

Fairfax County's Pension Conundrum

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FAIRFAX COUNTY BOARD OF SUPERVISORS

Agenda

- ▶ The Pension Conundrum
- ▶ Current Pension Offerings
- ▶ History of Pension Reform
- ▶ Impact to the Business Community
- ▶ What Do We Do Now?
- ▶ Questions and Answers

The Pension Conundrum

AN OUTDATED AND FISCALLY UNSUSTAINABLE COMPENSATION MODEL
THAT NO LONGER MEETS THE COUNTY'S NEEDS.

Outdated Compensation Model

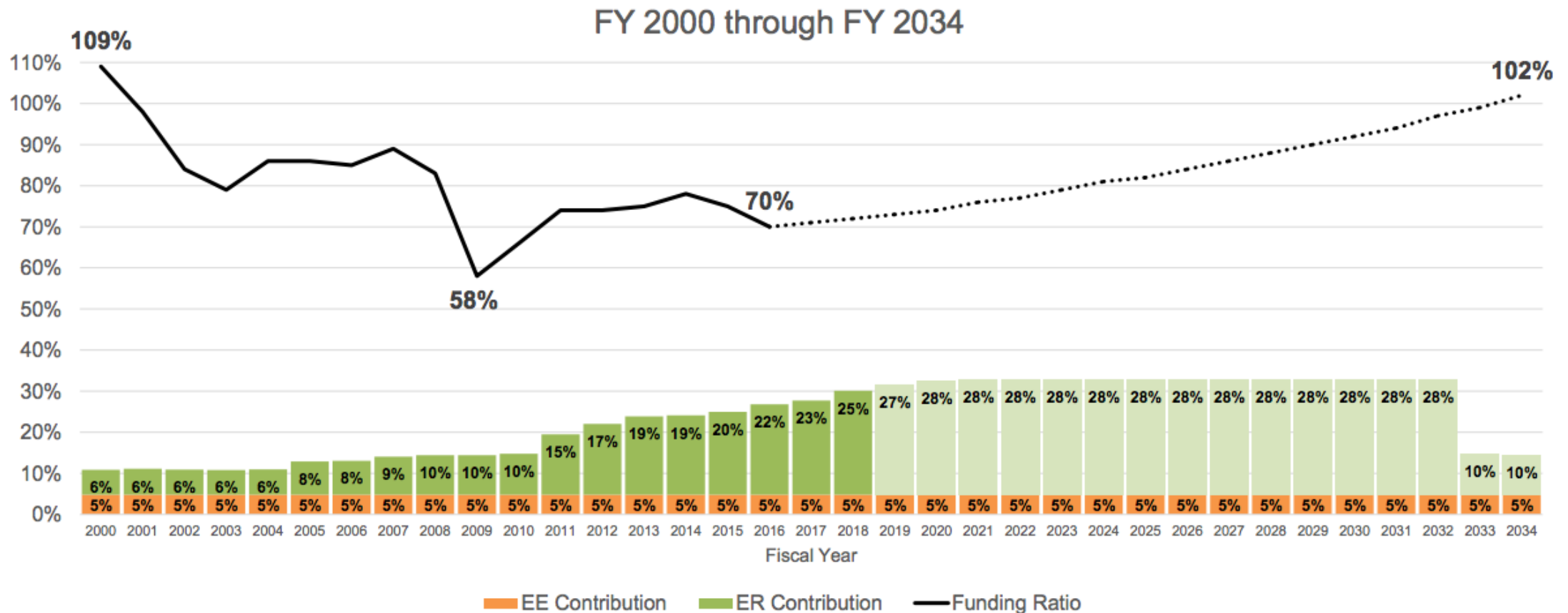
- ▶ Today's workforce is mobile and rarely spends a career with the same organization.
- ▶ Today's employees, the beneficiaries of the future, are living longer and capable of working longer.
- ▶ Compensation systems should be designed to recruit, retain, and reward employees – the current compensation model does not meet these needs.
- ▶ General Funds going into pensions, not salaries and bonuses.
- ▶ Summary: The pension programs have hamstrung our ability to recruit, retain, and reward the best and brightest workers of today.

The Fiscal Liability is Unsustainable

- ▶ Currently using a 7% Assumed Return Rate
- ▶ County vs Employee Contribution:
 - ▶ FY2004: County 6% to EE 5%
 - ▶ FY2018: County 26% to EE 5%
- ▶ In 2025, the number of retirees in the plan will exceed the number of active employees.
- ▶ Total Cost of the Unfunded Liability: \$2.48 billion (at assumed rates of return)
 - ▶ General Employees: 30% Unfunded
 - ▶ Police Officers: 19% Unfunded
 - ▶ Uniformed Employees: 23% Unfunded
- ▶ Any Changes Need to Account for the Unfunded Liability

General Employees Pension Ratios

Funding Ratios and Contribution Rates



Source: <http://www.fairfaxcounty.gov/bosclerk/board-committees/meetings/2017/retirement-system-review-demographics.pdf>

The Next Wave

- ▶ The first wave was the GASB change to require computing and recording the unfunded liability for pension costs.
- ▶ With the next wave of GASB changes governments will need to begin reporting Other Post Employment Benefits (OPEBS) as liabilities.
- ▶ Additionally, governments will be required to include a “sensitivity report” showing impact to balance sheets if returns are $\pm 1\%$ of target.
- ▶ As of July 1, 2016, Fairfax County carries a \$70.4 million unfunded OPEB accrued liability.
- ▶ Fairfax County is currently in better shape than many jurisdictions.

Current Pension Offerings

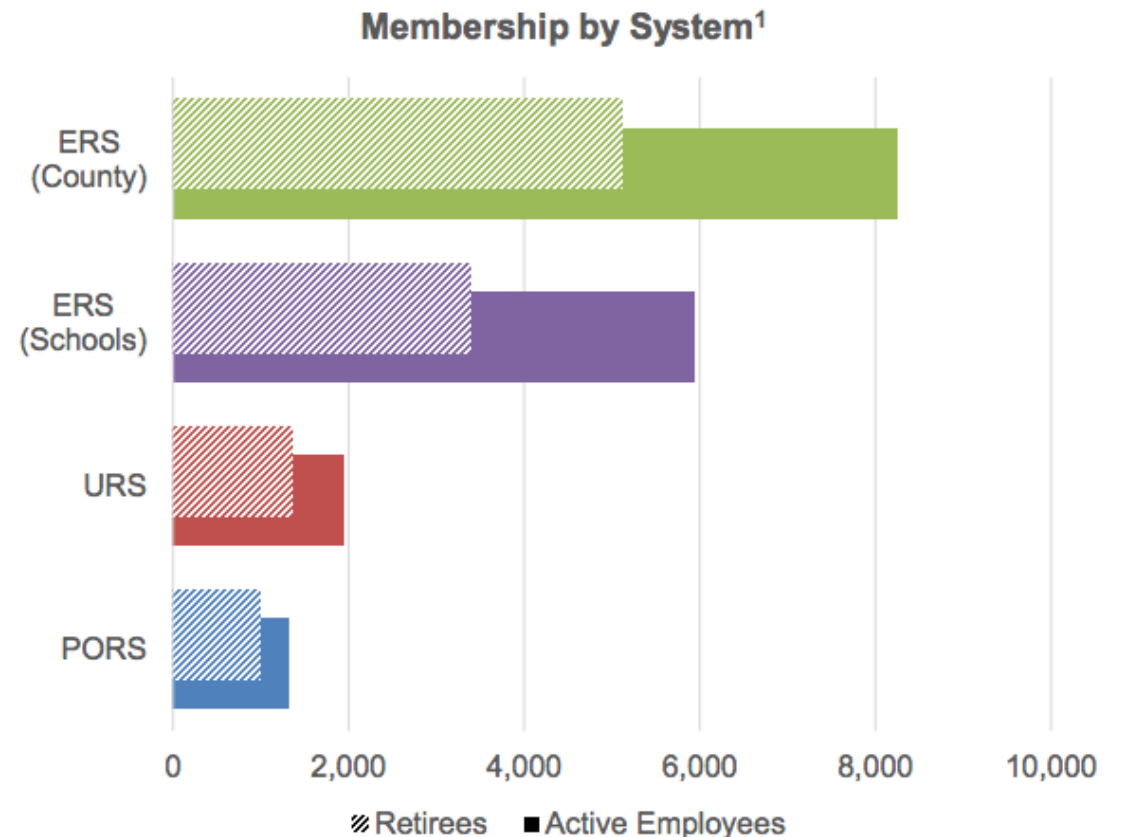
PER AON HEWITT REPORT – MORE GENEROUS THAN
SURROUNDING/PEER JURISDICTIONS

Current Pension Offerings

- ▶ Three Systems: General Employees, Police Officers, Uniformed Employees
- ▶ Pre-Social Security Supplement (except police)
- ▶ Deferred Retirement Option Program (DROP)
- ▶ Fringe Rates: *Excludes accrued paid time off, holiday pay, sick leave, etc.
 - ▶ General Employees: 56% (22%-Pensions) *
 - ▶ Police Officers: 66% (38%-Pensions) *
 - ▶ Uniformed Employees: 73% (39%-Pensions) *
 - ▶ Private Sector: 25-35%

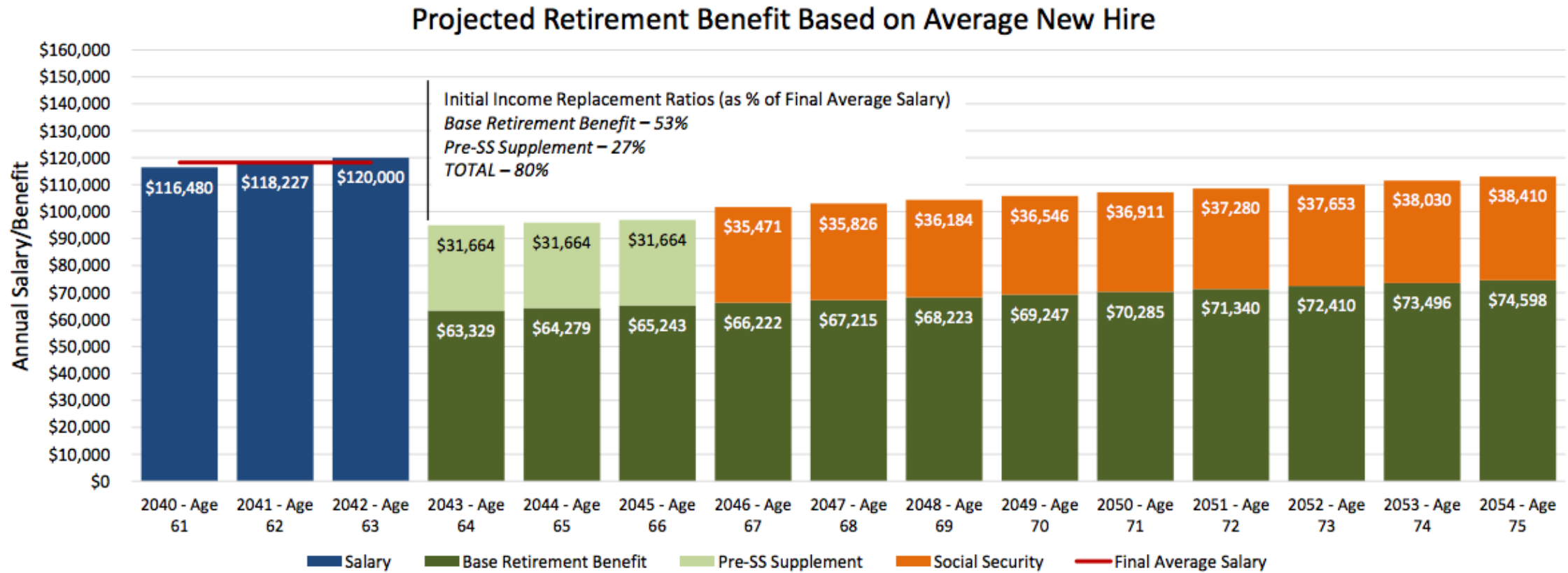
Current Enrollment

- **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



¹ Membership as of 6/30/2016. Does not include surviving beneficiaries or deferred vested benefits. DROP enrollees are included in the retiree count.

Pre Social Security Supplement



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.

Pre-Social Security Supplement

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.

- Key Assumption in Previous Slide: Hired at Age 37
 - 3 years of calculated benefit for the “average”
- Reality: Retiring at 60 (not 64) and collecting PSS for 5.7 years (not 3).
- Only jurisdiction in Virginia to offer this benefit
- Does not accomplish the goal of recruiting, retaining, and rewarding employees.

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

URS	13.5 yrs
ERS	5.7 yrs

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

Median retirement age of recent retirees:

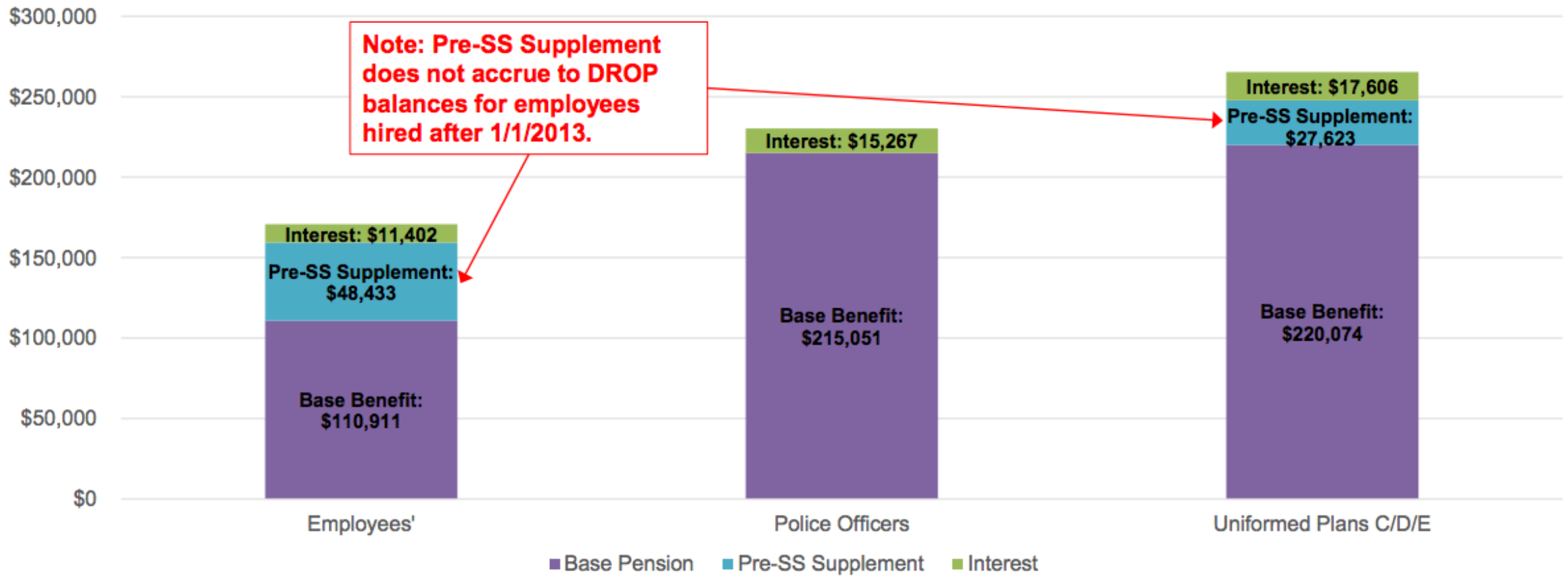
PORS	50.1
URS	52.3
ERS	60.1

Deferred Retirement Option Program (DROP)

- ▶ Originally a management tool for planning purposes with varying degrees of success.
- ▶ Provides guaranteed 5% return in the last 3 years of service based on retirement account balance.
- ▶ All contributions to retirement account ceases in the DROP period.

Deferred Retirement Option Program (cont.)

Average DROP Balances by Source for Recent Retirees with 2.5-3 Year DROP Term



History of Reforms

NIBBLING AROUND THE EDGES

Efforts for Change

- ▶ Early 2009: My board action initiated a review of the County's pension systems.
- ▶ Late 2010: Aon Hewitt is hired and begins work.
- ▶ Early 2012: Aon Hewitt releases study:
 - ▶ "The County Employees' Retirement System benefit plans are very strong, being more generous than those of your competitor group. This is primarily driven by the defined benefit plan where benefits exceed those of most competitors."
 - ▶ "The County Employees' Retirement System benefits exceed the minimum retirement income needed to support the employee's current lifestyle in retirement."
 - ▶ "It is also interesting that the plan contains two particular unusual or more generous features (compared with the other plans) that are essentially in tension [pre-social security and DROP]."

Efforts for Change (cont.)

- ▶ Early 2013: Board makes small modifications (detailed on next slide)
- ▶ Early 2015: I proposed budget language to initiate more reforms, but request withdrawn as review promised during the summer of 2015
- ▶ 2016: Meals Tax Debates/Meals Tax Referendum fails in Nov.
- ▶ Late 2016: Review of retirement systems presented to Board.
- ▶ May 2017: School Board proposes making changes to ERFC.
- ▶ June 2017: Board presented more details on retirement systems.
- ▶ September 19, 2017: Next Personnel Committee meeting and pension discussion

January 2013 Changes

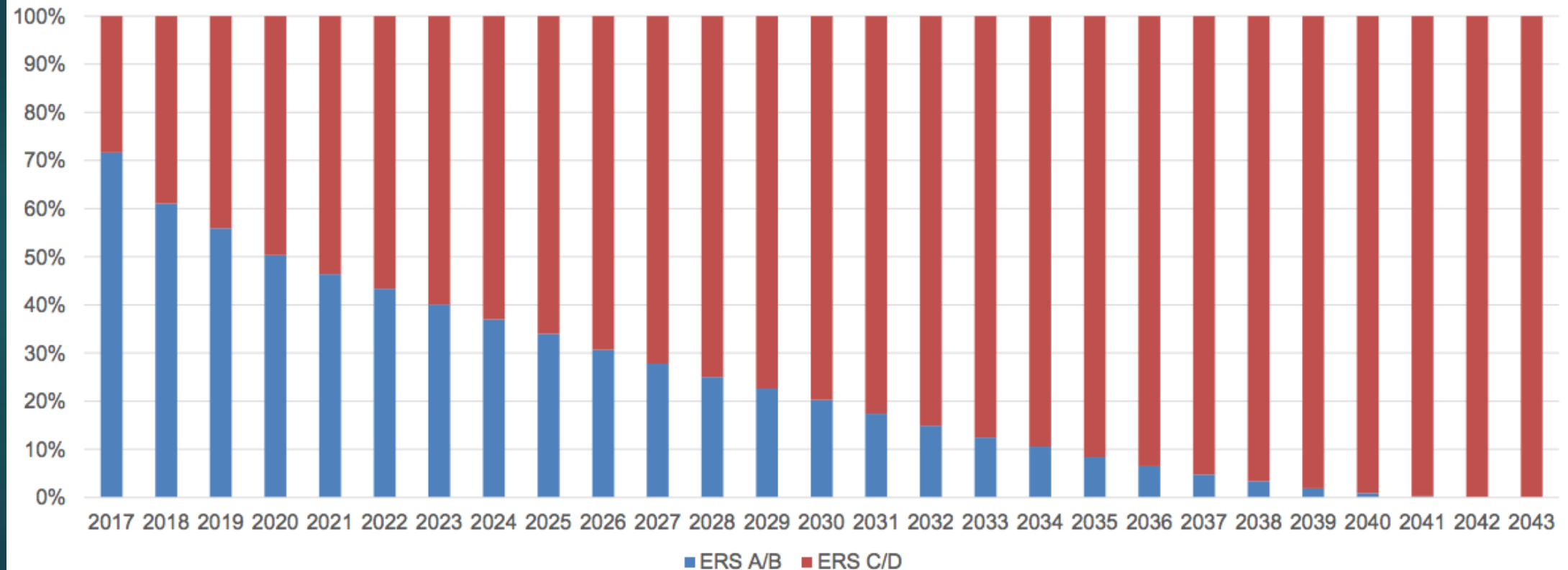
	Employees' Retirement System	Uniformed Retirement System	Police Officers Retirement System
Minimum Retirement Age for Normal Service Retirement	Increased from age 50 to age 55	No change	No change
Normal Service Retirement Eligibility	Increased from Rule of 80 (Years plus Service) to Rule of 85 (Years plus Service)	No change	No change
Pre-Social Security Supplement and DROP	Removed Pre-Social Security supplement from balances accumulated during the DROP Period		Not applicable
Use of Sick Leave	Placed a cap on the use of sick leave for purposes of determining retirement eligibility and benefits at 2,080 hours		

*Projected to save \$11.5 million per year upon full implementation.

January 2013 Changes (cont.)

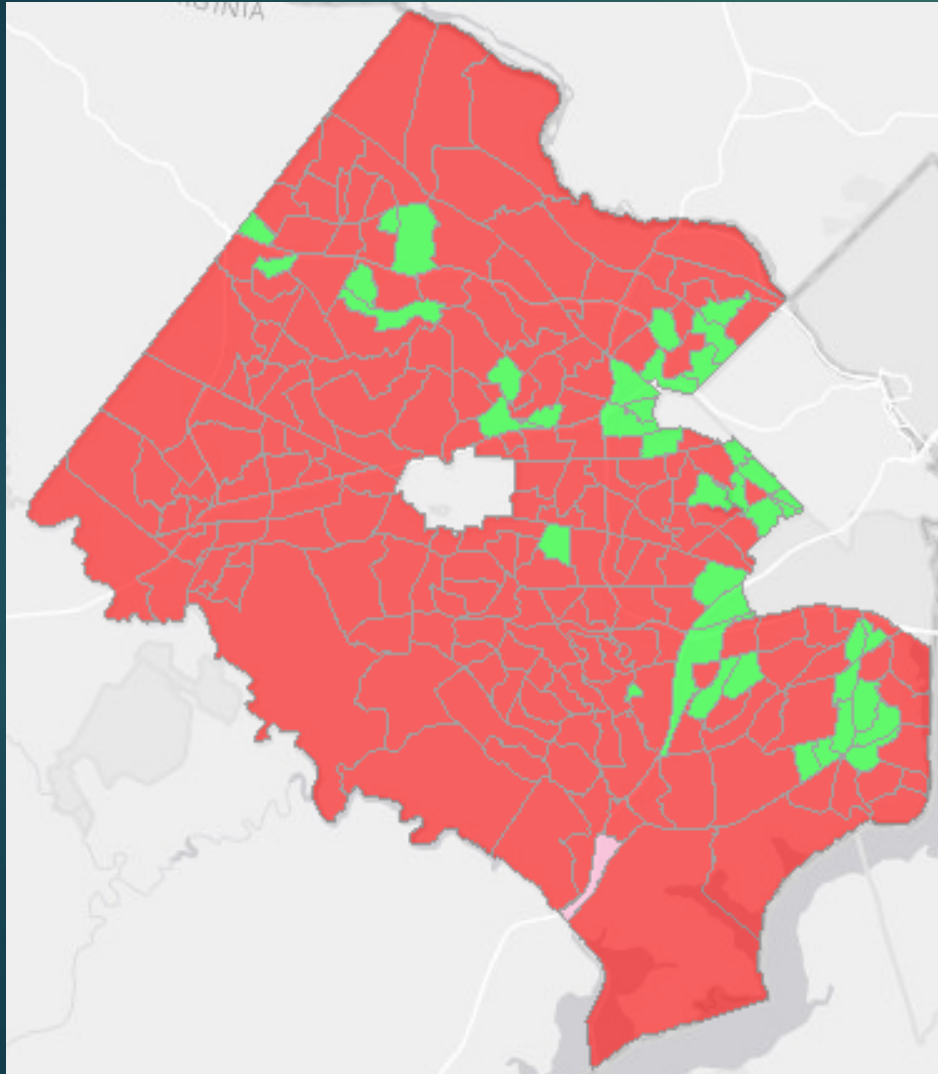
Transition from Pre-2013 to Post-2013 Systems

Employees' System



2016 Meals Tax Referendum

20



- ▶ 563,729 Votes Cast (82.5% turnout)
- ▶ Rejected 54% to 46%
- ▶ 0 of the 9 Districts Approved the Tax
- ▶ 198 of the 244 Precincts Rejected the Tax
- ▶ Nearly 1 in 5 Clinton/Kaine Voters Voted "No".
- ▶ Transportation Bond Passed 65% to 35%
- ▶ Pensions Resolutions from Civic Associations

*Red precincts rejected the tax.

2017 Proposed Changes to FCPS ERFC

21

- ▶ Raising Retirement Age to 55.
- ▶ Final Average Salary from 3 to 5 years.
- ▶ Changing COLA to 100% of CPI with a 4% cap.
- ▶ Projected FY18 Savings: \$4.7m
- ▶ School Board did not approve the changes.

Impact to the Business Community

WHERE SHOULD YOUR TAX DOLLARS GO?

The Real Impact of Pension Costs

23

- ▶ Real estate taxes increased 24% in the last 4 years.
- ▶ Competes with our ability to provide high quality services to our residents as more of our tax dollars are going to pension cost
- ▶ Impacts our ability to attract and retain the best and brightest as too much of our compensation dollars go to pension cost
- ▶ Eventual possible impact on Triple-A Bond Rating

What Do We Do Now?

A PLAN FOR THE FUTURE

Changes that Need to Happen

25

- ▶ Phase out the DROP Program
- ▶ Eliminate the Pre-Social Security Supplement (for new employees)
- ▶ Offer Buyouts for Current Employees and Retirees
 - ▶ Separate Pay Scale
- ▶ Increase the Employee Contribution Level
- ▶ Offer a Defined Contribution Plan for New Employees
- ▶ Address Pension Plan Administration
- ▶ Clarify State Law on Retirement Requirement for Localities

State Law Issues

- ▶ Code requires that a retiree aged 65+ be given a benefit equal to at least 2/3 of the benefit that would be received if the retiree were in VRS.
- ▶ It is not clear how the VRS hybrid plan (VRS offers a Defined Compensation plan) should be used to benchmark the 2/3 requirement.
- ▶ It is also not clear how a local DC plan should be measured against the 2/3 requirement.

How You Can Help

- ▶ Talk to your friends, family, neighbors, professional associations, chambers of commerce, etc.
- ▶ Organize your civic associations to pass resolutions.
- ▶ Meet with your Supervisor, Delegate, or State Senator.

Our pension problem goes beyond an outdated, fiscally unsustainable compensation program it is also about our ability to attract, retain and reward the best and brightest employees and teachers and competes with our ability to fund the high quality services our residents expect.

Questions and Answers?