



Results in Brief

OIG 23-01
July 28, 2022

Audit of WMATA's Defined Benefit Pension Plans

Why We Did This Review

In Fiscal Year (FY) 2019, the Washington Metropolitan Area Transit Authority (WMATA) had a net pension liability or underfunded status of \$837 million. The total pension liability was \$5.1 billion, which was one of WMATA's most significant liabilities.

In FY 2019, WMATA's labor and fringe benefit expense totaled \$1.3 billion, or 41.5 percent of all operating expenses for the year. From the total labor and fringe benefit expense, WMATA employer and employee contributions for the five Defined Benefit (DB) pension plans totaled \$186 million, or 14 percent of total labor and fringe benefit expense. This is a significant expense, and if it continues to increase, it will burden WMATA and the riders and taxpayers who subsidize the system.

The audit objectives were to determine whether WMATA's DB pension plans were adequately managed and to examine alternative pension plans.

What We Found

WMATA's DB pension plans were not adequately managed, and alternatives were not fully pursued. Specifically, improvements are needed in governance of the pension plans and examining alternative retirement plans for new employees.

These conditions resulted because: (1) the plans' trustees believed the existing documents were sufficient enough to govern the plans, (2) internal control provisions were not detailed in the WMATA-union collective bargaining agreements (CBAs) or plans, and (3) the plans lacked clear governance policies and procedures. Another contributing cause to the conditions included a failure to consider alternative plans for new hires.

Without adequately managing pension plans and pursuing alternatives, WMATA cannot ensure optimal pension plan performance. Without change, the underfunded status of the pension plans totaling \$837 million could increase in the future and potentially make the pension plans unsustainable and severely impact retiree benefits.

Scope Limitations: The plan trustees and administrators did not provide the Office of Inspector General (OIG) access to 26 investment service agreements or full member participants listings. These restrictions on access to records prevented OIG from being able to fully meet Objective 1. Notwithstanding the scope limitations, OIG believes the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives. This limitation had no material impact on findings and conclusions given the magnitude of the pension program (See discussion of Scope Limitations in Appendix A).

Management's Response

WMATA's Executive Vice President, Internal Business Operations (EVP-IBOP) provided written comments (Appendix E). The EVP-IBOP agreed with the findings and recommendations and provided a completion date of 2024. OIG considers management's comments responsive to the recommendations, and the actions taken or planned should correct the deficiencies identified in the report. OIG will follow up during the Corrective Action Plan process on progress of recommendations based on the outcome of collective bargaining negotiations in 2024.

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ABBREVIATIONS AND ACRONYMS

ABBREVIATION	DESCRIPTION
CBA	Collective Bargaining Agreement
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DB	Defined Benefit
DC	Defined Contribution
DOL	U.S. Department of Labor
EVP-IBOP	Executive Vice President, Internal Business Operations
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GM/CEO	General Manager/Chief Executive Officer
HRCB	Human Resources Compensation & Benefits
L2	Union Local 2
L689	Union Local 689
L922	Union Local 922
OIG	Office of Inspector General
NRP	Non-Represented
PEP	Pension Equity Plan
WMATA	Washington Metropolitan Area Transit Authority

BACKGROUND

What pension plan program does WMATA have?

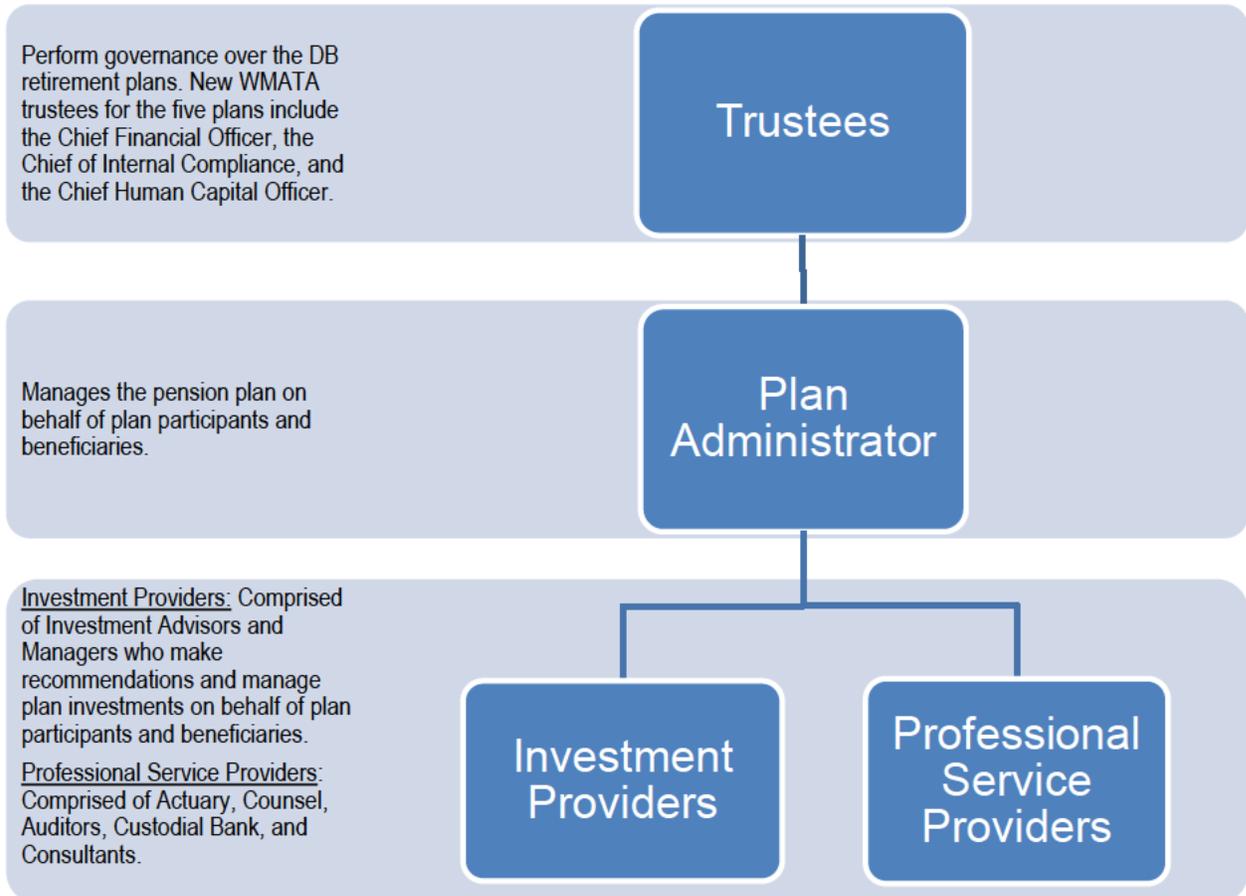
WMATA participates in five single-employer traditional DB plans each of which is governed by a separate group of trustees responsible for administering the plans. As of FY 2019, WMATA's five DB pension plans collectively had a net pension liability, or "underfunded" status, of \$837 million. The total pension liability was \$5.1 billion. The characteristics of the DB pension plans are shown in Appendix B.

Who are the key stakeholders in WMATA's Five DB Pension Plans?

WMATA, unions, and professional consultants play a role in each of WMATA's five DB pension plans. Trustees are selected by both WMATA management and the respective unions. Key roles are described in the diagram below. The stakeholders and descriptions of their roles are shown in Appendix C.

Diagram 1 – Key Stakeholders - WMATA's Five DB Pension Plans:

OIG conducted the audit based on pension cost concerns. During OIG Annual Planning for FY 2020, the General Manager/Chief Executive Officer (GM/CEO) sent a letter to the Chairmen of each DB pension plan about potentially saving \$10 million on administrative costs by consolidating fund management. During OIG Annual Planning for FY 2022, a WMATA



management official stressed the urgency of preparing a pension and overtime analysis that could provide context on the magnitude of the cost drivers to WMATA's Board of Directors. OIG also cites a Metro Arbitration Board Member's concern about overtime cost for pension plans as he stated, "Metro did not examine the 'unlimited credit' for overtime hours worked and other cost drivers of WMATA's pension plans." Overtime hours will be addressed in a separate OIG report.

What is a DB pension plan?

According to the United States Department of Labor (DOL), a pension plan is an employee benefit plan established or maintained by an employer or by an employee organization (such as a union), or both. A pension plan provides retirement income or defers income until termination of covered employment or beyond. There are several types of retirement plans, including the 401(k) plan (defined contribution (DC) plan) and the traditional pension plan, known as a DB plan.

There are three types of DB pension plans:

- **Traditional DB pension plan:** This DB plan promises a specified monthly benefit at retirement. The plan may state this promised benefit as an exact dollar amount or, more commonly, it may calculate a benefit through a plan formula that considers such factors as salary and years-of-service.
- **Cash balance DB pension plan:** A cash balance plan defines the promised benefit in terms of a stated account balance. The participant's account is credited each year with a "pay credit" (such as 5 percent of compensation from his or her employer) and an "interest credit" (either a fixed rate or a variable rate that is linked to an index such as the one-year treasury bill rate). Increases and decreases in the value of the plan's investments do not directly affect the benefit amounts promised to participants. Thus, the investment risks and rewards on plan assets are borne solely by the employer. When a participant becomes entitled to receive benefits under a cash balance plan, the benefits that are received are defined in terms of an account balance.
- **Hybrid Pension Equity Plan (PEP):** A PEP is a type of hybrid pension plan under which the benefit is expressed as a lump sum amount rather than as an annuity payable at normal retirement age. Under a PEP formula, the benefit is usually defined as a percentage of a participant's final average pay. The percentage typically accumulates over a participant's career according to an annual schedule based on a participant's age or years-of-service. A PEP generally provides for interest on a participant's accumulated benefit.

AUDIT OBJECTIVES AND RESULTS

Audit Objectives

The audit objectives were to determine whether WMATA's DB pension plans were adequately managed and to examine alternative pension plans.

Audit Results

FINDINGS AND RECOMMENDATIONS

Finding 1 – Comprehensive Pension Plan Governance Program Needed

WMATA has not implemented a comprehensive governance program to administer the five DB pension plans. WMATA developed a detailed risk assessment across the five DB pension plans. However, other critical governance and control requirements were not implemented. This condition occurred because: (1) the trustees believed the five DB pension plan documents were sufficient for governance and (2) WMATA did not have provisions in the plans or CBAs with the unions to establish internal controls. As a result, WMATA: (1) cannot ensure optimal pension plan performance, (2) cannot monitor plans against investment objectives, (3) cannot opine on investment fund manager fee payments without having all investment fund manager service agreements, (4) cannot ensure the performance of fiduciary duties and procedures, and (5) may have difficulties in attesting to the accuracy of information.

What is Required

Pension plan governance refers to the system used to organize the roles and responsibilities of all persons in respect of a pension plan. In general, good governance promotes the timely and cost-effective delivery of benefits and, at the same time, promotes the administration of the plan in the best interests of the plan members and beneficiaries.

According to frameworks for internal control articulated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)¹ and the United States Government Accountability Office (GAO),² management should perform the following:

- **Framework:** Establish the organizational structure necessary to enable the entity to plan, execute, control, and assess the organization in achieving its objectives.
- **Roles and Responsibilities:** Establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.

¹ COSO, Internal Control — Integrated Framework (2013), <https://www.coso.org/pages/ic.aspx>.

² GAO, Standards for Internal Control in the Federal Government, GAO-14-704G (September 2014), <https://www.gao.gov/assets/gao-14-704g.pdf>.

- **Internal Control Documentation and Communication:** Develop and maintain documentation of its internal control system. Management should internally communicate the necessary quality information to achieve the entity's objectives.
- **Data Quality:** Management should use quality information to achieve the entity's objectives, which include relevant data from reliable sources, and data processed into quality information.
- **Risk Assessment:** Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

According to pension plan governance best practices,³ which align with COSO and the GAO internal control frameworks, plan administrators should:

- **Framework:** Establish and document a governance framework for the administration of the plan.
- **Roles and Responsibilities:** Clearly describe and document the roles, responsibilities, and accountabilities of all participants in the pension plan governance process.
- **Governance Information and Communication:** Establish and document a process to obtain and provide to governance participants appropriate information to meet fiduciary and other responsibilities.
- **Managing Plan Data:** Once a year (annually), work with DB pension plan service provider to help make sure participant files are accurate including reviewing and updating employment data.

Investment Fee Guidelines for External Management of DB Pension Plans

According to investment fee best practices, to increase net investment returns, DB pension plans should "... adopt an investment management fee policy that will allow them to negotiate competitive fees. Staff responsibilities should include fee negotiation, reporting on the status of negotiations and fees in accordance with plan trustee policy."⁴

WMATA Records Management - Legal Pension Files

According to WMATA's Records Management Manual (1992), "legal pension files" must be kept in the office until the purpose has been served, then transferred to WMATA's Records Center. They must be retained for five years at the Records Center, then destroyed unless a different destruction date is specified by WMATA Counsel. Legal pension files include "correspondence, reports, investment search reports, investment manager reports, contracts, and other documents for WMATA Retirement Plans and its Retirement Committee, Transit Employee Retirement Plan, WMATA Transit Police Retirement Plan, WMATA/Local 922 Retirement Plan, and Transit Employees Health and Welfare Plan."

³ Canadian Association of Pension Supervisory Authorities (CAPSA) – Pension Plan Governance Guidance: Is guidance that contains pension plan best practices.

⁴ Government Finance Officers Association (GFOA) – Investment Fee Guidelines for External Management of Defined Benefit Plans: Is guidance that contains investment fee policy guidance.

What We Found

WMATA has not implemented a comprehensive governance program to administer the five DB pension plans. WMATA has identified and developed a partially implemented risk assessment across the five DB pension plans. However, other critical governance and control requirements were not implemented - see Table 1.

Table 1 - Status of the Pension Plan Governance Program

Governance Program Requirements	Partially Implemented	Not Implemented
Internal controls		
1. Internal Control Framework		X
2. Risk Assessment ⁵	X	
3. Pension Plan Administration Standard Operating Procedure – including an audit clause*		X
4. Roles and Responsibilities Defined		X
5. Trainings to Establish Expectations of Competence		X
6. Data Management Plan including accurate member participant listings		X
7. Quality Assurance Function/ Monitoring Activities		X
8. Pension File Retention Capability (e.g., for Investment Fund Manager Agreements)		X
Policies and Agreements		
9. Investment Management Fee Policy**		X***
10. Investment Fund Manager Service Agreements for 2 of 5 pension plans.	X***	

* OIG is aware of the trustee process of reviewing investment performance reports and of it being a component of the end-to-end process of pension plan administration, however, OIG did not find evidence of a policy for this function.

** OIG is aware the DB pension plans each have an investment policy, but OIG did not find evidence of an investment management fee policy addressing competitive pricing and discounts.

*** These were not provided in full by either WMATA's Human Resources Compensation & Benefits (HRCB) group or the Plan trustees.

Scope Limitations

Based on email correspondence with Local Union 689 (L689) and Local Union 922 (L922) pension plans, the trustees decided not to provide 26 investment fund manager service agreements. The trustees also did not provide accurate member participants listings for L689, L922, and Transit Police. Although these documents were not provided or were inaccurate at the time of the audit, OIG added Recommendation 4 to alleviate the issue. Furthermore, OIG deems not providing available documentation unacceptable and added Recommendation 5 to prevent reoccurrence in the future. OIG will also work with management and conduct future work to ensure access to documents we are entitled to receive. (See Recommendation 4 and 5 as well as the Scope Limitations section in Appendix A).

⁵ In GAO Report (GAO-18-643), *WMATA - Assessing Fiscal Risks and Improving Workforce Management Would Help Achieve Strategic Goals*, GAO recommended that WMATA perform a comprehensive assessment of fiscal risks for pensions. WMATA provided a risk assessment to OIG as evidence the GAO recommendation was partially implemented.

Why This Occurred

Trustees Have not Established a Governance Program – The trustees believed the five DB pension plan documents were sufficient to govern the plans. HRCB has not established policies and procedures for managing the plans.

Internal Controls Not Required by CBAs or Union Plans – The CBAs and DB pension plans did not include provisions requiring WMATA and union management to establish oversight and internal controls.

OIG recognizes that the DB pension plans were created and are governed by CBAs between WMATA and the unions. The plans and their governance provisions are therefore a result of negotiations. WMATA does not have the unilateral ability to correct all the governance deficiencies identified in this report. Comprehensive corrective action will require cooperation by the unions.

Why This Is Important

Without a comprehensive governance program, WMATA: (1) cannot ensure optimal pension plan performance, (2) may jeopardize millions of dollars, and (3) cannot monitor plans against investment objectives.

In addition, without a governance program, WMATA:

- Cannot opine on investment fund manager fee payments without having all investment service agreements. Yet the fee schedules and investment service agreements are the basis for paying invoices submitted on behalf of fund managers.
- Cannot ensure fiduciary duties and procedures are being performed. This would include calculating benefit payments and continuously monitoring changes to benefit payments and annually updating ratios and dollar amounts (social security breakpoint) of the pension benefit payment calculation.
- Cannot ensure it is paying only amounts it is obligated to pay due to inaccurate and incomplete participants listings for WMATA's five DB pension plans.

Moreover, the economic reverberations of a global pandemic raise questions about retirement savings. A governance program is of paramount importance as pension plan administrators will be expected to uphold their fiduciary responsibilities if widespread losses across global financial markets negatively impact retirement funds.

Recommendations

We recommend the GM/CEO in concert with the trustees and unions:

1. Develop and implement a comprehensive pension plan governance program for the five DB pension plans incorporating the internal control requirements stated above, which align with industry best practices.
2. Document, develop, and adopt a management fee policy for WMATA's five DB pension plans.
3. Add provisions to the five DB pension plans or union agreements to establish proper governance and internal controls with specific requirements.
4. Obtain, review, and reconcile 26 investment service agreements to the fee schedules and provide OIG with management's reconciliation.
5. At the next CBA negotiations with L689, L922, and Transit Police, add provisions to the CBA agreements giving OIG the right to obtain and review any and all documents, information and data in connection with plan activity.

Finding 2 - Cash Balance/Hybrid Pension Plans Could Reduce Costs

While a consultant suggested a DC pension plan design change in December 2018, there was no evidence that WMATA, the unions, or the trustees examined alternative retirement plans. OIG recognizes that the current plans are stipulated by applicable CBAs. Nevertheless, considering the concerns identified in this report, the trustees, the unions, and WMATA management should investigate alternative pension plan designs that may have better prospects for long-term sustainability than the current plans. Plan alternatives were not considered because WMATA did not conduct and present, nor did the unions or trustees consider an analysis of alternatives for these plans. Accordingly, the DB pension plans continue in place as the costliest option. Moreover, the underfunded liability of the five DB pension plans totaling \$837 million in FY 2019 could increase and potentially make the pension plans unsustainable in the future and severely impact retiree benefits.

What is Required

Urban Institute⁶ – How States and Local Governments Address “Unfunded” Status

According to the Urban Institute, all states have enacted major changes to their public pension systems to reduce costs in recent years. Among the most frequent reforms are:

- **Hybrid DB and DC plans:** Some governments have moved new employees into DC plans, or hybrid plans combining aspects of both DB and DC plans, in part because DC plans shift risk from employers to employees.
- **Modifications to pension plan factors:** State and local governments have reduced pension plan costs through reduced benefit levels (reduced benefit payments), longer vesting periods, increased age and service requirements, limited cost-of-living adjustments, and employee contributions.

What We Found

Lack of Hybrid DB and DC Pension Plan Alternative

While a WMATA benefits consultant suggested a DC pension plan design change in December 2018, there was no evidence that WMATA, the unions, or the plan trustees examined alternative retirement plans. Alternative retirement plans such as a cash balance pension plan or a DB and DC hybrid pension plan combine elements of a reduced DB pension with an individually directed DC account. OIG recognizes that the current plans are stipulated by applicable CBAs.

⁶ Urban Institute is a Washington, DC based non-profit organization that conducts economic and scientific policy research (www.urban.org).

The following are the benefits of a cash balance pension plan when compared to a DB pension plan:

- **Pension benefit using final years versus all working years:** While traditional pension benefits tend to be based on a participant's final working years, when salary generally peaks, cash-balance benefits are based on all working years, including those when earnings were lowest.
- **Interest rate sensitivity:** The value of the liabilities in a traditional DB plan fluctuate dramatically with interest rates whereas the liabilities in a cash balance plan only move slightly when interest rates change.
- **The maximum contribution allowance is higher:** Cash balance plans allow participants to contribute significantly higher amounts than can be contributed to traditional DC plans.

The following are the benefits of a combination DB and DC hybrid pension plan when compared to a DB pension plan:

- **More investment options:** The DC component gives the employer the ability to invest a portion of total funds over a longer horizon (i.e., greater than any one individual can invest in a DC account), taking advantage of more investment options, increased buying power, and potential for greater returns, while continuing to provide a base level of income in retirement that is guaranteed and less susceptible to market conditions.
- **Hybrid plans are more predictable than those of DB-only plans:** The DB portion of the hybrid plan is smaller and employer contributions for the DC portion are predetermined and do not fluctuate with the market. As a result, employers are better able to manage budgets and are less likely to fall short on contributions, therefore reducing the potential for unfunded pension liabilities.
- **Hybrid plan's combination of DB and DC allows all employees to build retirement savings:** Participants who retire from organizations will receive income from the plan, especially from the DB, and workers who change jobs benefit from the savings in the DC plan.
- **Increased flexibility and choice:** Hybrid plans provide members increased flexibility and choice. Some plans allow members to tailor their pension to meet their personal expectations for career duration and retirement age.
- **Shared investment risks:** The DC component of hybrid plans include the employee sharing investment risk, while providing individuals with the option to control their asset portfolio according to their own risk appetite and investment preferences.
- **Recruitment and retention of employees:** The DB component of the hybrid plan may be a key contributor to favorable recruitment and retention of some employees. At the same time, the portability feature of the DC component may be attractive to others.

Why This Occurred

Plan alternatives were not considered because WMATA did not conduct and present, nor did the unions or the trustees consider, an analysis of alternatives for these plans.

Why This Is Important

WMATA continues to fund the more costly DB pension plans. With a traditional pension plan, WMATA assumes most of the risk of funding the plan, rather than shifting some risk to the employee. With a cash balance pension plan, the organization would no longer be obligated to the employee after retirement but would provide a lump-sum amount to the employee at retirement.

Due to the net pension liability, it is paramount that WMATA, the trustees, and the unions consider these plan alternatives for negotiations. As of FY 2019, collectively WMATA's five DB pension plans have a net pension liability or "underfunded" status of \$837 million. The total pension liability was \$5.1 billion. Without change, the underfunded status of the five DB pension plans could increase in the future and potentially make the pension plans unsustainable and severely impact retiree benefits.

Recommendation

We recommend the GM/CEO in concert with the trustees and unions:

6. Examine cash balances and defined benefit/defined contribution hybrid pension plan alternatives in comparison to DB pension plans to determine the best plan based on WMATA's retirement benefit objectives and provide OIG with the results of comparisons and examination.

SUMMARY OF MANAGEMENT'S RESPONSE

WMATA's EVP-IBOP provided written comments to the report. The EVP-IBOP agreed with the findings and recommendations and provided a completion date of 2024. The EVP-IBOP indicated that Human Capital:

- is developing four Standard Operating Procedures to improve controls over pension claims processing and payments to be completed by June 30, 2022;
- is developing 14 additional Standard Operating Procedures to improve controls over HC-managed pension plan processes by November 15, 2022;
- will develop and implement a database to maintain all retiree data by June 30, 2022; and
- is implementing a pension management system to be completed by June 2024.

Implementing OIG's recommendations will require agreement of the plans' trustee boards for the next round of collective bargaining negotiations, which are planned for 2024. The EVP-IBOP agreed to provide the OIG final report with the findings and recommendations for action and consideration by the appropriate trustee boards by May 30, 2022. OIG considers management's comments responsive to the recommendations, and the actions taken or planned should correct the deficiencies identified in the report. OIG will follow up during the Corrective Action Plan process on progress of recommendations based on the outcome of collective bargaining negotiations in 2024.

Regarding the pension statistics in the report, OIG reported that WMATA's FY 2019 total pension liability was \$5.1 billion with a net pension liability or "underfunded" status of \$837 million. This was based on the publicly released audited FY 2019 *WMATA Comprehensive Annual Financial Reports* (CAFR). Management comments referenced Actuarial Valuation Reports that were not made available to OIG during the audit. Management stated that the unfunded status, according to the valuation reports, improved by \$83 million to \$754.4 million. However, OIG's review of the publicly released FY 2020 and FY 2021 CAFRs showed WMATA's total pension liability increased to \$4.5 billion with an unfunded liability of \$971 million in FY 2020 and \$4.6 billion with an unfunded status of \$1.15 billion in FY 2021 (See Appendix B). When reconciling the audited and reported amounts in the CAFR to the numbers provided in management's comments, OIG determined that the valuation reports, although were more current, included estimates and referenced different timeframes. OIG stands by the amounts in the report that were based on WMATA's publicly released data.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of the audit were to determine whether WMATA's DB pension plans were adequately managed and to examine alternative pension plans.⁷

Scope

The scope of the audit included a review of WMATA's five DB pension plans and alternatives including cash balance and hybrid pension plans.

We did not examine the consolidation of the five DB pension plans as this topic had already been covered by consulting firms. Instead, we reviewed how the existing DB pension plans could be better managed and suggested alternative plans for new employees.

Methodology

To achieve our audit objectives, our audit methodology was as follows:

- Researched background information about DB pensions plans by reviewing DOL Guidelines; International Foundation of Employee Benefit Plans Guidance; and the CBAs, plans, and related trust agreements for WMATA's five DB pension plans.
- Reviewed WMATA's policies and procedures for pension plan expenses, financial statements for the five DB pension plans, and prior audits external to WMATA.
- Performed interviews and walkthroughs to gain an understanding of WMATA's five DB pension plans and documented the DB plans processes with HRCB, Office of General Counsel, Office of Labor Relations, Office of Accounting, Office of the Treasurer, Office of Management and Budget Services, plan trustees, plan administrator, and the investment advisors for three plans.
- Identified and documented entity and process internal controls for the five DB pension plans.
- Conducted an external survey of 8 organizations' administration of their DB pension plans.
- Documented the five DB pension plans process narratives and risk control matrices.
- Performed participant and cost data analysis to identify anomalies or issues.
- Tested the operating effectiveness of the internal controls for the DB pension plan benefit payments calculations.

⁷ The initial audit objectives were to determine if WMATA's Pension Plans for the Retirement Plan, L689, Transit Police, L922 and L2 were adequately managed.

Modified GAGAS Statement

OIG conducted this performance audit in accordance with generally accepted government auditing standards except for obtaining sufficient appropriate evidence to fully meet Objective 1. The “Scope Limitations” section spells out the restriction on access to records or inaccurate listings that prevented OIG from fully meeting Objective 1. Notwithstanding the scope limitations, OIG believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Scope Limitations

<i>Requirement not Followed</i>	<i>Intent of Information Requested and Reason for Not Following the Requirement</i>	<i>Compensating Work</i>	<i>Disposition – Impact on Objectives</i>
Investment Fund Manager Service Agreements for 2 of 5 DB Pension Plans (L689 and L922) were not provided.	To determine if (1) controls existed over investment fees, (2) fees were fair and appropriate, and (3) invoices were properly paid. Unions did not provide access to records for 26 service agreements.	WMATA's Accounting Department had a fee schedule which is used to process invoices – totaling in aggregate to \$12.8 million in fees for the 5 DB Pension Plans for L689, L922, Transit Police, Union Local 2 (L2), and Non-Represented (NRP). Investment fund manager service agreements requested from all parties.	Objective 1 was not met in part. OIG could not determine if adequate controls existed over fee payments. This limitation had no material impact on findings and conclusions given the magnitude of the pension program. Recommendations made accordingly.
Accurate member participant listings not provided for L689, L922 and Transit Police.	To ensure total number of participants in the plans. Unions did not have accurate participants listings.	Obtained aggregate member participant listing information from the DOL.	Objective 1 was not met in part. OIG could not determine the total number of participants in three pension plans. This limitation had no material impact on findings and conclusions given the magnitude of the pension program. Recommendations made accordingly.

CHARACTERISTICS OF WMATA'S DB PENSION PLANS

	DB Pension Plans				
	NRP/ Union Local 639⁸	Union L2⁹	L922¹⁰	Transit Police¹¹	L689¹²
FY 2019					
Total Employee Membership:	1,763	425	738	765	15,108
Net Assets (80% Funded):	\$372.2 million	\$148.1 million	\$209.4 million	\$223.6 million	\$3,286.1 million
Net Pension Liability (20% Unfunded):	\$144.6 million	\$17.7 million	\$33.4 million	\$68.1 million	\$573.2 million
Average Investment Return:	6.2%	7.7%	-3.2%	-3.6%	9.9%
FY 2020					
Total Employee Membership:	1,728	424	748	771	15,420
Net Assets (81% Funded):	\$367 million	\$148 million	\$244 million	\$266 million	\$3,443 million
Net Pension Liability (19% Unfunded):	\$140 million	\$20 million	(\$3 million)	\$39 million	\$775 million
Average Investment Return:	5.1%	5.7%	18.3%	19.21%	7.36%
FY 2021					
Total Employee Membership:	1,704	417	737	774	15,509
Net Assets (79% Funded):	\$355.5 million	\$141.5 million	\$271.5 million	\$299.1 million	\$3,502.9 million
Net Pension Liability (21% Unfunded):	\$142.6 million	\$23.9 million	(\$16 million)	\$17.3 million	\$983.8 million
Average Investment Return:	3.1%	1.8%	13.1%	12.46%	3.72%

⁸ Consists of NRP employees hired prior to 01/01/1999 and L639 (Special Police) hired prior to 02/25/2016.

⁹ Full-time employees hired prior to 01/01/1999.

¹⁰ Full-time or part-time L922 members after 90-day probationary period.

¹¹ Transit Police officials and officers.

¹² Full-time or part-time L689 member after 90-day probationary period.

KEY STAKEHOLDERS - WMATA'S DB PENSION PLANS

Who are the key stakeholders in WMATA's five DB Pension Plans?

WMATA, unions, and professional consultants play a role in each of WMATA's five DB Pension Plans. The following are the stakeholders and descriptions of their roles in the plans:

Stakeholder	Role Description
Plan Trustee	<ul style="list-style-type: none"> ▪ Is appointed by the WMATA GM/CEO and performs governance over the plan. ▪ Has a fiduciary responsibility to act solely in the best interest of the plan's participants. ▪ Comprised of individuals who are WMATA management from the Department of Human Capital, Department of the Chief Financial Officer, and Office of Internal Compliance and union management from L689, Transit Police, L922, and L2. ▪ Meets quarterly to vote on major actions that must take place for the plans, such as plan accepting the annual actuarial determination, and reviewing investment fund manager performance. ▪ Approves retiree eligibility for new retirees who apply for retirement.
Plan Administrator	<ul style="list-style-type: none"> ▪ Manages the pension plan on behalf of plan participants and beneficiaries. ▪ Has a fiduciary responsibility to act solely in the best interest of the plan's participants. ▪ Coordinates and communicates with actuary to provide source information for annual actuarial determination. ▪ Calculates the retiree benefit payment for new retirees who apply for retirement and initially approves the retirement granting letter for the retiree prior to trustee acceptance. ▪ Performs continuous monitoring of the retiree's benefit payments.
Office of Accounting (ACCT)	<ul style="list-style-type: none"> ▪ Processes monthly WMATA employer and employee fund contributions for each of the five DB pensions. ▪ Assists the plan administrator in tracking administrative costs and related invoicing for the five DB pension plans.
Labor Relations (LABR)	<ul style="list-style-type: none"> ▪ Facilitate negotiations to make changes to the union CBAs and related retirement plans.
Secretary	<ul style="list-style-type: none"> ▪ Provides governance support to the trustees. ▪ Has a fiduciary responsibility to act solely in the best interest of the plan's participants.
Investment Advisor	<ul style="list-style-type: none"> ▪ Has a fiduciary responsibility to act solely in the best interest of the plan's participants. ▪ Makes investment asset allocation recommendations. ▪ Participates in performance measurement for retirement plans. ▪ Provide investment fund manager suggestions and assists the trustees in monitoring them for the plan.

Stakeholder	Role Description
	<ul style="list-style-type: none"> ▪ Performs cash management responsibilities for the plan on a monthly basis to make sure the plan can make benefit payments to retirees for the month.
Investment Fund Manager	<ul style="list-style-type: none"> ▪ Has a fiduciary responsibility to act solely in the best interest of the plan's participants. ▪ Manages funds and investments for the five DB pension plans under the investment objectives and parameters the plans have defined.
Actuary	<ul style="list-style-type: none"> ▪ Has a fiduciary responsibility to act solely in the best interest of the plan's participants. ▪ Calculates WMATA's liability for the five DB pension plans and determines contributions to be made to the plans for the annual actuarial determination.
Plan Counsel	<ul style="list-style-type: none"> ▪ Has a fiduciary responsibility to act solely in the best interest of the plan's participants. ▪ Provides counsel to plan trustees, with emphasis on benefits arrangements regulated by applicable law and agreements. ▪ WMATA General Counsel is the plan Counsel for NRP and L2 DB Pension Plans. L689, L922, and Transit Police have outside counsel.
Custodian	<ul style="list-style-type: none"> ▪ Has a fiduciary responsibility to act solely in the best interest of the plan's participants. ▪ Financial institution that holds the client's investments for safekeeping to minimize the risk of their theft or loss. ▪ Pays the benefit payments to retirees out of plan.
Auditor	<ul style="list-style-type: none"> ▪ Has a fiduciary responsibility to act solely in the best interest of the plan's participants. ▪ Tests plan obligations to determine that they are properly estimated and reported in the financial statements. Testing plan obligations typically will include using the work of an actuary.

MANAGEMENT'S RESPONSE

M E M O R A N D U M



SUBJECT: Audit of WMATA's Defined Benefit Pension Plans

DATE: July 14, 2022

FROM: EVP/IBOP – Dianna D. Rosborough

Dianna D. Rosborough
Digitally signed by Dianna D. Rosborough
 Date: 2022.07.14 10:00:53 -0400

THRU: GM/CEO – Andrew B. Off

Andrew Off
Digitally signed by Andrew Off
 or [redacted] WMATA
 Date: 2022.07.20 16:10:37 -0400

TO: OIG – Rene Febles

Human Capital (HC) has carefully reviewed the Office of Inspector General's (OIG) audit of WMATA's Defined Benefit (DB) Plans. The report identified scope limitations with getting information for the Local Union 689 (L689) and Local Union 922 (L922) pension plans, stating that OIG was not provided with access to 26 investment service agreements or their full member participants listing. Nonetheless, the Compensation and Benefit's Office (CBO) continues to work with the plan trustees¹ and plan managers to ensure optimal pension plan performance by adequately managing the pension plans to close the underfunded status that OIG identified in its report.

A plan's funding ratio is a key internal metric for determining the health of a pension plan. The funding ratio equals the actuarial value of assets in a pension divided by the measure of its actuarial accrued liabilities.² WMATA's plan funding ratios are above 86%, with the exception of the WMATA Retirement Plan,³ which exceeds the benchmark of an 80% funding ratio that the private sector uses to determine whether a pension plan is healthy. However, the WMATA Retirement Plan funding ratio improved from 71% in 2020 to 78% in 2021 and the actuary for the plan projects the WMATA plan to exceed 80% funding by Plan Year 2023. Therefore, given the current funding and projected ratios for WMATA's plans, all five plans are or will be adequately funded, and the current risk to overall pension plan performance is limited.

For example, management agrees with OIG's conclusion that without change the unfunded liability of \$837 million in FY 2019 could have increased. However, since the period OIG reviewed, actions taken in FY 2020 and FY 2021 by plan

¹ Trustees include both WMATA management and union officials.
² Funding ratios using actuarial accrued liabilities is calculated per the plan's respective Actuarial Valuation Report and is the ratio for WMATA's internal use to assess the funding status of an individual plan from a contribution requirements perspective rather than the net pension liability reported in the plans' and WMATA's audited financial statements.
³ The WMATA Retirement Plan is no longer accepting new enrollments, which limits its liability.

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 Metropolitan Area
 Transit Authority**

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trustees and administrators to improve the position of the plans, *has decreased the unfunded actuarial liability by \$83 million to \$754.4 million.* The reduced liability resulted in improvements to the plan's funding ratios. For example, the L689 plan's funding ratio improved from 83% in 2019 to 87.6% in FY 2021. Similarly, the L922 plan's funding ratio improved from 85% in FY 2019 to being fully funded in FY 2021 with a funding ratio of 105.5%. These results are reported annually to the plan trustees via the plan valuation reports, which are completed by independent actuarial firms. The results listed in the table below identify the latest funding ratios:

<i>Characteristic</i>	NRP/Union Local 639	Union L2	L922	Transit Police	L689
<i>Plan Fiscal Year</i>	7/1/2021	7/1/2020	1/1/2021	1/1/2021	1/1/2021
Market Value of Assets (\$millions)	\$414	\$141.5	\$269.1	\$299.0	\$4,086.0
Unfunded Actuarial Liability (\$millions)	\$150.4	\$22.4	\$(14.0)	\$17.2	\$578.0
Funded Ratio	78.08%	86.30%	105.50%	94.55%	87.61%

Management also agrees that the improvements OIG identified in recommendations 1 – 6, which require changes in collective bargaining agreements (CBA), could help prevent potential fraud, waste, or abuse of pension plan funds. OIG's six (6) recommendations to the General Manager, in concert with the trustees and unions, are listed below.

1. Develop and implement a comprehensive pension plan governance program for the five DB pension plans incorporating the internal control requirements stated above, which align with industry best practices.
2. Document, develop, and adopt a management fee policy for WMATA's five DB pension plans.
3. Add provisions to the five DB pension plans or union agreements to establish proper governance and internal controls with specific requirements.
4. Obtain, review, and reconcile 26 investment service agreements to the fee schedules.
5. At the next CBA negotiations with L689, L922, and Transit Police, add provisions to the CBA agreements giving OIG the right to review any and all documents associated with the plans

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6. For CBA negotiations, examine cash balance and defined benefit/defined contribution hybrid pension plan alternatives in comparison to DB pension plans for new hires to determine the best plan based on WMATA's retirement benefit objectives.

HC is already taking actions to improve controls over pension claims processing and payments. CBO is developing an initial set of four Standard Operating Procedures (SOPs) to document standing business practices established within CBO for processing claims: death claims, retirements, refunds, and retirement plan invoices. HC completed this action in June 2022. CBO is also developing 14 additional SOPs to improve controls over all HC-managed processes related to pension plans. HC plans to complete this action by November 15, 2022.

The CBO also developed and implemented a master database to maintain all retiree data (to include beneficiary data) in June 2022. In addition, CBO is in the process of completing a pension administration system assessment because WMATA's existing human resources system (PeopleSoft) does not have the capability to accommodate the complexities of WMATA's pension plans. The Office of Procurement has advised it will take 18 to 24 months to fully implement the pension administration system. HC plans to complete this action by June 2024.

Implementing OIG's recommendations will require the agreement of the various plan's respective trustee boards during the next round of collective bargaining negotiations. The negotiations for both plans are scheduled to take place in 2024. As such, on February 12, 2022, HC provided OIG's report recommendations to WMATA's Labor Relations department for consideration and prioritization during the next round of negotiations and HC leadership will provide the final report to the appropriate trustee boards for action and consideration when it is available.

cc: CFO – Dennis Anosike
INCP – Eric Christensen
HC – Sherri Dickerson

TO REPORT FRAUD, WASTE, OR ABUSE

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