

FISCAL YEAR 2019 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

March 27, 2018, 10:00 a.m.
John A. Wilson Building, Room 500
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.

Earlier this month, we received the most recent actuarial results based on the plan as of September 30, 2017. In order to maintain best practices, we had the actuaries present the results with a change in the methodology of the 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 Fiscal Year 2019 annual contribution. The ARC payment will be \$46 million versus a prior calculation of \$49.1 million. The decrease in the budgeted figure is driven by the positive investment performance we have seen over the past few years. For comparison, the Fiscal Year 2018 annual contribution is \$44.5 million.

Although the District's OPEB Fund is well-funded, we continue to review the OPEB 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 Fiscal Year 2017. The majority of expenses related to the plan are supported by the assets of the plan. During Fiscal Year 2017, the administration and operation of the OPEB Fund incurred \$19 million in expenses. The two largest components were Insurance Carrier Premiums, with payments of \$12.9 million, and Investment Management Fees, with payments of \$5.8 million. The remaining expenses were for services such as Investment Consultants, Custodial Services, Actuarial Services and Investment Software amounting to approximately \$300,000. On a percentage basis, administration and operation costs represent less than one half of one percent of the OPEB Fund's value for Fiscal Year 2017. We don't anticipate any major changes in the costs of the OPEB Fund for Fiscal Year 2018, however we are proposing some changes for Fiscal Year 2019.

We will be presenting your office with a proposal recommending changes in the law that developed and guides the OPEB Fund. The proposal that we plan to submit will modify the law so that all expenses related to the Fund would be paid out of the Fund. Currently, the law requires some expenses to be paid from the District's General Fund. The reason we are requesting this change is the OPEB Fund has remained fully funded and has a large asset base which will now allow the fund to absorb related expenses including the cost of personnel that supports the Fund. As a point of reference, all expenses associated with the DC Retirement Board are paid by the assets of the Fund.

As of September 30, 2017, the OPEB Fund was valued at \$1.366 billion and had 1,498 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. This concludes my remarks. I would be pleased to answer any questions you may have.