McLean Citizens Association

MCA

One Hundred Years and Counting

McLean Citizens Association Resolution
Educational Employees' Supplementary Retirement System of Fairfax County
March 1, 2017

Introduction

Whereas, the McLean Citizens Association (MCA) approved two resolutions about Fairfax County (County) and Fairfax County Public Schools (FCPS) pension plans on January 4, 2017, which urged the Board of Supervisors and School Board to modify their pension plans by the beginning of Fiscal Year (FY) 2019, such that the net cost of benefits to the County and FCPS would not exceed the costs of the Virginia Retirement System (VRS) hybrid pension plan; and

Whereas, approximately 20% of FCPS employees participate in Social Security plus the Fairfax County Employees' pension plan (FCERS); and

Whereas, the remaining 80% of FCPS employees hired after January 1, 2014 each participate in three plans:

- Social Security;
- VRS Hybrid, a traditional pension plan plus a 401(k)-type plan, where full benefits are payable when an employee's age plus years of service equals 90 (Rule of 90); and
- ERFC 2001, a supplementary plan that pays an annual pension for life equal to about 20% of an employee's final average salary after 30 years of service regardless of age; and

FCPS Pension Costs

Whereas, FCPS employer contributions to its FCERS, VRS, and ERFC are increasing in the aggregate by 49%, from $254 million in FY 2014 to an estimated $379 million in FY 2018**,** including contributions to ERFC that are increasing by 25%, from FY 2014 to FY 2018, from $72 million in FY 2014 to an estimated $90 million in FY 2018; and

Whereas, as of June 30, 2016, ERFC's total pension liability was valued at approximately $2.9 billion, ERFC's assets were valued at approximately $2.1 billion, such that ERFC was underfunded by $830 million; and

Whereas, between December 31, 2006 and December 31, 2015, ERFC went from being $287 million underfunded to $693 million underfunded, an increase of 141%; and

Whereas, notwithstanding increasing FCPS employer contributions, ERFC's unfunded pension liability has increased significantly because of lower-than-assumed ERFC investment returns and lower FCPS employee contributions since FY 2013; and

Whereas, ERFC assumes its investments will earn an annual rate of return of 7.25% in estimating its total pension liability, but ERFC's actual returns were negative 0.6% in FY 2016, 1.5% in FY 2015, and averaged 5.7% over the last five and 5.5% over the last ten years; and

Whereas, if ERFC had assumed it would earn 6.25% rather than 7.25% per year on its assets in computing its total pension liability, then as of June 30, 2016;

- ERFC's total pension liability would have been $3.3 billion instead of $2.9 billion;
- ERFC's unfunded liabilities would have been $1.2 billion instead of $830 million; and
- ERFC would have been 64% funded instead of 72% funded; and

Whereas, ERFC's employee contribution rate as a percentage of salary increased from 2% in FY 2004 to 4% in FY 2005, then decreased from 4% to 3% in FY 2013; and

Whereas, according to Moody's Investors Service Summary dated January 11, 2017, the County's Triple A bond rating could be downgraded for three reasons, including an "inability to increase pension funding" and Moody's January 12, 2016 Credit Opinion about Fairfax County stated that "[w]e view this underfunding of the county's pension requirement as a budgetary weakness and any inability to continue to increase pension funding could result in negative pressure" [on the County's bond rating]; and

<u>Balancing FCPS Priorities</u>

Whereas, FCPS' employer annual contributions to the FCERS, VRS and ERFC pension plans compete with funding of other operating costs and capital improvements; and

Whereas, the FCPS Superintendent's FY 2018 Proposed Budget included $4.7 million in savings from changes to the ERFC System, by instituting a minimum retirement age of 55, reducing the interest crediting rate on departing employee accounts from 5% to 4% if withdrawn, tying the ERFC Cost of Living Adjustment to the Consumer Price Index and increasing the averaging period for final average salary from 3 to 5 years; and

Whereas, the School Board voted on February 9, 2017 to:

- Defer until April 27, 2017 discussion on changes to ERFC;
- Direct ERFC's Board of Trustees to provide the School Board by March 31, 2017 with an analysis of fund management alternatives (e.g., the mix of passively and actively-managed funds) and justification of investment choices; and
- Direct ERFC's Board of Trustees to provide the School Board by April 24, 2017 with an analysis of the fiscal impact of adopting the Rule of 90; and

Whereas, while these proposals are commendable, they are unlikely to result in substantial savings in a meaningful time frame.

Now, therefore, be it resolved that the MCA urges the School Board to immediately establish an independent Pension Task Force, to expeditiously analyze options that would make FCPS' retirement plans financially sustainable without consuming a greater share of Fairfax County resources, in time for such options to be included as part of the FY 2019 Approved Budget, because of the significance and urgency of the issue; and

Be it further resolved that the Pension Task Force should report to the School Board and:

- A majority of the Task Force's members:
    - should be financial or personnel professionals with experience in retirement benefit plans, to ensure that independent members of the Task Force have adequate specialized skill sets; and
    - should not be employees of FCPS, to ensure the independence and objectivity of the Task Force and to avoid the appearance of any conflicts of interest;
- The School Board should engage a reputable consultant to support the Task Force; and
- The Task Force should establish parameters for and review the consultant's work; and

Be it further resolved that the Task Force's analyses, including the underlying assumptions, should be made easily accessible to all stakeholders, including teachers, other FCPS participating employees and the public, and all stakeholders should be consulted prior to School Board action; and

Be it further resolved that the MCA supports the School Board's decision to consider including in its FY 2018 Approved Budget changes to ERFC, as an interim cost-savings measure pending a more comprehensive plan to modify ERFC benefits.

Approved by the MCA Board of Directors

March 1, 2017

McLean Citizens Association, P.O. Box 273, McLean, Virginia 22101

cc: Fairfax County School Board
Jane Strauss, Dranesville District School Board Member
Steven Lockard, Interim FCPS Superintendent
Fairfax County Board of Supervisors
John Foust, Dranesville District Supervisor
Edward Long, Fairfax County Executive