



**Pension Subcommittee of the**

**Finance Committee**

**Information Item III-A**

**July 14, 2016**

## **Other Post-Employment Benefits**

Washington Metropolitan Area Transit Authority

## Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:  
201763

Resolution:  
☐ Yes ☒ No

### TITLE:

Other Post-Employment Benefits

### PRESENTATION SUMMARY:

This presentation provides an overview of Other Post-Employment Benefits (OPEB), including liabilities facing WMATA, funding strategies and comparative regional OPEB performance.

### PURPOSE:

To provide an OPEB overview that outlines sponsor responsibilities and obligations, as well as suggested funding strategies to mitigate WMATA's unfunded OPEB liabilities.

### DESCRIPTION:

The consultant will define other post-employment benefits, highlight WMATA's unfunded liability status, review mitigation options and funding strategies as well as comparisons to regional partners' OPEB status.

#### Key Highlights:

Consultant will review WMATA's OPEB position and related issues with the subcommittee.

#### Background and History:

OPEB include non-pension costs for retiree medical, prescription drug coverage and life insurance. In June 2009, the Board authorized the creation of a trust to pre-fund WMATA's OPEB liabilities. To conform with Government Accounting Standards Board (GASB) requirements, the OPEB Trust must be irrevocable, dedicated to providing benefits to the retirees, and legally protected from WMATA's creditors.

WMATA's annual OPEB expenses, which are funding on a pay-as-you-go basis, are approximately \$40 million. As of FY2015, WMATA's actuarially determined unfunded OPEB liability was approximately \$1.5 billion.

#### Discussion:

To provide an OPEB overview that outlines sponsor responsibilities and obligations as well as suggested funding strategies to mitigate WMATA's unfunded OPEB liabilities.

**FUNDING IMPACT:**

This is an information item. However, the Subcommittee may discuss and approve a recommendation on OPEB pre-funding in FY2018 for consideration by the Finance Committee.	


**TIMELINE:**

This is an information item. However, the Subcommittee may discuss and approve a recommendation on OPEB pre-funding in FY2018 for consideration by the Finance Committee.

**RECOMMENDATION:**

To provide an Other Post-Employment Benefits overview that outlines sponsor responsibilities and obligations as well as suggested funding strategies to mitigate WMATA's unfunded OPEB liabilities.



# **WMATA**

## **Other Postemployment Benefit Plans – “*State of Plan and Managing Costs*”**

July 14, 2016

**Prepared by Aon Hewitt**  
Consulting | Retirement & Investment

**AON**  
Empower Results®

## Agenda

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- Actuarial Concepts and Terminology
- Plan Highlights and Funding Strategies
- Key Factors Impacting Liabilities



**OPEB 101**

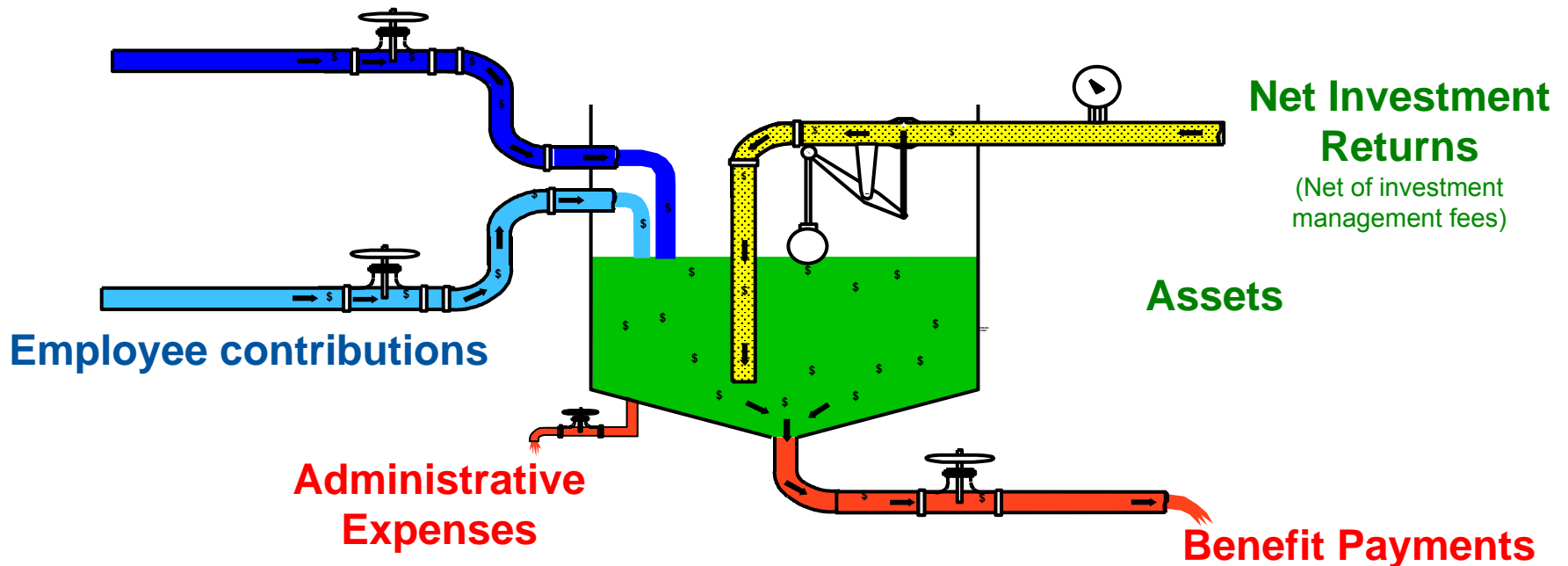


# Actuarial Concepts and Terminology

## The “Big Picture” - *Ultimate Plan Cost*

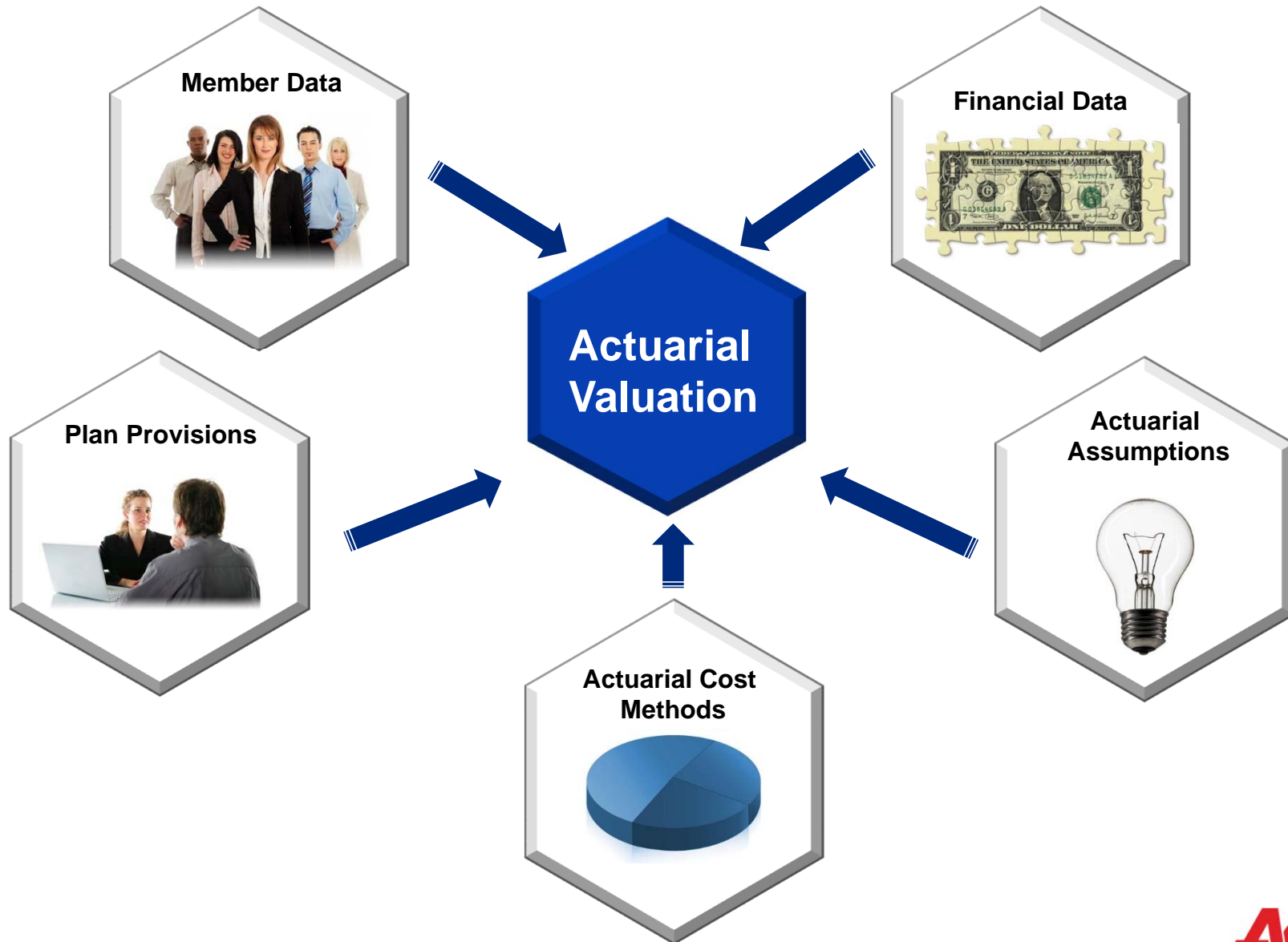
$$\text{Contributions} + \text{Investment Return} = \text{Benefits} + \text{Expenses}$$

### Employer contributions



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

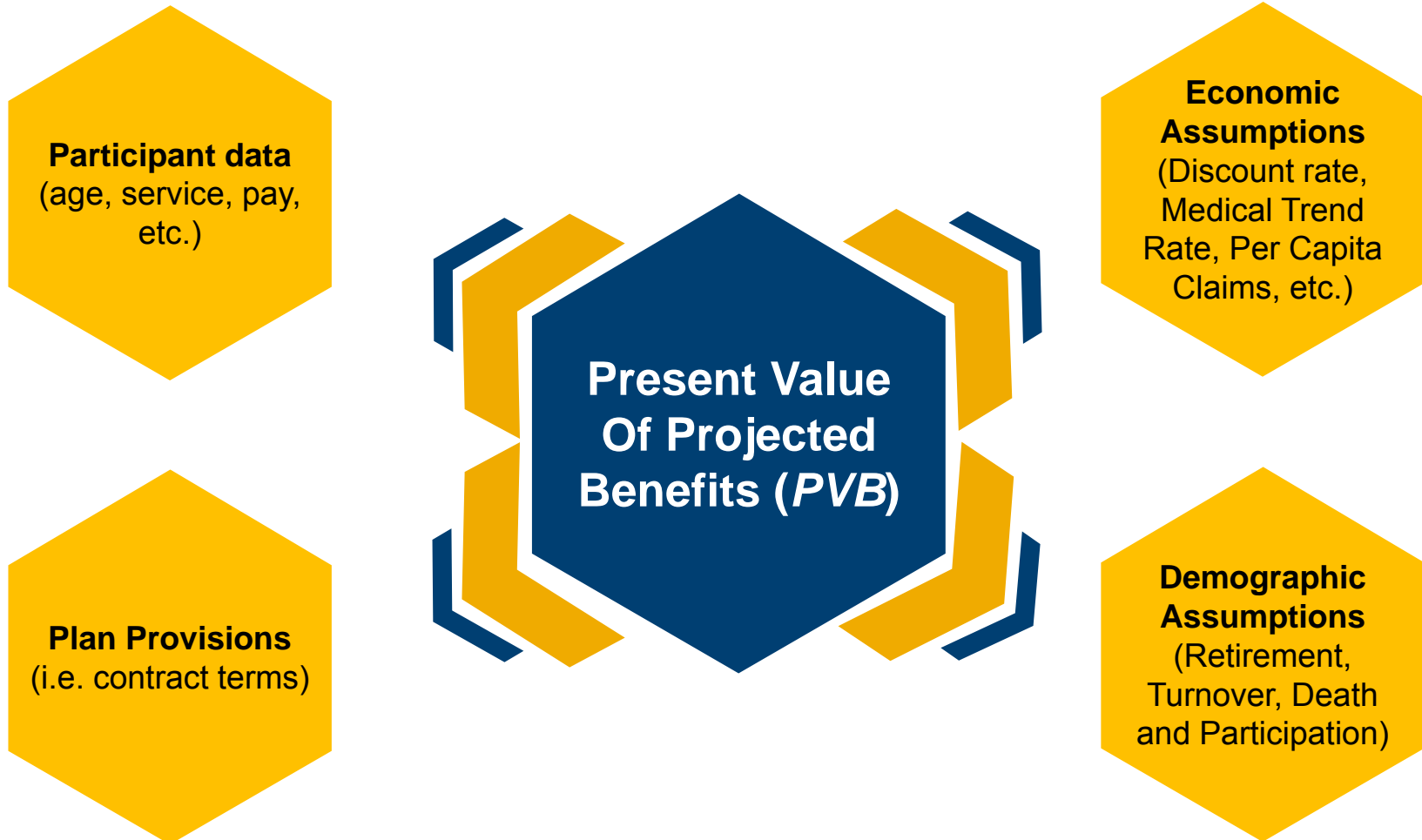
# Actuarial Valuation Process





## Present Value of Benefits (*PVB*)

The **Present Value of Projected Benefits (*PVB*)** is the total projected liability or “promise” for all participants, assuming all assumptions are met.





## Plan Highlights and Funding Strategies

## Actions Taken To Control Long Term Costs

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- Introduced Employer Group Waiver Plan (“EGWP”) for Local 689, Local 2, and Non-Represented Medicare retiree members:
  - Medicare Part D prescription drug benefit, provided by WMATA on a group basis under the federal government's EGWP rules.
  - Adopted by WMATA to maximize the receipt of federal government and brand manufacturer subsidies available through the Affordable Care Act to offset the cost of prescription drug coverage for WMATA's Medicare retiree members.
  - Reduced Actuarial Accrued Liability (AAL) by approximately \$225 million through recognition of the subsidies in the GASB OPEB valuation (unlike the prior Retiree Drug Subsidy program).
- Changed elements of the contribution strategy in 2010 such that those retiring at younger ages would pay a higher percentage of premium for Local 689.
- No retiree medical coverage for Local 689 and Local 2 retirees hired after January 1, 2010.

## Summary of Key OPEB Plan Results\*

Assumption / Method	WMATA Plan
Cost Method	Projected Unit Credit (actuarial cost method where liabilities are based on service to date and projected medical costs)
Valuation Interest Rate	4.00%
Medical Trend – pre-65	7.6% in 2015 grading down to 4.5% in 2024
Medical Trend – post-65	9.0% in 2015 grading down to 4.5% in 2024
Mortality	RP-2000 with fully generational projection using Scale AA

**\* Results are from the preliminary July 1, 2015 actuarial valuation. Aon is currently finalizing the July 1, 2015 valuation.**

## Summary of Key OPEB Plan Results (\$ in millions)\*

	Local 689	Non-Represented	Transit & Special Police	Local 2	Total
Valuation Date	7/1/2015	7/1/2015	7/1/2015	7/1/2015	N/A
Total Headcount	8,618	2,606	566	813	12,603
Status	Closed	Open	Open	Closed	
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>					
Actuarial Value of Assets (AVA)	0	0	0	0	0
Unfunded AAL \$	\$ 1,025	\$ 481	\$ 106	\$ 153	\$ 1,765
As % of Total Unfunded	58%	27%	6%	9%	100%
Funded Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Annual Required Contribution (ARC)</b>					
Net Normal Cost	\$ 18	\$ 12	\$ 2	\$ 3	\$ 35
Payment to Amortize Unfunded AAL	41	20	5	6	72
Total ARC	\$ 59	\$ 32	\$ 7	\$ 9	\$ 107
As % of Payroll					14%

**\* Results are from the preliminary July 1, 2015 actuarial valuation. Aon is currently finalizing the July 1, 2015 valuation.**

# Funding Strategies

## Background

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### History

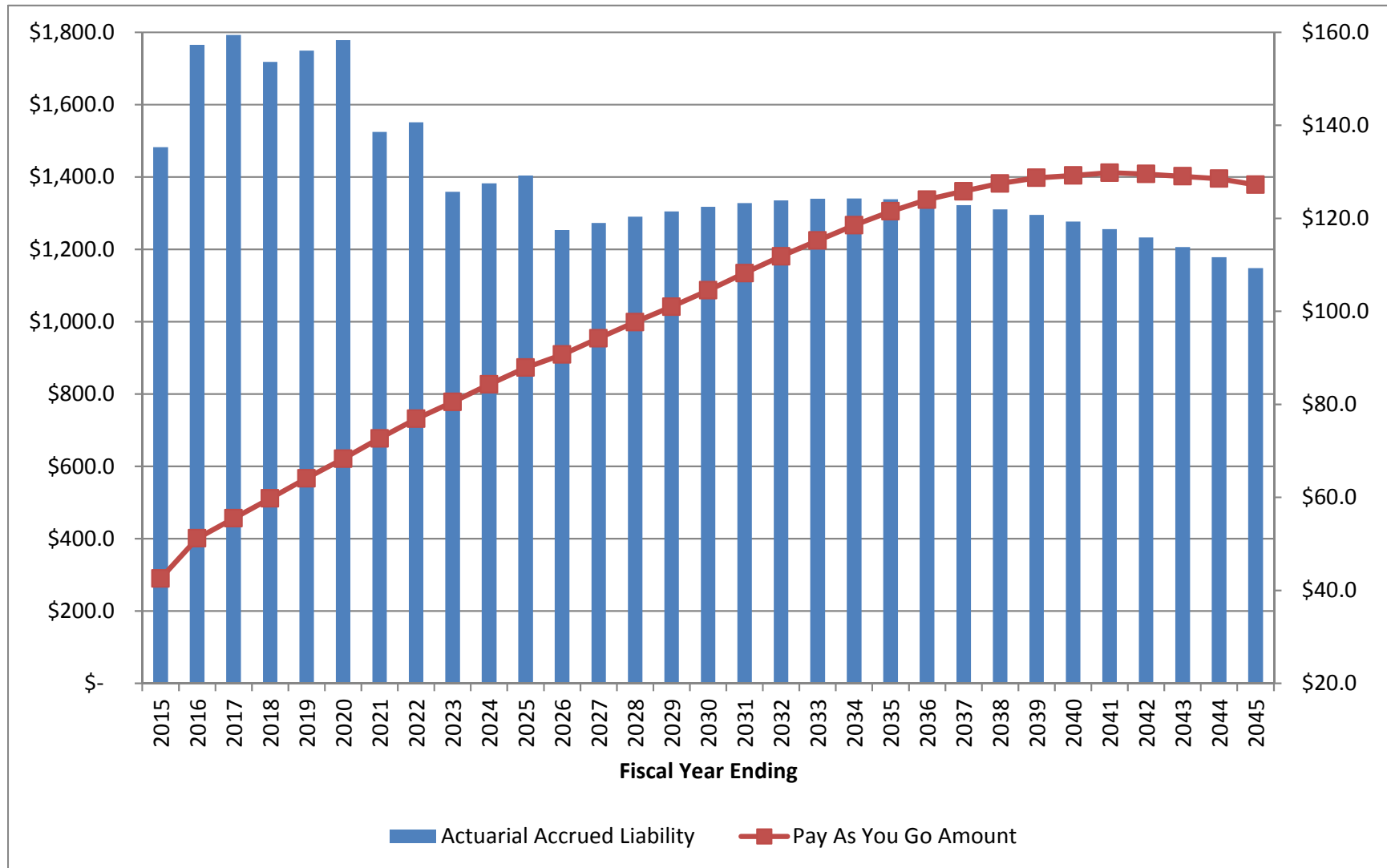
- WMATA's OPEB is funded each year on a Pay as you go basis equal to benefit cost (claims and insurance premiums, plus administrative expenses) for retirees.
- In 2009, WMATA adopted an OPEB prefunding policy. In FY15, \$4 million was set aside for the trust and \$11 million in FY16. The Board did not establish the Trust and the \$15 million was used to balance the budget.

### Current Status

- WMATA management determined that incremental funding to build up an asset base best fit WMATA's needs
- For example, an initial additional contribution of \$5M in FY 2018, increasing by \$5M each year thereafter until reaching a level sufficient to fund the OPEB benefits in the long term
  - Additional contributions peak at \$40M in FY 2024, then decrease until 2032, at which point benefit payments to participants are paid in part from the trust and remainder from general revenues with no further additional contributions
  - Over the life of the plan, this prefunding strategy could potentially reduce total contributions by over \$750 million, assuming the trust earns an average rate of return of 7%

## Funding Strategies – No Prefunding

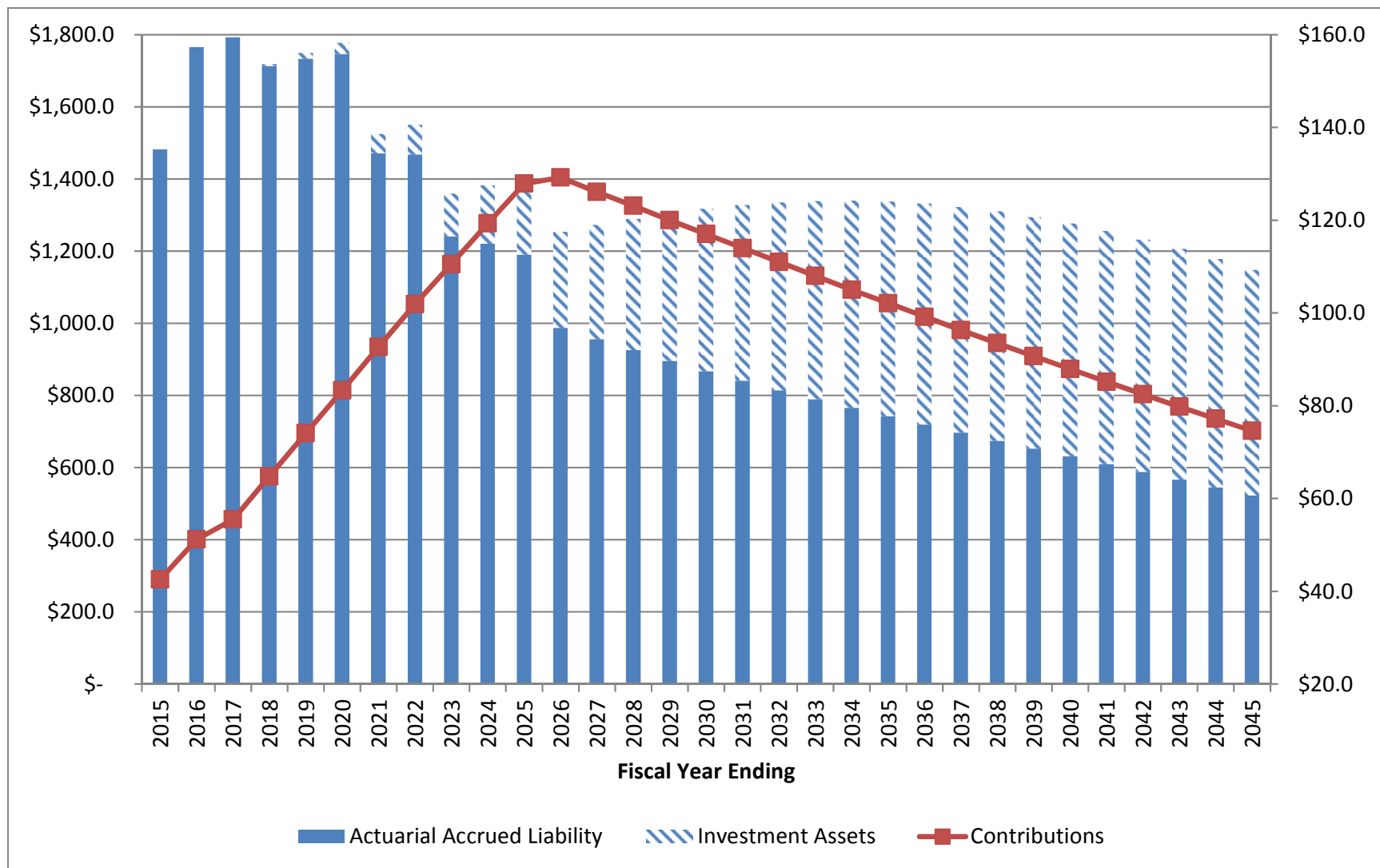
### Summary of Key OPEB Plan Results – AAL, Pay As You Go Amount



Based on preliminary July 1, 2015 valuation results. Please see Aon memo to WMATA dated April 2016 for details regarding assumptions, methods, and data.

## Funding Strategies – Incremental \$5 Million Funding Starting in 2018

### Summary of Key OPEB Plan Results – AAL, Assets, Contributions

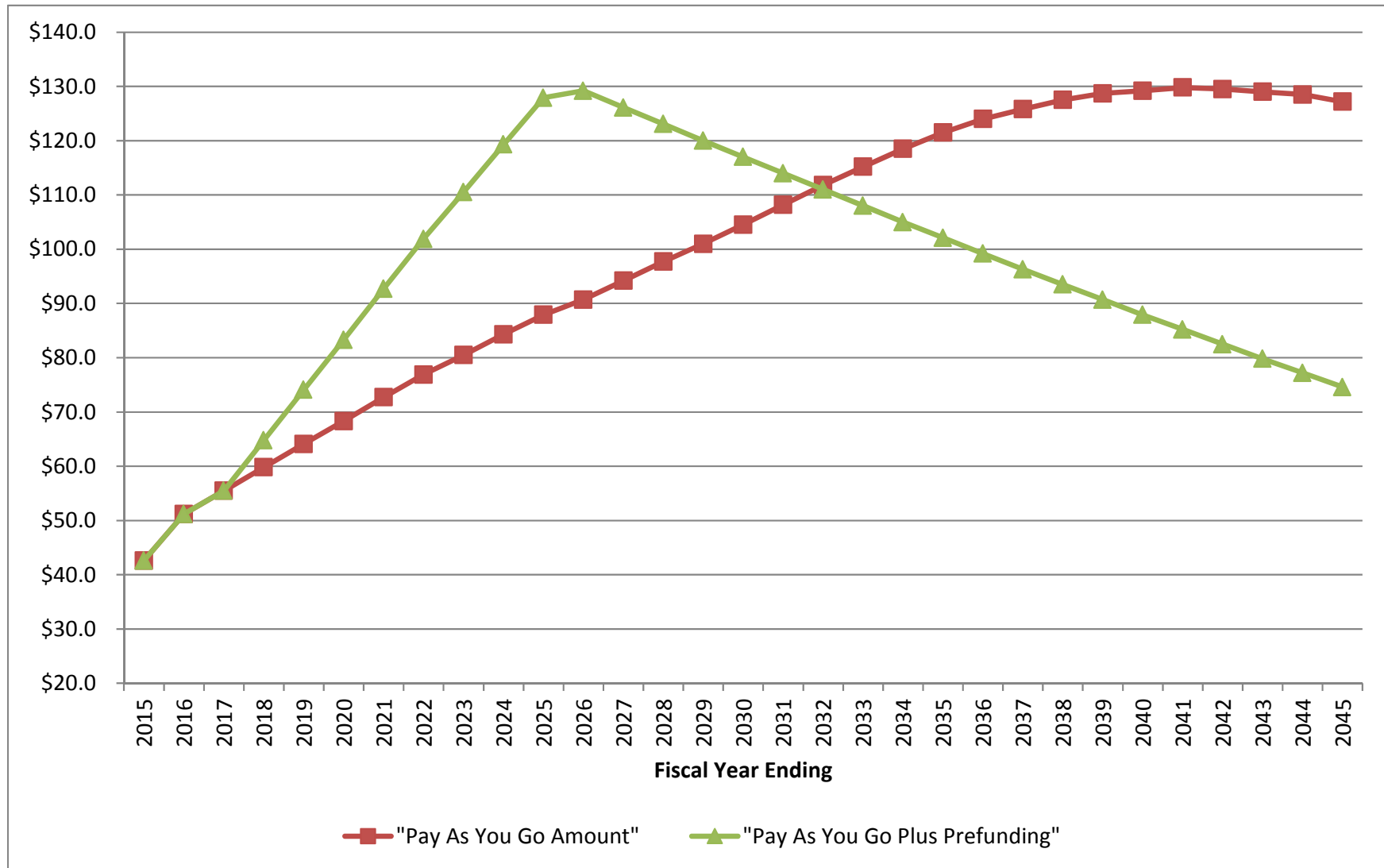


Based on preliminary July 1, 2015 valuation results. Please see Aon memo to WMATA dated April 2016 for details regarding assumptions, methods, and data.



# Funding Strategies

## Expected Annual Contributions With and Without Prefunding



Based on preliminary July 1, 2015 valuation results. Please see Aon memo to WMATA dated April 2016 for details regarding assumptions, methods, and data.



# Questions?