DATE: June 20, 2005

SUBJECT: Amendments to the Arlington County Retirement Ordinance.

C. M. RECOMMENDATION:

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

SUMMARY: These amendments delineate the plan’s contribution and investment strategy plus align Chapter 35 options with recent changes to Chapters 21 and 46, eliminate the requirement of pre-employment physicals for administrative staff, adjust the creditable compensation definition to more closely match that of the Internal Revenue Code, and redirect a reference in the Code to the proper section.

BACKGROUND: a) The employer contribution to the retirement system is defined to be that which is actuarially necessary to provide the estimated future benefits of the members of the system once the present value of future employee contributions and the present value of future employer contributions are combined with the system’s current balance.

b) The Code outlines an investment strategy to invest in at least 25% fixed income bearing investments and no more than 75% common stock.

c) Recent changes in Chapters 21 and 46 allow for election of survivor annuitants other than a spouse and allow members to DROP upon attaining the Rule of 80. These options were inadvertently not incorporated into Chapter 35.

d) The membership requirement for pre-employment physicals for all new permanent employees is not aligned with the County’s new pre-employment physical process which only requires physicals for uniformed public safety employees and employees in positions with a high degree of physical and/or psychological demands.

e) The current definition of creditable compensation is too restrictive given the current pay plan.

County Manager: _____________

County Attorney: _____________

Staff: Amy Rozier, Human Resources Department
f) The technical correction is to amend the reference in both Chapters 21 and 46 that requires annual verification of income for disability retirements. The reference points to a requirement that the retiree should submit medical records rather than documentation of their earned wages.

**DISCUSSION:** a) With the current funding requirements, there is ambiguity about employer contributions. The proposed language more clearly defines the employer’s contribution amounts in various situations ranging from an underfunded to an overfunded plan.

b) The retirement system investment strategy currently limits the investment mix to 25% fixed income and 75% common stock. Limiting the investment strategy in this manner eliminates investment opportunities when the market is performing well and thus hinders the plan from earning at its maximum potential. With recent market changes, and the current strategy, the fund would have to move money from a solidly performing fund manager with a long-term expected return of 9.4% to a more conservative investment with a long-term expected return of 2.4%. Adopting a “prudent person rule”, as the Commonwealth of Virginia has adopted, allows the Retirement Board to have more flexibility in investing the contributions in a more fiscally responsible manner.

c) Allowing Chapter 35 members to elect a non-spousal survivor annuitant and to allow for entering the DROP when years of service plus age total 80 will align Chapter 35 options with those available in Chapters 21 and 46.

d) Removing the pre-employment physical membership requirement for non-uniformed public safety employees and employees in positions without a high degree of physical and/or psychological demands is consistent with the new County pre-employment physical policy. Pre-employment physicals will still be conducted for the uniformed public safety employees and employees in more physically and/or psychologically demanding positions.

e) Currently, the Code links the definition of maximum creditable compensation to the Internal Revenue Code (IRC) definition “as amended from time to time”. Clarifying this language to indicate the compensation is linked to the IRC definition “as indexed annually”, aligns the maximum salary that can be earned and used for purposes of calculating benefits with our current pay plan.

f) Redirecting the reference for annual verification of income by retirees on disability is a technical correction for both Chapters 21 and 46.

**FISCAL IMPACT:** There is an administrative cost associated with administering the DROP enhancement to Chapter 35. It is nominal and this change would allow seven more employees to enter the DROP. There is no known fiscal impact for the remainder of the changes.