



# Retirement System Review

Board of Supervisors Personnel Committee Meeting

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Budget Services Coordinator

Department of Management and Budget

May 22, 2018

# Agenda

- Background
  - System Funding Status
  - Options Considered by Workgroup
- Proposed Package
  - Minimum Retirement Age of 60 (ERS) and 50 (URS/PORS)
  - Rule of 90 (ERS)
  - 5-Year Salary Averaging Period (All)
  - Eliminate Pre-Social Security Supplement (ERS/URS)
  - Eliminate 3% Formula Increase (All)
  - Increase Employee Contribution Rate (All)
- Questions

# Background / Why We're Here

- Continued Board commitment to Defined Benefit plans
- Sustainability of County plans
  - General Fund employer contributions more than doubled from FY 2010 to FY 2018
  - Retirees are living longer
- Peer jurisdictions, including those that are covered by VRS, have made changes to their retirement benefits
- Proposed retirement benefits will continue to be strong compared to peer jurisdictions and the private sector
- Impact of proposed changes to employees is mitigated by longer tenures

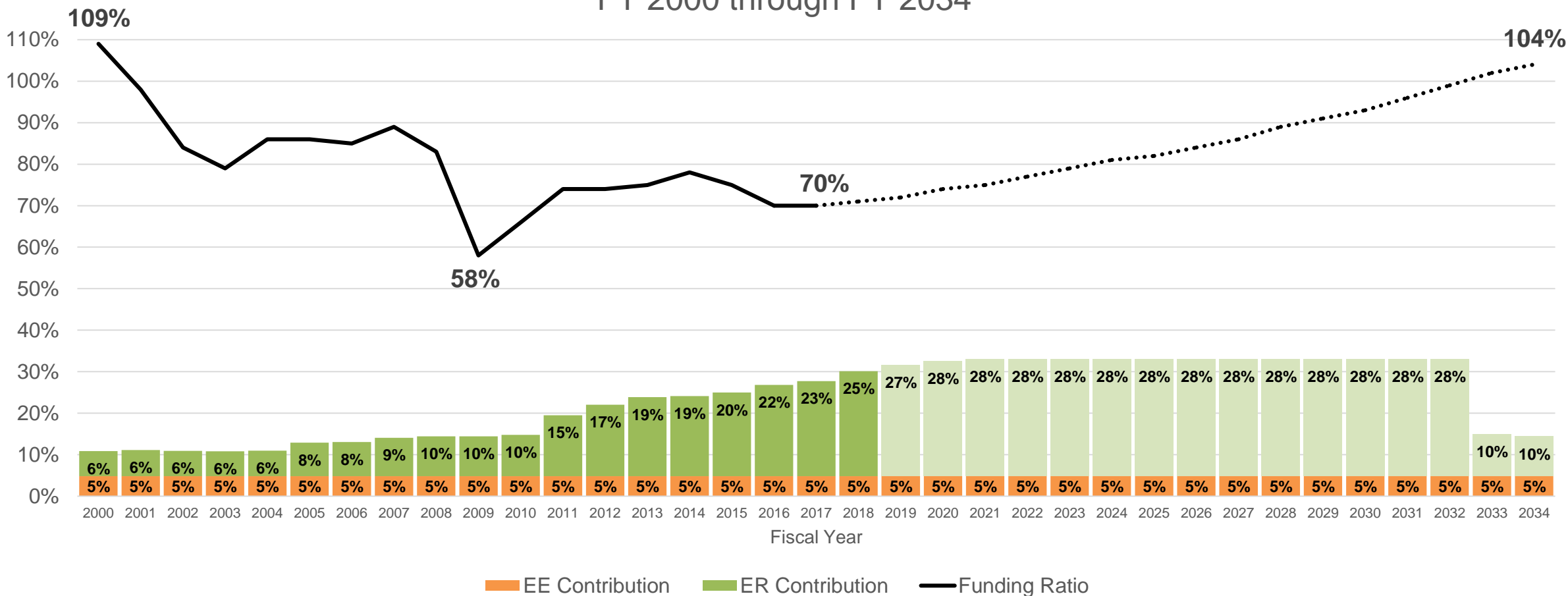
# Changes to date

- Shift in asset allocation strategies to provide greater protection from market downturns
- Plan design changes effective for new employees hired on or after January 1, 2013
- Succession planning during DROP period
- Retirement education for employees
- Surveying Employees
  - New Hires
  - Exit Interviews

# Employees' System History and Projections

## Funding Ratios and Contribution Rates

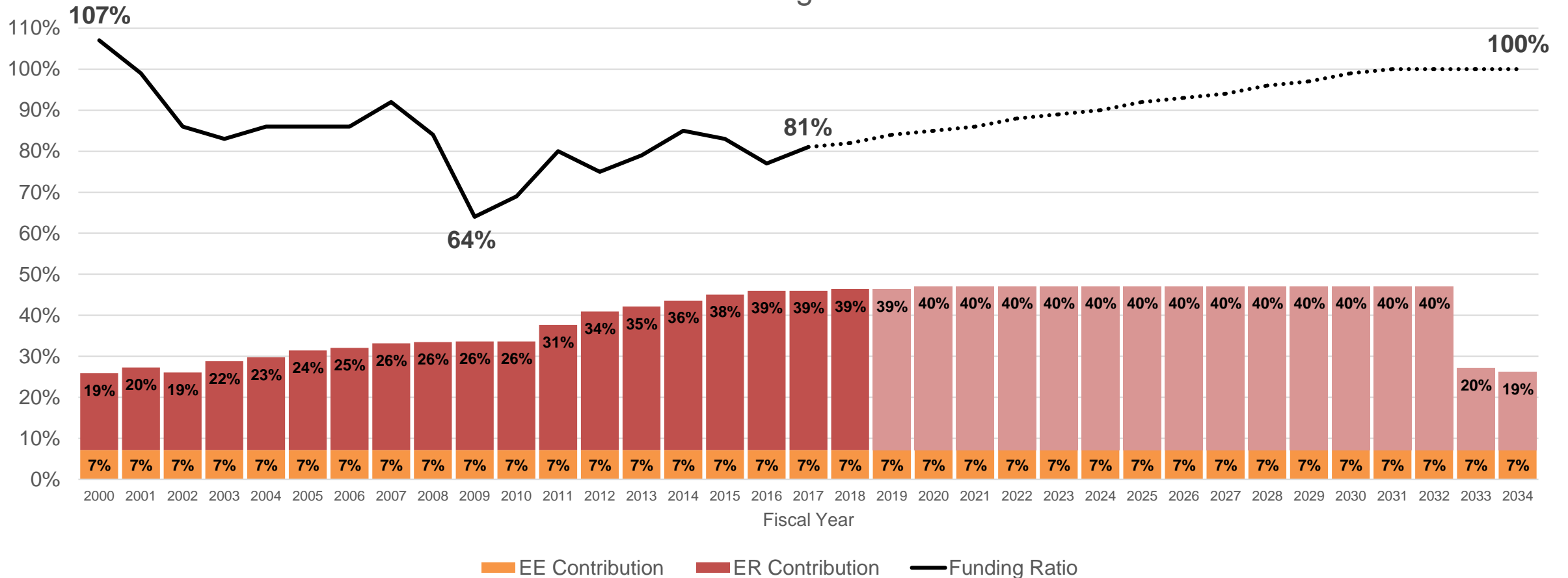
FY 2000 through FY 2034



# Uniformed System History and Projections

## Funding Ratios and Contribution Rates

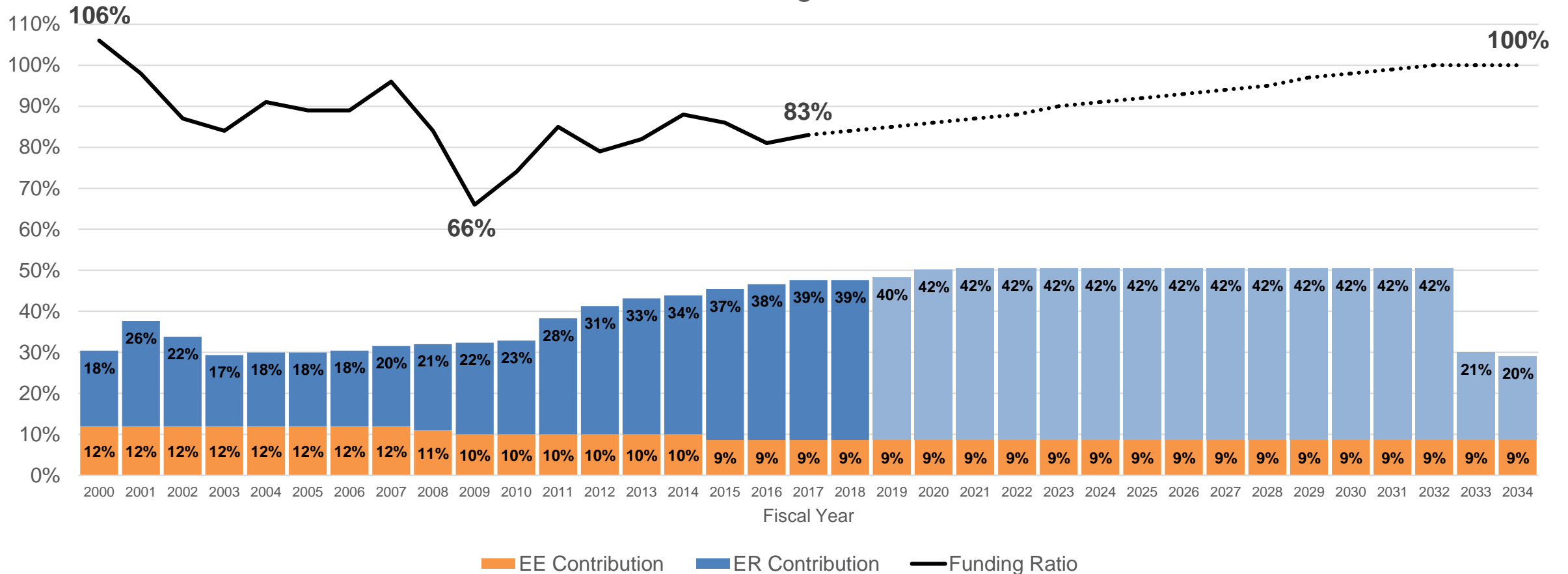
FY 2000 through FY 2034



# Police Officers System History and Projections

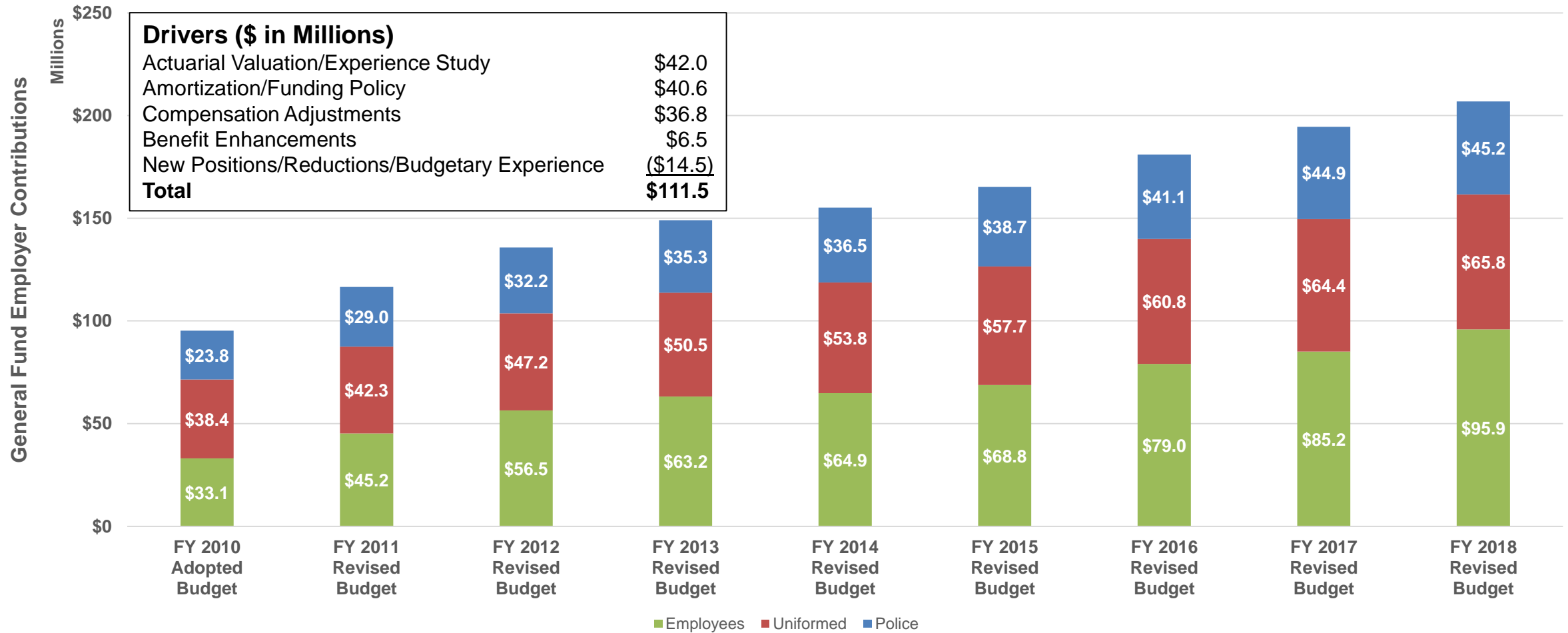
## Funding Ratios and Contribution Rates

FY 2000 through FY 2034



# General Fund Employer Contributions

## History by Retirement System





# Options Considered by Workgroup

	Potential Change for New Hires	Percent Change in Employer Normal Cost*		
		Employees'	Uniformed	Police Officers
1a	MINIMUM RETIREMENT AGE: Increase Minimum Retirement Age in ERS from age 55 to age 60	(2.9%)	--	--
1b	MINIMUM RETIREMENT AGE: Increase Minimum Retirement Age in ERS from age 55 to age 57	(0.9%)	--	--
1c	MINIMUM RETIREMENT AGE: Establish a Minimum Retirement Age of 50 in URS/PORS	--	(1.6%)	(3.9%)
1d	MINIMUM RETIREMENT AGE: Establish a Minimum Retirement Age of 47 in URS/PORS	--	(0.5%)	(0.4%)
2	RETIREMENT ELIGIBILITY: Increase retirement eligibility from Rule of 85 to Rule of 90 in ERS	(1.0%)	--	--
3a	SALARY AVERAGING: Increase Salary Averaging Period from 3 Years to 5 Years	(4.7%)	(5.2%)	(4.4%)
3b	SALARY AVERAGING: Increase Salary Averaging Period from 3 Years to 4 Years	(1.8%)	(2.6%)	(2.2%)
4	ELIMINATE PRE-SOCIAL SECURITY SUPPLEMENT: Eliminate Pre-Social Security Supplement in ERS/URS	(7.5%)	(5.7%)	--
5	LIMIT PRE-SOCIAL SECURITY SUPPLEMENT: Limit Pre-Social Security Supplement to 5 Years for Employees' system and 7 Years for Uniformed system	(1.7%)	(1.7%)	--
6	LIMIT RETIREE COLA: Limit Application of the Retiree COLA to the first \$30,000 in benefits	(1.2%)	(6.6%)	(6.1%)
7	REDUCE MULTIPLIER: Reduce base multiplier (2.0% in ERS, 2.5% in URS, and 2.8% in PORS) by 0.1%	(7.3%)	(5.1%)	(4.4%)
8	ADD LONGEVITY STEPS: Add 5% longevity steps at 25 and 30 years in Pay Plans in URS and PORS	--	1.1%	0.6%
9	ELIMINATE 3% FORMULA INCREASE: Eliminate the provision that increases the calculated retirement annuity by 3%	(4.4%)	(3.8%)	(3.6%)
10	INCREASE EMPLOYEE CONTRIBUTION RATE: Increase the employee contribution by 1.0%	(10.6%)	(5.6%)	(5.2%)

# Proposed Package

Final package considered, but not supported, by Retirement Workgroup

	Potential Change for New Hires	3/13/18 Package
1a	MINIMUM RETIREMENT AGE: Increase Minimum Retirement Age in ERS from 55 to 60	<input checked="" type="checkbox"/>
1c	MINIMUM RETIREMENT AGE: Establish a Minimum Retirement Age of 50 in URS/PORS	<input checked="" type="checkbox"/>
2	RETIREMENT ELIGIBILITY: Increase from Rule of 85 to Rule of 90 in ERS	<input checked="" type="checkbox"/>
3a	SALARY AVERAGING: Increase Salary Averaging Period from 3 Years to 5 Years	<input checked="" type="checkbox"/>
4	ELIMINATE PRE-SOCIAL SECURITY SUPPLEMENT: Eliminate Pre-Social Security Supplement in ERS/URS	<input checked="" type="checkbox"/>
9	ELIMINATE 3% FORMULA INCREASE: Eliminate the provision that increases the calculated retirement annuity by 3%	<input checked="" type="checkbox"/>
10	INCREASE EMPLOYEE CONTRIBUTION: Increase the employee contribution rate from 5.33% to 6% (ERS), from 7.08% to 8% (URS), and from 8.65% to 10% (PORS)	<input checked="" type="checkbox"/>
	Employees' System Percent Change in Employer Normal Cost	(24.68%)
	Uniformed System Percent Change in Employer Normal Cost	(20.41%)
	Police Officers System Percent Change in Employer Normal Cost	(18.63%)
	Total Projected GF Savings when Fully Realized based on Current Payroll	\$16.38m

Rule of 90 (ERS)

Minimum Retirement Age 60 (ERS)

Minimum Retirement Age 50 (URS/PORS)

Potential Plan Design Changes for New Hires

# Retirement Eligibility Comparison

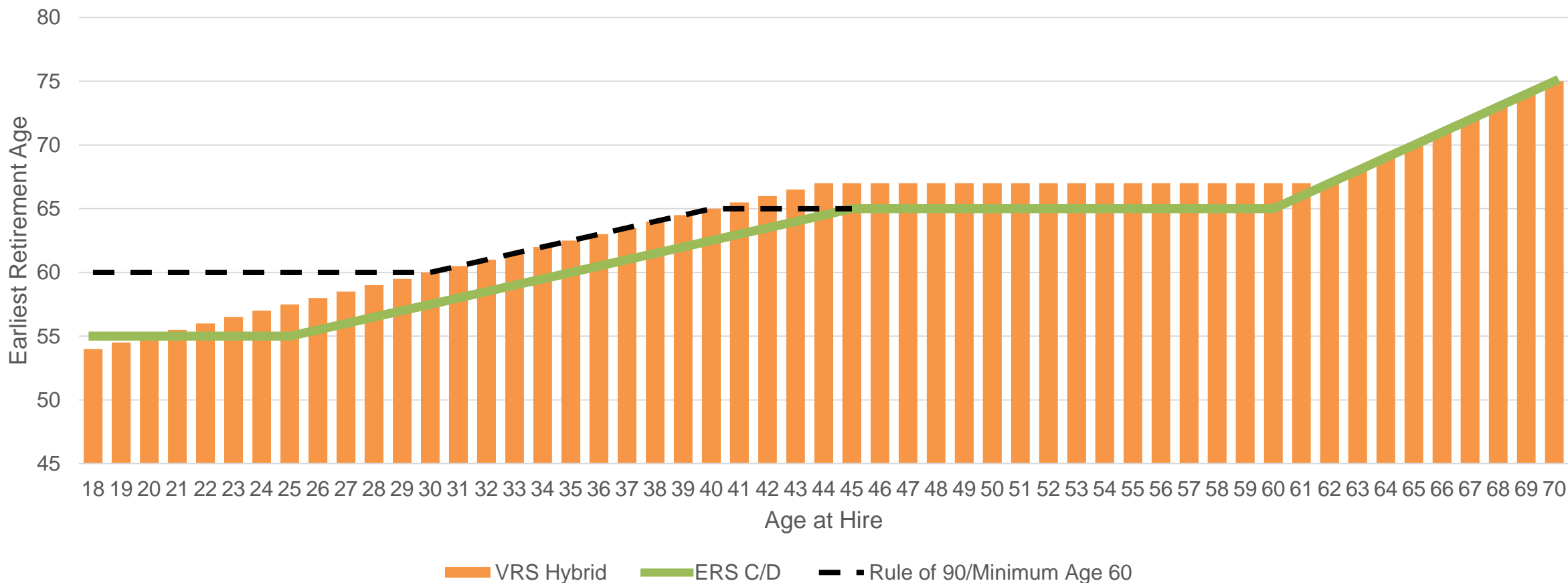
## General Employees

Jurisdiction	Retirement Eligibility	Minimum Retirement Age
Fairfax County Employees Retirement System (ERS) Plans C/D	Rule of 85 ( <b>Proposed: Rule of 90</b> ) -or- Age 65 with 5 Years of Service	55 ( <b>Proposed: 60</b> )
Virginia Retirement System (VRS) Hybrid Plan (Alexandria, FCPS, Loudoun, Prince William)	Rule of 90 -or- Normal Social Security Retirement Age with 5 Years of Service	None
Federal Government (FERS)	Minimum Retirement Age with 30 Years of Service -or- Age 60 with 20 Years of Service -or- Age 62 with 5 Years of Service	55 - 57
Arlington County	Rule of 80 -or- 30 Years of Service -or- Age 62 with 5 Years of Service	None

# Retirement Eligibility Comparison

## General Employees – Rule of 90 and Minimum Retirement Age 60

Earliest Retirement Age by Age at Hire



# Retirement Eligibility Comparison

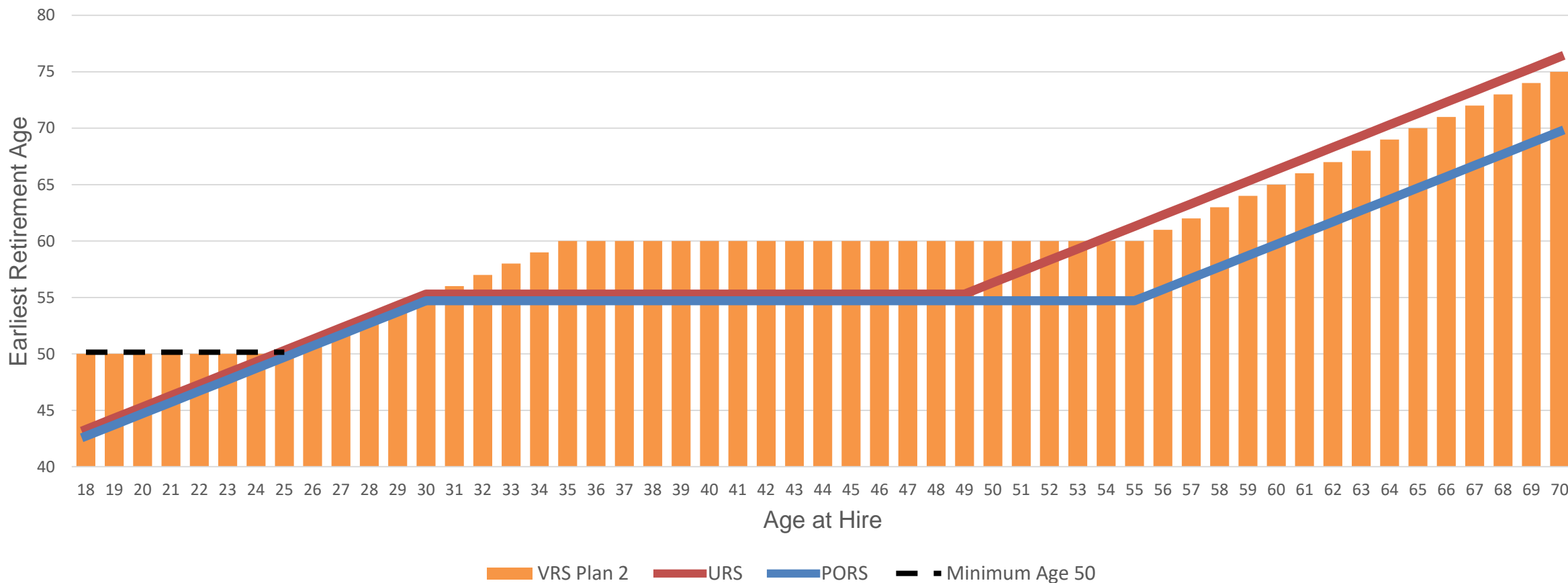
## Public Safety Employees

Jurisdiction	Retirement Eligibility	Minimum Retirement Age
Fairfax County Uniformed Retirement System (URS) Plan E	25 Years of Service -or- Age 55 with 6 Years of Service	None <b>(Proposed: 50)</b>
Fairfax County Police Officers Retirement System (PORS) Plan B	25 Years of Service -or- Age 55	None <b>(Proposed: 50)</b>
Virginia Retirement System (VRS) Plan 2 (Loudoun, Prince William)	25 Years of Service -or- Age 60 with 5 Years of Service	50
Federal Government (FERS)	20 Years of Service	50
City of Alexandria	25 Years of Service -or- Age 55 with 5 Years of Service	50
Arlington County	25 Years of Service -or- Age 52 with 5 Years of Service	None

# Retirement Eligibility Comparison

## Public Safety Employees – Minimum Retirement Age 50

Earliest Retirement Age by Age at Hire



# 5-Year Salary Averaging Period (All)

Potential Plan Design Changes for New Hires



# Salary Averaging Period

## General Employees

Jurisdiction	Salary Averaging Period
Fairfax County Employees Retirement System (ERS) Plans C/D	3 years ( <b>Proposed: 5 years</b> )
Virginia Retirement System (VRS) Hybrid Plan	5 years
Federal Government (FERS)	3 years
Arlington County	3 years

# Salary Averaging Period

## Public Safety Employees

Jurisdiction	Salary Averaging Period
Fairfax County Uniformed Retirement System (URS) Plan E	3 years ( <b>Proposed: 5 years</b> )
Fairfax County Police Officers Retirement System (PORS) Plan B	3 years ( <b>Proposed: 5 years</b> )
Virginia Retirement System (VRS) Plan 2	5 years
Federal Government (FERS)	3 years
City of Alexandria	4 years
Arlington County	3 years

# Eliminate Pre-Social Security Supplement (ERS/URS)

Potential Plan Design Changes for New Hires

# Pre-Social Security Supplement

## General Employees

Jurisdiction	Social Security Leveling
Fairfax County Employees Retirement System (ERS) Plans C/D	Supplement <sup>1</sup> <b>(Proposed: Option)</b>
Virginia Retirement System (VRS) Hybrid Plan	Option <sup>2</sup>
Federal Government (FERS)	Supplement <sup>3</sup>
Arlington County	Option <sup>4</sup>

- <sup>1</sup> The pre-Social Security supplement in the Fairfax County ERS is provided to normal service retirees from the date of retirement until they reach normal Social Security retirement age. The supplement is calculated using a benefit multiplier of 1.0%.
- <sup>2</sup> Employees covered under the VRS Hybrid Plan may elect the Advance Pension Option at retirement. Under this option, the VRS annuity is temporarily increased until an age of the retiree's choosing, between the ages of 62 and the retiree's normal Social Security retirement age. The VRS annuity is permanently reduced once the retiree reaches the specified age.
- <sup>3</sup> Under the Federal Employees Retirement System (FERS), an annuity supplement is paid until age 62 to retirees that qualify for an unreduced annuity. The annuity supplement is calculated by first estimating the retiree's Social Security benefit at age 62 based on a 40-year career. The estimated Social Security benefit is then reduced by the fraction of a 40-year career that was worked under FERS to determine the annuity supplement. The annuity supplement is subject to an earnings test, and is reduced by \$1 for every \$2 of earnings over the Social Security minimum level of earnings. While federal employees who retire before the age of 62 are eligible for this annuity supplement, the basic annuity formula for those who retire at age 62 or older with at least 20 years of service uses a higher benefit multiplier than those who retire under age 62 or with less than 20 years of service.
- <sup>4</sup> Retirees in the Arlington County Employees' Retirement System may elect a Social Security Option as an annuity payment option. Under this option, the annuity is temporarily increased either until age 62 or until the retiree reaches normal Social Security retirement age, at which time the annuity is permanently reduced.

# Pre-Social Security Supplement

## Public Safety Employees

Jurisdiction	Social Security Leveling
Fairfax County Uniformed Retirement System (URS) Plan E	Supplement <sup>1</sup> ( <b>Proposed: Option</b> )
Fairfax County Police Officers Retirement System (PORS) Plan B	None <sup>2</sup>
Virginia Retirement System (VRS) Plan 2	Supplement <sup>3</sup>
Federal Government (FERS)	Supplement <sup>4</sup>
City of Alexandria	None
Arlington County	Option <sup>5</sup>

<sup>1</sup> The pre-Social Security supplement in the Fairfax County URS is provided to normal service retirees from the date of retirement until they reach normal Social Security retirement age. The supplement is calculated using a benefit multiplier of 0.3%.

<sup>2</sup> Fairfax County police officers do not contribute to Social Security based on their employment as Fairfax County police officers, and therefore a pre-Social Security supplement is not included in the design of the Police Officers Retirement System.

<sup>3</sup> Employees covered under VRS that retire with at least 20 years of hazardous duty service are eligible for a hazardous duty supplement. The supplement is currently \$13,548 per year, and is payable from retirement until the retiree reaches normal Social Security retirement age.

<sup>4</sup> Under the Federal Employees Retirement System (FERS), an annuity supplement is paid until age 62 to retirees that qualify for an unreduced annuity. The annuity supplement is calculated by first estimating the retiree's Social Security benefit at age 62 based on a 40-year career. The estimated Social Security benefit is then reduced by the fraction of a 40-year career that was worked under FERS to determine the annuity supplement. The annuity supplement is subject to an earnings test, and is reduced by \$1 for every \$2 of earnings over the Social Security minimum level of earnings.

<sup>5</sup> Retirees in the Arlington County Employees' Retirement System may elect a Social Security Option as an annuity payment option. Under this option, the annuity is temporarily increased either until age 62 or until the retiree reaches normal Social Security retirement age, at which time the annuity is permanently reduced.

# Eliminate 3% Formula Increase (All)

Potential Plan Design Changes for New Hires

# Retirement Benefit Calculation

## 3% Formula Increase

- Retirement benefits became taxable by the Commonwealth of Virginia effective with the 1989 tax year
- In order to offset the impact, the Board approved a 3% increase in retirement benefits

	Employees'	Uniformed	Police
Base Multiplier	2.00%	2.50%	2.80%
3% Increase	0.06%	0.08%	0.08%
<b>Effective Multiplier</b>	<b>2.06%</b>	<b>2.58%</b>	<b>2.88%</b>

# Increase Employee Contribution

from 5.33% to 6% (ERS)

from 7.08% to 8% (URS)

from 8.65% to 10% (PORS)

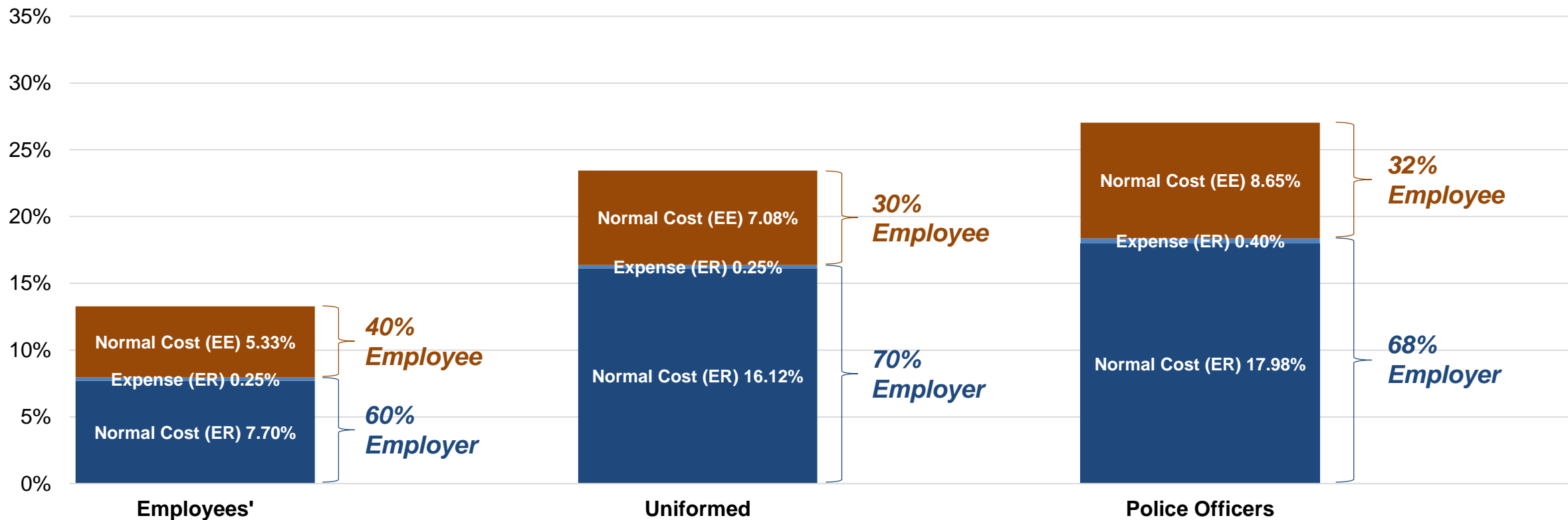
Potential Plan Design Changes for New Hires



# Retirement Contribution Rates

## Components of Rates when 100% Funded

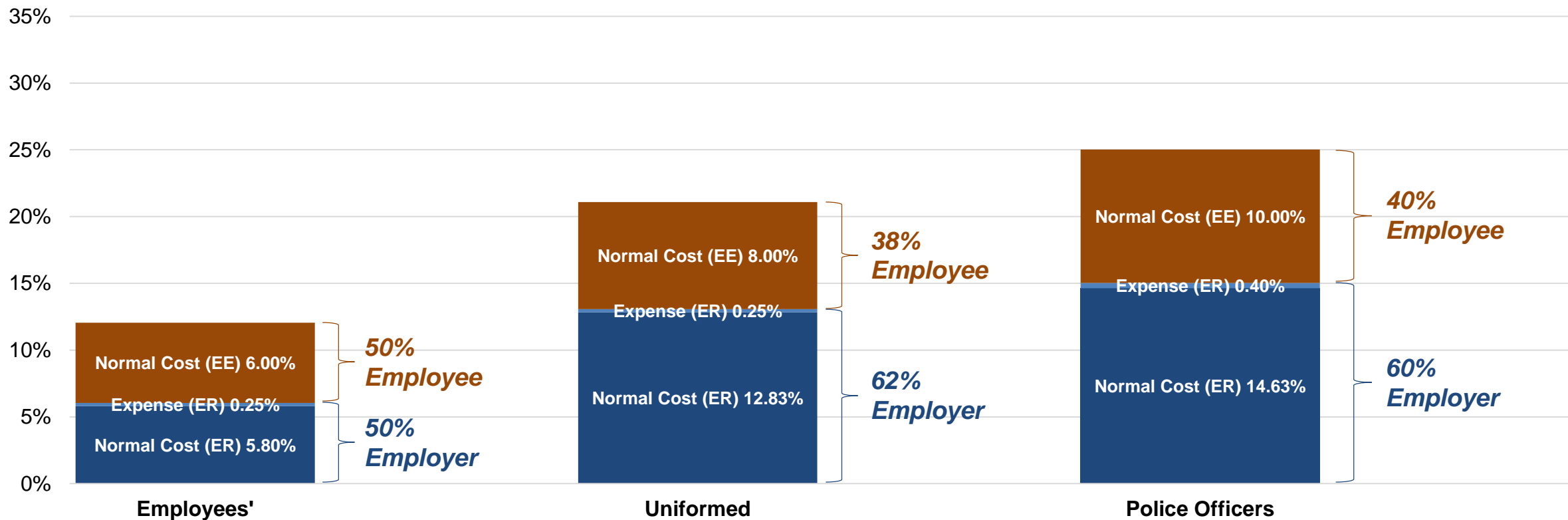
Employee and Employer Portions of Normal Cost and Expenses (Post-2013 Plans)



# Retirement Contribution Rates

## Components of Rates when 100% Funded

Employee and Employer Portions of Normal Cost and Expenses (Proposed Plans)



# Proposed Package

- ✓ Rule of 90 (ERS)
- ✓ Minimum Retirement Age 60 (ERS) and 50 (URS/PORS)
- ✓ 5-Year Salary Averaging Period (All)
- ✓ Eliminate Pre-Social Security Supplement (ERS/URS)
- ✓ Eliminate 3% Formula Increase (All)
- ✓ Increase Employee Contribution from 5.33% to 6% (ERS), from 7.08% to 8% (URS), and from 8.65% to 10% (PORS)

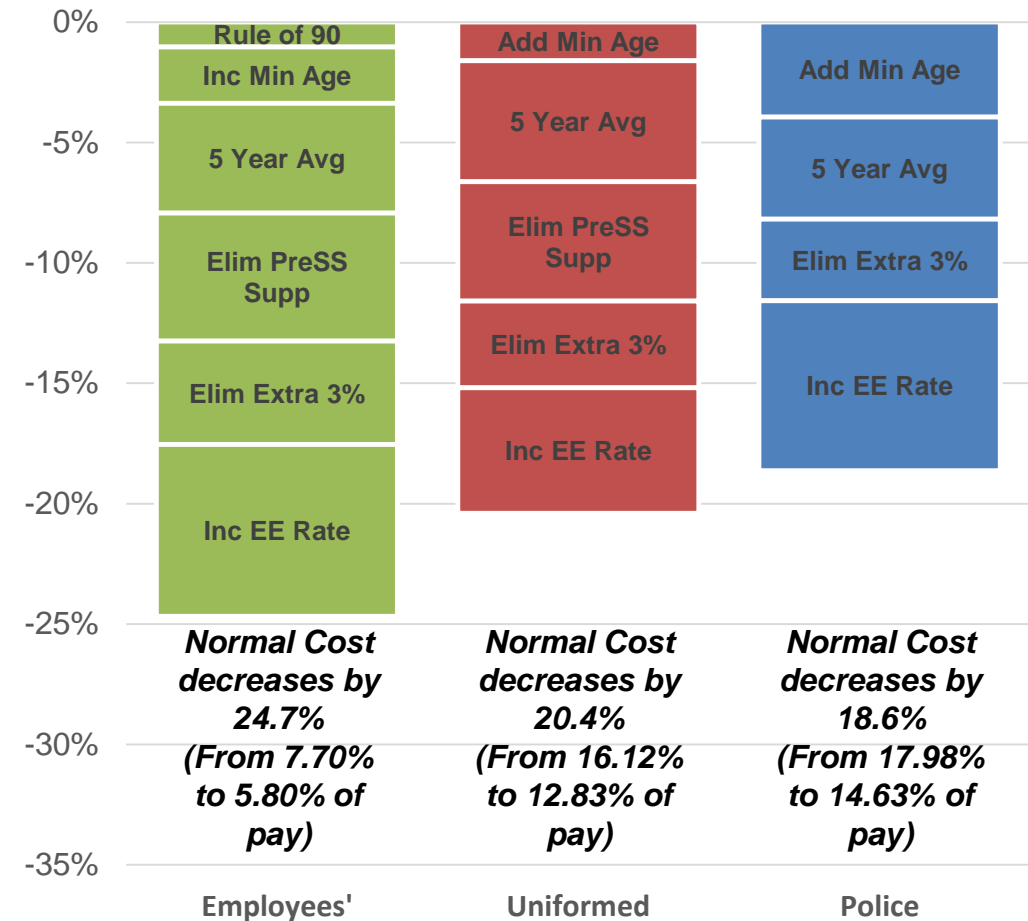
# Potential Change for New Hires

## Proposed Package

- Estimated General Fund savings of approximately \$16.4 million when fully implemented based on current payroll

- ✓ Rule of 90 (ERS)
- ✓ Minimum Retirement Age 60 (ERS) and 50 (URS/PORS)
- ✓ 5-Year Salary Averaging Period (All)
- ✓ Eliminate Pre-Social Security Supplement (ERS/URS)
- ✓ Eliminate 3% Formula Increase (All)
- ✓ Increase Employee Contribution from 5.33% to 6% (ERS), from 7.08% to 8% (URS), and from 8.65% to 10% (PORS)

**Proposed Package**  
*Reduction in Employer Normal Cost*

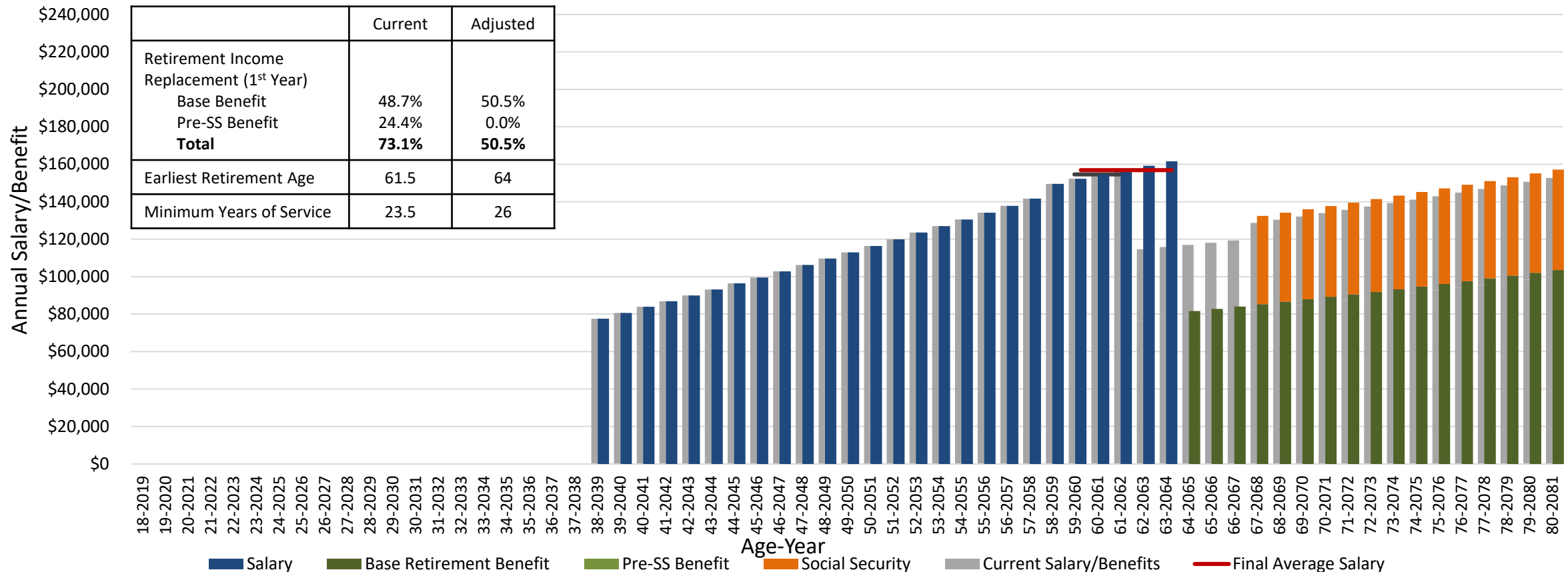


# Employees' Retirement System

## Proposed Package: Average Age Hire

- New Hire in 2039 at Age 38, Hired at 24% of Scale
- Assume S-21 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
- Assumes 1.5% annual County retiree COLA
- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Average Age New Hire

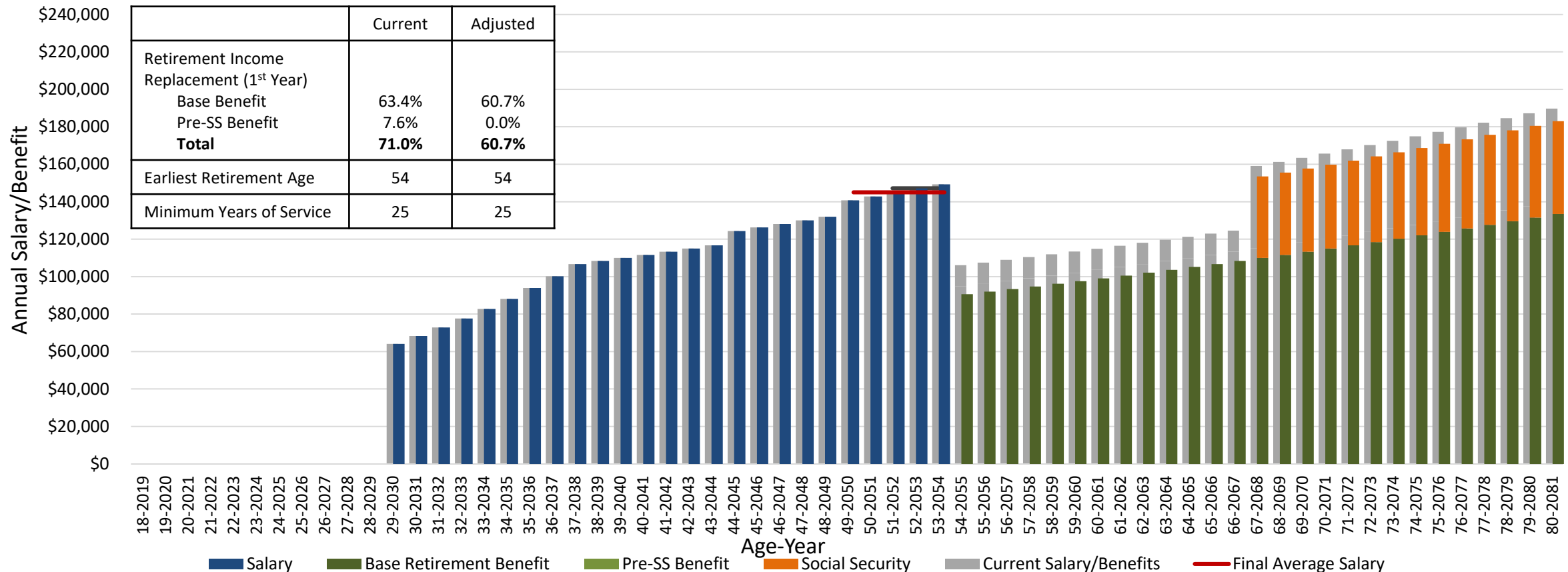


# Uniformed Retirement System

## Proposed Package: Average Age Hire

- New Hire in 2030 at Age 29, Hired at Step 1
- Assume F-18 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
- Assumes 1.5% annual County retiree COLA
- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Average New Hire

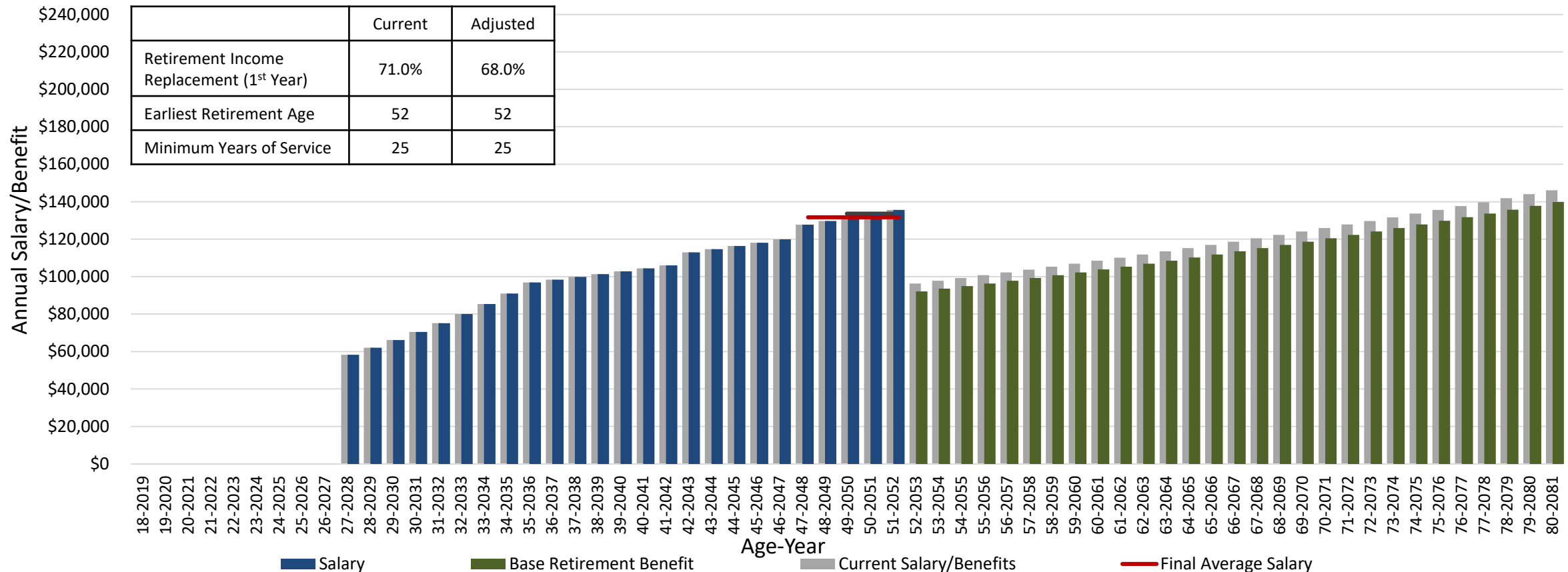


# Police Officers Retirement System

## Proposed Package: Average Age Hire

- New Hire in 2028 at Age 27, Hired at Step 1
- Assume O-17 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
- Assumes 1.5% annual County retiree COLA
- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Average New Hire

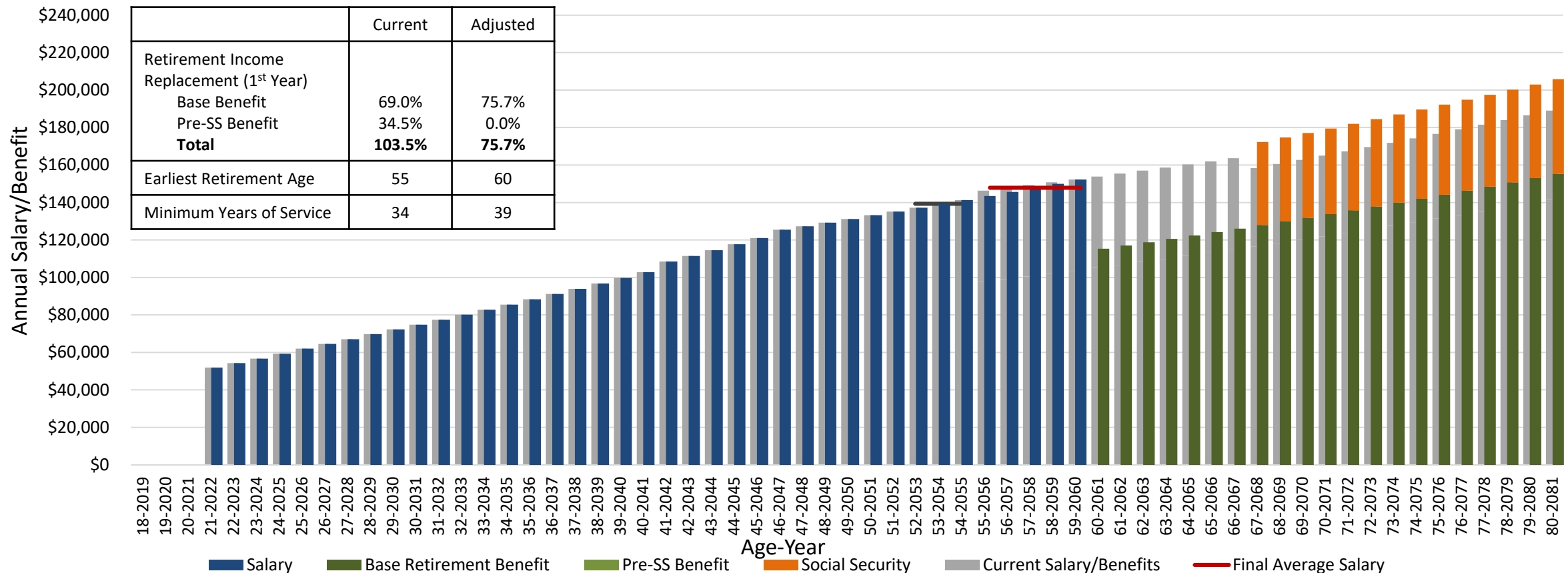


# Employees' Retirement System

## Proposed Package: Age 21 Hire

- New Hire in 2019 at Age 21, Hired at 0% of Scale
- Assume S-21 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
- Assumes 1.5% annual County retiree COLA
- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Age 21 New Hire



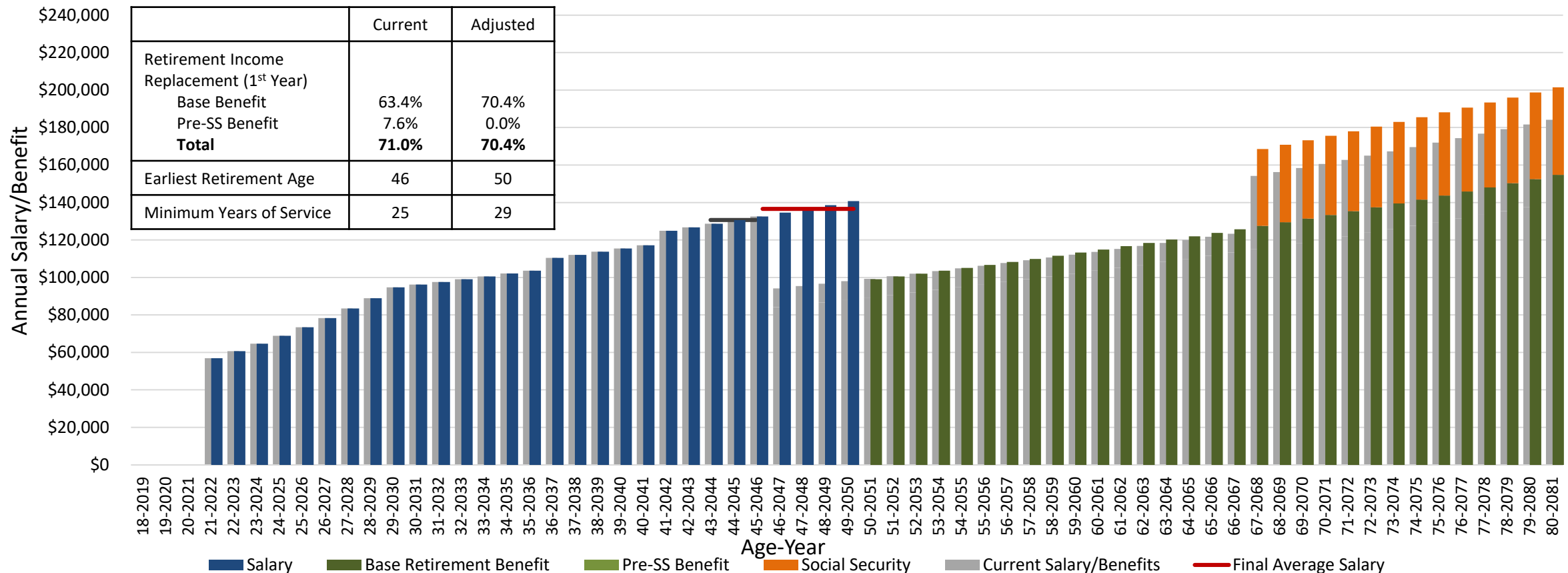


# Uniformed Retirement System

## Proposed Package: Age 21 Hire

- New Hire in 2019 at Age 21, Hired at Step 1
- Assume F-18 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
- Assumes 1.5% annual County retiree COLA
- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Age 21 New Hire

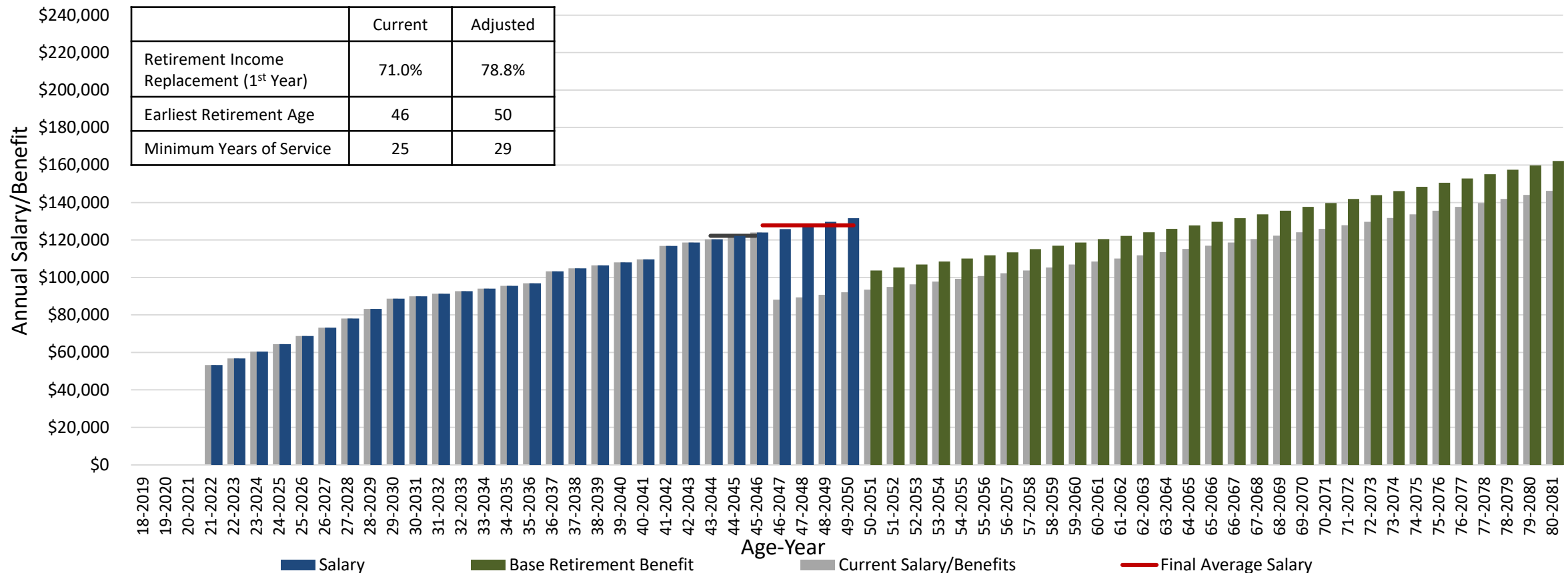


# Police Officers Retirement System

## Proposed Package: Age 21 Hire

- New Hire in 2019 at Age 21, Hired at Step 1
- Assume O-17 with no promotions
- Retiring at earliest age for unreduced benefits
- Does not include pension-eligible stipends or extra pay
- Estimates Social Security benefit at 30% of Final Average Salary
- Assumes 1.5% Market Rate Adjustments and full funding of pay plan each year
- Assumes 1.5% annual County retiree COLA
- Assumes 1.0% annual COLA for Social Security

Projected Retirement Benefit Based on Age 21 New Hire



# Next Steps/Tentative Timeline

- Discussion of plan changes and direction to proceed by Personnel Committee
  - June 26, 2018 – Next Personnel Committee meeting
- Implementation of changes in code by Board
  - Authorization to advertise public hearing
  - Public hearing and approval of amendments to code
- Changes effective for new hires

# Questions