DEPARTMENT OF THE TREASURY
OFFICE OF D.C. PENSIONS

FISCAL YEAR 2017
ANNUAL REPORT

THE BALANCED BUDGET ACT OF 1997

1997 20 2017

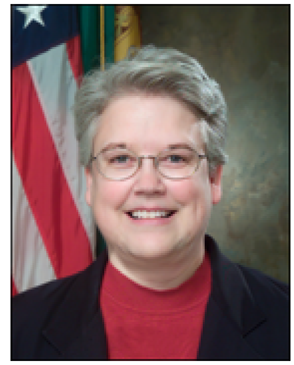
Year Anniversary

Office of D.C. Pensions
Celebrating 20 Years of Excellence

DISTRICT OF COLUMBIA PENSIONS PROGRAM

MESSAGE FROM THE DIRECTOR

December 2017



On behalf of the Office of D.C. Pensions, I am pleased to present the Fiscal Year 2017 Annual Report, which provides highlights of the significant accomplishments achieved by the program for this fiscal year as well as plans for upcoming years.

The Office of D.C. Pensions celebrated the 20-year anniversary of the enactment of Title XI of the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251, 712) on August 5, 2017. We are proud of our 20 years of excellence in meeting the Department of the Treasury's responsibilities under this legislation.

Pursuant to the Balanced Budget Act of 1997 (the Act), as amended, the Office of D.C. Pensions is responsible for carrying out the Secretary of the Treasury's responsibility to fund and administer the District of Columbia Judges' Retirement Plan and the federal portion of the District of Columbia Police Officers' and Firefighters', and Teachers' Retirement Plans. As of September 30, 2017, the District of Columbia Judicial Retirement and Survivors Annuity Fund, and the District of Columbia Federal Pension Fund held assets totaling $4.0 billion. During FY 2017, the Office of D.C. Pensions processed $716.2 million in benefit payments to 14,393 annuitants and refunds of employee contributions totaling $0.2 million were made to former active employees or their beneficiaries.

In support of the Office of D.C. Pensions financial statements, a comprehensive review of census data was performed for the actuarial valuation. The review improved the quality of the census data and the results will be carried forward into future years. This effort contributed to the unmodified opinion rendered by an independent accounting firm on the Office of D.C. Pensions' FY 2017 Financial Statements.

The Office of D.C. Pensions collaborated with the District of Columbia Retirement Board (DCRB) and Treasury's Bureau of the Fiscal Service to improve the System to Administer Retirement (STAR), its pension/payroll system. An Oracle/PeopleSoft software application upgrade with a transition to new hardware was completed. For the first time, entry of new retiree data was automated with an interface between DCRB and STAR. A new STAR Quality Review Tracking Tool creates a direct communication channel for benefit payment information with DCRB.

The Office of D.C. Pensions continued to work collaboratively with all entities associated with the District of Columbia Pensions Program to provide high quality service to the annuitants and to carry out the Department of the Treasury's responsibilities under the Act.

Nancy A. Ostrowski

Nancy A. Ostrowski, Director
Office of D.C. Pensions
Department of the Treasury

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PART 1

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Office of D.C. Pensions
Celebrating 20 Years of Excellence!

Milestones in the History of the Program

The 90's

August 5, 1997: Title XI of the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251, 712) enacted

April 1999: Segregation of assets and transfer from the District of Columbia Retirement Board to the Treasury pension funds

December 1999: D.C. Pensions Project officially recognized as the Office of D.C. Pensions

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2017 (Unaudited)

Vision:
The vision of the Office of D.C. Pensions is successful stewardship of the pension funds; high quality benefits administration services; and effective use of program resources, while fostering mutually beneficial relationships with our business partners at the District of Columbia, the Treasury's Bureau of the Fiscal Service, and other Treasury entities.

Mission:
The mission of the Office of D.C. Pensions is to implement the Secretary's responsibilities under Title XI of the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251, 712), as amended. The responsibilities are to make timely and accurate benefit payments associated with the District of Columbia retirement programs for police officers and firefighters, teachers, and judges by managing investments, providing oversight and program management, and ensuring funding is available for future payments.

I. Introduction

A. Statutory Basis and Responsibilities

Under provisions in Title XI of the Balanced Budget Act of 1997, as amended (the Act[1]), the Secretary of the Treasury (the Secretary) assumed certain responsibilities for a specific population of annuitants under the following District of Columbia (the District) retirement plans: the Police Officers' and Firefighters' Retirement Plan, the Teachers' Retirement Plan, and the Judges' Retirement Plan. Specifically, the Secretary is responsible for administering the retirement benefits earned by District teachers, police officers, and firefighters based upon service accrued on or before June 30, 1997, and administering the retirement benefits earned by District judges, regardless of when

[1]There have been three amendments to the Balanced Budget Act of 1997. These include Technical and Clarifying Amendments Relating to District of Columbia Retirement Funds, Title VIII of Pub. L. 105-277 (Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999), 112 Stat. 2681, (Oct. 21, 1998); Law Enforcement Pay Equity Act of 2000, Pub. L. 106-554, (Consolidated Appropriations Act of 2001) 114 Stat. 2763 (Dec. 21, 2000) and District of Columbia Police Department Retirees – Service Longevity Component, Pub. L. 107-290, 116 Stat. 2051 (Nov. 7, 2002); and the District of Columbia Retirement Protection Improvement Act of 2004 (Pub. L. 108-489, 118 Stat. 3966 (Dec. 23, 2004).

service accrued. These benefits are referred to as Federal benefit payments. Benefit payments to which an individual is entitled under the District of Columbia Replacement Plan (pertaining to police officers, firefighters, and teachers based upon service accrued after June 30, 1997) are referred to as District benefit payments. Police officers, firefighters, and teachers' benefit payments based upon service accrued before and after June 30, 1997, are the financial responsibility of both the Department of the Treasury (Treasury) and the District. Payments resulting from such service are referred to as split benefit payments.

The Secretary's responsibilities include: (1) making accurate and timely benefit payments; (2) investing fund assets; and (3) funding pension benefits. To carry out these responsibilities, Treasury's Office of D.C. Pensions (the Office) engages in a wide range of legal, policy, and operational activities in the areas of benefits administration, information technology, financial management, and program management. The Office coordinates with many District entities and stakeholders to administer its responsibilities.

Since September 26, 2005, the District of Columbia Retirement Board (DCRB) has served as the interim benefits administrator for the Police Officers' and Firefighters', and Teachers' Retirement Plans. The Office reimburses DCRB for expenses associated with administrating the Federal benefit payments. Also, as of that date, the Office assumed benefit administration responsibility for the Judges' Retirement Plan.

B. Organizational Structure and Staffing

The Office reports to the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR/CHCO). The DASHR/CHCO reports to the Assistant Secretary for Management (ASM). The ASM reports through the Deputy Secretary to the Secretary.

The Office fulfills its responsibility through key functional areas: Benefits Administration, Information Technology Systems Administration, Finance and Resource Administration, and Program Management.

- <u>Benefits Administration</u>: The Office provides oversight of the benefit administration functions for certain District of Columbia retirement plans. Approximately $716.2 million in Federal and District benefit payments were made to 14,393 annuitants for the year ended September 30, 2017.

- <u>Finance and Resource Administration</u>: The Office is responsible for financial activities in compliance with the various financial laws and regulations. The Office provides oversight for investments in Government Account Series (GAS) securities in the federal pension funds totaling approximately $4.0 billion as of September 30, 2017. The Office also contracts with a third-party enrolled actuary to perform an annual actuarial valuation to determine the pension liability of the retirement plans and the annual contributions from the Treasury General Fund to the District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund

(D.C. Federal Pensions Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund).

- Information Technology Systems Administration: The Office operates and maintains the System to Administer Retirement (STAR), an automated pension/payroll system, in support of benefits administration and annuitant payroll. The Office conducts annual assessments of STAR security requirements and assesses the security posture of external systems/offices where STAR data is utilized for benefit administration.

- Program Management: The Office executes its responsibilities through program management activities, which include planning and project management, quality management, and risk management. The Office also produces, analyzes, and acts upon performance management information to continually improve operations.

As of September 30, 2017, the D.C. Federal Pensions Fund and the Judicial Retirement Fund paid for 21 Treasury positions. In addition, the Office funds four positions in other Treasury offices performing critical functions to accomplish the Office's mission.

Pursuant to Interagency Agreements (IAA) with the Treasury's Bureau of the Fiscal Service's (Fiscal Service), the Administrative Resource Center (ARC) provides financial management, annuitant payroll, and information technology support services. The financial management services include: financial management system platforms, budget processing, financial reporting and investment accounting. Annuitant payroll services include: STAR payroll processing, debt management, split benefit reconciliation and reporting, third party payroll reporting, and mailings. Information technology support services include: systems administration and hosting for STAR and security support services which include Federal Information Security Management Act compliance.

II. Executive Summary

During Fiscal Year (FY) 2017, the Office of D.C. Pensions (the Office) successfully worked with the District of Columbia Retirement Board (DCRB), the Treasury's Bureau of the Fiscal Service (Fiscal Service), Administrative Resource Center (ARC), and other Department of the Treasury (Treasury) entities to execute responsibilities under the provisions in Title XI of the Balanced Budget Act of 1997, as amended.

The Office celebrated the 20th anniversary of the Balanced Budget Act which occurred on August 5, 2017. The Office is proud of its 20 years of excellence in meeting the Department of the Treasury's responsibilities under this legislation. Over the past 20 years, the Office has worked closely with various Treasury and District entities to carry out the provisions of the law and to ensure the Office's mission was met.

The Office continued to make improvements that impacted the annual actuarial valuation report. A comprehensive review of census data was performed for the actuarial valuation. The review improved the quality of census data and the results will be carried forward into future years. The Office received an unmodified opinion rendered by an independent accounting firm on the FY 2017 Financial Statements.

The Office continued to oversee DCRB's benefit administration activities and conducted reviews and provided training to ensure benefit payments were accurate. The Office implemented a Payment Review Tracking Tool which tracks the results of the monthly quality reviews. The dashboard reporting feature easily identifies trends and anomalies. For the first time, entry of new retiree data was automated with an interface to STAR which now collects information electronically via DCRB from D.C. Human Resource offices. This interface will reduce the number of user errors during the initial retirement processing with the goal of improving the accuracy of benefit payments.

The Office upgraded STAR from the Oracle/PeopleSoft application version 9.1 to 9.2, which introduced a new model for future upgrades. Beginning in FY 2018, the Office will implement the new model with upgrades to STAR approximately every six months with a much smaller scale than the old model of large updates every three years. The Office successfully conducted a full security assessment following the Oracle/People Soft application upgrade and obtained a new Authorization to Operate. The Office also formalized its data protection requirements outside of STAR with its business partners.

The Office's Program Management Group (PMG) supports long-term strategic planning with a focus on program oversight, quality management, risk management, and performance management. In FY 2017, the PMG revised the Multi-Year Plan for FY 2017 through FY 2019, which guided the review of several Memorandum of Understanding (MOU) and Interagency Agreement (IAA) documents and the updating of key programmatic activities.

The following sections of the Management's Discussion and Analysis provide more details about the FY 2017 program results and plans for future years.

III. Strategic Goals, Objectives, Outcomes, and Performance Measures

The Office of D.C. Pensions (the Office) has the following three Strategic Goals:

1. Office Strategic Goal: Effectively Managed Finances

Office Outcomes:

- Benefit payments are accurate and timely
- Pension funds are effectively invested
- Pension funds meet future needs

2. Office Strategic Goal: Management and Organizational Excellence

Office Outcomes:

- Program is effectively managed

3. Office Strategic Goal: Effective Quality Assurance Program

Office Outcomes:

- Program pursues continuous improvement

The table on the following pages displays the Office's Strategic Goals, Objectives and Outcomes. It also identifies the Office's Performance Measures and Results.

Office of D.C. Pensions Strategic Goals, Objectives, Outcomes, and Performance Measures

Fiscal Year 2017			
ODCP Strategic Goal	**ODCP Management Objective**	**ODCP Outcomes**	**ODCP Performance Measure**
Effectively Managed Finances	Skilled staff and technology are available to administer benefits	Benefit payments are accurate and timely	FY 2017 projected monetary error rate for benefit calculations Target: 5.0% or less Actual: 11.5% (See footnote #1)
			STAR is available to users Target: 99.0% or more Actual: 99.9%
	Skilled staff and funds are available to manage financial activities	Pension funds are effectively invested	FY 2017 Investment strategy executed timely Target: 100.0% Actual: 100.0%
			FY 2018 Investment strategy developed timely Target: September 22, 2017 Actual: September 22, 2017
		Pension funds are effectively managed	FY 2017 minimum daily cash balance exceeds the minimum balance as defined in the FY 2017 investment strategy Target: 100.0% Actual: 100.0%
			FY 2017 annual required contribution from General Fund received timely into the D.C. Federal Pension Fund & Judicial Retirement Fund Target: September 29, 2017 Actual: September 26, 2017

Fiscal Year 2017			
ODCP **Strategic Goal**	**ODCP** **Management Objective**	**ODCP** **Outcomes**	**ODCP** **Performance Measure**
Effectively Managed Finances (continued)	Skilled staff and funds are available to manage financial activities (continued)	Pension funds are effectively managed (continued)	Monthly benefit payments made to annuitants by the first business day of the month Target: 100.0% Actual: 100.0%
			Electronic benefit payments made to annuitants Target: 98.7% Actual: 98.7%
		Pension funds meet future needs	FY 2017 actuarial calculation for annual contribution from General Fund prepared timely Target: September 21, 2016 Actual: September 21, 2016
Management and Organizational Excellence	Skilled staff and management tools are available	Program is effectively managed	Risks are reviewed in accordance with the schedule outlined in the Risk Management Plan Target: Quarterly Meetings Actual: Quarterly Meetings
			FY 2017 Financial Statement audit opinion received from an independent external auditor Target: Unmodified Opinion Actual: Unmodified Opinion

Fiscal Year 2017			
ODCP **Strategic Goal**	**ODCP** **Management Objective**	**ODCP** **Outcomes**	**ODCP** **Performance Measure**
Management and Organizational Excellence (continued)	Skilled staff and management tools are available (continued)	Program is effectively managed (continued)	FY 2017 Annual Report and Financial Statements printed Target: December 29, 2017 Actual: ETA December 29, 2017
			FY 2017 open material weakness on December 31, 2017 Target: 0 Actual: 0
			FY 2017 Actuarial Valuation Report delivered timely Target: September 21, 2017 Actual: September 21, 2017
Effective Quality Assurance Program	Quality plans are operational in each area	Program creates continuous improvement	FY 2018 Quality Assurance Plans approved by September 30, 2017 Target: 100% Actual: 100%
Footnote: 1) During FY 2017, ODCP expanded the population size to include not only new payments, but recalculated and reinstated payments, which are more complex (FY 2016 only included a review of new benefits payments).			

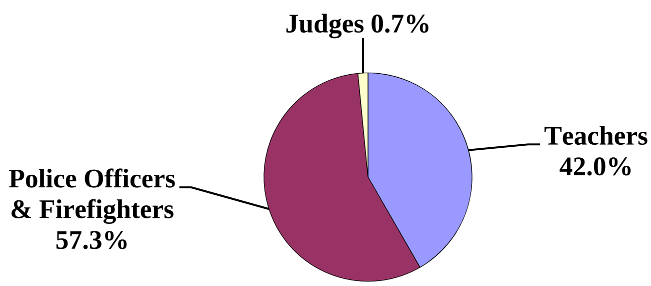
A. Benefit payments are accurate and timely

1. Program Results

a. Benefits Administration

General Operations

Benefits administration services were provided to 14,393 annuitants, as of September 30, 2017, in three District of Columbia retirement plans: the Police Officers' and Firefighters' Retirement Plan, the Teachers' Retirement Plan, and the Judges' Retirement Plan. The annuitant population within each plan is as follows: teachers 6,052; police officers and firefighters 8,246; and judges 95.



The average monthly Federal and District benefit payments in Fiscal Year (FY) 2017 was $59.7 million. All annuitant payroll files were submitted on time, ensuring timely payment of annuitant benefits on the first business day of the month. With oversight and support by the Office, the District of Columbia Retirement Board (DCRB) performed benefits administration services for the Police Officers' and Firefighters' Retirement Plan and the Teachers' Retirement Plan. The Office performed benefits administration for the Judges' Retirement Plan.

General benefit administration operations focused largely on transaction processing and customer service activities. On a monthly basis, benefit administration activities included the processing of new retirements and/or survivor benefits, identifying individuals no longer eligible for benefits, and updating annuitants' personal and benefits information. In addition, to focusing on the accuracy and timeliness of transaction processing, the Office and its business partners strive to deliver high quality customer service.

The Office encourages annuitants to receive their benefit payments through direct deposit, as it is a more convenient, secure, and timely method of delivering benefits. At the end of the fiscal year, the Electronic Funds Transfer (EFT) participation rate for annuitants in all retirement plans was 98.7 percent.

The table below illustrates the EFT participation rates for annuitants by retirement plan.

District of Columbia Retirement Plans	Electronic Funds Transfer (EFT) Participation Rate	
	FY 2017	**FY 2016**
Police Officers & Firefighters	98.6%	98.6%
Teachers	98.9%	99.0%
Judges	100%	100.0%

In FY 2017, a variety of outreach efforts ensured that accurate and timely information was provided to annuitants, including:

- Letters notifying annuitants when their benefits changed;
- DCRB newsletters which provides retirement plan information for active and retired police officers, firefighters, and teachers;
- Earning statement messages alerting annuitants to changes in benefits such as a cost-of-living adjustments (COLA), informing annuitants of the opportunity to make changes to the annuitant data (e.g., signing up for direct deposit, changing tax withholdings or updating mailing addresses), and providing information regarding customer service improvements;
- Letters to retired judges providing information regarding the COLA effective December 2016;
- Letters to retired judges announcing Federal Employees Group Life Insurance (FEGLI) and Health Benefits (FEHB) open seasons.

<u>Annuitant Payroll Operations</u>

Pursuant to an Interagency Agreement (IAA) with the Treasury's Bureau of the Fiscal Service (Fiscal Service), Administrative Resource Center (ARC), ARC Pension Payroll utilizes the System to Administer Retirement (STAR), the automated pension/payroll system that supports benefit administration and annuitant payroll operations, to process monthly benefit payments. ARC Pension Payroll works closely with DCRB to process monthly benefit payments, and is responsible for reconciling the payroll reports generated from STAR to ensure the annuitant payroll is processed correctly.

In FY 2017, ARC Pension Payroll staff made 172,700 benefit payments totaling approximately $716.2 million for a monthly average of $59.7 million. These monthly benefits represent payments for annuitants, beneficiaries, and Qualified Domestic Relations Orders (QDROs). In addition, off-cycle payments totaling approximately $389 thousand were paid to annuitants when benefits were not processed in time for the regular on-cycle schedule.

During FY 2017, ARC Pension Payroll reported the share of Federal and District benefit payments. This information is calculated by STAR and is included in the Split Reimbursement Summary Report (SRSR). This report supports the reimbursement to the Office from DCRB for District benefit payments. ARC Pension Payroll also provided mail management support to ensure that monthly earnings statements and other annuitant communications are distributed in an efficient and timely manner.

In FY 2017, the Office conducted a Payroll Emergency Preparedness test which successfully executed the Memorandum of Understanding (MOU) with Treasury's Bureau of the Fiscal Service Payment Management (Fiscal Service Payment Management). The MOU provides a method for the Office to make benefit payments in an emergency situation. This MOU ensures that the Office can generate monthly benefit payments in the unlikely situation that ARC Pension Payroll cannot process, certify, and/or transmit data to Fiscal Service Payment Management in a timely manner.

In FY 2018, the Office will continue to focus on making accurate and timely payments. ARC Pension Payroll generates the Preliminary Statistics Report to conduct a preliminary review of the monthly payroll statistics before the close of pension processing. Meetings will continue to be held with the Office, DCRB, and ARC Pension Payroll to review the statistical data for consistency from month-to-month, percentage differences, large payment amounts to annuitants, and variations in the gross and/or net pay to individual annuitants. All identified anomalies will be explained, validated and/or corrected before the close of pension processing.

Benefit Administration Projects

During FY 2017, the Office continued to collaborate with DCRB to focus on key benefit activities and data integrity. In support of these efforts, the Office contracted with a consulting firm with experience in benefits administration to assist with benefit administration support activities and projects. This allows the Office to have maximum flexibility to simultaneously execute various benefit activities and projects.

In FY 2017, the Office implemented an electronic data interface to enter new retiree data information into STAR. This will reduce the number of user errors during the initial retirement processing. In addition, the Office created a Payment Review Tracking Tool (PRTT) which tracks the results of monthly quality reviews. The PRTT can be accessed by all STAR users including DCRB and is used to monitor quality review corrections. It also has a dashboard and various reports which the Office will use to identify trends and anomalies.

In FY 2018, the Office will continue to utilize contractors to assist with benefit administration support activities. The Office will begin assessing training requirements to ensure skills and knowledge exists to effectively manage and execute benefits administration activities. In addition, the Office will review business processes, procedures, and reporting to ensure benefit payments are processed accurately and timely. The Office will develop comprehensive documents that outline the business processes related to its benefit administrator responsibilities for the D.C. Judges' Retirement Plan.

In FY 2018, the Office will implement changes to provide annuitants with more detailed information about health benefits on their monthly Earnings Statements.

Summary Plan Description (SPD)

The SPDs are designed to provide Plan members accurate and easy to understand information about the retirement plans. In FY 2017, DCRB continued updating the District of Columbia Teachers' Retirement Plan SPD and the District of Columbia Police Officers' and Firefighters' Retirement Plan SPD, which will be published in FY 2018. The Office will update and publish the SPD for the District of Columbia Judges' Retirement Plan in FY 2018.

Former District Employees Retirement Contributions

Former District employees who have not requested a refund or retirement benefits and have retirement contributions remaining in the retirement funds are entitled to a deferred retirement benefit or a refund of the contributions. Former employees with service totaling less than five years are entitled to a refund. Former employees with service totaling five years or greater are entitled to a deferred retirement benefit. The Office is working with DCRB to analyze the data to identify the former District employees who may be entitled to a deferred benefit or refund of retirement contributions. Once the population has been identified, the Office and DCRB will collaborate to determine the necessary next steps.

Lookback COLA

A COLA was erroneously included in the retirement benefit due to a misapplication of the "lookback" COLA provision, causing some annuitants to receive an additional COLA. This error occurred during the period 1980 to 1997, a period during which both Federal and split annuitants were impacted. In FY 2017, the Office's benefits administration contractor focused their efforts on annuitant communications related to due process rights and debt collection. The Office completed work on the project in the second quarter of FY 2017.

80% Maximum Annuity Calculations

In FY 2010, DCRB (with assistance from the District's attorneys) determined that since 1980, the D.C. Code incorrectly described the maximum benefit payable under the District of Columbia Police Officers and Firefighters' Retirement Plan. In FY 2017, the Office's benefit administration contractor focused their efforts on annuitant communications related to due process rights and debt collection. The Office completed work on the project in the second quarter of FY 2017.

b. System to Administer Retirement (STAR)

Background and History

STAR is an automated pension/payroll system developed by the Office in cooperation with the District. STAR supports the end-to-end business processes for retirement, streamlines the administration and payment of pension benefits to annuitants, and enhances customer service. STAR enables retirement analysts to quickly access information and provide annuitants with real-time customer service. In addition to processing retirements, STAR calculates the share of Federal and District benefit payments.

STAR is based on Oracle/PeopleSoft's "commercial off-the-shelf" (COTS) software for human resources, pensions, and payroll administration. The STAR implementation was phased and deployed in bundles known as releases.

- Release 1 was implemented in December 2002 to serve all annuitants of the Judges' Retirement Plan.
- Release 2 was implemented in September 2003 to serve teachers, police officers, and firefighters who retired on or before June 30, 1997, and their survivors.
- Release 3 was deployed in August of 2005 for teachers, police officers, and firefighters whose initial retirement was processed in STAR after August 1, 2005 (and their survivors). This release also converted teachers, police officers, and firefighters who retired after July 1, 1997, and before August 1, 2005, and whose initial retirement processing took place in the District's legacy system, the Pension Administration and Payroll System (PAPS).
- Release 4 started the implementation of the split benefit calculation to enable STAR to calculate the Federal and District share (split) for benefit payments. Release 4 was implemented in June 2007 to calculate the split for future payments to those annuitants who were brought into pay status on or after June 4, 2007. This release also included an upgrade of Oracle/PeopleSoft from version 8.0 to 8.9.
- Release 5 was implemented in November 2007 and completed the implementation of the split benefit calculation. The split was calculated for future benefit payments to annuitants whose initial retirement processing took place in STAR between August 2005 and June 2007. In addition, STAR calculated the split for the future benefit payments to annuitants who retired after June 30, 1997, and whose initial retirement processing took place in PAPS.
- Release 6 was deployed in May 2012, which upgraded the Oracle/PeopleSoft version 8.9 to version 9.1, and included the implementation of the "person model." The upgrade leveraged existing and newly delivered functionality to reduce the overall number of Oracle/PeopleSoft application customizations.
- Release 7 was deployed in April 2017, which upgraded the Oracle/PeopleSoft version from 9.1 to version 9.2. The 9.2 upgrade introduced a new model for future upgrades.

STAR Long-Term Architectural Plan

The Office maintains a STAR Long-Term Architecture Plan (LTAP) designed to ensure the system architecture continues to meet business goals and objectives. This five-year management plan outlines the future upgrades to the STAR application software, database, and hardware in order to maintain the vendor license agreements. The STAR LTAP also provides information for planning and budgeting for system enhancements. The STAR LTAP was updated in FY 2017 to reflect the changes in Oracle's planned release dates. Beginning in FY 2018, the Office will focus on implementing the new strategy of upgrades to STAR on approximately six-month intervals and much smaller in scale versus the old model of large updates every three to four years.

STAR Technical Production Support and Hosting

System hosting and technical production support for STAR is performed by Fiscal Service, Information Security Services (ISS). Since September 2003, ISS staff members have provided production support activities, including routine system operations, application and database administration, help desk operations, and problem resolution. A supplemental support contract is also in place to provide assistance to ISS in both operations and maintenance activities. In FY 2017, STAR was available 99.9 percent of the time.

STAR System Security

Two separate security assessments were conducted during FY 2017 to ensure the STAR system is in compliance with all relevant security requirements. A delta security assessment was conducted in the second quarter of FY 2017 for STAR following implementation of new hardware. This assessment served as evidence that STAR was still in compliance with relevant security requirements and supported the Authorization to Operate (ATO) that was in place from the FY 2016 Security Assessment and Accreditation (SA&A). The SA&A is a process that ensures that federal systems and major applications are well-documented, authorized, and adhered to formal and established security requirements. The Office conducted a second full assessment following the upgrade of the Oracle/PeopleSoft application that is used to manage STAR and obtained a new ATO in May 2017. All vulnerabilities identified in the assessments were successfully mitigated, resulting in no outstanding Plan of Action and Milestone (POA&M) items.

As required by NIST 800-53, the Office conducted an annual test of its STAR Contingency and Incident Response Plans. In FY 2017, the Office conducted two-part Contingency and Incident Response exercises. Part one of the contingency exercise tested a production backup tape to ensure its reliability and integrity. Due to the upgrade of the hardware and software that support STAR, part two of the contingency exercise involved testing accessibility to STAR production and its contingency site from the primary and backup locations of STAR stakeholders. Part one of the incident response exercise also included testing of the automated detection tools and system alerts on the new hardware to ensure the systems were configured properly. A tabletop exercise was also executed to ensure both new and seasoned STAR incident response team members understood their roles and responsibilities. Lessons learned from the tests were used to update STAR security documentation.

Additionally, the STAR system was included in the Departmental Office's (DO) overall Federal Information Security Management Act (FISMA) security audit. In FY 2017, no issues were identified during the DO FISMA audit and all items identified during the previous year's audit were considered satisfactorily closed. In FY 2018, the Office will conduct security requirement reviews for any interfaces to STAR outside of the federal government.

Personally Identifiable Information (PII) Security

In FY 2017, the Office formalized its data protection requirements as another step to ensuring the security of annuitant information. The Office formalized the process for using, sharing, and storing annuitant data outside the STAR system and with its business partners. These requirements have been included in agreements the Office has with non-federal entities.

Change Control Board

The Office's Change Control Board (CCB) acts as the approving authority for all STAR requirement changes. The Board is comprised of representatives from the Office, the Office of General Counsel, DCRB, Fiscal Service, ISS, and ARC Pension Payroll. The CCB evaluates the costs, benefits, and risks associated with any proposed change; makes a determination as to whether or not the proposed change should be implemented; and establishes the priority for each approved change. The CCB process enhances internal controls and accountability for new proposed changes. A Change Request to automate the process for entering new retirees into STAR was approved in FY 2016 and implemented early in FY 2017. STAR now uses information collected electronically by DCRB from the District of Columbia Human Resource offices to update STAR.

In FY 2018, the Office will continue to focus on leveraging Oracle/PeopleSoft 9.2 capabilities to enhance or streamline the benefit administration and pension payroll processes and reduce the possibilities of erroneous payments.

B. Pension Funds are effectively invested, financed and meet future needs

1. Program Results

a. Pension Funds

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Public Law 108-489, the Office administers Federal benefit payments through two funds:

- **The District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund (D.C. Federal Pension Fund)** makes Federal benefit payments and pays necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. The D.C. Federal Pension Fund is not a typical pension fund in that it does not receive employee and employer contributions. The sources of funding for the D.C. Federal Pension Fund are:

- An annual federal payment from the Treasury General Fund which amortizes the original unfunded liability and any additional liabilities identified in annual actuarial valuations;
- Interest earned on investments; and
- Payments from DCRB and the D.C. government.

Total assets for the D.C. Federal Pension Fund as of September 30, 2017 are $3.9 billion.

- **The District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund**) accumulates funds to finance Federal benefit payments and necessary administrative expenses of the Judicial Retirement Plan. There are three funding sources for the Judicial Retirement Fund:

  - An annual federal payment from the Treasury General Fund which amortizes the original unfunded liability and any additional liabilities identified in annual actuarial valuations;
  - Interest earned on investments; and
  - Judges' employee contributions.

Total assets for the Judicial Retirement Fund as of September 30, 2017 are $162.9 million.

b. Fund Deposits

Warrants

As authorized by the Act, the D.C. Federal Pension Fund and the Judicial Retirement Fund receive annual payments from the Treasury General Fund to cover administrative expenses for the year and amortize the unfunded liabilities of the retirement programs assumed by the Federal government over 30 years, the annual net experience gains or losses over 10 years, and any annual changes in actuarial liabilities over 20 years. The annual payment to the Judicial Retirement Fund also includes amounts necessary to fund the normal cost of the retirement program.

In accordance with the Act, the annual payments to the D.C. Federal Pension Fund and the Judicial Retirement Fund are calculated by an enrolled actuary. These funds are requested in September each year, and invested upon receipt in Government Account Series (GAS) non-marketable Treasury securities, with maturities and par amounts consistent with the expected payment dates and payout amounts of the pension liabilities.

The table reflects FY 2017 and FY 2016 annual payments from the Treasury General Fund:

Office of D.C. Pensions' Funds	**Annual Payments from the Treasury General Fund (in Millions)**		
	FY 2017	**FY 2016**	**Difference**
District of Columbia Federal Pension Fund	$452.2	$460.9	($8.7)
District of Columbia Judicial Retirement and Survivors Annuity Fund	$15.6	$14.2	$1.4
Totals	**$467.8**	**$475.1**	**($7.3)**

A major component of each of the above annual payments is the 30-year payment established in 1997 to amortize the unfunded liabilities of the retirement programs assumed by the Federal Government. There are 10 years remaining of these 30-year payments of $348.6 million for the D.C. Federal Pension Fund and $2.1 million for the Judicial Retirement Fund after which the original unfunded liabilities will be fully amortized.

The year-to-year differences in the annual payments from the Treasury General Fund resulted from the amortization of actuarial gains or losses in the current year, the re-amortization of remaining payments from previous amortizations, and completion of previous amortizations.

Interest

The amount of Interest Payments (deposits) in the table below reflects three sources of interest; interest earned on GAS long-term securities, interest earned on overnight securities, and interest earned through the amortization of discounts. There are two methods of calculating interest: the Interest Earned (recognized) reflects the amortization of premiums and discounts from GAS securities in the portfolio; while the Rate of Return is calculated by dividing interest earned from GAS securities by the average par value of investments in GAS securities. Interest Earned (recognized) and Rate of Return are driven primarily by the interest rates for available GAS non-marketable Treasury securities available at the time investments are placed. The FY 2017 and FY 2016 annual interest from the pension funds are summarized in the following tables:

Office of D.C. Pensions' Funds	**FY 2017 Annual Interest (in Millions)**		
	Interest Payments (deposits)	**Interest Earned (recognized)**	**Rate of Return**
District of Columbia Federal Pension Fund	$109.5	$50.6	2.29%
District of Columbia Judicial Retirement and Survivors Annuity Fund	$3.9	$3.4	2.44%
Totals	**$113.4**	**$54.0**	

Office of D.C. Pensions' Funds	FY 2016 Annual Interest (in Millions)		
	Interest Payments (deposits)	**Interest Earned** (recognized)	**Rate of Return**
District of Columbia Federal Pension Fund	$127.0	$51.4	2.48%
District of Columbia Judicial Retirement and Survivors Annuity Fund	$4.2	$3.6	1.46%
Totals	**$131.2**	**$55.0**	

Year-to-year differences in the Interest Earned (recognized) and Rates of Return are driven primarily by the interest rates for available GAS non-marketable Treasury securities available at the time investments are placed. Interest rates for more recent investments continues to be lower than prior years' investment rates for maturing investments, reducing the overall rate of return for the portfolio.

<u>Judges' Employee Contributions</u>

Active judges are required to contribute 3.5 percent of salary to the Judicial Retirement Fund to pay for part of the cost of their retirement benefits. Active judges who elect a survivor annuity contribute an additional 3.5 percent of salary.

The table below summarizes the contributions of active judges' contributions for the most recent fiscal years:

Office of D.C. Pensions' Fund	Employee Contributions from Active Judges (in Thousands)		
	FY 2017	**FY 2016**	**Difference**
District of Columbia Judicial Retirement and Survivors Annuity Fund	$819.4	$785.0	$34.4

Summary of Fund Deposits

The following table reflects the fund deposits to the D.C. Federal Pension Fund and the Judicial Retirement Fund for FY 2017 and FY 2016:

Office of D.C. Pensions' Funds (in Millions)			
Fund	**Type of Deposit**	**FY 2017**	**FY 2016**
District of Columbia Federal Pension Fund	Warrant	$452.2	$460.9
	Interest	$109.5	$127.0
	District Benefit Payments	$164.6	$147.6
	Post-1987 D.C. Health & Life Employer Payments	$11.5	$8.6
	STAR Administrative Expense Reimbursements	1.0	$1.6
District of Columbia Judicial Retirement and Survivors Annuity Fund	Warrant	$15.6	$14.2
	Interest	$3.9	$4.2
	Employee Contributions	0.8	$0.8
Totals	**Warrant**	**$467.8**	**$475.1**
	Interest	**$113.4**	**$131.2**
	Contributions	**$0.8**	**$0.8**
	Reimbursements and Payments	**$177.1**	**$157.8**

c. Collections

District Benefit Payments

Treasury pays all benefit payments under the Police Officers' and Firefighters' and Teachers' Retirement Plans from the D.C. Federal Pension Fund. DCRB makes an advance payment to the D.C. Federal Pension Fund prior to the last business day of the month for benefit payments made by Treasury on behalf of the District. The STAR Split Reimbursement Summary Report supports DCRB reimbursements made to Treasury each month.

Post-1987 D.C. Health & Life Insurance

Treasury pays the employer share of Post-1987 D.C. health and life insurance premiums from the D.C. Federal Pension Fund. The District makes an advanced payment to the

D.C. Federal Pension Fund prior to the last business day of the month for the premiums that are paid by Treasury on behalf of the District.

The table below summarizes reimbursement activity for the most recent fiscal years:

Office of D.C. Pensions' Fund	D.C. Health and Life Insurance Payments (in Millions)		
	FY 2017	FY 2016	Difference
District of Columbia Federal Pension Fund	$11.5	$8.6	$2.9

Refunds Reconciliation Project

In FY 2017, the Office completed the Refunds Reconciliation Project after receiving the final payment in the amount of $676 thousand for the District's share of 138 refund payments that Treasury made on behalf of the District for retirement contribution refunds funded by Treasury in FY 1998 and FY 1999. The refunds project involved reconciling all refunds made prior to February 2005 in order to determine the District liability. The Office collected approximately $17.6 million for the District's share of refunds paid by Treasury from October 1999 to February 2005.

STAR Administrative Expense Reimbursements

The Office and DCRB have developed a methodology for allocating STAR administrative costs incurred by the Office when administering Federal and District benefit payments. The methodology takes into consideration the number of 100 percent Federal annuitants, 100 percent District annuitants, and split annuitants. Applying this methodology, the Office and DCRB entered into a cost sharing agreement for reimbursement of FY 2017 actual expenses. The following table summarizes STAR administrative expense reimbursements for the most recent fiscal years:

Office of D.C. Pensions' Fund	Reimbursements for STAR Administrative Expenses (in Millions)		
	FY 2017*	FY 2016	Difference
District of Columbia Federal Pension Fund	$1.7	$1.5	$0.2

*Amount includes a receivable of $438 thousand for the fourth quarter of FY 2017.

The year-to-year differences in the reimbursements for STAR administrative expenses are driven primarily by STAR enhancement during FY 2017.

Debt Management

During FY 2017, the Office pursued debt prevention and collection efforts working with ARC Pension Payroll, which manages the debt collection process for the Office. The Office worked with ARC Pension Payroll and the Office of the General Counsel (OGC) to pursue debt prevention efforts and ensured approximately $1.1 million was immediately recovered upon timely notification of an annuitant's death or in cases of payment errors. In addition, $201 thousand was collected through offsets, lump sum payments or installment payments.

During FY 2017, the Office continued to pursue debt collection by collaborating with OGC, ARC Pension Payroll, and DCRB to streamline the due process for benefit changes and collection of debt. A Benefit Overpayment & Collection Re-engineering (BOCR) Project was established to provide annuitants and non-annuitants (those no longer eligible to receive a payment) with a clear explanation of their due process rights, minimize the burden on the annuitant and non-annuitant when making a request, and shorten the time from a request to a final agency decision. Beginning in FY 2018, the annuitants and non-annuitants will receive one letter to address the benefit changes, overpayments, and repayment options.

In FY 2018, the Office will continue to collaborate with ARC Pension Payroll and DCRB to ensure documents such as letters, Debt Manuals, Standard Operating Procedures, and Service Level Agreements are updated according to the newly identified process. Training will be held to ensure the Office, ARC Pension Payroll, and DCRB understand the new roles and responsibilities identified during the BOCR Project.

Additionally, the Office has an agreement with the Treasury's Bureau of the Fiscal Service, Debt Management Services' (DMS) Cross-Servicing Program. The FY 2017 agreement allows collection processes for delinquent debt through a number of tools including: issuing demand letters, conducting telephone follow-up calls, initiating skip tracing, referring debts for administrative offset, performing administrative wage garnishment, and referring debts to private collection agencies.

d. Investments

As required by the Act, amounts received in the D.C. Federal Pension Fund and the Judicial Retirement Fund are invested in non-marketable securities issued to mirror the characteristics of marketable securities. The Fiscal Service invests the assets of the D.C. Federal Pension Fund and the Judicial Retirement Fund based on investment guidance from the Office. The Office follows a "ladder" approach, scheduling maturities in amounts sufficient to meet the obligations to pay benefits and administrative expenses projected by annual actuarial valuations. Investment policy in the D.C. Federal Pension Fund and the Judicial Retirement Fund strikes a balance between ensuring the Office can meet short-term obligations and extending the ladder.

In FY 2017, the cash balances in the D.C. Federal Pension Fund and Judicial Retirement Fund, available for contingencies, were targeted to remain above $95.0 million and $2.5 million, respectively, which represent approximately two months of federal obligations. Typically, the Office invests the cash balance in one-day certificates, except for an uninvested balance of $500 thousand at month-end to cover unanticipated withdrawals on the last day of the calendar month. In FY 2017, the Office extended the maturity dates of securities in the D.C. Federal Pension Fund to November 2023 and for securities in the Judicial Retirement Fund to August 2027.

Investments are valued at cost, and, if applicable, adjusted for unamortized premiums and discounts. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method.

The following table reflects the net investments breakdown as of September 30th for the two most recent years:

Office of D.C. Pensions' Funds	FY 2017 Net Investments (in Millions)		
	FY 2017	**FY 2016**	**Difference**
District of Columbia Federal Pension Fund	$3,839.8	$3,889.4	$(49.6)
District of Columbia Judicial Retirement and Survivors Annuity Fund	$162.3	$155.7	$6.6
Totals	**$4,002.1**	**$4,045.1**	**$(43.0)**

e. Payments

Annuity Federal Benefit Payments

Treasury pays all federal benefit payments under the Police Officers' and Firefighters', Teachers', and Judges' Retirement Plans.

The following table summarizes the FY 2017 and FY 2016 Federal benefit payments:

Office of D.C. Pensions' Funds	Federal Benefit Payments (in Millions)		
	FY 2017	**FY 2016**	**Difference**
District of Columbia Federal Pension Fund	$540.2	$541.8	$(1.6)
District of Columbia Judicial Retirement and Survivors Annuity Fund	$12.0	$11.4	$0.60
Totals	**$552.2**	**$553.2**	**$(1.0)**

Refunds of Employee Contributions

DCRB processes refunds of contributions for active police officers, firefighters, and teachers, and later, requests reimbursement from the Office for the Federal portion of those refund payments. The Office processes refunds of contributions for active judges. In FY 2017, the Office processed a refund for one active judge. The table below summarizes the refunds of employee contributions processed in the two most recent fiscal years:

Office of D.C. Pensions' Funds	**Refunds of Federal Portion of Employee Contributions (in Whole Dollars)**		
	FY 2017	**FY 2016**	**Difference**
District of Columbia Federal Pension Fund	$115,368	$78,692	$36,676
District of Columbia Judicial Retirement and Survivors Annuity Fund	$78,284	$271,711	$(193,427)

The year-to-year differences in the refunds are driven by year-to-year differences in employee terminations; as well as, FY 2016 having experienced two judges' refunds.

Benefit Administration Expense Reimbursements

The Office reimburses DCRB for administrative expenses incurred in administering Federal benefit payments. The Office and DCRB have developed a methodology for estimating costs incurred by DCRB while administering Federal and District benefit payments and entered into a cost sharing agreement for reimbursement of FY 2017 actual expenses. The methodology takes into consideration: (1) the number of active employees, 100 percent Federal annuitants, 100 percent District annuitants, and split annuitants; (2) the estimated DCRB resources needed to support these populations; (3) the number of employees throughout DCRB who are dedicated to supporting the benefits administration function; and (4) the level of effort associated with processing Federal benefit payments.

The table below is an estimate of the amounts the Office expects to reimburse DCRB for FY 2017 administrative expenses incurred while administering Federal benefit payments and the actual reimbursement for FY 2016:

Office of D.C. Pensions' Fund	**Reimbursements to DCRB for Administrative Expenses (in Millions)**		
	FY 2017*	**FY 2016**	**Difference**
District of Columbia Federal Pension Fund	$3.1	$3.0	$0.1

*Amount includes third and fourth quarters estimates for FY 2017.

Administrative Expenses

The Office funds administrative expenses from the D.C. Federal Pension Fund and the Judicial Retirement Fund. When administrative expenses related to activities that benefit all of the retirement programs occur, expenses are usually allocated 99 percent to the D.C. Federal Pension Fund and one percent to the Judicial Retirement Fund. The allocation percentages are based on the number of annuitants covered by each Fund. When expenses benefit only one group, or when a different allocation is clearly appropriate, expenses are charged accordingly.

The Office's major administrative expenses consisted of DCRB benefit administration (discussed above), the Office's staff salaries, and contractors engaged to provide benefit administration and IT system support.

The following table reflects administrative expenses by fund for two most recent fiscal years:

Office of D.C. Pensions' Funds	**Administrative Expenses (in Millions)**		
	FY 2017	**FY 2016**	**Difference**
District of Columbia Federal Pension Fund	$17.7	$15.9	$1.8
District of Columbia Judicial Retirement and Survivors Annuity Fund	$1.3	$1.0	$0.3
Totals	**$19.0**	**$16.9**	**$2.1**

In FY 2017, the Office was again subject to the Sequestration under the Bipartisan Budget Act of 2015 (Public Law 114-74) which modified the caps on defense and nondefense funding for Fiscal Year 2017 that were established by the Budget Control Act of 2011. The Office of Management and Budget (OMB) issued a report to the Congress on the Joint Committee Reductions for Fiscal Year 2017. OMB prepared the report consistent with the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended. The report provided calculations of the amounts by which FY 2017 direct spending is required by section 251A of BBEDCA to be reduced and listed the required reductions for each non-exempt budget account with direct spending.

Based on this report, the Office identified the District of Columbia Federal Pension Fund and the District of Columbia Judicial Retirement and Survivors Annuity Fund as budget authority subject to sequestration. Although reductions due to sequestration had no impact on payments to annuitants, the Office absorbed these reductions in FY 2017 in the area of administrative expenses by delaying approved hiring actions and delaying the award of several contract actions (postponing planned projects).

The table below summarizes these reductions for the two most recent fiscal years:

Fund	Payment Type	Sequestration Impact (in Millions)		
		FY 2017	FY 2016	Difference
District of Columbia Federal Pension Fund	Annuitant Benefit Payments	$0.0	$0.0	$0.0
	Administrative Expenses	$1.2	$1.3	$(0.1)
District of Columbia Judicial Retirement and Survivors Annuity Fund	Annuitant Benefit Payments	$0.0	$0.0	$0.0
	Administrative Expenses	$0.1	$0.1	0.0
Total Reduction due to Sequestration		**$1.3**	**$1.4**	**$(0.1)**

Unless language within the Sequestration Transparency Act of 2012 is changed by Congress, the Office will continue to be subject to sequestration reductions until 2021 and will comply with implementation guidance issued by OMB and the Department of the Treasury.

<u>Improper Payments Elimination and Recovery Improvement Act</u>

In FY 2017, the Office was proactive in its efforts to comply with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). Newly established Treasury guidelines for FY 2017 required agencies to report the amount of fraud confirmed within FY 2017. Preliminary meetings with internal and external entities were held in order to gather and compile data efficiently and sufficiently to resolve any discrepancies the Office data may present against the data provided by the Office's shared service provider. The Office worked extensively with ARC's IPERIA Team to analyze the various types of payments disbursed by the Office and reported these results using a standardized, risk-based model. Additionally, the Office reported and reviewed results from ongoing internal benefit payment quality reviews. The Office will continue to work with Treasury's Office of the Deputy Chief Financial Officer (ODCFO) to comply with IPERIA reporting requirements.

In March 2017, the Office of the Inspector General (OIG) selected the Office as part of its IPERIA Compliance Audit for the Office's submission of the FY 2016 Payment Recapture Audit Spreadsheet reporting requirement. The OIG auditor reviewed supporting documentation provided by the Office and did not note any matters involving FY 2016 IPERIA activities that it considered to be significant, or any instances of noncompliance with laws and regulations.

Prompt Payment Act and Electronic Invoice Payments

The Prompt Payment Act was enacted to ensure that suppliers doing business with the Federal Government are paid by the government in a timely manner. The Office paid 100 percent of the 91 invoices received within the required timeframes.

f. Financial Operations

Accounting Support

Pursuant to an Interagency Agreement (IAA) with ARC, ARC Fiscal Accounting provides accounting support services that include processing accounting transactions such as commercial invoices, purchase cards, obligations, accruals, and revenue transactions. Transaction processing consists of a full range of accounting transactions necessary to maintain a complete general ledger, including budgetary transactions, accounts payable, accounts receivable, and fixed assets. ARC Fiscal Accounting uses Oracle Federal Financial (Oracle) as the core financial management system to record and process financial transactions. The Office's transactions are entered into Oracle, both manually and via custom interfaces, from ancillary systems such as PRISM and Concur Government Edition (CGE). Accounting entries that are recorded in the Oracle accounting system are supported by Treasury Financial Manual (TFM) to ensure compliance with standard general ledger reporting requirements. ARC Fiscal Accounting also prepares the Office's financial statements and other useful data for managerial reporting.

ARC Fiscal Accounting also provides a report writer package called Discoverer, which allows the Office to generate various accounting reports to monitor obligations and expenditures. Discoverer will be replaced by Oracle Business Intelligence (OBI) during the second quarter of FY 2018. Discoverer will be available in parallel to OBI for the remainder of FY 2018.

In FY 2018, ARC will offer a cloud-based solution by OneStream to the Office for financial statement consolidation and reporting, including financial statements, notes and publishable annual financial reports. The Office will be implementing the OneStream solution by June 2018.

g. Actuarial Valuation

In FY 2017, the Office's actuarial contractor performed the annual actuarial valuation for the Office, as required by the Act. The actuarial valuation is used to determine the pension liability of the retirement programs administered by the Office. The actuarial liability, as of October 1, 2017, was determined using the demographic rates from the FY 2014 experience study, with the exception of the base mortality table for the Judges' Retirement Plan which was changed from the RP-2000 table to the RP-2014 table, with future mortality improvement and economic assumptions in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 33, *Pensions, Other Retirement Benefits, and Other*

Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates. The Federal Government's total liability for Federal benefit payments for the Police Officers' and Firefighters' Retirement Plan, Teachers' Retirement Plan, and Judges' Retirement Plan is summarized in the table below for the two most recent years.

Office of D.C. Pensions' Funds	FY 2017 Actuarial Pension Liability (in Millions)		
	FY 2017	FY 2016	Difference
District of Columbia Federal Pension Fund	$8,479.5	$8,650.3	$(170.8)
District of Columbia Judicial Retirement and Survivors Annuity Fund	$248.1	$231.5	$16.6

The year-to-year differences in the actuarial pension liability are driven primarily by actuarial gains and losses associated with demographic experience and changes in economic assumptions.

Other key results from the October 1, 2017, actuarial valuation report can be found on Page 70 of this Annual Report.

C. *Program is effectively managed and pursues continuous improvement*

1. Program Results

a. The Office of D.C. Pensions Celebrated the 20th Anniversary of the Balanced Budget Act

On August 5, 2017, the 20th anniversary of the enactment of Title XI of the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251, 712) occurred. The Office is proud of its 20 years of excellence in meeting the Department of the Treasury's responsibilities under this legislation. Over the past 20 years, the Office has worked closely with various District and Treasury entities to carry out the provisions of the law and to ensure the Office's vision and mission were met. These entities worked tirelessly in the early years to ensure the Balanced Budget Act requirements were executed through enactment of Memoranda of Understanding and Federal Regulations. The responsibility for benefit administration for the Police Officers' and Firefighters', and Teachers' Retirement Plans was transitioned from the District to DCRB.

A new information technology system, STAR, was developed by the Office to provide pension/payroll services by calculating the total pension payment owed to each annuitant, and calculating the split portion of the payment in situations where the annuitant accrued benefits before, during, and after June 30, 1997. The Office is responsible for administering the Judges' Retirement Plan. Fiscal Service, ARC has supported many functions over the years including investments, accounting, annuitant payroll, debt collection, and information systems.

b. Long-Term Strategic Planning

In FY 2017, the Program Management Group (PMG) members continued to focus attention on the Office's major functional areas and other issues that will have longer term impact. The PMG completed their revision of the Multi-Year Plan in November 2016. The Multi-Year Plan was updated to reflect a three year period, FY 2017 through FY 2019.

In FY 2018, the PMG will track the performance indicators that were developed along with the FY 2017 through FY 2019 Multi-Year Plan to ensure that the Office and its business partners make progress toward achieving the results contemplated in the Plan.

c. Program Management

A key component of program management involves setting the Office's annual priorities. In FY 2017, the priorities focused on the annual financial statements audit and actuarial valuation; records management; internal controls assessment; business strategy; filling new positions, and transitioning the new staff into the organization.

In FY 2018, the Office's major priorities will include the annual financial statements audit and actuarial valuation, management of records and retention of emails and paper/electronic documents, and implementing SharePoint 2013. In addition, the Office will review various processes to ensure benefit payments are accurate and timely and the program is effectively managed by beginning a long-term business planning effort.

d. Capstone Project

During FY 2017, the Office initiated the ground work to improve electronic records management and email records. Guided by the requirements set forth in the Federal Records Act, the Office of Management and Budget (OMB) Memorandum M-12-18 – Managing Government Records Directive for federal agencies to manage email records, and National Archives and Records Administration Bulletin 2013-2, the Office made significant strides. In collaboration with Treasury's Office of Privacy, Transparency and Records and the Office of the Chief Information Officer, the Office determined an approach to archiving and safeguarding critical email records at risk of deletion during Treasury's Capstone implementation. Email inboxes that house permanent records continue to be cleaned, categorized, and maintained for migration to a centralized archiving mechanism.

In FY 2018, the Office will intensify efforts to strengthen email records management practices. The Office will explore potential approaches best suited to manage email records from their creation or receipt to disposal or destruction.

e. Service Level Agreements

The Office has Service Level Agreements (SLAs) in place with the DCRB for benefit administration and with Fiscal Service, ARC for the STAR administration and hosting, and annuitant payroll operations. In FY 2017, the SLAs were reviewed and revised to more accurately define responsibilities, required services, and reporting requirements for service providers and to ensure the Office is providing high quality service to annuitants.

The FY 2018 SLAs were revised to target areas identified in FY 2017 that required more focus by the Office to achieve acceptable quality level for the required services. In FY 2018, the Office will monitor results from the updated SLAs.

f. Quality Program

Benefits Administration

As part of the Office's Quality Program, a quality plan was used to review benefit administration activities and was expanded to include not only new payments, but recalculated and reinstated payments. In FY 2017, the benefits administration quality plan was reviewed and revised to ensure benefits processing errors are identified. Also, in FY 2017, the Office's staff and benefits administration contractors conducted quality reviews for annuitant payments. In FY 2017, the Office continued to provide appropriate feedback to the DCRB to assess training needs for the staff.

The Office's benefit administration contractors will continue to support quality reviews in FY 2018.

Annuitant Payroll Administration

The Office's Quality Program includes reviews of annuitant payroll processing functions. The Office reviews preliminary and final payroll statistics, large annuitant payments, and third-party payroll reporting. In addition to the aforementioned reports, each month the Office monitors death audit verification, Do Not Pay (DNP) notifications, split discrepancies, pending issues escalated for resolution, checks which have not been cashed for an extended period of time, and payment reclamations. In FY 2017, the Office enhanced the review of monthly preliminary statistics data and final payroll statistics reports. The review was enhanced by including additional queries to identify potential issues in the current pay period and conducting a more thorough analysis of the payroll file to identify trends when comparing multiple pay periods.

In FY 2018, the Office will enlist the support of contractors to conduct an analysis of the current review of the annuitant payroll files; develop new queries, identify trends, recommend process improvements, develop standard operating procedures, and provide training. The contractors will assist the Office and DCRB with techniques to improve reviews prior to making benefit payments to annuitants.

System Administration

During FY 2017, the Office continued to include system administration activities and the review of user accounts in its Quality Program. The quality plan tracks system availability, number and type of open production trouble tickets and completion time of trouble tickets. As part of the quality review, user accounts are reviewed semi-annually to ensure that users have the least amount of access privileges necessary to perform their duties. The semi-annual reviews are used by the Office to manage resources, maintain system security, and track the quality of STAR production support and hosting services. Additionally, in FY 2017, the Office rolled out monthly active account verification reviews to ensure departing employee accounts are locked/terminated in a timely manner. In FY 2018, the Office will begin to monitor the time it takes to refresh the STAR development environments. The refresh time can become critical in the event of a need for an emergency fix.

g. Office of D.C. Pensions Program Performance Reporting

In FY 2017, the Office tracked, collected, and reported performance data in an effort to continue to promote transparency, and improve decision making using the performance measurement reporting tool. The performance measures are reported and reviewed during the Office's monthly status meeting. The performance data is utilized to make improvements in program management areas, such as operational planning and resource needs assessments.

h. Risk Management Program

In FY 2017, the Office revised its Risk Management Program to meet the revised Office of Management and Budget Circular A-123 requirements. Specifically, the Office implemented a more comprehensive and effective enterprise risk management approach to identify, assess, and monitor risks.

In FY 2018, the Office will develop a Fraud Risk Management Framework to be included in the Risk Management Plan. This framework will be developed in accordance with guidance from the Government Accountability Office (GAO) Framework for Managing Fraud Risks in Federal Programs, which outlines fraud risk management strategies to manage fraud risk and ensure the integrity of federal programs.

i. Internal Control Program

In FY 2017, the Office developed several management documents for implementation in FY 2018 and future years. With contractor support, the Office developed a summary of risks and a GAP analysis of its current Internal Control design. The Office plans to use these tools to develop and strengthen the existing Internal Control and OMB Circular A-123 processes in FY 2018.

During FY 2017, the Office resolved one of two Notice of Findings and Recommendations (NFRs) related to STAR from the FY 2016 Balance Sheet Audit. The Office worked closely with Fiscal Service to identify appropriate roles and responsibilities, as outlined in the STAR Auditing and Logs document, which were updated to reflect Fiscal Service's processes. However, during the FY 2017 financial statements audit, a repeat finding in this area was cited by the external auditors. In FY 2018, the Office will implement corrective actions that will enhance the review of audit logs and documentation.

In FY 2017, the Office also addressed an NFR issued in FY 2016 related to the Office's internal control over the review of the actuarial pension liability and subsequent event procedures. The Office continues to refine its execution and documentation of control procedures to ensure that newly developed policies and procedures are being adhered to, and that the results are documented appropriately for the actuarial pension liability and subsequent event procedures. During the FY 2017 financial statements audit, the Office successfully addressed the FY 2016 NFR.

In FY 2018, the Office will be developing the Internal Control Management Plan, along with executing process improvements identified through the Office's Internal Control Evaluation and Disposition Plan for Processing Recommendations. In addition, the Office will again use contractors to assist with meeting OMB Circular A-123 requirements.

j. Internal Control over Reporting

During FY 2017, the Office also conducted a review of internal control over reporting as required by OMB Circular A-123, Appendix A. The Office used the FY 2017 Guidance and Implementation Plan provided by the ODCFO to conduct the review on internal control over reporting. The Office's assessment of the effectiveness of internal controls over reporting as of September 30, 2017, included the review of core financial processes and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. The scope of the assessment was limited to the following:

- The Financial Statement lines that met the 1.5 percent of Treasury line materiality threshold and 10 percent of the Office's contribution threshold;
- Treasury-designated mandatory transactions required by all bureaus and offices to test; and
- Transactions that were determined to be qualitatively significant to the Office.

The aforementioned assessment lead the Office to develop three new test plans in FY 2017, in addition to the nine reoccurring test plans from prior years. The plans included Gains/Losses Due to Changes in Actuarial Assumptions, Earned Revenue, and the Benefit Administration Quality Review Process. The overall results for all 12 test plans developed and executed by the Office in FY 2017 were in compliance with OMB Circular A-123, Appendix A and operating effectively as management intended.

In FY 2018, the Office intends to rotate test plans to allow for other areas be evaluated. This will ensure proper oversight to all areas of operations covered under the OMB Circular A-123, Appendix A.

k. Financial Statement Audit Opinion

KPMG LLP (KPMG), an independent public accounting firm, rendered an unmodified opinion on the Office's FY 2017 Consolidated Financial Statements.

KPMG noted no material weakness in the Office internal controls over financial reporting. Also, results of KPMG's tests of compliance with laws and regulations disclosed no instances of noncompliance or other matters that require reporting under Government Auditing Standards or OMB Bulletin No. 17-03, Audit Requirements for Federal Financial Statements.

IV. Limitation of the Financial Statements

The consolidated financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of the Office of D.C. Pensions (the Office), pursuant to the requirements of the 31 U.S.C. 351(b).

While the consolidated financial statements have been prepared from the books and records of the Office in accordance with U.S. generally accepted accounting principles for federal entities and the formats prescribed by the Office of Management and Budget, the consolidated financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The consolidated financial statements should be read with the realization that it is for a component of the U.S. Government, a sovereign entity.

PART 2

INDEPENDENT AUDITORS' REPORTS

Office of D.C. Pensions
Celebrating 20 Years of Excellence!

Milestones in the History of the Program

The 2000's

2001: Office of D.C. Pensions Regulations become effective

2001 – 2002: Parkersburg's support for the System to Administer Retirement and the Pension Payroll Team become operational

January 2003: System to Administer Retirement issues first payments to District Judges

2004: Year of the "Big Hire"

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, U.S. Department of Treasury, and
Director, Office of D.C. Pensions:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Treasury's Office of D.C. Pensions (ODCP), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources for the year ended September 30, 2017, and the related notes to the consolidated financial statements. The accompanying consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources and related notes for the year ended September 30, 2016 were not audited, reviewed, or compiled by us, and, accordingly, we do not express an opinion or any other form of assurance on them.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to ODCP's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ODCP's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Treasury's Office of D.C. Pensions as of September 30, 2017 and 2016, and its net costs, changes in net position, and budgetary resources for the year ended September 30, 2017, in accordance with U.S. generally accepted accounting principles.

Other Matters

The accompanying consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources and related notes for the year ended September 30, 2016 were not audited, reviewed, or compiled by us, and, accordingly, we do not express an opinion or any other form of assurance on them.

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Annual Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Message from the Director and the Other Information included in Part 5 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2017 on our consideration of ODCP's internal control over financial reporting and our report dated December 7, 2017 on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in

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accordance with Government Auditing Standards in considering ODCP's internal control over financial reporting and compliance.

KPMG LLP

Washington, DC
December 7, 2017

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Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of U.S. Department of the Treasury's Office of D.C. Pensions (ODCP), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources for the year ended September 30, 2017, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 7, 2017. We did not audit, review, or compile the consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the year ended September 30, 2016 and related notes.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2017, we considered ODCP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ODCP's internal control. Accordingly, we do not express an opinion on the effectiveness of ODCP's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of ODCP's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ODCP's internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington DC
December 7, 2017

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report on Compliance and Other Matters

Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the U.S. Department of Treasury's Office of D.C. Pensions (ODCP), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources for the year ended September 30, 2017, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 7, 2017. We did not audit, review, or compile the consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the year ended September 30, 2016 and related notes.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ODCP's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on ODCP's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ODCP's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington DC
December 7, 2017

PART 3

FINANCIAL STATEMENTS AND NOTES

Office of D.C. Pensions
Celebrating 20 Years of Excellence!

Milestones in the History of the Program

The 2000's continued…

August 2005: System to Administer Retirement processes entire population of District Police Officers, Firefighters, Teachers, and Judges

September 2005: District of Columbia Retirement Board becomes Interim Benefits Administrator for District Police Officers, Firefighters, and Teachers; the Office of D.C. Pensions ends Interim Judges' Benefit Period and assumes benefits administration of the District Judges' Retirement Plan

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheets
As of September 30, 2017 and September 30, 2016
(in thousands)

		2017		2016
Assets:				
Entity Assets				
Intragovernmental				
Fund Balance with Treasury (Note 2)	$	1,554	$	504
Investments, Net (Note 3)		4,002,090		4,045,051
Interest Receivable		26,425		30,175
Total Intragovernmental		4,030,069		4,075,730
Accounts Receivable, Net (Note 4)		2,009		3,155
Taxes Receivable		-		3
Total Assets	$	4,032,078	$	4,078,888
Liabilities:				
Intragovernmental				
Accounts Payable	$	256	$	74
Accrued Payroll and Benefits		31		18
Total Intragovernmental		287		92
Accounts Payable		2,894		4,504
Advances from Others		15,653		13,810
Accrued Pension Benefits Payable		45,967		45,832
Actuarial Pension Liability (Note 7)		8,681,608		8,835,982
Accrued Payroll and Benefits		378		330
Total Liabilities		8,746,787		8,900,550
Net Position:				
Cumulative Results of Operations		(4,714,709)		(4,821,662)
Total Net Position		(4,714,709)		(4,821,662)
Total Liabilities and Net Position	$	4,032,078	$	4,078,888

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Net Cost
For the Years Ended September 30, 2017 and September 30, 2016
(in thousands)

	2017	Unaudited 2016
Program Costs		
Administrative Expenses (Note 6)	*$ 18,881*	*$ 16,957*
District Benefit Payments and Employer Share of DC Health and Life Plans	*174,221*	*142,597*
Pension Expense before Actuarial Assumption Changes (Note 7)	*133,836*	*47,718*
Total Program Costs	*326,938*	*207,272*
Less: Earned Revenues (Note 5)		
Reimbursable Income	*175,178*	*143,745*
Interest Earned	*54,056*	*54,924*
Employee Contributions	*819*	*785*
Total Earned Revenues	*230,053*	*199,454*
Net Expense Before Loss from Actuarial Assumption Changes	*96,885*	*7,818*
Loss on Actuarial Assumption Changes, Net (Note 7)	*264,083*	*492,145*
Net Cost of Operations	*$ 360,968*	*$ 499,963*

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2017 and September 30, 2016
(in thousands)

	2017	Unaudited 2016
Cumulative Results of Operations:		
Net Position - Beginning of Year	*$ (4,821,662)*	*$ (4,796,938)*
Budgetary Financing Sources:		
Appropriations Used	*467,782*	*475,082*
Other Financing Sources (Nonexchange):		
Imputed Financing	*139*	*157*
Total Financing Sources	*467,921*	*475,239*
Net Cost of Operations	*(360,968)*	*(499,963)*
Net Change	*106,953*	*(24,724)*
Cumulative Results of Operations	*$ (4,714,709)*	*$ (4,821,662)*
Unexpended Appropriations:		
Beginning Balance	*$ -*	*$ -*
Budgetary Financing Sources		
Appropriations Received	*467,782*	*475,082*
Appropriations Used	*(467,782)*	*(475,082)*
Total Budgetary Financing Sources	*-*	*-*
Total Unexpended Appropriations	*-*	*-*
Net Position	*$ (4,714,709)*	*$ (4,821,662)*

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2017 and September 30, 2016
(in thousands)

	2017	Unaudited 2016
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 13,810	$ -
Recoveries of Prior Year Unpaid Obligations	3,449	526
Other Changes in Unobligated Balances	758	786
Unobligated Balance from Prior Year Budget Authority, Net	18,017	1,312
Appropriations (Discretionary and Mandatory)	1,034,097	1,043,555
Spending Authority from Offsetting Collections	177,020	157,555
Total Budgetary Resources	$ 1,229,134	$ 1,202,422
Status of Budgetary Resources:		
Obligations Incurred	$ 1,213,481	$ 1,188,612
Exempt from Apportionment	15,653	13,810
Unobligated balance brought forward, end of year	15,653	13,810
Total Status of Budgetary Resources	$ 1,229,134	$ 1,202,422
Change in Obligated Balance		
Unpaid Obligations, Brought Forward, October 1	$ 57,210	$ 69,253
Obligations Incurred	1,213,481	1,188,612
Outlays (Gross)	(1,213,877)	(1,200,129)
Recoveries of Prior Year Unpaid Obligations	(3,449)	(526)
Unpaid Obligations, End of Year (Gross)	53,365	57,210
Obligated Balance, End of Year	$ 53,365	$ 57,210
Budget Authority and Outlays, Net		
Budget Authority, Gross (Discretionary and Mandatory)	$ 1,211,117	$ 1,201,110
Actual Offsetting Collections (Discretionary and Mandatory)	(177,778)	(158,341)
Recoveries of prior year paid obligations (Discretionary and Mandatory)	758	786
Budget Authority, Net (Discretionary and Mandatory)	$ 1,034,097	$ 1,043,555
Outlays, Gross (Discretionary and Mandatory)	$ 1,213,877	$ 1,200,129
Actual Offsetting Collections (Discretionary and Mandatory)	(177,778)	(158,341)
Outlays, Net (Discretionary and Mandatory)	1,036,099	1,041,788
Distributed Offsetting Receipts	(568,742)	(585,552)
Agency Outlays, Net (Discretionary and Mandatory)	$ 467,357	$ 456,236

The accompanying notes are an integral part of these financial statements.

1) Summary of Significant Accounting Policies

a. Reporting Entity

Under provisions in Title XI of the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251, 712), as amended (the Act), the Secretary of the Treasury (the Secretary) assumed certain responsibilities for a specific population of annuitants under the following District of Columbia (District) retirement plans: the Police Officers' and Firefighters' Retirement Plan, the Teachers' Retirement Plan and the Judges' Retirement Plan. Specifically, the Secretary is responsible for administering the retirement benefits earned by District teachers, police officers and firefighters based upon service accrued prior to July 1, 1997, and retirement benefits earned by District judges, regardless of when service accrued.

The Secretary's responsibilities include: (1) making accurate and timely benefit payments; (2) investing fund assets; and (3) funding pension benefits. To carry out these responsibilities, the Office engages in a wide range of legal, policy and operational activities in the areas of benefits administration, information technology, financial management and administration. The Office coordinates with many District entities and stakeholders to administer its responsibilities.

The Office reports to the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR). The DASHR reports to the Assistant Secretary for Management (ASM). ASM reports through the Deputy Secretary to the Secretary of the Treasury.

District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Public Law 108-489, Treasury established the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund – 20X5511). Effective October 1, 2004, the assets and liabilities of the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund - 20X8230) and the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund – 20X5500) were transferred to the D.C. Federal Pension Fund. The D.C. Federal Pension Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans under the provisions of the Act.

The D.C. Federal Pension Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred from the Trust Fund and the Supplemental Fund, which included the proceeds of assets transferred to Treasury from the District of Columbia Retirement Board (DCRB) pursuant to the Act;
- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the D.C. Federal Pension Fund;
- Reimbursement from DCRB for the District's share of annuitant benefits paid from the D.C. Federal Pension Fund (see Note 1h for additional information);
- Reimbursement from the District for the District's employer contribution for Post-87 D.C. Health and Life benefits; and
- Reimbursement of the Office's actual expenses incurred in support of administering District benefit payments.

The portion of the D.C. Federal Pension Fund that is not needed to meet the level of current Federal benefit payments, refunds, and net administrative expenses is invested in non-marketable Government Account Series (GAS) securities issued by the Bureau of the Fiscal Service. Investments are made in securities with maturities suitable to the needs of the D.C. Federal Pension Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the D.C. Federal Pension Fund (from the General Fund of the Treasury) an annual amortization amount and, beginning in FY 2009, the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The amounts paid into the D.C. Federal Pension Fund during FY 2017 and FY 2016 were $452.2 million and $460.9 million, respectively.

District of Columbia Judicial Retirement and Survivors Annuity Fund

Pursuant to the Act, Treasury established the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund – 20X8212).

The Judicial Retirement Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses of the Judges' Retirement Plan under the provisions of the Act.

The Judicial Retirement Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred to Treasury from DCRB pursuant to the Act;
- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the Judicial Retirement Fund; and
- Employee contributions to the Judicial Retirement Fund.

The portion of the Fund that is not needed to meet the level of current benefit payments, refunds and net administrative expenses is invested in GAS securities. Investments are made in securities with maturities suitable to the needs of the Judicial Retirement Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the Judicial Retirement Fund (from the General Fund of the Treasury) an amount equal to the normal cost for the year, an annual amortization amount, and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liability of the retirement program assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program not covered by employee contributions. The amounts paid into the Judicial Retirement Fund during FY 2017 and FY 2016 were $15.6 million and $14.2 million, respectively.

b. Basis of Accounting and Presentation

The Office is presenting Consolidated Financial Statements that consist of the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the related notes. The Consolidated Financial Statement Notes consist of a summary of significant accounting policies and other relevant explanatory information. The Consolidated Financial Statements have been prepared from the accounting records of the Office in accordance with accounting principles generally accepted in the United States of America for federal entities. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is designated by the American Institute of Certified Public Accountants as the official accounting standards-setting body for the Federal Government.

The Consolidated Financial Statements present balances and activities of the D.C. Federal Pension Fund and the Judicial Retirement Fund. There were no transactions between the Funds that require elimination during consolidation.

c. Fund Balance with Treasury

Fund Balance with Treasury represents appropriated funds from which the Office is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law.

d. Investments, Net

Pursuant to the Act and Section 130 of Division A of Public Law 105-277 (1998), the Secretary invests the assets of the D.C. Federal Pension Fund and the Judicial Retirement Fund in GAS, market-based (“MK”) securities — special non-marketable Treasury securities that mirror the prices of marketable securities with similar terms, issued and redeemed by Fiscal Service. The Office follows Treasury's investment policy guidelines and determines whether the investments should be made in MK bills, MK notes, or MK bonds. The maturities on investments range from less than one year to approximately ten years.

Amounts that are not necessary to meet current obligations are invested in MK securities. Amounts needed to meet current obligations are invested overnight in one-day MK securities, which are redeemed at face value plus accrued interest. If amounts held in cash, overnight securities and maturing securities are inadequate to meet required outlays, investments would be selected for redemption based on a review of the advantages of each of the alternatives and an assessment of the appropriateness of the securities in the portfolio under current investment policy.

Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method.

e. Accounts Receivable, Net

Accounts receivable consist primarily of:

- The amount due from the D.C. Government for the District's share of benefits paid by the Office to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period;
- Pending amounts due from annuitants as a result of benefit overpayments that have not completed collection due process; and
- Amounts due from annuitants as the result of benefit overpayments.

f. Advances from Others

As previously stated in Note 1a, the Office is authorized to disburse funds for the District's share of monthly benefits, and the employer contribution for Post-87 Health and Life benefits, and, under a memorandum of understanding with the District, the Office is to receive an advance of these monies prior to the actual disbursements. Once the Office disburses funds on behalf of the District, earned revenues are generated and recognized in the period in which actual disbursements occur.

g. Accrued Pension Benefits Payable

Accrued pension benefits payable relate primarily to retirement benefits to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period. This accrual may also include amounts for refund claims for which processing was not completed during the reporting period, but will be paid in the subsequent period.

h. Actuarial Pension Liability

The actuarial cost method used to determine costs for the Police Officers' and Firefighters' Retirement Plan, Teachers' Retirement Plan, and Judges' Retirement Plan is the Individual Entry Age Normal Cost Method. Under this funding method, the normal cost is a level percent of covered salary, which, along with the member contributions (under the Judges' Plan only), will pay for projected benefits at retirement for the active plan participants. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial pension liability. The economic assumptions (rate of return, inflation, and salary increases) are based upon the requirements of SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*.

To calculate the actuarial pension liabilities as of October 1, 2017, the Office used a 100-year yield curve of spot rates developed by Treasury's Office of Economic Policy. The yield curve is based on a 10-year average of quarterly rates, consistent with the requirements of SFFAS No. 33. The assumptions for inflation and salary increases were also the average of 10-year historical values. The assumptions used to calculate the pension liabilities as of October 1, 2017, were spot rates gradually increasing from 0.71 percent to discount FY 2018 payments, to a maximum of 4.03 percent to discount longer term payments; annual inflation and cost-of-living adjustments of 1.69 percent for judges, 1.86 percent for teachers, and 1.82 percent for police officers and firefighters; and salary increases at an annual rate of 1.08 percent for judges, 3.00 percent for teachers, 1.80 percent for police officers, and 2.20 percent for firefighters.

The assumptions used to calculate the pension liabilities as of October 1, 2016, were spot rates gradually increasing from 1.12 percent to discount FY 2017 payments, to a maximum of 4.17 percent to discount longer term payments; annual inflation and cost-of-living adjustments of 1.99 percent for judges, 1.90 percent for teachers, and 1.87 percent for police officers and firefighters; and salary increases at an annual rate of 1.15 percent for judges, 3.00 percent for teachers, 2.00 percent for police officers, and 2.20 percent for firefighters.

The economic assumptions used by the Office for the Police Officers' and Firefighters', Teachers', and Judges' Retirement Plans differ from those used by OPM for the following reasons: (1) the annual rate of salary increase assumptions are based on different plan member experience; (2) the annual rate of inflation and cost-of-living adjustment assumptions are based on different statutory requirements (applicable Consumer Price Index and period of calculation); and (3) for the discount rate assumption, OPM and the Office use Treasury spot rate yield curves, but the averaging periods differ and OPM converts the yield curve to a single equivalent rate while for teachers, police officers, and firefighters, the Office uses the individual yield curve rates.

i. Appropriations Received and Used

Treasury is required to make annual payments from the General Fund of the Treasury to the D.C. Federal Pension Fund and Judicial Retirement Fund and to amortize the original unfunded liabilities assumed by the Federal Government and any subsequent changes in liabilities over a period of time and to fund the normal cost and necessary administrative expenses of the D.C. Federal Pension Fund and the Judicial Retirement Fund. The appropriations are received into the Office's appropriation funds and are transferred out to the D.C. Federal Pension Fund and the Judicial Retirement Fund to be invested in non-marketable GAS securities. In accordance with SFFAS No. 7, Accounting for Revenue and Other Financing Sources, the payment from the Office's appropriation funds results in an appropriation used, as reported in the accompanying Consolidated Statements of Changes in Net Position. Appropriations received and used for the years ended September 30, 2017 and 2016 were $467.8 million and $475.1 million, respectively.

j. Treasury Employee Retirement Plans

The D.C. Federal Pension Fund and Judicial Retirement Fund pay the salaries and benefits of Treasury employees who support the Office as reasonable and necessary expenses incurred in carrying out the Secretary's responsibilities under the Act. These salaries and benefits are split 90 percent and 10 percent between the D.C. Federal Pension Fund and the Judicial Retirement Fund, respectively.

The Office's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984, elected to either transfer to FERS or remain in CSRS.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For employees participating in FERS, TSP accounts are automatically established and the D.C. Federal Pension Fund and the Judicial Retirement Fund make mandatory contributions of one percent of the Treasury employees' base pay to the accounts. In addition, the D.C. Federal Pension Fund and the Judicial Retirement Fund make matching contributions, ranging from one percent to four percent of base pay, for FERS eligible employees who contribute to their TSP accounts. Pursuant to law, mandatory and matching contributions are not made to the TSP accounts established for CSRS employees.

FERS employees and certain CSRS reinstatement employees participate in the Social Security program. The D.C. Federal Pension Fund and Judicial Retirement Fund remit the employer's share of the required contributions for eligible employees.

The D.C. Federal Pension Fund and Judicial Retirement Fund do not report information pertaining to the CSRS and FERS retirement plans covering Treasury employees. The U.S. Office of Personnel Management is responsible for reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any.

k. President's Budget

The President's Budget for 2019, which includes actuals for FY 2017, has not yet been published as of the date of these financial statements. The President's Budget is currently expected to be published and delivered to Congress in early February 2018. The FY 2016 Combined Statement of Budgetary Resources (SBR) was reconciled to the Program and Financing (P&F) Schedules within the President's Budget for 2018, published in April 2017, and there were no differences for budgetary resources, status of budgetary resources, or net outlays.

The President's Budget for 2018, which includes the Office's budget within the Other Independent Agencies' budget appendix, is available at the Office of Management and Budget website.

l. Revenue and Financing Sources

All proceeds received and deposited by the Office are used for the purpose of providing annuity payments for retired District of Columbia teachers, police officers and firefighters for services earned prior to July 1, 1997, and for retirement benefits earned by District of Columbia judges, regardless of when services were earned.

Funding for the Judicial Retirement Fund is authorized by 111 Stat. 757, Sec. 11251, Public Law 105-33 as amended by 112 Stat. 2681-534, Sec. 804(a)(4), Public Law 105-277. Funding for the D.C. Federal Pension Fund is authorized by 118 Stat. 3967, Sec. 11084, Public Law 108-489. Sources of revenue or other financing sources for the years ended September 30, 2017, and 2016 were annual federal payments, employee contributions, and interest earnings from investments.

m. Income Taxes

The Office, a component of an agency of the Federal Government, is not subject to Federal, state, or local income taxes and accordingly, no provisions for income taxes have been recorded in the accompanying consolidated financial statements.

2) Fund Balance with Treasury

Fund Balance with Treasury and the Status of Fund balance with Treasury as of September 30, 2017 and 2016 consisted of the following (in thousands):

	2017	2016
Fund Balances		
Trust Fund	$ 96	$ 96
Special Fund	1,458	408
Total Fund Balance with Treasury	$ 1,554	$ 504

	2017	Unaudited 2016
Status of Fund Balance with Treasury:		
Obligated Balance Not Yet Disbursed	$ 53,365	$ 57,210
Unobligated Balance	15,653	13,810
Adjustments for:		
Budget Authority Unavailable for Obligation	3,842,171	3,835,002
Adjustment for Amounts Invested in Treasury Security Investments	(3,909,635)	(3,905,518)
Total	$ 1,554	$ 504

The adjustments in the table above are required to reconcile the budgetary status to the non-budgetary Fund Balance with Treasury as reported on the Consolidated Balance Sheets, including:

- Adjustment for Budget Authority Unavailable for Obligation – Budget Authority that is unavailable for obligation reduced the budgetary resources.

- Adjustment for Amounts Invested in Treasury Security Investments – Budgetary resources that include Treasury security investments; however, the funds have been moved from the Fund Balance with Treasury asset account to the Investments account.

3) Investment, Net

Investments, Net as of September 30, 2017 and 2016 consisted of the following (in thousands):

		2017			
		Investments, Gross	Unamortized Premium, Net	Investments, Net	Market Value
Intragovernmental Securities					
Non-Marketable Par Value	$	211,797	-	211,797	211,797
Non-Marketable Market-based		3,703,366	86,927	3,790,293	3,776,950
Total	$	3,915,163	86,927	4,002,090	3,988,747

		2016			
		Investments, Gross	Unamortized Premium, Net	Investments, Net	Market Value
Intragovernmental Securities					
Non-Marketable Par Value	$	211,251	-	211,251	211,251
Non-Marketable Market-based		3,695,758	138,042	3,833,800	3,885,721
Total	$	3,907,009	138,042	4,045,051	4,096,972

The amortization method utilized by the Office is the effective interest method. The market value for notes and bonds is calculated using rates for September 30, 2017 and 2016, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in these figures is a net unrealized loss of $13.3 million as of September 30, 2017, and a net unrealized gain of $51.9 million as of September 30, 2016.

The amortized cost of Investments, Net (*including par value securities invested overnight)* as of September 30, 2017 and 2016, by maturity date is as follows (in thousands):

	2017	2016
Less than or Equal to 1 Year	$ 814,961	$ 835,476
More than 1 Year and Less than or Equal to 5 Years	2,455,745	2,509,845
More than 5 Years and Less than or Equal to 10 Years	731,384	699,730
Total	$ 4,002,090	$ 4,045,051

4) Accounts Receivable, Net

The components of Accounts Receivable, Net as of September 30, 2017 and 2016, are as follows (in thousands):

	2017	2016
Accounts Receivable, Gross	$ 2,616	$ 4,567
Allowance for Loss on Accounts Receivable	(607)	(1,412)
Accounts Receivable, Net	$ 2,009	$ 3,155

Accounts receivable, net decreased during FY 2017 primarily as a result of $2.4 million in debt that was deemed uncollectible and later written off.

5) Intra-governmental Costs and Exchange Revenue

Intra-governmental Costs and Exchange Revenue for the years ended September 30, 2017 and 2016 are as follows (in thousands):

	2017	Unaudited 2016
Program Costs		
Intragovernmental Costs	$ 6,822	$ 4,918
Public Costs	320,116	202,354
Total Program Costs	326,938	207,272
Program Revenue		
Intragovernmental Earned Revenue	(54,056)	(54,924)
Public Earned Revenue	(175,997)	(144,530)
Total Program Revenue	(230,053)	(199,454)
Net Expense Before Loss from Actuarial Assumption Changes	96,885	7,818
Loss on Actuarial Assumption Changes, Net	264,083	492,145
Net Program Cost	$ 360,968	$ 499,963

6) Administrative Expenses

Administrative expenses for the years ended September 30, 2017 and 2016 are as follows (in thousands):

	2017	Unaudited 2016
Intragovernmental Expenses		
Salaries and Related Benefits	$ 909	$ 809
Contractual Services	5,416	4,088
Rent	497	21
Other	-	-
Total Intragovernmental Expenses	6,822	4,918
Public Expenses		
Salaries and Related Benefits	3,189	2,749
Contractual Services	7,123	8,457
Other	1,747	833
Total Public Expenses	12,059	12,039
Total Administrative Expenses	$ 18,881	$ 16,957

7) Pension Expense

Pension expense for the plan years ended September 30, 2017, and 2016, includes the following components (in thousands):

	2017	Unaudited 2016
Beginning Liability Balance	$ 8,835,982	$ 8,849,367
Pension Expense:		
Normal Cost	5,900	5,800
Interest on Pension Liability During the Period	102,044	136,183
Actuarial (Gains) Losses During the Period:		
From Experience	25,892	(94,265)
From Discount Rate Assumption Change	428,053	385,537
From Other Assumption Changes	(54,148)	(233,548)
From Non-Economic Changes	(109,822)	325,736
From Method Change	-	14,420
Pension Expense before Other / Non-Actuarial Adjustments	397,919	539,863
Less Amounts Paid and Accrued:	(552,293)	(553,249)
Ending Liability Balance	$ 8,681,608	$ 8,835,982

Reconciliation to amounts reported in the Consolidated Statements of Net Cost (in thousands):

		2017		Unaudited 2016
Pension Expense before Actuarial Assumption Changes:				
Normal Cost	$	5,900	$	5,800
Interest on Pension Liability During the Period		102,044		136,183
Actuarial (Gain) Loss During the Period from Experience		25,892		(94,265)
Total Pension Expense before Actuarial Assumption Changes		133,836		47,718
Loss on Actuarial Assumption Changes, Net				
Actuarial (Gains) Losses During the Period:				
From Discount Rate Assumption Change		428,053		385,537
From Other Assumption Changes		(54,148)		(233,548)
From Non-Economic Changes		(109,822)		325,736
From Method Change		-		14,420
Total Loss on Actuarial Assumption Changes, Net		264,083		492,145
Total Pension Expense	$	397,919	$	539,863

Federal Benefit Payments

Federal pension benefits paid and accrued during the plan years were $540.2 million and $12.0 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for 2017, and $541.8 million and $11.4 million, respectively, for 2016. For FY 2017 and FY 2016, approximately $194 thousand and $350 thousand, respectively, represent contribution refunds to plan participants of the D.C. Federal Pension Fund and the Judicial Retirement Fund.

Actuarial Gains and Losses

In FY 2017, the Office reported a net liability actuarial loss in the D.C. Federal Pension Fund and the Judicial Retirement Fund. The liability actuarial losses of $428.0 million due to the new discount rate assumptions and $25.9 million due to experience were offset by the liability actuarial gains of $54.1 million, due to new pay and cost-of-living assumptions, and $109.8 million due to other assumption changes. The net result was a total liability actuarial loss of $290.0 million for the D.C. Federal Pension Fund and Judicial Retirement Fund.

In FY 2016, the Office reported a net liability actuarial loss in the D.C. Federal Pension Fund and Judicial Retirement Fund. The liability actuarial losses of $385.5 million due to the new discount rate assumptions, $325.7 million due to other assumption changes, and $14.4 million due to the method change as a result of the transition from the prior actuary were offset by the liability actuarial gains of $94.2 million due to experience and $233.5 million due to new pay and cost-of-living assumptions. The net result was a total liability actuarial loss of $397.9 million for the D.C. Federal Pension Fund and Judicial Retirement Fund.

8) Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. As of September 30, 2017, and 2016, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in thousands):

	2017	Unaudited 2016
Budgetary Resources Obligated		
Obligations Incurred	$ 1,213,481	$ 1,188,612
Less: Spending Authority from Offsetting Collections and Recoveries	181,227	158,867
Obligations Net of Offsetting Collections and Recoveries	1,032,254	1,029,745
Less: Offsetting Receipts	568,742	585,552
Net Obligations	463,512	444,193
Imputed Financing from Costs Absorbed by Others	139	157
Total Resources Used to Finance Activities	463,651	444,350
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(4,455)	(12,842)
Resources That Fund Expenses Recognized in Prior Periods	(1,151)	(1,396)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	(1)	(2)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(5,607)	(14,240)
Total Resources Used to Finance Net Cost of Operations	469,258	458,590
Components Requiring or Generating Resources in Future Periods		
Future Funded Expenses	(154,373)	(13,386)
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	(154,373)	(13,386)
Components not Requiring or Generating Resources		
Depreciation and Amortization	(54,086)	(25,120)
Other	100,169	79,879
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	46,083	54,759
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	(108,290)	41,373
Net Cost of Operations	$ 360,968	$ 499,963

PART 4

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Office of D.C. Pensions
Celebrating 20 Years of Excellence!

Milestones in the History of the Program

The 2010's

November 2012: Split Benefit Regulations become effective

June 2013: Reconciliation of District Benefit Payments completed

November 2016: System to Administer Retirement receives electronic data for retirement processing

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combining Statements of Budgetary Resources
By Fund (Unaudited)
For the Years Ended September 30, 2017 and September 30, 2016
(in thousands)

	2017			2016		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated D.C. Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated D.C. Pension Funds Total
Budgetary Resources						
Unobligated Balance Brought Forward, October 1	$ -	13,810	13,810	$ -	-	-
Recoveries of Prior Year Unpaid Obligations	50	3,399	3,449	31	495	526
Other Changes in Unobligated Balances	0	758	758	1	785	786
Unobligated Balance from Prior Year Budget Authority, Net	50	17,967	18,017	32	1,280	1,312
Appropriations (Discretionary and Mandatory)	28,805	1,005,292	1,034,097	27,009	1,016,546	1,043,555
Spending Authority from Offsetting Collections	-	177,020	177,020	-	157,555	157,555
Total Budgetary Resources	$ 28,855	1,200,279	1,229,134	$ 27,041	1,175,381	1,202,422
Status of Budgetary Resources						
Obligations Incurred	$ 28,855	1,184,626	1,213,481	$ 27,041	1,161,571	1,188,612
Exempt from Apportionment	-	15,653	15,653	-	13,810	13,810
Unobligated balance brought forward, end of year	-	15,653	15,653	-	13,810	13,810
Total Status of Budgetary Resources	$ 28,855	1,200,279	1,229,134	$ 27,041	1,175,381	1,202,422
Change in Obligated Balance						
Unpaid Obligations, Brought Forward, October 1	$ 1,358	55,852	57,210	$ 1,299	67,954	69,253
Obligations Incurred	28,855	1,184,626	1,213,481	27,041	1,161,571	1,188,612
Outlays (Gross)	(28,847)	(1,185,030)	(1,213,877)	(26,951)	(1,173,178)	(1,200,129)
Recoveries of Prior Year Unpaid Obligations	(50)	(3,399)	(3,449)	(31)	(495)	(526)
Unpaid Obligations, End of Year (Gross)	1,316	52,049	53,365	1,358	55,852	57,210
Obligated Balance, End of Year	$ 1,316	52,049	53,365	$ 1,358	55,852	57,210
Budget Authority and Outlays, Net						
Budget Authority, Gross (Discretionary and Mandatory)	$ 28,805	1,182,312	1,211,117	$ 27,009	1,174,101	1,201,110
Actual Offsetting Collections (Discretionary and Mandatory)	(0)	(177,778)	(177,778)	(1)	(158,340)	(158,341)
Recoveries of prior year paid obligations (Discretionary and Mandatory)	0	758	758	1	785	786
Budget Authority, Net (Discretionary and Mandatory)	$ 28,805	1,005,292	1,034,097	$ 27,009	1,016,546	1,043,555
Outlays, Gross (Discretionary and Mandatory)	$ 28,847	1,185,030	1,213,877	$ 26,951	1,173,178	1,200,129
Actual Offsetting Collections (Discretionary and Mandatory)	(0)	(177,778)	(177,778)	(1)	(158,340)	(158,341)
Outlays, Net (Discretionary and Mandatory)	28,847	1,007,252	1,036,099	26,950	1,014,838	1,041,788
Distributed Offsetting Receipts	(15,581)	(553,161)	(568,742)	(14,154)	(571,398)	(585,552)
Agency Outlays, Net (Discretionary and Mandatory)	**$** 13,266	454,091	467,357	**$** 12,796	443,440	456,236

See accompanying independent auditors' report.

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PART 5

OTHER INFORMATION
(Unaudited)

"The Office of D.C. Pensions is proud of its 20 years of excellence in meeting the Department of the Treasury's responsibilities under the Balanced Budget Act of 1997."

– Nancy Ostrowski, Director
Office of D.C. Pensions

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheets
By Fund (Unaudited)
As of September 30, 2017 and September 30, 2016
(in thousands)

	2017			2016		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total
Assets:						
Entity Assets						
Intragovernmental						
Fund Balance With Treasury	$ 96	1,458	1,554	$ 95	409	504
Investments, Net	162,288	3,839,802	4,002,090	155,690	3,889,361	4,045,051
Interest Receivable	481	25,944	26,425	509	29,666	30,175
Total Intragovernmental	162,865	3,867,204	4,030,069	156,294	3,919,436	4,075,730
Accounts Receivable	-	2,009	2,009	-	3,155	3,155
Taxes Receivable	-	-	-	-	3	3
Total Assets	$ 162,865	3,869,213	4,032,078	$ 156,294	3,922,594	4,078,888
Liabilities:						
Intragovernmental						
Accounts Payable	$ 37	219	256	$ 16	58	74
Accrued Payroll and Benefits	3	28	31	2	16	18
Total Intragovernmental	40	247	287	18	74	92
Accounts Payable	11	2,883	2,894	23	4,481	4,504
Advances from Others	-	15,653	15,653	-	13,810	13,810
Accrued Pension Benefits Payable	1,017	44,950	45,967	972	44,860	45,832
Actuarial Pension Liability	247,063	8,434,545	8,681,608	230,499	8,605,483	8,835,982
Accrued Payroll and Benefits	38	340	378	30	300	330
Total Liabilities	248,169	8,498,618	8,746,787	231,542	8,669,008	8,900,550
Net Position:						
Cumulative Results of Operations	(85,304)	(4,629,405)	(4,714,709)	(75,248)	(4,746,414)	(4,821,662)
Total Net Position	(85,304)	(4,629,405)	(4,714,709)	(75,248)	(4,746,414)	(4,821,662)
Total Liabilities and Net Position	$ 162,865	3,869,213	4,032,078	$ 156,294	3,922,594	4,078,888

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Net Cost
By Fund (Unaudited)
For the Years Ended September 30, 2017 and September 30, 2016
(in thousands)

	2017			2016		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total
Program Costs						
Administrative Expenses	$ 1,288	17,593	18,881	$ 992	15,965	16,957
District of Benefit Payments and Employer Share of DC Health and Life Plans	-	174,221	174,221	-	142,597	142,597
Pension Expense before Actuarial Assumption Changes	15,496	118,340	133,836	11,777	35,941	47,718
Total Program Costs	16,784	310,154	326,938	12,769	194,503	207,272
Less: Earned Revenues						
Reimbursable Income	-	175,178	175,178	-	143,745	143,745
Interest Earned	3,437	50,619	54,056	3,573	51,351	54,924
Employee Contributions	819	-	819	785	-	785
Total Earned Revenues	4,256	225,797	230,053	4,358	195,096	199,454
Net Expense Before Loss from Actuarial Assumption Changes	12,528	84,357	96,885	8,411	(593)	7,818
Loss on Actuarial Assumption Changes, Net	13,122	250,961	264,083	12,034	480,111	492,145
Net Cost of Operations	$ 25,650	335,318	360,968	$ 20,445	479,518	499,963

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Changes in Net Position
By Fund (Unaudited)
For the Years Ended September 30, 2017 and September 30, 2016
(in thousands)

		2017				2016		
		D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total		D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total
Cumulative Results of Operations:								
Net Position - Beginning of Year	$	(75,248)	(4,746,414)	(4,821,662)	$	(68,973)	(4,727,965)	(4,796,938)
Budgetary Financing Sources:								
Appropriations Used		15,581	452,201	467,782		14,154	460,928	475,082
Other Financing Sources (Nonexchange): Imputed Financing		14	125	139		16	141	157
Total Financing Sources		15,595	452,326	467,921		14,170	461,069	475,239
Net Cost of Operations		(25,650)	(335,318)	(360,968)		(20,445)	(479,518)	(499,963)
Net Change		(10,055)	117,008	106,953		(6,275)	(18,449)	(24,724)
Cumulative Results of Operations	$	(85,303)	(4,629,406)	(4,714,709)	$	(75,248)	(4,746,414)	(4,821,662)
Unexpended Appropriations:								
Beginning Balance	$	-	-	-		-	-	-
Budgetary Financing Sources:								
Appropriations Received		15,581	452,201	467,782		14,154	460,928	475,082
Appropriations Used		(15,581)	(452,201)	(467,782)		(14,154)	(460,928)	(475,082)
Total Budgetary Financing Sources		-	-	-		-	-	-
Total Unexpended Appropriations		-	-	-		-	-	-
Net Position	$	(85,303)	(4,629,406)	(4,714,709)	$	(75,248)	(4,746,414)	(4,821,662)

See accompanying independent auditors' report.

Departmental Offices
Office of D.C. Pensions
Schedule of Pension Expense
By Fund (Unaudited)
For the Years Ended September 30, 2017 and September 30, 2016
(in thousands)

	2017			2016		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total
Beginning Liability Balance	$ 230,499	8,605,483	8,835,982	$ 218,418	8,630,950	8,849,368
Pension Expense:						
Normal Cost	5,900	-	5,900	5,800	-	5,800
Interest on Pension Liability During the Period	8,192	93,852	102,044	8,253	127,930	136,183
Actuarial (Gains) Losses During the Period:						
From Experience	1,404	24,488	25,892	(2,276)	(91,989)	(94,265)
From Discount Rate Assumption Change	5,421	422,632	428,053	5,689	379,848	385,537
From Other Assumption Changes	(7,567)	(46,581)	(54,148)	(10,053)	(223,495)	(233,548)
From Non-Economic Changes	15,268	(125,090)	(109,822)	9,716	316,020	325,736
From Method Change	-	-	-	6,681	7,739	14,420
Pension Expense before Other / Non-Actuarial Adjustments	28,618	369,301	397,919	23,810	516,053	539,863
Less Amounts Paid and Accrued:	(12,054)	(540,239)	(552,293)	(11,729)	(541,520)	(553,249)
Ending Liability Balance	$ 247,063	8,434,545	8,681,608	$ 230,499	8,605,483	8,835,982

See accompanying independent auditors' report.

Executive Summary

Highlights of the Actuarial Valuation

The actuarial valuation report has been completed for the following program for the most recent plan year:

United States Department of the Treasury District of Columbia Pensions Program (Program)

The Program refers to the federal responsibility for benefit payments under the following District of Columbia (D.C.) retirement plans: District of Columbia Police Officers and Firefighters' Retirement Plan, District of Columbia Teachers' Retirement Plan, and District of Columbia Judges' Retirement Plan. The designated assets for the federal administration of these plans are held in two separate funds. The District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund ("D.C. Federal Pension Fund") covers federal payments under the District of Columbia Police Officers and Firefighters' Retirement Plan and District of Columbia Teachers' Retirement Plan. The Judicial Retirement and Survivors Annuity Fund ("Judicial Retirement Fund") covers payments under the District of Columbia's Judges' Retirement Plan.

The purpose of this report is to present the results of the actuarial valuation including:

- To illustrate the current assets and liabilities of each Plan as of the end of Fiscal Year (FY) 2017 (October 1, 2016 through September 30, 2017);
- To review the experience of the Program over the past year and to discuss reasons for changes in Program costs;
- To determine the appropriate contribution to be paid by the Department of the Treasury to the Funds in FY 2018 (October 1, 2017 through September 30, 2018); and
- To identify and discuss any emerging trends in Program costs.

This report also includes certain statement line items and footnote disclosures necessary to compute the annual pension expense in accordance with Statement of Federal Financial Accounting Standards No. 5 and No. 33 (SFFAS 5 and SFFAS 33). Use of the valuation results for other purposes may not be appropriate.

Summary of Results

As of October 1, 2017	Police Officers and Firefighters', and Teachers' Plans	Judges' Plan
Actuarial Accrued Liability	$ 8,479,495,526	$ 248,079,833
Plan Assets	(3,851,858,284)	(162,650,267)
Unfunded Actuarial Accrued Liability	$ 4,627,637,242	$ 85,429,566
Normal Cost with Interest (including expected employee contributions)	N/A	$ 5,900,000

Summary of Gains and Losses

As part the review of the valuation, an actuarial gain/loss analysis was performed. Expected liabilities and plan assets were developed presuming all demographic and economic assumptions from the prior valuation were realized during the plan year. These expected values were then compared to the actual results. The factors causing the liabilities or assets to be greater than expected (a loss for liabilities and a gain for assets), or smaller than expected (a gain for liabilities and a loss for assets) were isolated. Differences in liability not directly attributable to experience different than assumed, such as changes in assumptions and methods, were separately measured from this process.

The different sources of gains and losses, as well as their individual impacts, are outlined below.

Executive Summary

Highlights of the Actuarial Valuation

Source of Liability (Gain)/Loss due to Actuarial Experience

Source of Demographic (Gain)/Loss	Police Officers and Firefighters', and Teachers' Plans	Judges' Plan
(Gains)/Losses due to Plan Experience:		
Active Decrements	$ (17,139,203)	$ 2,510,395
Inactive Mortality	(15,523,235)	1,548,247
Salary Increase	(3,836,580)	(104,437)
New Entrants	N/A	281,282
COLA Different than Expected	13,303,040	(2,384,692)
(Gains)/Losses due to Census Changes:		
Changes to Deferred Federal Benefits for Term Vested Plan Members	892,027	-
New Retirements - Benefit Different than Expected	25,349,780	(198,699)
New Beneficiaries with Demographic Information Different than Assumption	14,543,647	-
Unexpected New Plan Members	5,385,256	-
Unexpected Plan Members Removed	(10,285,637)	-
Date of Hire Changes	(1,273,960)	-
Other Data Movement	14,291,194	(86,646)
Total	**$ 25,706,329**	**$ 1,565,450**

We have provided clarification on these items below:

• **(Gains)/Losses due to Plan Experience:** The liability for each plan is expected to change based on certain demographic and economic assumptions; however, actual plan experience will differ to some degree. These items are all (gains) or losses due to plan experience being different than these assumptions. This includes plan members decrementing at rates other than expected, salaries and retirement benefits changing at rates other than expected, and newly hired employees joining the plans.

• **Changes to Deferred Federal Benefits for Term Vested Plan Members:** Since the last valuation, the Department of the Treasury reviewed the benefits for the Terminated Vested (TV) participants and revised benefits where appropriate.

• **New Retirements – Benefit Different than Expected:** For many of the new retirements, the newly calculated retirement benefits differ from what was expected in the prior year, based on available active plan member information.

• **New Beneficiaries with Demographic Information Different than Assumption:** If information is not available, assumptions are used to estimate beneficiary age and gender for in-pay plan members eligible for survivor benefits. When these beneficiaries commence, there is a (gain) or loss based on the difference between the assumed demographic information and the actual demographic information.

• **Unexpected New Plan Members:** New plan members included in the current year's census that were excluded from the prior year's census as of result of Treasury's data review since the last valuation. This does not include plan members that were properly excluded in previous years and have since rejoined the plan.

Executive Summary

Highlights of the Actuarial Valuation

- **Unexpected Plan Members Removed:** Plan members included in the prior year's census that are not included in the current year's census as of result of Treasury's data review since the last valuation. This does not include plan members who have been removed from the data for administrative reasons (i.e., benefits expiring, terminating and receiving a refund, etc.).

- **Date of Hire Changes:** Since the last valuation, the Department of the Treasury reviewed the dates of hire for their active population and revised the data where appropriate.

- **Other Data Movements:** The primary driver of the net loss due to Other Data Movement for Police Officers and Firefighters', and Teachers' Plans was the loss due to other data revisions that were discovered as part of the Department of the Treasury's data review and other corrections/recalculations.

Source of Asset (Gain)/Loss due to Actuarial Experience

Asset (Gain)/Loss	D.C. Federal Pension Fund	Judicial Retirement Fund
Beginning of Year Assets	$ 3,902,281,110	$ 156,100,342
Expected Return on Assets	40,581,244	5,437,750
Actual Return on Assets	52,771,818	3,600,079
Asset (Gain)/Loss	**$ (12,190,574)**	**$ 1,837,671**

The plan assets experienced the following rates of return during the prior plan year:

	D.C. Federal Pension Fund	Judicial Retirement Fund
Assets	1.37%	2.28%

The D.C. Federal Pension Fund experienced higher-than-anticipated returns on fund assets and the Judicial Retirement Fund experienced lower-than-anticipated returns on fund assets, thus resulting in an asset gain and an asset loss, respectively.

Changes in Plan Provisions from the Previous Valuation

The valuation for the current plan year was based on the same plan provisions as the valuation for the prior plan year. We are not aware of any other changes to the plans since the last valuation.

A full summary of the plan provisions and plan changes for each plan (if any) can be found later in this report in Appendix C: Plan Provisions Summary.

Executive Summary

Highlights of the Actuarial Valuation

Source of Liability (Gain)/Loss due to Changes in Actuarial Assumptions from the Previous Valuation

Assumption Change	Police Officers and Firefighters', and Teachers' Plans	Judges' Plan
Discount Rate Assumption	$ 422,632,308	$ 5,420,556
Other Economic Assumptions	(46,581,080)	(7,566,654)
Non-Economic Assumptions	(125,090,163)	15,267,705
Total	**$ 250,961,065**	**$ 13,121,607**

The discount rate assumption was updated according to prescribed guidance. The Effective Interest Rate (EIR) for both plans decreased, causing a loss.

The other economic assumptions changed for this valuation were the cost-of-living adjustment (COLA) for annuitants and the salary increase assumption for active members. Due to the plans' composition of primarily inactive plan members, the COLA assumption is a primary driver in the calculation of liabilities. The decrease in the future expectation of these adjustments caused a gain for both plans. A detailed description of the changes since prior year is available in Appendix A: Actuarial Assumptions and Methods.

For the Police Officers and Firefighters', and Teachers' Plans, the non-economic assumption change included a mortality improvement scale update and a change to the form of payment election assumption. The mortality improvement scale was changed from Scale MP-2015 to Scale MP-2016. Scale MP-2016 is the most up-to-date expectation of future longevity improvements. Scale MP-2016 does not presume as much longevity improvement as Scale MP-2015, thereby causing a liability gain to both plans of approximately $137M (in aggregate). The form of payment assumption was updated to reflect a Joint-and-57% Survivor Annuity for all married plan members and a Single Life Annuity for all single plan members. This caused a liability loss of approximately $12M.

For the Judges' Plan, the base mortality was updated from RP-2000 Combined Healthy mortality with White Collar Adjustment, with no setbacks to RP-2014 Annuitant/Non-Annuitant Healthy mortality with White Collar Adjustment, with no setbacks for Active, Inactive and Disabled Members. The mortality projection scale was updated from Scale MP-2015 to Scale MP-2016. The RP-2014 base table reflects the most recently released study by the Society of Actuaries and Scale MP-2016 is the most up-to-date expectation of future longevity improvements. Scale MP-2016 does not presume as much longevity improvement as Scale MP-2015. This causes a gain. However, the new base table assumes that individuals will live longer. The loss due to the mortality table change is larger than the gain due to the longevity improvement change, thereby causing a liability net loss to the plan.

A complete description of the actuarial assumptions and rationale can be found in Appendix A: Actuarial Assumptions and Methods and Appendix B: Rationale.

Executive Summary

Highlights of the Actuarial Valuation

Government Contributions

This report includes a calculation of the Government Contribution required to be made before the end of FY 2018 (excluding the reimbursement for expenses). The table below contains Government Contribution (excluding expenses) for FY 2017 and FY 2018.

Contribution Year	Government Contribution (excluding expenses)			
	D.C. Federal Pension Fund		Judiciary Retirement Fund	
September 30, 2017	$	436,500,000	$	14,300,000
September 30, 2018	$	451,800,000	$	15,600,000

Actuarial Valuation Opinion

This report presents the results of the actuarial valuation of the Program as of October 1, 2017. In our opinion, this report is complete and accurate and represents fairly the actuarial position of the Program for the purposes stated herein.

This actuarial valuation has been prepared based upon plan member data and plan provisions provided by the Department of the Treasury as of May 1, 2017 (plan data was projected to September 30, 2017 by adjusting for expected mortality for inactive members) and the estimated asset information projected by the Department of the Treasury to September 30, 2017 (provided on July 25, 2017).

We have reviewed the data and other information provided for reasonableness, but has not independently audited the data or other information provided. We have no reason to believe the data and other information provided are not complete and accurate, and knows of no further information that is essential to the preparation of the actuarial valuation.

In our opinion, all costs, liabilities, rates of interest, and other factors underlying these actuarial computations have been determined on the basis of actuarial assumptions and methods, which are each reasonable (or consistent with authoritative guidance) for the purposes described herein taking into account the experience of the Plans and future expectations and which, when combined, represent our best estimate of anticipated experience under the Plans.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: Plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operations of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on each plan's funded status); and changes in plan provisions or applicable law.

Our scope did not include analyzing the potential range of such future measurements; therefore, this analysis was not performed.

Executive Summary

Actuarial Valuation Opinion

The undersigned with actuarial credentials collectively meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

This report was prepared solely for the benefit and internal use of the Department of the Treasury. This report is not intended for the benefit of any other party and may not be relied upon by any third party for any purpose, and Deloitte Consulting LLP accepts no responsibility or liability with respect to any party other than the Department of the Treasury.

To the best of our knowledge, no employee of the Deloitte U.S. Firms is an officer or director of the employer. In addition, we are not aware of any relationship between the Deloitte U.S. Firms and the employer that may impair or appear to impair the objectivity of the work detailed in this report.

DELOITTE CONSULTING LLP

[redacted]

Jeffrey Rees, FSA, MAAA, FCA
Enrolled Actuary No. 17-05941
October 16, 2017

[redacted]

Michael de Leon, ASA, MAAA, FCA
Enrolled Actuary No. 17-06450
October 16, 2017

Executive Summary

Summary of Results

Police Officers and Firefighters', and Teachers' Plans

	Valuation Date	
	October 1, 2017	October 1, 2016
Plan Member Counts		
Actives	1,841	2,191
Terminated Vested	216	222
Inactives	13,542	13,559
Total	15,599	15,972
Contributions		
Federal Required Contribution	$ 451,800,000	$ 436,500,000
Present Value of Benefits (PVB)		
Active Plan Members		
Retirement Decrement	$ 628,568,759	$ 745,041,986
Termination Decrement	2,138,673	3,127,400
Disability Decrement	7,046,940	8,994,181
Death Decrement	2,395,354	2,920,414
Total	$ 640,149,726	$ 760,083,981
Inactive Plan Members		
Normal Retirees[1]	$ 6,350,837,620	$ 6,366,630,109
Terminated Vested	41,319,810	42,422,100
Disabled Retirees[1]	747,773,150	791,972,361
Beneficiaries	699,415,220	689,233,831
Total	$ 7,839,345,800	$ 7,890,258,401
Total PVB (inactive and active)	$ 8,479,495,526	$ 8,650,342,382
Unfunded Actuarial Accrued Liability (AAL)		
Active AAL	$ 640,149,726	$ 760,083,981
Inactive AAL	7,839,345,800	7,890,258,401
Total AAL	$ 8,479,495,526	$ 8,650,342,382
Asset Value as of Valuation Date	$ (3,851,858,284)	$ (3,902,281,110)
Unfunded AAL	**$ 4,627,637,242**	**$ 4,748,061,272**

[1]Throughout this report, former spouses receiving benefits under a qualified domestic relations order are not included in counts, while their benefit amounts are included with their associated retired plan member.

Executive Summary

Summary of Results

Judges' Plan

	Valuation Date			
		October 1, 2017		October 1, 2016
Plan Member Counts				
Actives		64		67
Terminated Vested		-		-
Inactives		92		91
Total		156		158
Contributions				
Government Contribution (excluding expenses)	$	15,600,000	$	14,300,000
Present Value of Benefits (PVB)				
Active Plan Members				
Retirement Decrement	$	129,084,460	$	126,001,269
Termination Decrement		-		-
Disability Decrement		-		-
Death Decrement		935,168		1,689,933
Total	$	130,019,628	$	127,691,202
Inactive Plan Members				
Normal Retirees[1]	$	153,844,909	$	135,888,346
Terminated Vested		-		-
Disabled Retirees[1]		2,960,881		2,978,323
Beneficiaries		7,568,250		9,845,937
Total	$	164,374,040	$	148,712,606
Total PVB (inactive and active)	$	294,393,668	$	276,403,808
Unfunded Actuarial Accrued Liability (AAL)				
Active AAL	$	83,705,793	$	82,758,388
Inactive AAL		164,374,040		148,712,606
Total AAL	$	248,079,833	$	231,470,994
Asset Value as of Valuation Date	$	(162,650,267)	$	(156,100,342)
Unfunded AAL	**$**	**85,429,566**	**$**	**75,370,652**
Total Normal Cost	$	5,900,000	$	5,900,000
Employee Contributions		(600,000)		(600,000)
Net Employer Normal Cost	**$**	**5,300,000**	**$**	**5,300,000**

[1]Throughout this report, former spouses receiving benefits under a qualified domestic relations order are not included in counts, while their benefit amounts are included with their associated retired member.