

Frederick A. Costello
February 19, 2011

Introduction: The employee-pension liability is causing many counties throughout the United States to be on the verge of bankruptcy¹. The liability arises because the employees, along with other government employees, have defined-benefit pensions. The pension funds lost much value during the past few years when the housing market collapsed; therefore, the governments have insufficient funds to cover the cost of the pensions. Taxes must be greatly increased to pay for the guaranteed pension benefits.

An optional defined-contribution plan could be initiated by which the employee, the State, and the County governments would contribute to a 401k-type plan to the benefit of the employee so that governments (i.e., taxpayers) would not be liable for paying a guaranteed pension.

The purpose of this report is to compare the pension benefits that employees would get under a defined-contribution plan to the benefits they would receive under the current defined-benefit plans (ERFC plus VRS).

Summary: The employee experiences many advantages from a defined-contribution retirement plan as compared to the present defined-benefit plan. For example, in the employee's early years, when her financial needs are high, she can put less into the pension so she can receive more in salary. She can qualify for a higher mortgage because her salary is higher. She can pay off her credit card and other debts. She can invest in stocks and mutual funds that have a higher ROI. Later, her offspring can inherit the funds.

The arguments against the defined-contribution plan are two-fold: (1) the employee is not guaranteed the pension amount and (2) the employee will be unable to match the return on investment (ROI) realized by the defined-benefit plan. The first objection is well founded. It is this guarantee that is causing much of the problem with public-sector pension funds. When the economy is poor, private-sector people, already suffering from the economy, must pay more for the public-sector pension. The second objection can be circumvented by allowing the defined-contribution plan to invest in the defined-benefit portfolio so the ROI is exactly the same. The alternative investments can, however, yield a higher ROI (see Appendices A and B). If the economy is good, so the ROI's are high, the employee with the defined-contribution plan could benefit tremendously, whereas a high ROI in the defined-benefit plan benefits the employer (i.e., the taxpayer). (In practice, years of high ROI are followed immediately with years of increasing benefits, so the taxpayer has not been getting tax relief.)

We suggest that employees be given an option between the current defined-benefit plan and a new defined-contribution plan. Employees would need to be instructed in the costs and benefits of the two plans, based on sound economic analyses, so they could make informed decisions. The County could also offer new hires only the defined-contribution plan. The County has already contracted for a study of all benefits, including a defined-contribution plan; however, the study will not be completed until 2014 (Appendix D).

Discussion:

Under the current, defined-benefit plan, the employee puts 4% of her salary into the pension fund and, as proposed for FY2012, the County adds another 17.2% (see Appendix C). The latter amount varies from year to year, depending on the return on investment (ROI) that the fund experiences. These contributions to the fund are the same for all employees, regardless of their financial needs.

¹ <http://www.forbes.com/2009/11/06/pension-fund-bankruptcy-bailout-personal-finance-uglychoices.html>

With a defined-contribution plan, the employee would have control over (1) how much of her compensation is taken immediately and (2) how much is put into reserve for retirement.

Economic environment

To compare the two types of plans, we must make several economic assumptions. We choose:

Inflation rate:	4.0%
Salary escalation rate:	3.0% (annual increase in salary for each step)
Mortgage rate:	8.0%
Pension ROI:	7.5% (return on investment)
Age at death:	83 (as expected for those reaching the age of 60)

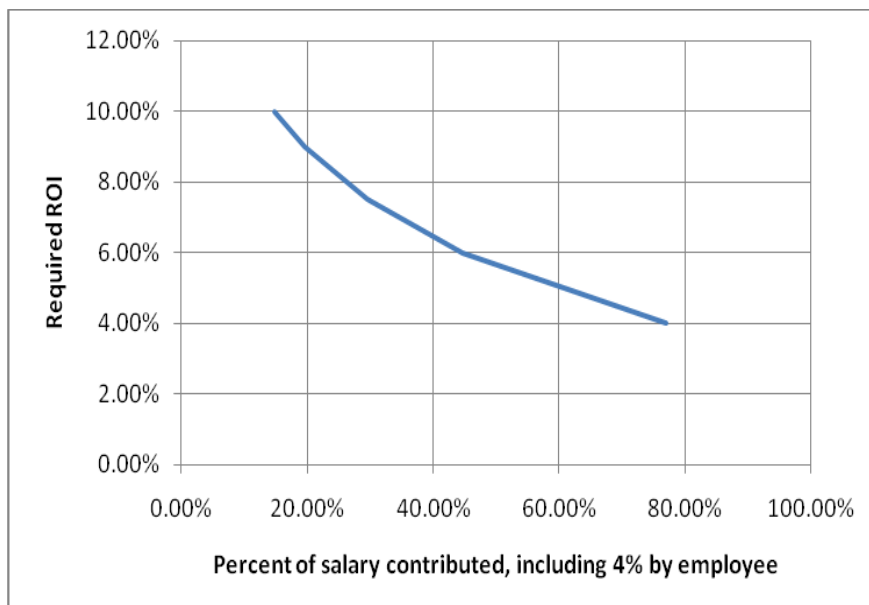
Prototype employee

We take as our prototype employee a teacher who starts at the bottom of the 2011 salary scale and has a Master’s degree. She is hired at 22 years of age and works for 34 years, so the sum of the teacher’s age and years worked is 90 at the time of retirement. The teacher advances one step per year.

The Current Defined-Benefit Pension

Under the current Fairfax County employee pension plan, which is a defined-benefit plan, the employee pays 4% of her salary into the ERFC and nothing into the VRS². The County pays into the ERFC and VRS in accordance with the actuarial needs of the pension plan. For the economic environment listed above, the employee’s pension would be, in today’s dollars, accounting for inflation, \$73,854 per year. Upon reaching age 67, the employee would receive approximately another \$25,000 from Social Security (in 2011 dollars), bringing her total income to approximately \$100,000 per year – more than she was ever paid as an active employee. If she worked during the summers of her working years and invested the money earned, her income would be somewhat greater. If she marries another teacher, their combined retirement income will be approximately \$200,000 per year starting at age 67.

The cost of this pension, including the 4% contribution made by the employee, should³ depend on the ROI realized by the pension fund. The following graph shows the relationship under equilibrium conditions, with a 4.0% inflation rate and 4.0% salary escalation rate (rate at which salaries at each step are increased). Equilibrium implies a constant number of employees and retirees. The 2011 contribution is scheduled to be 17.2% by the taxpayer and 4.0% by the employee, for a total of 21.2%. At this contribution rate, the pension fund must realize an ROI of 8.7%. If the ROI is the 7.5% used in the actuarial computations, the contribution must total 29.6% (including the employee’s 4%). The contribution rate for this year is lower than equilibrium



because the Commonwealth is not allowing the County to pay the full, actuarially required VRS contribution.

For comparison, the average ROI's over the past 30 years are shown in the following chart. The 8.7% ROI when the inflation is 4.0% corresponds to a rate of 4.5%, as corrected for inflation. To achieve the same 4.5% when the inflation rate is 3.2%, the uncorrected ROI must be 7.9%. This ROI is seen from the chart to be a

PERIODS ENDING JUNE 30						
Average Annual Return on Investment						
Over past:	1 year	3 years	5 years	10 years	20 years	30 years
Total VRS Fund	14.1%	-4.9%	3.1%	3.1%	8.0%	10.4%
ERFC	17.1%	-3.3%	3.4%	4.3%	8.7%	
S&P 500	13.6%	-4.2%	1.0%	0.3%	7.8%	9.1%
U.S. 30-yr Treasuries	4.3%	4.2%	4.5%	4.8%	5.8%	7.2%
Inflation	1.5%	1.4%	2.2%	2.3%	2.5%	3.2%

reasonable expectation.

A Defined-Contribution Alternative

In a defined-contribution plan, the employee would choose the amount of her remuneration (i.e., salary plus pension contribution) that would be put into the pension fund. Upon retirement, she would have accumulated moneys in the pension fund that would be distributed to her over the remaining years of her life.

If the defined-contribution plan paid in 17.2% by the taxpayer and 4.0% by the employee and the funds were invested in a defined-benefit plan that returned 8.7%, the two plans would be identical; however, the defined-contribution plan would not have the payout guaranteed by the taxpayer and enjoyed by the employee. In addition, the defined-contribution plan would not cover years after age 83, although, with the accumulated pension funds, the employee could buy an inflation-protected commercial annuity that does pay until death. If the plan returned less than 8.7%, the employee would receive a smaller pension. On the other hand, if the plan returned more than 8.7%, the employee would receive a larger pension.

As the graph above shows, if a 10% ROI were realized, the total contribution would need be only 14.9% of her salary, rather than 21.2%; therefore, she could keep the 6.3% difference as salary. Her pension would remain as it would be with the defined-benefit plan. The following table shows the ROI's realized by several top-performing Vanguard mutual funds that would have provided even more than this 10% yield.

Vanguard Funds	Average Annual Returns as of 01/31/2011				
	1 Year	5 Year	10 Year	Since inception	Inception date
Precious metals and mining	35.4%	8.6%	21.4%	8.3%	5/23/1984
Energy	27.2%	6.4%	15.4%	13.5%	5/23/1984
Emerging Markets Stock Index	22.4%	9.0%	13.7%	8.8%	5/4/1994
REIT index	40.0%	2.6%	10.9%	10.6%	5/13/1996
Selected value (mid-cap)	25.2%	4.7%	8.7%	7.9%	2/15/1996
International explorer	25.9%	4.4%	8.1%	11.0%	11/4/1996

There are many advantages of the defined-contribution plan:

1. It is flexible. The financial needs of a starting employee are not great, but they increase after marriage and children. They persist at a high rate for approximately 25 years, until the children finish college. They then decrease dramatically, although usually not back to the level of the early days. A defined-contribution plan can accommodate these varying needs because the contribution can be changed from year to year.
2. The pension amount can be increased by working more years, putting more money into the defined-contribution plan during the years from age 56 to age 67, as private-sector employees do. After retiring, she can also withdraw less if she needs less.
3. The employee can qualify for a larger mortgage. If the employee remuneration is the same as under the defined-benefit plan, the employee's nominal salary would be approximately 17.2% more than it is now. She would therefore qualify for a larger mortgage. Consider a starting employee earning \$49,433. At \$49,433, she would meet the FHA requirements for a home costing approximately \$139,000⁴. If she were to take her pension as salary, she would qualify for a home costing \$163,000. The income-tax deductibility of the interest on the mortgage enhances this advantage.
4. The employee can invest in more lucrative stocks. To be safe, she could invest in the same portfolio as used by the defined-benefit plan; however, she could also invest in mutual funds, such as the Vanguard funds listed above. Investing in these funds would result in a significantly larger pension, for a given amount paid in, than in investing in the defined-benefit portfolio.
5. As an alternative to investing in stocks, the employee could pay off her credit card each month. Interest on credit-card debt is typically 14.1% and college graduates typically owe \$20,000 on their credit cards (see Appendix A). This benefit will be especially keen in the early years.
6. The funds in the retirement plan will be inherited by the employee's beneficiaries, if the employee does not use her retirement funds to purchase a life-long, inflation-protected annuity.

Switching from a defined-benefit plan to a defined-contribution plan has an interesting side effect. The employee becomes an owner of industry. She is no longer a ward of the government. As a ward of the state, her relative wealth is greater when the economy is poor and others are living on less income; therefore, she benefits from a poor economy, an economy that harms the nation. She is being paid this pension from taxes, probably via increased tax rates, that come from people already suffering from a poor economy. Under the defined-contribution plan, as an owner of industry, she would become vested in improving the economy and, consequently, in the general welfare of her tax-paying neighbors.

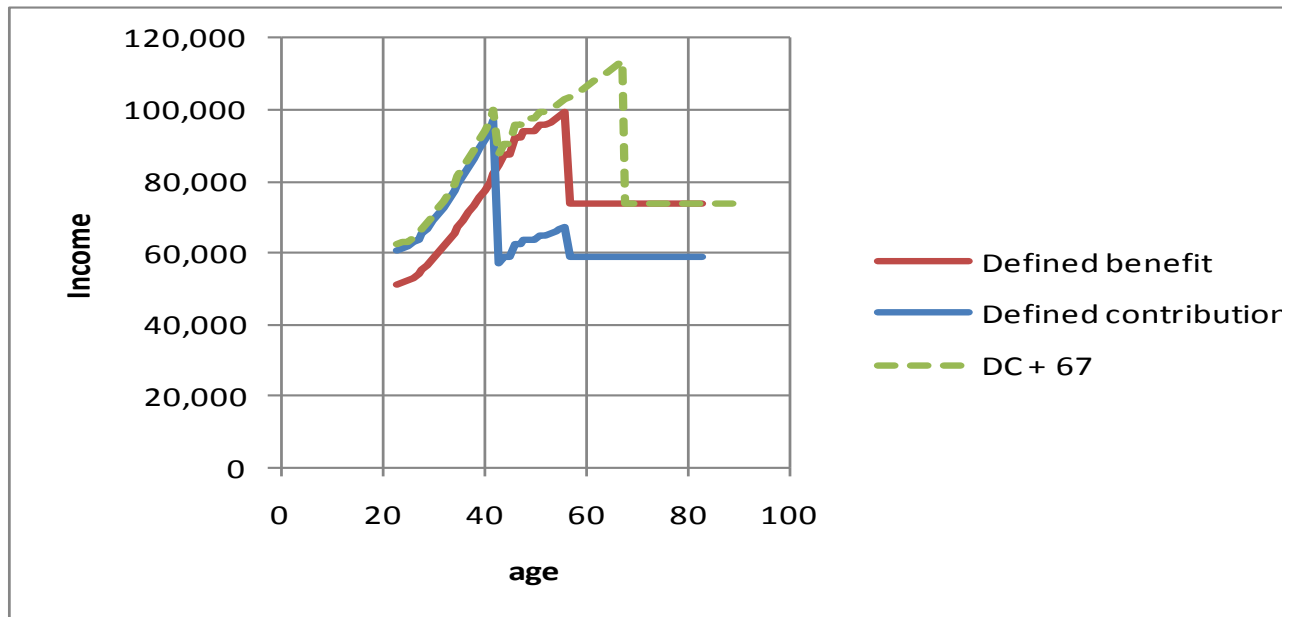
Comparison

To illustrate the differences between the current defined-benefit plan and the alternative defined-contribution plan, we will assume the following for the two plans:

Employee contribution:	4.0%
Return on investment:	8.7%
Government contribution:	17.2%

The two plans can be most meaningfully compared using the net income (total remuneration minus the pension contribution) for the two plans. We do so with the foregoing percentages; therefore, the comparison assumes that the two plans will have the same cost to the taxpayer. The following graph shows the comparison. DC+67 corresponds to the defined-contribution plan but working until age 67 rather than age 56. We have assumed that, after 30 years, the salaries will increase at the CPI-U rate plus another 0.9%. The graph is in 2011 dollars.

⁴ http://www.fha.com/calculator_afford.cfm



The income stream for the defined-contribution plan is somewhat arbitrary, because the flexibility of the plan allows for any sequence of contributions to the retirement fund. For the sequence of contributions shown, the starting net income is \$10,000 per year higher for the defined-contribution plan and \$20,000 higher at age 42, dropping suddenly to approximately \$35,000 less until retirement at age 56. The pension amount, the flat line after age 56, is \$15,000 less. If the employee works until age 67, as do most private-sector workers, she more than overcomes the disadvantages in these later years. This option of working to age 67 provides a safety factor in case the pension ROI is too low.

With retirement at age 56, the employee's income becomes zero at age 84 if she is on the defined-contribution plan. To avoid such a disaster, the employee would do well to invest in an inflation-protected life-time annuity immediately upon retirement. There are insurance plans that offer an inflation-protection rider. These funds have an ROI that matches that of the U.S. government TIPS (Treasury Inflation Protected Securities) and the mutual funds that are based on the TIPS. In buying the annuity, the employee will be pooling her retirement funds with others such that the average age at death is 83 and her own annuity will persist as long as she lives.

The disadvantage of the defined-contribution plan is the partial loss of the guaranteed income, the \$73,854. This amount is guaranteed in the defined-benefit plan. Under the defined-benefit plan, if funds were ever insufficient, the taxpayer would be required to pay more in taxes to make the funds sufficient. No such guarantee is available with the defined-contribution plan. The significance of this loss of guarantee can be assessed by examining the retirement income of others. According to the Employee Benefit Research Institute, the average income for people ages 65 and older in 2008 was \$29,214, including Social Security. These people have worked 43 years or more. Within the same age group, those who had graduate degrees earned \$62,777, while those who held bachelor degrees made \$45,948⁵. So the employee's retirement income under the present, guaranteed defined-benefit plan exceeds what private-industry people receive. These same private-industry taxpayers, even when retired, will be paying the teacher's considerably greater pension. Under the defined-contribution plan, there is a safety net; namely, a teacher can work more years. Instead of retiring after 34 years, the teacher could work 43 years or more, just as her non-teacher counterpart in private industry does. The graph above shows how working these extra years provides the safety net.

⁵ http://www.ehow.com/about_5132878_average-retirement-income-united-states.html

Impact on the employer

The primary benefit to the employer (i.e., the taxpayer) of switching to a defined-contribution plan is relief from the responsibility of guaranteeing the employee the \$73,854 pension. The taxpayer is currently guaranteeing the employees that, no matter what happens in the economy and to the taxpayer personally, the teacher will receive this pension. The recent decrease in the value of homes and the economy in general have brought the value of the VRS and ERFC pension funds below their actuarial liability (Report -022)⁶. The State pension fund (VRS) is additionally underfunded because the VRS suspended the County contribution to the VRS for two years. Over the next ten years, real-estate taxes will be increased to cover the amount the County did not pay for these two years, along with 7.5% interest that the State is charging the County for these deferred payments. If the pension plan were a defined-contribution plan, the guarantee would be absent and this added burden on the taxpayer would not arise. (See Appendix C for additional discussion of this added burden.)

To the taxpayer, the primary disadvantage of the defined-contribution plan is realized in a good, strong economy, when the taxpayer can absorb a disadvantage. Under the current defined-benefit plan, if the pension fund experiences a high rate of return, the contribution into the plan from the employer (i.e., the County and, therefore, the taxpayers) can be reduced and thereby the taxpayer can experience lower taxes. As the table above indicates, history shows that the fund managers have indeed been able to maintain an ROI above the actuarial assumption of 7.5% return on investment in an inflation environment of 4.0% (3.37% return on investment as adjusted for inflation). Despite this higher ROI, taxes have not thereby been decreased. A possible reason for the lack of decrease is the addition of retirement benefits that accompanied the favorable economy. For example, the Deferred Retirement Option Plan (DROP)⁷ was introduced in 2005 and the Other Post Employment Benefits (OPEB) was introduced in 2007. Before FY2008, the employees paid 5% into the VRS; now, the County pays the employee's VRS contribution. There is now a post-retirement health-insurance benefit. From inception to 2001, approximately one-third of the ERFC benefit ended when Social Security payments started. Now the ERFC continues until death. Policemen formerly contributed 12% to their retirement. Now they contribute 11%. These escalations of benefits have not been rescinded during the economic downturn.

A defined-contribution plan would prevent this apparently irreversible escalation of benefits that are granted to the employees during good economic times. The economic benefits would be experienced by the employees directly in their defined-contribution plans so that the taxpayer burden would remain unchanged.

Switching to a defined-contribution plan would circumvent the actuarial and ROI assumptions that the government must now make. Today's plan consultants might still be used, although it is unlikely that, if they modify their strategy because the taxpayer-provided risk protection is absent, they will invest in as risky investments as they now do. The performance of the consultant's recommended portfolio will probably be no better than available from the many competing mutual funds; therefore, the need for a consultants may vanish. Some commercial mutual funds have had a consistently better ROI than the pension fund (see Appendix C and the table with the Vanguard results, above).

Conclusions

The defined-contribution plan offers the employee the possibility of a considerably increased pension if the economy does well, although it eliminates the current guaranteed pension amount. The defined-contribution plan enables the employee to have more cash when she is young – when she needs it most – than does the current defined-benefit plan. Under the current defined-contribution plan, the taxpayer is doubly burdened

⁶ A recent article on the loss of assets in pension funds and what is being done about the loss can be found at <http://www.cnbc.com/id/41642979/>

⁷ For information on the increased benefits, see <http://www.fairfaxcounty.gov/finance/cafr.htm>

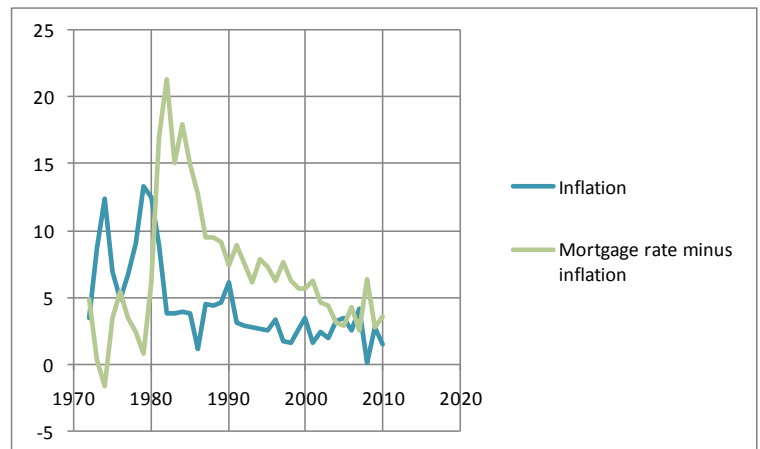
because, when the economy is poor, the taxpayer's taxes would be increased while the taxpayer's income is reduced.

Clearly, a defined-contribution plan could offer some, perhaps many, employees a better pension benefit than is currently provided by the defined-benefit plan. The employees should at least be given an option of the two plans. Each employee can then decide between the loss of a guaranteed pension and the combined benefits of cash when young with a potentially higher return on investment that he might obtain via alternative investments, mortgage prepayment and avoidance of credit-card debt. He might choose the defined-contribution plan despite the loss of guarantee simply because he knows that he has as the possibility of working until age 67 to offset any economic recession.

Appendix A: Mortgage and Credit Card Debt as Alternative Investments

A young employee may want to purchase a house and, therefore, may prefer a lower pension with a higher salary rather than the current pension with a lower salary. Home mortgages averaged 4.1% above inflation from 2000 to 2010 and 6.8% above inflation from 1990 to 2000⁸. The lower mortgage rates during the last decade were caused in part by the reaction to the housing collapse; therefore, as can be seen in the following graph, were not typical, nor were the mortgages of the hyperinflation of the Carter years (up to 1980). In our analysis we will use the 6.8% from 1990 to 2000.

The average credit-card debt for college graduates is \$20,000; the average interest rate 14.10%⁹.



⁸ <http://www.freddiemac.com/pmms/pmms30.htm>

⁹ <http://www.creditcards.com/credit-card-news/credit-card-industry-facts-personal-debt-statistics-1276.php#Debt>

Appendix B: Return on Investment by the Pension Funds

The combined defined-benefit pensions from the County and State are funded at a rate approximately equal to 17% of the employee's salary. To provide the employee with the \$73,814 pension after 34 years of work, the pension plan must experience a ROI of 5.88%, as corrected for inflation. This is indeed the track record of the VRS pension plan (see the table below). The defined-contribution plan discussed in the text of this report still has the contribution at 17%, so there appears to be no cost saving to the government (i.e., to the taxpayer). The advantage to the taxpayer is not the current cost but the avoidance of the liability of funding the employee at \$73,814 rate in a poor economy. (The \$73,814 is the constant-dollar amount; the actual amount will be greater due to inflation.)

If the return on investment is only 2.0% above inflation, as would be typical of investments having less risk than those chosen by the managers of the County and State pension plans¹⁰, the liability almost doubles relative to the liability with a 7.5% return on investment in an economy with a 4.0% inflation (3.37% as adjusted for inflation). These rates can be compared to the 2.75% average gain in the Standard and Poor's 500 stocks above CPI-U inflation, including capital gains and dividends, from 1960 to 2008 – before the recent market crash (see Report -022). County residents would see a significant increase in taxes to cover the shortfall if only 2.0% is realized.

The performance of the VRS investments are available in the [VRS Comprehensive Annual Financial Report FY2010](http://www.varetire.org/Pdf/Publications/2010-investment-highlights.pdf), which can be found at: <http://www.varetire.org/Pdf/Publications/2010-investment-highlights.pdf>. The first page shows the return on investment for various periods of time. The ERFC (FY2010) data can be found on Page 11 of [ERFC 2010 Annual Summary](http://www.fcps.edu/erfc/pdf/publications/Annual%20Summary%20Report.pdf), which can be found at <http://www.fcps.edu/erfc/pdf/publications/Annual%20Summary%20Report.pdf>. The returns are summarized in the following chart. The averages for 20 years and 30 years, which are not available on line, were provided by email by Jeanne Chenault (jchenault@varetire.org) from the VRS. Jean Carr from the ERFC provided the 20-year average. The 30-year average is not available for the

PERIODS ENDING JUNE 30, 2010

Average Annual Return on Investment

Over past:	1 year	3 years	5 years	10 years	20 years	30 years
Total VRS Fund	14.1%	-4.9%	3.1%	3.1%	8.0%	10.4%
ERFC	17.1%	-3.3%	3.4%	4.3%	8.7%	
S&P 500	13.6%	-4.2%	1.0%	0.3%	7.8%	9.1%
U.S. 30-yr Treasuries	4.3%	4.2%	4.5%	4.8%	5.8%	7.2%
Inflation	1.5%	1.4%	2.2%	2.3%	2.5%	3.2%

ERFC¹¹.

These ROI's can be compared to what has been realized by commercial mutual funds. For comparison, we choose the six Vanguard funds with the highest 10-year return on investment. The County states that the expenses are 0.54% of the ERFC, or approximately \$2 million. Vanguard index funds listed below charge between 0.25% and 0.52%.

¹⁰ Long-Term U.S. Government Bonds yielded approximately 4.3% above inflation from 2001 to 2010 (see Appendix B).

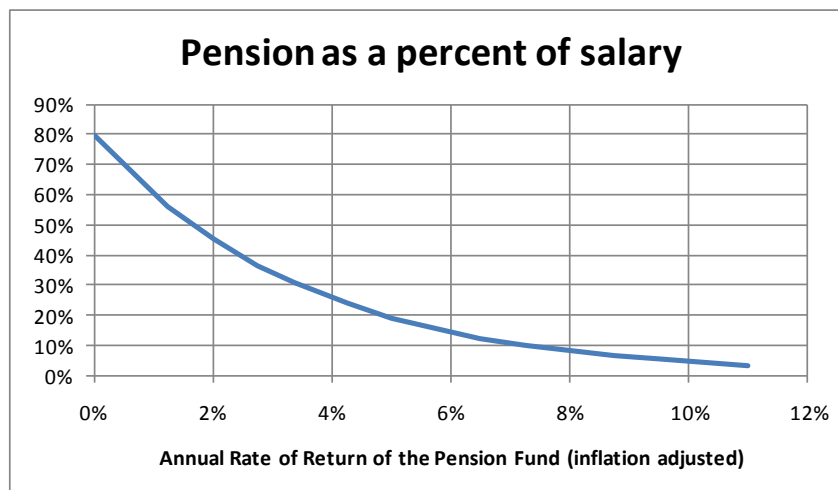
¹¹ These ROI's differ from what we computed from the annual reports. ERFC's Jean M. Carr, who provided the numbers in the table, said that the values reported above are based on month-by-month computations. My year-by-year computations give lower values. I don't understand why they differ.

Average Annual Returns as of 01/31/2011					
	1 Year	5 Year	10 Year	Since inception	Inception date
Precious metals and mining	35.4%	8.6%	21.4%	8.3%	5/23/1984
Energy	27.2%	6.4%	15.4%	13.5%	5/23/1984
Emerging Markets Stock Index	22.4%	9.0%	13.7%	8.8%	5/4/1994
REIT index	40.0%	2.6%	10.9%	10.6%	5/13/1996
Selected value (mid-cap)	25.2%	4.7%	8.7%	7.9%	2/15/1996
International explorer	25.9%	4.4%	8.1%	11.0%	11/4/1996

If the employee had a defined-contribution plan, she could have invested in one of these Vanguard funds so that, upon retirement, she would have a much larger pension than she will receive under the defined-benefit plan.

If we express the employee's pension as a percent of his salary, keeping the percent constant throughout his working career, the percent required to fund his pension depends on the pension fund's return on investment (ROI). For example, if the ROI is 7.5% while the inflation is 4.0%, so that the inflation-corrected ROI is 3.37%, the pension is equivalent to adding 29.6% to the employee's salary. If the ROI is the 30-year average for the VRS, 10.4% while inflation is 3.2%, so that the inflation-adjusted ROI is 7.0%, the pension is equivalent to adding 10.8% to the employee's salary. In this latter case, if the County government, State government, and employee put a total of 10.8% of the employee's salary into the pension fund and the funds earn an inflation-adjusted ROI of 7.0%, the pension would be the same value it is today, providing the same \$73,814 per year for, on average, 27 years.

The percent of salary for other inflation-adjusted ROI's can be read from the following graph.

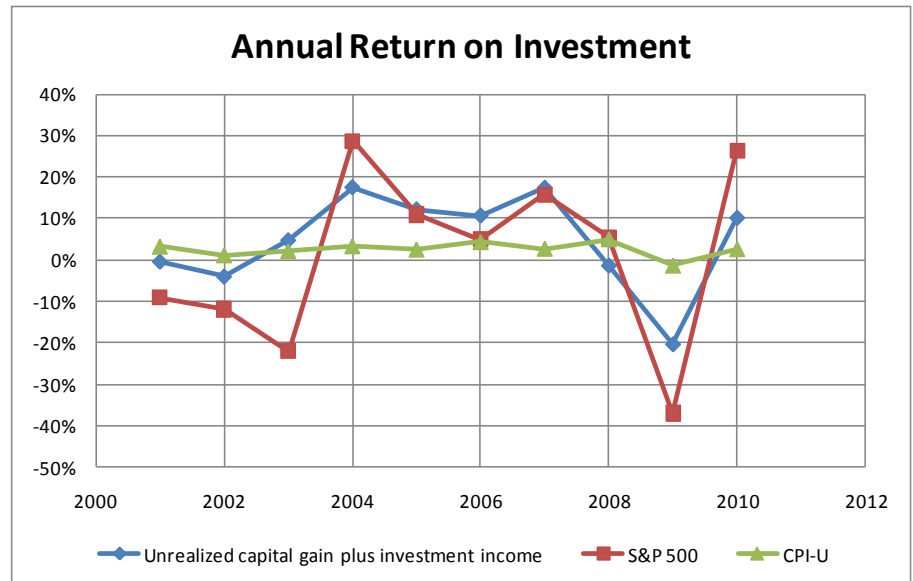


At present, the State and County pay approximately 17% total to the pension funds and the employee, another 4%. The sum of these two amounts corresponds to a 8.72% ROI when inflation is 4.0% (approximately 4.5% inflation-adjusted ROI). The only effect of computations based on the 7.5%/4.0% scenario seems to be the triggers that indicate a pension is over-funded or under-funded.

For example, at the end of FY2008, the actuarial assets for all pensions were only 80% of the actuarial liabilities based on the 7.5%/4.0% scenario (see Report -022). The required State and County contributions were increased because this percentage is less than the 90% trigger. If the assets were evaluated at 10%/4%, instead of \$6.0 billion the assets would be computed as \$7.8 billion, which is more than the \$7.5 billion liabilities; therefore, the contributions would not need to be increased. The reported underfunding may be an artifact of the actuarial assumptions.

The 7.5%/4.0% scenario appears to be a safe estimate, although the ROI was significantly less during the past decade. We would like to see the assets and liabilities given for this safe scenario, but also for the realized gains over the past 10, 20 and 30 years. This added data would be useful to the Board of Supervisors in assessing the risks, rather than only the expected ROI.

The current defined-benefit plan fosters risky investments (see graph, below). The plan administrators and consultants can invest in risky investments that have the potential for a high ROI because they know that, if the investments fail, the taxpayers will be required to replenish the pension fund. The highly variable ROI realized by the pension plan – its volatility -- over the past decade is a good indicator that risky investments are being made. The people that remain at risk are the taxpayers.



Appendix C: Brief Description of the Pension Benefits

The following, taken from CAFR 2010, seems to be out of date as of July 1, 2010.

Plan	Employee contribution	Eligibility
ERFC for all others	4%	
FCERS for employees	4%	Age 55 + 25 years
URS for uniformed workers	4%	Age 55 + 25 years
VRS for employees	0%	
PORS for police	10%	Age 55 + 25 years
DROP		Age+years=80
OPEB	0%	
OPEB for employees	0%	

Unused sick leave counts as time worked. The DROP plan allows the worker to work at full salary for three years beyond retirement. The retirement benefit goes into an escrow account.

Appendix D: Fairfax County Study Contract on Its Pension Plans

From: Ryan, Rosemary [mailto:Rosemary.Ryan@fairfaxcounty.gov]
Sent: Monday, March 14, 2011 4:38 PM
To: fac@facinc.com
Subject: RE: Question from the Federation of Citizens Associations

Dear Mr. Costello,

Thank you for your inquiry. On July 13, 2009, the Board of Supervisors had an information item which notified the Board about the County Executive's intention to execute a contract with Aon Consulting, one of the largest employee benefit consulting and risk managements in the area. The contract runs through May 31, 2014 and had a 2009 value of \$250,000¹².

In the Personnel Subcommittee of the BOS meeting held on January 18, 2011 the Board was given a Benefits Update Briefing which stated that early results from Aon are expected in the Spring, 2011 on several topics. Those include:

- Articulation of Fairfax retirement benefits philosophy
- Benefits adequacy of current design
- Analysis of Defined Contribution vs. Defined Contribution models for retirement plans
 - Will also look at hybrid designs
 - Analysis of state law
- Benchmarking against other jurisdictions
- Review of other benefit features including
 - Social Security supplements
 - COLA
 - DROP
- Review of retiree medical trends and design as part of a total retirement model.

While there is a Personnel Subcommittee of the BOS meeting next Tuesday at 12:30, I have not personally seen the agenda and cannot tell you if any of this material will be covered. I hope this information is helpful. Do not hesitate to call me if I can be of further assistance.

Best,

Rosemary Ryan

Senior Legislative Aide
Braddock District Supervisor
703-425-9300
Direct: 703-425-4048
Rosemary.Ryan@fairfaxcounty.gov

 Please consider the environment before printing this email.

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¹² In a telephone conversation with Fred Costello on March 23, 2011, Aimee Lowry, Chief of the Fairfax County Benefits Division, clarified the contract terms. The contract with Aeon is an open-ended contract, budgeted at the rate of \$250,000 per year. Milestones are set at weekly meetings. The report on defined-benefit vs. defined-contribution plans is due in the early summer of 2011. The contract number is RQ09-114428-32. The contract is entitled Employee Benefits Consulting Services and is listed at www.fairfaxcounty.gov/cregister.

