



November 22, 2022

## Dear Members of the Uniformed Retirement System

I am writing to you to give you an update on the investments and funded status of your Uniformed Retirement System.

### The Financial Markets Have Been Turbulent

The financial markets have been very volatile over the past 18 months. The combination of high inflation, which we have not experienced since the 1970s, increasing interest rates, and the war in Ukraine are driving the increased volatility in the financial markets. Almost all asset classes were down at the end of the fiscal year ending June 30, 2022, except for commodities. Since June the markets have been very choppy. Even with the large swings in the financial markets the US stock market is up 2.8% since June 30th and some of the bond markets are also up over 2% as of the end of October. The markets will continue to be very volatile until inflation declines and interest rates stabilize.

Also contributing to market uncertainty are record government spending and an active Federal Reserve interest rate policy. In total, the Treasury Department was responsible for providing over \$1 trillion in American Rescue Plan programs and tax credits. After lowering interest rates to nearly zero at the beginning of the pandemic, the Federal Reserve has aggressively moved rates during the last eight months to over 4%. It's worth noting that it took the Federal Reserve two years to move rates to 2% following the Great Recession.

Fortunately, the Uniformed Retirement System's (URS) investments are very diversified across a range of asset classes and, thus, should weather the storm well. Furthermore, because the URS's liabilities; namely retirement benefits earned by current and future retirees and beneficiaries, will be coming due over the next 50+ years, our investment horizon is very long. This means that we can focus on long-term investment strategies and not be too worried about short-term market downturns.

## The Uniformed Portfolio Has Been Up and Down

A little over a year ago, at the end of fiscal year 2021 in June 2021, we were celebrating the URS portfolio's performance over the past year. The value of investments increased by over 25 percent net of fees in one year, the highest return we had seen since the 1980s.

Unfortunately, fiscal year 2022 was not so good. For the year ended June 30, 2022, the URS portfolio was down by 9 percent. The Uniformed System's portfolio performed better than 70% of its peers. While this decline was not as great as that experienced by the overall financial markets, it was still a very challenging year.

It is still too early to gauge how well the URS portfolio will perform in fiscal year 2023, but early numbers for the first 3 months of the year look promising.

## However, the Uniformed System is Still Well-Funded

The URS is, as of June 30, 2022, 72% **Pre-Funded**. This means that we have assets on hand to cover 72 percent of the total benefits we will need to pay to all current and future retirees and beneficiaries. I use the term Pre-Funded because, unlike the social security system that pays benefits from contributions received each year, the URS and most public pension plans have assets in the bank to fund the majority of their current and future obligations.

For the latest period that comparable data is available, Fiscal year 2021, the average public plan was 85 percent pre-funded while, at the time, the URS was 90% funded. When comparable data is available for fiscal year 2022, it is likely that the average public plan's funded status will be down due to the same market forces that impacted the URS portfolio in fiscal year 2022.

Furthermore, the actuarial assumptions that determine URS's funding and funded status are conservative, when compared to other public pension plans. Our URS system amortizes, or pays off, its unfunded liabilities over 15 years, while the average public pension plan amortizes theirs over a longer 21-year period. Also, the average public pension plan assumed, on average, annual investment returns of 7.05 percent, while the URS assumes only a 6.75 percent return on investments.

In spite of the turbulence in the markets, URS is expected to achieve full pre-funding by the mid-2030s. Many public pension plans do not predict that they will achieve full funding until after the 2050s.

## The County Continues to Support Its Retirement Systems

The County has always contributed what has been recommended by the actuaries, even in the early 2000s when the URS was over 100 percent pre-funded. It would have been easy, as some state and local governments did at the time, to not contribute anything when times were good. County Leadership and the Board of Supervisors have never wavered in their commitment to fund the URS and the County's other two retirement systems.

Furthermore, in recent years the County could have reduced their contributions to URS in years when investment returns were high but have instead maintained their commitment to not reducing its contributions to the County's retirement system until such time as they are fully pre-funded.

### **The Uniformed System is in Good Hands**

Your URS retirement is in good hands. The URS Chief Investment Officer, Brian Morales, has over 30 years of experience managing investments for large pension funds and private foundations. He works very closely with the URS Board's investment consultant, NEPC, to ensure that URS's investments are based on solid portfolio management practices and well diversified to reduce long term risks.

Furthermore, you are served by a very capable and conscientious Board of Trustees that includes representatives from the ranks of active and retired URS members. We are blessed to have them as our leaders.

If you have questions or need more information about your retirement, please do not hesitate to call or email me. Wishing you and yours the best for the holiday season.



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