



**Executive Committee**

**Information Item III-A**

**December 13, 2018**

## **Pension and OPEB Overview**

Washington Metropolitan Area Transit Authority  
**Board Action/Information Summary**

Action  Information

MEAD Number:  
202062

Resolution:  
 Yes  No

**TITLE:**

Pension and OPEB

**PRESENTATION SUMMARY:**

Aon will present a review of WMATA's retiree pension and health benefits challenges and present a series of potential solutions.

**PURPOSE:**

In response to a request from the Board, an overview of pension and retiree health financial results and funding projections will be provided, as well as options for the Board to consider.

**DESCRIPTION:**

Al-Karim Alidina, a Partner at Aon Hewitt, will discuss various strategic options for reducing future pension program and healthcare program costs.

**Key Highlights:**

WMATA has significant retiree financial obligations, with an estimated \$3.0 billion in unfunded liabilities.

WMATA has implemented some changes to address these costs, including changing retiree prescription drug coverage and eliminating retiree healthcare benefits for new hires (except Transit Police), as well as establishing defined contribution (similar to 401(k)) plans for Local 2, Local 639 and non-represented employees.

Aon will present further options to help WMATA meet these financial obligations.

**Background and History:**

Pension Plans

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 the Governmental Accounting Standards Board.

According to the most recent actuarial reports, the total pension plan participants, including active, retirees and deferred vested members, is currently 18,787 for Local 689 (Amalgamated Transit Union), Locals 639 and 922 (International Brotherhood of Teamsters), Local 2 (Office and Professional Employees International Union), Fraternal Order of Police (FOP)/Metro Transit Police, and non-represented employees. The combined actuarial accrued liability for these participants is \$5 billion, of which 82 percent or \$4.1 billion is funded, an increase from the 79 percent funding level reported to the Board in November 2017.

### Retiree Benefits

The total estimated liability for Other Post-Employment Benefits (OPEB) as of June 30, 2017 is \$2.1 billion, consisting of retiree health benefits (98 percent) and life insurance (2 percent). In March 2017, the Board of Directors (Resolution 2017-11) authorized the establishment of a trust to fund Post-Employment Benefit liabilities. Consistent with Board authorization, in 2018, management identified \$3 million from cost savings generated by management actions and established a trust using these funds. The current balance of \$3 million represents 0.1 percent of the liability. The annual cost of these benefits on a pay-as-you-go basis is \$49 million.

### Discussion:

The presentation includes a series of options to reduce future pension program and retiree benefit program costs. For pension plans, the options include combining trusts, providing additional funding and changing to a defined contribution plan. OPEB options include additional pre-funding through annual contributions or borrowing, more efficient plans designed to complement Medicare benefits, and changes to program eligibility, subsidies and benefits.

### FUNDING IMPACT:

The liabilities of \$0.9 billion for pensions and \$2.1 billion for OPEB represent a growing financial burden to WMATA and its funding jurisdictions. Taking action today will lessen the burden and provide the Authority with a more stable financial foundation.

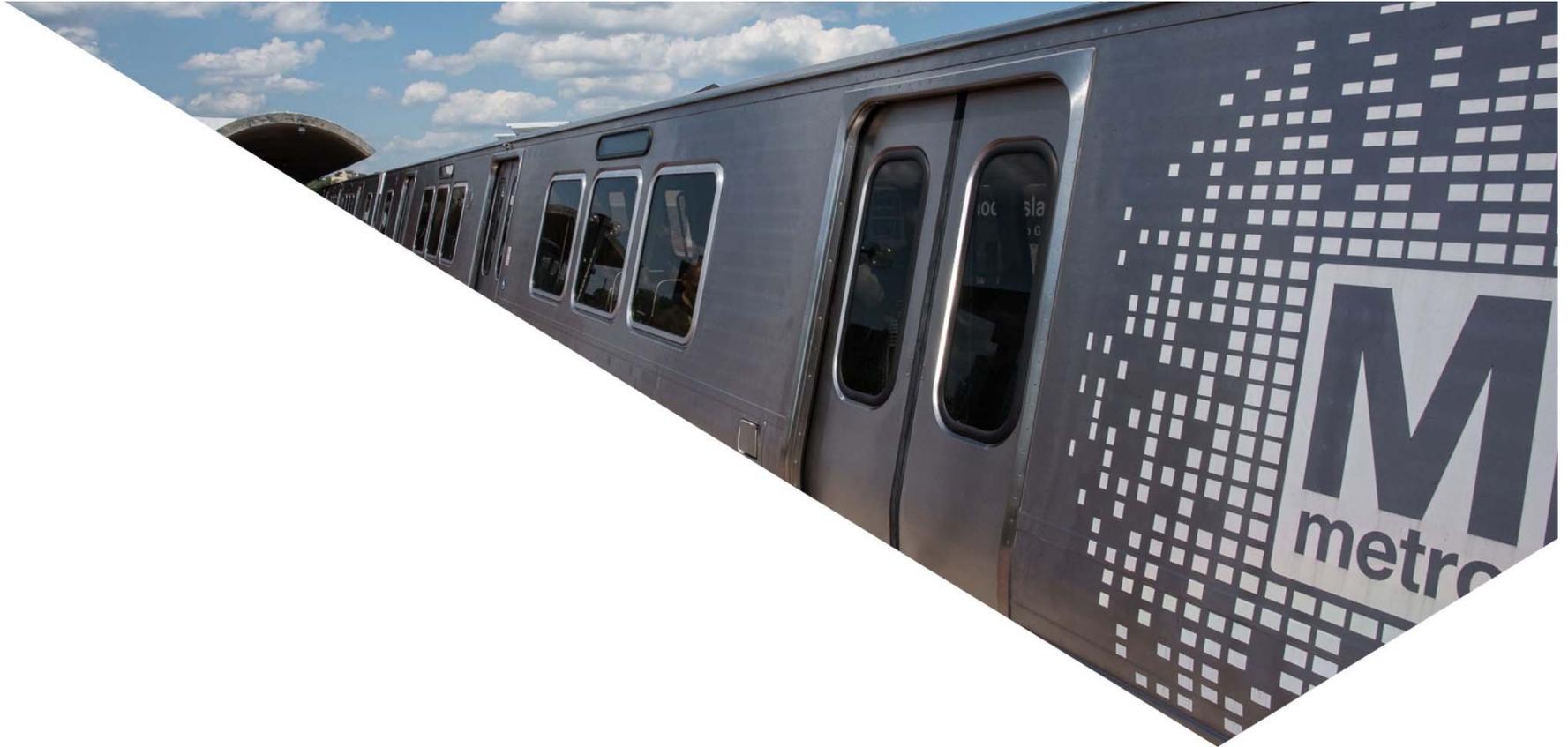
### TIMELINE:

<b>Previous Actions</b>	March 2017 - Board authorization of OPEB trust  November 2017 - Review Plan Actuarial Reports and Performance
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	April 2018 - Other Post-Employment Benefits Update June 2018 - Establishment of OPEB trust with \$3 million in savings from management actions
<b>Anticipated actions after presentation</b>	2019 - Board consideration of proposed options

**RECOMMENDATION:**

This is an information item only.



# Washington Metropolitan Area Transit Authority Pension and Healthcare Challenges and Solutions

*February 2019*

**Prepared by Aon**  
Health Solutions | Retirement



# Agenda

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## Executive Summary

### Pension

- Overview
- Financial Results Summary
- Options for Consideration

### Retiree Health

- Overview
- Financial Results Summary
- Funding Projections
- Options for Consideration

# Executive Summary

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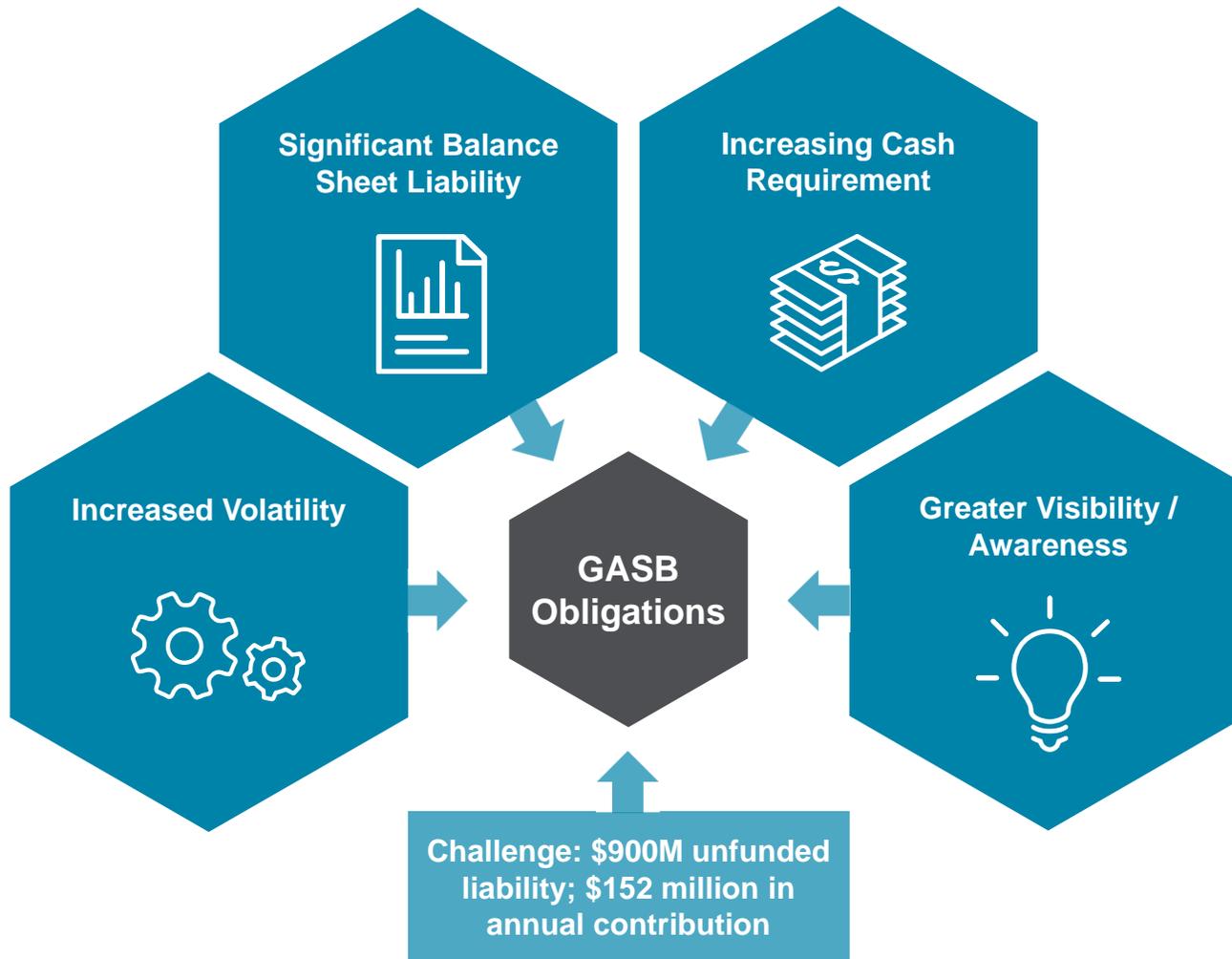
- **WMATA has significant retiree financial obligations**
  - ✓ Retiree health care - \$2.1B liability
  - ✓ Pension - \$0.9B unfunded liability
- **WMATA has implemented some changes to address these costs**
  - ✓ Changed retiree prescription drug coverage to offset costs
  - ✓ Eliminated retiree healthcare benefits for all new hires except FOP
  - ✓ Established DC plans for new Local 2/NonRep (1/1/99) and Local 639 (2/25/16) hires;  
DB plans still available to Local 689, FOP and Local 922
- **Stakeholder support necessary for further changes**
  - ✓ Negotiated changes to Collective Bargaining Agreements



# Pension

# Overview

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## Financial Results Summary (\$ in millions)

	Local 689	NRP/Local 639	Transit Police (FOP)	Local 922	Local 2	Total
<b>Valuation Date</b>	<b>01/01/2018</b>	<b>07/01/2017</b>	<b>01/01/2018</b>	<b>01/01/2018</b>	<b>07/01/2017</b>	<b>Current</b>
Total Headcount	15,108	1,785	753	712	429	18,787
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>						
Actuarial Accrued Liability (AAL)	\$3,784	\$520	\$284	\$231	\$167	\$4,986
Actuarial Value of Assets (AVA)	\$3,138	\$376	\$210	\$207	\$147	\$4,078
Unfunded AAL	\$646	\$144	\$74	\$24	\$20	\$908
Funded Ratio	82.9%	72.3%	73.9%	89.6%	88.0%	81.8%
<b>Actuarially Determined Employer Contribution (ADEC)</b>						
Net Normal Cost (offset by Expected Employee Contributions)	\$71.6	\$1.7	\$12.6	\$3.8	\$0.5	\$90.2
Payment to Amortize Unfunded AAL	\$36.3	\$19.1	N/A	\$2.3	\$4.2	\$61.9
Total ADEC	\$107.9	\$20.8	\$12.6	\$6.1	\$4.7	\$152.1
As % of Payroll	14.6%	116.2%	34.1%	19.3%	95.3%	18.4%

# Current Investment Oversight Schematic



# Reducing Future Pension Program Costs

Category	Description	Pros	Cons	Potential Impact*
<b>Governance</b>	Combine Trusts	Leverage pooled asset size to negotiate lower investment management/custodial fees and access to asset classes/managers		TBD
<b>Funding</b>	Status Quo	Minimize immediate cash outlay	Cash flow volatility risk	~\$152M annually
	Partial Funding	Improves benefit security, minimize future cash volatility, leverage investment returns	Immediate large cash flow impact; with ongoing contribution for future benefit accruals	Up to \$0.5B plus ongoing cost
	Full Funding			\$0.9B plus ongoing cost
<b>Plan Change</b>	Future Defined Contribution Plan	Minimize volatility and risks associated with pension plans.	Income adequacy risk transferred to participants	Savings of approximately 1.0% of payroll for new hires

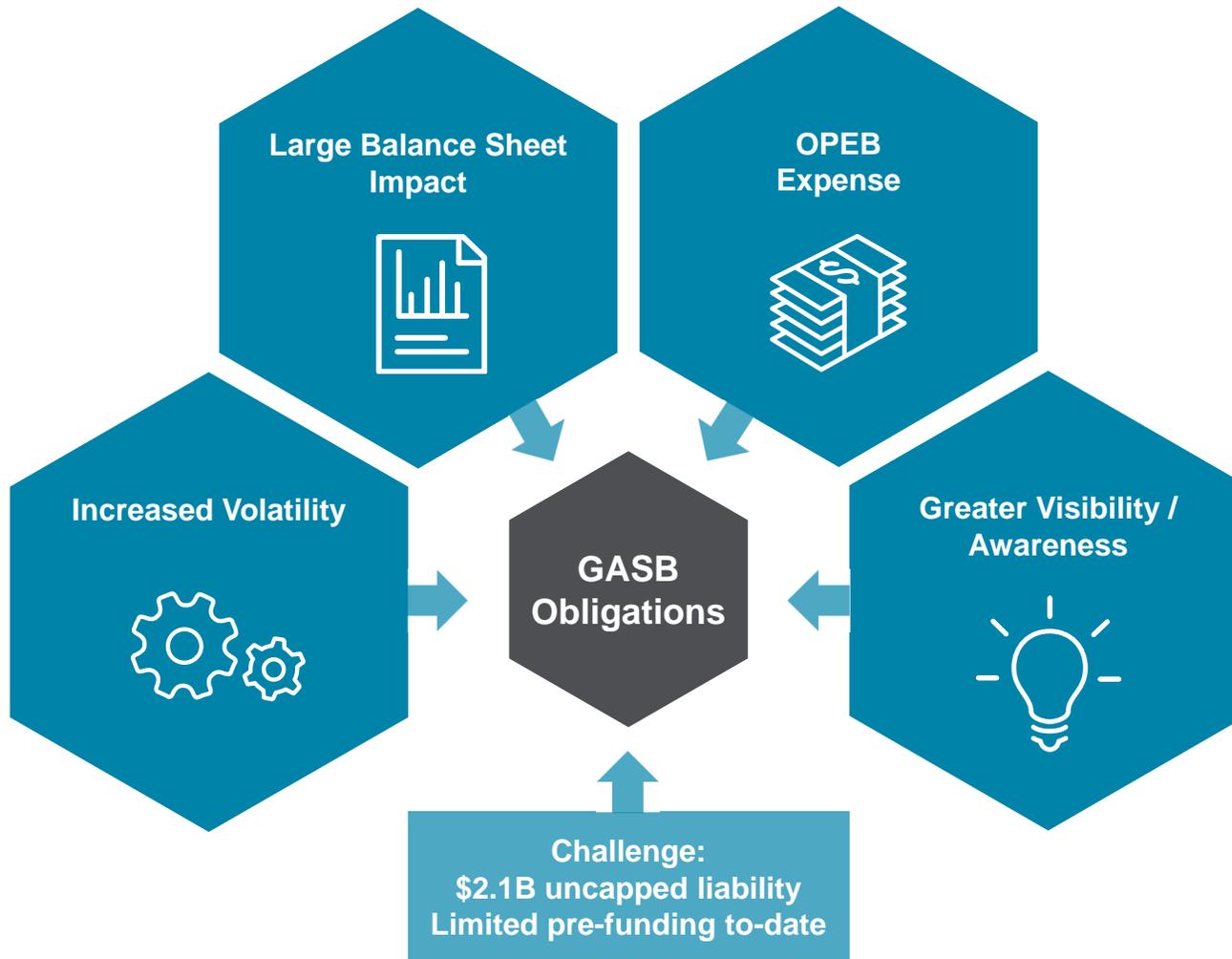
\* Estimated: Subject to feasibility study and union bargaining/agreement



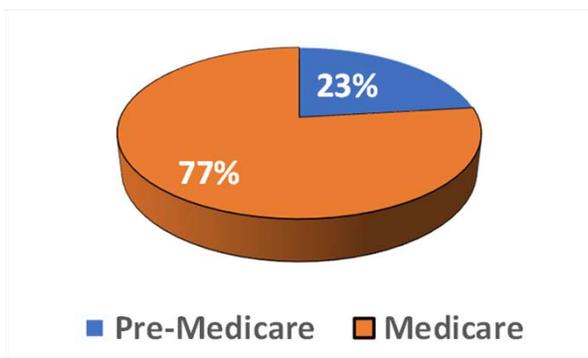
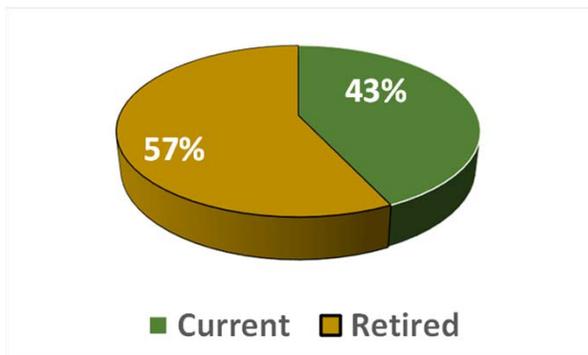
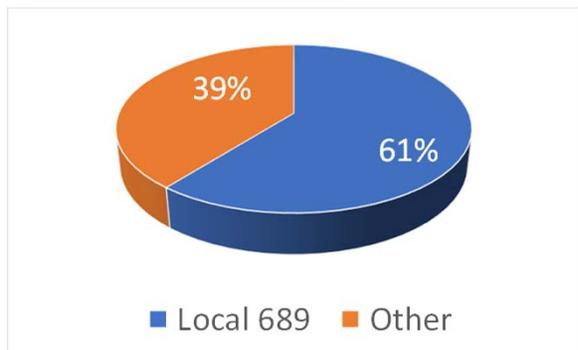
# Retiree Health

# Overview

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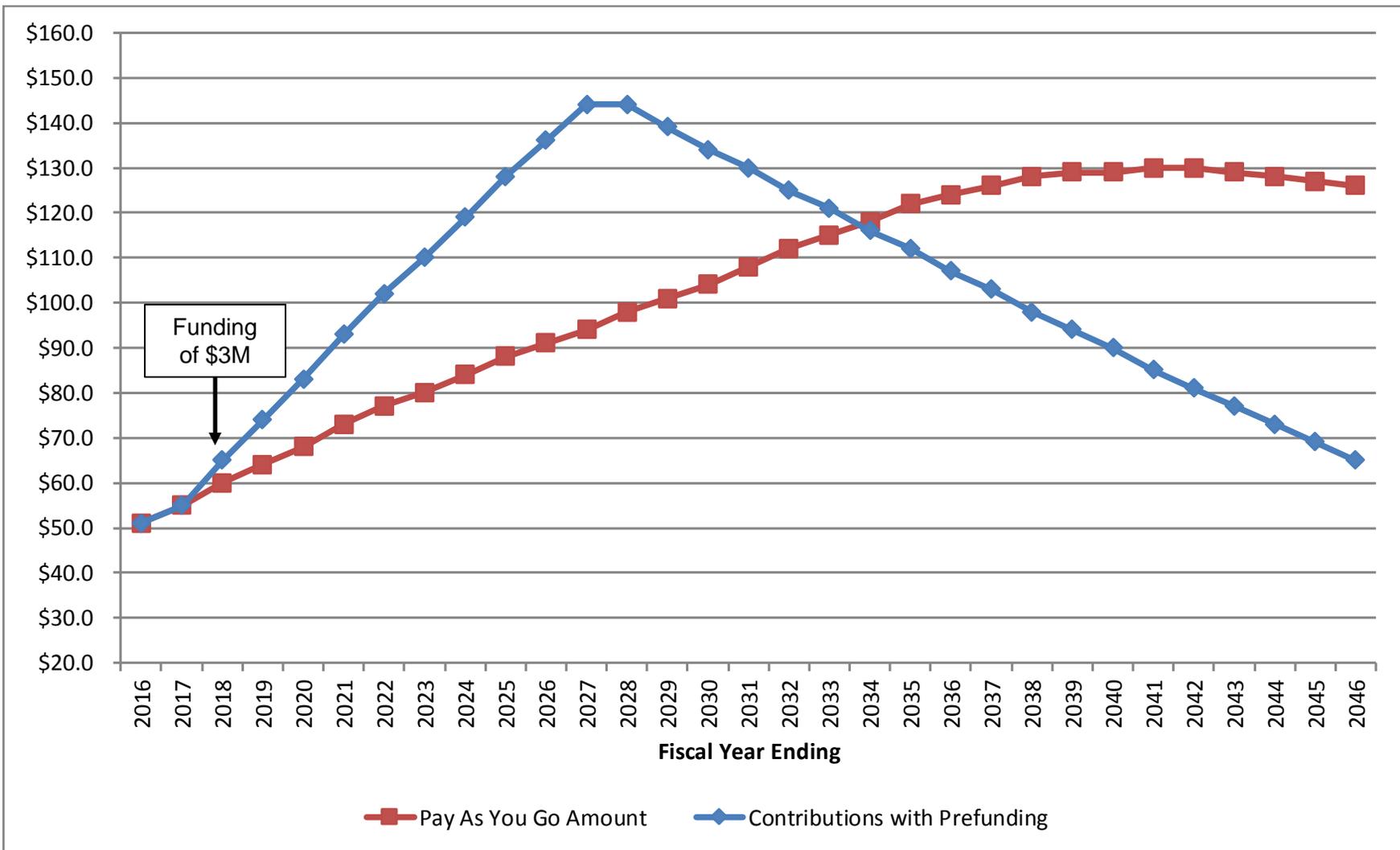
# Financial Results Summary (in millions)



	Local 689	NRP/Local 639	Transit Police (FOP)
<b>Valuation Date</b>	<b>07/01/2017</b>	<b>07/01/2017</b>	<b>07/01/2017</b>
Total Headcount - Medical	8,207	2,927	498
Total Headcount - Life	11,852	3,376	531
Medical Liability	\$1,275	\$530	\$138
Life Insurance Liability	\$29	\$12	\$1
Total Liability	\$1,304	\$542	\$139
Expected Benefit Payments	\$37	\$14	\$3

	Local 922	Local 2	Total
<b>Valuation Date</b>	<b>07/01/2017</b>	<b>07/01/2017</b>	<b>07/01/2017</b>
Total Headcount - Medical	N/A	861	12,493
Total Headcount - Life	N/A	1,416	17,175
Medical Liability	N/A	\$160	\$2,103
Life Insurance Liability	N/A	\$4	\$46
Total Liability	N/A	\$164	\$2,149
Expected Benefit Payments	N/A	\$4	\$58

# Projected Annual Contributions With and Without Prefunding (in millions)



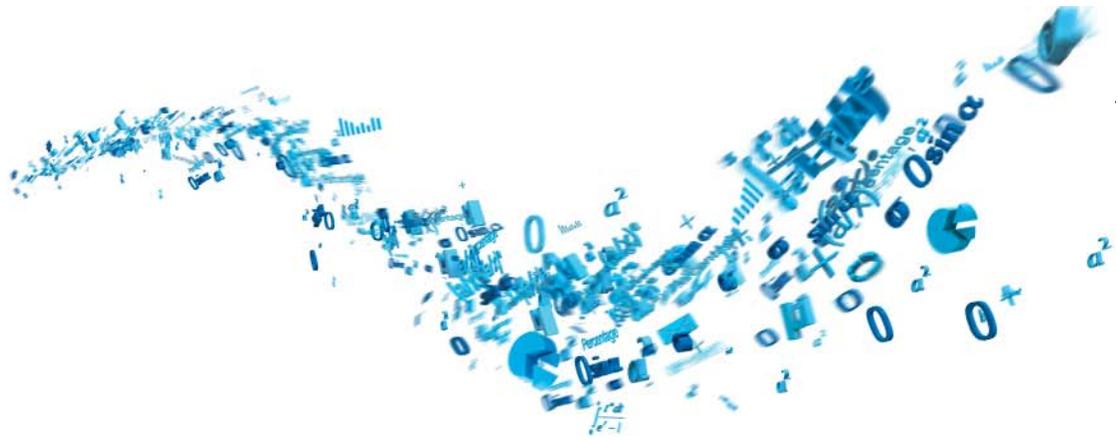
Please see Aon memo to WMATA dated August 2016 for details regarding assumptions, methods, and data. Scenario: 30-year closed group; increasing \$5 million contribution to trust each year.



# Options for Reducing Healthcare Program Costs

Category	Description	Pro	Con	Potential Impact*	Impediments*
<b>Efficiency</b>	Medicare Advantage	Potential savings with no cost shifting to retirees; stepping stone to individual market	Future trend volatility continues	\$\$	Requires Union agreement
	Medicare individual market, with fixed WMATA subsidy	More choice for retirees to “right-size” coverage; fixed costs for WMATA	Some retirees (high utilizers typically) may see increased costs	Up to \$\$\$	Requires Union agreement
<b>Funding</b>	Pre Funding <ul style="list-style-type: none"> <li>• Annual contribution</li> <li>• Borrow to Fund (similar to pension obligation bonds)</li> </ul>	Investment returns subsidize plan cost	Precludes other current uses for funds	TBD	
<b>Plan Change</b>	Review: <ul style="list-style-type: none"> <li>• Minimum eligibility requirements</li> <li>• Employer subsidy</li> <li>• Plan benefit levels</li> </ul>	To reduce selection against WMATA for coverage	May be counter to future workforce strategies and needs	\$	Requires Union agreement

\* Subject to market feasibility studies and other analyses as well as collective bargaining



# Questions?



# APPENDIX

## GASB #75 OPEB Breakdown For Fiscal 2018 (in 000s)

	Local 689		Non-Local 689		Total	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
<b>Pre-Medicare Liability</b>						
Actives - Member	105,912	8.3%	31,541	3.8%	137,453	6.5%
Actives - Spouse	75,822	5.9%	31,428	3.8%	107,251	5.1%
Retiree	75,506	5.9%	50,886	6.2%	126,392	6.0%
Retiree Spouse	71,533	5.6%	51,858	6.3%	123,391	5.9%
Total	328,774	25.8%	165,713	20.0%	494,486	23.5%
<b>Post-Medicare Liability</b>						
Actives - Member	301,327	23.6%	154,523	18.7%	455,850	21.7%
Actives - Spouse	100,375	7.9%	110,169	13.3%	210,544	10.0%
Retiree	411,871	32.3%	226,945	27.4%	638,816	30.4%
Retiree Spouse	133,057	10.4%	169,656	20.5%	302,712	14.4%
Total	946,629	74.2%	661,293	80.0%	1,607,922	76.5%
<b>Total Medical</b>	<b>1,275,403</b>	<b>97.8%</b>	<b>827,005</b>	<b>97.9%</b>	<b>2,102,408</b>	<b>97.9%</b>
<b>Total Life Insurance</b>	<b>28,527</b>	<b>2.2%</b>	<b>17,614</b>	<b>2.1%</b>	<b>46,144</b>	<b>2.1%</b>
<b>Total</b>	<b>1,303,930</b>	<b>100.0%</b>	<b>844,619</b>	<b>100.0%</b>	<b>2,148,552</b>	<b>100.0%</b>

Note: GASB 75 liabilities are measured as of June 30, 2017

## Medicare Retiree Health Plan: Group MA Considerations

- Financial:
  - Can save 15% or more, depending on retiree location and health
  - Employer/retiree premium increases are sensitive to contract changes between insurer and CMS (federal government)
- Benefits:
  - Plans typically provide benefits in excess of traditional Medicare
  - Most employers use a national PPO plan solution
  - “One size fits all” coverage
- Administration:
  - Employer retains group benefit administration, but with more assistance from insurer

### Next Steps:

Timing	Task
1Q2019	Feasibility analysis to assess potential cost savings for WMATA and retirees
1Q to 3Q2019	Change to a group MA insurer able to provide national passive PPO program
3Q2019	Communicate change to retirees
4Q2019	Enroll retirees in new program, for January 1, 2020 effective date

**Group Medicare Advantage can be stepping stone to longer term individual market strategy**

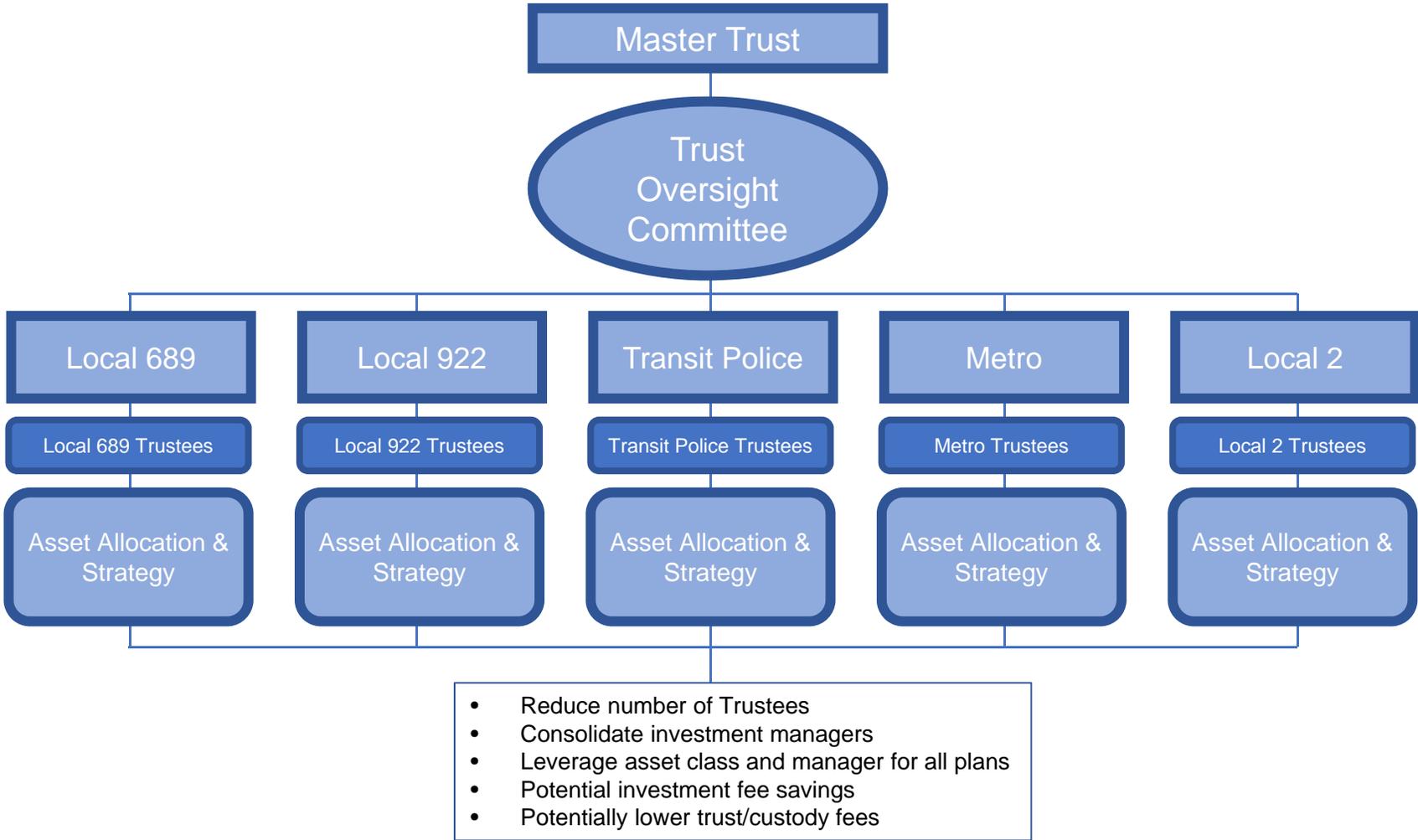
## Medicare Retiree Health Plan: Individual Market Considerations

- Financial
  - More predictable future costs for WMATA, and potential to produce longer term savings for WMATA and most members
  - Optimal financial results available when retiree choose efficient plans (best financial value)
  - Very high utilizers of health services, or those in certain geographies, could see increased costs relative to group program costs
- Benefits:
  - Wide variety of retiree health plan options; not “one size fits all” coverage
- Administration:
  - Reduced employer administrative burden – private exchange takes over most administration
  - Communication and retiree outreach is critical

### Next Steps:

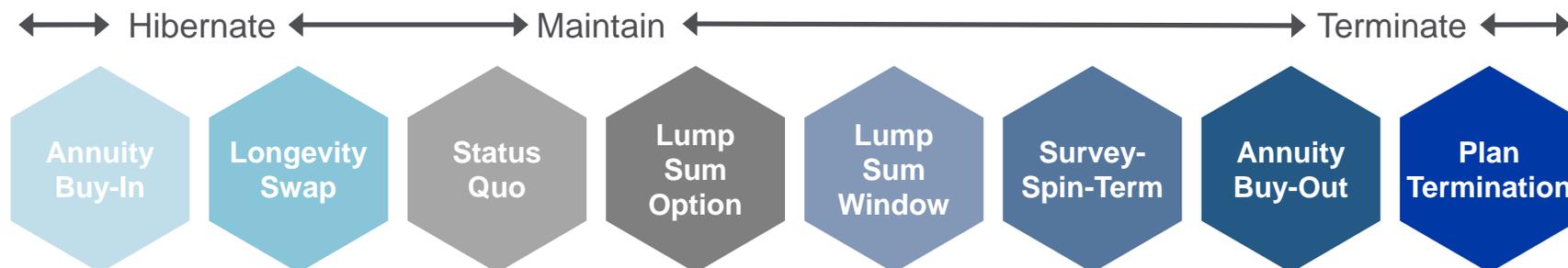
Timing	Task
1Q to early 2Q2019	Feasibility analysis to assess: <ul style="list-style-type: none"> <li>• Viability of solution for WMATA and its retirees, including                             <ul style="list-style-type: none"> <li>• <i>Cost savings for WMATA vs. group program</i></li> <li>• <i>Financial impact for each current Medicare eligible retiree and spouse of retiree</i></li> </ul> </li> <li>• Potential subsidy strategies for WMATA</li> </ul>
2019 to 2021	Continue to study individual market solution: WMATA subsidy design, private exchange organizations, communication channels
2022	Implement exchange and enroll retirees in new program, for January 1, 2023 effective date

# Proposed Master Trust Investment Oversight Schematic



# Pension Liability Settlement Spectrum

## Potential Actions



### Reasons to hibernate and/or maintain

- Avoid any potential upfront cash outlay
- Maintain funded status
- Do not want to pay annuity premium
- Wait for more favorable economic environment, notably interest rate levels
- Pension data needs cleaning
- Cannot dedicate resources to settlement projects
- Avoid potential negative press
- Minimal leakage from retirement system

### Reasons to terminate

- Remove ongoing obligation from balance sheet
- Eliminate or reduce volatility of pension expense
- Accelerate cash funding to avoid/reduce future cash requirements
- Streamline benefit operations and administrative requirements
- Relieve company of fiduciary responsibilities with pension plan