

Retirement Review

Defined Benefit Pension Plans Support the Economy

National Study Measures Public Pensions' "Economic Footprint"

As an ERFC member, you probably think that the monthly contributions made to the ERFC and VRS retirement systems, plus the defined benefits paid to the retirees of these plans, must play a role in stimulating the economy—and you're right. In a national economic impact study, released in February 2009 by the National Institute on Retirement Security (NIRS), analysts determined that each dollar paid out in public pension benefits to Virginia retirees supported \$1.34 billion of the state's total economic activity. In addition, each dollar invested in these pension plans by the members and Virginia taxpayers, supported \$5.21 billion in total economic activity throughout the Commonwealth.

"Economists have long known that the steady monthly income provided by pensions can act as an 'automatic stabilizer.'

Compiling state-by-state data, the NIRS measured the economic impact of expenditures made from public pension benefits during fiscal year 2006. The study found that the benefits provided nationwide by local and state pension plans, wield a hefty economic footprint, impacting 2.5 million American jobs, and \$358 billion of the nation's economy. In Virginia alone, expenditures made by public pension benefits contributed a total economic impact of more than \$3.6 billion, supporting 23,706 jobs that paid more than \$1.4 billion in total compensation to Virginia workers.

NIRS policy analyst and co-author of the report, Ilana Boivie, outlined the Institute's findings. "The study measured

the magnitude of the 'multiplier effect' of expenditures from public pension incomes across each state's economy. The multiplier effect occurs because one retiree's spending becomes another person's income," she explained. In Virginia, the NIRS study found that the retirement earnings provided by its public pension plans, make a sizable, positive impact that ripples across the state, and touches every industry.

"Understanding the considerable economic impact of Virginia's public pensions is vital, given the severe financial crisis facing America," said Beth Almeida, NIRS executive director and co-author of the report. "Economists have long known that the steady monthly income provided by pensions can act as an 'automatic

stabilizer.' That is, retirees with a stable monthly pension income can continue to spend on basic needs, even during an economic downturn.

In contrast, retirees relying solely on plummeting 401(k)s or individual retirement accounts, are likely forced to retreat from spending precisely at the time when the Virginia economy most needs a stimulus," Almeida stated.

A copy of the full report, plus a factsheet detailing the NIRS findings specific to the Commonwealth of Virginia, can be accessed online at: www.nirsonline.org.

Source: "Pensionomics: Measuring the Economic Impact of State and Local Pension Plans." National Institute on Retirement Security. February 26, 2009.

VRS Statements Moving to Online-Only

Members will access MBP statements via "myVRS"

Effective this fall, the Virginia Retirement System (VRS) has announced that they will begin providing their annual Member Benefit Profile (MBP) statements exclusively online, as the System ceases production and distribution of printed copies by U.S. Mail. Starting in early September, the VRS will direct members to view and download their 2009 MBP statements electronically through the "myVRS" account feature currently provided on the System's website. In addition, members will be able to pull up copies of prior VRS statements, dating back as far as 2006, to review or print as needed for personal records.

The ERFC retirement office will continue to provide printed copies of its own benefit profile statements, which are sent to the members' home addresses annually in late August via USPS first class pre-sorted mail.

ERFC Faces Today's Economy

ERFC Responds to its Members

Beltway Construction Currently Affecting Traffic Patterns to ERFC Office

The Virginia Department of Transportation is currently replacing the overpass at the Braddock Road and I-495 interchange, which requires traffic shifts and ramp reconfigurations as part of the I-495 High Occupancy Toll (HOT) Lanes project. The westbound bridge is currently closed for demolition and reconstruction, shifting westbound Braddock Road traffic to the eastbound bridge, with two lanes of traffic now moving in each direction. Before visiting the ERFC office, you may wish to check the updated driving directions posted near the bottom of the website's homepage at www.FCPS.edu/ERFC.

Applying for VRS Disability Retirement

If you are considering application for disability retirement benefits with the VRS, you must apply within 90 days of termination of your employment or within 24 months of being placed on a Leave of Absence.

See the VRS' *Applying for Disability Retirement* booklet posted on the website at: www.varetire.org.

In this newsletter edition, we will replace our standard Frequently Asked Questions column, to provide a frank exchange, responding to member questions and discussing the ways in which the 2008 financial crisis has affected ERFC.

How has the financial crisis impacted ERFC's assets?

ERFC endured a very difficult year in 2008. Similar to losses incurred by public pension plans across the board, the total portfolio returned -28.4 percent, and the market value of assets declined from \$2.0 billion to \$1.38 billion over the calendar year.

How has the financial crisis affected ERFC's Funding?

The financial soundness of a public employee retirement plan can be measured in several ways. Two key measurements include 1) the governing body's continuing commitment to plan funding; and 2) the relationship of the retirement system's assets to its liabilities, as measured over time (the funding ratio). Regarding the first measurement, Fairfax County Public Schools continues to fund the plan in accordance with ERFC's sound actuarial funding policy. The second measurement addresses the two basic components of a retirement fund – the ratio of actuarial assets to accrued actuarial liabilities. While it is important to consider this ratio over time, with the intent to reach an optimal level of 100 percent, it is anticipated that the funding ratio will decline when investment results are poor, such as they were in 2008. Effective 12-31-2008, ERFC's funding ratio was 77 percent, down from 88 percent at year-end 2007. More information on ERFC's funding progress is detailed in the FY 2008 Annual Summary Report, which is available on the System website at www.fcps.edu/ERFC.

Why did ERFC's Funding Ratio drop more than the funding ratios of other public pension plans in Virginia?

There are several reasons for this variance. First, many public pension plans in Virginia measure their Funding Ratio on a fiscal rather than a calendar year basis. ERFC measures its Funding Ratio on a calendar-year basis. The most serious financial downturns of 2008 resulted primarily from losses in the capital markets, which occurred during the final four months of the calendar year. Second, ERFC utilizes a more conservative funding policy than other public pension plans in Virginia. Like most systems, ERFC phases-in the recognition of investment gains and losses over a period of future years. The phase-in process produces an asset value referred to as the "Actuarial Value" of assets. Systems conduct this phase-in process in order to avoid unnecessary volatility in the funding ratio and employer contribution rates from year to year. However, unlike most systems in Virginia, ERFC adds an extra step, requiring that the actuarial value of assets fall within 25% of the market value of assets. This means that, in the first year after a large market drop, ERFC's reported funding ratio will be based upon an asset value that recognizes a larger percentage of the loss than most other Virginia systems (although ultimately, every plan's funding ratio will recognize the entire loss). The ERFC Board of Trustees and the actuary favor the Plan's more conservative funding policy, because it establishes a more realistic funding ratio measurement than would result if the 25% corridor was not applied.

Will the recent asset loss affect ERFC's future contribution needs?

Unless the capital markets achieve a very significant turnaround, that results in extraordinary investment gains over the

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Retirement May Alter FSA Deadlines

Know Your 90-day Window for Reimbursement Claims

If you have pre-tax Flexible Spending Account (FSA) funds withdrawn from your monthly FCPS paycheck, and you're planning to retire before the end of the calendar year, take note now and remember—your FCPS contract schedule and your chosen retirement date may affect *both* the eligible coverage period and the deadline required for filing your FSA reimbursement claims. As an active employee enrolled in FSA, your eligible reimbursement claims must be submitted within 90 days after the end of the calendar year in which you incurred the expenses. However, when you retire (or otherwise terminate employment), you must file your FSA reimbursement claim requests within 90 days after the termination date of your active employee benefit coverage period, according to your contract schedule. All funds left unclaimed after the given deadline period will be forfeited, and cannot be returned to you.

Examples:

- If you're a **10-month** contract employee, who is retiring on July 1, 2009:
 - Your 10-month FCPS contract period ends on June 30, 2009.
 - Your coverage period for incurring eligible FSA expenses ends on August 31, 2009—the termination date for your FCPS benefits coverage as an active employee. Any expenses incurred after this date will be considered ineligible and will not be reimbursed.
- You must submit all FSA reimbursement claims for eligible expenses incurred between January 1–August 31, 2009 within 90 days of this coverage period—or no later than November 30, 2009.
- If you're an **11-month** contract employee, who is retiring on July 1, 2009:
 - Your 11-month FCPS contract period ends on June 30, 2009.
 - Your coverage period for incurring eligible FSA expenses ends on July 31,

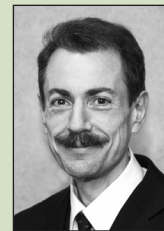
A Flexible Spending Account (FSA) is an IRS-approved account that allows active employees to pay for eligible health and/or dependent care expenses using a pre-tax portion of their salary, which the employer sets aside into a reimbursable account. Participants recoup the funds as tax-free reimbursements upon submitting receipt claims for costs incurred for eligible health and/or dependent care. FCPS employees have the option to sign up for a Flexible Spending Account during the HR Benefits' Open Enrollment period, scheduled annually each fall.

2009—the termination date for your FCPS benefits coverage as an active employee. Any expenses incurred after this date will be considered ineligible and will not be reimbursed.

- You must submit all FSA reimbursement claims for eligible expenses incurred between January 1–July 31, 2009 within 90 days of this coverage period—or no later than October 31, 2009.
- If you're a **12-month** FCPS employee, who is retiring on July 1, 2009:
 - Your coverage period for incurring eligible FSA expenses ends on June 30, 2009—the termination date for your FCPS benefits coverage as an active employee. Any expenses incurred after this date will be considered ineligible and will not be reimbursed.
 - You must submit all FSA reimbursement claims for eligible expenses incurred between January 1–June 30, 2009 within 90 days of this coverage period—or no later than September 30, 2009.

Flexible spending account programs allow pre-tax deductions from earned income only. Under current law, retirement benefits are not considered “earned income;” therefore, participation in FSA programs is not permitted after you retire. For more information about FCPS' Flexible Spending Accounts, contact the HR Benefits office at: 571-423-3200 or send an email to Benefits@fcps.edu.

Bumbaca Re-Seated on ERFC Board



Leonard Bumbaca will retain his seat on the ERFC Board of Trustees for another

3-year term, effective July 1, 2009. The FCPS Human Resources' Office of Employee Performance & Development coordinated the process to solicit candidates and elect an eligible member to the ERFC Board. With no other petition forms submitted by the April 17th deadline, the standard election procedures were waived, and Mr. Bumbaca was announced as the successful candidate.

Mr. Bumbaca has served as a trustee on the ERFC Board consistently since 2001, including 5 years as Board chairperson. While currently on an approved leave of absence from his teaching position at Annandale High School, Mr. Bumbaca also serves as president of the Fairfax Education Association.

Board Events

Meetings of the ERFC Board of Trustees and the System's Investment Committee are held in the ERFC board room at 8001 Forbes Place, Suite 300, in Springfield, VA. The Investment Committee meets quarterly, and the Board meets monthly throughout the year (excluding August). The trustees also conduct a comprehensive planning session and offsite retreat annually in July. Visit the System website: www.fcps.edu/ERFC for complete schedule information

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remainder of this year, ERFC will require additional contributions from FCPS in FY 2012. ERFC set the 3.20 percent employer contribution rate for FY 2010 – FY 2011, based on the December 31, 2007 actuarial valuation report. The exact figure for FY 2012 will depend upon the December 31, 2009 actuarial valuation report. In accordance with ERFC's funding policy, the School Board will be notified of the required contribution rate for FY 2012 more than a year in advance, allowing sufficient time to plan for the FCPS budget.

Does ERFC have a sufficient cash flow to make benefit payments?

ERFC has followed a very sound funding discipline historically, and has maintained a relatively liquid and well-diversified portfolio. As a result, ERFC developed an asset pool that has prevented any difficulties with cash flow needs to date. Indeed, even after the recent investment losses, ERFC's asset pool remains large compared with its cash flow needs.

Will my benefits be reduced as a result of calendar year 2008 losses?

The benefits paid to current retirees are protected by law, and cannot be reduced.

ERFC is not currently studying any alternatives that would reduce future benefits for members who have not yet retired. However, if the capital markets do not improve in the next several years, and ERFC is required to consider alternatives to the current benefit structure, ERFC would take a careful and measured approach, considering the needs of all stakeholders, as it has done in the past.

Starting Social Security

You can start collecting Social Security retirement benefits as early as age 62, but the amount of your benefit will be reduced—permanently—based upon the number of months remaining between the date you commence the benefits and the date you would reach the age for full eligibility. For more information, visit the Social Security website at: www.ssa.gov.



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