

**The New York City
Other Postemployment Benefits Plan
(A Fiduciary Component Unit of the City of New York)**

**Financial Statements as of and
For the Years Ended June 30, 2018 and 2017,
Required Supplementary Information, and
Independent Auditors' Report**

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

**The New York City Other Postemployment Benefits Plan
(A Fiduciary Component Unit of the City of New York)**

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INDEPENDENT AUDITORS' REPORT

To the Management of
The New York City Other Postemployment Benefits Plan
c/o U.S. Bank, N.A.:

Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position of The New York City Other Postemployment Benefits Plan (the "Plan"), a fiduciary component unit of The City of New York ("The City"), as of June 30, 2018 and 2017, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the 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 the Plan'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 financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan's fiduciary net position as of June 30, 2018 and 2017, and the respective changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7, the Schedules of Changes in the City's Net OPEB Liability and Related Ratios, and Annual Money-Weighted Return on Plan investments on pages 23 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 financial statements, and other knowledge we obtained during our audits of the basic 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.

Marko Paneth LLP

October 26, 2018

The New York City Other Postemployment Benefits Plan (A Fiduciary Component Unit of the City of New York)

Management's Discussion and Analysis (Unaudited) As of and for the Years Ended June 30, 2018 and 2017

Introduction

This section of the New York City Other Postemployment Benefits Plan's (the "Plan") annual financial report presents management's discussion and analysis of the Plan's financial performance during the fiscal years ended June 30, 2018 and 2017. It should be read in conjunction with the Plan's financial statements and accompanying notes.

Background and Highlights

Governmental Accounting Standards Board ("GASB") Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 74") prescribes uniform financial reporting standards for other postemployment benefits ("OPEB") plans of all state and local governments. OPEB refers to postemployment benefits other than pension benefits and includes postemployment healthcare benefits which are covered under the Plan.

Overview of the Financial Statements

The Plan is a fiduciary component unit of the City of New York (the "City"). It is comprised of: (1) The New York City Retiree Health Benefits Trust (the "Trust") which is used to receive, hold, and disburse assets accumulated to pay for certain OPEB provided by the City to its eligible retired employees and other eligible beneficiaries and (2) OPEB paid for directly by the City out of its general resources rather than through the Trust ("Non-Trust OPEB"). The accompanying financial statements of the Plan are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

The Plan's financial statements consist of (1) management's discussion and analysis, (2) the Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position, (3) the notes to the financial statements, and (4) required supplementary information.

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus emphasizes the determination of changes in Plan fiduciary net position. With this measurement focus, all assets and liabilities associated with the operation of this fiduciary component unit are included on the Statement of Fiduciary Net Position. Under the accrual basis of accounting, contributions from the City are recognized when due and benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The New York City Other Postemployment Benefits Plan
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Management's Discussion and Analysis (Unaudited)
As of and for the Years Ended June 30, 2018 and 2017

Financial Analysis and Results of Operations

The following is a comparative statement of changes in fiduciary net position for the fiscal years ended June 30, 2018, 2017, and 2016 (\$ in thousands):

	2018	2017	2016	Changes	
				2018 v 2017	2017 v 2016
Additions					
Employer contributions	\$ 2,680,767	\$ 3,020,943	\$ 2,897,129	\$ (340,176)	\$ 123,814
Net investment income	47,990	21,437	20,234	26,553	1,203
Total additions	<u>2,728,757</u>	<u>3,042,380</u>	<u>2,917,363</u>	<u>(313,623)</u>	<u>125,017</u>
Deductions					
Benefit payments	2,616,691	2,424,767	2,277,516	191,924	147,251
Administrative expenses	170	41	40	129	1
Total deductions	<u>2,616,861</u>	<u>2,424,808</u>	<u>2,277,556</u>	<u>192,053</u>	<u>147,252</u>
Change in net position	111,896	617,572	639,807	(505,676)	(22,235)
Net position restricted for postemployment benefits other than pensions					
Beginning of year	4,653,903	4,036,331	3,396,524	617,572	639,807
End of year	<u>\$ 4,765,799</u>	<u>\$ 4,653,903</u>	<u>\$ 4,036,331</u>	<u>\$ 111,896</u>	<u>\$ 617,572</u>

Additions

Employer Contributions

The following is detailed information about the components which comprise the employer contributions to the Plan during the fiscal years ended June 30, 2018, 2017, and 2016 (\$ in thousands):

	2018	2017	2016	Changes	
				2018 v 2017	2017 v 2016
Trust Contributions					
Trust pay-go	\$ 1,994,675	\$ 2,258,598	\$ 2,160,262	\$ (263,923)	\$ 98,336
Prepayment contributions	300,000	400,000	-	(100,000)	400,000
Discretionary contributions	100,000	100,000	500,000	-	(400,000)
Receivables	45	1,722	96	(1,677)	1,626
Contributions to the Trust	<u>2,394,720</u>	<u>2,760,320</u>	<u>2,660,358</u>	<u>(365,600)</u>	<u>99,962</u>
Non-Trust Contributions	<u>286,047</u>	<u>260,623</u>	<u>236,771</u>	<u>25,424</u>	<u>23,852</u>
Total Employer Contributions	<u>\$ 2,680,767</u>	<u>\$ 3,020,943</u>	<u>\$ 2,897,129</u>	<u>\$ (340,176)</u>	<u>\$ 123,814</u>

In fiscal year 2018, the City's contributions to the Trust decreased by \$365.6 million due to a decrease in the City's pay-go payment. The pay-go payment was lower as a result of a \$400.0 million prepayment of fiscal year 2018 benefit payments in fiscal year 2017. The City also contributed \$100.0 million less in prepayments in fiscal year 2018 compared to the prior fiscal year. Non-Trust contributions increased in fiscal year 2018 due to an increase in the Implicit Rate Subsidy of \$30.0 million.

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In fiscal year 2017, the City's contributions to the Trust increased by \$100.0 million, primarily as a result of an increase in the Trust pay-go of \$98.3 million. Non-Trust contributions increased in fiscal year 2017 due to an increase in the Implicit Rate Subsidy of \$20.0 million.

Investment Income

Net Investment income increased \$26.6 million in fiscal year 2018 due to an increase in interest income of \$17.0 million. Net Investment Income increased \$1.2 million in fiscal year 2017 primarily due to an increase in interest income of \$10.8 million, offset by a decrease in the fair value of investments of \$8.4 million.

Deductions

Benefit payments increased by \$191.9 million in fiscal year 2018 as a result of an increase in health insurance rates and an increase in headcount. Benefit payments increased by \$147.3 million in fiscal year 2017 as a result of an increase in health insurance and welfare fund rates, as well as an increase in headcount.

Ending Net Position

As of June 30, 2018 and 2017, total net position increased by \$111.9 million and \$617.6 million, respectively, compared to prior fiscal years as a result of the changes in additions and deductions discussed above.

The following is a comparative statement of fiduciary net position as of June 30, 2018, 2017, and 2016 (\$ in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018 v 2017</u>	<u>2017 v 2016</u>
Assets					
Cash and cash equivalents	\$ 433,392	\$ 1,050,735	\$ 1,503,320	\$ (617,343)	\$ (452,585)
Investments—at fair value	4,676,465	3,928,421	2,911,796	748,044	1,016,625
Accrued interest receivable	3,879	5,976	3,188	(2,097)	2,788
Other receivables	45	2,023	365	(1,978)	1,658
Prepaid expenses	-	42	41	(42)	1
Total assets	<u>5,113,781</u>	<u>4,987,197</u>	<u>4,418,710</u>	<u>126,584</u>	<u>568,487</u>
Liabilities					
Benefits payable	347,896	333,233	327,257	14,663	5,976
Accrued expenses	86	61	64	25	(3)
Other payables	-	-	55,058	-	(55,058)
Total liabilities	<u>347,982</u>	<u>333,294</u>	<u>382,379</u>	<u>14,688</u>	<u>(49,085)</u>
Net position restricted for postemployment benefits other than pensions	<u>\$ 4,765,799</u>	<u>\$ 4,653,903</u>	<u>\$ 4,036,331</u>	<u>\$ 111,896</u>	<u>\$ 617,572</u>

Assets

Total assets increased \$126.6 million at June 30, 2018 primarily due to an increase in investments of \$748.0 million, offset by a decrease in cash and cash equivalents of \$617.3 million. Both changes were primarily due to the Plan investing in more securities with maturities greater than 90 days at the time of purchase, which resulted in fewer investments classified as cash and cash equivalents. The increase in investments was also due to a \$100.0 million discretionary contribution by the City.

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Total assets increased \$568.5 million at June 30, 2017 primarily due to an increase in investments of \$1,016.6 million, offset by a decrease in cash and cash equivalents of \$452.6 million. Both changes were in part due to the Plan investing in more securities with maturities greater than 90 days at the time of purchase, which resulted in fewer investments classified as cash and cash equivalents. The increase in investments was also due to a \$100.0 million discretionary contribution and a \$400.0 million prepayment contribution by the City.

Liabilities

Total liabilities increased slightly in fiscal year 2018 by \$14.7 million primarily due to an increase in health insurance payables of \$10.8 million.

Total liabilities decreased \$49.1 million in fiscal year 2017 primarily because of a decrease in other payables of \$55.1 million. The decrease in other payables was due entirely to a decrease in payables for investment securities purchased. The Plan did not have such payables as of fiscal year ended 2017.

Overview of Actuarial Information

Total OPEB Liability

The following is a summary of the changes in the total OPEB liability during the fiscal years ended June 30, 2018, 2017, and 2016 (\$ in thousands):

	2018	2017	2016	Changes	
				2018 v 2017	2017 v 2016
Total OPEB Liability - Beginning	\$ (93,053,019)	\$ (98,513,708)	\$ (93,129,937)	\$ 5,460,689	\$ (5,383,771)
Service cost	(4,860,388)	(4,521,009)	(5,112,511)	(339,379)	591,502
Interest	(3,131,103)	(2,898,447)	(2,668,923)	(232,656)	(229,524)
Differences between expected and actual experience	(2,293,748)	(519,256)	120,147	(1,774,492)	(639,403)
Changes in assumptions	(2,513,081)	10,974,635	-	(13,487,716)	10,974,635
Benefit payments	2,616,691	2,424,766	2,277,516	191,925	147,250
Total OPEB Liability - Ending	<u>\$ (103,234,648)</u>	<u>\$ (93,053,019)</u>	<u>\$ (98,513,708)</u>	<u>\$ (10,181,629)</u>	<u>\$ 5,460,689</u>

The total OPEB liabilities as of fiscal years ended June 30, 2018, 2017, and 2016 were determined under the Entry Age ("EA") actuarial cost method.

June 2018 Measurement

The total OPEB liability as of June 30, 2018 of \$103.2 billion is an increase of \$10.2 billion from the June 30, 2017 valuation.

This change in the total OPEB liability reflects: (1) the service cost of \$4.9 billion, (2) interest on unfunded OPEB liabilities of \$3.1 billion, (3) differences between expected and actual experience of \$2.3 billion, (4) changes in assumptions of \$2.5 billion, and (5) retiree benefits paid by the Plan of \$(2.6) billion.

The \$2.5 billion change in assumptions, which increased the total OPEB liability in the June 30, 2018 OPEB measurement, resulted from a change in the discount rate used to measure liabilities as determined by the S&P Municipal Bond 20 Year High Grade Rate Index in accordance with GASB 74 and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75").

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June 2017 Measurement

The total OPEB liability as of June 30, 2017 of \$93.1 billion is a decrease of \$5.5 billion from the June 30, 2016 valuation.

This change in the total OPEB liability reflects: (1) the service cost of \$4.5 billion, (2) interest on unfunded OPEB liabilities of \$2.9 billion, (3) differences between expected and actual experience of \$0.5 billion, (4) changes in assumptions of \$(11.0) billion, and (5) retiree benefits paid by the Plan of \$(2.4) billion.

The \$10.9 billion changes in assumptions decrease in the total OPEB liability in the June 30, 2017 OPEB measurement resulted from a change in the discount rate used to measure liabilities as a result of implementation of GASB 74 and GASB 75 and certain plan enrollment and election assumptions updated based on recent experience.

Net OPEB Liability

The following is a summary of the net OPEB liability as of June 30, 2018, 2017, and 2016 (\$ in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Changes</u>	
				<u>2018 v 2017</u>	<u>2017 v 2016</u>
Fiduciary net position	\$ 4,765,799	\$ 4,653,903	\$ 4,036,331	\$ 111,896	\$ 617,572
Total OPEB liability	(103,234,648)	(93,053,019)	(98,513,708)	(10,181,629)	5,460,689
Net OPEB liability	<u>\$ (98,468,849)</u>	<u>\$ (88,399,116)</u>	<u>\$ (94,477,377)</u>	<u>\$ (10,069,733)</u>	<u>\$ 6,078,261</u>

The net OPEB liability increased \$10.1 billion in fiscal year 2018 due to a \$10.2 billion increase in the total OPEB liability, offset by a \$0.1 billion increase in the Plan's fiduciary net position. The net OPEB liability decreased by \$6.1 billion in fiscal year 2017 due to a \$5.5 billion decrease in the total OPEB liability and a \$0.6 billion increase in the fiduciary net position.

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The New York City Other Postemployment Benefits Plan
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Statements of Fiduciary Net Position
As of June 30, 2018 and 2017
(\$ in thousands)

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 433,392	\$ 1,050,735
Investments—at fair value	4,676,465	3,928,421
Accrued interest receivable	3,879	5,976
Other receivables	45	2,023
Prepaid expenses	-	42
Total assets	<u>5,113,781</u>	<u>4,987,197</u>
Liabilities		
Benefits payable	347,896	333,233
Accrued expenses	86	61
Total liabilities	<u>347,982</u>	<u>333,294</u>
Net position restricted for postemployment benefits other than pensions	<u>\$ 4,765,799</u>	<u>\$ 4,653,903</u>

The New York City Other Postemployment Benefits Plan
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Statements of Changes in Fiduciary Net Position
For the Years Ended June 30, 2018 and 2017
(\$ in thousands)

	<u>2018</u>	<u>2017</u>
Additions		
Employer contributions	\$ 2,680,767	\$ 3,020,943
Investment income:		
Interest income	46,988	29,998
Net realized and unrealized gains (losses)	1,105	(8,482)
Less trustee fees	(103)	(79)
Net investment income	<u>47,990</u>	<u>21,437</u>
Total additions	<u>2,728,757</u>	<u>3,042,380</u>
Deductions		
Benefit payments	2,616,691	2,424,767
Administrative expenses	170	41
Total deductions	<u>2,616,861</u>	<u>2,424,808</u>
Change in net position	<u>111,896</u>	<u>617,572</u>
Net position restricted for postemployment benefits other than pensions		
Beginning of Year	<u>4,653,903</u>	<u>4,036,331</u>
End of Year	<u>\$ 4,765,799</u>	<u>\$ 4,653,903</u>

The New York City Other Postemployment Benefits Plan (A Fiduciary Component Unit of the City of New York)

Notes to the Financial Statements As of and for the Years Ended June 30, 2018 and 2017

1. BACKGROUND AND ORGANIZATION

The New York City Other Postemployment Benefits Plan (the “Plan”) is a fiduciary component unit of the City of New York (the “City”). The Plan is comprised of: (1) The New York City Retiree Health Benefits Trust (the “Trust”) which is used to receive, hold, and disburse assets accumulated to pay for certain postretirement benefits other than pensions (“OPEB”) provided by the City to its eligible retired employees and other eligible beneficiaries and (2) OPEB paid for directly by the City out of its general resources rather than through the Trust (“Non-Trust OPEB”). The Trust was established for the exclusive benefit of the City’s eligible retired employees and their eligible spouses and dependents, to fund certain OPEB provided in accordance with the City’s various collective bargaining agreements and the City’s Administrative Code. The Trust is tax exempt in accordance with Section 115 of the Internal Revenue Code. The Plan does not have a board. However, it does present its financial statements to the City’s Audit Committee. The Plan is classified as a single-employer OPEB plan for Governmental Accounting Standards Board (“GASB”) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 74”) purposes.

The City is not required by law or contractual agreement to provide funding for the Plan, other than the “pay-as-you-go” amount necessary to provide the current benefits to current eligible retirees, spouses, and dependents (“Pay-Go”).

2. PLAN DESCRIPTION, ELIGIBILITY, AND MEMBERSHIP INFORMATION

The Plan provides for the following postemployment benefits:

- A health insurance program,
- Medicare Part B premium reimbursements, and
- Welfare fund contributions.

Benefits are established and amended through collective bargaining with the labor unions.

Health Insurance Program (Program)

- The City provides an option for basic individual or family medical and hospitalization insurance coverage at no cost to the participants.¹
- Basic or enhanced coverage under other health insurance options may require participant contributions, if and to the extent that premiums are above those of the no-cost option.
- The City will not provide both subscriber and spouse or dependent coverage for the same individual, thus retirees who are spouses or dependents of other New York City active or retired workers must waive coverage.

Medicare Part B Premium Reimbursements—The City provides reimbursement to eligible retirees and their dependents for the Medicare Part B premium, if any, actually paid.

¹ The City pays for basic coverage at the HIP HMO rate for non-Medicare eligible retirees and at the GHI/EBCBS Senior Care Plan rate for Medicare eligible retirees.

The New York City Other Postemployment Benefits Plan (A Fiduciary Component Unit of the City of New York)

Notes to the Financial Statements As of and for the Years Ended June 30, 2018 and 2017

2. PLAN DESCRIPTION, ELIGIBILITY, AND MEMBERSHIP INFORMATION (CONTINUED)

Welfare Fund Contributions—The City pays an annual per capita contribution for retirees into various welfare funds that are generally administered by the labor unions. The per capita contribution amounts change periodically based on negotiated contract provisions. Welfare fund benefits provided are at the discretion of each individual welfare fund's management, vary significantly from welfare fund to welfare fund, and may include health-related benefits such as prescription drug coverage (sometimes with dollar limits), vision and dental coverage, and/or other benefits. The Plan's obligation is to make the required per capita contribution to each welfare fund.

Plan Eligibility—Generally, to qualify for OPEB benefits under the Plan, a retired employee of the City must:

- Have at least 10 years of credited service as a member of one of the five major New York City Retirement Systems ("NYCRS")² or at least 5 years of credited service if he or she became an employee on or before December 27, 2001 or 15 years of service if a member of TRS or BERS represented by United Federation of Teachers and employed after April 27, 2010 (if retirement is due to accidental disability, the service requirement for retirement does not apply)³;
- Be working at least 20 hours a week at termination of active service; and
- Have retired and be receiving a pension from one of the NYCRS.

Surviving Spouse and Other Dependents

- Dependent coverage is terminated when a retiree dies, except in the following situations:
 - (i) Lifetime coverage is provided to the surviving spouses or domestic partners and coverage to age 26 for children of uniformed members of the Police or Fire Department whose death was sustained while in performance of duty.
 - (ii) Effective November 13, 2001, surviving spouses of retired uniformed members of the Police and Fire Departments may elect to continue coverage by paying 102% of the stated premium.
 - (iii) Effective August 31, 2010, surviving spouses of retired uniformed members of the Departments of Correction and Sanitation may elect to continue coverage for life by paying 102% of the stated premium.

² The five NYCRS are:

New York City Employees' Retirement System ("NYCERS")
New York City Teachers' Retirement System ("TRS")
New York City Board of Education Retirement System ("BERS")
New York City Police Pension Fund ("POLICE")
New York City Fire Pension Fund ("FIRE")

³ Certain employees of the City University of New York who receive pension payments from TIAA-CREF are also eligible based on credited service requirements which differ slightly from those applicable to the NYCRS members.

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**Notes to the Financial Statements
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2. PLAN DESCRIPTION, ELIGIBILITY, AND MEMBERSHIP INFORMATION (CONTINUED)

Plan Membership—As permitted under GASB 74, the Plan has elected to use June 30, 2017, as the date of the OPEB actuarial valuation. The Plan’s combined membership consisted of the following at June 30, 2018 and 2017, the dates of the last two OPEB actuarial valuations:

	<u>2018</u>	<u>2017</u>
Inactive plan members or beneficiaries currently receiving benefits	232,770	229,725
Inactive plan members entitled to but not yet receiving benefits	15,871	15,372
Active plan members	292,672	287,699
Active/Inactive plan members who may become eligible to receive benefits	<u>22,588</u>	<u>21,232</u>
Total	<u>563,901</u>	<u>554,028</u>

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The Plan is a fiduciary component unit of the City. Fiduciary component units are used to account for assets and activities when an entity is functioning as a trustee for another party. The accompanying financial statements of the Plan are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Basis of Accounting—The Plan’s financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus emphasizes the determination of changes in Plan fiduciary net position. With this measurement focus, all assets and liabilities associated with the operation of this fiduciary component unit are included on the Statement of Fiduciary Net Position. Under the accrual basis of accounting, contributions from the City are recognized when due and benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Recent Accounting Pronouncements—In Fiscal Year 2018, the Plan adopted GASB Statement No. 85, *Omnibus 2017* (“GASB 85”). GASB 85 address practice issues that had been identified during implementation and application of certain GASB statements.

In Fiscal Year 2017, the Plan adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 74”). GASB 74 establishes financial reporting standards of state and local governmental OPEB plans. This statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

The New York City Other Postemployment Benefits Plan (A Fiduciary Component Unit of the City of New York)

Notes to the Financial Statements As of and for the Years Ended June 30, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In Fiscal Year 2017, the Plan adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"). GASB 75 establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employers. This statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The implementation of GASB Statements 74, 75, and 85 did not significantly impact the Plan's Statements of Fiduciary Net Position or Statements of Changes in Fiduciary Net Position.

Investments—The Plan's investments are those which are held in the Trust. Investments are reported on the Statements of Fiduciary Net Position at fair value. Net investment income, including changes in the fair value of investments and trustee fees, is reported on the Statements of Changes in Fiduciary Net Position during the reporting period.

4. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents balances as of June 30, 2018 and 2017, represent cash deposits and securities in the Plan's portfolio, held in the Trust, that mature within three months (90 days) of purchase date. The Plan had \$34.7 thousand in cash deposits and \$433.4 million in cash equivalents as of June 30, 2018. The Plan had no cash deposits and \$1,050.7 million in cash equivalents as of June 30, 2017.

5. INVESTMENTS

Investment Policy—The Plan's investments are those which are held in the Trust. The Trust's investment policy is jointly approved by the Mayor and the Comptroller of the City and may only be amended with written approval from both the Mayor and the Comptroller or their designees. The primary investment goal is the preservation of capital, so funds in the trust are invested to ensure that principal is preserved and enhanced over time. The policy permits the Trust to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation ("S&P") or P-1 by Moody's Investors Service (Moody's), bankers' acceptances, certificates of deposit, open time deposits ("OTDs") in the form of investment agreements, demand accounts, and repurchase agreements. There were no significant changes to the Trust's investment policy for the year ended June 30, 2018.

Concentration—During any calendar quarter, no more than the greater of \$100 million or 35% of the amounts on deposit in the Trust (determined at the time of investment) is invested in either commercial paper of a single issuer or investment agreements with a single provider. Notwithstanding the foregoing, in no event is more than \$250 million be invested at any time in either commercial paper of a single issuer or investment agreements with a single provider.

The New York City Other Postemployment Benefits Plan
(A Fiduciary Component Unit of the City of New York)

Notes to the Financial Statements
As of and for the Years Ended June 30, 2018 and 2017

5. INVESTMENTS (CONTINUED)

Diversification—Investments of funds of the Trust are subject to the following diversification requirements:

Municipal securities	0-60%
Federally guaranteed securities	0-100
Federal agency securities	0-100
Banker's acceptances/certificates of deposit	0-60
Commercial paper	0-70
Repurchase agreements	0-100
Collateralized investment agreements	0-100
AAA-rated investment agreements	0-50
Money market funds	0-50
Pre-refunded municipal obligations	0-100

Other Restrictions—Investments in Banker's acceptances/Certificates of Deposit shall mature within two years of the date of investment and shall be limited to banks having the highest short-term rating from at least two firms identified by the Securities and Exchange Commission ("SEC") as "nationally recognized statistical rating organizations."

Investments as of June 30, 2018 and 2017 consist of the following (\$ in thousands):

Investments by type	2018	2017
Commercial paper	\$ 3,577,115	\$ 2,787,931
T-Notes	699,078	871,496
T-Bills	146,694	444,900
FHLMC	335,050	348,426
FNMA	125,820	146,691
FFCB	136,239	252,044
FHLB	11,926	14,731
Money market funds	77,900	112,937
 Total investments held	 5,109,822	 4,979,156
 Less cash equivalents securities with maturities of 90 days or less at purchase date	 (433,357)	 (1,050,735)
 Total investments	 \$ 4,676,465	 \$ 3,928,421

**The New York City Other Postemployment Benefits Plan
(A Fiduciary Component Unit of the City of New York)**

**Notes to the Financial Statements
As of and for the Years Ended June 30, 2018 and 2017**

5. INVESTMENTS (CONTINUED)

Interest Rate Risk—As a means of limiting its exposure to fair value losses arising from increasing interest rates, the Plan limits investment portfolio average of maturities to within two years of the date of purchase.

Segmented time distribution on investments and cash equivalents as of June 30, 2018 (\$ in thousands):

Investments by maturities	Fair Value	Maturities			
		Under 6 Months	6 Months to 1 Year	1 Year to 2 Years	Over 2 Years
Commercial paper	\$ 3,577,115	\$ 3,488,289	\$ 88,826	\$ -	\$ -
U.S. Treasury securities	845,772	49,828	795,944	-	-
U.S. Agencies securities	609,035	-	95,688	390,543	122,804
Corporate bonds and notes	-	-	-	-	-
Money market funds	77,900	77,900	-	-	-
Total investments by maturities	\$ 5,109,822	\$ 3,616,017	\$ 980,458	\$ 390,543	\$ 122,804

Credit Risk—It is the Trust’s policy to limit its investments in debt securities to those rated in the highest rating category by at least two nationally recognized bond rating agencies. As of June 30, 2018, the Trust’s investments in Federal National Mortgage Association (“FNMA” or “Fannie Mae”), Federal Home Loan Mortgage Corporation (“FHLMC”), Federal Farm Credit Bank (“FFCB”), and Federal Home Loan Bank (“FHLB”) were rated AAA by Moody’s Investors Service and AA+ by Standard & Poor’s. Investments in Commercial Paper were rated in the highest short-term category by at least two major rating agencies. Money market accounts and mutual funds are not rated.

Custodial Credit Risk—For investments, custodial credit risk is the risk that in the event of the failure of the Trustee Bank, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured and are not registered in the name of the Trust.

The Trust manages custodial credit risk by requiring high quality collateral be held by the Trustee Bank in the name of the Trust.

Concentration of Credit Risk—The Trust places no limit on the amount the Trust may invest in any one issuer, except for limits on commercial paper and investment agreements of a single issue. As of June 30, 2018, concentrations of 5.0% or more of the Plan’s fiduciary net position of \$4.8 billion, except for investments issued or explicitly guaranteed by the U.S. government, were invested in the following:

Issuer	Percentage of Fiduciary Net Position
Federal Home Loan Mortgage Corporation (FHLMC)	7.0%
Anglesea Funding PLC	5.2%

**The New York City Other Postemployment Benefits Plan
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**Notes to the Financial Statements
As of and for the Years Ended June 30, 2018 and 2017**

5. INVESTMENTS (CONTINUED)

Fair Value Hierarchy—The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Plan has the following recurring fair value measurements as of June 30, 2018 and June 30, 2017 (\$ in thousands):

Investments by fair value level	2018	Significant Other Observable Inputs (Level 2)	2017	Significant Other Observable Inputs (Level 2)
Commercial paper	\$ 3,577,115	\$ 3,577,115	\$ 2,787,931	\$ 2,787,931
U.S. Treasury securities	845,772	845,772	1,316,396	1,316,396
U.S. Agencies securities	609,035	609,035	761,892	761,892
Money market funds	77,900	77,900	112,937	112,937
Total investments by fair value level	<u>\$ 5,109,822</u>	<u>\$ 5,109,822</u>	<u>\$ 4,979,156</u>	<u>\$ 4,979,156</u>

Commercial paper classified in Level 2 of the fair value hierarchy is valued using matrix pricing or based on various market and industry inputs. U.S. Treasury securities and U.S. Agencies securities classified in Level 2 are valued based on various market and industry inputs. Money market funds classified in Level 2 are valued based on the net asset value (“NAV”).

Rate of Return—For the year ended June 30, 2018, the annual money-weighted return on investments, net of investment expense, was 0.86%. For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 0.55%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

6. FUNDED STATUS AND FUNDING PROGRESS

The components of the net OPEB liability of the City at June 30, 2018 and 2017 were as follows (\$ in thousands):

	2018	2017
Total OPEB Liability	\$ 103,234,648	\$ 93,053,018
Plan fiduciary net position	<u>4,765,799</u>	<u>4,653,903</u>
City’s net OPEB liability	<u>\$ 98,468,849</u>	<u>\$ 88,399,115</u>
Plan fiduciary net position as a percentage of the total OPEB liability	4.6%	5.0%
Covered Employee Payroll	\$ 26,230,448	\$ 25,112,111
Net OPEB liability as a percentage of covered employee payroll	<u>375.4%</u>	<u>352.0%</u>

The New York City Other Postemployment Benefits Plan (A Fiduciary Component Unit of the City of New York)

Notes to the Financial Statements As of and for the Years Ended June 30, 2018 and 2017

6. FUNDED STATUS AND FUNDING PROGRESS (CONTINUED)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The statement of fiduciary net position presents information about assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position as of the end of the OPEB plan's reporting period.

The statement of changes in fiduciary net position presents information about the additions to, deductions from, and net increase (or decrease) in fiduciary net position for the OPEB plan's reporting period.

Projections of benefits for financial reporting purposes are based on the substantive OPEB plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The City may not be obligated to provide the same types or levels of benefits to retirees in the future.

The Plan uses the Entry Age ("EA") actuarial cost method (the actuarial cost method set forth in GASB 74, paragraph 54) to determine the annual expense and the net OPEB Liability.

The total OPEB liability as of June 30, 2018 of \$103.2 billion and as of June 30, 2017 of \$93.1 billion were determined under the EA actuarial cost method.

The following is a brief description of the significant methods and assumptions used in the OPEB actuarial valuation. A complete description can be found in Section 4 and the Summary of Other Postemployment Benefits Provided under the New York City Health Benefits Program in Accordance with GASB 74 and 75 (the "OPEB Report") which is available on the website of the New York City Office of the Actuary ("NYCOA").

Actuarial cost method	Entry Age Normal Cost Method, level percent of pay calculated on an individual basis
Valuation date	June 30, 2017
Measurement date	June 30, 2018
Discount rate	3.01% per annum for the June 30, 2018 measurement date (FY 2018) 3.17% per annum for the June 30, 2017 measurement date (FY 2017)

**The New York City Other Postemployment Benefits Plan
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**Notes to the Financial Statements
As of and for the Years Ended June 30, 2018 and 2017**

6. FUNDED STATUS AND FUNDING PROGRESS (CONTINUED)

Plan	Monthly Health Insurance Costs Per Contract
	Fiscal Year 2018
HIP HMO	
Non-Medicare Single	\$ 652.44
Non-Medicare Family	1,598.47
Medicare	164.98
GHI/EBCBS	
Non-Medicare Single	620.08
Non-Medicare Family	1,625.27
Medicare	172.42
Other HMOs	
Non-Medicare Single	1,018.56
Non-Medicare Family	2,223.80
Medicare Single	311.79
Medicare Family	621.50

Welfare Fund—The Welfare Fund contribution reported as of the valuation date, June 30, 2017, (including any reported retroactive amounts) was used as the per capita cost for valuation purposes. Projected contributions reflect \$25.0 increases at July 1, 2017. Weighted average contribution rates for future retirees are shown below. Starting in fiscal year 2019, the contribution is assumed to increase by 3.5% annually. Prior to fiscal year 2019, the contributions rates are increased by scheduled amounts as previously described.

NYCRS	Contribution Rates Per Capita
	Fiscal Year 2018
NYCERS	\$1,850
TRS	1,798
BERS	1,903
POLICE	1,617
FIRE	1,755

**The New York City Other Postemployment Benefits Plan
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**Notes to the Financial Statements
As of and for the Years Ended June 30, 2018 and 2017**

6. FUNDED STATUS AND FUNDING PROGRESS (CONTINUED)

Medicare Part B Premiums

Calendar Year	Monthly Premium Per Capita
2013-2015	\$104.90
2016	109.97
2017	113.63
2018	125.85

2018 Medicare Part B premium assumed to increase by Medicare Part B trend rates and by the following percentages to reflect income-related increases in Medicare Part B premiums for high income individuals.

Fiscal Year	Income-Related Medicare Part B Percentage Increase
2018	4.5%
2019	5.0
2020	5.2
2021	5.3
2022	5.4
2023	5.5
2024	5.6
2025	5.8
2026	5.9
2027+	6.0

Health Care Cost Trend Rate (“HCCTR”)—Covered medical expenses are assumed to increase by the following percentages:

Year Ending	Pre-Medicare Plans	Medicare Plans	Medicare Part B Premiums	Welfare Fund Contributions
2019 ⁽¹⁾	7.00%	5.00%	7.73%	3.50%
2020	6.50	5.00	5.00	3.50
2021	6.00	5.00	5.00	3.50
2022	5.50	5.00	5.00	3.50
2023 and Later	5.00	5.00	5.00	3.50

⁽¹⁾ Medicare Part B premium trend reflects actual calendar year premium for the first six months of FY 2019 (July 2018 to December 2018) and 5.0% trend for the remaining six months.

**The New York City Other Postemployment Benefits Plan
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**Notes to the Financial Statements
As of and for the Years Ended June 30, 2018 and 2017**

6. FUNDED STATUS AND FUNDING PROGRESS (CONTINUED)

Age and Gender Related Morbidity - The premiums are age and gender adjusted for GHI/EBCBS, HIP and Other HMOs.

Participation - Participation assumptions were updated as part of the fiscal year 2017 valuation to reflect recent experience. The NYCOA reviewed recent experience to confirm these assumptions were still reasonable for the fiscal year 2018 valuation.

Actual elections are used for current retirees. Some current retirees not eligible for Medicare are assumed to change elections upon attaining age 65 based on patterns of elections Medicare-eligible retirees.

Dependents - Male retirees were assumed to be four years older than their wives, and female retirees were assumed to be two years younger than their husbands; for POLICE and FIRE employees, husbands are assumed to be two years older than their wives.

Child dependents of current retirees are assumed to receive coverage until age 26.

Children are assumed to be covered for eight years after retirement plus an additional five years for service retirements of POLICE, FIRE, and NYCERS retirees who were eligible to retire based only on service and no minimum age.

Dependent allocation assumptions were updated as part of the fiscal year 2017 valuation to reflect recent experience. The NYCOA reviewed recent experience to confirm these assumptions were still reasonable for the fiscal year 2018 valuation.

Demographic Assumptions - The actuarial assumptions used in the fiscal year 2018 and the fiscal year 2017 OPEB valuations are a combination of those used in the NYCRS pension actuarial valuations and those specific to the OPEB valuations.

Additional demographic information is provided in the five "Silver Books" available on the Reports page of the OA website (www.nyc.gov/actuary).

Sensitivity of the net OPEB liability to changes in the discount rate—The following presents the net OPEB liability of the City as of June 30, 2018, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.01%) or 1-percentage point higher (4.01%) than the current discount rate (\$ in thousands):

Fiscal Year	1% Decrease (2.01%)	Discount Rate (3.01%)	1% Increase (4.01%)
Net OPEB liability (asset)	\$ 117,735,345	\$ 98,468,849	\$ 83,498,528

**The New York City Other Postemployment Benefits Plan
(A Fiduciary Component Unit of the City of New York)**

**Notes to the Financial Statements
As of and for the Years Ended June 30, 2018 and 2017**

6. FUNDED STATUS AND FUNDING PROGRESS (CONTINUED)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates—The following presents the net OPEB liability of the City as of June 30, 2018, as well as what the City's net OPEB liability would be if calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates (\$ in thousands):

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Net OPEB liability (asset)	\$ 79,972,800	\$ 98,468,849	\$ 124,978,418

7. RELATED PARTY MATTERS

The Plan and the Trust are administered by the City, including the day-to-day administration of the health insurance program. U.S. Bank, N.A, the trustee and custodian of the Trust, makes payments to health insurers and to welfare funds for retiree benefits, and reimbursements of retiree Medicare Part B premiums to retirees, as directed by the City. In April 2018, the City changed the trustee and custodian from Wells Fargo Bank, N.A. to U.S. Bank, N.A. The City also directs the investment of Trust resources in accordance with Trust investment guidelines.

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REQUIRED SUPPLEMENTARY INFORMATION

**The New York City Other Postemployment Benefits Plan
(A Fiduciary Component Unit of the City of New York)**

**Schedule of Changes in the City's Net OPEB Liability and Related Ratios (Unaudited)
As of and for the Years Ended June 30, 2018, 2017 and 2016**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
1. Total OPEB Liability			
a. Service Cost	\$ 4,860,387,841	\$ 4,521,008,728	\$ 5,112,510,498
b. Interest	3,131,103,689	2,898,446,758	2,668,923,050
c. Changes of Benefit Terms	-	-	-
d. Differences b/t Expected and Actual Experience	2,293,748,135	519,255,914	(120,146,814)
e. Changes of Assumptions	2,513,081,199	(10,974,634,867)	-
f. Benefit Payments	(2,616,691,142)	(2,424,766,464)	(2,277,515,643)
g. Net Changes in Total OPEB Liability	10,181,629,722	\$ (5,460,689,931)	\$ 5,383,771,091
2. Total OPEB Liability - Beginning	93,053,018,608	\$ 98,513,708,539	\$ 93,129,937,448
3. Total OPEB Liability - Ending	103,234,648,330	\$ 93,053,018,608	\$ 98,513,708,539
4. Plan Fiduciary Net Position			
a. Contributions - Employer	2,680,766,905	\$ 3,020,942,554	\$ 2,897,128,941
b. Contributions - Employee	-	-	-
c. Net Investment Income	47,990,335	21,437,072	20,565,435
d. Benefit Payments	(2,616,691,142)	(2,424,766,464)	(2,277,515,643)
e. Administrative Expenses	(43,105)	(41,100)	(40,000)
f. Other Changes	(127,045)	-	(331,067)
g. Net Changes in Plan Fiduciary Net Position	111,895,948	\$ 617,572,062	\$ 639,807,666
5. Plan Fiduciary Net Position - Beginning	4,653,903,266	\$ 4,036,331,204	\$ 3,396,523,538
6. Plan Fiduciary Net Position - Ending	4,765,799,214	\$ 4,653,903,266	\$ 4,036,331,204
7. Net OPEB Liability	\$ 98,468,849,116	\$ 88,399,115,342	\$ 94,477,377,335
8. Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	4.6%	5.0%	4.1%
9. Covered Employee Payroll	\$ 26,230,448,259	\$ 25,112,110,958	\$ 24,204,772,333
10. Net OPEB Liability as Percentage of Covered Employee Payroll	375.4%	352.0%	390.3%
11. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate			
a. 1% Decrease	\$ 117,735,345,310		
b. 1% Increase	\$ 83,498,528,055		
12. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
a. 1% Decrease	\$ 79,972,799,539		
b. 1% Increase	\$ 124,978,417,672		

**The New York City Other Postemployment Benefits Plan
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**Schedule of Annual Money-Weighted Return on Plan Investments (Unaudited)
For the Years Ended June 30, 2018 and 2017**

<u>Fiscal Year</u>	<u>Annual Money- Weighted Return</u>
2018	0.86 %
2017	0.55

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