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Report to the Subcommittee on Federal Services, Post Office, and Civil Service, Committee on Governmental Affairs, U.S. Senate

November 1992

DISTRICT'S PENSIONS

Billions of Dollars in Liability Not Funded

GAO/HRD-93-32

GAO

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Human Resources Division

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November 30, 1992

The Honorable David Pryor
Chairman, Subcommittee on Federal Services,
Post Office, and Civil Service
Committee on Governmental Affairs
United States Senate

The Honorable Ted Stevens
Ranking Minority Member
Subcommittee on Federal Services,
Post Office, and Civil Service
Committee on Governmental Affairs
United States Senate

In November 1991, you requested that we answer several questions concerning the growth of the District of Columbia's unfunded liability for pensions. You also requested information about how the District's retirement plans compare with other municipal retirement plans and what impact the participation of U.S. Secret Service personnel has on the District's pension liability.

Results in Brief

Pension obligations owed to current employees and retirees exceed the District's pension fund assets by about $4.9 billion. Further, the percentage of pension obligations covered by assets is lower than that reported by most of the comparable plans we examined. This inadequate funding results primarily from the federal government's transferring, when it enacted the D.C. Retirement Reform Act in 1979, a $2.0 billion unfunded liability for pension benefits to the District government. There is no legal requirement to amortize this unfunded liability. Rather, the act provides for federal and District contributions to the retirement funds, through 2004, that are inadequate to keep the unfunded liability from increasing. It is estimated to reach $7.7 billion by that year. Under the act's funding provisions, the unfunded liability will never be eliminated, although the formula for determining District contributions will change beginning in 2005 and the liability will stop increasing, assuming the District makes the required contributions. In 2005, under the changed formula, the District's annual contribution could represent about 15 percent of the revenue collected by the District, compared to about 8 percent in 1991.

Plan benefits for retirees under the District plans are similar to those of other public employee retirement plans that we selected for comparison.

The federal government reimburses the District government for the pension benefits paid to federal personnel who retire under the District's police officer and fire fighters' plan. Their benefits do not affect the plan's unfunded liability.

Background

The Congress instituted defined benefit pension plans[1] for the District's police officers and fire fighters in 1916, for teachers in 1920, and for judges in 1970.[2] Benefits provided by the three plans were basically provided by the federal government on a pay-as-you-go basis; that is, federal payments each year were sufficient only to cover that year's benefit payments. No money was accumulated to pay for the benefits that employees were currently earning and would receive after they retired.

In 1979, the Congress passed the District of Columbia Retirement Reform Act (P.L. 96-122). The act stated that the retirement benefits—which Congress had authorized for the police officers, fire fighters, teachers, and judges of the District of Columbia—had not been financed on an actuarially sound basis. Neither federal payments to the District nor District payments for pensions had taken into account the long-term financial requirements of the District's retirement plans. Consequently, the act established, for the first time, separate retirement funds for (1) police officers and fire fighters, (2) teachers, and (3) judges. The act also established a retirement board to manage the funds, required that the funds be managed on an actuarially sound basis, and provided federal contributions to these funds to partially finance the liability for retirement benefits incurred before January 2, 1975.

The act authorizes the funds to receive money from employee contributions, federal contributions totaling about $52.1 million annually authorized by the act through fiscal year 2004, and a variable District contribution.

Employers in the private sector who sponsor defined benefit pension plans are required by federal law to contribute annually to the plan an

[1]Defined benefit plans pay specific retirement benefits generally based on years of service, earnings, or both.

[2]Other District employees hired before October 1, 1987, are covered under the Federal Civil Service Retirement System. The District's remaining employees are covered under Social Security. After 1 year of service, permanent full-time employees hired after October 1, 1987, are also covered by a defined contribution plan and an employee deferred compensation plan.

amount based on the normal cost,[3] interest on any unfunded actuarial liability,[4] and an amount to amortize unfunded liabilities. When the D.C. Retirement Reform Act was passed in 1979, however, it was determined that the amount equal to the normal cost plus interest on the unfunded liability of the three funds (and nothing additional to amortize the unfunded liability) would not be affordable in District budgets in the near future. Therefore, another method was adopted for the 25 years before 2005, providing for substantially lower contributions.

The annual District contribution to the funds, specified by the Board based upon a formula laid out in the act, consists of the sum of three items:

- The lesser of (a) the net pay-as-you-go cost or (b) the net normal cost[5] plus interest on the unfunded actuarial liability[6] as defined by the act.
- An amount necessary to amortize (pay off in equal installments) over 10 years the difference of (a) the actuarially projected unfunded liability in the year 2004 if no such amortization payments were made and (b) the actuarially projected unfunded liability in the year 2004 if the 1979 unfunded liability grew by the anticipated rate of inflation during the interim.

  Any additional amount specified by the Board under this amortization provision may not exceed 10 percent of the net-pay-as-you-go cost for the Fire and Police Fund or 30 percent for the Teachers' or Judges' Funds.

- An amount necessary to amortize over 25 years liability due to plan changes.

The annual District budget must include the amount specified by the board, but may include more. The annual District contribution, starting in fiscal year 2005, will be the sum of the net normal cost and the amount of interest on the statutory unfunded actuarial liability, not including

[3]For an individual, the normal cost is the amount of the contribution to be made each year, from the date of plan entry to the date of retirement, that will be sufficient to pay all retirement benefits.

[4]In an actuarial valuation of a pension plan, assumptions are made about the future effects of the time value of money, and the actuarial present value of benefits is computed. This is the amount that would have to be invested so that the amount invested plus investment earnings would provide sufficient assets to pay projected benefits when due. If the present value of assets is less than the present value of benefits, an unfunded actuarial liability exists.

[5]The net normal cost for the District is the sum of the normal costs for the participants minus the employee contributions.

[6]The unfunded actuarial liability is computed, in accordance with the act, as the difference between the actuarial accrued liability less the sum of the current value of the assets in the funds and the federal obligation in the future.

amortization of the unfunded liability, for the three funds. Under the act, the District is responsible for covering any shortfall if the funds are inadequate to meet their obligations.

Before the act's passage, comparative public employee retirement data showed that the District's pension plan provisions, which allowed police officers and fire fighters to retire after serving 20 years and based retirement annuities on the average of the retiree's highest 12 consecutive months' pay, were more generous than those of most other cities. To lower pension costs, the act tightened these requirements for personnel hired after February 15, 1980. The act amended the retirement requirements to serving 25 years and attaining age 50, and based retirement annuities on the highest 36 consecutive months' pay.

Certain members of the U.S. Secret Service and the U.S. Park Police hired before January 1, 1984, participate in the District's pension plan for police officers and fire fighters.

Scope and Methodology

To obtain the information presented in this report, we met with D.C. government officials, D.C. Retirement Board members and staff, and the actuaries who prepared the most recent actuarial report for the Board. We reviewed the legislative history of Public Law 96-122, pertinent sections of the D.C. Code, and studies that examined the District's liability for funding the pension plans. In addition, we analyzed actuarial reports prepared for the Board.

To compare the benefits of the District plans with those provided to public employees elsewhere, we relied on the results of a survey of state and local government employee retirement systems conducted by the Public Pension Coordinating Council between May and August 1991. We judgmentally selected pension plans from this data base to compare with each of the three District plans. Details of our selection procedure are discussed in appendix I.

From District, U.S. Secret Service, and U.S. Park Police officials, we obtained information concerning participation of Secret Service and Park Police personnel in the police and fire retirement plan.

We conducted our review from December 1991 to September 1992 in accordance with generally accepted government auditing standards. The Government of the District of Columbia and the District of Columbia

Retirement Board provided comments on this report. These comments are included in appendixes III and IV.

The Congress Transferred to the District Government Liability for Funding $2.0 Billion

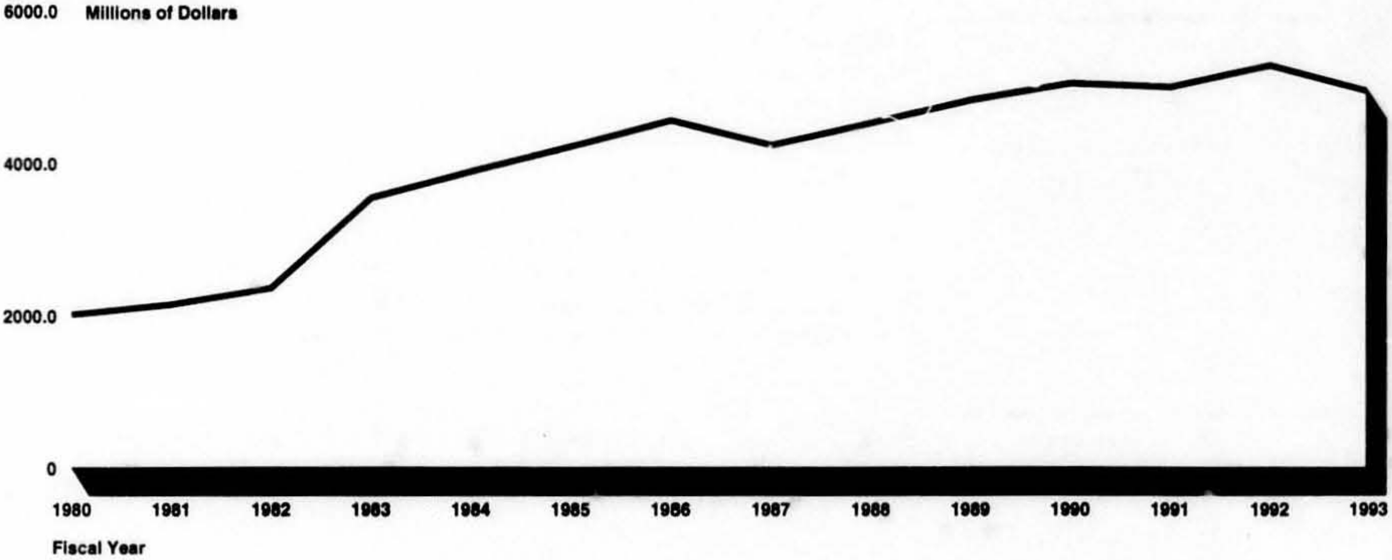
Upon the Congress's transfer of responsibility for the retirement plans, the District was faced with an unfunded liability estimated at $2.0 billion. As of September 1979, the total unfunded liability of the funds was about $2.65 billion, as calculated by Treasury to meet the actuarial reporting requirements of the act. The act established the federal share of the liability as 80 percent of the unfunded liability as of October 1, 1979, for normal retirements before January 2, 1975, and 33-1/3 percent of the unfunded liability for such disability retirements. This share was to be paid through 25 annual contributions of about $52.1 million, beginning in fiscal year 1980, which had a present value of $646 million.

Unfunded Liability Has Grown Substantially—Mostly Due to Interest

Since fiscal year 1980, the $2.0 billion unfunded liability has increased to about $4.9 billion,[7] as shown in figure 1. The principal cause of this growth is interest on the unfunded liability.

[7]The act defines the statutory unfunded actuarial liability as the difference between the accrued actuarial liability and the sum of the current value of the assets in the fund and the federal obligation in the future. The act specifies that any difference in the unfunded actuarial liability as of October 1, 1979, in future value as of the end of fiscal year 2004 and the unfunded actuarial liability for the current fiscal year in future value as of the end of fiscal year 2004 should be amortized over 10 years. The current value of these projected amortization payments is included in the current value of assets. This feature appears to be unique to the District plans. In other pension plans, future amortization payments are not included in the current value of the assets. The unfunded liability in figure 1 includes the current value of future federal payments as an asset, but does not include the present value of the future amortization payments.

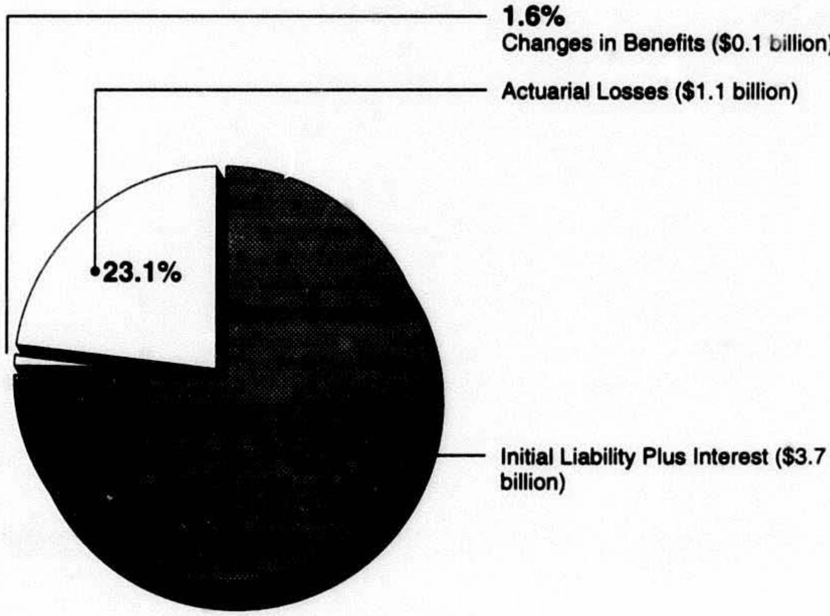
Figure 1: Unfunded Liability of D.C. Pension Plans (FY 1980-93)



The Commission on Budget and Financial Priorities of the District of Columbia (the Rivlin Commission) concluded that this growing unfunded liability jeopardizes both the future financial security of thousands of District employees and the long-term solvency of the District government.

The fiscal year 1993 unfunded liability is estimated to be about $4.9 billion, almost 2-1/2 times the Treasury's fiscal year 1980 estimate. Most of this amount, about $3.7 billion, results from the original $2.0 billion unfunded liability increased by interest. Increases in benefits to retirees have resulted in an increase of $79 million in liability. Actuarial loss factors make up the remaining $1.1 billion of the unfunded liability: pay increases and interest rates differed from actuarial estimates, and budgeted District contributions differed from actual pay-as-you-go costs. The relative sizes of these components of the unfunded liability are shown in figure 2.

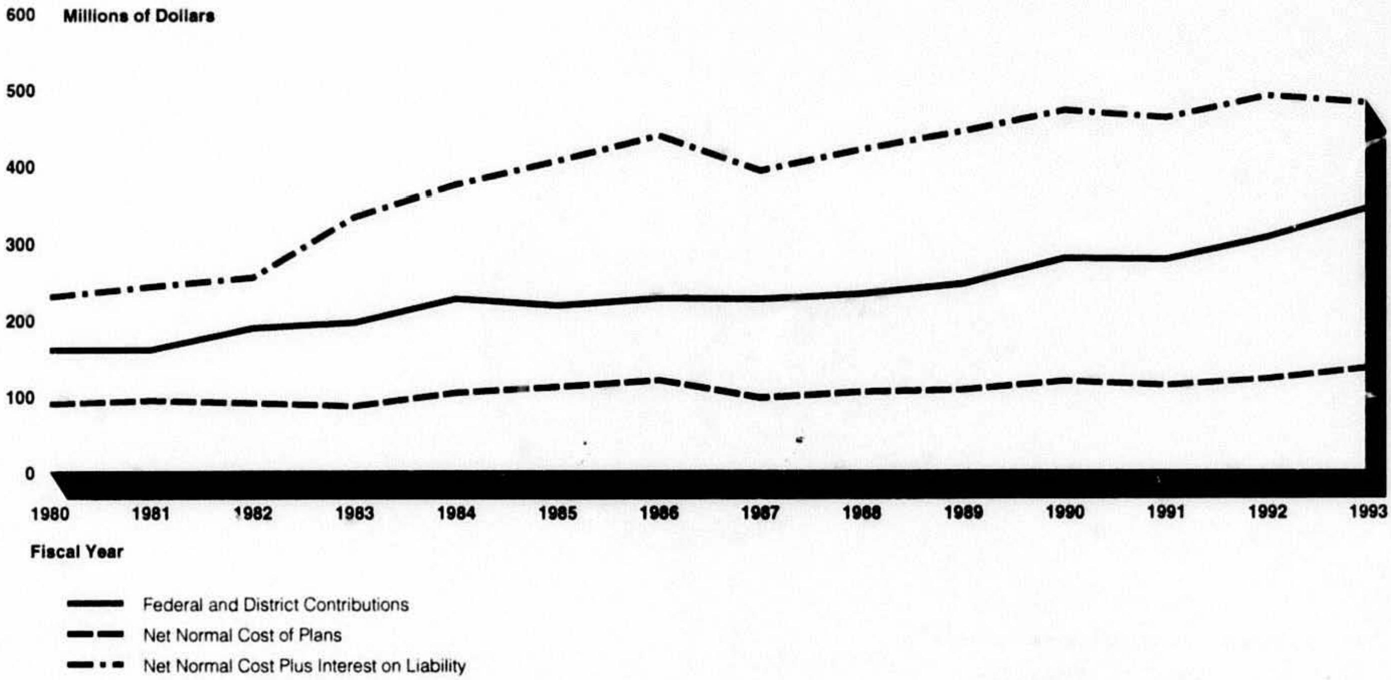
Figure 2: 1993 Unfunded Liability of D.C. Pension Plans



District Contributions Do Not Fully Cover Interest on Unfunded Liability

The formula specified in the act permits the District to pay less than needed to maintain the unfunded liability at a constant level. The annual District contributions to the funds have been based on pay-as-you-go costs. As shown in figure 3, annual federal and District contributions have exceeded the net normal cost, but have always been less than the annual net normal cost plus interest on the unfunded liability.

Figure 3: Federal and District Government Pension Fund Contributions, Net Normal Cost, and Net Normal Cost Plus Interest on the Unfunded Actuarial Liability (FY 1980-93)



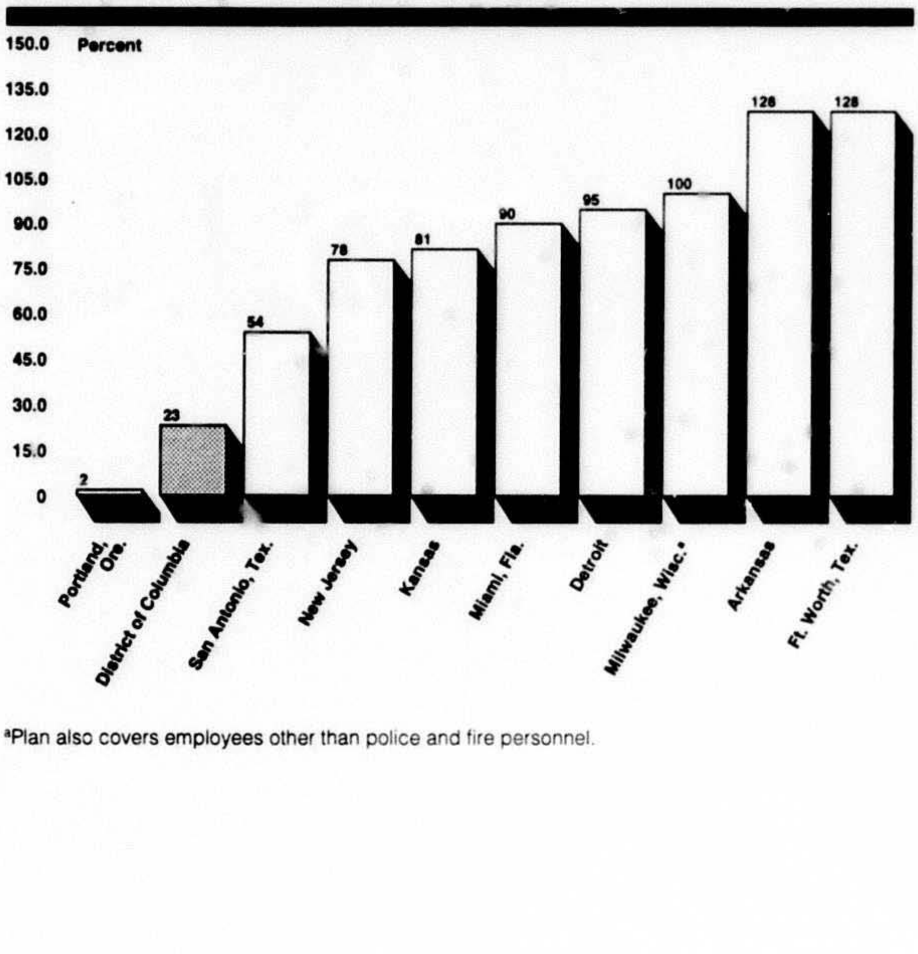
As a resu[illegible] the District is, in effect, paying for benefits earned by current employe[illegible] T[illegible] old liability is increasing, however, because contributions do not f[illegible] [illegible]pensate for lost earnings on the unfunded portion.

If fede[illegible] contributions continue to be less than the net norm[illegible] [illegible]est on the unfunded liability, the unfunded liability will c[illegible] [illegible]ntil 2004; the following year, the act requires the Distri[illegible] equal the net normal cost plus the interest on the unfund[illegible] [illegible]rently estimated by the board's actuary to be $7.7 b[illegible] [illegible] that the net normal cost increases 5 percent per year, and that the unfunded liability will increase as projected by the Board's actuary, the District contribution for 2005 will be about $806 million. If District revenues (not including federal payments and grants) increase by 5 percent per year, this 2005 payment would represent about 15 percent of revenues. By comparison, the 1991 payment represented about 8 percent of revenues.

District Plans Are Not Funded as Completely as Other Public Plans

We compared the funding status of the retirement plans for District police officers and fire fighters, teachers, and judges with similar plans[8] covering workers in these categories. As shown in figures 4 though 6, the percentage of the pension benefit obligation covered by assets in the District plans is smaller than in most of the other plans examined.

Figure 4: Pension Benefit Obligations Covered by Assets for Plans for Police Officers and Firefighters



[a]Plan also covers employees other than police and fire personnel.

[8]Public employees are not universally covered under Social Security. Since participants in the District plans are not covered, we compared the District plans with other plans in which all employees are not covered by Social Security.

Figure 5: Pension Benefit Obligations Covered by Assets for Plans for Teachers

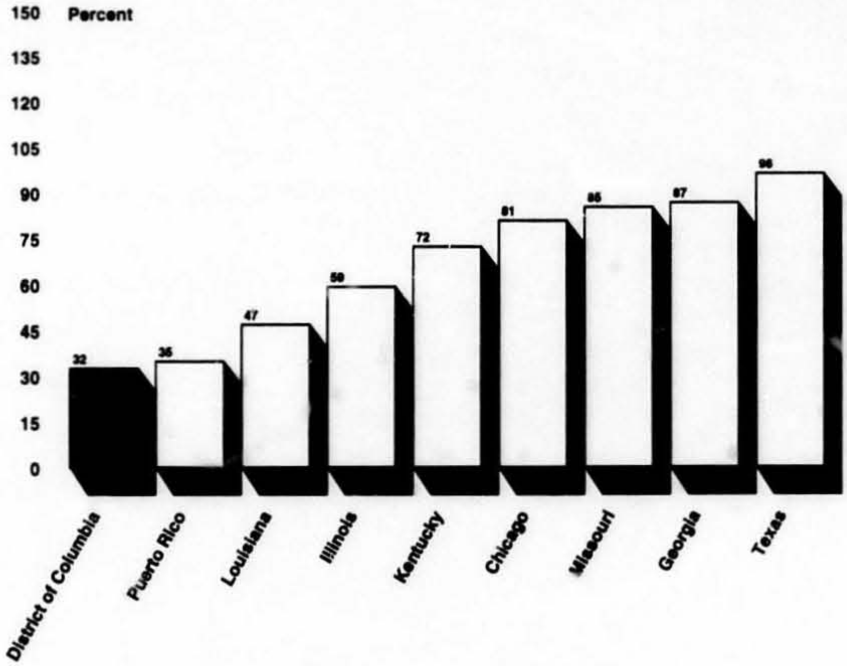
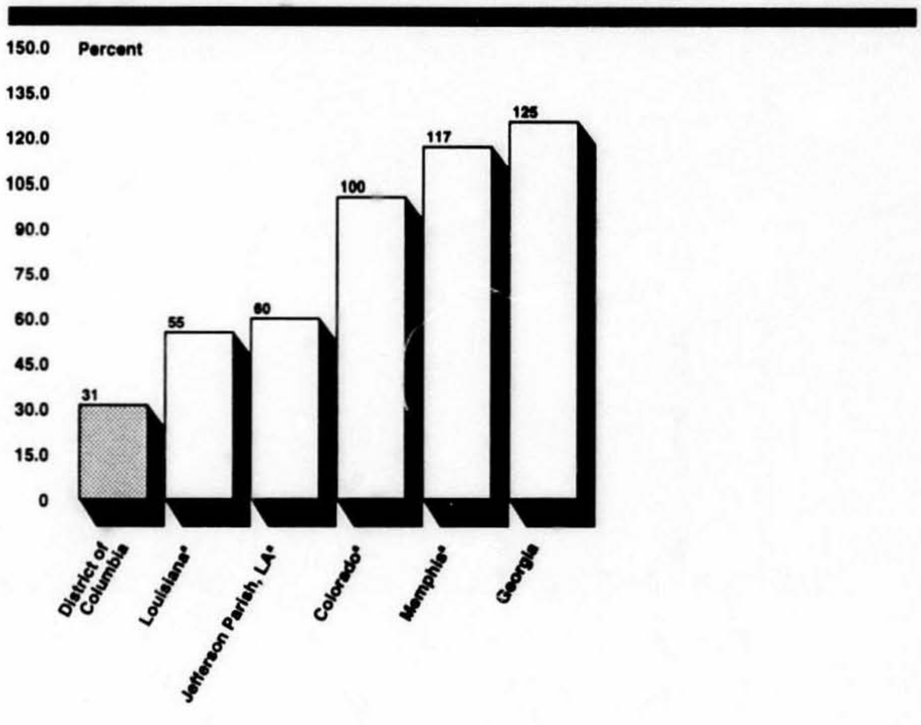


Figure 6: Percent of Pension Benefit Obligations Covered by Assets for Plans for Judges

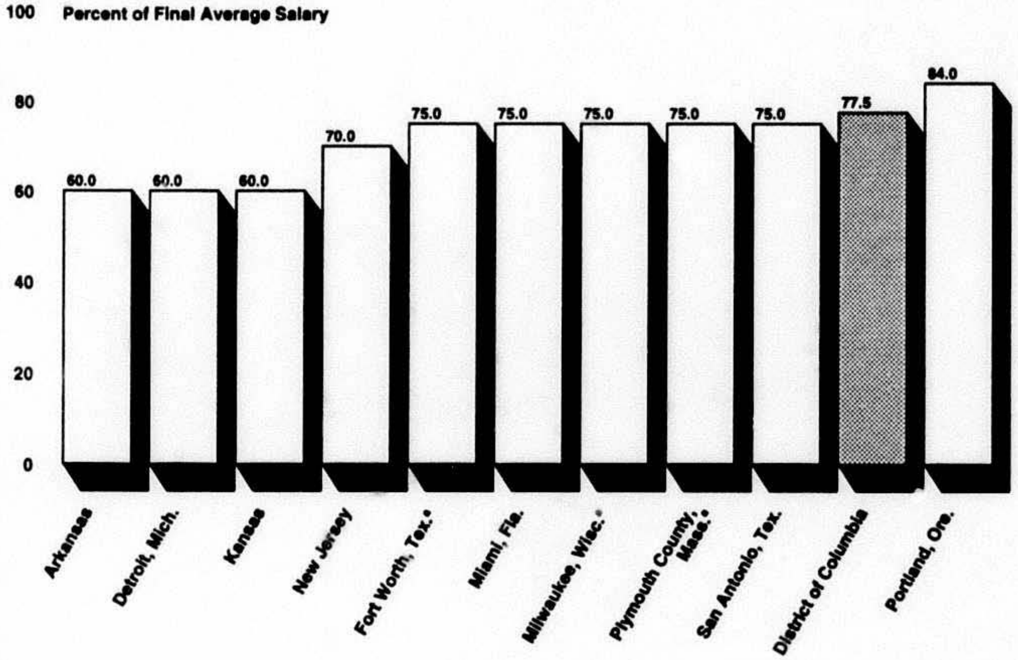


[a]Plan also covers employees other than judges.

Plan Benefits for District Employees Hired Since the Act Are Similar to Those of Other Public Plans

We compared the benefits for District police officers and fire fighters, teachers, and judges with those offered by similar plans that cover workers in these categories who had responded to the Public Pension Coordinating Council's survey of state and local government employee retirement plans. The initial pensions for retirees under the District plans, as measured by the percentage of final average salary on retirement after 30 years of service, are compared with other plans' pensions in figures 7 through 9. Comparisons of other plan features are shown in appendix II.

Figure 7: Comparison of Pension Plan Benefits for Police Officers and Fire Fighters for Normal Retirement With 30 Years of Service



[a]Plan also covers employees other than police and fire personnel.

Figure 8: Comparison of Retirement Plan Benefits for Teachers for Normal Retirement With 30 Years of Service

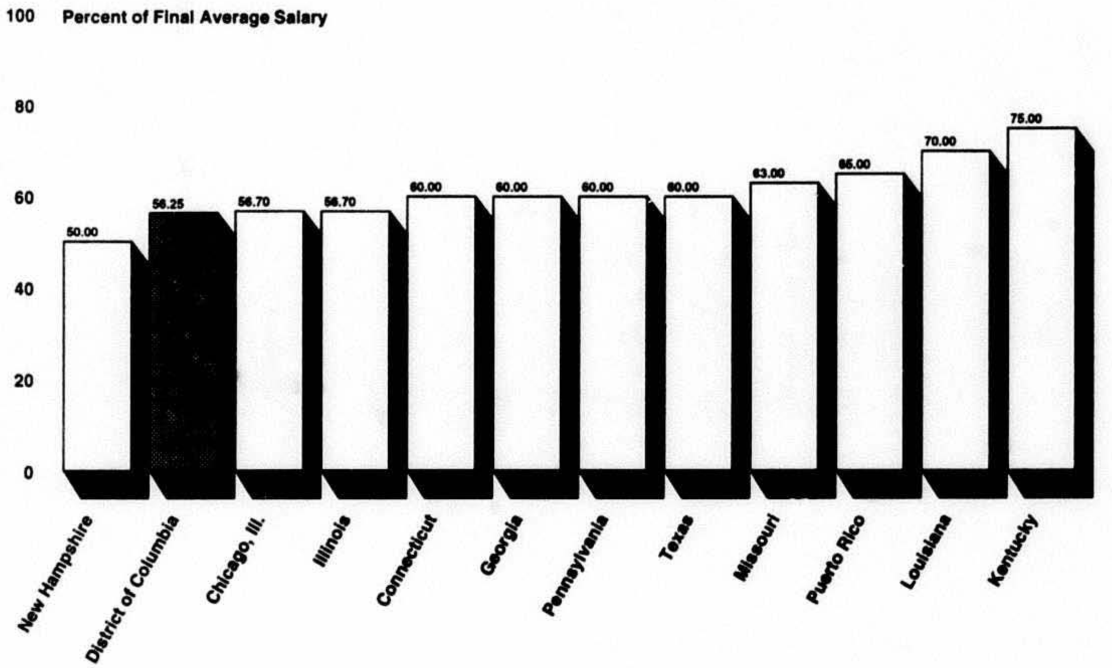
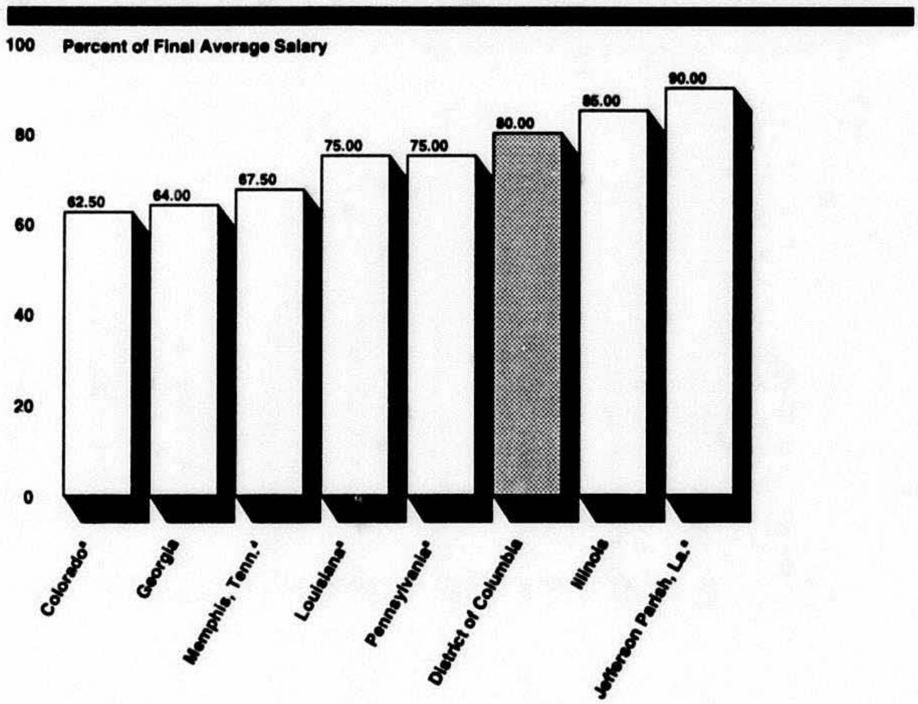


Figure 9: Comparison of Retirement Plan Benefits for Judges for Normal Retirement With 30 Years of Service



[a]Plan also covers employees other than judges.

Unfunded Liability Unaffected by Federal Employees' Participation in the District's Police Officer and Fire Fighter Plan

The federal government reimburses the District, on a pay-as-you-go basis, for pension payments for members of the U.S. Secret Service and U.S. Park Police who participate in the District's retirement plan for police officers and firefighters. In fiscal year 1991, these payments totaled about $40.6 million. In calculating the assets and liabilities for the District plan, pension obligations for federal personnel are not considered. Consequently, these obligations have no impact on the District's unfunded liability.

Agency Comments

On November 5, 1992, the Chief Financial Officer of the District of Columbia provided comments on a draft of this report (see app. III). She stated that our report rightly pointed out that the Congress passed on to the District a $2.0 billion unfunded pension liability in 1979, that the formula mandated by Congress in 1979 does not fund the plans on an actuarially sound basis, and that the primary cause of growth in the unfunded liability is the interest accruing on the original $2.0 billion. Also, she calculated that the current value of the original liability plus accrued interest is $4.8 billion, rather than the $3.7 billion we used. However, her calculations ignore the portion of District payments to the funds that have exceeded the annual net normal cost, and partially offset the growth of the unfunded liability due to interest. Further, the Chief Financial Officer states that annual increases, such as cost-of-living adjustments, can change the comparative level of benefits of different pension plans. We agree. Appendix II includes information on cost-of-living adjustment features of the plans we used for comparison.

On November 13, 1992, the Chairman of the D.C. Retirement Board provided comments on a draft of this report (see app. IV). She stated that the Board's actuary agreed with the reasonableness of most of the analysis and conclusions in the report. However, the actuary stated that the actual initial 1979 unfunded liability was $2.6 billion, rather than the $2.0 billion figure in the report. We believe that, since the District of Columbia Retirement Reform Act provided that the value of the future federal obligation should be considered in determining the unfunded liability, our figure is more appropriate. She also stated that the Board's general counsel felt the report should answer each of the eight questions in your request. On April 28, 1992, when we briefed your office on each of the original questions, it was agreed that not all needed to be addressed in our final report.

We are sending copies of this report to the Mayor of the District of Columbia, the Chairman of the City Council, the Chairman of the Retirement Board, and other interested parties. Please call me at (202) 512-7215 if you or your staff have any questions concerning this report. Major contributors to the report are listed in appendix V.

Joseph F. Delfico

Joseph F. Delfico
Director, Income Security Issues

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Methodology for Selecting Retirement Plans to Compare With the District's

For data on retirement plans to compare with the District's plans, we relied on the results of a survey of state and local government employee retirement plans conducted by the Public Pension Coordinating Council between May and August 1991. The council is composed of four national associations whose members are directly involved in the administration of retirement plans for public employees: the Government Finance Officers Association, the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems, and the National Council on Teacher Retirement. The respondents to the survey represent 73 percent of the 11.7 million active members covered by state and local employee retirement plans in the United States, and 71 percent of the $808 billion in assets held by these plans, the council stated. The respondents also represented all of the major geographic regions and types of covered employees in the United States.

From the survey response data base, we selected three groups of plans for comparison. We limited our selection to plans that reported benefits for employees not covered by Social Security,[1] since employees under the three District plans are not covered. These were:

- 10 plans with more than 1,000 active participants that covered both police officers and fire fighters employed by local governments;[2]
- 9 plans whose participants included elementary and high school teachers; and
- 6 plans whose participants included either state or local judges.

[1]Six plans include both members covered by Social Security and members not covered.

[2]We did not include plans that covered only police officers or only fire fighters.

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Comparison of District Retirement Plans With Selected Public Plans

Table II.1: Comparison of Police Officer and Firefighters' Pension Plan Benefits

	District of Columbia Police & Fire Retirement Plan	Detroit Police and Fire Retirement System	Plymouth County, MA, Retirement System
Age and service requirements for normal retirement			
Years of service			
5	55	NA	NA
10	55	40	55
15	55	40	55
20	55	40	0
25	50	40	0
30	50	40	0
Final salary computed as average of	Highest 36 months	Other	Highest 36 months
Annual benefit formula			
First 10 years	2.50%	2.00%	2.50%
Next 10 years	2.50%	2.00%	2.50%
Next 10 years	2.75%[a]	2.00%	2.50%
Accumulated benefit earned at normal retirement			
Years of service			
30	77.50%	60.00%	75.00%
20	50.00%	40.00%	50.00%
10	25.00%	20.00%	25.00%
5	12.50%	10.00%	0.00%
Does plan provide cost-of-living adjustments?	Yes	No	Yes
Most recent year provided	1991	-	1988
Average annual increases			
Last year	4.2%[b]	-	NA
Last 5 years	4.4%[b]	-	3.00%
Last 10 years	4.0%[b]	-	5.00%
Vesting requirements	5 years	8 Years	10 years
Employee contribution rate	7.00%	3.40%	8.00%

Arkansas Local Police and Fire Retirement Plan	Portland Fire and Police Disability and Retirement Fund	New Jersey Police and Firemen's Retirement System	San Antonio Fire and Police Plan	Milwaukee Employees' Retirement System	Miami Police and Fire Retirement Plan	Fort Worth Employees' Retirement Fund	Kansas Police and Fire Retirement System
NA	NA	NA	NR	60	NA	65	NA
60	NR	55	NR	60	50	65	NA
60	NR	55	NR	60	50	65	60
55	NR	55	0	60	50	60	55
55	50	0	0	60	50	55	50
55	NR	0	0	60	50	50	50
Highest 60 months	Last year's salary	Highest 36 months	Other	Highest 36 months	Last 24 months	Highest 60 months	Last 36 months
2.00%	2.60%	2.00%	2.00%	2.50%	2.50%	2.50%	2.00%
2.00%	2.60%	2.00%	2.00%	2.50%	2.50%	2.50%	2.00%
2.00%	2.60%	2.00%	3.50%	2.50%	2.50%	2.50%	2.00%
60.00%	84.00%	70.00%	75.00%	75.00%	75.00%	75.00%	60.00%
40.00%	56.00%	40.00%	40.00%	50.00%	50.00%	50.00%	40.00%
20.00%	28.00%	20.00%	NA	25.00%	25.00%	25.00%	NA
NA	14.00%	10.00%	NA	12.50%	12.50%	12.50%	NA
Yes	Yes	Yes	Yes	No	Yes	Yes	No
1990	1991	1991	1991	-	1991	1991	-
NR	2.00%	NR	6.00%	-	NR	2.00%	-
NR	4.00%	NR	4.00%	-	NR	2.00%	-
NR	3.50%	NR	4.50%	-	NR	2.00%	-
10 years	5 years	10 years	20 years	4 years	10 years	5 years	15 years
6.00%	0.00%	9.33%	10.50%	5.50%	10.50%	5.67%	7.00%

Note: "NA" means not applicable. "NR" means that plan did not provide the information.

[a]Rate is 2.5% up to 25 years and 3% over 25 years.

[b]Increase is based on consumer price index. Numbers are historical increase in index, not actual increases paid.

Table II.2: Comparison of Teachers' Pension Plan Benefits

	District of Columbia Teachers Plan	Teachers' Retirement System of Louisiana	Connecticut Teachers' Retirement System
Age and service requirements for normal retirement			
Years of service			
5	62	NA	NA
10	62	60	60
15	62	60	60
20	60	60	60
25	60	55	60
30	55	0	60
Final salary computed as average of	High 3 years	Highest 36 months	Highest 36 months
Annual benefit formula			
First 10 years	1.63%[a]	2.00%	2.00%
Next 10 years	2.00%	2.00%	2.00%
Next 10 years	2.00%	2.50%	2.00%
Accumulated benefit earned at normal retirement			
Years of service			
30	56.25%	70.00%	60.00%
20	36.25%	40.00%	40.00%
10	16.25%	20.00%	20.00%
5	7.50%	10.00%	0.00%
Does plan provide cost-of-living adjustments?	Yes	No	Yes
Most recent year provided	1991	-	1991
Average annual increases			
Last year	4.2%[b]	-	4.30%
Last 5 years	4.4%[b]	-	4.00%
Last 10 years	4.0%[b]	-	4.00%
Vesting requirements	5 years	10 years	10 years
Employee contribution rate	7.00%	8.00%	5.00%

Teachers' Retirement System of Illinois	Public School Retirement System of Missouri	Teachers' Retirement System of Texas	Kentucky Teachers' Retirement System	Public School Teachers' Pension and Retirement Fund of Chicago	Teachers' Retirement System of Georgia	Teachers' Retirement Board of Puerto Rico
62	NR	65	60	62	NA	NA
60	NR	65	60	62	62	60
60	NR	65	60	62	62	60
55	NR	60	60	60	62	60
NR	55	60	60	60	62	55
NR	0	55	0	60	0	0
Other	Highest 60 months	Highest 36 months	Highest 60 months	Highest 40 months	Highest 24 months	Highest 36 months
1.67%	2.10%	2.00%	2.50%	1.67%	2.00%	1.80%
1.90%	2.10%	2.00%	2.50%	1.90%	2.00%	1.80%
2.10%	2.10%	2.00%	2.50%	2.10%	2.00%	0.65%
56.70%	63.00%	60.00%	75.00%	56.70%	60.00%	65.00%
35.70%	42.00%	40.00%	50.00%	35.70%	40.00%	36.00%
16.70%	21.00%	20.00%	25.00%	16.70%	20.00%	18.00%
8.35%	10.50%	10.00%	12.50%	8.35%	NA	NA
No	Yes	No	Yes	Yes	Yes	No
-	1991	-	1990	1991	1991	-
-	4.00%	-	4.50%	3.00%	3.02%	-
-	3.48%	-	3.50%	3.00%	3.02%	-
-	3.57%	-	3.50%	3.00%	3.02%	-
5 years	5 years	5 years	5 years	5 years	10 years	10 years
8.00%	10.00%	6.40%	9.18%	7.90%	6.00%	7.00%

Note: "NA" means not applicable. "NR" means that plan did not provide the information.

[a]Rate is 1.5% up to 5 years plus 1.75% between 5 and 10 years.

[b]Increase is based on consumer price index. Numbers are historical increase in index, not actual increases paid.

Table II.3: Comparison of Judges' Pension Benefits

	District of Columbia Judges' Retirement Plan	Illinois Judges' Retirement System	Jefferson Parish Employees' Retirement Plan	Employees' Retirement System of Georgia - Trial Judges	Louisiana State Employees' Retirement System	Public Employees' Retirement System of Colorado	City of Memphis Retirement Plan
Age and service requirements for normal retirement							
Years of service							
5	70	NA	NA	NA	NR	65	NA
10	60	60	60	60	60	65	65
15	60	60	60	NR	NR	65	65
20	50	60	60	NR	NR	60	65
25	50	60	50	NR	55	60	62
30	50	60	0	NR	0	55	60
Final salary compu.ed as average of	At retirement	Last year's salary	Highest 36 months	Last 24 months	Highest 36 months	Highest 36 months	Highest 36 months
Annual benefit formula							
First 10 years	3.33%	3.50%	3.00%	4.00%	2.50%	2.50%	2.50%
Next 10 years	3.33%	5.00%	3.00%	4.00%	2.50%	2.50%	2.50%
Next 10 years	3.33%	5.00%	3.00%	4.00%	2.50%	1.25%	1.75%
Accumulated benefit earned at normal retirement							
Years of service							
30	80.00%	85.00%	90.00%	64.00%	75.00%	62.50%	67.50%
20	66.67%	85.00%	60.00%	64.00%	50.00%	50.00%	50.00%
10	33.33%	35.00%	30.00%	40.00%	25.00%	25.00%	22.50%
5	16.67%	NA	0.00%	0.00%	0.00%	12.50%	12.50%
Does plan provide cost-of-living adjustments?	Yes	Yes	No	No	No	Yes	No
Most recent year provided	1991	1991	-	-	-	1990	-
Average annual increases							
Last year	4.2%[a]	3.00%	-	-	-	5.40%	-
Last five years	4.4%[a]	3.00%	-	-	-	4.00%	-
Last 10 years	4.0%[a]	3.00%	-	-	-	5.40%	-
Vesting requirements	10 years	10 years	10 years	10 years	NR	5 years	10 years
Employee contribution	3.50%	11.00%	0.48%	7.50%	7.50%	8.00%	8.00%

Note: "NA" means not applicable. "NR" means that plan did not provide the information.

[a]Increase is based on consumer price index (CPI). Numbers are historical increase in CPI, not actual increases paid.

Comments From the Government of the District of Columbia

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPUTY MAYOR FOR FINANCE

1350 Pennsylvania Avenue, N.W. — Room 423
Washington, D.C. 20004

NOV 5 1992

Joseph F. Delfico
Director, Income Security Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Delfico:

Thank you for the opportunity to comment on your draft report entitled District Pensions: Billions of Dollars in Liability Not Funded.

The report rightly points out that:

(a) The Congress passed on to the District a $2.0 billion unfunded pension liability in 1979, when it transferred responsibility for administering the pension funds to the District;

(b) The funding formula mandated by the Congress in 1979 does not fund the pension plans on an actuarially sound basis, which will permit the liability to grow to an estimated $7.7 billion by 2005; and

(c) The primary cause of growth in the unfunded liability is due to interest accruing on the original $2.0 billion of unfunded liability transferred to the District by the federal government.

Our specific comments on the report are as follows:

Pages 10-11, Original Liability Increased By Interest

Following the methodology used in the Rivlin Report, we calculate that the original $2.0 billion unfunded liability increased by interest through September 30, 1992 would equal $4.8 billion of the total estimated liability of $4.9 billion. Exhibit 6A of the Rivlin Report working papers on pensions is enclosed, which illustrates the approach their actuary used in making this calculation through September 30, 1990. This result would mean that 97.5 percent of the liability is due to the original liability plus accrued interest.

Page 2; Appendix II. District Plan Benefits Compared to Other Plans

The "accumulated benefit earned at normal retirement" measures only the beginning value of the annual retirement payment to beneficiaries. Annual increases, such as cost of living adjustments, can change the comparative level of benefits substantially thereafter. A more comprehensive survey of benefits would be needed to compare the effects of the District's twice-per-year, uncapped cost of living adjustment with the annual increases of other plans.

Should you have any questions about these comments, we would be happy to discuss them with you.

Sincerely,

Ellen M. O'Connor

Ellen M. O'Connor
Chief Financial Officer

Enclosure

EXHIBIT 6A

DISTRICT OF COLUMBIA

Redetermination of Federal Obligation
Based on Unfunded Liability
at October 1, 1979
(millions of dollars)

	Teachers	Police/Fire	Judges	Total
(1) Unfunded Actuarial Accrued Liability at October 1, 1979	$ 933.5	$1702.2	$16.8	$2652.5
(2) 1979 Unfunded Liability Plus Interest to September 30, 1990	1964.9	3582.9	35.4	5583.2
(3) Scheduled Federal Contributions Plus Interest to September 30, 1990	298.6	577.1	3.7	879.4
(4) Unfunded Liability at September 30, 1990 Attributable to Initial Deficiency (2) - (3)	1666.3	3005.8	31.7	4703.3
(5) Federal Obligation at September 30, 1990 on Present Basis	165.4	319.8	2.1	487.3
(6) Potential Additional Federal Obligation (4) - (5)	1500.9	2686.0	29.6	4216.5

All calculations are based on an interest rate of 7%, assuming payment of the Federal contribution at the beginning of the fiscal year.

Comments From the District of Columbia Retirement Board

D.C. RETIREMENT BOARD
1400 L Street, N.W.
Suite 300
Washington, D.C. 20005
(202) 535-1271
FAX (202) 535-1414

November 13, 1992

DELIVERY BY HAND

Mr. Joseph F. Delfico
Director, Income Security Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Delfico:

This is in response to your request for review and comment on the draft report entitled District Pensions: Billions of Dollars in Liability Not Funded issued by your organization.

Subsequent to your request, your representative Mr. Robert D. Sampson, Evaluator-in-Charge, meet with the Board's enrolled actuary, Mr. Gene Kalwarski, and the Board's Acting Manager/Assistant Executive Director for Benefits, Mr. Jorge Morales to discuss the report. The report was reviewed by these individuals as well as the Board's General Counsel.

The report is principally an analysis of the Board's actuarial valuations since its inception. It primarily focuses on reporting historical events. The comments we have on the report are minimal. Our comments are as follows:

- The Board's current actuary has informed us that the actual initial 1979 unfunded liability is $2.6 billion rather than the $2.0 billion figure referenced in the report.

- The Board's current actuary has opined that the conclusions reached in the report are reasonable.

- The Board's current actuary has opined that the report's analysis of what portion of today's unfunded liability is attributable to interest since 1979 versus actual losses is correct.

Mr. Joseph F. Delfico
US General Accounting Office
November 13, 1992
Page 2

- The report is a response to a November 13, 1991 request from the Chairman and the Ranking Minority Member, Subcommittee on Federal Resources, Post Office and Civil Service, Senate Committee on Governmental Affairs. The request set forths eight (8) very specific questions. The report appears to directly respond to some by not all of the questions presented. From a procedural and organizational stand point, the General Counsel has opined that the report should specifically respond to each question posed in the November 13, 1991.

If you have questions or need additional information, please do not hesitate to contact the Board's office.

Sincerely,

for James E Brown

Rose H. Elder
Chairman

Major Contributors to This Report

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