



**BUDGET OVERSIGHT HEARING  
ON THE  
DISTRICT OF COLUMBIA RETIREMENT BOARD  
PROPOSED BUDGET FOR FISCAL YEAR 2022**

**Testimony of**

**Lyle Blanchard  
Council Appointed Trustee**

**and**

**Betty Ann Kane  
Interim Executive Director**

**Before**

**The Honorable Phil Mendelson, Chairman  
Committee of the Whole  
Council of the District of Columbia**

**June 7, 2021**

## OPENING REMARKS

Good afternoon, Chairman Mendelson and members of the Council of the District of Columbia Committee of the Whole. I am Lyle Blanchard, a Council Appointed Trustee of the District of Columbia Retirement Board (DCRB). This is DCRB's Proposed Fiscal Year (FY) 2022 Budget.

DCRB's mission includes two overarching goals: 1) to prudently invest the assets of the Fund for the exclusive benefit of members, and 2) to provide Plan members with accurate and timely annuity payments, and excellent services.

DCRB was created by Congress in 1979 under the District of Columbia Retirement Reform Act as an independent agency of the District of Columbia Government. DCRB has exclusive authority and discretion to manage the assets of the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Fire Fighters' Retirement Fund (collectively referred to as the Fund). Our mission also includes providing a range of retirement administration services for members of the District of Columbia Teachers' Retirement Plan (the Teachers' Plan) and the District of Columbia Police Officers and Firefighters' Retirement Plan (the Police Officers and Firefighters' Plan) (collectively referred to as the Plans) throughout their lives and the lives of their eligible survivors.

DCRB invests and manages the Fund, which is held in trust for the exclusive benefit of all Plan members and their eligible survivors and beneficiaries. The assets of the Fund, which are commingled for investment purposes, can only be used to pay benefits to Plan members and reasonable associated administrative expenses. DCRB's Board of Trustees and certain DCRB staff are fiduciaries, who are required to discharge their responsibilities solely in the interest of Plan members and beneficiaries.

The District Government, as the employer, is the Plan Sponsor and is responsible for the design of the Plans, certain administrative activities, and paying the required employer contributions to the Fund. DCRB, as Plan Administrator, is responsible for investing the assets of the Fund, and providing a range of pension administration services to Plan members. DCRB also serves as the third-party benefits administrator for District police officers, firefighters and teachers, who are covered under the retirement plans that were "frozen" prior to July 1, 1997 and are funded by the U.S. Department of the Treasury (U.S. Treasury) (referred herein as the Frozen Plans).

At the end of FY 2020, on September 30, 2020, there were 25,142 members (active and retired) in the District and/or the Frozen Plans. Approximately 75% (18,777) of the members are now covered under the District Plans or have benefits that are jointly funded by the District and the U.S. Treasury. Although the greater portion of benefit payments still are paid by the U.S. Treasury for accrued annuity benefits under the Frozen Plans, our former actuary projected that

District annuity payments are expected to surpass those of the U.S. Treasury around 2031— just ten years from now.

The Fund had investments with a market value of \$9.0 billion as of fiscal year-end 2020. And as of April 30, 2021, boosted by the accelerated vaccine roll-out, strong economic growth and exuberant financial markets, the Fund's estimated market value was \$10.6 billion, up by \$1.6 billion or approximately 17%. The Agency's investment management efforts aim to achieve its actuarial expected return target of 6.5% over the life of the plan. Year-to-date returns continue to run significantly ahead of this actuarial goal. And while any one year's returns are naturally impacted by economic and financial market conditions, we are pleased that this year's returns are also ahead of the internal investment policy benchmark of 17.15%. That's the weighted mix of investment indices and strategies that guides our long-term asset allocation.

Based on the actuarial valuation as of October 1, 2020, funded ratios were: 91.3% for the Teachers' Plan, and 109.9% for the Police Officers and Firefighters' Plan. For perspective, the National Conference on Public Employee Retirement Systems, the largest trade association for public pension funds, reported that the average fund level was 75.1% in 2020, up from 72.4% in 2019. This actuarial valuation report shows that the District Plans are fully funded. This funded status helps the District in many ways and is a significant determinant in the District's high-quality credit rating, keeping its borrowing costs low.

I will now hand over to Betty Ann Kane, Interim Executive Director to provide testimony on the proposed FY 2022 Budget.

Good afternoon, Chairman Mendelson and members of the Council of the District of Columbia Committee of the Whole. I am Betty Ann Kane, the Interim Executive Director of the District of Columbia Retirement Board (DCRB), and I will be speaking on DCRB's Proposed Fiscal Year (FY) 2022 Budget.

### **FY 2022 REQUIRED DISTRICT PAYMENT TO THE FUND**

The District's certified FY 2022 contribution to the Fund totals \$184,025,000, which consists of two components. The proposed contribution of \$75,060,000 for the Teachers' Retirement Fund, as reflected in the Teachers' Retirement System (GX0) budget, represents a \$4.6 million (or 6.5%) increase from FY 2021. The proposed contribution of \$108,966,000 for the Police Officers and Fire Fighters' Retirement Fund, as reflected in the Police Officers and Fire Fighters' Retirement System (FD0) budget, represents a decrease of \$967 thousand (or -0.9%) from FY 2021.

For FY 2021 (based on the October 1, 2019 actuarial valuation), the actuarially determined employer contribution (ADEC) was \$180,411,000. The full amount of the employer contribution was received from the District Government in October 2020 and has been invested for the members.

The total increase from last year is \$3,614,000, or 2% higher than FY 2021. The factors that increased the ADEC are:

- Investment returns during FY 2020 were about \$7.6 million lower than expected for the Teachers' Plan and \$22.3 million lower than expected for the Police and Fire Plan. A portion of that shortfall is reflected in this valuation, with the remaining portions to be reflected in future valuations. The shortfall was offset by the continued recognition of prior investment performance. There is a total of \$19.7 million in net deferred investment underperformance for the Teachers' Plan and \$55.8 million in net deferred investments underperformance for the Police and Fire Plan as of October 1, 2020 that will be reflected in future valuations. These deferrals produce an overall experience gain on investment income.

- Overall, the increases in pay were lower than expected and produced a liability gain (the increase was not as large as expected).

## **OPERATIONS UPDATE**

Since our performance hearing, progress has been made in a number of areas and I would like to provide you with a brief summary of our accomplishments over the last two months.

In the area of staffing, we have retrenched in our efforts to recruit and retain staff, with particular focus on our key vacancies. Our Chief Financial Officer joined us in March, and we have increased our efforts to recruit a Communications and Public Relations Director, and a Supervisory Contract Specialist. The Board of Trustees expect to hire a permanent Executive Director soon, and that individual will hire the Chief Operating Officer or Deputy Executive Director to support them. We continue to focus attention on managing operational risk and on compliance programs across several departments and are assessing staffing needs for these key activities. Beyond these specific highlights, we are continuing to support each Department in its staffing needs.

We previously discussed the external support needed to move forward confidently and we are pleased to report that we have the appropriate Memoranda of Understanding in place with District Agencies who support or augment our operations including DC Human Resources, the Office of the Chief Technology Officer, and the Office of Contracting and Procurement. Our modifications to the MOU with the Office of Contracting and Procurement were developed to ensure that the level of staff and engagement between us would be appropriate to meet our needs and support a positive relationship as we work to rebuild an internal procurement team. Regular procurement training will be scheduled for the Board, at the end of the month, and staff. Beyond MOUs with other government agencies, we have progressed on a number of procurement efforts including having draft procurement regulations. We have also engaged an accounting consultant to support some historical financial reconciliation work and moved forward with other key engagements. There are more to come and the momentum is positive.

## **PROPOSED OPERATING BUDGET**

At its December 2020 meeting, the Board of Trustees approved the Agency's proposed FY 2022 operating budget of \$48.9 million. This budget is comprised of \$11.9 million in Personnel Services and \$37 million in Non-Personnel Services. The \$48.9 million budget represents a \$4.4 million or 10.9% increase over the FY 2021 budget.

There was a \$409 thousand or 3.9% increase in the Personnel Service budget. This increase was attributed to the maintenance of staff salaries and fringe benefits. We did not request additional FTEs in FY 2022.

The Non-Personnel Service portion of the budget increased by \$4.4 million or 13.5%. The primary driver was a \$3.2 million increase in investment management fees, which are tied to the growing assets under management. As the value of the assets increase there is a similar increase in the manager fees and vice versa. We have seen a steady increase in the fair value of the fund since the end of FY 2020 and expect this trend to continue through FY 2022. The remaining increase was mainly a result of increases in professional services activities.

For FY 2022, the proposed budget meets the Agency's goals of efficiency, service, and stewardship at all levels of the organization. Further, the proposed budget provides the necessary financial resources to handle and improve the Agency's day-to-day operations, and to achieve its strategic priorities to better serve Plan members and meet the set risk-adjusted returns.

As you are aware, DCRB's budget is classified under Enterprise and Other Funds. The budget is drawn from the Fund, and any unspent amounts remain in the Fund.

We have a cost sharing agreement with the U.S. Treasury in which the U.S. Treasury reimburses DCRB for third-party benefits administration services provided on behalf of the Frozen Plans. Specifically, the reimbursement is for costs associated with servicing Frozen Plan members, agreeing to special benefit project requests and the positions responsible for completing these tasks. We expect to receive approximately \$4 million from the U.S. Treasury for these services in FY 2022.

Conversely, DCRB makes a payment to the U.S. Treasury each fiscal year for payroll services, postage and distribution expenses, and maintenance and system upgrade expenses related to STAR (the U.S Treasury's pension payroll system). For FY 2022, \$2.5 million has been budgeted.

In summary, while seeking to manage costs as much as possible, the proposed budget allows DCRB to continue offering multi-faceted services to Plan members, while providing financial stability to the Fund. DCRB's Board has maintained conservative investment assumptions. We have a skilled Board and an experienced team managing our initiatives. The Plan is in sound financial condition, and we accurately pay our Plan members while we continue making strides towards creating a comprehensive retirement system to serve the needs of Plan members.

In closing, I would like to thank the Committee for its support in helping DCRB carry out our its mission. As we proceed, we may seek your assistance in helping the Agency accomplish its goals. We look forward to working with you and your staff and are prepared to respond to any questions that you may have.

Thank you.