McLean Citizens Association

MCA

One Hundred Years and Counting

McLean Citizens Association Resolution
Fairfax County Pension Plans and Their Costs
April 1, 2015

Whereas, Fairfax County continues to organize its finances in pursuit of a balance among its best possible bond rating, constrained taxes, an effective workforce, and effectively managed resources, to attain better outcomes as objectively assessed; and

Whereas, Fairfax County (County) directly manages and funds three separate pension plans, and a total of 28,977 active, retired, and terminated employees (Participants) are entitled to pensions under these plans as of June 30, 2014:

1. County Employees – 23,520 Participants
2. Police Officers – 2,266 sworn police officer Participants
3. Uniformed – 3,011 Participants mainly in Fire and Rescue and Sheriff's Departments; and

Whereas, the County indirectly funds the Educational Employees' Supplementary Retirement System for 35,308 full time Fairfax County Public School Participants; and

Whereas, as of June 30, 2014, these pension plans have obligations of $10.7 billion to their Participants, have investments totaling $8.3 billion to cover these obligations, and are under-funded by $2.4 billion in today's dollars; and

	Amounts in Billions of Dollars		
Pension Plans	**Obligations**	**Investments**	**Under-Funded**
County Employees	4.8	3.6	1.2
Police	1.4	1.2	0.2
Uniformed	1.8	1.5	0.3
Subtotal	8.0	6.3	1.7
Educational Supplement	2.7	2.0	0.6
Total	**10.7**	**8.3**	**2.4**

Whereas, the plans' obligations, shown above, will continue to grow annually as the numbers of Participants continue to grow and earn additional benefits; and

Whereas, over the last 10 years, obligations grew from $6.0 to $10.7 billion, investments grew from $5.1 to $8.3 billion, and under-funding grew from $0.9 to $2.4 billion; and

Whereas, the plans' obligations to their Participants will also continue to grow as the Participants live longer and continue to receive payments; and

Whereas, new life expectancy assumptions, issued in 2014, are likely to replace the year 2000 assumptions that are currently used and to become effective in 2016 or 2017; and

Whereas, these newer assumptions show that people are living longer and are estimated to increase pension plan obligations by between 3% and 8%, depending on Participant demographics, resulting in an increase of $320 million to $850 million for the County based on the amounts shown above, adding further to the current under-funding; and

Whereas, the County contributed directly and indirectly to the four plans cited above approximately $293 million in FY 2014, compared to approximately $121 million in FY 2004, and the annual contributions will continue to increase; and

Whereas, the County's contributions of approximately $293 million to these plans in FY 2014, compare to its Actuarial Required Contribution totaling $343 million, a shortfall of $50 million; and

Whereas, County expenditures are increasing for core governmental services, such as public safety, education and infrastructure, and the County FY 2016 and FY 2017 Advertised Budgets emphasize the inability to fund all of the County's priorities; and

Whereas, the County's $293 million contribution toward pensions competes with the County's other priorities for General Revenue funds; and

Whereas, the Fairfax County Retirement Policy as revised in January 2001 states that "The goal for income placement at retirement is to replace disposable income at retirement – net take home pay. Usually this means replacing between 60% to 80% of final pay;" and

Whereas, Aon Hewitt was engaged by the County to review County pension plans and reported in 2012 that the County Employees' pension plan provides benefits which exceed the minimum retirement income needed to support the retirees' current lifestyles in retirement, and are the most generous in the study's peer group; and

Whereas, the high and growing cost of funding traditional pension plans has caused private industry and governmental entities to replace their plans with 401(k)-type plans or hybrid pension/401(k)-type (hybrid) plans; and

Whereas, while in 1983, 62% of U.S. workers with retirement income benefits, including government and private industry, were covered by traditional pensions plans, by 2013 only 17% were covered by pension plans, 71% were covered by 401(k)-type plans, and the remaining 12% by hybrid plans; and

Whereas, since the 2008 financial crisis, six states, including Virginia, have replaced their pension plans with hybrid plans or with 401(k)-type plans; and

Whereas, the 1950 Code of Virginia requires every county, city, and town with a population of 5,000 or more to (a) provide a retirement allowance to its full time employees by participating directly in the Virginia Retirement System (VRS) or to (b) provide its own retirement system with retirement allowances to each employee who retires at age 65 or older which equal or exceed two-thirds of the allowance the employee would have received under the VRS; and

Whereas, the VRS (Plan 2) is a hybrid plan for new hires (as of July 2010) with (a) a pension plan to which the employees and employer make contributions, with less generous terms than the County's pension plans (for example a Rule of 90 instead of the County's Rule of 85 and no pre-Social Security supplement or DROP program), and (b) a 401(k)-type plan to which the employer and employees contribute; and

Whereas, for a typical County employee who retires at age 61 with a salary of $65,000, the Aon Hewitt report cited a cost for the VRS approximately 62% lower than the cost of the County's Employee plan; and

Whereas, in 1987, the Federal Government revamped its civilian retirement system for new employees, the Federal Employee Retirement System, that includes Social Security benefits, a basic defined benefit plan to which employees and the employer make contributions, and a Thrift Savings Plan, which is comparable to a defined contribution, 401(k)-type plan; and

Whereas, a reduction in retirement benefits to new employees (and only new employees) could achieve benefits for the County, its employees, and the community, including

1. Savings - Savings to the County in the cost of funding retirement benefits for new employees,
2. Risk Mitigation – Reduction in the County's risk of credit rating agency downgrades,
3. Competition for Funds - Reduction in competition for funding between (a) annual pension fund contributions and (b) County services, education, and infrastructure,
4. More Competitive Salaries - Ability to redirect funding for compensation into higher priority, more competitive salaries for employees,
5. Mobility – Possibility of retirement benefits which younger employees may retain if they leave their County jobs before vesting, and
6. Taxes - Reduction in the pressure for real estate property tax increases paid by County residents; and

Whereas, Moody's assigns a Triple-A rating to County bonds but downgraded its "outlook" on the bonds to negative in 2014 and 2015 in part because the County has not made its full Actuarial Required Contributions to its pension plans since 2002, and the plans are underfunded, citing the relevant data used above,

Now, therefore, be it resolved that McLean Citizens Association urges the Board of Supervisors to establish retirement benefit plans for all new employees (but not existing employees) such that the net cost of those benefits to the County would be similar to those under the Virginia Retirement System hybrid pension plan and as a result would reduce the growth in the County's future obligations for retirement benefit payments; and

Be it further resolved that McLean Citizens Association urges the Board of Supervisors to determine and implement the optimal means to achieve the above cost savings by creating new defined benefit pension plans, or new hybrid defined benefit/defined contribution plans (such as the Federal Employee Retirement System), or new defined contribution 401(k)-type plans for new employees (but not existing employees).

Approved by the MCA Board of Directors
April 1, 2015

cc: Fairfax County Board of Supervisors
John Foust, Dranesville District Supervisor
Fairfax County Executive Edward Long
Jane Edmondson, Chief of Staff to John Foust