McLean Citizens Association

MCA

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McLean Citizens Association Resolution
Fairfax County Pension Plan Status
November 4, 2020

Whereas, while the coronavirus and the resulting recession are primary challenges that Fairfax County (County) is coping with today, the recently released financial results of its pension plans for FY 2020 indicate that managing and funding the pension plans are also significant and increasing challenges that require timely attention; and

Whereas, the purposes of this resolution are to provide an update of the status of the County's pension plans, to focus on their funding shortfalls and the County's annual cash contributions, and to suggest steps going forward; and

Whereas, Fairfax County directly manages and funds three pension plans for County employees - the Employees' Retirement System (ERS), Police Officers Retirement System (PORS), and Uniformed Retirement System (URS) - and a total of approximately 30,000 active, retired, and terminated employees (Participants) are currently entitled to pensions under these plans; and

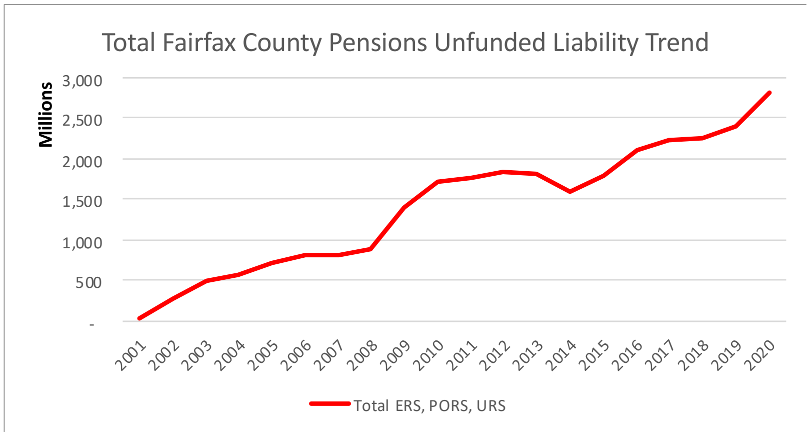
Whereas, as of June 30, 2020, the County owed pension benefits to Participants of $10.1 billion, the County had investments of $7.3 billion to pay those pension benefits, and the County had unfunded obligations (liabilities) to those Participants of $2.8 billion (all amounts are in current dollars); and

How County Pension Plans are Funded as of June 30, 2020			
Billions of Dollars	**Pensions Owed to Participants**	**Investments to Fund Payments**	**Unfunded Liabilities**
County – ERS, PORS, URS	($10.1 B)	$ 7.3 B	($2.8 B)

Whereas, the unfunded liabilities of the pension plans as of June 30, 2020 of $2.8 billion increased, over the last 10 years - by only $0.1 billion in the first 5 years from June 30, 2010 to June 30, 2015 but by $1.0 billion over the more recent 5 years from June 30, 2015 to June 30, 2020; and

County's Unfunded Debt to Pension Plans and Their Participants			
Billions of Dollars	**June 30, 2020**	**June 30, 2015**	**June 30, 2010**
County - ERS, PORS, URS	($2.8 B)	($1.8 B)	($1.7B)

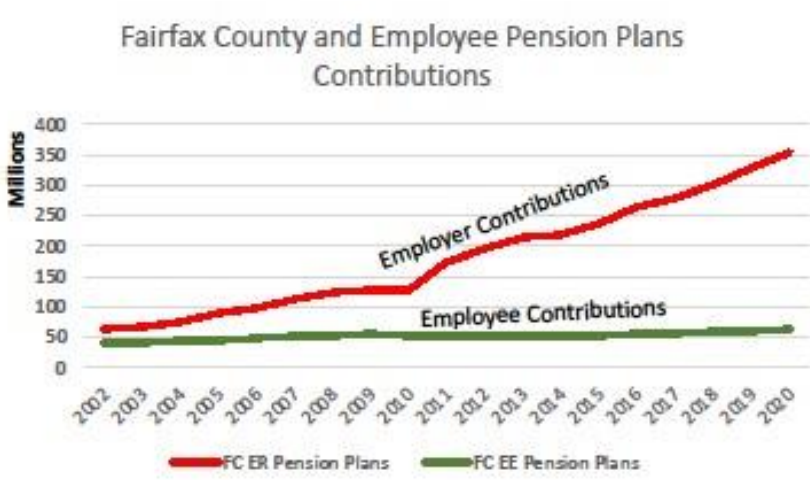
Whereas, the unfunded liabilities have increased almost continuously over the last 20 years as illustrated in the graph below, including the more rapid growth in unfunded liabilities in the last 5 years; and



Whereas, the County made <u>cash payments</u> to the pension plans of $355 million in FY 2020, which were $93 million higher than its payments 5 year ago in FY2015 and $183 million higher than its payments 10 years ago in FY 2010; and

County's Cash Payments to Pension Plans			
Millions of Dollars	**FY 2020**	**FY 2015**	**FY2011**
County – ERS, PORS, URS	($355 M)	($262M)	($172 M)

Whereas, the County's payments to these pension plans trended continuously upward over the last 20 years as illustrated in the graph below; and



Whereas, although the unfunded liabilities of the pension plans and the County's payments to the plans are already large, they are likely to be significantly understated; and

Whereas, the County assumes that the assets in its pension plans will earn a certain rate of return, and those earnings will reduce the amount of the cash payments that the County will need to make to the plans - the higher the forecasted return on investment, the lower the estimated unfunded liability, and the less the County needs to make cash payments, for now; and

Whereas, the County's ERS plan has a target rate of return of 7.25% per annum, but the actual rate of return in FY 2020 was 2.7% using a Market Value calculation or 4.8% using an Actuarial Value calculation (a rolling, multi-year average to smooth spikes), and as a result, ERS's unfunded debt and the County's annual cash payments to the plan will increase accordingly; and

Whereas, over the last 5 years (FY 2016 to FY 2020), the ERS plan had an average annual rate of return on investment of 4.5% using a Market Value calculation and of 5.1% using an Actuarial Value calculation, both well below the 7.25% target; and

Whereas, over the last 10 years (FY 2011 to FY 2020), the ERS plan had an average annual rate of return on investment of 7.8% using a Market Value calculation and of 7.2% using an Actuarial Value calculation; and

Whereas, the ERS plan had higher average annual rates of return in the last 10 years than in the last 5 years because the 10 year average started immediately after the Great Recession, and the 10 year average only captures the subsequent financial market recovery; and

Whereas, the Comprehensive Annual Financial Report for FY 2019 for ERS advises that if the investment return on this plan was assumed to be 6.25% instead of 7.25%, the plan's unfunded debt would be approximately $0.7 billion greater than the amount shown above, and the County's cash payments to ERS would increase accordingly; and

Whereas, pension plan unfunded liabilities increase because the total number of Participants continues to increase and earn more in benefits than estimated, and Participants continue to live longer than assumed and therefore receive pension benefits for a longer period of time; and

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

Whereas, the Aon Hewitt study (Study) concluded that "the County Employees' Retirement System benefit plans are very strong, being more generous than those of your competitor group;" and

Whereas, the Study showed that the ERS 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, since FY 2013, the County revised the pension plans for County Employees:

- Changed the minimum retirement age from 50 to 55 (and increased the age when full benefits are payable from a Rule of 80 to a Rule of 85) for new employees as of January 1, 2013, but later changes to the plan may have effectively replaced the minimum age of 55/Rule of 85 with an early retirement option that changes the Rule of 85 to a Rule of 75 with no minimum age and no penalty,

- Eliminated the one-time 3 percent increase in the retirement annuity for all three plans for new employees on or after July 1, 2019, and

- Eliminated the pre-Social Security Supplement from ERS and URS for new employees on or after July 1, 2019; and

Whereas, because the cash flow effects of these changes will occur gradually over coming years, as new employees earn their benefits over their careers, they are not resulting in substantial savings in a meaningful time frame; for example, the County estimated that the cost saving of changing the minimum retirement age from 50 to 55 (and increasing the age when full benefits are payable from a Rule of 80 to a Rule of 85) for new employees as of January 1, 2013, would save only $11.5 million per year by FY 2027 (assuming that retiring employees choose that option); and

Whereas, the unfunded liabilities of the County's pension plans, and the County's annual cash contributions to the pension plans (i) are already large in amount, (ii) consistently increase year after year in larger amounts, and (iii) show no indication of coming under control or beginning to decline; and

Whereas, large, increasing cash contributions to the pension plans may already be crowding out other critical expenditures by the County, such as salary increases for County and FCPS employees, affordable housing, public schools, roads, public safety, parks and recreation; and

Whereas, the data used in the text, tables and graphs in this resolution were sourced by the MCA Budget & Taxation Committee from the pension plans' Comprehensive Annual Financial Reports (CAFRs) and from the pension plans' 2020 Actuarial Valuation reports (because their FY 2020 CAFRs had not yet been issued to the public).

Now, therefore, be it resolved that the McLean Citizens Association commends the Board of Supervisors for the cost saving changes it recently made to its pension plans; and

Be it further resolved that the McLean Citizens Association urges the Board of Supervisors to take the following steps toward the objective of reducing the growth in the County's future obligations for retirement benefit payments:

- Update the 2018 Retirement System Review (Review) during 2020 and the first half of 2021 for the purpose of recommending meaningful structural changes to the pension plans such that the net cost and growth rate of those benefits to the County (i) would not continue to exceed the cost of other local government pension plans and (ii) would more accurately estimate the magnitude of the County's obligations to the pension plans and the resulting contributions to meet those obligations; and

- Vest responsibility for the Review with an independent task force (Task Force) that reports to the Board of Supervisors with a preponderance of financial and personnel professionals with experience in retirement benefit plans who are not and have not been employees of the County or FCPS, to ensure the requisite skill sets, objectivity, and no appearance of conflicts of interest, and

- Engage an independent, reputable actuarial pension consultant, not currently or previously employed by the County or FCPS, to consult with the Task Force and recommend a detailed list of changes to the pension plans that are consistent with best practices, competitive and favorable total compensation to County employees; and

Be it further resolved that the McLean Citizens Association urges that the above mentioned major structural changes to the County's pension plans be discussed in meetings of the Board of Supervisors during 2021 with implementation in 2022.

Approved by the MCA Board of Directors
November 4, 2020

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

cc: John Foust, Dranesville District Supervisor
Fairfax County Board of Supervisors
Bryan Hill, Fairfax County Executive
Joseph Mondoro, Fairfax County Chief Financial Officer
Jeffrey Weiler. Fairfax County Retirement Systems Executive Director