

**OVERSIGHT HEARING ON  
THE RETIREE HEALTH CONTRIBUTION - OTHER  
POST-EMPLOYMENT BENEFITS TRUST FUND**

Before the  
Committee of the Whole  
Council of the District of Columbia

The Honorable Phil Mendelson, Chairman

**Wednesday, March 5, 2014  
9:30 a.m.  
Council Chamber, John A. Wilson Building  
1350 Pennsylvania Avenue, NW  
Washington, DC 20004**



Testimony of  
Jeffrey Barnette  
Deputy Chief Financial Officer - Treasurer  
Government of the District of Columbia

Good morning Chairman Mendelson and members of the Committee of the Whole. I am Jeffrey Barnette, Deputy Chief Financial Officer and Treasurer of the District of Columbia. I am pleased to testify on the Retiree Health Trust, which is also known as the Other-Post Employment Benefit Trust (OPEB).

By way of history, the District's OPEB plan was established in 1999, but received the majority of its funding starting in 2007. This was part of a new Governmental Accounting Standards Boards (GASB) issuance known as GASB 45 which outlined the governmental standards to move from an annual "pay as you go" funding of retiree health care benefits to a long-term trust that is invested and used exclusively for the benefits established. The fund assets can only be used to pay benefits for participating retirees and the associated administrative expenses.

The District was one of the early implementers of this kind of trust and has achieved a level of funding since 2007 that is among the best of any governmental entity in the nation. Considerable effort has been taken over the past few years to ensure that the investments, actuarial analyses and all other necessary elements are in place for a sound and sustainable OPEB trust.

In contrast to other government OPEB plans around the country which have a median funding ratio of only 7.10%, the District's OPEB currently has a funding ratio of 85%, up from 75% at the end of 2012. Given that the majority of the D.C. government workforce, in particular a significant portion of the Baby Boom generation, has yet to approach retirement, our funding ratio provides a solid basis for continuing to provide OPEB to those retirees who choose this benefit. It is also noteworthy that there are only eleven state plans in the entire country, including ours, that have funding levels greater than 10%. As of September 30, 2013, there were 555 beneficiaries of the plan.

The FY14 annual required contribution (ARC) was \$89.9 million. However, due to the timing of the actuarial analysis, the budgeted payment for the current year is \$107.8 million and that amount will be paid in to the plan this fiscal year. We have made some adjustments to the actuarial review process and now have the timing of the review aligned with the budget development process, which will position the plan to only pay the actuarial ARC. With regards to the FY15 budget, our actuarial firm has completed their roll-forward review and determined that the ARC for FY15 is \$90.1 million, down from the previous projection of \$94.8 million. The decrease in ARC was driven by the plan's investment performance during the past year.

As of September 30, 2013, the plan was valued at \$897 million.

With respect to investment performance, the portfolio achieved rates of return of 15.45% over the past year, and 9.90% over the past three-year period. These are positive returns and compare favorably to the returns of the DC Retirement Board.

OFT works directly with our investment consultant, SegalRogersCasey, to constantly review the performance of our investment managers. Segal also works with us to determine the proper asset allocation to achieve the plan's investment return target of 7%. The goal of the allocation is to provide the best risk adjusted returns. Within the past year, we have added new investments in emerging markets equity and fixed income, as well as a diversified commodity strategy. As the trust grows we will continue to add new asset classes to improve the diversification and lower the overall portfolio risk.

Although the District's OPEB plan is well-funded, a comprehensive review of the program is under way by the CFO to ensure the plan not only meets best practices but exceeds them, which is consistent with one of his goals of continuous improvement. In this regard, the Government Finance Officers Association has several recommendations for OPEB administration that we will use to review our internal policies and procedures that govern the OPEB trust.

Also at your suggestion, we are convening an advisory board, comprised of independent, outside subject-matter experts, who can review with OCFO staff OPEB plan particulars, including actuarial assumptions and investment objectives and decisions and make recommendations in regard to best practices. We have reached out to the leadership of the DC Retirement Board for suggested members to the advisory board. We hope to have the board in place in the next few weeks.

In order to enhance transparency and greater understanding by the public of OPEB, we will be providing an annual report that will apprise the Mayor, Council and the public of the status, performance, and changes in our actuarial assumptions. Distribution of the annual report should take place very soon; we are waiting for the annual audit report to provide as a supplement to the main annual report. Our auditors expect to deliver this report in the next week.

In summary, the plan is in excellent shape. Our goal is to become more transparent, improve the oversight of the plan and to ensure that the plan is managed using the best practices.

This concludes my remarks. I would be pleased to answer any questions you may have.