

**FISCAL YEAR 2022 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

June 7, 2021 12:00 p.m.



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

**Fitzroy Lee
Interim Chief Financial Officer
Government of the District of Columbia**

Good afternoon 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 on the Other-Post Employment Benefits Fund, hereafter referred to as the “OPEB Fund”. The District’s contribution for health and life insurance for District annuitants, and eligible family members of annuitants, are paid from the OPEB Fund.

The OPEB Fund receives the District’s annual contributions toward health and life insurance benefits for District employees who have retired, as well as premium payments from retirees. These contributions and premiums, along with investment earnings, are used to pay future benefits on behalf of qualified participants. The OPEB Fund’s assets can only be used to pay benefits for participating District annuitants and the associated administrative expenses. The OPEB Fund is administered pursuant to the Annuitants’ Health and Life Insurance Employer Contribution Plan.

As of September 30, 2020, the OPEB Fund was valued at \$1.64 billion with 2,551 beneficiaries participating. For comparison, the OPEB Fund was valued at \$1.509 billion and had 1,939 beneficiaries participating as of September 30, 2019. The operations of the Plan are examined annually along with the CAFR audit. The OPEB Fund received an unqualified (clean) opinion.

The District budgets an annual contribution to the Plan that is calculated by our independent actuary, Cheiron. The actuarially determined contribution, also known as the ADC, is used to support the benefits paid from the OPEB Fund. Cheiron performed a recent actuarial study, dated March 2021, based on the plan as of September 30, 2020. The results of that actuarial review projects an ADC of \$53.0 million for Fiscal Year 2022. The Fiscal Year 2021 annual contribution is \$53.6 million. For comparison, the Fiscal Year

2020 annual contribution was \$47.3 million. Exhibit I, attached, shows the District's annual contributions since 2006.

The benefits the plan pays are the insurance carrier premiums which totaled \$23.4 million during Fiscal Year 2020. For comparison purposes, the insurance carrier premiums for Fiscal Year 2019 were \$19.7 million. This increase is driven by the increase in the number of participants, cost sharing percentages and increases in annual premium rates.

Let me now briefly update you on expenses associated with the OPEB Fund for Fiscal Years 2020, 2021 and 2022. Exhibit II, attached, summarizes the expenses for the three years.

The expenses related to the plan are supported by the assets of the plan. During Fiscal Year 2020, the OPEB Fund incurred \$7.0 million in expenses. The largest component was investment management fees with payments of \$6.1 million. Total administrative costs were \$854,000. Personnel expenses were \$272,373. All staff who provide oversight, administration and support to the OPEB fund are OCFO employees. Those employees are reflected in the OCFO budget, both with respect to headcount and associated expense. However, the OPEB Fund reimburses the OCFO for those personnel costs associated with the administration of the OPEB fund. The remaining expenses were for services such as investment consultants, custodial services, actuarial services and accounting services which amounted to \$581,198. On a percentage basis, administration costs represented less than one half of one percent of the OPEB Fund's value for Fiscal Year 2020.

Total budgeted expenses for Fiscal Year 2021 are \$8.9 million including investment management fees of \$6.7 million (based on assumed average assets of \$1.5 billion). Other

expenses are budgeted at \$2.2 million which include personnel expenses and other services as outlined previously.

For Fiscal Year 2022 we are budgeting a total of \$10.2 million in expenses including investment management fees of \$7.6 million, personnel expenses of \$672,000 and other expenses of \$1.9 million. The increase in management fees is driven by the increase in the value of assets we anticipate in Fiscal Year 2022. The current asset value of the fund is nearly \$2 billion, a 22% increase over the Fiscal Year 2020 year-end balance. Exhibit III, attached, details investment management fees paid over the last several years.

Other expenses also increased. We are in process of transitioning to an outsourced chief investment officer model, the cost of which is included in other expenses, from our current investment consultant model. This model will provide even more expertise and oversight of the investment managers' performance and allow the OPEB Fund to invest more effectively and nimbly which should result in the fund continuing to meet or exceed return targets over time. Exhibit IV, attached, shows fund performance for this fiscal year through March and for the last two fiscal years.

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

Exhibit I: The District's Annual Contributions to the OPEB Fund

Year	Annual Contributions \$millions
2006	\$ 138.0
2007	\$ 4.7
2008	\$ 103.4
2009	\$ 81.1
2010	\$ 90.7
2011	\$ 94.2
2012	\$ 109.8
2013	\$ 107.8
2014	\$ 86.6
2015	\$ 91.4
2016	\$ 29.0
2017	\$ 31.0
2018	\$ 44.5
2019	\$ 46.0
2020	\$ 47.3
2021	\$ 53.6
Budget 2022	\$ 53.0

Exhibit II: Expenses

				Other Post Employment Benefits Administration		
						Proposed
				Actual	Budget	Budget
				FY 2020	FY 2021	FY 2022
11	Regular Pay - Continuing Full Time*			\$ 218	\$ 750	\$ 538
14	Fringe Benefits - Current Personnel			\$ 54	\$ 188	\$ 134
15	Overtime Pay				\$ -	\$ -
SUBTOTAL PERSONAL SERVICES				\$ 272	\$ 938	\$ 672
20	Supplies and Materials					
30	Energy, Communications and Building Rental					
40	Other Services and Charges					
41	Contractual Service - Other			\$ 6,718	\$ 7,980	\$ 9,485
50	Subsidies and Transfers					
70	Equipment and Equipment Rental					
Total				\$ 6,990	\$ 8,918	\$ 10,157

Exhibit III:

Investment Management Fees

	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Budgeted 2021	Proposed Budget 2022
Total Investment Management Fees	\$ 5,404,288	\$ 5,719,661	\$ 5,804,296	\$ 6,521,226	\$ 6,324,425	\$ 6,136,516	\$ 6,695,465	\$ 7,600,000
Fiscal Yearend Asset Value	\$ 1,076,550,114	\$ 1,197,441,214	\$ 1,366,282,061	\$ 1,462,029,859	\$ 1,509,102,272	\$ 1,640,681,507	\$ 1,487,881,164	\$ 2,000,000,000
Simple Average Fee %	0.50%	0.48%	0.42%	0.45%	0.42%	0.37%	0.45%	0.38%
Fees are negotiated with each investment manager and vary depending on asset class being managed, whether active or passive management and total value of assets managed. Fees can be tiered, e.g. .50% on the first \$30mm and .20% thereafter								
Actual fees are calculated on a monthly basis, as asset values fluctuate up or down fees can likewise increase or decrease.								

Exhibit IV: Total Fund Performance

	Oct 2020 to March 2021	Oct 2019 to Sep 2020	Oct 2018 to Sep 2019			
Total Fund Composite	17.7	7.0	1.6			
<i>Policy Index</i>	14.4	7.9	4.0			