


**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

TO: The Honorable Vincent C. Gray
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer 

DATE: December 30, 2008

SUBJECT: Fiscal Impact Statement: "District Retirement Program Post-Employment Health and Life Insurance Benefits Amendment Act of 2009"

REFERENCE: Draft Legislation – No Number Assigned

Conclusion

Funds are sufficient in the FY 2009 through FY 2012 budget and financial plan to implement the provisions of the proposed legislation.

If the eligibility rules do not achieve the savings reflected in the FY 2009 - FY 2012 budget and financial plan, Generally Accepted Accounting Principles (GAAP) require that the liability resulting from such discrepancy in funding be reported in the government-wide financial statements and not the fund financial statements. The impact of underfunding of the District's OPEB obligation in any year will be reflected in increased subsequent actuarial calculations of required annual contributions.

The current budgeted contributions are less than the required contributions, even under the proposed plan. Thus, future contributions would have to increase in order to fully cover the post-employment health benefits of the future retirees. By lowering the post-employment health benefits offered to the District of Columbia retirees and their dependents, the proposed legislation would reduce the District's required annual contributions into, and annual benefit payments out of, the Annuitants' Health and Life Insurance Employer Contribution Trust Fund ("Annuitants' Fund").

Background

The proposed legislation makes significant changes in the post employment health benefits for the District of Columbia retirees.

The proposed legislation amends the D.C. Official Code § 1-601.01 *et seq.* to redefine the term annuitant to include employees reaching 62 years of age and having completed 10 years of District government service.

Under the proposed legislation, in order to be eligible for health benefits, annuitants must retire while enrolled in a Health Benefits Plan, have been continuously enrolled in such a plan for a period of at least five years preceding the annuitant's retirement date, and remain continuously enrolled in such a plan after retirement.

Upon enactment of the proposed legislation, annuitants under age 62 would be required to pay 100% of the cost of their selected Health Benefits Plan. Additionally, the proposed legislation would introduce a new sliding scale contribution system that would take effect once the annuitant attains age 62 as outlined in Table 1:

Table 1 Summary of Health Benefit Changes		
Annuityants younger than 62...		
<i>Creditable District Service</i>	<i>District's Contribution for the Annuityant</i>	<i>District Contribution for the Spouse</i>
N/A	No contributions are made	No contributions are made
Annuityants older than 62...		
<i>Creditable District Service</i>	<i>District's Contribution for the Annuityant</i>	<i>District Contribution for the Spouse</i>
Less than 10 years	No contributions are made	No contributions are made
Between 10 and 30 years	25% of the plan Plus 2.5 % per each year of creditable District service over 10 years Capped at 75%	20% of the plan Plus 2.0% per each year of creditable District service over 10 years capped at 60%
Greater than 30	75%	60%

Financial Plan Impact

Funds are sufficient in the FY 2009 through FY 2012 budget and financial plan to implement the provisions of the proposed legislation. The proposed legislation would reduce the District's required annual contributions to the Annuitants' Fund as well as the required annual payments from this fund.

Table 2 outlines the impact of the proposed legislation on the required contributions for the Annuitants' Fund.

Table 2 Impact on the Required Contributions on the Annuitants' Fund, \$ millions					
Baseline ¹	FY2009	FY2010	FY2011	FY2012	FY 2009 - FY 2012
General	\$55.8	\$59.9	\$64.2	\$68.9	\$248.8
Police	\$29.4	\$31.3	\$33.4	\$35.7	\$129.8
Fire	\$9.2	\$9.9	\$10.6	\$11.3	\$41.0
Teachers	\$23.1	\$24.5	\$26.1	\$27.7	\$101.4
Total	\$117.5	\$125.6	\$134.3	\$143.6	\$521.0
New Policy					
General	\$43.3	\$46.4	\$49.8	\$53.0	\$192.5
Police	\$23.9	\$25.4	\$27.2	\$29.1	\$105.6
Fire	\$7.2	\$7.8	\$8.3	\$9.0	\$32.3
Teachers	\$16.9	\$17.9	\$18.9	\$20.2	\$73.9
Total	\$91.3	\$97.5	\$104.2	\$111.3	\$404.3
Reductions in Contributions Under Bill					
General	\$12.5	\$13.5	\$14.4	\$15.9	\$56.3
Police	\$5.5	\$5.9	\$6.2	\$6.6	\$24.2
Fire	\$2.0	\$2.1	\$2.3	\$2.3	\$8.7
Teachers	\$6.2	\$6.6	\$7.2	\$7.5	\$27.5
Total	\$26.2	\$28.1	\$30.1	\$32.3	\$116.7

Source: Calculations provided by the actuary, based on an active force of 19,407 for FY 2009, 19,798 for FY 2010, 20,181 for FY 2011, and 20,595 for FY 2012.

¹ Baseline calculations are likely to change given that the FY 2009 funding allocated to the Annuitants' Fund is less than the required contribution amount.

It is important to note that in FY 2009, the current budget and financial plan has allocated the following contributions for the Annuitants' Fund:

Table 3 Budgeted Contributions to the Annuitants' Fund, \$ millions FY 2009 - FY 2012 Budget and Financial Plan					
	FY2009	FY2010	FY2011	FY2012	FY 2009 - FY 2012 Total
Budgeted Contributions	\$81.1	\$85.6	\$92.7	\$99.0	\$358.4

The proposed eligibility rules do not achieve the savings reflected in the FY 2009 - FY 2012 budget and financial plan. As a result, Generally Accepted Accounting Principles (GAAP) require that the liability resulting from such discrepancy in funding be reported in the government-wide financial statements and not the fund financial statements. The impact of underfunding of the District's OPEB obligation in any year will be reflected in increased subsequent actuarial calculations of required annual contributions.

Given that current budgeted contributions are less than the required contributions, even under the proposed plan, future contributions would have to increase in order to fully cover the post-employment health benefits of the future retirees. By reducing the required contributions, the current legislation will ease the future pressure on the District's budget and financial plan.

Table 4 outlines the impact of the proposed legislation on the payments out of the Annuitants' Fund. By reducing the eligible pool and the contribution requirements for the District, the proposed legislation would reduce the pay-as-you-go cost of the post-employment health benefits.

Table 4 Impact on the Required Payouts from the Annuitants' Fund, \$ millions					
Baseline	FY2009	FY2010	FY2011	FY2012	FY 2009 - FY 2012
General	\$4.8	\$6.2	\$8.7	\$11.2	\$30.9
Police	\$1.4	\$1.8	\$2.3	\$2.8	\$8.3
Fire	\$0.3	\$0.4	\$0.5	\$0.7	\$1.9
Teachers	\$2.8	\$4.0	\$5.1	\$6.4	\$18.3
Total	\$9.3	\$12.4	\$16.6	\$21.1	\$59.4
New Policy					
General	\$4.8	\$6.1	\$7.8	\$8.9	\$27.6
Police	\$1.4	\$1.7	\$2.2	\$2.7	\$8.0
Fire	\$0.3	\$0.3	\$0.4	\$0.6	\$1.6
Teachers	\$2.8	\$3.3	\$3.9	\$4.7	\$14.7
Total	\$9.3	\$11.4	\$14.3	\$16.9	\$51.9
Reduction in Payments Under Bill					
General	\$0.0	\$0.1	\$0.9	\$2.3	\$3.3
Police	\$0.0	\$0.1	\$0.1	\$0.1	\$0.3
Fire	\$0.0	\$0.1	\$0.1	\$0.1	\$0.3
Teachers	\$0.0	\$0.7	\$1.2	\$1.7	\$3.6
Total	\$0.0	\$1.0	\$2.3	\$4.2	\$7.5

Source: Calculations provided by the actuary, based on an active force of 552 for FY 2009, 809 for FY 2010, 987 for FY 2011, and 1189 for FY 2012.