July 8, 2008

Marcy Foster
Director of Human Resources
2100 Clarendon Blvd. Suite 511
Arlington, VA 22201

Re: Changes in Retirement Benefits

Dear Marcy:

As requested, we are summarizing our estimates for the cost impact if the County were to adopt the benefit provisions provided in the June 24 e-mail from Amy Rozier. This letter reflects updated overtime pay information received by e-mail and phone on July 7. The benefit improvements, as well as the definition of retirement pay, included the following:

- No overtime as retirement compensation except for overtime paid at the employee's base hourly pay rate for hours worked to complete their regular annual work schedule, no premium pays (except holiday premium), or benefit subsidies/stipends.
- Proposed formula for General employees is 1.7% accrual on all service (maximum of 30 years)
- Proposed formula for Public Safety employees is 2.5% accrual on all service up to 12/31/2008 and 2.7% accrual for prospective service. Again, no more than 30 years count for retirement service.
- Service-connected disability benefits will not change
- Participant will receive greater of their accrued benefit under the old formula plus the new formula after the effective date OR the proposed formula described above for all years of service.
- 7.5% employee contribution rate for Public Safety employees
- No changes to current retirees
- Chapter 21 active and DROP participants will get the better benefit upon leaving the organization (or 1/1/2009 if later).

Our cost estimates reflect the requirements of the County code. The County code requires that, whenever there is a benefit change, the County contribution must be increased by the amount of the change in normal cost plus the amortization of any liability increase over a 20-year period. Such increase shall take place on the July 1 immediately following adoption of the change. You will need to consult legal counsel as when the adoption date is.

The chart below shows a projection of anticipated County contributions over the next ten years if the County was to begin funding the benefit enhancements on one of the following three dates: July 1, 2008; January 1, 2009; or July 1, 2009. These projections assume an investment return of 0.5% in FY 2007-8 (based on information received from Ashford through May 31) and 8% thereafter. The markets have declined since May 31. A significant decline without returns above the assumed 8% could result in increases above the amounts shown, likely beginning with the fiscal year ending June 30, 2013.

County Contributions (Net of Employee Contributions)

FY Ending	No Changes		Increase 7/1/2008		Increase 1/1/2009		Increase 7/1/2009	
June 30	% Pay	$ mil	% Pay*	$ mil	% Pay*	$ mil	% Pay*	$ mil
2009	13.8%	$ 33.7	19.8%	$ 45.0	16.9%	$ 39.6	13.8%	$ 33.7
2010	13.8%	35.2	19.8%	47.0	19.9%	47.3	20.0%	47.5
2011	13.8%	36.8	19.8%	49.1	19.9%	49.4	20.0%	49.7
2012	13.8%	38.4	19.8%	51.3	19.9%	51.6	20.0%	51.9
2013	13.8%	40.1	19.8%	53.6	19.9%	53.9	20.0%	54.2
2014	13.8%	41.9	19.8%	56.0	19.9%	56.4	20.0%	56.7
2015	13.8%	43.8	19.8%	58.5	19.9%	58.9	20.0%	59.2
2016	13.8%	45.8	19.8%	61.2	19.9%	61.5	20.0%	61.9
2017	13.8%	47.9	19.8%	63.9	19.9%	64.3	20.0%	64.7
2018	13.8%	50.0	19.8%	66.8	19.9%	67.2	20.0%	67.6

** Once county contributions increase, the contributions are based on lower total payroll according to the newly defined creditable compensation.*

Our analysis is based on the data provided and assumptions used for the July 1, 2007 actuarial valuation and information on DROP participants as well as compensation and overtime data received via e-mail. Under the proposed changes, retirement compensation was reduced by 3.3% for General employees and 14.2% for Uniformed employees. To the extent that future experience deviates from the actuarial assumptions, the true cost of the System could vary from our results.

If you have any questions or need any additional information, please call.

Sincerely,
Cheiron

John L. Colberg, FSA
Consulting Actuary