

McLean Citizens Association



The Voice of McLean for Over 100 Years

McLean Citizens Association Resolution Overview of Pension Plans and Their Costs January 4, 2017

Whereas, McLean Citizens Association issued a resolution in April 2015 that focused on the increasing cost of the Fairfax County (County) and Fairfax County Public Schools (FCPS) pension plans and, to address these increasing costs, urged the County to restructure the pension plans for new employees; and

Whereas, since that time, the County and FCPS have made cash payments to the pension plans and have increased their unfunded debt to the pension plans by almost \$1.1 billion; and

Whereas, the cash payments and unfunded debt to the County and FCPS pension plans have risen to levels which may warrant significant and timely changes to the pension plans; and

Whereas, McLean Citizens Association is therefore reviewing again the financial status of the pension plans in this resolution and plans to issue separate resolutions regarding next steps for the County and for the FCPS pension plans; and

Whereas, Fairfax County manages and funds three separate pension plans for County employees, and there currently are a total of 29,364 active, retired, and terminated employees (Participants) who are entitled to pensions under these plans:

- County Employees' Plan (which includes 20% of FCPS employees)
- Police Officers Plan
- Uniformed Plan; and

Whereas, the County provides funding to FCPS for two separate pension plans for FCPS employees, and there currently are a total of 35,637 Participants entitled to pensions under these plans:

- Virginia Retirement System (VRS)
- Educational Employees' Supplementary Retirement System of Fairfax County (ERFC); and

Whereas, the County made cash payments of \$531 million in FY 2016 to the County and FCPS pension plans cited above, an increase of \$64 million from the prior year; and

| <u>Cash Payments to Pension Plans</u> | | | |
|-------------------------------------------------|----------------|----------------|-----------------|
| Millions of Dollars | FY 2016 | FY 2015 | Increase |
| County - Employee, Police, Uniform Plans | (\$ 262 M) | (\$ 237 M) | |
| FCPS – VRS, ERFC | (269) | (230) | |
| Total | (\$ 531 M) | (\$ 467 M) | (\$ 64 M) |

Whereas, as of June 30, 2016, the County and FCPS also have unfunded debt to the pension plans cited above, of \$4.7 billion in today’s dollars, an increase of \$552 million from the prior year, which the County will need to repay in future years; and

| <u>Unfunded Debt to Pension Plans</u> | | | |
|-------------------------------------------------|----------------------|----------------------|-----------------|
| Billions of Dollars | June 30, 2016 | June 30, 2015 | Increase |
| County - Employee, Police, Uniform Plans | (\$ 1.9 B) | (\$ 1.5 B) | |
| FCPS – VRS, ERFC | (2.9) | (2.7) | |
| Total | (\$4.7 B) | (\$4.2 B) | (\$0.552 B) |

Whereas, in FY 2016 alone, these pension plans cost the County almost \$1.1 billion in a combination of cash payments of \$531 million and additional pension debt assumed of \$552 million; and

Whereas, Participants also receive a Pre-Social Security Supplement from the time of retirement to the time the Participant qualifies for full Social Security benefits and, for some pension plans, that Supplement continues indefinitely; and

Whereas, the County and FCPS pension plan payments and unfunded pension plan debt will continue to grow because:

- The number of Participants, currently totaling over 65,000, continues to increase, and those Participants earn additional benefits;
- Participants continue to live longer, and therefore receive pension benefits for a longer period of time (which is part of the calculation of the unfunded debt to the pensions and the annual cash payments); and
- The County has committed to increase its payments to the pension plans each year to meet the actuarial required contribution levels as advised by Moody’s; and

Whereas, the County and FCPS annual cash pension payments, now and increasingly in the future, compete with funding of core governmental services, such as education, public safety, libraries, and infrastructure, and with funding of other priorities like competitive salaries; and

Whereas, the County's FY 2016 and FY 2017 Advertised Budgets emphasized the County's inability to fund all of its priorities, in part because of the need to prioritize meeting cash payment requirements to the pension plans; and

Whereas, the County is likely to face a similar challenge for FY 2018; and

Whereas, an October 2016 analysis of pension plans of local and state governments prepared by the Center for Retirement Research at Boston College concluded that Fairfax County's unfunded pension debt was among the highest in the United States for large counties and large cities as a percentage of local revenues; and

Whereas, Moody's assigned a Triple-A rating to County bonds but downgraded its outlook on the bonds to "negative" in 2014 in part because the pension plans are underfunded and the County had not made its full actuarial required annual cash payments to County pension plans since 2002, and

Whereas, Moody's restored the rating to "stable" following the County's agreement to increase its annual payments to the required level by 2020; and

Whereas, "Moody's Credit Opinion" for the County continues to indicate that Moody's primary issues with the County's pension plans include their levels of underfunding and cites the funding percentage of each County and FCPS pension plan, and Moody's tracks the level of underfunding by year as a "Key Indicator" for the County using the same type of ratio of funding to revenue as the Boston College analysis; and

Whereas, the significant increases in underfunding of the County's pension plans that occurred in FY 2016 will likely be reflected in those ratios and could cause Moody's further concern about the County's credit worthiness.

Now, therefore, be it resolved that McLean Citizens Association urges the Board of Supervisors and the School Board to reduce the growth in the County's future retirement benefit payments; and

Be it further resolved that the pursuit of this objective requires the evaluation, structuring, and implementation of meaningful changes to pension plans for new and non-vested employees such that the net cost of those benefits to the County and FCPS would be similar to those under the Virginia Retirement System hybrid pension plan; and

Be it further resolved that the pursuit of this objective requires the elimination of the Pre-Social Security Supplement for all new and non-vested employees; and

Be it further resolved that McLean Citizens Association urges that the above mentioned changes to the pension plans be implemented by the beginning of FY 2019.

Approved by the MCA Board of Directors

January 4, 2017

McLean Citizens Association, PO Box 273, McLean, Virginia 22101

cc: Fairfax County Board of Supervisors
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Steven Lockard, Interim FCPS Superintendent