

**FISCAL YEAR 2021 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

May 27, 2019, 10:30 a.m.
John A. Wilson Building, Room 412
1350 Pennsylvania Avenue, NW
Washington, DC 20004



Testimony of
Bruno Fernandes
Deputy Chief Financial Officer - Treasurer
Government of the District of Columbia

Good morning Chairman Mendelson and members of the Committee of the Whole. I am Bruno Fernandes, 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, 2019, the OPEB Fund was valued at \$1.509 billion with 1,939 beneficiaries participating. For comparison, the OPEB Fund was valued at \$1.462 billion and had 1,683 beneficiaries participating as of September 30, 2018. 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 2020, based on the plan as of September 30, 2019. The results of that actuarial review show an increase of the Fiscal Year 2021 annual contribution versus the prior calculation, an ADC payment of \$53.6 million versus a prior

calculation of \$48.4 million, a \$5.2 million increase. The increase in the Fiscal Year 2021 budgeted amount is driven by investment performance over the past few years, actual plan participation results, expected increases in plan participation rates and expected future investment performance. For comparison, the Fiscal Year 2020 annual contribution is \$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 \$19.7 million during Fiscal Year 2019. For comparison purposes, the insurance carrier premiums for Fiscal Year 2018 were \$16.4 million. This increase is driven by the increase in the number of participants, cost sharing percentages and changes in annual premium rates.

Let me now briefly update you on expenses associated with the OPEB Fund for Fiscal Years 2019, 2020 and 2021. 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 2019, the OPEB Fund incurred \$7.4 million in expenses. The largest component was investment management fees with payments of \$6.3 million. Personnel expenses were \$403,000. All staff who provide oversight, administration and support to the OPEB fund are OCFO employees. Those employees are reflected in the OCFO budget, both the 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 \$618,000. On a percentage basis, administration costs represented less than one half of one percent of the OPEB Fund's value for Fiscal Year 2019.

Total budgeted expenses for fiscal year 2020 are \$9.1 million including investment management fees of \$7.4 million (based on average assets of \$1.65 billion). Other expenses are budgeted at \$1.6 million which include personnel expenses and other services as outlined previously. Actual personnel expenses for Fiscal Year 2020 are running below budget year to date due to a number of position vacancies. Those positions are a result of new Fiscal Year 2020 positions and the recent promotion of one existing staff member. We are currently recruiting to fill staff vacancies but have been challenged to find qualified candidates. As we recruit to fill vacancies in line with best practices, the OPEB fund continues to use outside consultants and accounting firms to support the fund. Further, as a result of market value decreases due to economic distress caused by the coronavirus, we expect total investment management fees will be lower than budget during Fiscal Year 2020.

For fiscal 2021 we are budgeting a total of \$8.9 million in expenses including investment management fees of \$6.7 million, personnel expenses of \$938,000 and other expenses of \$1.2 million. We expect to transition to an outsourced chief investment officer model from our current investment consultant model during Fiscal Year 2021. 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.

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

Exhibit I

The District's Annual Contribution to the OPEB Plan

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
Budget 2021	\$ 53.6

Exhibit II

Other Post-Employment Benefits
Administration

	Actual FY 2019	Budget FY 2020	Proposed Budget FY 2021
11 Regular Pay - Continuing Full Time	\$ 302	\$ 750	\$ 750
14 Fringe Benefits - Current Personnel	\$ 101	\$ 188	\$ 188
15 Overtime Pay		\$ -	\$ -
SUBTOTAL PERSONAL SERVICES*	\$ 403	\$ 938	\$ 938
20 Supplies and Materials			
Energy, Communications and Building			
30 Rental			
40 Other Services and Charges			
41 Contractual Service - Other	\$ 6,942	\$ 8,132	\$ 7,980
50 Subsidies and Transfers			
70 Equipment and Equipment Rental			
* OPEB pays OCFO/AT0 for staff expense	\$ 7,345	\$ 9,070	\$ 8,918