

**FISCAL YEAR 2024 BUDGET HEARING ON
THE OTHER POST-EMPLOYMENT BENEFITS FUND**

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

The Honorable Phil Mendelson, Chairman

April 6, 2023, 9:00 a.m.



**Testimony of
Carmen Pigler
Deputy Chief Financial Officer and Treasurer
Government of the District of Columbia**

**Glen Lee
Chief Financial Officer
Government of the District of Columbia**

Good morning, Chairman Mendelson, and members of the Committee of the Whole. I am Carmen Pigler, Deputy Chief Financial Officer and Treasurer of the District of Columbia. I am pleased to testify in support of the Other Post-Employment Benefit (“OPEB”) Trust Fund’s Fiscal Year 2024 budget request.

OPEB Plan Overview

OPEB, also referred to as the OPEB Plan, is the health and life insurance benefits for retirees. The OPEB Plan includes a trust fund, the OPEB Trust Fund (“Fund”), established pursuant to the Annuitants’ Health and Life Insurance Employer Contribution Act. The Fund receives the District’s employer contributions. These contributions, along with premium payments and investment earnings, pay future benefits to qualified participants. The Office of Finance and Treasury (“OFT”) is responsible for the oversight of the Plan and the Fund including, but not limited to, administration and management of investments, selection and monitoring of investment managers, establishment of investment objectives, determination of investment policy, and control of Fund assets.

As of March 27, 2023, the market value of the Fund’s assets was \$1.782 billion, with 3,467 participants.

OPEB Administration Budget Request

The Plan’s administrative expenses are supported by the Fund’s assets. During Fiscal Year 2022, the Fund incurred \$7.131 million in expenses. The largest expense was investment management fees of \$6.538 million. Other administrative expenses, including custodial, actuarial, and accounting services, were \$593,000. Administrative expenses represented less than four basis points or 0.036 percent of the Fund’s value for Fiscal Year 2022.

Budgeted administrative expenses for Fiscal Year 2023 were revised downward to \$7.573 million from the approved budget. Investment managers are compensated based on assets under management and the decrease is due in part to the decline in assets since Fiscal Year 2021. Another factor is stronger fee negotiating capabilities. OFT recently contracted with NEPC, LLC (NEPC) to provide Outsourced Chief Investment Officer services. NEPC will negotiate on behalf of the Plan for more favorable fee structures with investment managers.

The Fiscal Year 2024 OPEB administration budget request is \$8.008 million, which represents a decrease in administrative expenses of \$3.597 million from the Fiscal Year 2023 approved and 2024 proposed budget. The request was adjusted to reflect lower investment manager fee expenses.

Exhibit I, attached, summarizes administrative expenses for Fiscal Years 2022, 2023, and 2024. Exhibit II details fees paid from Fiscal Year 2018 to 2022 and projected fees for 2023 and 2024.

Actuarially Determined Contribution Budget Request

The District's Actuarially Determined Contribution (ADC) is calculated annually by an independent actuary. The ADC is the cash contribution required to provide sufficient resources to fund both the Plan's normal cost for the year and the amortized unfunded liability. Normal cost is the contribution necessary, when added to investment income, to pay for benefits earned each year. The most recent actuarial study determined an ADC of \$72.7 million for Fiscal Year 2024, which reflects the normal costs of \$67.053 million and an unfunded liability of \$5.647 million.

The Fiscal Year 2024 ADC increased by \$31.2 million from the prior year. The Fiscal Year 2023 ADC was based on the Fund's expected asset value and projected liabilities as of September 30, 2021. At that time, assets exceeded liabilities by \$20.257 million, lowering the ADC (ADC equals the normal cost of \$61.757 million less excess asset value of \$20.257 million). By contrast, the Fund's expected asset value was lower than projected liabilities on September 30, 2022, resulting in an unfunded liability of \$5.647 million and increasing the Fiscal Year 2024 ADC (ADC equals the normal cost of \$67.053 million plus unfunded liabilities \$5.647 million).

Exhibit III, attached, shows the District's annual contributions since 2007.

Conclusion

The Plan's funded ratio, on a market basis as of September 30, 2022, was 90.5 percent. Industry experts consider a plan that is at least 80 percent funded to be healthy. Our goals are to continue to oversee a well-funded plan, maximizing portfolio returns and minimizing fees and expenses.

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

Exhibit I: Administrative Expenses Fiscal Years 2022, 2023, 2024

(\$Dollars in thousands)

	Actual FY 2022	Budget FY 2023	Proposed Budget FY 2024
Investment Management Fees	\$ 6,538	\$ 6,963	\$ 7,415
Custody Fee	\$ 261	\$ 288	\$ 288
Accounting Compilation Services	\$ 97	\$ 123	\$ 126
Actuary Services	\$ 38	\$ 62	\$ 42
Bloomberg Subscription	\$ 102	\$ 98	\$ 98
Bill Payment Services (Wage Works)	\$ 40	\$ 40	\$ 40
Consulting Services	\$ 55	N/A	N/A
TOTAL	\$ 7,131	\$ 7,573	\$ 8,008

Exhibit II: Investment Management Fees

	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Actual 2022	Budgeted 2023	Proposed Budget 2024
Total Investment Management Fees	\$ 6,521,226	\$ 6,324,425	\$ 6,136,516	\$ 7,208,303	\$ 6,537,822	\$ 6,962,780	\$ 7,415,361
Fiscal Year-end Asset Value	\$ 1,462,029,859	\$ 1,509,102,272	\$ 1,640,681,507	\$ 2,025,061,908	\$ 1,650,287,153	\$ 1,757,555,818	\$ 1,871,796,946
Simple Average Fee%	0.45%	0.42%	0.37%	0.36%	0.40%	0.40%	0.40%

Exhibit III: The District’s Annual Contributions to the OPEB Fund

Year	Annual Contributions (\$Millions)	Year	Annual Contributions (\$Millions)
2007	4.7	2016	29.0
2008	103.4	2017	31.0
2009	81.1	2018	44.5
2010	90.7	2019	46.0
2011	94.2	2020	47.3
2012	109.8	2021	53.6
2013	107.8	2022	53.0
2014	86.6	2023	41.5
2015	91.4	Budget 2024	72.7