FISCAL YEAR 2025 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 26, 2024, 9:00am

Testimony of
Carmen Pigler
Deputy Chief Financial Officer, 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 Benefits ("OPEB") Plan's Fiscal Year 2025 budget request. I am joined by Benedict Richardson, Associate Treasurer; Rodney Dickerson, Director; and Ken Alozie, Program Manager.

OPEB Plan Overview

The OPEB Plan includes 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 health and life insurance 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 April 1, 2024, the market value of the Fund's assets was $2.08 billion, with approximately 3,640 participants.

OPEB Operating Budget Request

The Plan's operating expenses are supported by the Fund's accumulated assets. Operating expenses in the Fiscal Year 2024 Approved Budget and Financial Plan were $8.008 million. The largest Fiscal Year 2024 operating expenses are investment management fees, $6.648 million, and Outsourced Chief Investment Officer ("OCIO") fees, $766,000. Combined investment management and OCIO fees for Fiscal Year 2024 are projected to be 38 basis points or 0.38 percent, assuming the Fund meets the actuarial return of 6.5% in Fiscal Year 2024. Other operating expenses include custodial, actuarial, and accounting services, totaling $594,000.

The Fiscal Year 2025 budget request for operating expenses is $8.343 million, an increase of $335,000 from the Fiscal Year 2024 approved budget. The largest operating expenses are investment management fees, $6.947 million, and OCIO fees, $817,000. Combined investment management and OCIO fees for Fiscal Year 2025 are projected to be 37 basis points or 0.37 percent assuming the Fund meets the actuarial return of 6.5% in Fiscal Years 2024 and 2025. Other operating expenses include custodial, actuarial, and accounting services totaling $579,000.

Exhibit I (attached) summarizes actual operating expenses for Fiscal Years 2021 to 2023, approved operating expenses for Fiscal Year 2024, and proposed operating expenses for Fiscal Year 2025.

Exhibit II details investment management and OCIO fees paid from Fiscal Years 2019 to 2023 and projected fees for 2024 and 2025.

Actuarially Determined Contribution Budget Request

The actuarial consulting firm Cheiron performs an actuarial analysis of the Plan's assets and liabilities annually to determine the Actuarially Determined Contribution ("ADC"), the District's annual contribution to the Plan. The ADC is the cash contribution required to provide sufficient resources to fund both the Plan's normal cost and the amortized unfunded liability. Normal cost is the contribution necessary, when added to investment income, to pay for benefits earned each year. The amortized unfunded liability is the difference between the estimated benefits owed to retirees and assets accumulated to pay them. The actuary determines the ADC by calculating the normal cost under the Entry Age Normal Actuarial Cost Method, plus a 15-year layered, level percent of pay amortization of the unfunded actuarial liability. The Fiscal Year 2023 actuarial study is the first ADC calculated using the layered amortization approach. Previous ADC calculations used a closed 20-year level percentage of pay amortization method.

Under the 20-year closed amortization method, the unfunded liability was amortized over 20 years beginning in Fiscal Year 2015. Each year after the actuarial valuation, the remaining number of years over which to pay the unfunded liability decreased by one year. As the amortization schedule decreased, the volatility impact on the ADC increased as differences in experience and assumptions that occurred during the year were amortized over a shorter period. In the shortened period, the volatility in ADC may become difficult to budget on an annual basis. For that reason, the actuary advised that the Plan adopt a 15-year layered amortization method.

Under the layered amortization approach, the unfunded liability amortizes over a 15-year period. Any gains or losses realized in future years are amortized over a new period. With each actuarial valuation, a new layer is added to the amortization schedule. ADC volatility is decreased by spreading new gains and losses over new amortization periods each year. If a surplus (assets exceed liabilities) occurs, it is amortized over 30 years, and all prior amortization bases are eliminated to ensure benefits are funded as they are earned.

The Fiscal Year 2023 actuarial study, based on assets and liabilities as of September 30, 2023, determined the Fiscal Year 2025 ADC budget request of $63.90 million. This will support normal costs of $62.40 million and an unfunded liability of $1.50 million.

Exhibit III, attached, shows the District's annual contributions since 2006.

In addition to the budget request, OFT is proposing revisions to the source of payment for OPEB operating expenses in the proposed Budget Support Act subtitle, attached. Based on the current statute (OPEB Fund Administrative Costs Amendment Act of 2018, effective October 30, 2018 (D.C. Law 22-168; 65 DCR 13694.)), OPEB operating expenditures are reflected in the General Fund and paid with Special Purpose Revenue. OFT proposes moving OPEB operating expenditures from the General Fund to the Trust allowing those expenditures to be paid directly by the Trust. Paying expenditures directly from the Trust reflects the self-funded status of the OPEB Fund, removes those expenditures from the General Fund, and establish expense recognition practices for the Plan and the District that are consistent with accepted accounting principles.

Conclusion

The "funding ratio" is the ratio of a plan's asset value to its accrued liability at a point in time. Based on Cheiron's most recent analysis of Fund assets and liabilities, the Plan's funding ratio, as of September 30, 2023, was 93.0% based on the market value of assets, and 100.7% based on the actuarial value of assets. A plan is considered fully funded when it has a funding ratio between 90% and 120%. 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 2021 - 2025

($Dollars in thousands)	Actual FY 2021	Actual FY 2022	Actual FY 2023	Approved Budget FY 2024	Proposed Budget FY 2025
Investment Management Fees	$ 6,407	$ 6,538	$ 6,125	$ 6,648	$ 6,947
Custody Fee	$ 280	$ 261	$ 267	$ 288	$ 299
Accounting Compilation Services	$ 91	$ 97	$ 56	$ 126	$ 132
Actuary Services	$ 63	$ 38	$ 41	$ 42	$ 42
Bloomberg Subscription	$ 100	$ 102	$ 97	$ 98	$ 106
Bill Payment Services (Wage Works)	$ 33	$ 40	$ 52	$ 40	$ -
OCIO	$ 802	$ 1,442	$ 763	$ 766	$ 817
TOTAL	**$ 7,776**	**$ 8,518**	**$ 7,401**	**$ 8,008**	**$ 8,343**

Exhibit II: Investment Management Fees

	Actual FY 2019	Actual FY 2020	Actual FY 2021	Actual FY 2022	Actual FY 2023	Approved Budget FY 2024	Proposed Budget FY 2025
Total Investment Management Fees	$ 6,324,425	$ 6,136,516	$ 6,406,564	$ 6,537,822	$ 6,125,362	$ 6,648,561	$ 6,947,539
OCIO Fees [1]	$ -	$ -	$ 801,739	$ 1,442,058	$ 762,619	$ 766,800	$ 816,642
Fiscal Year-end Asset Value	$ 1,509,102,272	$ 1,640,681,507	$ 2,025,061,908	$ 1,650,287,153	$ 1,843,482,002	$ 1,963,308,332	$ 2,090,923,374
Simple Average Fee% [2]	0.42%	0.37%	0.36%	0.48%	0.37%	0.38%	0.37%

[1] The first OCIO was onboarded in 2021. There are no OCIO fees prior to Fiscal Year 2021.
[2] Fiscal Year End Asset Value for Fiscal Years 2024 and 2025 assume the Fund achieves the 6.5% actuarial rate of return in both Fiscal Years.

Exhibit III: 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

Year	Annual Contributions ($Millions)
2016	$ 29.0
2017	$ 31.0
2018	$ 44.5
2019	$ 46.0
2020	$ 47.3
2021	$ 53.6
2022	$ 53.0
2023	$ 41.5
2024	$ 72.7
Budget 2025	$ 63.9

Exhibit IV

TITLE VII. FINANCE AND REVENUE

SUBTITLE __. OTHER POST-EMPLOYMENT BENEFITS FUND PAYMENT OF VENDORS

Sec. 70__1. Short title. This subtitle may be cited as the "Other Post-Employment Benefits Fund Payment of Vendors Amendment Act of 2024".

Sec. 70__2. Section 1032 of the Other Post-Employment Benefits Fund Administrative Costs Amendment Act of 2018, effective October 30, 2018 (D.C. Law 22-168; 65 DCR 9388), is repealed.

Sec. 70__3. Section 2109 of the District of Columbia Government Comprehensive Merit Personnel Act of 1978, effective March 3, 1979 (D.C. Law 2-139; D.C. Official Code§ 1-601.01 et seq.), is amended as follows:

(a) Subsection 2109(d-3) is amended to read as follows:

"All expenses incurred by the Chief Financial Officer in administering the Other Post-Employment Benefits Fund (the "Fund"), including hiring staff for the Office of the Chief Financial Officer and paying vendors in support of the Fund's activities, shall be paid from the accumulated assets of the Fund. The budget prepared and submitted by the Mayor, pursuant to § 1-204.42 shall include recommended expenditures, at a reasonable level, for the administrative expenses of the Fund for the forthcoming fiscal year. The budget enacted pursuant to § 1-204.46 may designate a portion of the Fund's assets to be allocated for the administrative expenses of the Fund; provided, that it shall not specify the specific manner in which, or the specific purposes for which, the Chief Financial Officer may expend such portion of the Fund. As of October 1, 2024, all agency-level budgets established for the administration costs associated with the Fund are eliminated."