



Pension Subcommittee of the

Finance Committee

Item III. A.

November 2, 2017

Review Plan Actuarial Reports and Performance

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:
201922

Resolution:
☐ Yes ☒ No

TITLE:

Review Plan Actuarial Reports and Performance

PRESENTATION SUMMARY:

This presentation provides an overview of the actuarial reports for WMATA's five pension plans.

PURPOSE:

To provide an overview of the actuarial reports for WMATA's five pension plans as well as review the plans' funding strategies and performance. The actuarial dates range from July 2016 to January 2017.

DESCRIPTION:

The consultant will review actuarial concepts and terminology, plan highlights and key factors impacting contributions.

Key Highlights:

Consultant will review the actuarial reports for WMATA's five pension plans with the subcommittee.

Background and History:

Actuarial reports contain information on Pension Plan assets and liabilities, as well as analyses of plan assets, liabilities, investment performance and projections. In addition, the reports provide employer contribution, outstanding obligations and disclosures. The reports support WMATA's annual financial reporting in accordance with Governmental Accounting Standards Board.

These latest actuarial reports indicate that the total participants, including active, retirees and deferred vested members, increased from 18,919 to 18,988. The unfunded liability decreased from \$1.03 million to \$1.01 and the funded ratio increased to 79 percent from 77.7 percent.

Discussion:

To provide an overview of the actuarial reports for WMATA's five pension plans as well

as review the plans funding strategies and performance.

FUNDING IMPACT:

This is an information item.

TIMELINE:

Upcoming Actions	February 2018 - Pension and OPEB Funding
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RECOMMENDATION:

To provide an overview of the actuarial reports for WMATA's five pension plans as well as review the plans' funding strategies and performance.



WMATA Pension Subcommittee Meeting

November 2, 2017

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Consulting | Retirement & Investment



Agenda

- Actuarial Concepts and Terminology
- Plan Highlights
- Summary of Key Pension Plan Results
- Summary of Investment Performance and Valuation Interest Rates
- Sensitivity Analysis
- Long Term Outlook for Local 689 Plan
- Questions
- Appendix
 - Summary of Individual Plan Valuation Results



Pension Review

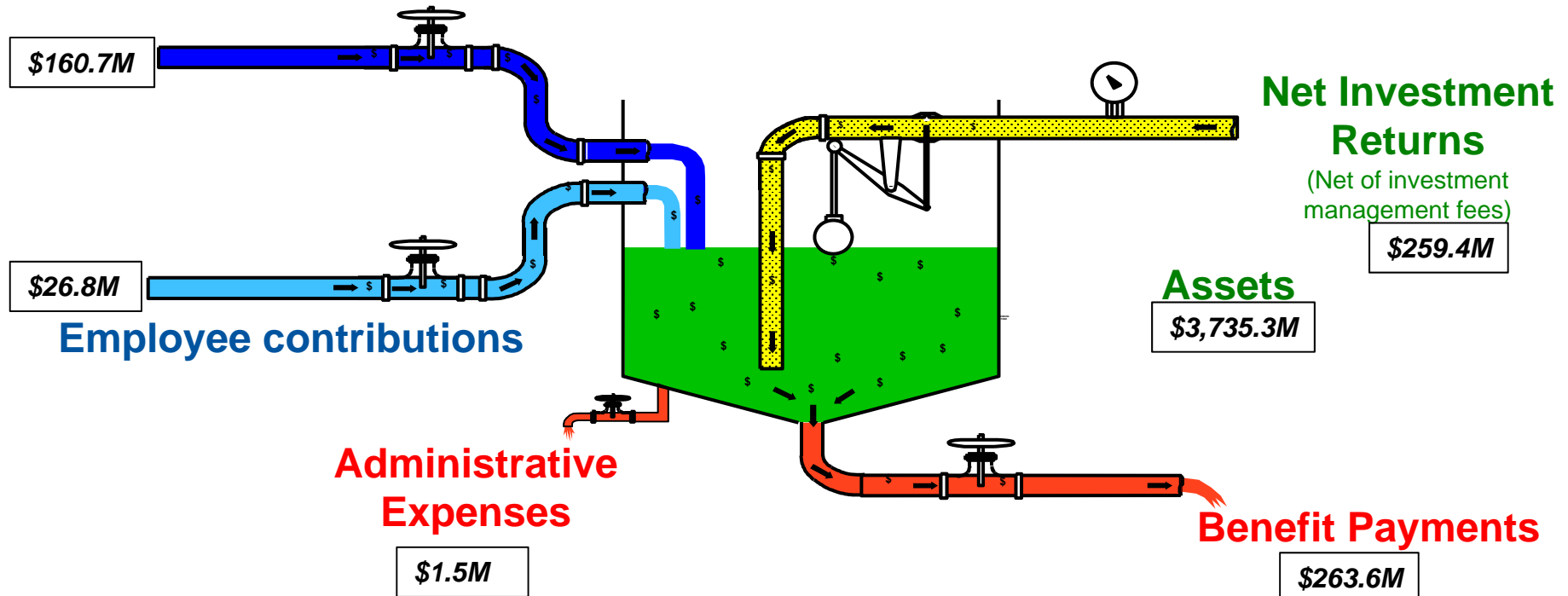


Actuarial Concepts and Terminology

The “Big Picture” - *Ultimate Plan Cost*

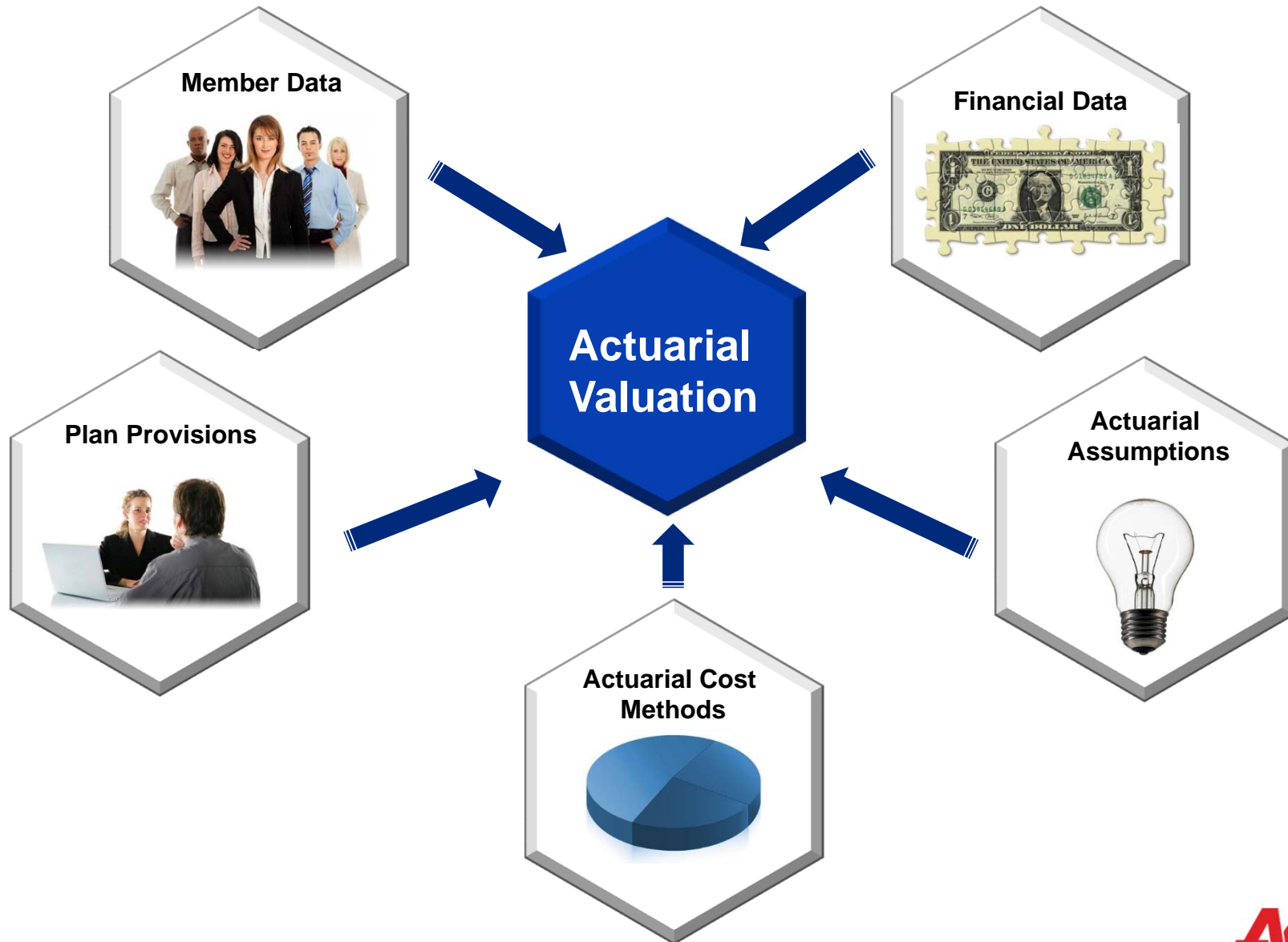
$$\text{Contributions} + \text{Investment Return} = \text{Benefits} + \text{Expenses}$$

Employer contributions



Assumptions and funding methods affect only the timing of costs.
“Nobody ever made a benefit payment from assumed interest!”

Actuarial Valuation Process





Plan Highlights

Plan Highlights – Lower Unfunded Ratio Due to Market Returns

Funded Status

- Funded status improved from 77.7% to 79.0%
 - Primarily due to investment performance
- Unfunded liability decreased from \$1,027 million to \$1,010 million (by \$17 million)

Contribution Requirement

- WMATA contribution increased from \$158 million to \$161 million
 - Primarily due to change in assumption for Police plan

“Headwinds”

- Investment performance
 - Significant investment in equities
 - Need aggregate return above 7% to maintain funded status
- Potential change in Mortality Table
 - New mortality tables are expected to be released next year
 - Would impact plan liabilities

Summary of Key Pension Plan Results (\$ in millions)

	Total All Plans		Difference	
Valuation Date	Current Valuation	Prior Valuation	Amount	Percentage
Total Headcount	18,988	18,919	69	0.4%
Unfunded Actuarial Accrued Liability (UAAL)				
Actuarial Accrued Liability (AAL)	\$ 4,818	\$ 4,606	\$ 212	4.6%
Actuarial Value of Assets (AVA)	\$ 3,808	\$ 3,579	\$ 229	6.4%
Unfunded AAL	\$ 1,010	\$ 1,027	\$ (17)	(1.7%)
Funded Ratio	79.0%	77.7%	1.3%	1.7%
Actuarially Determined Employer Contribution (ADEC)				
Net Normal Cost (offset by Expected Employee Contributions)	\$ 94.7	\$ 91.5	\$ 3.2	3.5%
Payment to Amortize Unfunded AAL	\$ 66.0	\$ 66.1	\$ (0.1)	(0.2%)
Total ADEC	\$ 160.7	\$ 157.6	\$ 3.1	2.0%
As % of Payroll	18.4%	18.1%	0.3%	1.7%

Summary of Investment Performance and Valuation Interest Rates

Investment Performance

Asset Allocation (Aggregate)

Category	Allocation
Domestic Equity	52%
International Equity	17%
Fixed Income	15%
Real Estate	7%
Cash	3%
Other	6%
Total	100%

Annualized Return (Aggregate)

Period	Rate
1-year	13.47%
3-year	6.09%
5-year	10.08%

Valuation Interest Rate

Plan	Rate
Local 689	7.85%
Non Rep/639	7.00%
Transit Police (FOP)	7.00%
Local 922	7.00%
Local 2	7.50%
Weighted Average	7.66%

- Transit Police decreased rate from 7.5% to 7.0%; no change in other plans.
- Average public plan discount rate according to most recent NASRA survey is 7.52% per annum.

Sensitivity Analysis – Funded Status Under Same Valuation Interest Rate (in Millions)

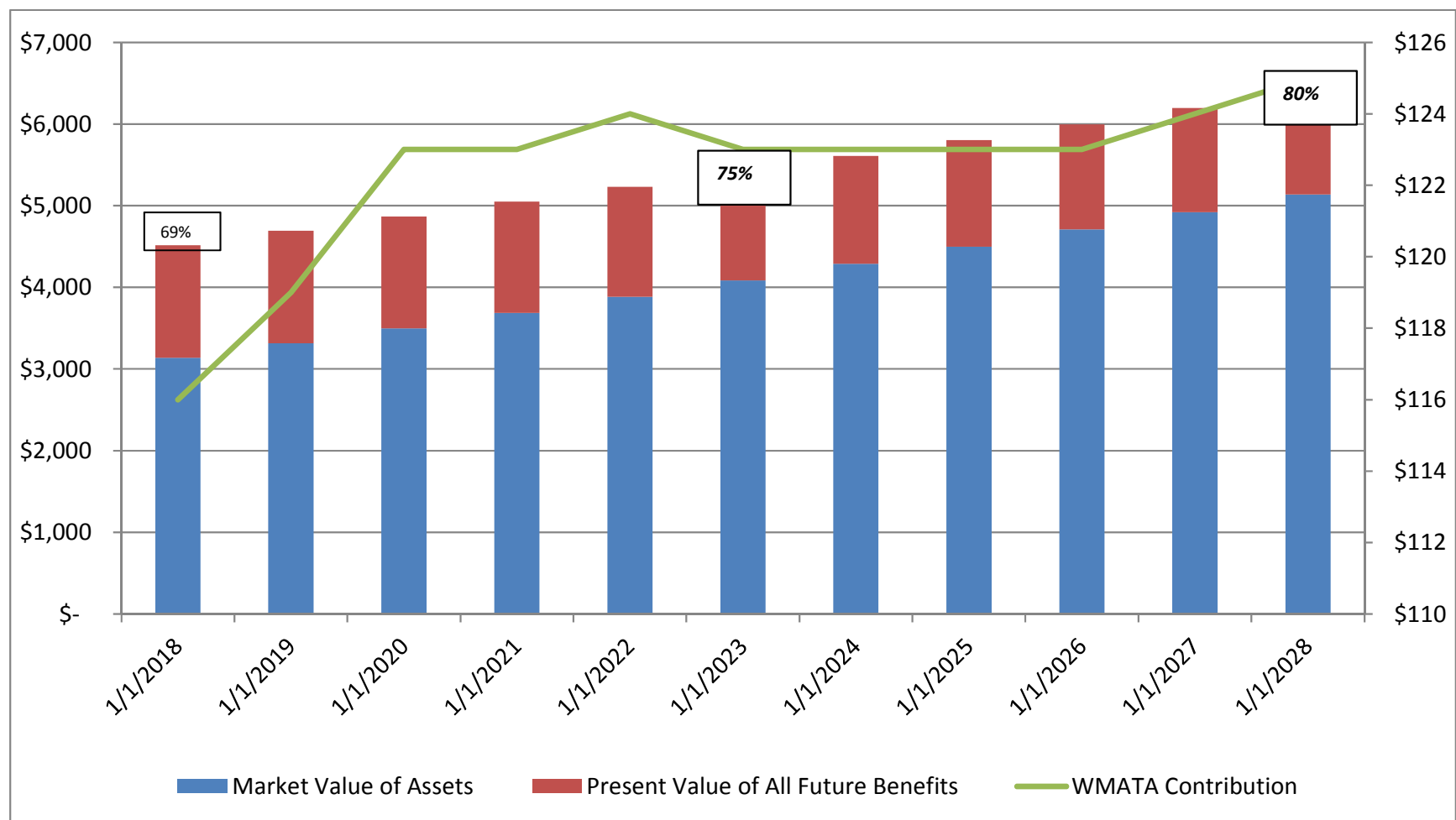
	Total (Individual Assumptions)	Total (Same Interest Rate)*
Valuation Date	N/A	N/A
Total Headcount	18,988	18,988
Unfunded Actuarial Accrued Liability (UAAL)		
Actuarial Accrued Liability (AAL)	\$ 4,818	\$ 5,195
Actuarial Value of Assets (AVA)	\$ 3,808	\$ 3,808
Unfunded AAL	\$ 1,010	\$ 1,387
Funded Ratio	79.0%	73.3%
Actuarially Determined Employer Contribution (ADEC)		
Total ADEC	\$ 160.7	\$ 203.0
Assumptions (weighted average)		
Valuation Interest Rate	7.66%	7.00%
COLA	2.94%	2.95%

*Only reflected change in valuation interest rate; all other assumptions including mortality table remain the same as currently used. Note that these results are estimates only; actual results will depend on specific plan calculations.

Impact:

- Unfunded liability increases by \$377 million
- Funded status drops by about 6%
- Required contribution increases by \$42 million

Long Term Outlook for Local 689 Plan Only (in Millions)





Questions?



Appendix

Individual Plans – Summary of Key Pension Plan Results (\$ in millions)

	Local 689		NRP/Local 639		Transit Police (FOP)	
Valuation Date	1/1/2017	1/1/2016	7/1/2016	7/1/2015	1/1/2017	1/1/2016
Total Headcount	15,291	15,211	1,801	1,821	744	741
Unfunded Actuarial Accrued Liability (UAAL)						
Actuarial Accrued Liability (AAL)	\$ 3,633	\$ 3,457	\$ 523	\$ 526	\$ 269	\$ 243
Actuarial Value of Assets (AVA)	\$ 2,898	\$ 2,684	\$ 375	\$ 376	\$ 195	\$ 186
Unfunded AAL	\$ 734	\$ 773	\$ 148	\$ 150	\$ 74	\$ 57
Funded Ratio	79.8%	77.6%	71.7%	71.4%	72.5%	76.5%
Actuarially Determined Employer Contribution (ADEC)						
Net Normal Cost (offset by Expected Employee Contributions)	\$ 76.1	\$ 75.4	\$ 1.8	\$ 2.0	\$ 12.4	\$ 9.8
Payment to Amortize Unfunded AAL	\$ 40.4	\$ 41.9	\$ 18.5	\$ 17.9	N/A	N/A
Total ADEC	\$ 116.5	\$ 117.3	\$ 20.3	\$ 19.9	\$ 12.4	\$ 9.8
As % of Payroll	14.9%	15.2%	94.7%	85.4%	34.6%	28.6%

Individual Plans – Summary of Key Pension Plan Results (\$ in millions)

	Local 922		Local 2	
Valuation Date	1/1/2017	1/1/2016	7/1/2016	7/1/2015
Total Headcount	715	701	437	445
Unfunded Actuarial Accrued Liability (UAAL)				
Actuarial Accrued Liability (AAL)	\$ 225	\$ 210	\$ 168	\$ 170
Actuarial Value of Assets (AVA)	\$ 194	\$ 188	\$ 146	\$ 145
Unfunded AAL	\$ 31	\$ 22	\$ 22	\$ 25
Funded Ratio	86.2%	89.5%	86.9%	85.3%
Actuarially Determined Employer Contribution (ADEC)				
Net Normal Cost (offset by Expected Employee Contributions)	\$ 3.9	\$ 3.7	\$ 0.5	\$ 0.6
Payment to Amortize Unfunded AAL	\$ 2.9	\$ 2.1	\$ 4.2	\$ 4.2
Total ADEC	\$ 6.8	\$ 5.8	\$ 4.7	\$ 4.8
As % of Payroll	21.0%	18.7%	65.1%	53.3%

Individual Plans – Summary of Key Pension Plan Results

	Local 689	NRP/Local 639	Transit Police (FOP)	Local 922	Local 2	Weighted Average
Cost Method	Aggregate	Entry Age Normal	Aggregate	Entry Age Normal	Entry Age Normal	N/A
Asset Valuation Method	5 year smoothing	5 year smoothing	5 year smoothing (10 year for Pre 2015 gains/losses)	3 year smoothing	5 year smoothing	N/A
Valuation Interest Rate	7.85%	7.00%	7.00%	7.00%	7.50%	7.66%
Salary Increase	3.00% for Base Pay	Varies by years (0-20) of service: 6.3%-3.0%	Varies by age: 7.00% - 3.00%	4.50%	Varies by years (0-20) of service: 6.3%-3.0%	N/A
COLA*	3.00%	2.50%	2.50%	4.00%	2.5%	2.95%
Mortality	RP-2000 Projected to 2016 based on Scale AA	RP-2000 Fully Generational based on Scale AA	RP-2014 Fully Generational based on Scale MP 2015 with Blue Collar Adjustment	RP-2000 Fully Generational based on Scale AA with Blue Collar Adjustment	RP-2000 Fully Generational based on Scale AA	N/A

*This is the actuarial valuation assumption. Actual COLA adjustment is based on plan/contractual provisions.