

**PUBLIC OVERSIGHT HEARING ON
THE OTHER POST-EMPLOYMENT BENEFITS FUND
FOR FISCAL YEAR 2020**

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

The Honorable Phil Mendelson, Chairman

March 11, 2021 at 3:00 p.m.



**Testimony of
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Government of the District of Columbia**

**Fitzroy Lee
Interim Chief Financial Officer
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Good afternoon, 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 Fiscal Year 2020 performance of the Other Post-Employment Benefits Fund, hereafter referred to 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 the associated administrative expenses. 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.

As you are aware, Council legislation established the Other Post-Employment Advisory Committee (“Advisory Committee”) comprised of independent, outside 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 held on January 19, 2021. At that meeting OFT provided the Advisory Committee with a performance overview of the program and shared with them similar information as in this testimony.

As of September 30, 2020, the Trust Fund was valued at \$1.64 billion with 2,551 beneficiaries participating. For comparison, the program was valued at \$1.51 billion at the end of Fiscal Year 2019 and had 1,939 beneficiaries participating.

Performance this year was led by the equity markets. The Fund rose 7.03%, vs. the overall policy benchmark of 7.89%. For comparison purposes the Fund had a rate

of return (gross of fees) of 1.70%, and 5.22% as of September 30, 2019 and September 30, 2018, respectively. For the five-year period ending September 30, 2020 the Fund had a return of 7.24%. The rate of return since inception was 6.96%. This was above our target actuarial rate of return of 6.50%.

The fund generated net investment income of \$107.4 million. The annual contribution to the Trust Fund was \$47.3 million for FY 2020 as compared to \$46 million in FY 2019. The contribution budgeted for FY 2021 is \$53.3 million.

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 101.2% for the year ending September 30, 2020. 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 101.2%, the Trust Fund is fully funded.

OFT has made a considerable effort over the past few years to monitor the Trust Fund's investments, actuarial analysis and all other necessary elements to ensure the Trust Fund is funded at a level to provide for the District's cost portion for annuitants' health and life insurance needs.

OFT works directly with our investment consultant, Segal Marco Advisors (Segal), to constantly review the performance of our investment managers. Segal also worked with us to determine the proper asset allocation to achieve the Plan's investment return target. The goal of the allocation is to provide the best risk adjusted returns. Last year, we did not make any asset allocation changes. However, we did sell out of a large cap fund and invested the assets (\$261m) in the SSgA Russell 1000 Growth Index Fund. The underperformance of the large cap fund was the main

driver of underperformance for the Plan in previous years. By transferring funds to SSgA Russell 1000 Growth Index Fund the investment tracked its benchmark and improved overall returns for the period.

During fiscal 2020 we issued a request for proposal for investment management services under a co-fiduciary outsourced chief investment officer model. Employing this approach will allow the plan to invest more dynamically and nimbly in the recommended asset allocation within the investment policy parameters and to achieve higher risk adjusted returns.

A contract was awarded to Aon Investments in January of this year. We are currently in the process of onboarding the firm and working together to review and update the Investment Policy. We will likewise continue to work with the Department of Human Resources, the Advisory Committee, and the actuary to ensure that we have the most appropriate asset allocation model for the Trust Fund.

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 Office of the Chief Financial Officer's goals of continuous improvement. We provided and will continue to provide an annual report to the Mayor, Council, and the public that includes: Trust Fund information, the audited financial statements, Plan performance, and actuarial information. The financial statements for Fiscal Year 2020 were completed and given an unqualified (clean) audit opinion by the CAFR 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.