ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of September 15, 2012

DATE: August 7, 2012

SUBJECT: Amendments to Chapters 6, 21, 35, and 46 of County Code

C. M. RECOMMENDATION:

Adopt the proposed amendments to Chapters 6, 21, 35, and 46 of the Arlington County Code.

ISSUES: This is a proposal to amend Chapters 6, 21, 35, and 46 of the County Code. County Board approval is required for Code changes. The first amendment formalizes the defined contribution plan authorized in January 2012, the remaining amendments either add flexibility for rehired retirees, are technical clarifications, or streamline processes. There are no known issues.

SUMMARY: The proposed amendments will:

1. Formalize the eligibility requirements for the alternative defined contribution plan that was authorized at the January 12, 2012, Board meeting. (§46-27)
2. Allow rehired retirees to continue receiving their retirement benefits upon rehire. (§21-51, §35-44, and §46-47)
3. Clarify that early retirees who defer receipt of their monthly allowance may elect to receive their monthly allowance any time prior to their Normal Retirement Age and may elect retiree medical and/or dental coverage when they elect to receive their retirement allowance. (§6-29, §21-42, §35-37, and §46-38)
4. Clarify the Code language to address the practice of withholding retirement contributions from vacation and compensatory time payouts which are included in retirement service credit. (§46-32 and §46-33
5. Clarify that the Retirement Board may hire "staff" rather than "assistants". (§21-16, §35-15, and §46-16)

County Manager: BMD/mjs

County Attorney:

18.

Staff: Amy Rozier, Human Resources Department

6. Cease medical reviews at Normal Retirement Age for retirees with a service-connected disability. (§21-49 and §46-45)

BACKGROUND: The first two amendments will enhance the County's ability to provide a more flexible benefit program. This is critical in providing attractive benefit options to applicants and/or employees who may be at different stages of their career and seeking more flexible benefit programs.

Currently, the Retirement System requires:

- All permanent employees to participate in the pension plan but allows Management Accountability Program (MAP) employees hired after January 2012 to opt out of the pension plan with no alternative retirement program in lieu of the pension plan.
- Re-hired Arlington County retirees to suspend receipt of their monthly retirement allowance if they are re-employed in a permanent or limited term capacity with the County.

The third, fourth and fifth amendments provide technical clarification of intended administrative practices. Currently, early retirees may defer receipt of their pension benefits to avoid a penalty to their monthly benefit; however, this deferral eliminates their eligibility for retiree medical and dental coverage. In July 2008, we amended Chapter 6 to allow employees to decline retiree medical and dental upon retirement and return to the plan at a later date with proof of uninterrupted medical coverage, provided the retiree was receiving a monthly benefit at time of departure. The intent was to exclude deferred vested employees, but not early retirees who deferred receipt of their pension.

The fourth amendment addresses the issue that the Code currently only allows for employee (and County) contributions to be calculated on "creditable compensation", which excludes unused vacation and compensatory leave payouts. Employees receive service credit for these hours, and retirement contributions should be withheld from these payouts for funding the benefit.

The fifth amendment expands the Code's current definition of the type of employees the Retirement Board may hire beyond "assistants".

The final amendment ceases the medical review for retirees with a service-connected disability who have reached Normal Retirement Age. Currently, retirees with a service-connected disability must undergo a medical review (which may be waived by the County Manager) every three years as long as they are receiving a disability retirement allowance. This review is conducted to determine if the retiree's condition has improved such that they could return to their former position. Upon Normal Retirement Age, benefits are reduced for these retirees, except for Fire employees whose benefits are protected in State Code.

DISCUSSION: The first amendment is formalizing the defined contribution plan that the County Manager was authorized to create at the January 12, 2012, Board meeting. The purpose of the newly created option is to attract employees for senior management positions and rehired retirees for hard to fill jobs. These employees may find more value in a different structure rather than the one currently provided. This new option, a defined contribution plan, was recommended by the Retirement Sustainability Workgroup. The benefits design is detailed in the County's 401(a) Plan Document and will be approved by the County Manager upon adoption of these proposed Code amendments. Since the County's disability plan is contained within the pension plan, eligible employees electing not to participate in the pension plan will be provided with a County-paid, stand-alone long-term disability plan in lieu of the disability plan contained within the pension plan. (Details of the Defined Contribution Plan designs are included in the "Recommendations" column of the attached page detailing recommendations of the Retirement Sustainability Workgroup.)

The second amendment allows rehired retirees to continue receiving their retirement benefit upon rehire. This is allowed under federal law. Currently, rehired retirees must return as active members of the System with required contributions to the Plan or return to work in a temporary employee status to avoid suspension of their retirement benefits. Many retirees who can provide valuable skills and knowledge are reluctant to return in a permanent or limited term capacity due to this constraint.

The third amendment allows employees who are retiring under the Early Retirement provisions to defer receipt of their retirement allowance and to request receipt of the retirement allowance any time prior to their normal retirement age. An early retirement penalty will apply if the early retiree opts to begin receiving their allowance prior to Normal Retirement Age. The amendment also allows early retirees who are deferring receipt of their retirement allowance to access the retiree medical and dental program when they begin receiving their monthly allowance. This should have been included in the Chapter 6 amendments effective July 1, 2008.

The fourth amendment is an administrative correction to reflect the practice of withholding retirement contributions from unused vacation and unused compensatory time payouts at DROP entry or retirement. The hours represented by these payouts are credited toward service in the retirement allowance formula; therefore, these payouts should be subject to the withholding.

The fifth amendment is an administrative change at the request of the Retirement Board. "Staff" is a broader term that better reflects the skills and abilities of the persons hired by the Retirement Board to oversee the accounting, investment and management of the pension fund.

The sixth amendment impacts retirees receiving a service-connected disability retirement allowance by removing the medical review requirement once the retiree has reached Normal Retirement Age (age 52 for Chapter 46 Public Safety employees and age 62 for Chapter 46 General employees). Once a retiree reaches Normal Retirement Age, any improvement in their disabling medical condition is unlikely to be sufficient enough to allow them to return to work. At Normal Retirement Age, benefits are reduced except for uniformed employees previously working for the Fire Department, per State Code.

FISCAL IMPACT: There will be some savings to the County for the defined contribution plan due to lower County contributions into the retirement system; the amount of savings, however, will depend on the number of employees who opt into the new plan, and cannot be currently predicted. The fiscal impact to the retirement system of the amendments is as follows:

	Amendment	Estimated Cost to Retirement System
1.	Formalize defined contribution plan.	No cost to the Retirement System.
2.	Allow rehired retirees to continue receiving their retirement allowances, regardless of their position’s status.	Administrative, de minimis
3.	Allow early retirees to defer receipt of retirement allowance prior to normal retirement age and access retiree medical program.	Administrative, de minimis
4.	Withhold retirement contributions from unused vacation and compensatory time payouts.	Administrative, de minimis
5.	Change verbiage to allow Retirement Board to hire “staff”.	Administrative, de minimis
6.	Cease medical reviews for service connected disability retirees after attaining Normal Retirement Age.	Administrative, de minimis

AN ORDINANCE TO AMEND, REENACT AND RECODIFY CHAPTER 6 (CIVIL SERVICE ORDINANCE) OF THE ARLINGTON COUNTY CODE.
BE IT ORDAINED that the Arlington County Code is amended, reenacted and recodified as follows:

§6-29. Employee benefits: Retiree Medical and Dental Plan

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C. Subject to appropriation of funds by the Arlington County Board, employees who retire on or after July 1, 2008, who elect to receive their retirement allowance pursuant to §21-48, §35-40, or §46-44(B), and who are receiving a monthly retirement allowance ~~elect to receive their retirement allowance immediately,~~ and are eligible for the health and/or dental plan benefits may either:

1. Elect to continue their health and/or dental coverage into retirement, cancel their health and/or dental coverage at any time after retirement provided the retiree obtains alternate health and/or dental insurance coverage from a company or program other than that which Arlington County provides, and re-enroll upon termination of alternate coverage, or

2. Opt to enroll in the County-sponsored health and/or dental plan within sixty (60) days from the date of termination of coverage elsewhere.

Procedures and other terms for cancelling and re-entering the health and/or dental plans shall be established by the Human Resources Director.

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AN ORDINANCE TO AMEND, REENACT AND RECODIFY CHAPTER 21 (RETIREMENT ORDINANCE) OF THE ARLINGTON COUNTY CODE.
BE IT ORDAINED that the Arlington County Code is amended, reenacted and recodified as follows:

§ 21-16. Same--Employment of Staff ~~Assistants~~.

The Board may employ ~~assistants~~ staff and pay out of the System fund for all services its shall be required.

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§ 21-42. Service Retirement Allowance.

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B. *Early retirement.* Upon the service retirement of a member prior to his normal retirement date as provided in subsection B of § 21-41, he shall receive an annual retirement allowance, payable monthly to him for life, determined as provided in subsection A of this § 21-42 based on his average final compensation and his credited service as of his early retirement date, and shall be payable, at the option of the member:

1. Commencing on his early retirement date or the first of any month subsequent to submitting a written request to receive his retirement allowance but reduced by one-half of one percent (0.5%) for each full month by which the receipt of his monthly allowance ~~that his early retirement date~~ precedes his normal retirement date; or

2. Commencing at his normal retirement date after submitting a written request to receive his retirement allowance without such reduction; or

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§ 21-49. Medical Examination of Beneficiary of Disability Retirement Allowance.

The County Manager shall require a permanent disability retiree, prior to his normal retirement ~~date~~ for an ordinary disability retiree~~,~~ and ~~both prior to and after his normal retirement date for~~ a service connected disability retiree, to undergo a medical examination by the medical advisor, or the County Manager's medical appointee in the case of any such retiree residing outside the area serviced by the medical advisor, once each year during the first three (3) years following retirement and once in every three (3) years thereafter; provided, that when it appears in a particular case that the nature of the disability warrants the conclusion that it will continue substantially beyond the time of the next regular examination, the County Manager may waive the requirement that the retiree undergo the next regular examination. The County Manager shall have the authority to order for stated reasons a disability retiree to undergo a physical examination at any time. After normal retirement date, medical examinations will cease for both an ordinary disability retiree and a service connected disability retiree.
(6-23-79; 9-29-79; Ord. No. 00-34, 11-1-00; Ord. No. 04-26, 11-16-04, Effective 12-12-04)

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§ 21-51. Effect on ~~Disability~~ Retirement Allowance of Returning to Work.

A. Should a beneficiary retired pursuant to § 21-42.A or B return to service with the School Board, he shall become a member of the System and shall thereafter contribute. Any service on the basis of which his retirement allowance was computed shall thereafter be counted as creditable service. Upon return to service, such member's retirement allowance shall cease.

Should a beneficiary retired pursuant to § 21-42.A or B return to service as an Employee of an Employer other than the School Board, he shall have the option to: (1) become a member of the System and their retirement allowance will cease or (2) participate in the deferred compensation plan provided for in §46-27 and their retirement allowance will continue.

AN ORDINANCE TO AMEND, REENACT AND RECODIFY CHAPTER 35 (RETIREMENT ORDINANCE) OF THE ARLINGTON COUNTY CODE.
BE IT ORDAINED that the Arlington County Code is amended, reenacted and recodified as follows:

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§ 35-15. Same--Employment of ~~Assistants~~Staff.

The Board shall employ the ~~assistants~~ staff authorized by § 21-16 and pay out of the System fund for all services as shall be required.
(1-1-69)

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§ 35-37. Service Retirement Allowance.

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E. *Early retirement*. Upon the service retirement of a member prior to his normal retirement date as provided in § 35-36.B, he shall receive an annual retirement allowance, payable monthly to him for life, determined as provided in subsection A or C, whichever is applicable, of this section based on his average final compensation and his accredited service as of his early retirement date, and shall be payable, at the option of the member:

1. Commencing on his early retirement date or the first of any month subsequent to submitting a written request to receive his retirement allowance but reduced by one-half of one percent (0.5%) for each full month by which the receipt of his monthly allowance~~that~~ his early retirement date precedes his normal retirement date;

2. Commencing at his normal retirement date after submitting a written request to receive his retirement allowance without such reduction;

3. Commencing at his early retirement date but without the one-half percent (0.5%) per month reduction if the member has attained age fifty-five (55) and completed thirty (30) years of service; or

4. Commencing at his early retirement date but reduced by one-half of one percent (0.5%) for each full month his retirement date precedes the date on which he would have attained age fifty-five (55) and completed thirty (30) years of service; or

5. Commencing at his early retirement date but without the one-half percent (0.5%) per month reduction if the member's years of service plus age equal at least eighty (80), provided he is an employee of the County.

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§ 35-44. Effect on Retirement Allowance of Returning to Work.

A. Should a beneficiary of a retirement allowance return to service as an Employee of the School Board, he shall become a member of the System and shall thereafter contribute. Any service on the basis of which his retirement allowance was computed shall thereafter be counted as creditable service. Upon return to service, such member's retirement allowance shall cease.

Should a beneficiary retired pursuant to §35-36 return to service as an Employee of an Employer other than the School Board, he shall have the option to: (1) become a member of the System and their retirement allowance will cease or (2) participate in the deferred compensation plan provided for in §46-27 and their retirement allowance will continue.

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AN ORDINANCE TO AMEND, REENACT AND RECODIFY CHAPTER 46 (RETIREMENT ORDINANCE) OF THE ARLINGTON COUNTY CODE.
BE IT ORDAINED that the Arlington County Code is amended, reenacted and recodified as follows:

§ 46-1. Definitions.

The following words and terms, when used in this chapter, shall have the following meanings unless the context clearly indicates otherwise:

“Accumulated contributions” means the sum of all amounts deducted or picked-up from the compensation of a member and credited to his individual account in the members' contribution account, and any other amounts he shall have contributed, or transferred thereto, including any amount credited as provided in § 46-35.C.

“Actuarial equivalent” means a benefit of equal value when computed upon the basis of such actuarial tables as are adopted by the Board.

“Actuary” means a person who is a member of the American Academy of Actuaries who is enrolled by the Joint Board for the Enrollment of Actuaries established pursuant to 29 U.S.C.A. § 1242, Employee Retirement Income Security Act of 1974.

“Average final compensation” means average annual creditable compensation of a member during the three (3) highest twelve (12) month periods of compensation paid to a member.

“Base compensation” means the hourly wage as specified in the County pay schedule multiplied by the hours worked in the employees normal work schedule. Base compensation includes acting pay but excludes overtime, special pay, pay in lieu of sick leave, bonus pay and other similar special pay.

“Beneficiary” means any person in receipt of a pension or other benefits as provided by the System.

“Board” means the Board of Trustees of the System.

“County Manager” means the County Manager or his designee.

“Creditable compensation” means the full compensation, including pickup contributions and any elective employer contributions under the flexible benefits plan, payable annually to an employee in his capacity as such, excluding accumulated sick leave paid to the member at his termination from County service. Effective January 4, 2009 creditable compensation means full compensation excluding all premium pays (except holiday premium) as defined in Administrative Regulation 2.12, all overtime pays (except the portion of overtime paid at the employee’s base hourly rate as defined in Administrative Regulation 2.12 for hours worked to complete their regular annual work schedule.), imputed earnings, benefit subsidies and/or stipends, severance and settlement pay, and clothing allowances. Effective January 1, 2009, creditable compensation shall include any differential wage payments for military service as defined under Section 3401(h)(2) of the Internal Revenue Code. Other provisions notwithstanding, except in the case of an employee who first became a member before July 1, 1996, annual creditable compensation shall not exceed the amount established pursuant to Internal Revenue Code § 401(a)(17) as indexed annually.

“Creditable service” means membership service plus prior service credit.

“Deferred Retirement Option Program" (DROP*)* means the Program described in § 46-64.

“Deputy Sheriff” means the person holding the office of Sheriff, if they elect to participate, and all Deputy Sheriffs.

“Defined benefit plan” means the plan described in Article VIII.

“Defined contribution plan” means the plan described in Article IX.

“Employee” means any person regularly employed on or after February 8, 1981, in rendering service to the County Board, School Board, or an official elected by the people whose compensation is fully or partially paid directly or indirectly by the County except any person on a part-time, seasonal, or temporary employment status, and except, those persons working less than thirty (30) hours per week; however, a member whose hours are reduced below the minimum (thirty (30) hours) by the employer may continue to earn pro rata membership credit.

“Employer” means the County Board, the County School Board, and any authority in the County having the power to appoint an employee to office or employment paid directly or indirectly by the County, and the Board of Trustees of the System.

“Expense rate” means the expected administrative costs to administer the plan expressed as a percentage of payroll.

“Fiscal year” means each twelve (12) month period ending June thirtieth.

“General Member” means a member who is employed by the employer not as a Public Safety Member.

“Medical advisor” means the physician provided for by § 46-21.

“Member” means any person included in the membership of the System as provided in § 46-27 who has not ceased to be a member as provided in § 46-28.

“Membership service” means service as a member for which credit is allowable as provided in § 46-29.

“Normal cost” means the actuarially determined amount under the aggregate accrual modification of the entry age normal funding method needed to fund for one (1) plan year the retirement benefits of the plan.

“Normal retirement age” means the date of attainment of age sixty-two (62) of a General Member or age fifty-two (52) of a Public Safety Member.

“Normal retirement date” means the date of attainment of age sixty-two (62) with the completion of five (5) years of service of a member who is not a police officer, firefighter, or deputy sheriff, and the date of attainment of age fifty-two (52) with the completion of five (5) years of service of a member who is a police officer, firefighter, or deputy sheriff.

“Part-time employee” means any person working less than forty (40) hours per week, having permanent status or in a probationary period for such status, who is:

(1) Rendering service to the County Board in a budgeted position;

(2) An employee of a constitutional officer in a budgeted position; or

(3) A trades and maintenance employee of the School Board paid from a regular position controlled account.

“Party in interest” means:

(1) A fiduciary (including, but not limited to, any administrator, officer, trustee, or custodian), counsel, or employee of the System);

(2) A person, partnership, joint venture, corporation, mutual company, joint-stock company, trust, estate, unincorporated organization, association, or employee organization providing services to

the System;

(3) An employer, any of whose employees are covered by the System;

(4) An employee organization, any of whose members are covered by the System;

(5) A spouse, ancestor, lineal descendant or spouse of a lineal descendant of any individual described in subparagraphs (1), (2), or (3).

"Public Safety Member" means a member who is employed by the employer as a police officer, firefighter, deputy sheriff or sheriff.

"Retiree" means any prior member or beneficiary who is receiving a retirement payment, or has elected to receive a deferred vested retirement allowance.

"Retirement allowance" means the retirement payments to which a member is entitled.

"Service" means service as an employee for which compensation is paid by the employer, periods of time while on military leave, not to exceed five (5) cumulative years, or an approved leave of absence.

"Statement of retirement policies and principles" means a statement adopted by the County Board which contains a description of the objectives and policies of the System concerning retirement benefits, benefit levels, funding and investments.

"System" means the Arlington County Employees' Supplemental Retirement System--II.

"V.R.S." means the Virginia Retirement System established pursuant to § 51.1-124.1 et seq., Code of Virginia, 1950, as amended.
(2-8-81; Ord. No. 84-38, 12-23-84; Ord. No. 86-14, 6-14-86; Ord. No. 87-24, 9-26-87; Ord. No. 96-13, 6-29-96; Ord. No. 00-34, 11-1-00; Ord. No. 01-20, 11-17-01; Ord. No. 04-26, 11-16-04, effective 12-12-04; Ord. No. 05-10, 7-12-05: Ord. No. 08-17, 9-13-08, effective 1-4-09; Ord. No. 09-27, 11-17-09; Ord. No. 11-06, 5-14-11, Ord. No. 12-01, 1-21-12)

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§ 46-16. Same--Employment of ~~Assistants~~Staff.

The Board may employ ~~assistants~~ staff and pay out of the System fund for all services as shall be required.
(2-8-81)

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§ 46-27. Eligibility Requirements.

A. Except for employees who are covered by § 46-44.H, elected members of the County Board, and persons appointed as County Manager who elect not to become members within sixty (60) days after appointment, employees of the County Board hired after February 8, 1981, who have not reached normal retirement age (age sixty-two (62)), or in the case of police officers, firefighters, and deputy sheriffs, age fifty-two (52) as of the first day of employment, and all employees of the School Board hired after February 8, 1981, and before July 1, 2001, who have not reached normal retirement age (age sixty-two (62)) are members of the System. Notwithstanding the foregoing, the following employee groups who have entered into an agreement for inclusion in a deferred compensation plan when the agreement prohibits inclusion in any other retirement system established by the County, pursuant Virginia Code 51.1-800(D) shall have access to benefits under Article IX only:~~retirement benefits under Article VIII of this chapter shall not be provided to~~

(1) ~~e~~Employees hired after January 12, 2012 in the Management Accountability Program, as defined in Administrative Regulation 2.7, or

(2) ~~f~~Former members of the System retired under §21-41, §21-43, §21-45, §35-36, §35-38, §46-37, §46-39, or §46-41 who are re-employed by the County after January 12, 2012~~who have entered into an agreement for inclusion in a deferred compensation option when the agreement prohibits inclusion in any other retirement benefit established by the County, pursuant Virginia Code 51.1-800(D)~~. Notwithstanding the foregoing, there shall be no age restrictions on membership for persons hired on or after January 1, 1991. Employees who did not meet the eligibility requirements related to age at the time of hire shall have the option to join the System and elect to purchase service credit for service back to January 1, 1991. Such election must be made by December, 1991.

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§ 46-32. Member Contributions.

A. Each member, who is not a member of the Virginia Retirement System (V.R.S.) and who is not a police officer, firefighter or deputy sheriff shall contribute for each pay period for which he receives compensation four percent (4%) of: (1) his creditable compensation, (2) ~~and~~ any accrued and~~,~~ unused vacation, and (3) any earned and ~~,~~unused~~,~~ compensatory time paid at employment termination until such time as the County Board, pursuant to § 46-19, shall revise the rate of member contributions. Each member who is a police officer, firefighter or deputy sheriff, during years of service until the pay period ending January 3, 2009 shall contribute for each pay period for which he receives compensation five percent (5%) of his creditable compensation, as then defined, and for all years of service commencing with the first pay period beginning January 4, 2009 shall contribute for each pay period for which he receives ~~creditable~~ compensation, seven and a half percent (7.5%) of his creditable compensation, any accrued and unused vacation, and any earned and unused compensatory time paid at employment termination ~~and any accrued, unused vacation and earned, unused, compensatory time paid at employment termination~~ until such time as the County Board, pursuant to § 46-19, shall revise the rate of member contributions subsequent to December 23, 1984, employers who have elected to participate in the employer pick-up program shall pick-up all employee contributions required herein.

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§ 46-33. Employer Contributions.

A. Each employer shall contribute a percentage of the members' creditable compensation~~–~~, any accrued and unused vacation, and any earned and unused compensatory time paid at employment termination ~~and of any accrued, unused vacation and earned, unused, compensatory time paid at a member's employment termination of the members~~ as determined by the County Board. In the event that an employer does not pay the established contribution, the Board shall take appropriate action to secure payment.

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§ 46-38. Service Retirement Allowance; Bridge Allowance.

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B. Upon service retirement of a member prior to his normal retirement age as provided in § 46-37.B, the member shall receive an annual retirement allowance, payable monthly to him for life, which shall be equal to the amount calculated under § 46-38.A and shall be payable, at the option of the member after completing forms to notify the County of his election: (i) commencing on his early retirement date or the first of any subsequent month prior to his normal retirement age but reduced by one-half of one percent (0.5%) for each full month by which ~~his actual retirement date~~ the receipt of his monthly allowance precedes the earlier of (a) his normal retirement date, or (b) the first date on which his number of years of service and his attained age would have equaled the minimum age and completed years of service requirement provided in § 46-37.A had he been continuously in service from his date of retirement until such first date; or (ii) commencing at his normal retirement date without such reduction.

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D. Any member not entering the DROP and electing a normal, early or a deferred benefit may, at the time the member chooses to begin receiving retirement benefits, elect to receive a lump sum payment equal to the lesser of ten percent (10%) of the actuarial value equivalent to that of the annual retirement allowance, including expected post-retirement supplements which may be payable pursuant to § 46-49, to which he could otherwise be entitled, as determined by the actuary, of the benefits to be paid over the member's lifetime or twenty thousand dollars ($20,000.00). If the then current actuarial value of the benefits is less than five thousand dollars ($5,000.00), the entire benefit may be selected as a lump sum. Should the member elect such a lump sum payment, the monthly benefit due the retiree will be reduced by an amount calculated to be equal to the actuarial equivalent of the lump sum payment. The lump sum distribution will be issued at the time of the first benefit payment.

Nothing herein shall be construed to require any person to pay back into the System any money received before the effective date of this section. No person who has begun to receive an allowance under § 46-38 before June 23, 1990, shall be subject to this reduction.

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§ 46-45. Medical Examination of Beneficiary of Disability Retirement Allowance.

The County Manager shall require a permanent disability retiree, prior to his normal retirement date for an ordinary disability retiree~~,~~ and ~~both prior to and after his normal retirement date~~ for a service-connected disability retiree, to undergo a medical examination by the medical advisor, or the County Manager's medical appointee in the case of any such retiree residing outside the area serviced by the medical advisor--once each year during the first three (3) years following retirement and once in every three (3) years thereafter for so long as the retiree continues to receive a disability retirement allowance, provided that when it appears in a particular case that the nature of the disability warrants the conclusion that it will continue substantially beyond the time of the next regular examination, the County Manager may waive the requirements that the retiree undergo the next regular examination. The County Manager shall have the authority to order, for stated reasons, a disability retiree to undergo a physical examination at any time. Upon attainment of Normal Retirement Age, medical examination will cease for an ordinary disability retiree and for a service-connected disability retiree.

(2-8-81; Ord. No. 00-34, 11-1-00; Ord. No. 04-26, 11-16-04, effective 12-12-04)

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§ 46-47. Effect on Retirement Allowance of Returning to Work.

A. Should a beneficiary retired pursuant to § 46-37.A or B return to service as an Employee of the School Board, he shall become a member of the retirement system of which he was a member when he retired and shall thereafter contribute to such retirement system. Any service on the basis of which his retirement allowance was computed shall thereafter be counted as creditable service. Upon return to service, such member's retirement allowance shall cease.

Should a beneficiary retired pursuant to §46-37 return to service as an Employee of an Employer other than the School Board, he shall have the option to: (1) become a member of the System and their retirement allowance will cease or (2) participate in the deferred compensation plan provided for in §46-27 and their retirement allowance will continue.

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June 25, 2012

VIA ELECTRONIC MAIL

Ms. Amy Rozier
Benefits Manager
Arlington County Employees' Retirement System
2100 Clarendon Boulevard, Suite 511
Arlington, Virginia 22201

Re: Estimated Fiscal Impact on Defined Benefit Retirement

Dear Amy:

At your request, we have estimated the fiscal impact on the Arlington County Employees' Retirement System if the County were to adopt any of the following:

Create an option for newly hired employees in the Management Accountability Program (MAP) and any rehired retiree to participate in a defined contribution (DC) plan in lieu of the Chapter 46 Defined Benefit (DB) Retirement Plan.

In summary, we find that the creation of the proposed DC option for newly hired MAP employees and any rehired retirees should have a relatively small impact on the projected retirement plan costs to the County, assuming that the demographics of new hires and rehires are representative of past hiring practices. As shown in the scenarios that follow, we would expect the total cost of the DB and DC plans to be slightly lower in the long term than for continuation of the current DB plan, but this result could change depending upon the extent to which anti-selection occurs by the employees who select each option.

In performing this analysis, we relied on the description of the defined contribution plan provided to us in your May 11, 2012 e-mail which included a 4% annual employee contribution, an annual County contribution based on service (6% for less than 6 years of service, 8% for more than 6 years of service, but less than 11 years of service and 10% thereafter) and vesting based on 20% per year. In addition, there would be no "do-over" provision whereby an eligible participant electing to participate in the defined contribution plan could elect later to switch over to the defined benefit plan at a later date. To the extent that this is permitted, the total costs would be expected to be higher due to the effect of anti-selection. The data used is the same as provided to us for preparing the June 30, 2011 actuarial valuation. The file containing 146 MAP employees received last year and the file containing 8 rehired retirees in the past year. The following assumptions were made for the projections:

- For MAP new hires; the projections assume that each MAP employee terminating employment for any reason is replaced by a new hire that is age 40 for General employees and age 25 for Uniformed employees. This assumption is reflective of the average hire age of the current MAP participants.

- For rehired retirees; We assumed that future rehired retirees will have similar demographic characteristics to the 8 rehired this past year. We also assumed that any rehired retiree that elects to participate in the defined contribution plan would have at least 11 years of prior service and thus, the County would contribute 10% of pay into the plan on their behalf. For illustrative purposes, we assumed that these rehired retirees would work an additional 3 years upon reemployment.

Finally, to the extent that actual experience deviates from the underlying assumptions, the results which follow would vary accordingly.

We have produced several tables showing the projected County contributions to both the Retirement System and proposed defined contribution plan over the next twenty years under several scenarios. The first scenario (status quo) shown in Attachment 1, assumes that all of the newly hired MAP employees and future rehired retirees elect to participate in the current defined benefit retirement plan. The projections shown in Attachment 1 are slightly different than we have previously provided for the Retirement Plan due to the special programming added for future MAP new hires.

Conversely, the second scenario (Attachment 2) assumes that 25% of these newly hired MAP employees elect to participate in the defined contribution plan and that 25% of future rehired retirees would elect to participate in the defined contribution plan.

The age of new hires electing each of the two plans has a material impact on the long term projections. To illustrate this, the third scenario (Attachment 3), is the same as the second with the exception that each General new hire was assumed to be age 45 if they elect the defined benefit plan and age 35 if they elect the defined contribution plan. Similarly, each Uniformed new hire was assumed to be age 30 if they elect the defined benefit plan and age 20 if they elect the defined contribution plan. The cost to the County is greater under this third scenario when compared to the second. This is because the benefit cost for an older new hire is more expensive than a younger new hire in the defined benefit plan.

The assumptions regarding percentage of eligible employees and the age of employees electing the defined contribution plan are for illustration purposes and may not be representative of your actual experience if a defined contribution option is implemented. For employers who have implemented such programs in the past, experience has varied greatly from employer to employer.

Finally, the fourth scenario (Attachment 4) assumes that 100% of these newly hired MAP employees and rehired retirees elect to participate in the defined contribution plan. Similar to the second scenario, each new MAP hire was assumed to be age 40 for General employees and age 25 for Uniformed employees regardless of which plan they elect.

The projections shown in each scenario assume that the assets will return 0% for the Plan year ending June 30, 2012 and 7.5% per year thereafter. The 0% return for the current Plan year was based on an estimate communicated to us by the Retirement System. The projections further assume that no liability gains or losses will occur throughout the projection period. The assumptions used in producing these projections are those shown in our most recent actuarial valuation report as of June 30, 2011. Although the County contributions to the defined contribution plan are essentially not affected should investment returns differ from the 7.5% per year shown, the County contributions to the defined benefit plan could vary significantly. The data used in these projections is that provided for preparation of the June 30, 2011 actuarial valuation. The salary for new hires is based upon the average salary of recent new hires and all new hires were assumed to receive the same starting salary regardless of their age or which plan they elected. The starting salary for new hires is increased for each year in the future at the rate of 4% per year. For purposes of determining the amounts of forfeited accounts from non-vested terminations, we assumed that their account balances were credited with an earnings rate of 6.0%. To the extent that actual plan experience deviates from the underlying assumptions, the results would vary accordingly.

When compared to the status quo (Attachment 1), the remaining scenarios result in a decrease in the total amount the County would be expected to pay into both plans. This is primarily due to the proposed defined contribution plan resulting in a smaller annual benefit at retirement. To illustrate this effect, we have provided two calculations for sample employees. In performing the calculations below, including an annuity purchased from an insurance company for converting a defined contribution balance, the annual benefit is assumed to increase each year based upon increases in the Consumer Price Index (CPI), which is assumed to be 3.5%. The results were as follows:

- A General MAP employee who is hired at age 40 at a starting salary of $80,000 would be entitled to an annual benefit from the defined benefit plan of $65,592 if they retire at age 62. By comparison, the same employee who elects the proposed defined contribution plan could purchase an annuity from an insurance company of approximately $39,650 at age 62 assuming the account balance earned 7.5% per year. If the account balance earned 4.0% per year, the annual annuity amount at age 62 would be approximately $27,688. Attachment 5 shows a comparison between the estimated annual amounts payable under each plan. In performing these calculations, we assumed that salary grew by 4% per year and that the underlying discount rate for purchasing an annuity from an insurance company was 5%.

- A Uniformed MAP employee who is hired at age 25 at a starting salary of $80,000 would be entitled to an annual benefit from the defined benefit plan of $133,163 if they retire at age 50. By comparison, the same employee who elects the proposed defined contribution plan could purchase an annuity from an insurance company of approximately $40,230 at age 50 assuming the account balance earned 7.5% per year. If the account balance earned 4.0% per year, the annual annuity amount at age 50 would be approximately $26,623. Attachment 6 shows a comparison between the estimated annual amounts payable under each plan. In performing these calculations, we assumed that salary grew by 4% per year and that the underlying discount rate for purchasing an annuity from an insurance company was 5%.

These results would be different for different hire ages and ages at retirement. However, we would expect that most employees working a full career with the County would receive lower benefits from the proposed defined contribution plan than from the defined benefit plan. It should also be noted that the normal cost in the defined benefit plan is about 13% of pay for General employees and about 30% of pay for Uniformed employees, compared to the lower rates of contribution to the proposed defined contribution plan which range from 6% to 10% of pay.

In addition, it is important to note the following in reviewing the results of each scenario:

- The effects of the contribution corridor method could cause the amount of the difference in projected contributions between scenarios in a given year not to directly reflect the amount of true contribution difference related to persons electing to join the defined contribution plan.

- We assumed that the County would continue to contribute to the defined benefit retirement plan based on the current contribution corridor funding policy. If actual experience results in the majority of new MAP hires electing the defined contribution plan, the funding policy may need to be changed to reflect more accelerated payments toward any unfunded liabilities of the defined benefit plan due to the decline in covered population. The current corridor method calls for unfunded liabilities to be paid off over an open 15 year period. In addition, the amortization of unfunded liabilities is based upon a level percentage of future payroll which is assumed to increase by 4% per year. Depending upon the number of persons electing the defined contribution plan, this assumed payroll increase might need to be reduced, which would increase the amortization payments.

- The projections do not take into account any additional administrative expenses the County would incur to operate both plans.

- For rehired retirees, current and pending legislation (IRS Notice 2012-29) prohibit in-service distributions in certain situations. The regulations are aimed at preventing governmental plans from promoting participants to “retire” before normal retirement age yet continuing to work while collecting a pension benefit. The term “sham transaction” is used throughout the legislation. The County should consult legal counsel to determine whether legislation prohibits in-service distributions if the County does not intend to suspend a participant’s monthly benefit during the period of re-employment.

Authorize withholding deductions from vacation and compensation leave payouts.

The County has proposed amending the Code such that employee and County pension contributions will be collected on both vacation and compensation leave payouts as well. These items are not included in creditable compensation when calculating the participant's retirement benefit. There is no additional liability to the System as a result of this proposed change since the definition of creditable compensation is not being changed. Furthermore, this will not impact our calculation of the projected total dollar amount of County contributions necessary to fund the System. It will change the resulting County contribution rate we calculate in our actuarial valuation since the proposed change applies to a larger compensation total than just creditable compensation. If adopted, we will take this into consideration in our next actuarial valuation when calculating the contribution rate to apply.

Retirement Board may hire "staff".

The Code currently allows for hiring of "assistants." The Retirement Board has requested that this be changed to "staff." This change to the Code has no impact on the funding calculations for the Retirement System.

Technical change to County Code Section 46-27 to resolve conflicting "employee" language for County Board Members.

In accordance with County Code Section 46-1, Board Members are defined as "employees" and therefore automatically become members in the Retirement System. However, Section 46-27(b) states that Board Members are given a 60 day period after assuming office to elect to become members of the Retirement System. The County has proposed changing the language to one of the following:

- Take out the requirement that Board Members must opt in to the defined benefit retirement plan or include them in the proposed defined contribution plan; or
- Clarify 46-27(a) to exclude Board Members as automatically enrolled in the plan.

This change would have no financial impact on the Retirement System if future Board members opt in or are automatically enrolled into the defined benefit plan. If they are given the option to elect into the defined contribution plan, the projected County costs would change if all five Board members elected to be members of the defined contribution plan. To illustrate this, the fifth scenario (Attachment 7) shows the impact on the projected County contributions. In performing this analysis, we assumed all five Board members have salaries of approximately $50,000 and would increase by 4% per year. This average salary was based on last year's census data provided that included compensation information for three of the current Board members. We also assumed that the average normal cost for Board Members would be the same as for all General employees. To the extent that actual plan experience deviates from the underlying assumptions, the results would vary accordingly.

Modify medical review process for Service-Connected Disability

Employees receiving retirement benefits due to service-connected disability not deemed to be permanent, currently have a medical review conducted once every year for the first three years following retirement and every three years thereafter. The County is proposing to decrease the frequency of these reviews to 5 or 7 years or phase out completely once the participant reaches his or her normal retirement date. The current actuarial assumptions do not assume any participant receiving a service-connected disability will later be deemed to have his or her disability application denied. Therefore, this change to the Code will have no impact on the funding calculations for the Retirement System. Although this doesn't impact our funding calculations, less frequent medical reviews may delay discovering those participants whose disability application may be denied and consequently these persons may be overpaid, which would affect future actuarial gains or losses. On the other hand, less frequent medical reviews will reduce the County's cost for conducting such reviews.

This report was prepared exclusively for Arlington County for the purpose of determining the fiscal impact of certain proposed changes that would affect the System. This report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

In preparing this letter report, we relied, without audit, on information supplied by the Retirement System. This information includes, but is not limited to, plan provisions, employee data, and financial information. It should also be noted that certain assumptions used in this report are based upon expected behavior of future employees and as such reflect a great deal of uncertainty.

We hereby certify that, to the best of our knowledge, this report and its contents, which are based on the information and data supplied by the Retirement System are work products of Cheiron, Inc. These work products are complete and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,
Cheiron

Kevin J. Woodrich, FSA, EA, MAAA	Stephen T. McElhaney, FSA, EA, MAAA
Consulting Actuary	Principal Consulting Actuary

cc: Gene Kalwarski, FSA, EA
Patrick Nelson, ASA

Attachment 1

Scenario 1: All New MAP Hires and Future Rehired Retirees Elect DB Plan

	DB Retirement Plan		DC Plan		Total		
	(a)	(b)	(c)	(d)	(e) = [(a) + (c)]	(f) = [(b) – (d)]	(g) = [(f) ÷ (e)]
Fiscal Year Ending June 30,	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)	As % of Payroll
2013	$ 229.2	$ 47.1	$ 0.0	$ 0.0	$ 229.2	$ 47.1	20.6%
2014	238.4	53.8	0.0	0.0	238.4	53.8	22.6%
2015	247.9	60.9	0.0	0.0	247.9	60.9	24.6%
2016	257.8	64.2	0.0	0.0	257.8	64.2	24.9%
2017	268.1	64.3	0.0	0.0	268.1	64.3	24.0%
2018	278.8	69.2	0.0	0.0	278.8	69.2	24.8%
2019	290.0	71.6	0.0	0.0	290.0	71.6	24.7%
2020	301.6	73.9	0.0	0.0	301.6	73.9	24.5%
2021	313.7	75.9	0.0	0.0	313.7	75.9	24.2%
2022	326.2	78.3	0.0	0.0	326.2	78.3	24.0%
2023	339.3	81.1	0.0	0.0	339.3	81.1	23.9%
2024	352.8	83.6	0.0	0.0	352.8	83.6	23.7%
2025	366.9	86.2	0.0	0.0	366.9	86.2	23.5%
2026	381.6	89.3	0.0	0.0	381.6	89.3	23.4%
2027	396.9	92.1	0.0	0.0	396.9	92.1	23.2%
2028	412.8	95.3	0.0	0.0	412.8	95.3	23.1%
2029	429.3	98.3	0.0	0.0	429.3	98.3	22.9%
2030	446.4	95.4	0.0	0.0	446.4	95.4	21.4%
2031	464.3	91.5	0.0	0.0	464.3	91.5	19.7%
2032	482.9	94.2	0.0	0.0	482.9	94.2	19.5%

Attachment 2

Scenario 2: 25% of New MAP Hires Elect DC Plan (Average Hire Age = 40 for General and 25 for Uniformed); 75% of MAP New Hires Elect DB Plan (Average Hire Age = 40 for General and 25 for Uniformed); 25% of Rehired Retirees Elect DC Plan and work for additional 3 years

	DB Retirement Plan		DC Plan		Total		
	(a)	(b)	(c)	(d)	(e) = [(a) + (c)]	(f) = [(b) – (d)]	(g) = [(f) ÷ (e)]
Fiscal Year Ending June 30,	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)[1]	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)	As % of Payroll
2013	$ 228.3	$ 46.9	$ 0.9	$ 0.0	$ 229.2	$ 46.9	20.5%
2014	237.0	53.4	1.3	0.1	238.4	53.5	22.4%
2015	246.0	60.4	1.8	0.1	247.9	60.5	24.4%
2016	255.6	64.0	2.2	0.1	257.8	64.1	24.9%
2017	265.6	63.8	2.6	0.2	268.1	64.0	23.9%
2018	275.9	68.2	2.9	0.2	278.8	68.4	24.5%
2019	286.7	70.6	3.3	0.2	290.0	70.8	24.4%
2020	297.8	72.8	3.8	0.2	301.6	73.0	24.2%
2021	309.5	75.0	4.2	0.3	313.7	75.3	24.0%
2022	321.6	77.3	4.6	0.3	326.2	77.6	23.8%
2023	334.2	79.7	5.0	0.3	339.3	80.0	23.6%
2024	347.4	82.5	5.5	0.4	352.8	82.9	23.5%
2025	361.0	85.4	5.9	0.4	366.9	85.8	23.4%
2026	375.2	88.0	6.4	0.5	381.6	88.5	23.2%
2027	390.0	91.1	6.9	0.5	396.9	91.6	23.1%
2028	405.4	93.9	7.3	0.5	412.8	94.4	22.9%
2029	421.5	97.2	7.8	0.6	429.3	97.8	22.8%
2030	438.2	94.2	8.3	0.6	446.4	94.8	21.2%
2031	455.6	89.7	8.7	0.7	464.3	90.4	19.5%
2032	473.7	92.4	9.2	0.7	482.9	93.1	19.3%

[1] Forfeitures for nonvested employees who leave County employment were assumed to be used to offset future County contributions to the defined contribution plan.

Attachment 3

Scenario 3: 25% of MAP New Hires Elect DC Plan (Average Hire Age = 35 for General and 20 for Uniformed; 75% of MAP New Hires Elect DB Plan (Average Hire Age = 45 for General and 30 for Uniformed) ; 25% of Rehired Retirees Elect DC Plan and work for additional 3 years

	DB Retirement Plan		DC Plan		Total		
	(a)	(b)	(c)	(d)	(e) = [(a) + (c)]	(f) = [(b) – (d)]	(g) = [(f) ÷ (e)]
Fiscal Year Ending June 30,	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)[1]	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)	As % of Payroll
2013	$ 228.3	$ 46.9	$ 0.9	$ 0.0	$ 229.2	$ 46.9	20.5%
2014	237.0	53.4	1.3	0.1	238.4	53.5	22.4%
2015	246.0	60.4	1.8	0.1	247.9	60.5	24.4%
2016	255.6	64.0	2.2	0.1	257.8	64.1	24.9%
2017	265.6	63.8	2.6	0.1	268.1	63.9	23.8%
2018	275.9	68.8	2.9	0.2	278.8	69.0	24.7%
2019	286.7	70.9	3.3	0.2	290.0	71.1	24.5%
2020	297.8	73.1	3.8	0.2	301.6	73.3	24.3%
2021	309.5	75.3	4.2	0.3	313.7	75.6	24.1%
2022	321.6	77.6	4.6	0.3	326.2	77.9	23.9%
2023	334.2	80.0	5.0	0.3	339.3	80.3	23.7%
2024	347.4	82.5	5.5	0.4	352.8	82.9	23.5%
2025	361.0	85.4	5.9	0.4	366.9	85.8	23.4%
2026	375.2	88.0	6.4	0.4	381.6	88.4	23.2%
2027	390.0	91.5	6.9	0.5	396.9	92.0	23.2%
2028	405.4	94.3	7.3	0.5	412.8	94.8	23.0%
2029	421.5	97.6	7.8	0.6	429.3	98.2	22.9%
2030	438.2	94.7	8.3	0.6	446.4	95.3	21.3%
2031	455.6	90.2	8.7	0.7	464.3	90.9	19.6%
2032	473.7	92.8	9.2	0.7	482.9	93.5	19.4%

[1] Forfeitures for nonvested employees who leave County employment were assumed to be used to offset future County contributions to the defined contribution plan.

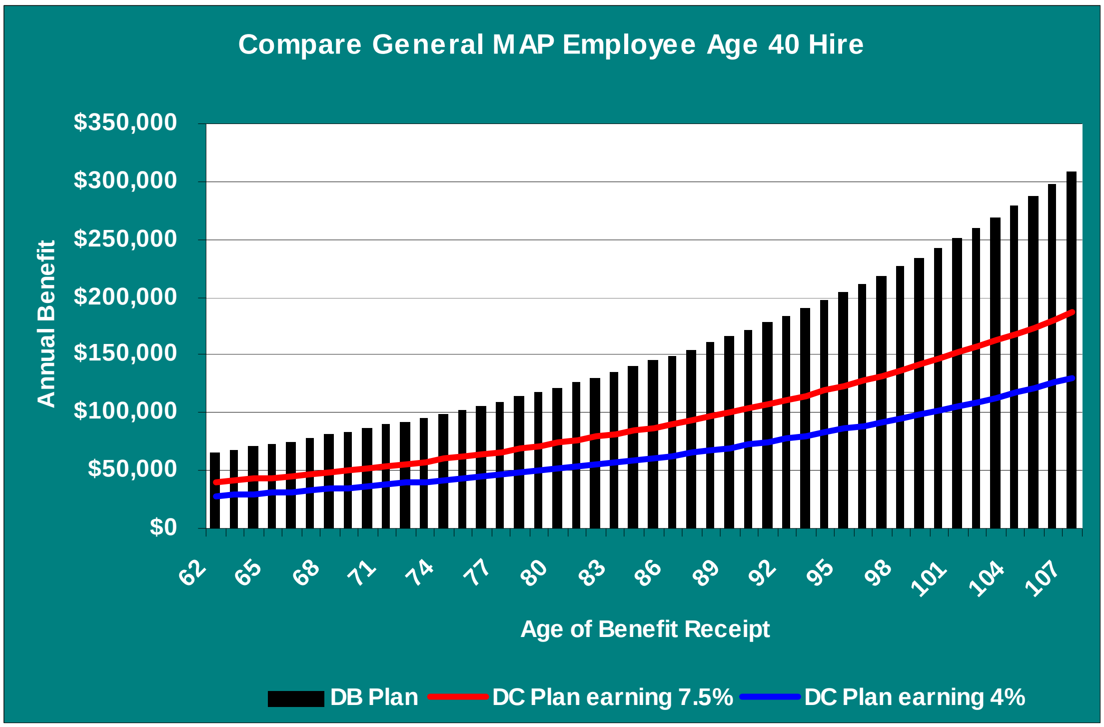
Scenario 4: 100% of New MAP Hires Elect DC Plan (Average Hire Age = 40 for General and 25 for Uniformed) ; 100% of Rehired Retirees Elect DC Plan and work for additional 3 years

	DB Retirement Plan		DC Plan		Total		
	(a)	(b)	(c)	(d)	(e) = [(a) + (c)]	(f) = [(b) – (d)]	(g) = [(f) ÷ (e)]
Fiscal Year Ending June 30,	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)[1]	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)	As % of Payroll
2013	$ 225.7	$ 46.3	$ 3.5	$ 0.2	$ 229.2	$ 46.5	20.3%
2014	233.0	52.5	5.3	0.3	238.4	52.8	22.2%
2015	240.5	59.0	7.4	0.4	247.9	59.4	24.0%
2016	248.9	62.5	8.9	0.5	257.8	63.0	24.4%
2017	257.9	62.2	10.2	0.6	268.1	62.8	23.4%
2018	267.1	66.6	11.7	0.7	278.8	67.3	24.1%
2019	276.6	68.4	13.4	0.8	290.0	69.2	23.9%
2020	286.5	70.3	15.1	0.9	301.6	71.2	23.6%
2021	296.9	72.3	16.8	1.1	313.7	73.4	23.4%
2022	307.7	74.7	18.5	1.2	326.2	75.9	23.3%
2023	319.1	76.8	20.2	1.3	339.3	78.1	23.0%
2024	331.0	79.1	21.8	1.5	352.8	80.6	22.8%
2025	343.3	81.3	23.6	1.7	366.9	83.0	22.6%
2026	355.9	84.4	25.7	1.8	381.6	86.2	22.6%
2027	369.3	86.8	27.6	2.0	396.9	88.8	22.4%
2028	383.4	89.8	29.3	2.2	412.8	92.0	22.3%
2029	398.0	92.4	31.3	2.4	429.3	94.8	22.1%
2030	413.3	89.2	33.2	2.6	446.4	91.8	20.6%
2031	429.4	85.0	34.9	2.7	464.3	87.7	18.9%
2032	446.2	87.0	36.7	2.9	482.9	89.9	18.6%

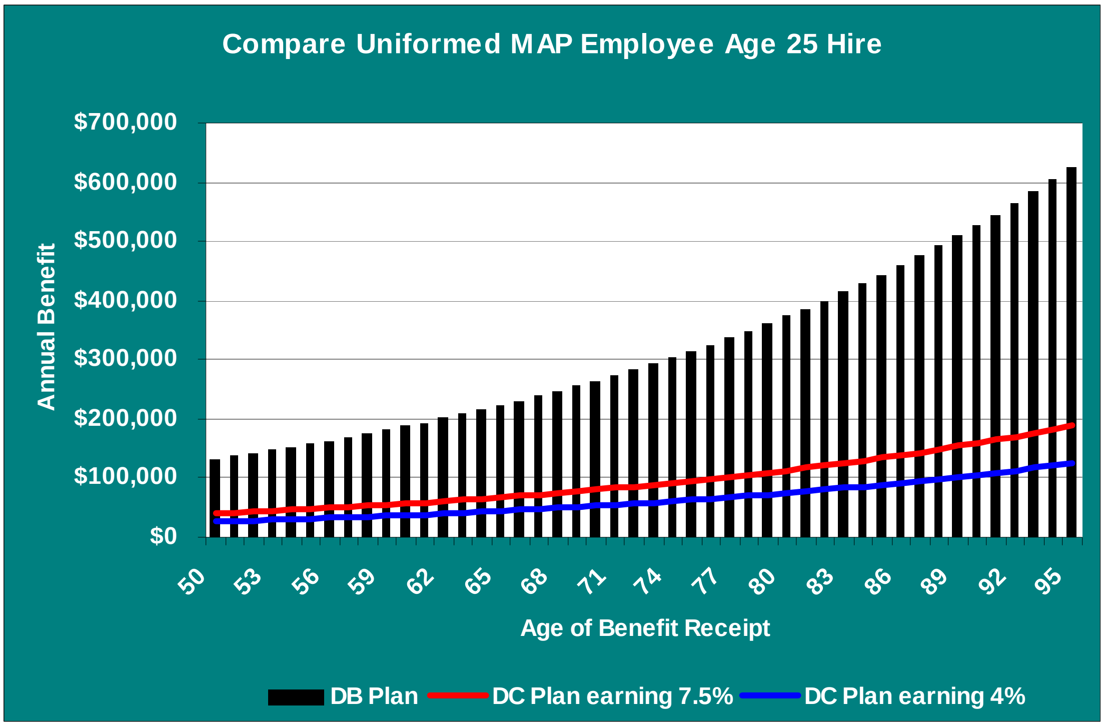
[1] Forfeitures for nonvested employees who leave County employment were assumed to be used to offset future County contributions to the defined contribution plan.

Attachment 5

General MAP Employee
Hire Age: 40
Starting Salary: $80,000
Salary Scale: 4% per year
Benefits Commencement Date: Age 62
Annuity Conversion Rate (for DC Plan): 5% with a 3.5% post-retirement cost of living adjustment



<u>Uniformed MAP Employee</u>
Hire Age: 25
Starting Salary: $80,000
Salary Scale: 4% per year
Benefits Commencement Date: Age 50
Annuity Conversion Rate (for DC Plan): 5% with a 3.5% post-retirement cost of living adjustment



Scenario 5: 100% of New MAP Hires Elect DC Plan (Average Hire Age = 40 for General and 25 for Uniformed) ; 100% of Rehired Retirees Elect DC Plan and work for additional 3 years; 100% of County Board Members elect DC

	DB Retirement Plan		DC Plan		Total		
	(a)	(b)	(c)	(d)	(e) = [(a) + (c)]	(f) = [(b) – (d)]	(g) = [(f) ÷ (e)]
Fiscal Year Ending June 30,	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)[1]	Projected Covered Payroll ($mil)	Expected County Contrib. ($mil)	As % of Payroll
2013	$ 225.4	$ 46.3	$ 3.7	$ 0.2	$ 229.2	$ 46.5	20.3%
2014	232.8	52.4	5.6	0.3	238.4	52.7	22.1%
2015	240.2	58.9	7.7	0.5	247.9	59.4	24.0%
2016	248.6	62.4	9.2	0.5	257.8	62.9	24.4%
2017	257.6	62.1	10.5	0.6	268.1	62.7	23.4%
2018	266.8	66.5	12.0	0.7	278.8	67.2	24.1%
2019	276.3	68.6	13.7	0.8	290.0	69.4	23.9%
2020	286.2	70.2	15.4	1.0	301.6	71.2	23.6%
2021	296.5	72.2	17.1	1.1	313.7	73.3	23.4%
2022	307.4	74.6	18.8	1.2	326.2	75.8	23.2%
2023	318.7	76.7	20.5	1.4	339.3	78.1	23.0%
2024	330.6	79.0	22.2	1.5	352.8	80.5	22.8%
2025	342.9	81.6	24.0	1.7	366.9	83.3	22.7%
2026	355.5	84.3	26.1	1.9	381.6	86.2	22.6%
2027	368.9	86.7	28.0	2.1	396.9	88.8	22.4%
2028	383.0	89.7	29.8	2.2	412.8	91.9	22.3%
2029	397.5	92.3	31.7	2.4	429.3	94.7	22.1%
2030	412.8	89.1	33.6	2.6	446.4	91.7	20.5%
2031	428.9	84.9	35.4	2.8	464.3	87.7	18.9%
2032	445.6	86.9	37.2	3.0	482.9	89.9	18.6%

[1] Forfeitures for nonvested employees who leave County employment were assumed to be used to offset future County contributions to the defined contribution plan.

June 27, 2012

VIA ELECTRONIC MAIL

Ms. Amy Rozier
Benefits Manager
Arlington County Employees' Retirement System
2100 Clarendon Boulevard, Suite 511
Arlington, Virginia 22201

Re: In-Service Benefits

Dear Amy:

You asked whether there would be a cost impact to the System if retirees (those retiring after attaining normal retirement) who were rehired as eligible employees would continue to have their retirement benefits paid during such period of reemployment (assuming such payments met IRS requirements). From a logical perspective, there would be a difference in the amount of total benefit payments paid by the System depending on whether the benefit payments are suspended or not for these rehired retirees. However, the current actuarial assumptions used in our funding calculations do not assume that any participant retiring from the defined benefit retirement system will be subsequently rehired. Therefore, there is no financial impact given the current assumptions on the Retirement System. Based on the infrequency of rehired retirees (only 8 provided to us from the County from April 1, 2011 to March 31, 2012), an assumption for retirees being rehired does not seem appropriate. However, this may cause a change in retirement behavior that will need to be monitored if implemented. A participant may elect to retire immediately upon attaining normal retirement rather than retire at a later date as originally planned. The effects of either suspending or not suspending benefits for persons who become rehired retirees and the resulting experience would be reflected in each year's valuation within the actuarial gain or loss.

On an individual level, there would be an impact that would vary based on several variables (age at original retirement, years expected to work after retirement, additional employee contributions collected during reemployment, reduced hours during reemployment). We could demonstrate the difference in liabilities for an individual given additional information on those variables above if you would like.

The County should consult legal counsel to determine whether legislation prohibits in-service distributions if the County does not intend to suspend a participant's monthly benefit during the period of re-employment.

Lastly, in performing the study involving the option for rehired retirees to elect a defined contribution plan, we did not assume that these retirees benefit payments would be suspended during reemployment. Given the low number of rehired retirees, the results would not have been materially different if we had programmed to suspend their benefit payments.

This report was prepared exclusively for Arlington County for the purpose of determining the fiscal impact of certain proposed change that would affect the System. This report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party. In preparing this letter report, we relied, without audit, on information supplied by the Retirement System. This information includes, but is not limited to, plan provisions, employee data, and financial information.

I hereby certify that, to the best of my knowledge, this report and its contents, which are based on the information and data supplied by the Retirement System are work products of Cheiron, Inc. These work products are complete and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,
Cheiron

Kevin J. Woodrich, FSA, EA, MAAA
Consulting Actuary

cc: Steve McElhaney, FSA, EA, MAAA
Gene Kalwarski, FSA, EA, MAAA

Long-Term Disability Plan
MAP and Rehired Retirees
Enrolled in
Defined Contribution Retirement Plan Option

Provision	Details
Monthly Benefits Percent	60% of earnings
Monthly Maximum Benefit	$10,000
Monthly Minimum Benefit	Greater of $100 or 10% of gross benefit
Elimination Period	90 days
Definition of Covered Earnings	Base rate of earnings exclusive of bonuses, overtime or extra compensation
Own Occupation Period	24 months
Work Incentive Benefit	Included, 12 months
Partial Disability Benefit	Proportional Loss Formula (See LTD Plan Provisions)
Maximum Benefit Period	SSNRA
Rehabilitation Program	Mandatory
Rehabilitation Incentive Benefit	Included
Separate Periods of Disability	During the Elimination Period: less than 30 consecutive days. After the Elimination Period: Less than 6 consecutive months.
Mental/Nervous Limitation	24 months of benefit payments per occurrence
Alcohol/Drug Limitation	24 months of benefit payments per occurrence
Survivor Benefit	3 months of gross benefit payable in a lump sum
Pre-existing Condition Exclusion*	3/12
Exclusions	Self-inflicted injuries, committing or attempting to commit a criminal act, act of war, driving while intoxicated, insurrection, rebellion, or taking part in a riot or civil commotion; pre-existing conditions.

* No benefit is payable for any disability that is caused by or contributed to by a "pre-existing condition" and starts before the end of the first 12 months following your effective date of coverage.
A disease or injury is a pre-existing condition if, during the
3 months before your effective date coverage:
* it was diagnosed or treated; or
* services were received for the diagnosis or treatment of the disease or injury; or
* you took drugs or medicines prescribed or recommended by a physician for that condition.

Estimated annual premium $7,500