers Retirement System*
Current Employees
Age of Eligibility for Normal Retirement

50% of current employees will be eligible to retire by age:
- PORS: 49.7
- URS: 51.5
- ERS A/B: 56.9
- ERS C/D: 59.7
Recent Retirees

Age at Retirement

Median retirement age of recent retirees:
- PORS: 50.1
- URS: 52.3
- ERS: 60.1

June 13, 2017
Recent Retirees

Years of Benefit Service at Retirement
Final Average Salary
Final Average Salary

Overview

- **Final Average Salary (FAS)** is the average creditable compensation for the 36 consecutive months when the employee earned the highest average compensation.

- **FAS** is generally lower than the employee’s final salary due to compensation increases (such as promotions, MRAs, and performance, merit, and longevity increases) during the final 3 years of employment.

- **FAS** can be equal to or higher than the employee’s final salary due to:
  - Use of sick leave (limited to 2,080 hours for employees hired after 1/1/2013) in the FAS calculation.
  - Shift pay, holidays worked and emergencies worked during the final 3 years.
  - Demotions or other actions that reduce pay prior to retirement.
Recent Retirees
Final Average Salary as a Percentage of Final Salary

Median ratio:
- URS: 102.4%
- PORS: 100.3%
- ERS: 97.4%
Recent Retirees
Final Average Salary as a Percentage of Final Base Salary

Percent of recent retirees with FAS greater than final base salary:
- URS: 74%
- PORS: 58%
- ERS: 7%
Pre-Social Security Supplement
Pre-Social Security Supplement

Overview

- Increases benefit multiplier between retirement and normal Social Security retirement age
  - Employees’ System – Benefit multiplier increased by 1.0%
  - Uniformed System – Benefit multiplier increased by 0.3%

- Does not apply to:
  - Police Officers System (Fairfax police officers do not participate in SS)
  - Early (reduced) retirement
  - Disability retirement
  - Deferred vested benefit
  - DROP account balances (for employees hired after 1/1/2013)
Retirement Benefit Example
Employees’ Retirement System

Projected Retirement Benefit Based on Average New Hire

Initial Income Replacement Ratios (as % of Final Average Salary)

Base Retirement Benefit – 53%
Pre-SS Supplement – 27%
TOTAL – 80%

Based on average FY 2016 S-Scale new hire as of March 2016. Assumes new hire in 2016 at age 37, hired at 24% of grade S-21 with no promotions prior to retiring at age 64 in 2043 with 26 years of service. Does not include pension-eligible stipends or extra pay. Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year. Assumes employee works two years after reaching eligibility for full retirement and retiree health benefits. Estimates Social Security benefit at 30% of Final Average Salary. Assumes 1.5% annual County COLA and 1.00% annual COLA for Social Security.
Retirement Benefit Example
Uniformed Retirement System

Projected Retirement Benefit Based on Average New Hire

Initial Income Replacement Ratios (as % of Final Average Salary)
- Base Retirement Benefit – 75%
- Pre-SS Supplement – 9%
- TOTAL – 84%

Annual Salary/Benefit

Based on average FY 2016 F-Scale new hire as of March 2016. Assumes new hire at age 28, hired at step 1 of grade F-18 with no promotions prior to retiring at age 58 in 2046 with 29 years of service. Does not include pension-eligible stipends or extra pay. Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year. Assumes employee works two years after reaching eligibility for full retirement and retiree health benefits. Estimates Social Security benefit at 30% of Final Average Salary. Assumes 1.5% annual County COLA and 1.00% annual COLA for Social Security.
50% of current employees will be eligible to receive a pre-Social Security supplement for at least:

- URS: 17.0 yrs
- ERS A/B: 9.5 yrs
- ERS C/D: 7.1 yrs
Recent Retirees

Length of Pre-Social Security Supplement

Median length of pre-Social Security supplement for recent retirees:

- URS: 13.5 yrs
- ERS: 5.7 yrs
Deferred Retirement Option Program (DROP)
Deferred Retirement Option Program (DROP)

Overview

  - Initially implemented with sunset provisions. Provisions were removed in October 2010, although the Board reserves the right to alter the program at any time.
- Employees are eligible to enter DROP when eligible for normal service retirement
- DROP period cannot exceed 3 years

During DROP period:

- Employees and the County do not make retirement contributions
- Account balance is credited with 5% interest annually
- Members continue to receive all other active employee benefits
- Members do not earn additional service credits towards retirement
- Members hired after 1/1/2013 do not receive pre-Social Security supplement during DROP period

<table>
<thead>
<tr>
<th>DROP Participants (June 30, 2016)</th>
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</thead>
<tbody>
<tr>
<td>Employees' (County only)</td>
</tr>
<tr>
<td>Uniformed</td>
</tr>
<tr>
<td>Police Officers</td>
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<tr>
<td>Total</td>
</tr>
</tbody>
</table>
Recent Retirees

DROP Entry Age

Average age at DROP entry:
- PORS 51.0
- URS 53.1
- ERS 59.0
Recent Retirees

DROP Period

Length of DROP Period for Exits since January 2014

Average DROP Period:
- PORS: 2.3 yrs
- ERS: 2.5 yrs
- URS: 2.7 yrs

June 13, 2017
Retirement System Review
Recent Retirees

DROP Balances

Distribution of Final DROP Balances for Recent Retirees

June 13, 2017
Recent Retirees

DROP Balances

Distribution of Final DROP Balances for Recent Retirees with 2.5-3 Year DROP Term

ERS  URS  PORS

June 13, 2017
Recent Retirees

DROP Balances

Average DROP Balances by Source for Recent Retirees

- **Employees'**
  - Base Benefit: $92,128
  - Pre-SS Supplement: $40,292
  - Interest: $8,912

- **Police Officers**
  - Base Benefit: $163,393
  - Interest: $10,174

- **Uniformed Plans C/D/E**
  - Base Benefit: $195,821
  - Pre-SS Supplement: $24,532
  - Interest: $15,059

**Note:** Pre-SS Supplement does not accrue to DROP balances for employees hired after 1/1/2013.
History of Investment Returns
Since Inception of DROP

Net Return versus 5% DROP Rate

ERS*
URS
PORS
DROP Rate

*DROP implemented for ERS in FY 2006
Mortality
Recently Deceased Retirees

Age at Death

Median age at death of recently deceased retirees:
- PORS: 74.6
- URS: 75.4
- ERS: 81.1
Recently Deceased Retirees

Years of Retirement Benefit Payments Prior to Death

Median years of benefit payments to recently deceased retirees:

- PORS: 28.9 yrs
- URS: 21.8 yrs
- ERS: 17.9 yrs
Discussion

- Areas for further staff research for the October 3rd Board of Supervisors Personnel Committee meeting
  - Additional data
  - Comparisons to other jurisdictions
  - Analysis of impacts of any proposed changes