



Finance & Budget Committee

Information Item IV-A

April 12, 2018

Other Post-Employment Benefits

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:
201973

Resolution:
☐ Yes ☒ No

TITLE:

Other Post-Employment Benefits Update

PRESENTATION SUMMARY:

This presentation provides an update on WMATA's Other Post-Employment Benefits (OPEB), upcoming changes in OPEB reporting guidelines and the progress towards establishing an OPEB Trust.

PURPOSE:

To update the Board of Directors on WMATA's OPEB, including changes in OPEB reporting guidelines required by the Government Accounting Standards Board (GASB), as well as progress towards creation of a WMATA OPEB Trust.

DESCRIPTION:

The presentation highlights WMATA's current unfunded OPEB liability and discusses upcoming changes in OPEB reporting guidelines as mandated by the Government Accounting Standards Board. Finally, staff will discuss efforts to implement Board Resolution 2017-11 which authorizes the GM/CEO to establish and fund an OPEB Trust with savings from Absenteeism, Worker's Compensation and Overtime controls initiatives.

Key Highlights:

- WMATA's has a \$1.8 billion unfunded OPEB liability as of June 30, 2017.
- GASB 75 will impose new OPEB reporting guidelines effective July 1, 2017. (Statement is effective for fiscal years beginning after June 15, 2017.)
- WMATA has been successful in reducing absenteeism and overtime and will use those savings to establish an OPEB Trust.

Background and History:

OPEB includes non-pension costs for retiree medical, prescription drug coverage and life insurance. As of June 30, 2016, WMATA's actuarially determined unfunded OPEB liability was \$1.8 billion. WMATA's annual OPEB expenses, which are funding on a pay-as-you-go basis, are approximately \$51 million. On March 23, 2017, the Board approved Resolution 2017-11 authorizing the GM/CEO to establish an fund an OPEB Trust with savings from absenteeism, worker's compensation and overtime controls.

Discussion:

WMATA has taken several steps to mitigate its growing OPEB liability, including discontinuing retiree healthcare benefits for most represented employees since 2010; and Non-represented employees since 2017. WMATA has also modified healthcare benefits for non-represented employees. These changes will have a long-term impact on WMATA's OPEB costs.

In the meantime, GASB has implemented Statement No. 75 to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. In addition to increased visibility, this change will increase WMATA's current unfunded OPEB liability and make WMATA's OPEB liability more volatile.

Consistent with Board Resolution, 2017-11, WMATA has saved over \$3 million from various initiatives to reduce absenteeism, overtime and long term absence as of January 31, 2018. This savings will enable WMATA to establish a Trust to pre-fund OPEB liabilities.

FUNDING IMPACT:

There is no funding impact as a result of this information item.

TIMELINE:

Previous Actions	July 2016 - OPEB Update
Future Actions	June 2018 - Establish OPEB Trust

RECOMMENDATION:

This is an information item.



Other Postemployment Benefits (OPEB) Update

April 12, 2018

Prepared by Aon and WMATA
Consulting | Retirement & Investment

AON
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Agenda

- Actuarial Concepts Review
- GASB OPEB Standards – Changes for FY 2018
- OPEB Trust

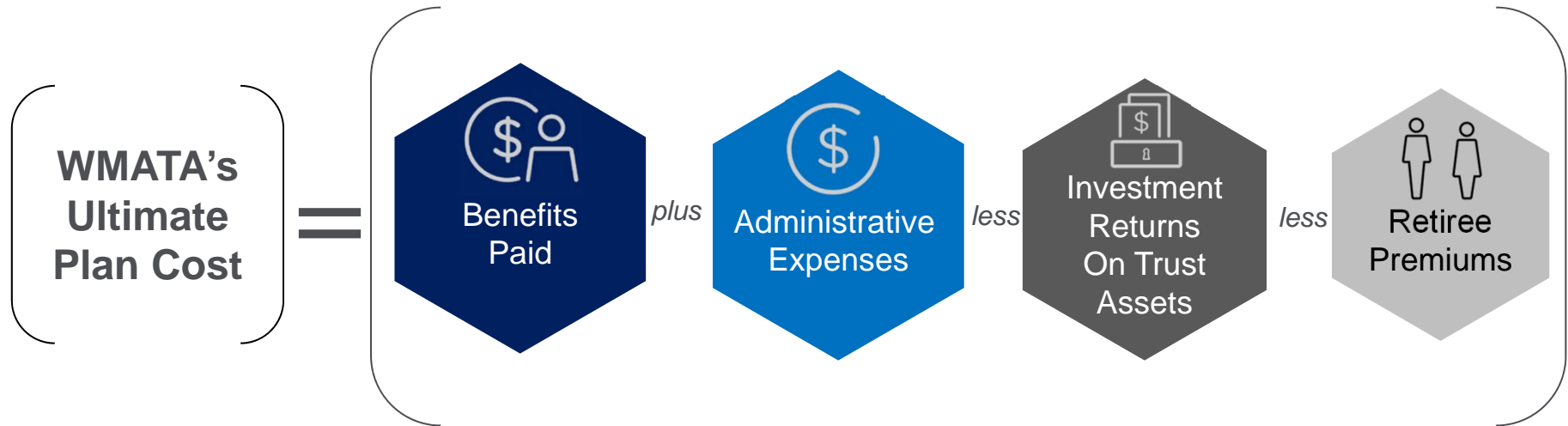




Actuarial Concepts Review

Ultimate Benefit Cost

The Ultimate Plan Cost Equation



About the Cost

Responsibility for payment

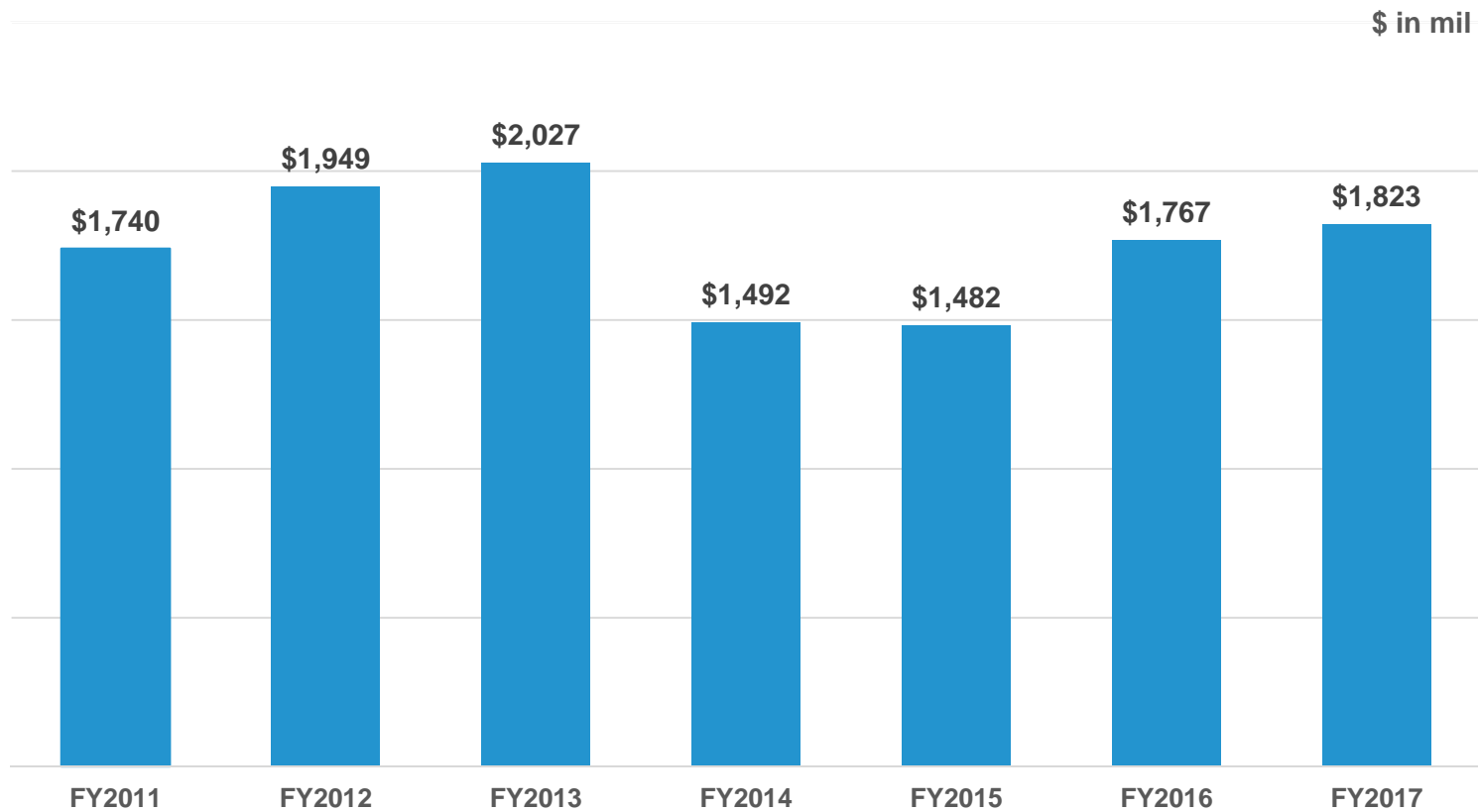
Employer funds benefit to the extent investment returns and retiree contributions do not cover cost

Timing of cost recognition

Cost recognition occurs over time:

- **Funding rules** dictate when cash payments are made
- **Accounting rules** dictate when the cost shows up as expense

OPEB Unfunded Status



Source – WMATA published CAFRs



Government Accounting Standards Board (GASB)

OPEB Changes for FY 2018

GASB Standards - GASB 75 Highlights



Key Considerations for WMATA

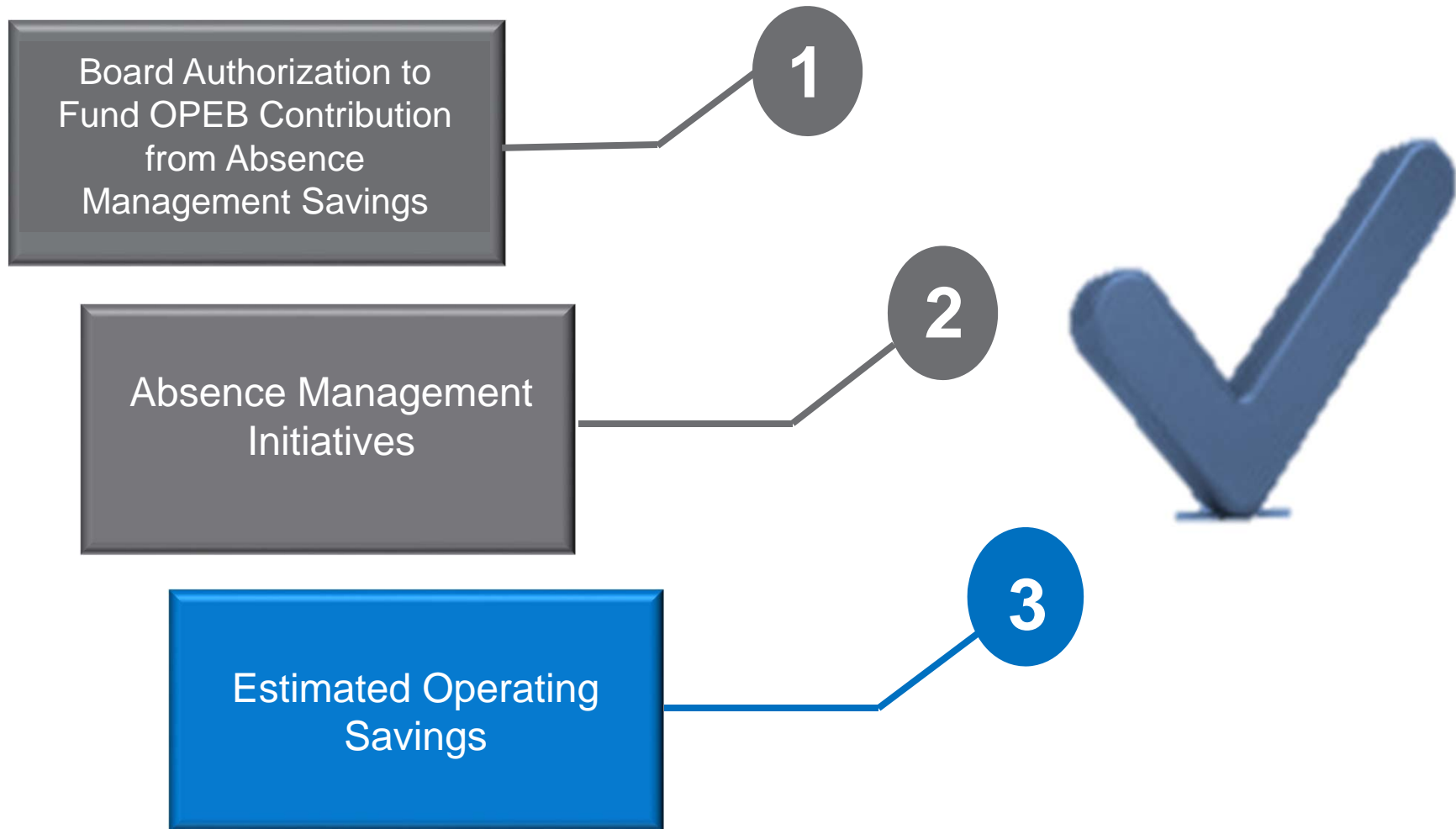
- Increased visibility of plan status
 - Prominence given to total unfunded liability (\$2.0B - preliminary) for FY2018 instead of Net OPEB Obligation (\$0.7B) for FY2017.
 - Additional disclosures about plan benefits and funding policy
- Increased volatility
 - Changes in discount rate recognized annually
 - Changes in amortization schedules
- Enhanced opportunity to influence liability and expense through funding policy
 - Trust investment returns help finance future plan benefits
 - Funding could lead to higher discount rate associated with plan, and as discount rate increases, overall liability decreases
 - Funding policy recognition requires establishment of a Trust





OPEB Trust

Management Initiatives to Fund OPEB Trust



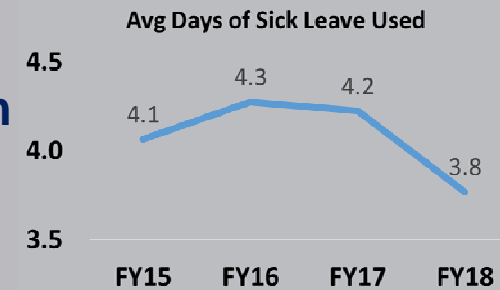
Results So Far

\$5M
Current savings
as of January
2018

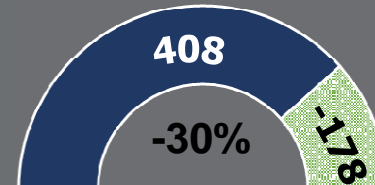
**Operating
overtime
expense is
down**



**Absenteeism
is down**



**Long-term absent
employees are
down**





Questions?