

**FISCAL YEAR 2020 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 25, 2019, 10:00 a.m.  
John A. Wilson Building, Room 412  
1350 Pennsylvania Avenue, NW  
Washington, DC 20004**



Testimony of  
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Treasurer of the District of Columbia  
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’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, 2018, the OPEB Fund was valued at \$1.462 billion and had 1,683 beneficiaries participating. For comparison, the program was valued at \$1.366 billion for Fiscal Year 2017 and had 1,538 beneficiaries participating. 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. The actuarially determined contribution (ADC) is used to support the benefits paid from the OPEB Fund. Last week, we received preliminary actuarial results based on the plan as of September 30, 2018. The results of the recent actuarial review show a smaller impact on the Fiscal Year 2020 annual contribution versus the prior calculation, an ADC payment of \$47.3 million versus the prior calculation of \$49.0 million. The fiscal year 2020 budgeted figure is mainly driven by positive investment performance over the past few years and actual plan participation results. For comparison, the Fiscal Year 2019 annual contribution is \$46 million.

Let me now briefly update you on expenses associated with the OPEB Fund for Fiscal Year 2018, 2019 and 2020.

The majority of expenses related to the plan are supported by the assets of the plan. During Fiscal Year 2018, the OPEB Fund incurred \$6.9 million in expenses. The largest component was payments made for Investment Management Fees of \$6.4 million. The remaining expenses were services such as Investment Consultants, Custodial Services, Actuarial Services and Accounting Services that amounted to approximately \$475,000. The benefits the plan pays are the Insurance Carrier Premiums which were \$16.4 million. On a percentage basis, administration costs represented less than one half of one percent of the OPEB Fund's value for Fiscal Year 2018.

In June 2018, the Council and Mayor approved legislation to clarify that all administrative expenses be paid out of the Plan. Although most expenses were already paid out of the plan, the legislation confirms legal authority for the Trust Fund to pay for all services and personnel expenses in support and administration of the Plan beginning fiscal year 2019.

Total projected expenses for fiscal year 2019 which includes Investment Management Fees of \$6.8 million (based on assets of \$1.5 billion) will be \$7.9 million. The OPEB Fund will also cover personnel expenses of approximately \$574,000 for fiscal year 2019 which include the current 1.5 staff and two additional staff that we are currently recruiting.

For fiscal 2020 we have budgeted a total of \$9.1 million in expenses which includes Investment Management Fees of \$7.4 million (based on assets of \$1.65 billion), personnel expenses of \$938,000 (6 staff) and other expenses of \$690,000. Given the projected asset size of the plan the expected staffing level in fiscal 2020 is consistent with other plans based on informal benchmarking data.

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.

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