

**PUBLIC OVERSIGHT HEARING ON
THE OTHER POST-EMPLOYMENT BENEFITS FUND
FOR FISCAL YEAR 2021**

Before the
Committee of the Whole
Council of the District of Columbia

The Honorable Phil Mendelson, Chairman

**February 25, 2022 at
10:30 a.m.**



**Testimony of
Carmen Pigler
Deputy Chief Financial Officer - Treasurer
Office of the Chief Financial Officer
Government of the District of Columbia**

**Fitzroy Lee
Acting 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 on the Fiscal Year 2021 performance of the Other Post-Employment Benefits Fund, referred to hereafter as the “Trust Fund” or the “Plan”.

The Trust Fund’s assets are used to pay health and life insurance benefits for participating District annuitants and administrative expenses associated with the Plan. The Trust Fund is administered by the Office of Finance and Treasury (“OFT”) pursuant to the Annuitants’ Health and Life Insurance Employer Contribution Plan document.

District of Columbia legislation established the Other Post-Employment Advisory Committee (“Advisory Committee”) comprised of independent subject-matter experts, who provide an additional level of oversight on important issues that can impact the performance and value of the Trust Fund, including actuarial assumptions, investment objectives, and recommendations regarding best practices. The Advisory Committee meets annually. The last meeting was February 24, 2022. OFT provided the Advisory Committee with a performance overview of the Trust Fund and shared with them information comparable to this testimony.

As of September 30, 2021, the Trust Fund was valued at \$2.03 billion with 2,805 beneficiaries participating. By comparison, the program was valued at \$1.64 billion with 2,551 beneficiaries participating at the end of Fiscal Year 2020.

Performance for Fiscal Year 2021 year was led by strong returns in the equity market. The Trust Fund rose 22.04% versus the aggregated benchmark target of 19.96%. Performance for the year, net of fees, was 21.75%. By comparison, the

Trust Fund had a rate of return (gross of fees) of 7.03%, and 1.70% as of September 30, 2020 and September 30, 2019, respectively. For the five-year period ending September 30, 2021, the Trust Fund had a return of 9.53%. The rate of return since inception is 8.14%. This is above our target actuarial rate of return of 6.50%.

The Trust Fund generated net investment income of \$355.9 million. The District's annual contribution to the Trust Fund was \$53.6 million for Fiscal Year 2021, compared to \$47.3 million in Fiscal Year 2020. The annual contribution budgeted for Fiscal Year 2022 is \$53.0 million.

OFT has made a considerable effort over the past few years to monitor the Trust Fund's investments and actuarial assumptions to ensure the funding level will fulfill the District's portion of annuitants' health and life insurance needs.

An actuarial analysis of the Plan's assets and liabilities is performed annually to determine the funding status of the Plan. The Plan had a funding ratio of 118.3% for the year ending September 30, 2021. A plan's "Funding Ratio" is the ratio of the value of plan assets to the actuarial accrued liability at a point in time. A plan is considered fully funded when it has a funding ratio between 90% and 120% as of the actuarial analysis date. At a ratio of 118.3%, the Trust Fund is considered fully funded.

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 the Office of the Chief Financial Officer's continuous improvement values.

During Fiscal Year 2020, we issued a request for proposals for investment

management services under a co-fiduciary outsourced chief investment officer model. The contract was awarded to Aon Investments Inc. (Aon) in Fiscal Year 2021. Aon is in the process of onboarding as a co-fiduciary outsourced chief investment officer, a business model that will allow the Plan to invest more dynamically and nimbly within the investment policy parameters and to achieve higher returns while lowering the Trust Fund's risk profile. OFT and Aon are working together to finalize an updated Investment Policy to incorporate the recommended asset allocation and to diversify investment managers. Some of the recommended asset category changes include infrastructure, debt, and real estate.

We will continue to work with the Department of Human Resources, the Advisory Committee, Aon, and the actuary to ensure that we have the most appropriate asset allocation model for the Trust Fund.

On April 1, 2021, OFT completed and delivered the Trust Fund's Fiscal Year 2020 annual report to the Mayor, and the Council. The annual report included the Fiscal Year 2020 audited financial statements, Plan performance, and actuarial assumptions. OFT is currently working to produce the Fiscal Year 2021 annual report.

In conjunction with the Annual Comprehensive Financial Report (ACFR), the Plan's Fiscal Year 2021 financial statements were completed and given an unqualified (clean) audit opinion by the ACFR auditors, McConnell & Jones.

In summary, the Trust Fund is in excellent shape. Our goals are to continue to oversee a well-funded plan, achieve higher risk adjusted returns, and ensure that the Trust Fund is managed using best practices.

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