McLean Citizens Association

MCA

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McLean Citizens Association Resolution
Fairfax County Pension Plans: Next Steps
January 4, 2017

Whereas, McLean Citizens Association has issued a separate resolution regarding the total cost to Fairfax County (County) of the pension plans to which the County and Fairfax Public Schools (FCPS) provide funding; and

Whereas, that overview resolution advised that the County and FCPS have made cash payments to the pension plans and have increased their unfunded debt to the pension plans, particularly in Fiscal Year (FY) 2016, in amounts which may warrant significant and timely changes to the pension plans; and

Whereas, the purpose of this resolution is to explain the primary cost issues for the County pension plans and to make recommendations regarding goals and a process for restructuring the County pension plans; and

Whereas, McLean Citizens Association plans to issue a separate resolution regarding the FCPS pension plans: and

Value of Retirement Benefits Paid to Participants

Whereas, Fairfax County manages and funds three separate pension plans for County employees: County Employees' plan (which includes 20% of FCPS employees), Police Officers plan, and Uniformed plan; and

Whereas, there currently are a total of 29,364 active, retired, and terminated employees (Participants) who are entitled to pensions under these plans; and

Whereas, the County Employees' plan is by far the largest of the County's three pension plans, with more than 80% of the combined total Participants in the pension plans, serves as a model for the other two County plans, and is therefore the focal point for this resolution (unless noted otherwise); and

Whereas, the County's three pension plans are similar in structure, providing Participants with a monthly payment from the time of retirement (a minimum age of 55 for new employees in the Employees' plan), which increases with cost-of-living adjustments; 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

Whereas, Aon Hewitt was engaged by the County to review its pension plans and reported its findings to the County in 2012, and the County staff included the Aon Hewitt findings in a presentation to the Board of Supervisors as recently as October 2016; and

Whereas, the Aon Hewitt study (Study) concludes that "the County Employees' Retirement System benefit plans are very strong, being more generous than those of your competitor group," and this conclusion understates the "generosity" of the plans because this statement excluded Pre-Social Security Supplements and cost-of-living increases; and

Whereas, the Study shows that the County Employees' plan pays benefits to its Participants which exceed all competitors against which the County asked to be compared, including six neighboring counties, the Virginia Retirement System and the Federal Government, and exceeds the average and the median of the neighboring counties by more than 67%; and

Whereas, the Total Value of Benefits paid to Participants, including Pre-Social Security Supplements and cost-of-living increases and excluding the value of benefits funded by the employees themselves, are reported in the Study as follows (Appendix C, page 5):

Total Value of Benefit per Participant
Funded by Employer

Pension Plan	Cost to Employer ($)
Fairfax Plan A	303,135
Alexandria	173,449
Arlington	301,677
Loudoun	115,608
Montgomery	160,935
Prince Georges	218,426
Prince William	115,608
VRS Post 7/1/10	119,347
Federal Gov't	265,006
Average County Excluding Fairfax	180,951

Whereas, the benefit levels shown above are based on an average non-school Fairfax County employee who retires at age 61, with 21 years of service, and a salary at retirement of $65,000; and

Whereas, these benefit levels are shown in today's dollars - how much it would cost the County if it put enough money in an account today, earning interest at 7.5% per year, to pay all of the Participant's pension benefits when they are due (which is called a "net present value"); and

Whereas, the County in reality is likely to pay its pension plan Participants a multiple of these numbers in actual dollars of the day over the Participant's lifetime (taking the interest on these funds at 7.5% per year into account); and

Whereas, the Fairfax County Retirement Policy, as revised in January 2001, states that the goal for income replacement at retirement is between 60% to 80% of final pay, and general policy is not to exceed 100% at any point of retirement, including when Social Security benefits become payable; and

Whereas, considering the magnitude by which the benefits paid by the County plan exceed the benefits paid by its peers, the County plan is likely to exceed 80% of final pay; and

Whereas, following issuance of the Study in 2012, the County revised the pension plan for County Employees starting work on or after January 1, 2013, mainly by increasing the age when full benefits are payable from a Rule of 80 to a Rule of 85; and

Whereas, the County's 2013 changes are not resulting in substantial savings in a meaningful time frame, with an expected cost saving of only $11.5 million per year by FY 2027; and

Whereas, the value of the Pre-Social Security Supplement funded by the County is $55,818 per Participant and is included in the County plan value of $303,135 shown above (Appendix C, page 5); and

Whereas, the Study shows no neighboring county paying such a Pre-Social Security Supplement, and the Federal Government paying a supplement of only $13,183 per Participant; and

Whereas, the Study identified "Specific Areas where Costs of the Defined Benefit Plan Might be Reduced," cited the Pre-Social Security supplement as its first issue (page 73), advised that it is a major contributor to the relative "generosity" of the County Employees' plan compared with the plans of other jurisdictions and might well be considered for paring back to reduce the costs and generosity of the County plan the (page 74); and

<u>Cost to the County</u>

Whereas, as of June 30, 2016, the three County pension plans had a total Pension Liability of $8.4 billion and are under-funded by $1.9 billion, an increase in under-funding of $0.4 billion over the prior year; and

Whereas, the County contributed to the three plans approximately $262 million in FY 2016, an increase of $25 million compared to the prior year and an increase of $90 million per year compared to FY 2011; and

Whereas, the County's annual contributions will continue to increase as the County meets its commitment to Moody's to reach its Annual Required Contribution level by 2020 and as the number of Participants continues to grow and earn additional benefits each year; and

Whereas, a reduction in pension plan costs could benefit the County, its employees, and the community, including

- Funds for Other Priorities – Additional funds for education, police and fire, libraries, parks, and other priority County services,

- More Competitive Salaries - Ability to redirect funding for compensation into higher, more competitive salaries for employees,

- Portability – Ability to redirect funds into matching employee contributions to 401K-type (defined contribution) plans to encourage employee saving, provide what employees feel is a more attractive form of compensation, and permit them to secure retirement savings even if they do not qualify under long term pension plan rules, and

- Taxes – Reduction in the pressure for real estate property tax increases paid by County residents.

Now, therefore, be it resolved that McLean Citizens Association urges the Board of Supervisors to take the following steps to reduce the growth in the County's future obligations for retirement benefit payments:

- Proceed with the County's Retirement System Review on an expedited basis, with completion in time to implement changes in the FY 2019 Budget, because of the significance and urgency of the issue,

- Define the purpose of the Review as the recommendation of meaningful structural changes to the pension plans for all new and non-vested employees such that the net cost of those benefits to the County would not exceed the cost of the Virginia Retirement System hybrid pension plan,

- Define the purpose to include the elimination of the Pre-Social Security Supplement for all new and non-vested employees and for all vested employees,

- Define the scope of work to include consideration of a new plan similar to the Virginia Retirement System hybrid pension plan,

- Vest responsibility for the Review with a commission, committee, or task force reporting to the Board of Supervisors which, in addition to County employees, has a preponderance of financial and personnel professionals with experience in retirement benefit plans who are not employees of the County, to ensure objectivity, no appearance of conflicts of interest, and adequate specialized skill sets, and

- Engage Aon Hewitt or another reputable consultant to update the 2012 Study and to recommend the courses of action which the County should consider, recognizing that no individual is likely to have the depth of experience and knowledge of an actuary and pension consultant necessary to advise on these matters.

Approved by the MCA Board of Directors

January 4, 2017

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