

FISCAL YEAR 2018 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 11, 2017, 11:00 a.m.
John A. Wilson Building, Room 123
1350 Pennsylvania Avenue, NW
Washington, DC 20004



Testimony of
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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 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’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. With regard to the OPEB Fund, the budgeted figure is the annual required contribution (ARC) that is calculated by our independent actuary and is used to support the benefits paid from the OPEB Fund.

As of the first week of March, we received a draft of the most recent actuarial results based on the plan as of 9-30-2016. In order to continue with best practices, we had the actuaries present the results with a change in the methodology of the annual required contribution (ARC) calculation. Specifically, we incorporated the use of 5-year actuarial asset smoothing. Smoothing helps manage volatility with the annual contribution by dampening the impact of changing investment returns. This helps stabilize the budget impact from potentially volatile ARC contributions. The results of the recent actuarial review will have an impact on the FY18 annual contribution. The ARC payment will be \$44.5 million versus a prior calculation of \$33.2 million. This increase is driven by the negative performance in FY15 and the overall size of the plan growing from 23,000 participants to 25,000.

Although the District's Trust Fund is well-funded, we continue to review the Trust Fund's program to ensure it not only meets best practices but exceeds them, which is consistent with one of the OCFO's goals of continuous improvement.

Aside from the ARC payment, I would like to take this opportunity to briefly update you on expenses associated with the OPEB Fund for the period ending FY16. All expenses related to the plan are supported by the assets of the plan. During FY16, the OPEB Fund paid out a total of \$16.0 million in expenses. The two largest components were Insurance Carrier Premiums with payments of \$10 million and Investment Management Fees with payments of \$5.7 million. The remaining expenses cover services such as Investment Consultants, Custodial Services, Actuarial Services and Investment Software. On a percentage basis, Investment Management Fees and other expenses accounted for 0.50% of assets at the end of FY16. We don't anticipate any major changes in the costs of the OPEB Fund for FY17 and FY18.

As of September 30, 2016, the OPEB Fund was valued at \$1.197 billion and had 1,279 participating beneficiaries. The operations of the Plan are examined annually along with the CAFR audit. The OPEB Fund received an unqualified (clean) opinion.

In summary, the OPEB Fund is in excellent shape. Our goals are to become more transparent, improve oversight of the plan and ensure that the OPEB Fund is managed using best practices so District employees can rest assured this retirement benefit is fully available if they elect to use it.

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