METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

REPORT TO THE HUMAN RESOURCES COMMITTEE

BENCHMARKING STUDY OF THE AIRPORTS AUTHORITY EMPLOYEE BENEFITS PROGRAM

MARCH 2015

Comprehensive Review of MWAA Benefit Programs

- Purpose—to lay a foundation for maintaining over time a benefits program that is:
  - Affordable
  - Sustainable
  - Competitive

Comprehensive Review of MWAA Benefit Programs

Comparator employers:

- Local jurisdictions and the federal government
  - Two employee pools:
    - General Employees
    - Uniformed (Police & Firefighters)
- Risk Factors/Sustainability Issues
- Trends in Private Sector Benefits

Comprehensive Review of MWAA Benefit Programs

Benefits reviewed include:

- Pension programs:
  - Defined Benefit
  - Defined Contribution (457/401a)
- Retiree healthcare
- Employee healthcare, including dental & vision insurance
- Life insurance (including Retiree Life Insurance)
- Paid time off (Holidays, Vacation leave, Sick leave, Other)

Benefit Funding Status

Both Retirement Funds are over 100% Funded

Benefit Plan	Actuarial Liabilities	Fund Assets	Funded Status
General Employees' Retirement Plan	$132.0	$139.9	106%
Police Officers & Firefighters Retirement Plan	$80.6	$84.1	104%
Retiree Medical Plan	$104.2	$83.2	80%
Retiree Life Insurance Plan	$11.7	$7.7	66%
Total for all plans	$328.5	$314.9	96%

MWAA's Pension Plan
General Employees

Defined Benefit (DB) Plans-Normal Retirement Eligibility and percent of final pay

Local Jurisdictions & Federal	Normal Retirement (Age/Service)	Percent of Final Average Pay if retiring at age 62 with 30 years of service
MWAA	60/5	36%
Alexandria	65/5 or 50/30	74%
Arlington	62 or any/30 or 80 points	51%
DC Government	No Defined Benefit Plan	N/A
Fairfax – Plan B	65/5 or 50 with 80 points	62% to age 62; plus 31% to age 65
Federal	62/5 or 60/20 or MRA/30	33%
Loudoun	65/5 or 50/30	45%
Maryland	62/5 or 63/4 or 64/3 or any/30	46%
Montgomery - GRIP	60/5	66%*
Prince George's	55/15 or 62/5 or MRA/30	50%
Virginia	65/5 or 50/30	45%

* Cash balance converted to an annuity with no COLA

MWAA's Defined Contribution Plan General Employees

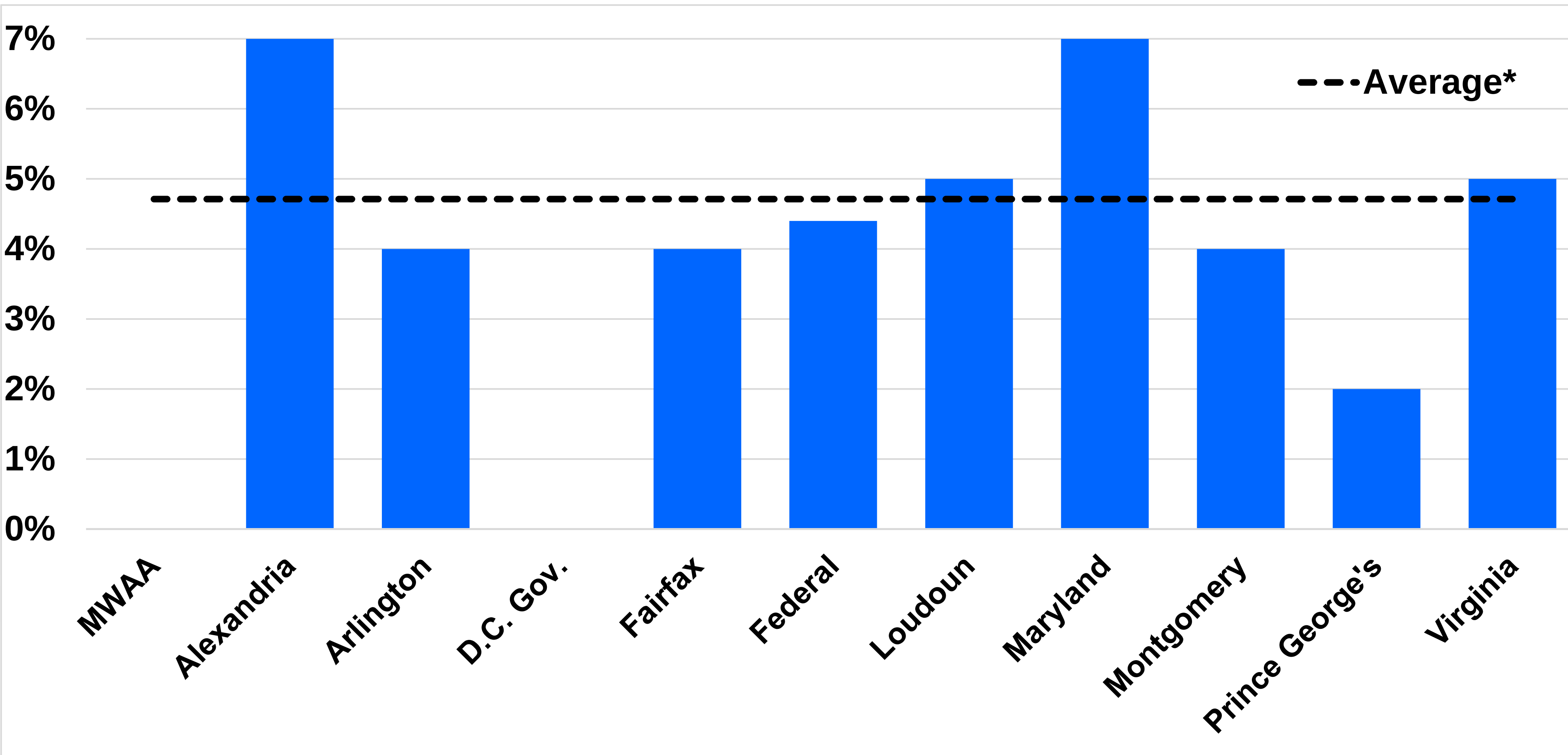
Local Jurisdictions & Federal	Employer Contribution	Maximum % of Salary Employer will Contribute	% of Salary Employee must Contribute to get max from Employer
MWAA	100% match up to 2%, 50% on next 2%	3.0%	4.0%
City of Alexandria	50% match up to $20 per pay period	0.7%	1.4%
Arlington	4.2% into 401(a) plus 100% match up to $20 per pay period match in 457	4.9%	0.7%
D.C. Gov.	Automatic 5%	5%	0%
Fairfax	No employer contributions	0%	0%

MWAA's Defined Contribution Plan
General Employees

Local Jurisdictions & Federal	Employer Contribution	Maximum % of Salary Employer will Contribute	% of Salary Employee must Contribute to get max from Employer
Federal	Automatic 1%, 100% match up to 3%, 50% on next 2%	5.0%	5.0%
Loudoun	50% match up to $20 per pay period	0.7%	1.4%
Maryland	No employer contributions	0%	0%
Montgomery	No employer contributions	0%	0%
Prince George's	No employer contributions	0%	0%
Virginia	50% match up to $20 per pay period	0.7%	1.4%

General Employees--Local Jurisdictions and Federal

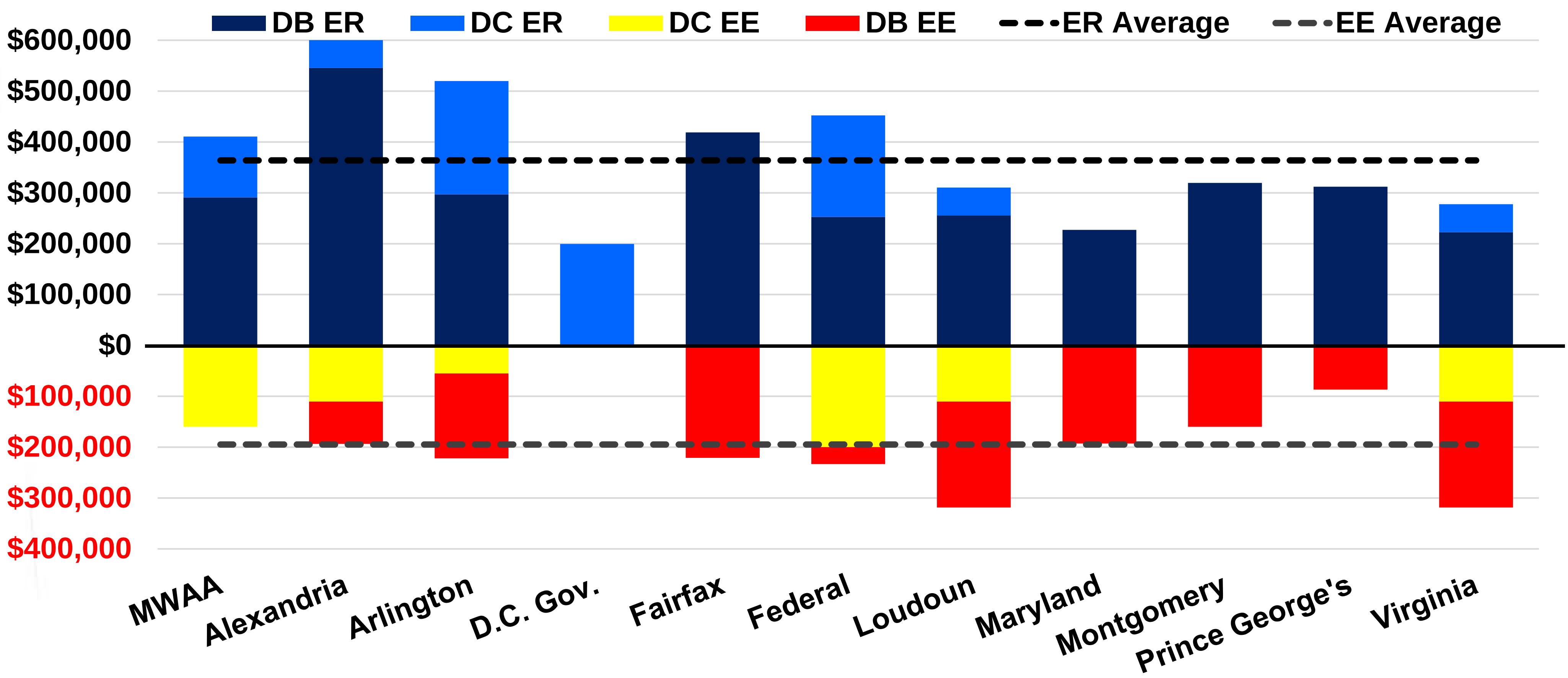
Required Employee Contributions to Defined Benefit Plan



* Average excludes D.C. Gov. since they do not have a defined benefit plan.

General Employees--Local Jurisdictions and Federal

Combined Value of Defined Benefit and Defined Contribution Plans at Age 62 with 30 Years of Service



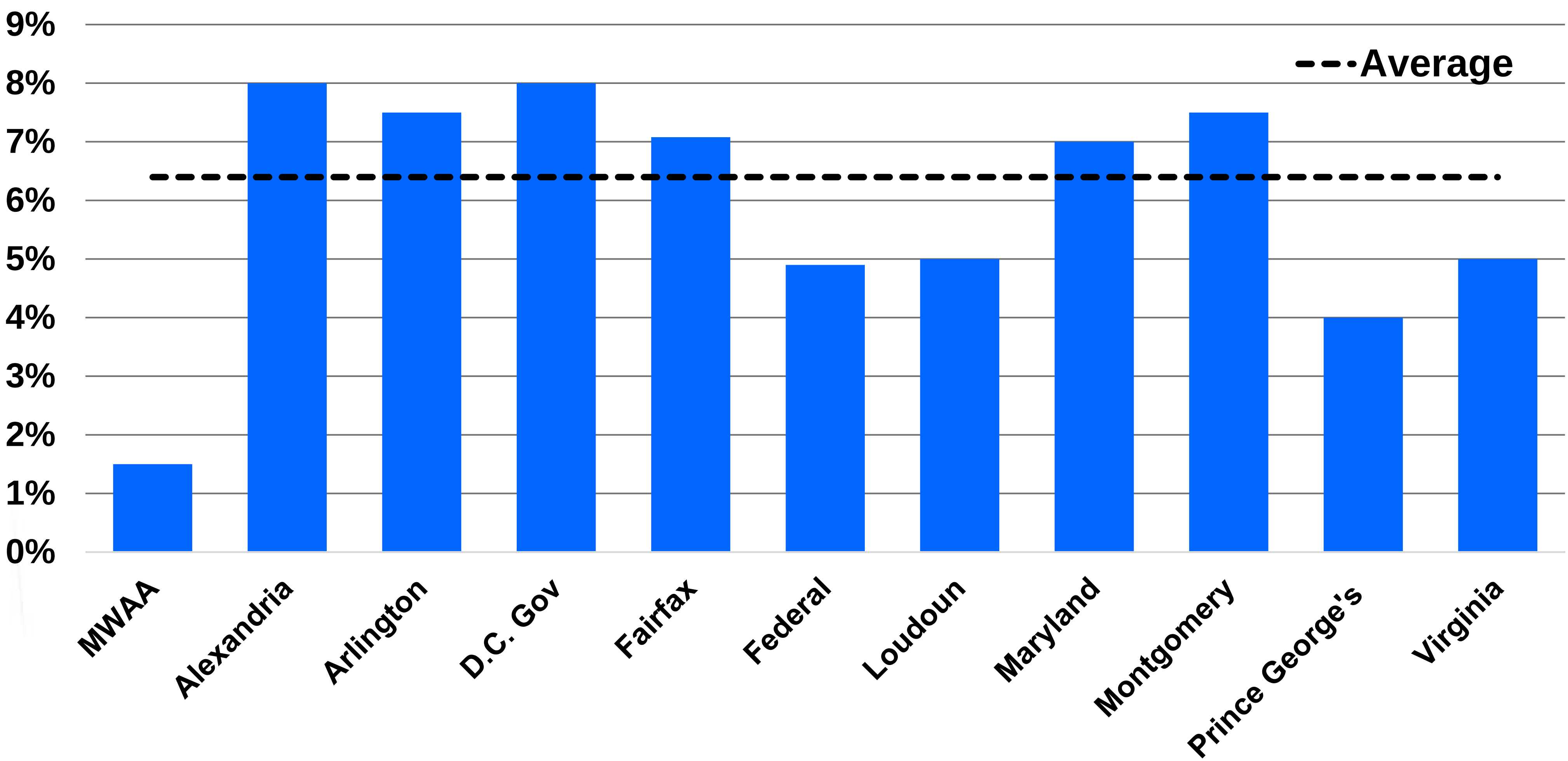
MWAA's Pension Plan Police & Fire

Defined Benefit (DB) Plans-Normal Retirement Eligibility and percent of final pay

Local Jurisdictions & Federal	Normal Retirement (Age/Service)	Percent of Final Average Pay if retiring at age 55 with 25 years of service
MWAA	55/5 or 25 years of service	50%
Alexandria Police Officers & Firefighters	55/5 or 25 years of service	66%
Arlington Public Safety	52/5	68%
D.C. Gov. Police Officers & Firefighters	25 years of service	63%
Fairfax Uniform	55/6 or 25 years of service	64% from age 62; plus 31% to age 62
Federal Law Enforcement Officers/Firefighters	50/20 or 25 years of service	39% from age 62; plus 26% to age 62
Loudoun Hazardous Duty	50/25 or 60/5	46% from age 60; plus 18% to age 60
Maryland Law Enforcement Officers	Age 50 or 25 years of service	50%
Montgomery Fire	55/15 or 20 years of service	41%
Prince George's Fire	Age 55 or 20 years of service	73%
Virginia Hazardous Duty	50/25 or 60/5	46% from age 60; plus 18% to age 60

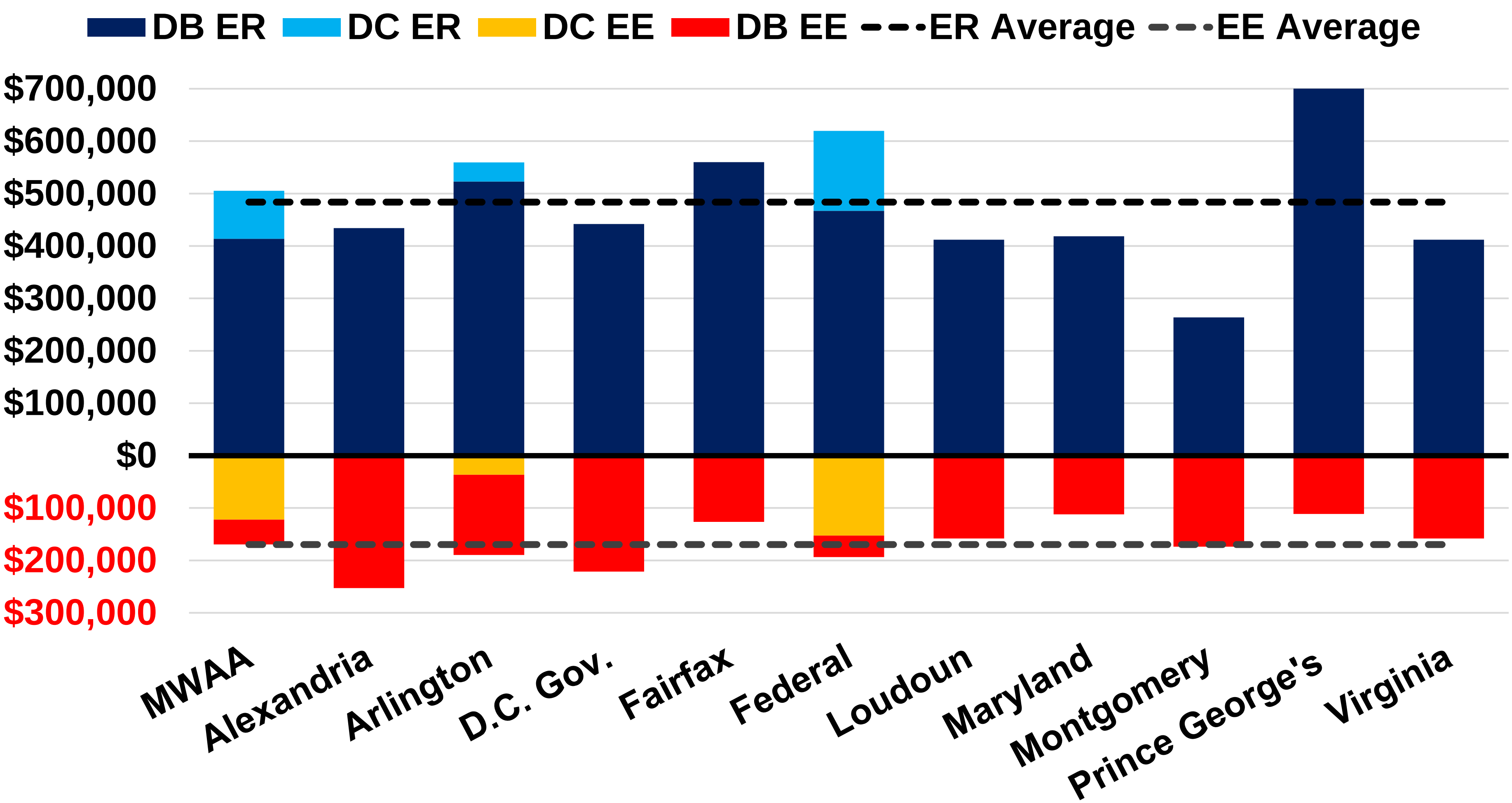
Police and Fire
Local Jurisdictions and Federal

Required Employee Contributions to Defined Benefit Plan



Police and Fire
Local Jurisdictions and Federal

Combined Value of Defined Benefit and Defined Contribution Plans at Age 55 with 25 Years of Service



Employee Healthcare--Local Jurisdictions and Federal

Local Jurisdiction	Actuarial Value	% paid for Employee Only	% paid for Family Coverage	Employer Provided Combined Value
Maryland	92.4%	85%	85%	$16,330
Montgomery	96.0%	80%	80%	$15,963
Virginia	88.4%	88%	86%	$15,820
Arlington	90.5%	83%	83%	$15,622
MWAA	93.2%	80%	80%	$15,503
Fairfax	90.8%	85%	75%	$14,396
Loudoun	87.6%	90%	75%	$14,007
Alexandria	84.0%	80%	80%	$13,974
D.C. Government	90.3%	71%	71%	$13,332
Prince George's	89.6%	66%	66%	$12,345
Federal	83.4%	71%	71%	$12,312
Average*	89.3%	80%	77%	$14,410

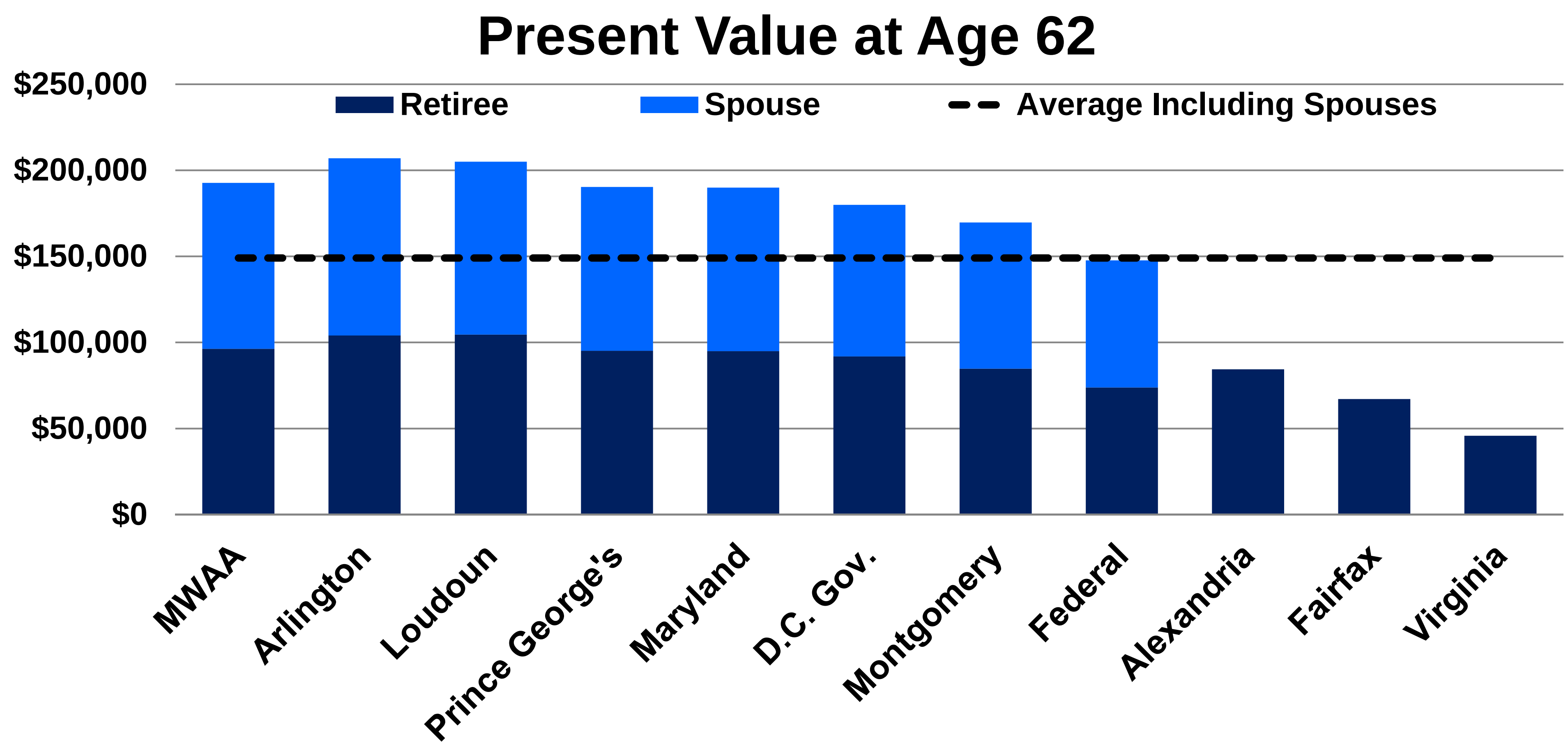
*Excludes MWAA

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

Retiree Healthcare
Local Jurisdictions and Federal

BENCHMARKING RESULTS

Chart shows the employer provided present value of retiree healthcare coverage for a retiree at age 62 with 15 or more years of service. MWAA benefit is well above average.



Retiree Healthcare--Local Jurisdictions and Federal

Vesting Requirements

Jurisdiction	Minimum Eligibility Requirements
MWAA	Age 55 with 5 years of service
City of Alexandria	Age 55 with 5 years
Arlington County	Age 62 with 5; service based subsidy. Full subsidy at 20 years
D.C. Government	Age 62 with 10 years of service
Fairfax County	Age 65 with 5 years or age 50 with age + service at least 75
Federal Government	Age 62 with 5 years or age 57 with 10 years of service. Must also be in health plan for 5 years prior to retirement
Loudon County	Minimum service of 15 years. Also must be enrolled in County health plan.
Maryland	Minimum of 5 years of service; service based subsidy. Full subsidy at 16 years.
Montgomery County	Hired before 2011: Retirement eligible with 5 years. Hired after 2011: Retirement eligible with 10 years.
Prince George's County	Age 55 with 15 years or age 62 with 5 years or MRA with 30 years
Virginia	Age 60 with 5 years or any age with 30 years or age + service at least 80

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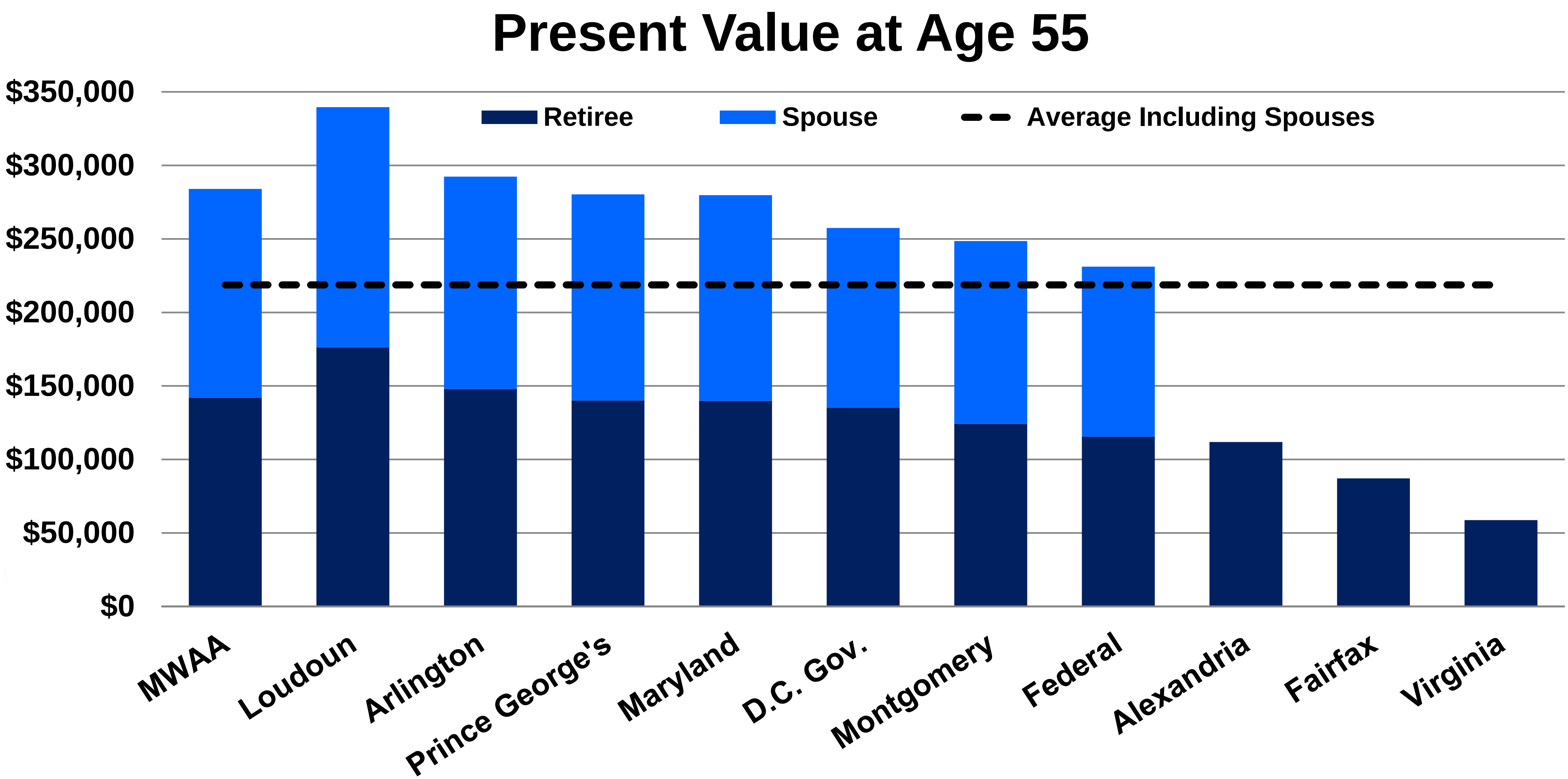
Police and Fire--Local Jurisdictions and Federal

BENCHMARKING RESULTS

Chart shows the employer provided present value of retiree healthcare coverage for a retiree at age 55 with 20 or more years of service. Reflects the additional value of this benefit expected for police and firefighters.



Retiree Healthcare--Police and Fire

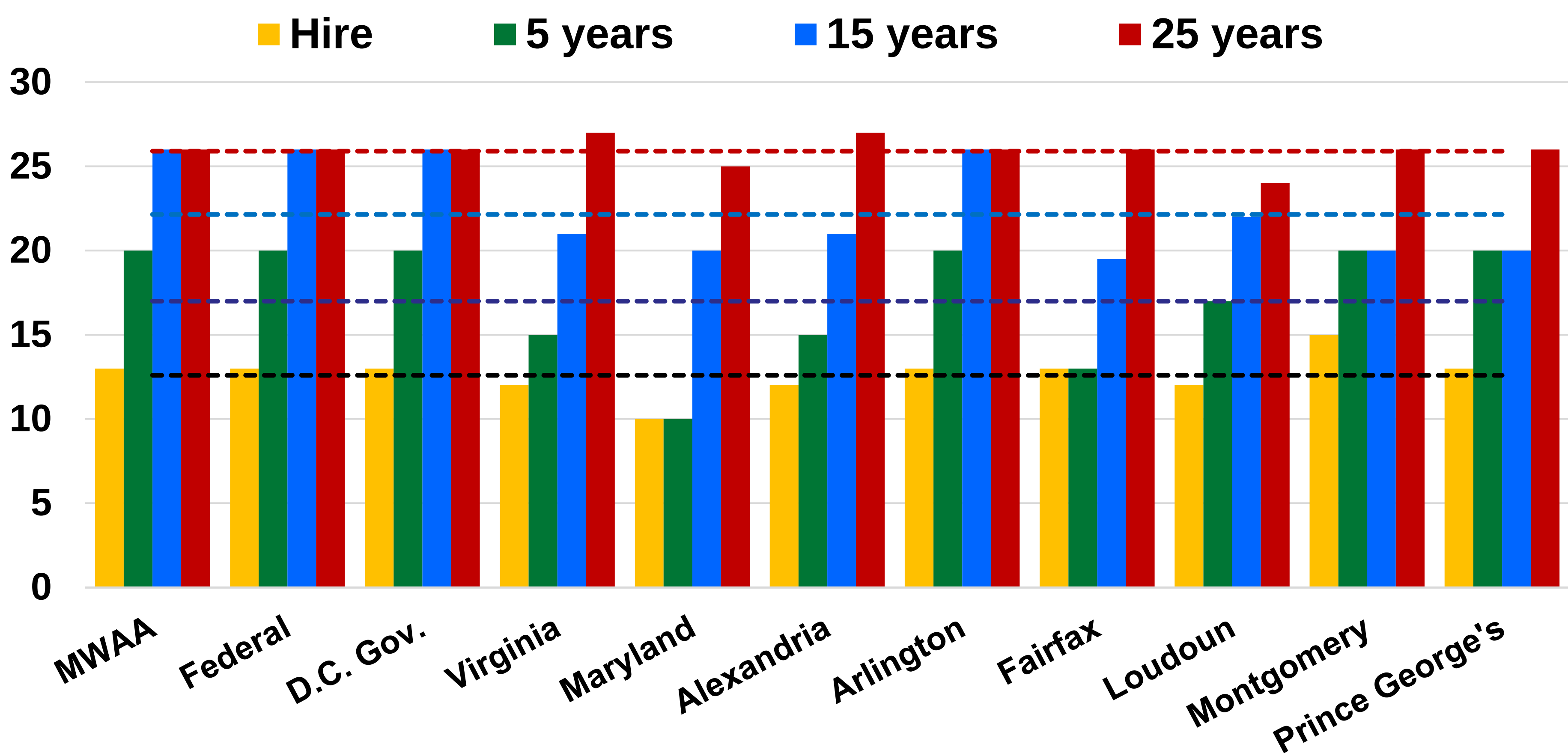
Vesting Requirements

Local Jurisdictions & Federal	Minimum Eligibility Requirements
MWAA	Any age with 25 years of service or age 55 with 5 years of service
Alexandria Police Officers & Firefighters	Age 50 with 10 years of service or age 55 with 5 years of service
Arlington Public Safety	Age 42 with 5 years of service
D.C. Gov. Police Officers & Firefighters	Any age with 25 years of service or 10 years of service
Fairfax Uniform	Age 55 with 6 years of service or 20 years of service
Federal Law Enforcement Officers/Firefighters	Any age with 25 years of service or age 50 with 20 years of service
Loudoun Hazardous Duty	Age 50 with 5 years of service
Maryland Law Enforcement Officers	Any age with 25 years of service or age 50
Montgomery Fire	Any age with 20 years of service or age 55 with 15 years of service
Prince George's Fire	Age 50 with 20 years of service
Virginia Hazardous Duty	Age 50 with 5 years of service

Annual Leave
Local Jurisdictions and Federal

BENCHMARKING RESULTS

MWAA leave policy is competitive. Employees can reach the maximum number of days leave after 15 years, whereas some of the other employers require longer service. The dotted lines represent averages for each respective period.



Total Benefit Value

BENCHMARKING RESULTS

The following table shows the annual cost of benefits for MWAA's average employee with 11 years of service and an annual salary of $77,000.

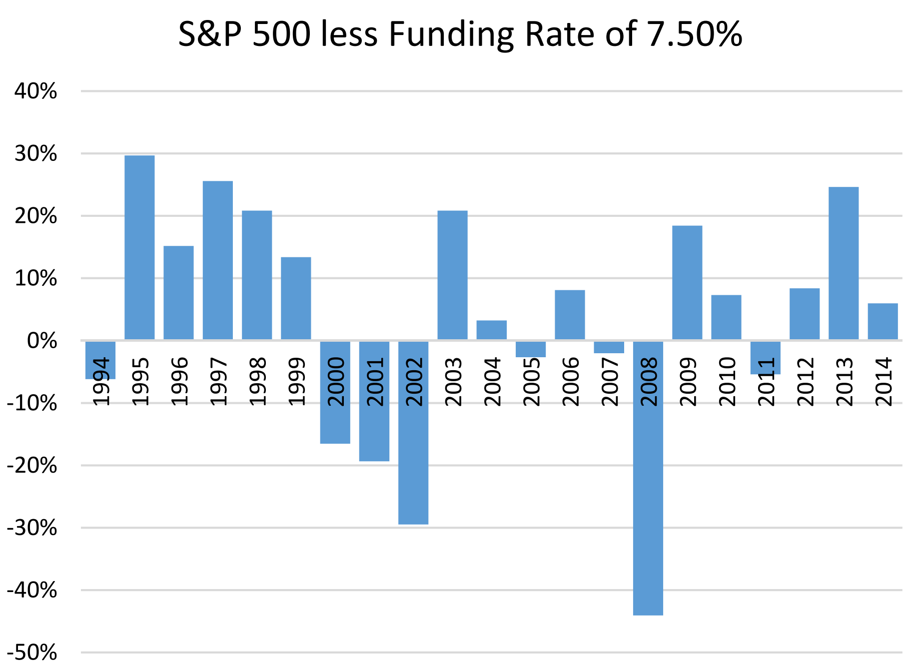
Benefits Program	General Employees		Police & Firefighters	
Components	2015 Cost	Percent of Pay	2015 Cost	Percent of Pay
Defined Benefit	$4,782	6.2%	$7,277	9.45%
Defined Contribution	$2,310	3.0%	$2,310	3.0%
Employee Medical	$15,503	20.1%	$15,503	20.1%
Employee Dental	$540	0.7%	$540	0.7%
Retiree Health	$2,464	3.2%	$2,464	3.2%
Life Insurance	$162	0.2%	$162	0.2%
Retiree Life Insurance	$312	0.4%	$312	0.4%
Social Security & Medicare	$5,891	7.65%	$5,891	7.7%
Total	$31,963	41.5%	$34,458	44.8%

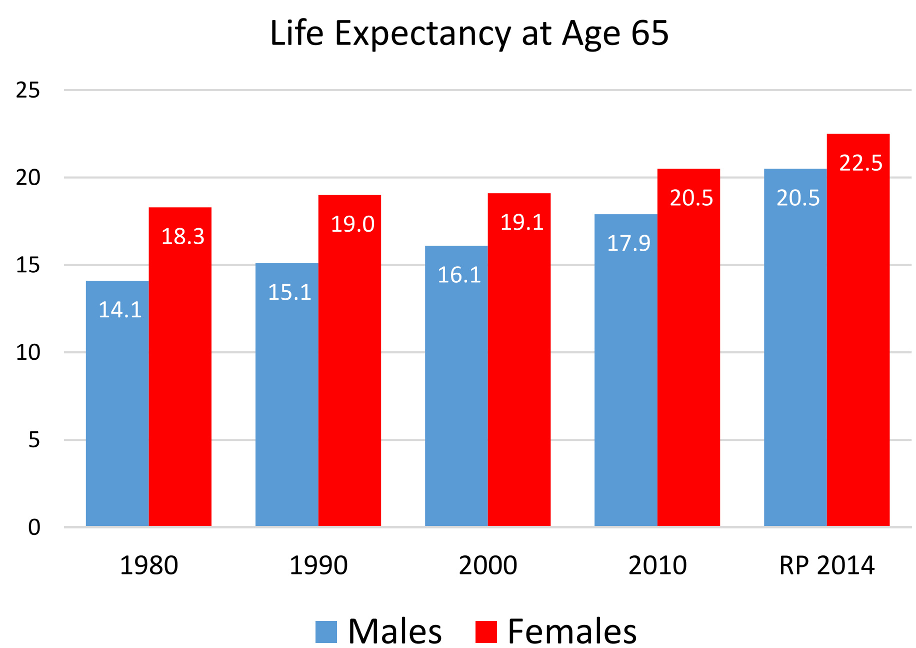
How Do MWAA Benefits Compare as % of Pay?

Jurisdiction	Total Benefit Cost Including Annual and Holiday Leave
MWAA	41.5%
Local	38.3%
Federal	36.8%
Private Sector	29.5%

Risk Factors/ Sustainability Issues

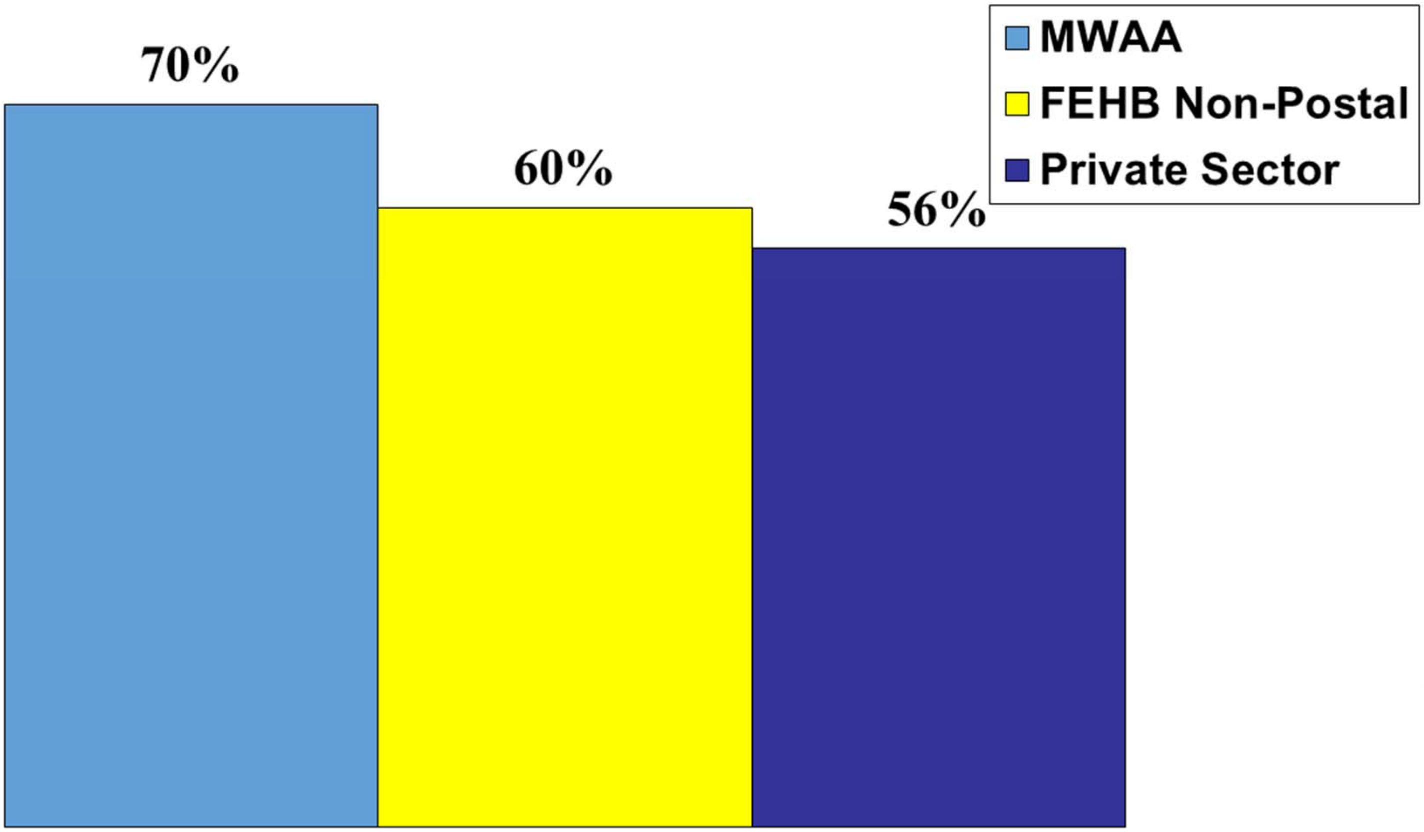
- MWAA provides a comprehensive benefit program for its employees. With minor exceptions the benefit programs have remained unchanged since they were first established in 1987.
- MWAA's retirement plans are over 100% funded today. Nevertheless, the defined benefit plan in common with all defined benefit plans faces the risk of potential shocks including sharp declines in plan assets, increases in life expectancy, and other factors creating volatility (e.g. interest rate changes).





Risk Factors/ Sustainability Issues

% of Family Enrollment, Firms with > 500 EEs



Source: Mercer National Survey of Employer-Sponsored Health Plans 2014

Private Sector Environment/ Trends

Other Major Trends:

- Impending imposition of the “Cadillac Tax”
- Increasing prevalence of Consumer Directed Health Plans
- Robust wellness initiatives especially among larger employers with relatively low turnover—a healthier work force means reduced claims costs and produces other benefits as well (less absenteeism, greater productivity)
- Private exchanges

Areas We Will Be Reviewing

No changes for current employees; possible considerations for new hires:

- How can we make our retirement savings plans (defined benefit and defined contributions) more in line with market?
- How can we make our vesting for retiree health benefits more in line with market?
- How can we make our health care benefit costs more in line with market, particularly in contributions required for family coverage?


Ronald Reagan Washington National Airport


Dulles Corridor Metrorail Project


Dulles Toll Road


Washington Dulles International Airport

METROPOLITAN WASHINGTON
AIRPORTS AUTHORITY

**INFORMATION PAPER FOR THE
HUMAN RESOURCES COMMITTEE
BENCHMARKING STUDY OF THE AIRPORTS AUTHORITY
EMPLOYEE BENEFITS PROGRAM**

MARCH 2015

PURPOSE

The Office of Human Resources retained Aon Hewitt at the Human Resources Committee's request to conduct a benchmarking study of the Airports Authority's employee benefits program. The principle purpose of the benchmarking study was to provide staff with metrics that could be used to compare the Airports Authority's employee benefits program with other airports and local jurisdictions and to develop strategies to assure that over time the employee benefits program remains:

- Affordable, both to the Airports Authority and its employees;
- Sustainable; and
- Competitive

BACKGROUND

The benchmarking study reviewed:

- Retirement Programs (both defined benefit and defined contribution);
- Health care Program (medical, prescription drug, dental and vision);
- Retiree Healthcare;
- Life Insurance (including retiree life insurance); and
- Paid time off (holidays, vacation, and sick leave).

The employee benefits program was compared against two different peer groups of employers.

- Local governmental jurisdictions (including federal programs); and
- A select group of major metropolitan area airports whose operations are similar in scope to the operations of the Airports Authority.

Aon Hewitt obtained information on the benefit programs of the local governmental jurisdictions and peer airports through a combination of a custom survey and published information. The information allowed Aon Hewitt to measure how the Airports Authority's employee benefits program compares in value with the selected peer group of employers.

Aon Hewitt measured the value of the Airports Authority's employee benefits program against the value of the benefits program provided by the peer group of employers. The benchmarking study focused on how much the benefit plans of the peer group of employers would cost if overlaid against the Airports Authority's participant population. In other words, the benefit programs are compared on a relative value basis between employers. This type of analysis allows the Airports Authority to:

- Judge the competitiveness of a particular benefit plan, or combination of plans;
- Compare total benefit values, employer-provided values only, or both; and
- Determine benefit plan values as a percentage of the total benefits program, and as a percentage of average payrolls.

DISCUSSION

Overall the benefits package provided Airports Authority employees is strong and competitive, and somewhat more generous than the benefits provided on average by the comparator groups.

The following table shows the funded status of the two Airports Authority defined benefit plans and the retiree medical and life insurance plans. The two defined benefit retirement plans are over 100 percent funded and the retiree medical plan is 80 percent funded.

Benefit Plan	Actuarial Liabilities	Fund Assets	Funded Status
General Employees' Retirement Plan	$132.0	$139.9	106%
Police Officers & Firefighters Retirement Plan	$80.6	$84.1	104%
Retiree Medical Plan	$104.2	$83.2	80%
Retiree Life Insurance Plan	$11.7	$7.7	66%
Total for all plans	$328.5	$314.9	96%

The table below shows the aggregate cost of the Airports Authority's benefit program for General Employees compared to the study comparator groups. The key drivers of the benefits programs costs are healthcare benefits and retirement program costs.

	General Employees			
Benefit Program	**MWAA**	**Local Jurisdictions**	**Airports**	**Federal Government**
Employee Medical	20.13%	19.02%	19.69%	15.99%
Retiree Health	3.20%	2.48%	1.65%	2.45%
Defined Benefit	6.21%	6.16%	5.10%	5.39%
Defined Contribution	3.00%	1.64%	2.36%	5.00%
Employee Dental	0.70%	0.76%	0.78%	0.00%
Retiree Life Insurance	0.41%	0.40%	0.26%	0.20%
Life insurance	0.21%	0.22%	0.24%	0.07%
Social Security & Medicare	7.65%	7.65%	7.65%	7.65%
Total	**41.51%**	**38.32%**	**37.72%**	**36.76%**
Paid Leave	11.39%	11.03%	10.21%	11.39%

The Retirement Program (combination of the defined benefit and defined contribution plans) conveys adequate and competitive employer provided value, with contribution requirements for the defined contribution plan that are in line with the average contributions among the peer groups. For General Employees the absence of any employee contribution requirement for the defined benefit plan represents a departure from the norm among the survey respondents. For Police and Firefighters the employee contribution to the defined benefit plan is well below the average compared to the other local jurisdictions.

Healthcare (medical and prescription drug) benefits are competitive with the peer comparator group. The employer provided combined value – expressed as per capita cost is average as compared to the comparator peer group. We have noticed a trend with some of the peer comparator group employers requiring a higher percentage contribution for family than self only coverage.

The benchmarking study shows that the employer provided present value of retiree healthcare is somewhat above average. Of perhaps greater importance is that the Airports Authority provides retiree healthcare benefits for any employee who retires from active service with as little as five years of service.

Prepared by:
Office of Human Resources
March 2015

BENCHMARKING MWAA'S BENEFIT PROGRAMS

Prepared for

Metropolitan Washington Airports Authority

Prepared by

PRM Consulting Group
and
Aon Hewitt | Health & Benefits Consulting

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Executive Summary

The Metropolitan Washington Airports Authority (MWAA) maintains a strong and competitive benefits program for employees and their families. Overall the current benefits package provided to MWAA employees is comprehensive, and somewhat more generous than benefits provided on average by the comparator groups, both the local jurisdictions including federal and the airports responding to our survey instrument. The total compensation package will help the Airports Authority continue to attract, recruit and retain professional staff with the skills, expertise and experience needed to serve the transportation needs of the region and more generally support the region's economy.

In aggregate the cost for the current MWAA benefit programs for General Employees is 41.5%. This is 3.2% higher than the average cost for local jurisdictions, 3.8% higher than the cost for the airports responding to the survey, and 4.7% higher than the federal employee benefit cost. Note that the costs shown are for the benefits provided to new hires. The Federal Government costs for employees hired before 2012 is 3.6% higher, as the Federal Government recently increased the contribution requirement for the federal defined benefit retirement plan from 0.8% of pay to 4.4% of pay.

	General Employees			
Benefit Program	**MWAA**	**Local Jurisdictions**	**Airports**	**Federal Government**
Employee Healthcare	20.13%	19.02%	19.69%	15.99%
Retiree Healthcare	3.20%	2.48%	1.65%	2.45%
Defined Benefit	6.21%	6.16%	5.10%	5.39%
Defined Contribution	3.00%	1.64%	2.36%	5.00%
Employee Dental	0.70%	0.76%	0.78%	0.00%
Retiree Life Insurance	0.41%	0.40%	0.26%	0.20%
Life insurance	0.21%	0.22%	0.24%	0.07%
Social Security & Medicare	7.65%	7.65%	7.65%	7.65%
Total	**41.51%**	**38.32%**	**37.72%**	**36.76%**
Paid Leave	11.39%	11.03%	10.21%	11.39%

The summary table shows the key drivers of the benefit program costs are healthcare benefits and retirement plan costs.

The Airport Authority's combined healthcare costs for employees and retirees are 1.8% of pay higher than the combined healthcare costs for local jurisdictions and 2.0% of pay higher than the other airports. The plan features that contribute to this gap are:

- Higher than average premium support for employees who elect family coverage (80% vs 77% for local jurisdictions),
- Medical plan design that is modestly more generous than the average (93% vs 92% for airports and 89% for the local jurisdictions), and
- Retiree medical vesting of 5 years and higher than average premium support for dependents.

The Airport Authority's combined retirement plan costs for the Defined Benefit plan and the Defined Contribution plan, of 9.2% of pay is 1.4% of pay higher than the local jurisdiction combined average and 1.75% higher than the airports. The primary plan feature that contributes to this gap is the absence of any required employee contributions to the Defined Benefit plan. All local jurisdictions require their employees to contribute to the Defined Benefit plan, with the average amount at over 4.5% of pay and the smallest required amount at 2% of pay.

The other benefit plans (dental, vision, employee life insurance, and retiree life insurance) are competitive with the market.

The Airport Authority's paid leave policy is competitive at all service levels with the slightly higher cost reflecting the ability for employees to earn the maximum annual leave earlier than some of the other jurisdictions and other airports.

With respect to Police Officers and Firefighters, the only benefit programs that have differences from the General Employees plans are the Defined Benefit Retirement plan and the Retiree Healthcare plan eligibility. The key observation for the uniformed employees is with respect to the Defined Benefit plan. The combined value of the DB plan and the DC plan is above the average for the local jurisdictions and the contribution requirement for the DB planis below the average. The value of the retiree healthcare benefits is above market for the reasons stated above that apply to General employees.

Introduction and Background

We have been engaged to benchmark MWAA's benefits program against programs provided by two different peer groups of comparator employers, as follows:

- Major employers among the local jurisdictions (including federal programs) whose population MWAA serves in its role of supporting the region's transportation needs and indeed the entire regional economy; and
- A select group of major metropolitan area airports whose operations are similar in scope to the operations of MWAA.

We obtained information on programs provided by the local jurisdictions through their websites and other sources available to the public. With an introduction by MWAA Human Resources staff to the proper contact person at major metropolitan area airports we mailed those airports a survey instrument eliciting information about their programs. Some of the airports provide benefits in part or fully through the state or city where they operate. Others, like MWAA, operate as an independent entity and maintain their own benefit programs. While not all the survey recipients responded, a sufficient number did respond to make their data worthwhile in judging how the MWAA programs compare in design and value with the programs provided by these peer group employers.

The approach used largely measures the value of the MWAA benefits against the value of the benefits provided by the peer group employers. Stated another way—we did not focus on cost to the other employers, but on how much their programs would cost if overlaid against MWAA's participant population. That effectively eliminates cost differences that would be attributable to such factors as the different demographics of the covered populations, and the relative funding posture of benefits such as the employers' retirement programs including postretirement health benefits. We include a more complete description of the methodology used in the Appendix to this report.

The principal purposes of this review were to provide MWAA with metrics by which to judge the appropriateness of the Airport Authority's current benefit programs, benefit by benefit and overall; and to provide a framework which can be used now and replicated in the future to help assure that MWAA maintains a program, over time, that is:

- Affordable, both to the Airport Authority and its employees and their families;
- Sustainable, and
- Competitive.

That in turn will help the Airport Authority in measuring and maintaining a total compensation package that will continue to attract, recruit and retain professional staff with the skills, expertise and experience needed to serve the transportation needs of the region and more generally support the region's economy.

Retirement Savings Plans

In analyzing and depicting the relative value of the plans that are designed to meet the retirement income needs of MWAA's employees, we valued the benefits provided by the defined benefit plan (which almost all of the peer group employers maintain). We valued separately the value of the defined contribution plan, if any, provided where the employer makes either automatic or matching contributions on behalf of participants.

We then show a value combining the two. That is especially important in that the Airport Authority follows the approach used in the design of the Federal Employee Retirement System (FERS) plan and the Thrift Savings Plan (TSP) provided to federal employees, similar to the typical pattern historically among large U.S. private sector employers. The values depicted break down the portion of that value created by the employer contributions, and the employee contributions where those are either mandated or represent contributions which trigger a matching employer contribution.

We show first the values and other comparative information for the plans providing retirement savings for general employees. And in the concluding portion of this section we show the comparative data for uniformed services (police and firefighters) for MWAA's combined defined benefit and defined contribution plans, against those of the comparator employers.

Defined Benefit Plans

With the sole exception of the District of Columbia, the local jurisdictions we have chosen for the benchmarking of defined benefit retirement plans provide a defined benefit plan, as does the federal government. As we understand it, the MWAA program was essentially designed around the concepts that drove the design of the FERS and the TSP plans though with somewhat less generous benefits than those federal systems at the outset. The federal systems in turn were designed around the concept referred to as the "three legged stool" for providing retirement benefits typical among major U.S. private sector employers at the time FERS and the TSP plans were introduced in 1984, shortly before the legislation establishing MWAA. That approach relies on three sources to help employees retire with sufficient income to maintain their preretirement standard of living, including:

- A defined benefit plan (pension plan);
- A defined contribution plan, which includes a matching contribution feature to encourage employees to contribute to savings for their retirement; and
- Social Security.

That approach strikes a balance among objectives, including:

- Providing a floor of income protection through the defined benefit plan and Social Security;
- Providing some protection against inflation, through the COLA adjustment features in Social Security and in MWAA's pension plan and FERS, for example (such protection cannot be made available in a defined contribution only arrangement);
- Requiring employees to contribute to their retirement savings;
- Providing benefits that are more attractive to younger, short service employees through the defined contribution plan, which provides greater portability of the benefit and higher value for younger participants; while at the same time providing benefits that maximize income protection for career employees through the pension plan.

Among the airports responding to the survey, only one airport (Orlando) provides no pension plan, providing instead a relatively generous defined contribution plan. In addition, three of the airports Tampa, Miami, and Dallas/ Fort Worth (DFW) give employees the choice of electing to participate in either the defined benefit plan offered or a defined contribution plan that is also offered, but not both.

We show in the tables below the key features of the defined benefit plans provided by the local jurisdictions and the airport survey respondents for their general employees, and the percentage of final average pay provided assuming an employee retires at age 62 with 30 years of service (the maximum number of years of credited service under the MWAA plan) and a final salary of $77,000.

Figure 1

MWAA's Pension Plan-General Employees

Defined Benefit (DB) Plans-Normal Retirement Eligibility and percent of final pay

Local Jurisdictions & Federal	Normal Retirement (Age/Service)	Percent of Final Average Pay if retiring at age 62 with 30 years of service
MWAA	60/5	36%
Alexandria	65/5 or 50/30	74%
Arlington	62 or any/30 or 80 points	51%
DC Government	No Defined Benefit Plan	N/A
Fairfax – Plan B	65/5 or 50 with 80 points	62% from age 62; plus 31% to age 65
Federal	62/5 or 60/20 or MRA/30	33%
Loudoun	65/5 or 50/30	45%
Maryland	62/5 or 63/4 or 64/3 or any/30	46%
Montgomery - GRIP	60/5	66%*
Prince George's	55/15 or 62/5 or MRA/30	50%
Virginia	65/5 or 50/30	45%

* Cash balance converted to an annuity with no COLA

Note that the District of Columbia does not sponsor a Defined Benefit plan for General Employees.

MWAA and Montgomery County have the lowest age for the Normal Retirement eligibility with 5 years of service. Seven jurisdictions have set their Normal Retirement (i.e. unreduced benefit) eligibility at 30 years of service, either with no minimum age requirement (Arlington and Maryland) or with a minimum age requirement of 50 (Alexandria, Fairfax, Loudoun, and Virginia) or at the Minimum Retirement Age, which is age 57 for employees born after 1970.

Two jurisdictions use an 80 "points" system which sets Normal Retirement Age when the combination of age and service is at least 80, for example at age 57 with 23 years' service.

The Fairfax County Defined Benefit plan has a lifetime annuity benefit plus a "Social Security bridge benefit" that is payable from retirement until Social Security Normal Retirement age.

Figure 2

General Employees--Airports

Defined benefit retirement plans - Normal Retirement Eligibility and Benefit Formula

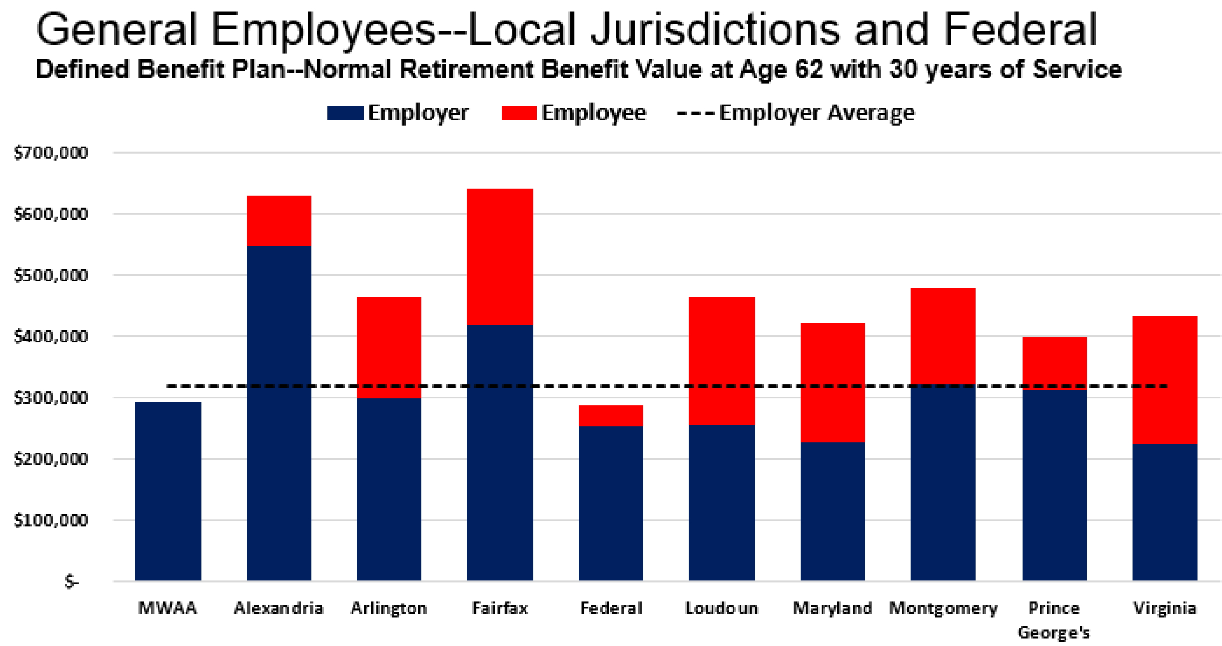
Airports	Normal Retirement (Age/Service)	Percent of Final Average Pay if retiring at age 62 with 30 years of service
MWAA	60/5	36%
DFW DB*	62/5	66%
City of Houston	62/5 or 50 with 75 Points	90%
PANYNJ	Tier 4: 62/5 or 55/30	60%
Miami (FRS) DB*	62/6 or 30 years of service	48%
Tampa (FRS) DB*	62/6 or 30 years of service	48%
Detroit	55/25 or 60/20 or 65/8 or 30 years of service	48%

* Employees have a choice of EITHER the DB Plan or a DC Plan, not both.

In the graphs below, we show the value of the defined benefit plans. This value is expressed as the lump sum dollar value of the retirement benefit earned, assuming an annuity was purchased at retirement using the same pricing factors that are used in the actuarial assumptions for MWAA's pension plan. We show that value using a final salary at retirement of $77,000 per annum. Values are shown for two employees. The first chart shows the value for an employee retiring at age 62 with 30 years of service, and the second chart for an employee retiring at age 65 with 30 years of service. The values take into account automatic cost-of-living adjustments ("COLAs") which are part of the plan. The COLAs have been valued assuming inflation of 2.75% per year, which is the long-term inflation rate used in the MWAA pension plan valuations.

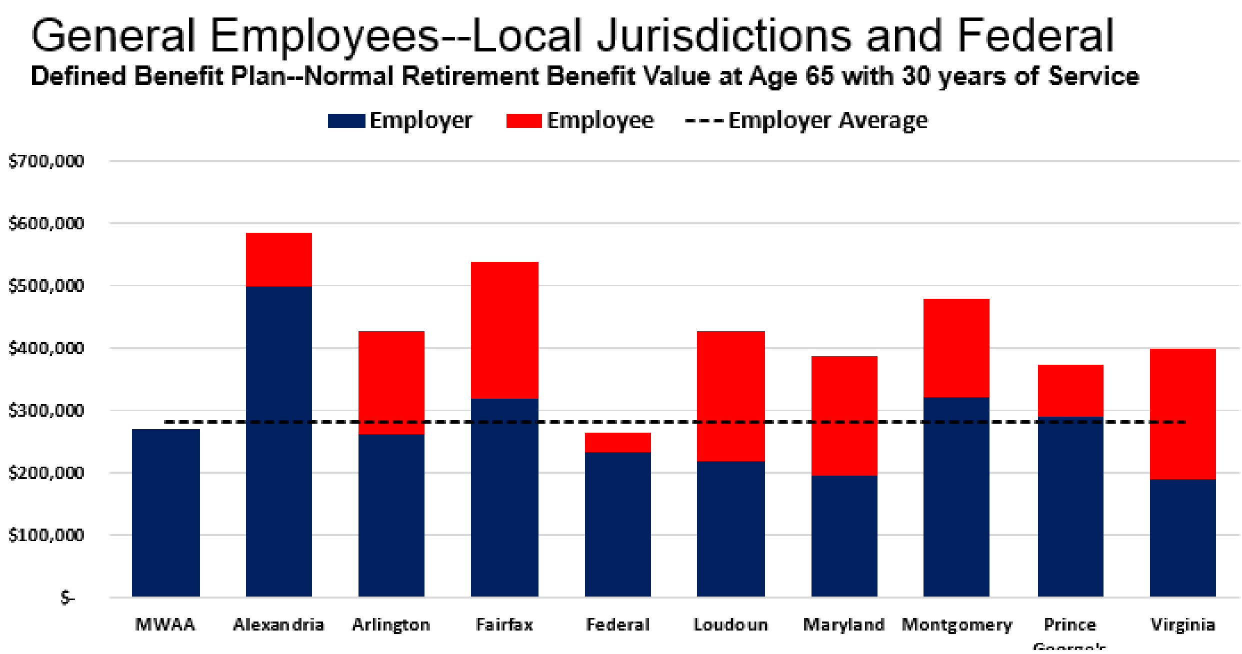
Where employee contributions are required we have shown the portion of the benefit attributable to employee contributions in red, the balance of the value shown in blue, is the employer provided value. MWAA is the only employer that does not require employee contributions to the Defined Benefit plan.

Figure 3



For this first employee retiring at age 62 with 30 years of service, the value of the employer provided portion of the benefit for the MWAA retiree is just under $300,000, and just below the average line for all the local jurisdictions depicted, including the FERS plan.

Figure 4



For this same employee retiring three years later, at age 65, the MWAA plan is again just below the average line, for the employer provided value.

We show below the same data, compared with data provided by responding airports.

Figure 5

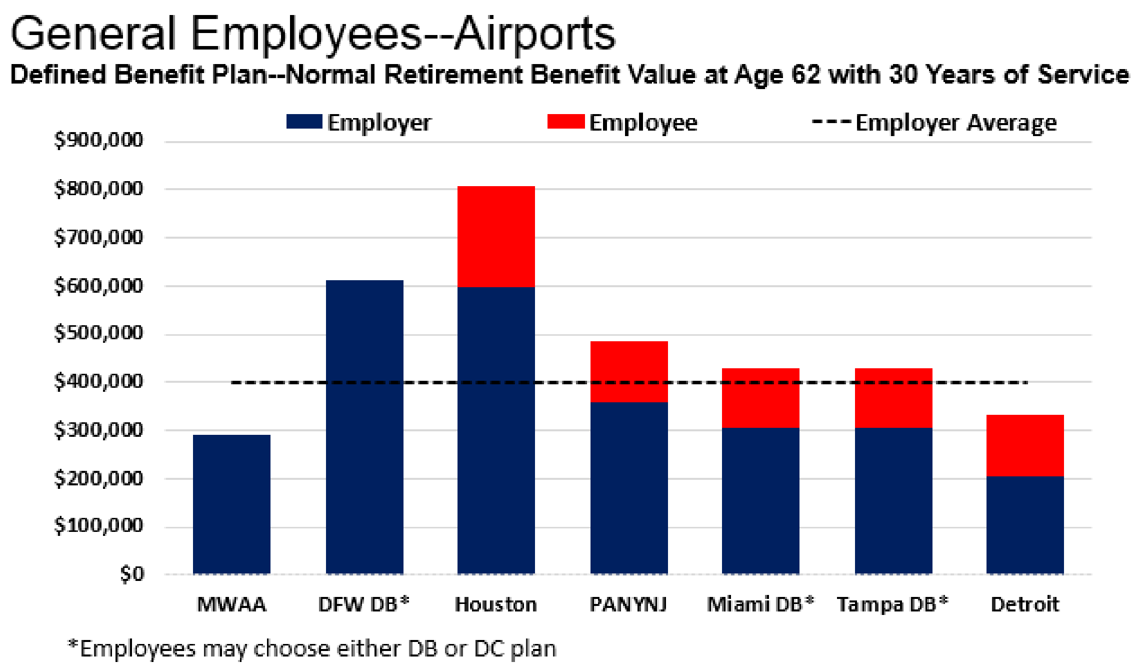
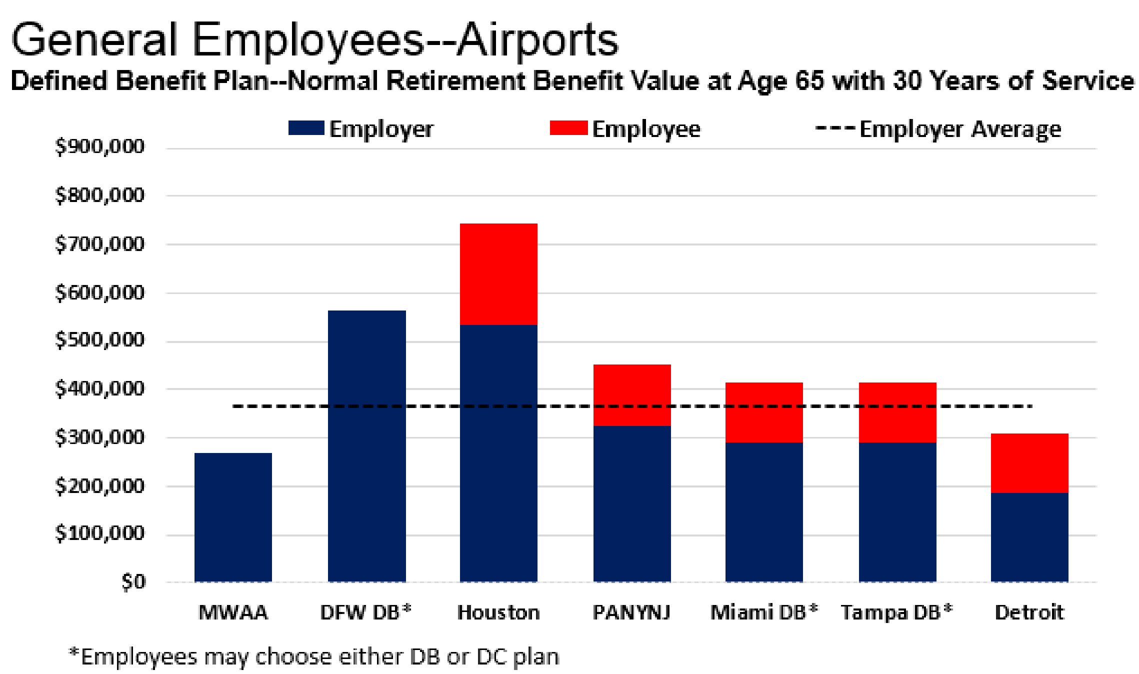


Figure 6



While the MWAA plan's employer provided value is well below that provided by most of the airport respondents, we should note two important factors:

- First, only DFW provides a non-contributory pension plan. The values shown above include both the value created by the employer portion of the benefit and that provided through mandatory employee contributions; and
- Second, this depiction does not take into account the value of the defined contribution plans. As we noted above, employees at DFW, Tampa and Miami have a defined contribution plan they can elect in the alternative—the benefits are not additive, as they are for MWAA participants and participants in the FERS/TSP plans for federal employees. We show the combined values of defined benefit and defined contribution plans later in this report, and that's the more relevant data for MWAA to judge competitiveness with the airport and local jurisdiction comparators.

Cost of Living Adjustment Protection (COLA's)

Almost all of the defined benefit plans provide for COLA increases after a participant retires. In the tables below we show those provisions for the plans provided for general employees, separately for local jurisdictions including federal, and for airports.

Figure 7

General Employees--Local Jurisdictions and Federal

Cost of Living Adjustments (COLA) After Retirement

Local Jurisdictions & Federal	Normal Retirement (Age/Service)
MWAA	50% of CPI, Capped at 4%
Alexandria	100% CPI up to 2% + 50% of CPI for next 2% (VRS)*. Their Supplemental plan has no COLA.
Arlington	100% CPI up to 3% + 50% of CPI for the next 9%
Fairfax – Plan B	100% CPI up to 4% (1% possibly added if surplus)
Federal	100% CPI up to 2% + 100% of CPI over 3%
Loudoun	100% CPI up to 2% + 50% of CPI for next 2% (VRS)*
Maryland	100%, Capped at 1% (When return is not met), Capped at 2.5% (When Return is met)
Montgomery - GRIP	None
Prince George's	Non-Contributory State plan COLA is same as Maryland. Supplement plan has no COLA
Virginia (VRS)*	100% CPI up to 2% + 50% of CPI for next 2%

* (VRS)-Virginia Retirement System

Figure 8

General Employees-Airports

Cost of Living Adjustments (COLA) After Retirement

Airports	Cost of Living Formula
MWAA	50% of CPI, Capped at 4%
DFW DB*	Lesser of CPI or 3%
Houston	3% of benefit at retirement increase annually
PANYNJ	50% of CPI up to 6%, minimum 1%, only applies to first $18,000 per year of benefit.
Miami (FRS) DB*	COLAs only granted for employees hired before July 2011 Amount based on date of retirement Retired before August 2011: 3% Retired after August 2011: 3% times ratio of Service before 8/1/11 to all service
Tampa (FRS) DB*	Same as FRS
Detroit	No COLAs

FRS = Florida Retirement System

*Employees may choose either DB or DC plan

Next, we show the same data graphically, and compare the results from the COLA adjustments using two different assumptions as to the change in the CPI annually—3% and 6%.

Figure 9

General Employees--Local Jurisdictions and Federal

Cost of Living Adjustments (COLA) After Retirement

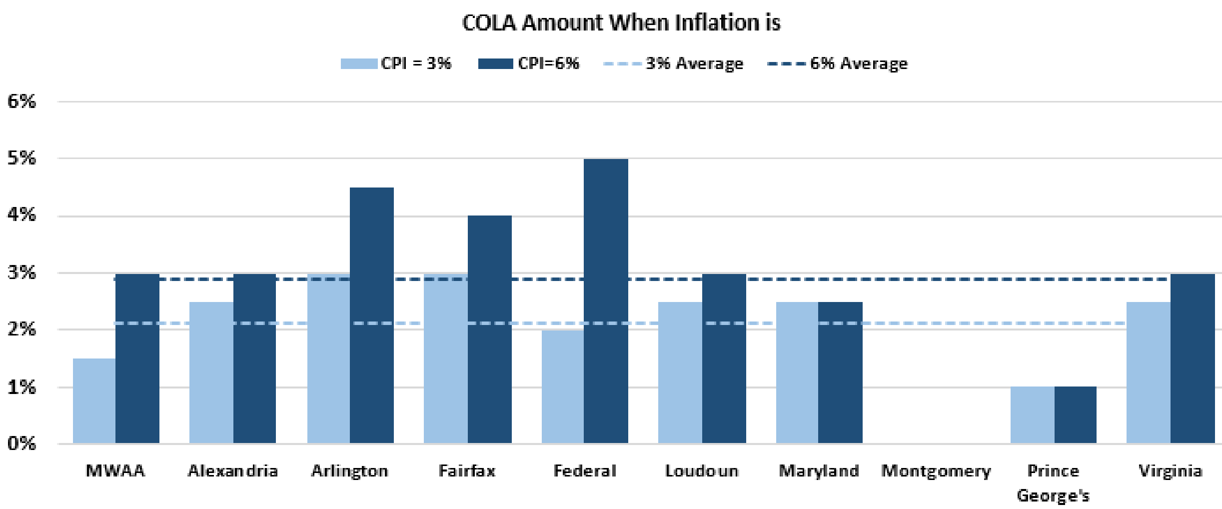
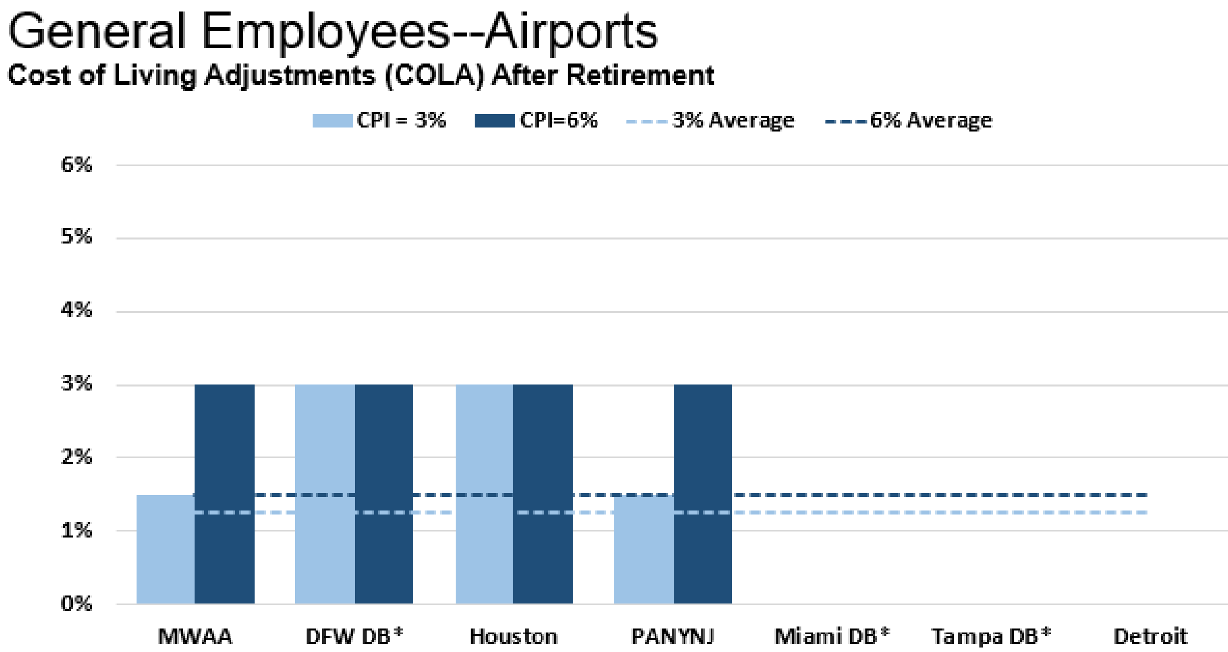


Figure 10



*Employees may choose either DB or DC plan

Among the local jurisdictions, the only pension plan providing no COLA adjustment feature is the plan provided to Montgomery County employees. That plan is a Cash Balance plan with distribution options of a lifetime annuity or a lump sum at retirement. The plan does not have an option for an annuity with inflation protection. Note that the adjustment feature in the MWAA plan, at 50% of CPI, is below the median for the other jurisdictions (including federal) regardless of the rate of inflation assumed. This is one element of Defined Benefit plans that has been modified by employers for current employees. For example Maryland's COLA for service before 2011 had a 3% cap, whereas for benefits earned after 2011 the cap is now 2.5%.

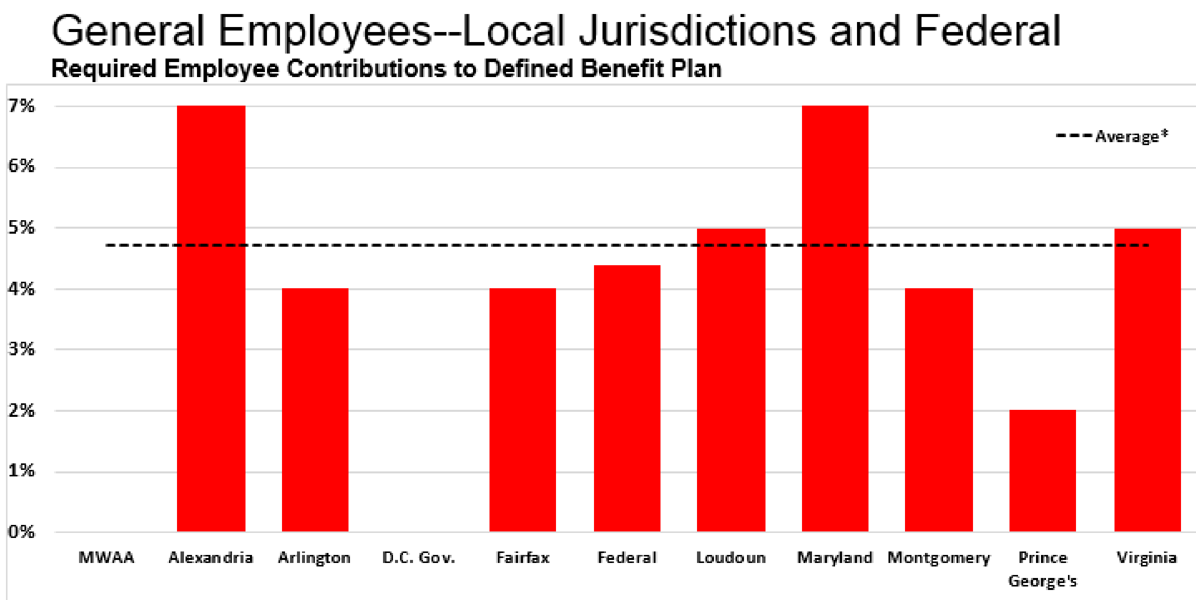
As this data shows, generally those airports which continue to maintain a COLA feature also provide the same (PANYNJ) or better protection against inflation than MWAA. However, it's important to note that Miami and Tampa, which participate in the Florida Retirement System, have eliminated COLA's entirely for employees hired after July, 2011.

On balance, MWAA's COLA feature is reasonable and competitive when compared with the comparator employers' plans.

Employee Contributions

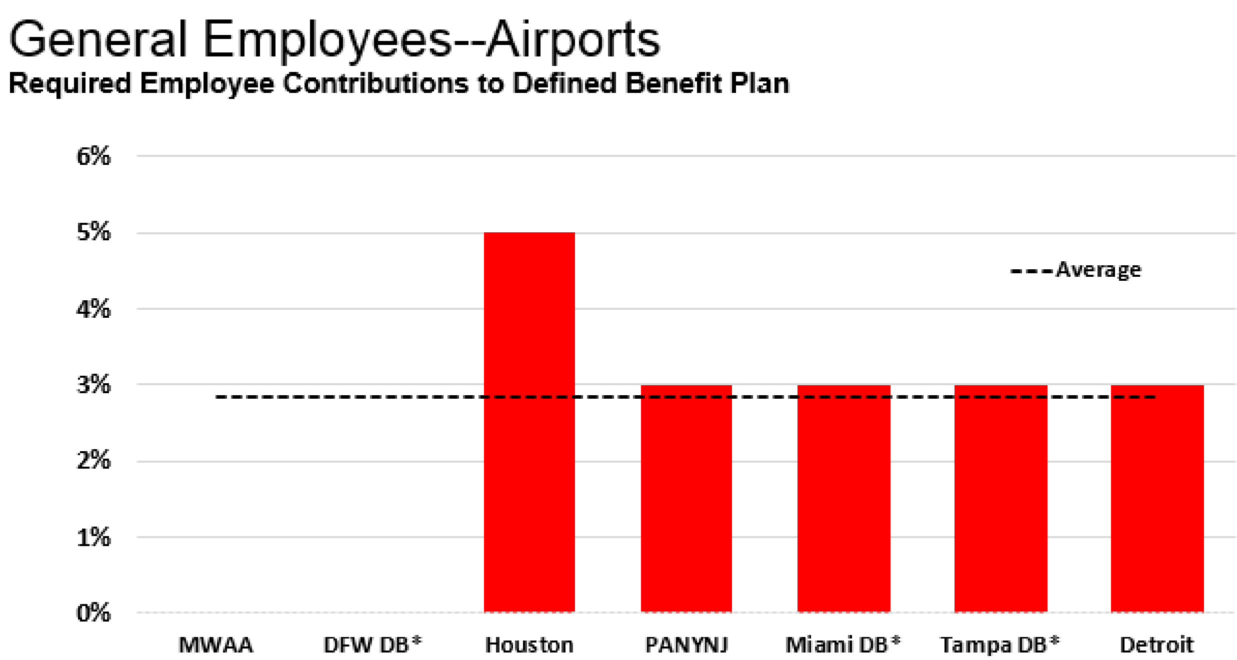
The most notable differentiator when comparing MWAA's defined benefit plan against the plans of the comparator employers is the absence of any contribution requirement for MWAA plan participants. This distinction is illustrated in the two graphs immediately below.

Figure 11



* Average excludes D.C. Gov. since they do not have a defined benefit plan.

Figure 12



*Employees may choose either DB or DC plan

As can be readily observed, the only other employer among the comparators that does not require an employee contribution for participation in the pension plan is DFW among the airports. All of the local jurisdictions including federal require employee contributions for the defined benefit plans.

The average contribution required among the airport respondents is almost exactly 3% (including DFW at zero in the average calculation); the average contribution required among the local jurisdictions is just under 5% of pay.

Defined Contribution Plans

We present in this section of the report the data developed around the defined contribution plans provided by the comparator employers. As we show in the table below, among the local jurisdictions the great majority provide either no matching contributions in their defined contribution offering to employees, or a very limited contribution designed to provide some supplemental retirement savings especially for lower paid employees. The meaningful and in many cases the only retirement benefit provided to employees is through the defined benefit pension plan. The exceptions include the MWAA plans and the plans provided to federal employees and Arlington, VA employees.

In addition, the District of Columbia Government is an exception to the norm, in that the only retirement plan for general employees is a defined contribution plan with an employer contribution of 5% of pay. Until 1987, District of Columbia employees were covered under the federal benefit systems, including the Civil Service Retirement System and FERS. In 1987 Congress removed the District from those plans. In an era of financial distress, DC adopted the defined contribution plan and that plan has remained the only retirement plan in place to which DC makes an employer contribution.

Figure 13

General Employees--Local Jurisdictions and Federal

Defined Contribution Plans

Local Jurisdictions & Federal	Employer Contribution	Maximum % of Salary Employer will Contribute	% of Salary Employee must Contribute to get max from Employer
MWAA	100% match up to 2%, 50% on next 2%	3.0%	4.0%
City of Alexandria	50% match up to $20 per pay period	0.7%	1.4%
Arlington	4.2% plus 100% match up to $20 per pay period	4.9%	0.7%
D.C. Gov.	Automatic 5%	5%	0%
Fairfax	No employer contributions	0%	0%
Federal	Automatic 1%, 100% match up to 3%, 50% on next 2%	5.0%	5.0%
Loudoun	50% match up to $20 per pay period	0.7%	1.4%
Maryland	No employer contributions	0%	0%
Montgomery	No employer contributions	0%	0%
Prince George's	No employer contributions	0%	0%
Virginia	50% match up to $20 per pay period	0.7%	1.4%

In the next table below, we show the data for defined contribution plans among the airport respondents.

Figure 14

General Employees--Airports

Defined Contribution Plans

Airports	Employer Contribution	Maximum % of Salary Employer will Contribute	% of Salary Employee must Contribute to get max from Employer
MWAA	100% match up to 2%, 50% on next 2%	3.0%	4.0%
Orlando**	Auto 6% then 100% match on first 4%	10%	4.0%
DFW DC*	100% match on first 7%	7.0%	7.0%
Miami DC*	Blended % based of FRS	3.3%	3.0%
Tampa DC*	Blended % based of FRS	3.3%	3.0%

FRS = Florida Retirement System
*Employee must choose either DB or DC plan—if Miami or Tampa employee chooses DC plan the 3% of pay contribution is mandatory
**Only Defined Contribution plan available

There are two important points to note about this data:

- First, Orlando provides only a defined contribution plan to its employees; and
- Second, DFW, Miami, and Tampa provide a defined contribution plan as an alternative, not as an additive plan available to supplement the defined benefit plan. While these defined contribution plans are less generous and therefore less expensive for career employees, they have greater appeal and portability for younger employees who will only accumulate a few years of service with the employer before moving on to another employer.

We show the same data graphically in the charts below, showing the maximum employer contributions as a percentage of pay for both the local jurisdictions and the airports compared with the MWAA defined contribution plan.

Figure 15

General Employees--Local Jurisdictions and Federal

Defined Contribution Plans

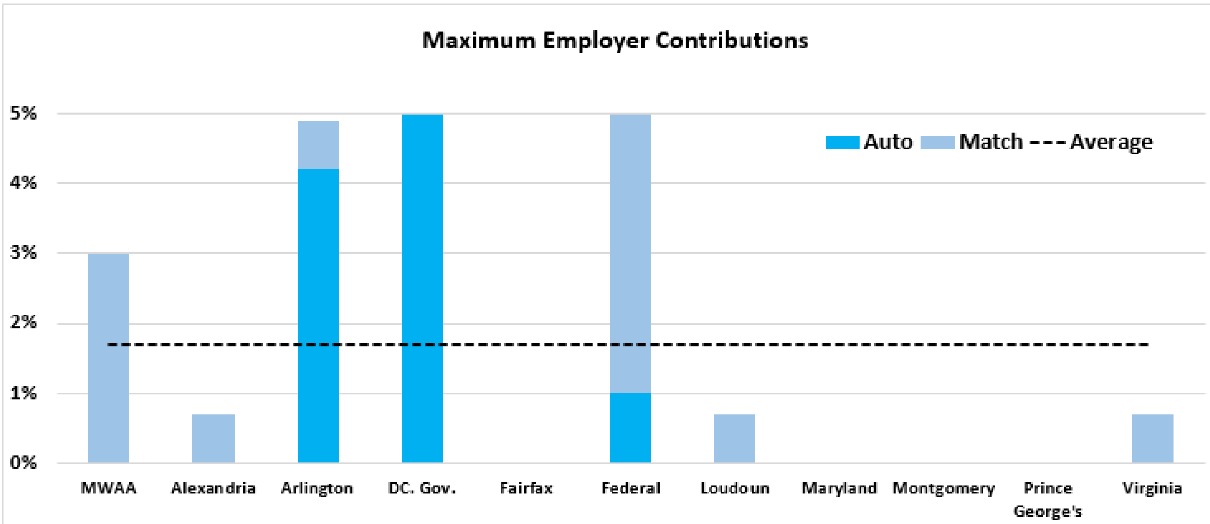
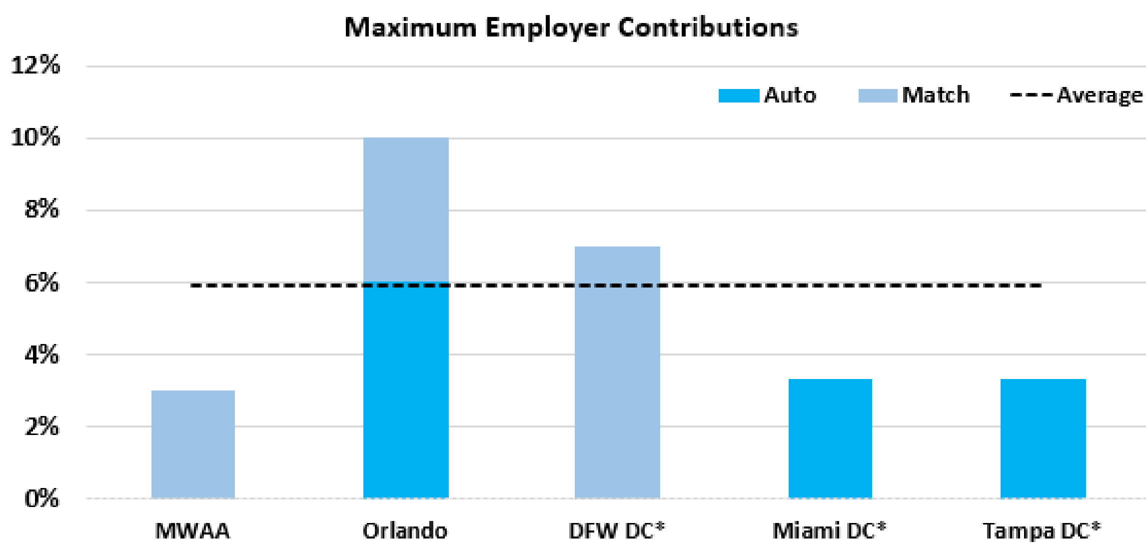


Figure 16

General Employees--Airports

Defined Contribution Plans



*Employees may choose either DB or DC plan

Combined Defined Benefit and Defined Contribution Plan Values

To fully judge the adequacy and competitiveness of MWAA's retirement saving arrangements for employees, it is necessary to examine the results created both by the defined benefit and defined contribution arrangements. As we pointed out earlier for both MWAA and the FERS/TSP plans, those plans are designed to be additive, with the defined benefit plan providing a floor of retirement income above Social Security, and the defined contribution providing a supplemental benefit and a vehicle for employees to contribute on a tax-favored basis their own savings to retirement.

We show those combined results in the four graphs below, first for the local jurisdictions and then for the airports. The amounts shown above the zero line are the employer provided benefit, separately for the defined benefit plans (the dark blue portion of the bar) and the defined contribution plans (the light blue portion of the bar). The amounts shown below the line are the additive values created through employee contributions, separately for the defined benefit plans (the bright red portion) and the defined contribution plans (the orange portion).

The amounts shown for the employee contribution value for the defined contribution plans are the amounts the employee must contribute to trigger the maximum matching employer contribution. We should also note that since these values depict the value for an employee retiring now, the employee contribution shown for the FERS plan is the 0.8% of pay contribution that was required from the outset of the FERS plan. Federal employees hired now must contribute 4.4% of pay. Generally employee contributions for the defined benefit plans are a condition of employment, i.e. they are mandatory.

Figure 17

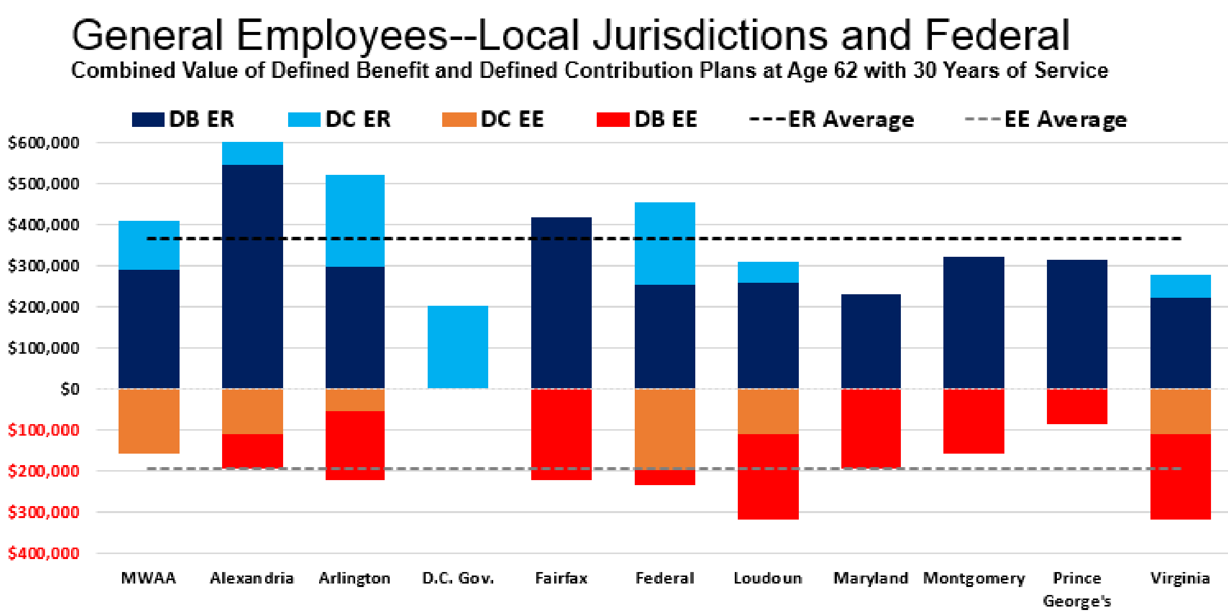
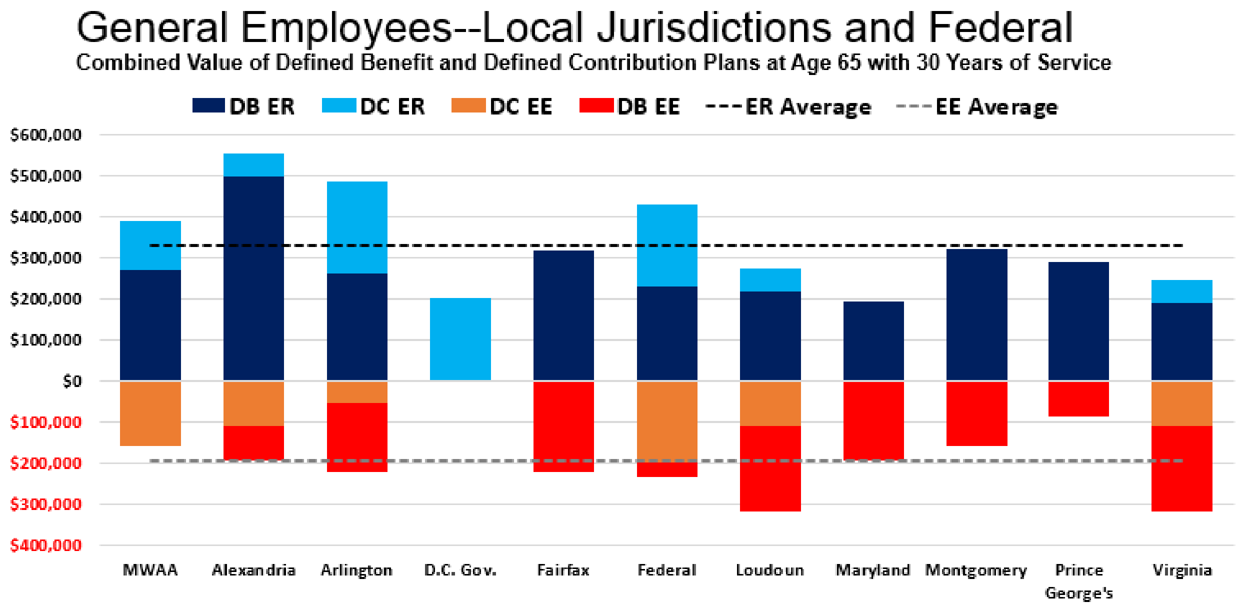


Figure 18

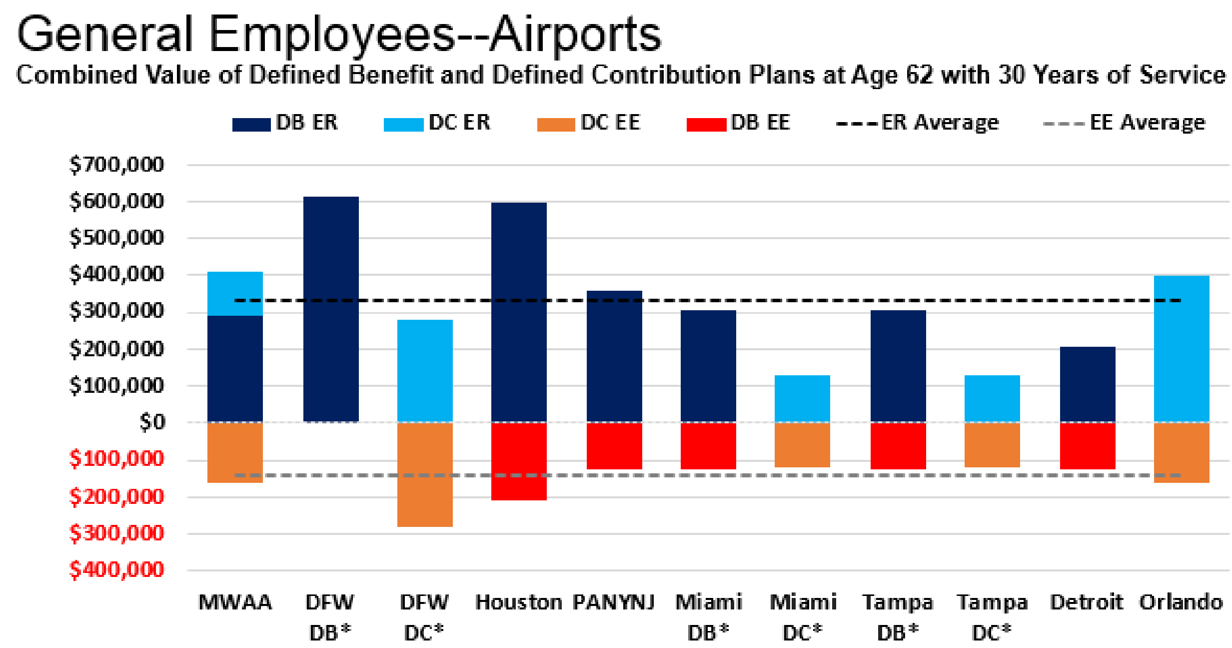


As the graphs show, the MWAA combined plans are competitive in providing total retirement income values for general employees retiring at either age 62 or age 65 with 30 years of service. The employer provided value is somewhat above the average line for the remaining employers among the local jurisdictions including federal. The amount of savings accumulated from the employee contribution necessary to trigger the maximum matching contribution under the defined contribution plan is somewhat less than the average.

And as we noted earlier, there is no employee contribution requirement for MWAA's defined benefit plan.

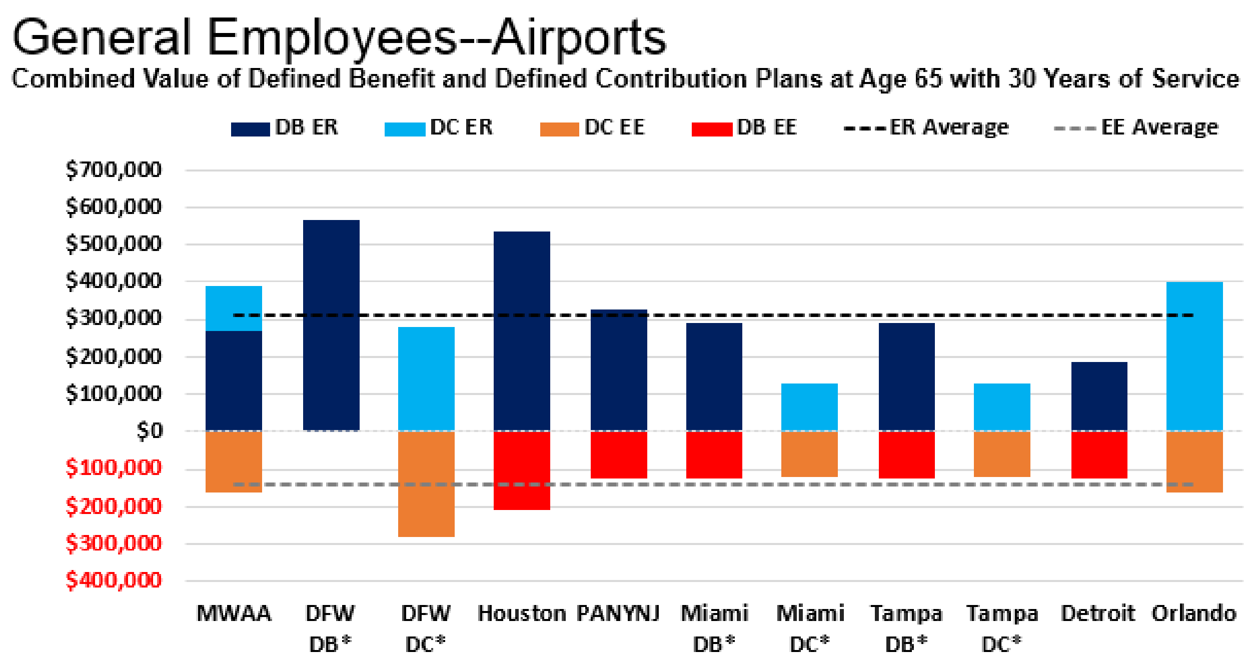
In the two graphs below, we show the same data comparing outcomes under the MWAA plans with outcomes under the responding airports plans.

Figure 19



*Employees may choose either DB or DC plan

Figure 20



*Employees may choose either DB or DC plan

As the graphs clearly show, at both ages 62 and 65 with 30 years of service:

- The employer provided value under the MWAA plans is somewhat above the average for the responding airports' plans; and
- The employee contribution required for MWAA employees to maximize the employer matching contribution is just above average contribution requirements for the other airport plans.

Overall, on a combined basis, the MWAA retirement plans convey adequate and competitive employer provided value. The contribution requirements to maximize the employer funding to the defined contribution plan are in line with the average contributions among the peer groups. The absence of any contribution requirement for the defined benefit plan represents a departure from the norm among the survey respondents.

Police Officers and Firefighters Retirement Savings Plans

In general and in accordance with the physical demands of the job, plans provided for uniformed services personnel (police and firefighters) provide for full retirement benefits at much earlier ages than for general employees.

Airports, including MWAA, principally recruit from and compete in the labor market for public safety personnel with police and fire departments in the region they serve. For that reason we have compared the retirement plans in this section of the report with the local jurisdictions including federal. We believe that is the proper comparator group, given the objectives of this project and the necessity to maintain plans that will attract, recruit and retain personnel with the skills, expertise and experience required to serve MWAA's needs.

In the table below, we show the major retirement plan features for the MWAA pension plan and the comparable features for the local jurisdictions including federal, for uniformed services personnel.

Figure 21

MWAA's Pension Plan Police & Fire

Defined Benefit (DB) Plans-Normal Retirement Eligibility and percent of final pay

Local Jurisdictions & Federal	Normal Retirement (Age/Service)	Percent of Final Average Pay if retiring at age 55 with 25 years of service
MWAA	55/5 or 25 years of service	50%
Alexandria Police Officers & Firefighters	55/5 or 25 years of service	66%
Arlington Public Safety	52/5	68%
D.C. Gov. Police Officers & Firefighters	25 years of service	63%
Fairfax Uniform	55/6 or 25 years of service	64% from age 55; plus 31% to age 62
Federal Law Enforcement Officers/Firefighters	50/20 or 25 years of service	39% from age 55; plus 26% to age 62
Loudoun Hazardous Duty	50/25 or 60/5	46% from age 55; plus 18% to age 60
Maryland Law Enforcement Officers	Age 50 or 25 years of service	50%
Montgomery Fire	55/15 or 20 years of service	41%
Prince George's Fire	Age 55 or 20 years of service	73%
Virginia Hazardous Duty	50/25 or 60/5	46% from age 55; plus 18% to age 60

In the table below, we show comparable data for the defined contribution plan, if any, that provides either a matching or automatic employer contribution for public safety personnel.

Figure 22

General Employees—Police and Fire

Defined Contribution Plans

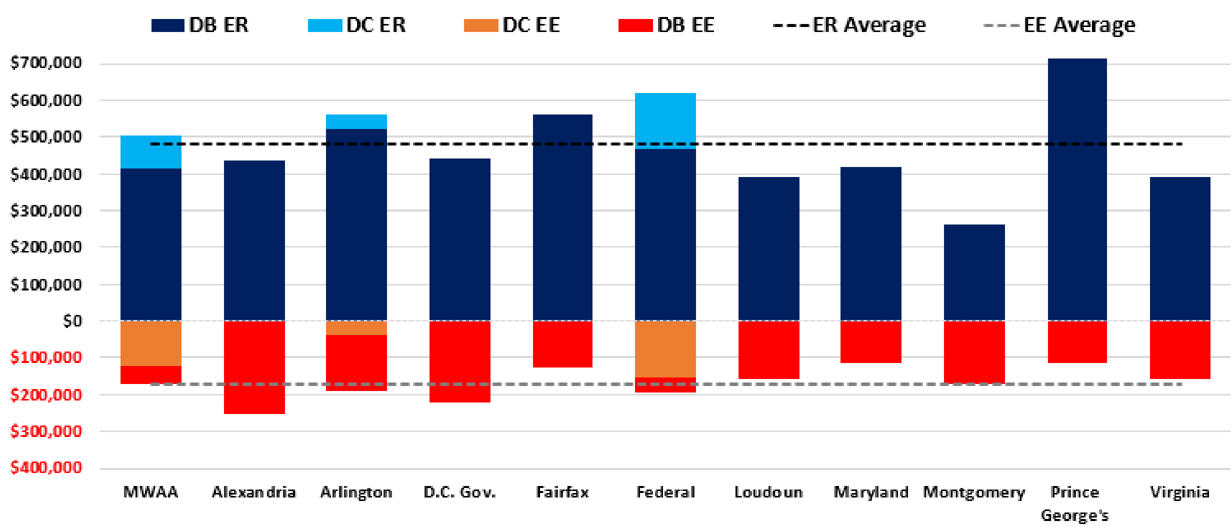
Police & Fire Local Jurisdictions and Federal	Employer Contributions	Maximum % of Salary Employer will Contribute	% of Salary Employee must Contribute to get max from Employer
MWAA	100% Match Up to 2%, 50% match on next 2%	3.0%	4.0%
Alexandria	No employer contributions	0.0%	0.0%
Arlington	100% match up to $20 per pay period	0.7%	0.7%
D.C. Gov.	No employer contributions	0.0%	0.0%
Fairfax Uniform	No employer contributions	0.0%	0.0%
Federal	Automatic 1%, 100% match on next 3%, 50% match on next 2%	5.0%	5.0%
Loudoun	No employer contributions	0.0%	0.0%
Maryland	No employer contributions	0.0%	0.0%
Montgomery Fire	No employer contributions	0.0%	0.0%
Prince George's Fire	No employer contributions	0.0%	0.0%
Virginia	No employer contributions	0.0%	0.0%

The graph below shows that the value of the MWAA employer provided benefits at age 55 with 25 years of service is just above the average of the local jurisdictions. Furthermore, the amount of the employee contributions is just below the average of the combined employee contributions for the DB and DC plans.

Figure 23

Police and Fire--Local Jurisdictions and Federal

Combined Value of Defined Benefit and Defined Contribution Plans at Age 55 with 25 Years of Service



Health Benefit Plans

In this section of our report we develop and discuss comparative information on the health care plans provided by MWAA, and the peer group of employers among local jurisdictions (including the federal plans) and the airports responding to our survey. We discuss first the major health care benefits provided through those employers' medical and prescription drug benefit plans. We provide more limited information on the ancillary benefits provided through any dental and vision care plans offered employees.

Medical and Prescription Drug Benefits

In comparing the relative value of the MWAA plans with the value provided by the plans of the peer group employers, we have relied on a plan valuation tool to calculate the actuarial value of plans providing health benefits to employees and their families. That calculation uses standard plan design inputs to calculate the percentage of health care claims that would be covered by a plan for the average participant. That hypothetical participant reflects the demographics of the U.S. working population, and not the population of a particular employer.

For example, a plan with a calculated value of 90 would be expected to cover on average 90% of a participant's health care costs, net of out-of-pocket expenses such as deductibles, copays or coinsurance. Comparing the relative values of various plan designs thus provides a clear picture of the generosity of a particular employer's plan compared with that of other employers in the group whose plans are being compared. The other factor in determining the relative generosity of a particular employer's health care plans is the allocation of costs—what percentage of the cost is paid by the employer, and what percentage is paid through employee contributions.

In the table below, we combine the analysis of the generosity of plan features with employee contribution requirements, for MWAA compared with the plans provided by local jurisdictions including the FEHBP program. In each case, we have compared the dominant plan (the plan with the greatest employee participation) against the dominant plan of other employers.

Figure 24

Employee Healthcare--Local Jurisdictions and Federal

Local Jurisdictions and Federal	Actuarial Value	% paid for Employee Only	% paid for Family Coverage	Employer Provided Combined Value
Maryland	92.4%	85%	85%	$16,330
Montgomery	96.0%	80%	80%	$15,963
Virginia	88.4%	88%	86%	$15,820
Arlington	90.5%	83%	83%	$15,622
MWAA	93.2%	80%	80%	$15,503
Fairfax	90.8%	85%	75%	$14,396
Loudoun	87.6%	90%	75%	$14,007
Alexandria	84.0%	80%	80%	$13,974
D.C. Government	90.3%	71%	71%	$13,332
Prince George's	89.6%	66%	66%	$12,345
Federal	83.4%	71%	71%	$12,312
Average*	**89.3%**	**80%**	**77%**	**$14,410**

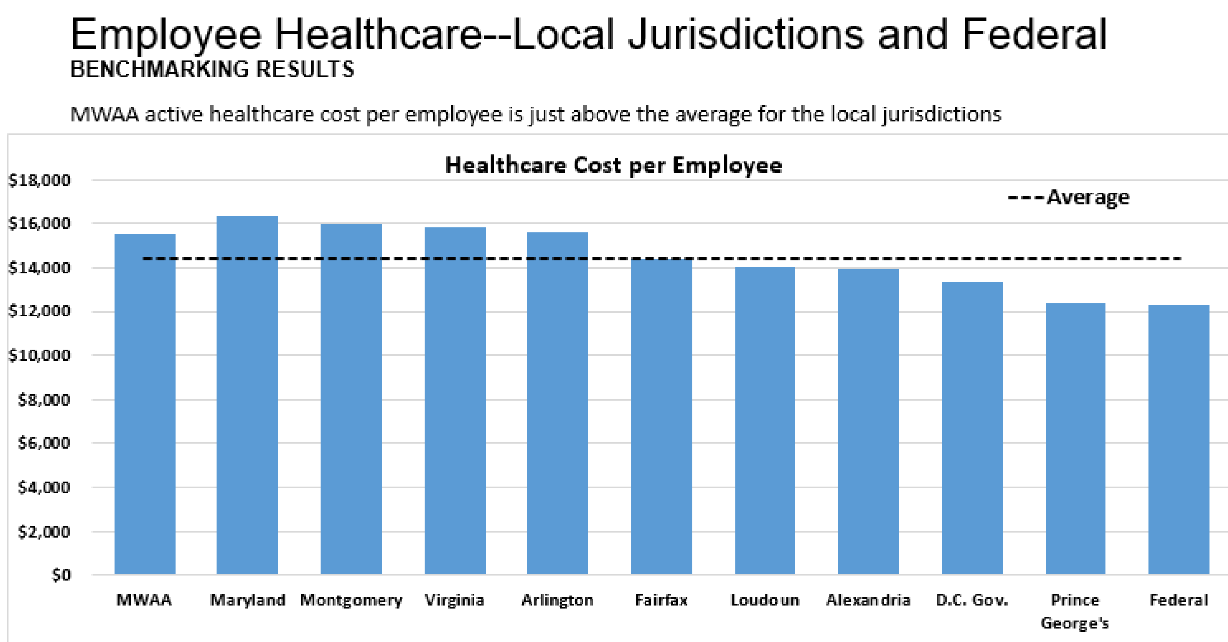
*Excludes MWAA

In this table we have arrayed the plans based on the combined value (taking into account both the generosity of plan provisions and the percentage of the cost paid by the employer) from the highest to the lowest plan value.

The MWAA plans combined value is $15,503 annually, which is the approximate annual employer per capita cost for all MWAA employees covered under the plans. The plans provided by the other local jurisdictions yield a combined value ranging from $16,330 (state of Maryland, which has a relatively high actuarial value, coupled with higher than average employer contribution percentages for both self only and family coverage) to the federal plan valued, the Blue Cross/Blue Shield Standard Benefit Plan, with a combined value of $12,312 annually. (We should note again that these calculated values represent what the other plans would cost MWAA, if the plan provisions and contribution allocations were overlaid on MWAA's covered population.)

We show graphically below these same data, comparing the MWAA plans with those provided by the local jurisdictions.

Figure 25



There are a number of observations that should be noted about these data:

- As we state in the narrative in the graph, MWAA's active health care cost per capita is somewhat above the average for the local jurisdictions—about 7% higher than the average.
- The MWAA plan provisions are relatively generous, providing comprehensive protection against medical and prescription drug expenses. Only the plan provided to Montgomery County employees, with a calculated value of 96.0% exceeds MWAA's plan value of 93.2%.
- However, the MWAA contribution to the plans' costs are right in line with the averages for the other local jurisdictions, drawing the combined value closer together to the employer provided values for the other employers' plans.

- Note that both Fairfax and Loudoun Counties have adopted the approach common in the private sector, requiring higher employee contributions for family compared with self only coverage. That is an especially important factor in controlling overall plan costs, since it encourages participants in households where both spouses work to consider enrolling in both employers' plans, rather than having all claims costs absorbed by the employer's plan with more generous plan features and lower employer contribution percentages. About 45% of all working Americans are in households where two spouses work. The combination of generous plan provisions and low contributions for family coverage compared with market will attract a higher percentage of participants covering their dependents, with the more generous, lower contribution plan subsidizing costs of other employers by absorbing claims costs that would otherwise be borne by other employers' plan. This outcome can be observed, for example, by comparing the percentage of participants who cover their families under FEHBP, which has less generous plan provisions and higher contributions than MWAA (on average, participants pay about 30% of premiums in FEHBP, compared with 20% for the MWAA plans) with MWAA's percentage electing family coverage. Those percentages are 60% and 70%, respectively.

We see a similar picture in the comparability analysis for health care benefits when MWAA's plans are compared with plans provided by the responding airports. These data are depicted in the table and graph below.

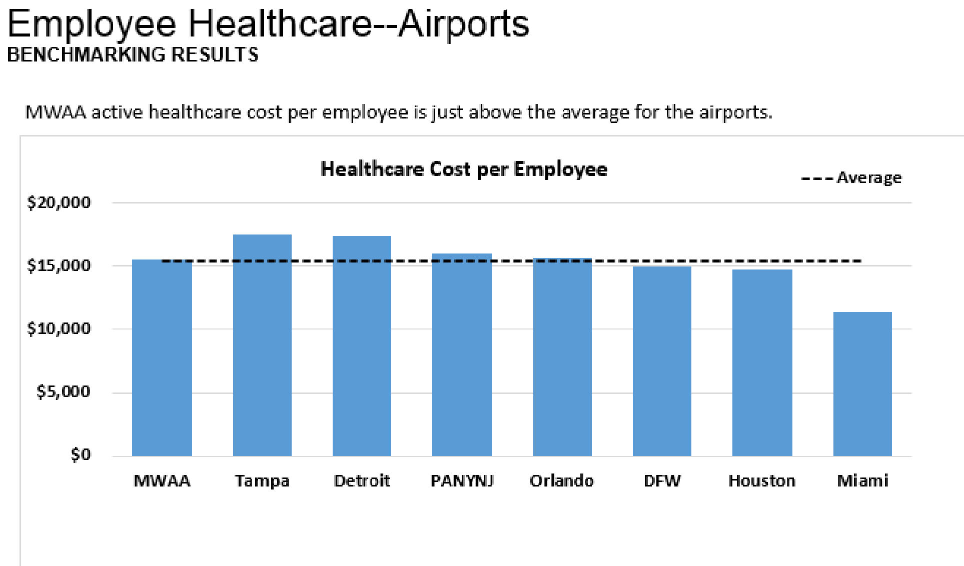
Figure 26

Employee Healthcare--Airports

Airport	Actuarial Value	% paid for Employee Only	% paid for Family Coverage	Employer Provided Combined Value
Tampa	91.1%	89%	93%	$17,477
Detroit	92.6%	90%	90%	$17,411
PANYNJ	97.2%	79%	79%	$16,000
Orlando	93.0%	90%	80%	$15,713
MWAA	93.2%	80%	80%	$15,503
DFW	90.2%	80%	80%	$14,995
Houston	86.1%	89%	81%	$14,694
Miami	91.4%	100%	54%	$11,407
Average*	**91.6%**	**88%**	**80%**	**$15,385**

*Excludes MWAA

Figure 27



As can be observed, the airports' plans are on average a little more generous, measured by actuarial value, compared with the plans provided by the local jurisdictions including federal. On an overall basis, the MWAA's combined value is right in line with the average combined value of the airport plans, taking into account both the value calculated for plan provisions and the allocation of costs between the employers and plan participants.

Dental and Vision Care

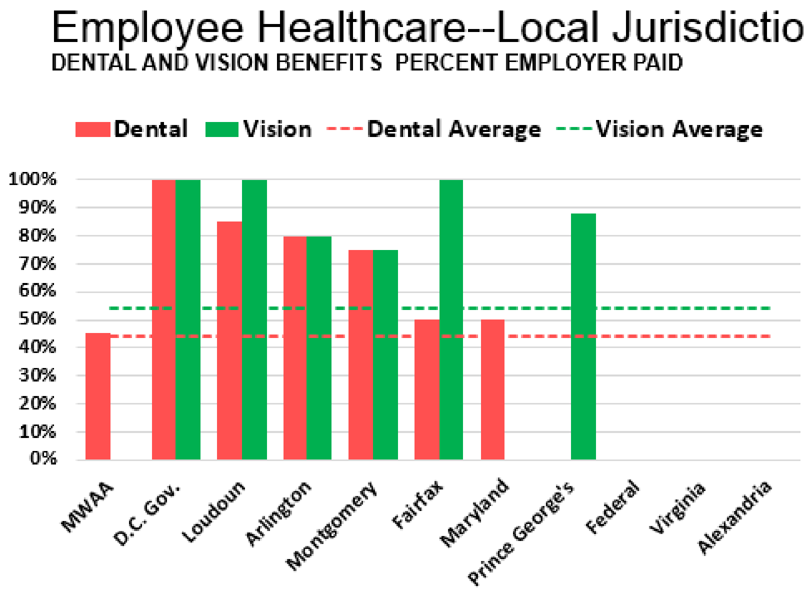
Dental and vision care coverage are far less expensive than the major components of employer provided benefits typical of large U.S. companies (retirement and health care benefits, and paid leave). Nonetheless they are valued by participants, and provide some additional, modest benefit to participants even where employers do not directly subsidize the cost of the plans through paying a portion of the premiums.

Even where there is no direct employer subsidy, however, the plans are generally offered by large employers and provide access to a network of providers and some discount from normal retail fees for dental and vision care services.

In the graph below, we show the prevalence of dental and vision coverage among the local jurisdictions including federal (the FEDVIP program) and the percentage of premium, if any, paid by the employer.

MWAA requires participants to pay 55% of the cost of the dental plan and the full cost of the vision care benefits offered. That approach is not materially out of line with the comparator employers. The FEDVIP program providing dental and vision coverages for federal employees are employee-pay-all. In addition, the Commonwealth of Virginia and Alexandria offer coverage with no employer contribution. The state of Maryland provides no employer contribution for vision benefits; and Prince George's County provides no contribution toward the cost of dental benefits.

Figure 28



Five of the nine local jurisdictions pay a larger share of the dental and vision insurance costs than MWAA.

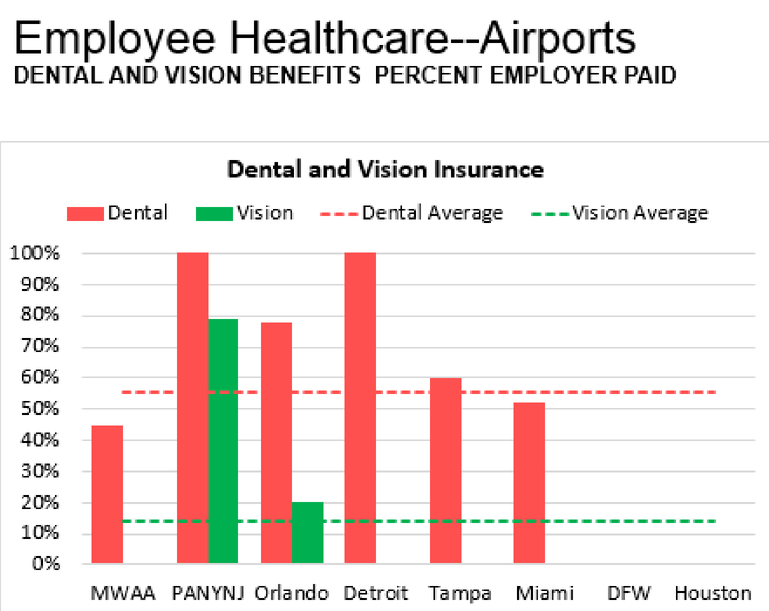
Four employers provide no subsidy for dental insurance.

MWAA dental coverage is therefore in line with the market average.

While vision insurance is less costly than dental, MWAA's employee-pay-all vision benefit is below market.

The picture is much the same among the airport respondents. Two of those airports (DFW and Houston) pay nothing toward the cost of dental or vision care benefits. And only two (Port Authority of New York and New Jersey and Orlando) subsidize the cost of the vision care benefit.

Figure 29



Five of the seven airports pay a larger share of the dental insurance costs than MWAA.

Two employers provide no subsidy for dental insurance.

MWAA dental coverage is marginally below market average.

PANYNJ vision coverage is included in medical.

While MWAA is somewhat below market for these ancillary benefits, that is not material in judging the overall competitiveness of the MWAA benefits program, given the relatively small cost associated with these two benefits.

Retiree Healthcare Benefits

Retiree health care benefits are an important, valuable—and costly—component of MWAA's overall benefits program. The steps the Airport Authority took in the competitive bidding and redesign of the retiree health benefits program in 2014 contributed materially to reducing costs in this area, without reducing benefits to participants. That reduction was achieved by the adoption of the Medicare Advantage plan and the Employer Group Waiver Plan (EGWP) for our Medicare eligible employees to take full advantage of subsidies available to employers who sponsor those programs, and other efficiencies realized in the bidding process (notably much reduced premium for MWAA's stop loss coverage).

Recognition of these savings has reduced MWAA's liability for post-retirement health benefits by more than $55 million and reduced MWAA's expense (Other Post Employment Benefit [OPEB] cost] by over $5 million for 2015. The reduction in the liability has boosted the plan's funded status (i.e. ratio of plan assets to liabilities) to just under 80%.

At present, MWAA employees qualify for lifetime retiree health benefits with as few as five years of service. Pre-Medicare retirees pay the same 20% of premium equivalents for single and family coverage based on rate equivalents which pool MWAA's active employees with the pre-Medicare retirees. That represents an implicit subsidy to the pre-Medicare retirees, who on average are much older than the active employee population, and thus have on average higher medical and prescription drug expenses.

This cross subsidy to pre-Medicare retirees is illustrated in the table below.

Figure 30

Retiree Healthcare Plans

BENCHMARKING RESULTS—ILLUSTRATION OF EXPLICIT AND IMPLICIT CROSS SUBSIDIES

Retiree Only Coverage	Pre-Medicare
Total cost of coverage, if insuring just pre-Medicare retirees	$12,000
MWAA pooled rate (actives and pre-65 retirees combined in one pool)	$8,150
Retiree Cost of Coverage (20% of pooled rate)	$1,630
Explicit Cost of Coverage (pooled rate less retiree contribution)	$6,520
Implicit Cost of Coverage ($12,000 less $8,150)	$3,850

- Cost of Coverage:
  - Retiree's cost based on published premium strategy (for MWAA this is 20% of pooled rate)
  - Explicit cost is employer dollar amount (for MWAA this is pooled rates less retiree cost)
  - Implicit cost is difference between age-based claims cost and pooled rates.
- Splits in cost of coverage, including existence of implicit subsidies, are common across comparator group

Retiree's cost based on published premium strategy (for MWAA this is 20% of pooled rate). The explicit cost is the employer dollar amount (for MWAA this is pooled rate less retiree cost). The implicit cost is the difference between the age-based claims cost and the pooled rate. Splits in cost of coverage, including the existence of implicit subsidies, are common across the comparator group.

When a retiree or a retiree's spouse qualifies for Medicare, MWAA requires that the participant elect Medicare coverage to retain eligibility for MWAA's health benefits plan. At that point, the retiree's contributions toward the cost of MWAA health care benefits is reduced by 20% compared with the contributions required of active employees and pre-Medicare retirees. That reduction is in recognition of the fact that Medicare will pay most of the retiree's or spouse's medical expenses from that point forward.

In the tables below, we summarize the retiree health care policy for the local jurisdictions and for the FEHBP plan for federal employees as well as the minimum age and service eligibility requirements.

There is a wide variation in policies with respect to employer contributions toward retiree healthcare among local jurisdictions.

Figure 31

Local Jurisdictions & Federal	Retiree Healthcare Policy
MWAA	Uniform percentage of premium. Separate rates for pre-65 and post-65.
Federal Government	Overall average employer contribution is 70%. Pooled rate combines employees and retirees, including Medicare-eligible retirees. Maximum subsidy for lower cost plans is 75%. Dollar maximum subsidy for higher cost plans.
Maryland	Fixed employer contribution percentage: 85% for EPO and 80% for PPO medical plans. 75% for prescription drug plans. Pooled rates for medical plans combine actives and pre-65 retirees. Prescription drug plan for retirees is sunsetting; will no longer be available after 2020.
Virginia	Flat monthly dollar subsidy of $4 per year of service. Pooled rates. No additional subsidy for spouse or other dependents.
Arlington County	Employer subsidy of 75% (pre-65) 90% (post-65), subject to monthly subsidy caps that vary by date of retirement and date of hire. $960 per month if retired < 2012. $600 if retired after 1/15/12. $300 per month for new hires.
City of Alexandria	Flat monthly dollar subsidy ($260 per month in 2015) for both pre-65 and post-65 coverage. No additional subsidy for spouse or other dependents.
D.C. Government	Employer subsidy that varies with service. Maximum of 75% reached with 30 years of service. Maximum of 60% for spouse reached with 26 years of service. Pooled rates.
Fairfax County	Monthly subsidy of $220 for retiree only coverage. No subsidy for spouses.
Loudoun County	Employer subsidy of 85% of age-based costs for retiree, 75% subsidy for spouse for pre-65 coverage. 90% subsidy for Post-65 coverage
Montgomery County	Employer subsidy that varies with service. Maximum of 70% reached with 15 years of service (25 years for new hires). Pooled rates.
Prince George's County	Uniform 78% percentage of premium. Pooled rates.

As can be observed in the following table, some of the jurisdictions have lengthened the eligibility period for post-retirement health benefits to 10 years of service or longer.

Figure 32

Local Jurisdictions & Federal	Minimum Eligibility Requirements (Vesting) for Retiree Healthcare Benefits
MWAA	Age 55 with 5 years of service
City of Alexandria	Age 55 with 5 years of service
Arlington County	Age 62 with 5 years of service; service based subsidy. Full subsidy at 20 years
D.C. Government	Age 62 with 10 years of service
Fairfax County	Age 65 with 5 years of service or age 50 with age + service at least 75
Federal Government	Age 62 with 5 years of service or Age 57 with 10 years of service. Must also be in health plan for 5 years prior to retirement
Loudoun County	Age 60 with 15 years of service. Also must be enrolled in County health plan.
Maryland	Minimum of 5 years of service; service based subsidy. Full subsidy at 16 years
Montgomery County	Hired before 2011: Retirement eligible with 5 years. Hired after 2011: Retirement eligible with 10 years.
Prince George's County	Age 55 with 15 years of service or age 62 with 5 years or MRA with 30 years
Virginia	Age 60 with 5 years of service or any age with 30 years or age + service at least 80

The value associated with the post-retirement health benefits, and how MWAA's plan compares with the comparator employers, is shown in the two graphs below.

Figure 33

Retiree Healthcare--Local Jurisdictions and Federal

BENCHMARKING RESULTS

Chart shows the employer provided present value of retiree healthcare coverage for a retiree at age 62 with 15 or more years of service. MWAA benefit is well above average.

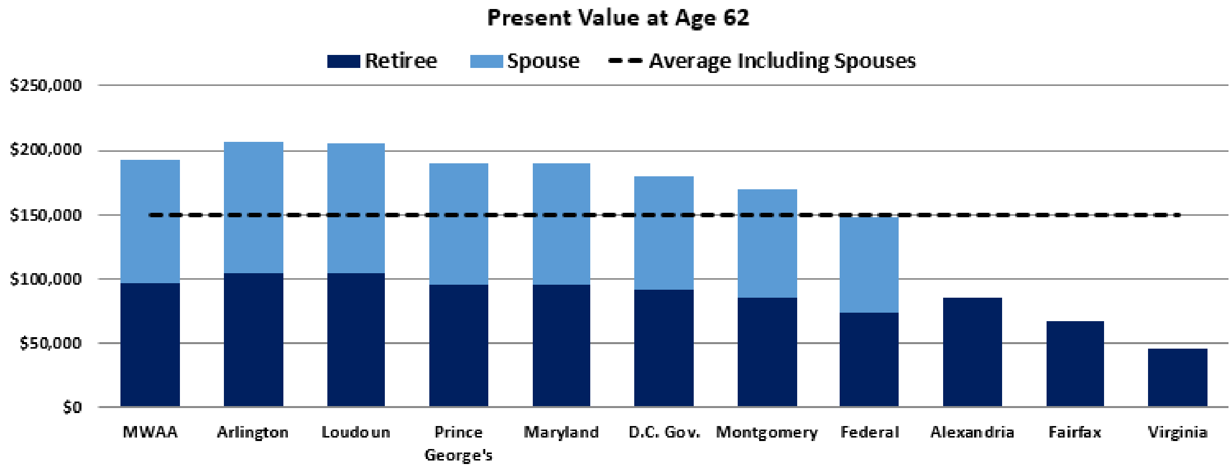
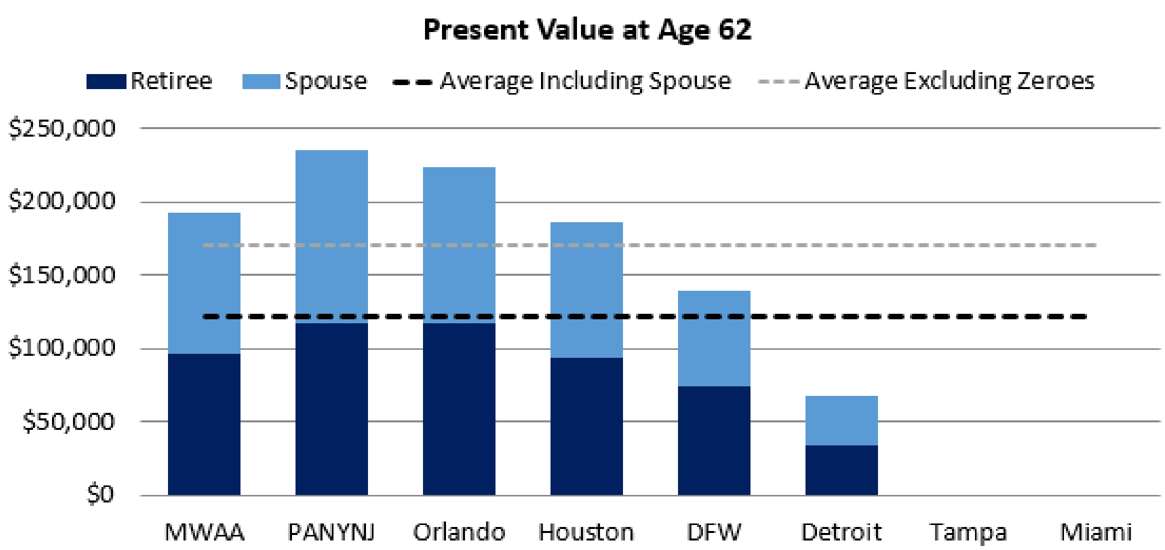


Figure 34

Retiree Healthcare--Airports

BENCHMARKING RESULTS

Chart shows the employer provided present value of retiree healthcare coverage for a retiree at age 62 with 15 or more years of service. MWAA benefit is well above average.



As these two graphs vividly illustrate, the retiree health benefits provided MWAA employees are generous relative to the comparator employers. The benefit is also generous, especially for short service employees who will qualify for the benefit in as few as five years, compared with benefits provided under MWAA's retirement savings plans. That relative generosity can be observed by comparing the above graphs with those that depict the lump sum values accumulated for full service employees under MWAA's pension and defined contribution plans, at pages 7-8 of this report.

In this context, it is important to note the following differences between the retiree health benefit and benefits provided under MWAA's pension and defined contribution plans:

- The MWAA pension plan requires 30 years of service to qualify for a full pension. A participant with just 5 years of service would earn only 1/6 of the pension benefit earned by a full career employee with 30 years of service. The value of the retiree health care benefit is the same, however, regardless of the participant's length of service.
- Similarly, a short service participant in the MWAA defined contribution plan will earn only a fraction of the benefit earned by the career employee.
- In addition, a retiree with a spouse receives a benefit that is on average double the value of the benefit available to the retiree alone, and additive value if the participant has dependent children who continue to qualify for health care benefits. In the pension and defined contribution arrangements, the value of the benefit is the same whether the retiree has dependents or not. While the retiree can elect a form of benefit under the pension plan that provides continuing income to a surviving spouse or other beneficiaries, that benefit is paid for by the participant in the adjustment to the monthly income benefit, so that the value is the same regardless of the participant's election.

Police Officers and Firefighters Retiree Health Care Benefits

In the graph below, we show the value of the retiree health benefits for MWAA's uniformed services personnel, compared with the local jurisdictions and the federal plans. Because the MWAA plans provide for earlier retirement for police and firefighters compared with general employees (also common to the other employers), the value of the retiree health care benefit can be commensurately greater than for general employees, especially considering the fact that there is no Medicare coverage available during those additional years of coverage as a retiree or retiree's spouse or other dependents.

Figure 35

Retiree Healthcare--Police and Fire

Vesting Requirements

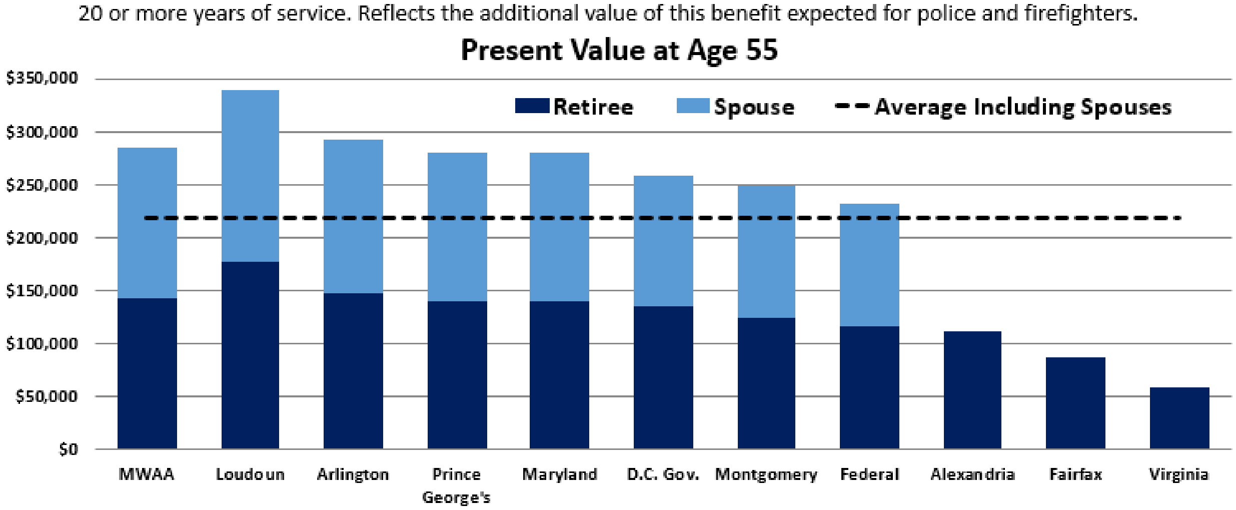
Local Jurisdictions & Federal	Minimum Eligibility Requirements
MWAA	Any age with 25 years of service or age 55 with 5 years of service
Alexandria Police Officers & Firefighters	Age 50 with 10 years of service or age 55 with 5 years of service
Arlington Public Safety	Age 42 with 5 years of service
D.C. Gov. Police Officers & Firefighters	Any age with 25 years of service or 10 years of service
Fairfax Uniform	Age 55 with 6 years of service or 20 years of service
Federal Law Enforcement Officers/Firefighters	Any age with 25 years of service or age 50 with 20 years of service
Loudoun Hazardous Duty	Age 50 with 5 years of service
Maryland Law Enforcement Officers	Any age with 25 years of service or age 50
Montgomery Fire	Any age with 20 years of service or age 55 with 15 years of service
Prince George's Fire	Age 50 with 20 years of service
Virginia Hazardous Duty	Age 50 with 5 years of service

Figure 36

Police and Fire--Local Jurisdictions and Federal

BENCHMARKING RESULTS

Chart shows the employer provided present value of retiree healthcare coverage for a retiree at age 55 with 20 or more years of service. Reflects the additional value of this benefit expected for police and firefighters.



As with the general employees' comparisons, the MWAA plan for retiree health care benefits provides value well in excess of the median value reported.

Paid Leave Benefits

Paid leave benefits—including vacation days, holidays, sick leave, personal leave and other forms of paid leave are another important element of the benefits package.

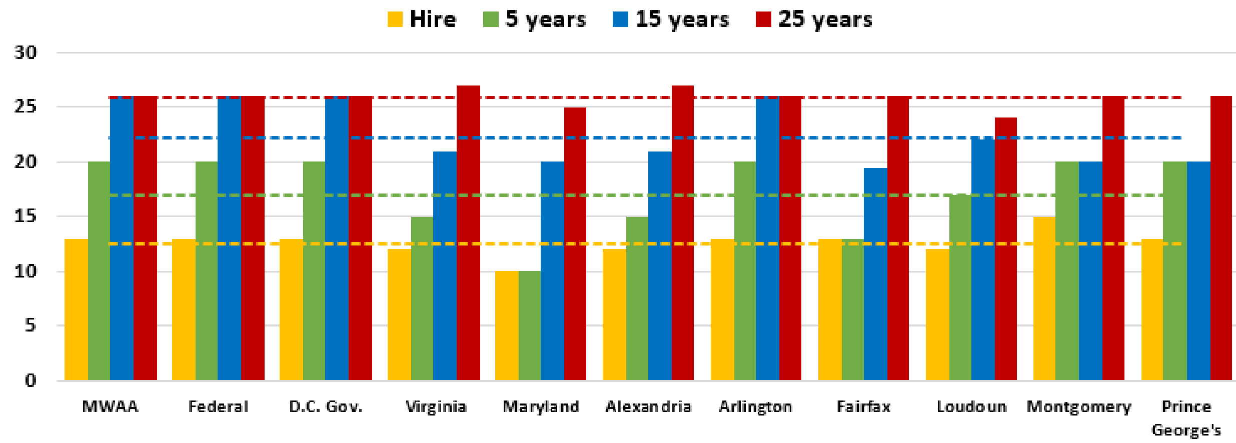
In the graphs below, we show the annual leave available for MWAA employees at various points of service, first compared with the local jurisdictions and then with the responding airports.

Figure 37

Annual Leave--Local Jurisdictions and Federal

BENCHMARKING RESULTS

MWAA leave policy is competitive. Employees can reach the maximum number of days leave after 15 years, whereas some of the other employers require longer service. The dotted lines represent averages for each respective period.



Minor variations were reported in the number of paid holidays from 9 (Montgomery County) to 12.5 (Fairfax and Loudoun Counties).

Most jurisdictions provide 13 days of sick leave accruals each year (the same as MWAA), with unused sick leave carried over to subsequent years. Montgomery County provides more days than MWAA (15 days) and Loudoun County provides less (12 days). All of the local jurisdiction employers grant annual leave that varies by length of service.

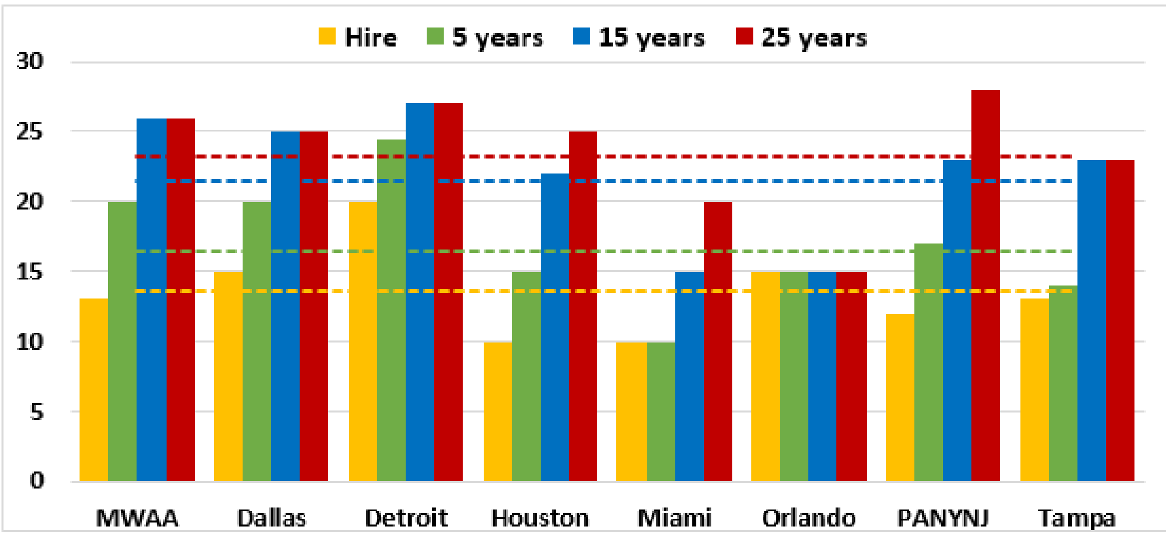
As we observe MWAA is competitive at all service levels compared with local jurisdictions and the federal government.

Figure 38

Annual Leave--Airports

BENCHMARKING RESULTS

MWAA leave policy is competitive. Employees can reach the maximum number of days leave after 15 years, whereas some of the other employers require longer service. The dotted lines represent averages for each respective period.



Tampa uses a Paid Time Off (PTO) program which provides one pool of days for annual leave and sick leave. Annual leave shown here is based on total PTO days less 10 days for sick leave.

Houston, Miami, and Tampa employment provisions are based on the local City or County Civil Services policies, which results in smaller annual leave amounts at hire.

Detroit (Wayne County Airport Authority) is an outlier with 20 days annual leave at hire. WCAA contracts for many services and therefore has far fewer employees than other similar size airport authorities.

MWAA's leave policies are above market at longer service and market competitive at hire when compared with other airports.

Life Insurance Benefits

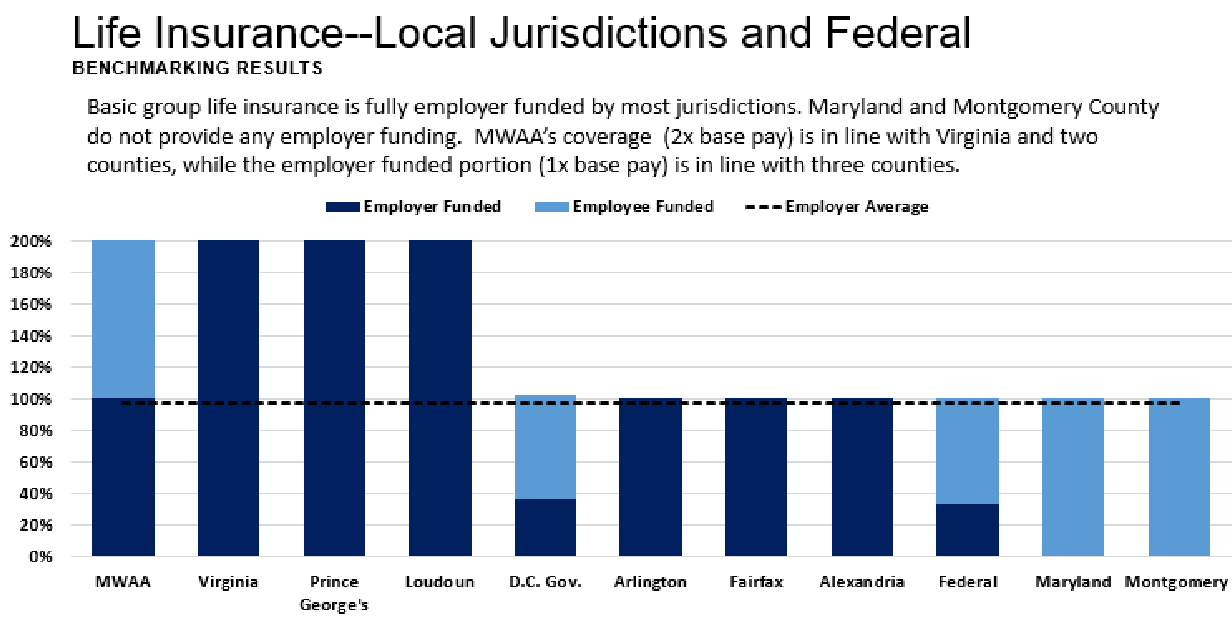
Active Employee Benefits

The relative value of the life insurance benefit for employees is easily measured, since the typical plan follows the approach followed by MWAA, providing a basic life insurance benefit that is expressed as a multiple or percentage of pay, with supplemental benefits available for purchase on an employee-pay-all basis.

We show in the graph below the MWAA basic life insurance plan, compared with the basic life insurance provided by the local jurisdictions and under the Federal Employees Group Life Insurance (FEGLI) plan for federal employees.

Interestingly neither Montgomery County nor the State of Maryland provide any employer funding for basic group life insurance. The federal plan (FEGLI) also requires participants to pay two thirds of the plan's cost. The employer funded portion for MWAA active employees is in line with three of the jurisdictions reporting, and half the employer funded portion compared with the remaining three jurisdictions.

Figure 39



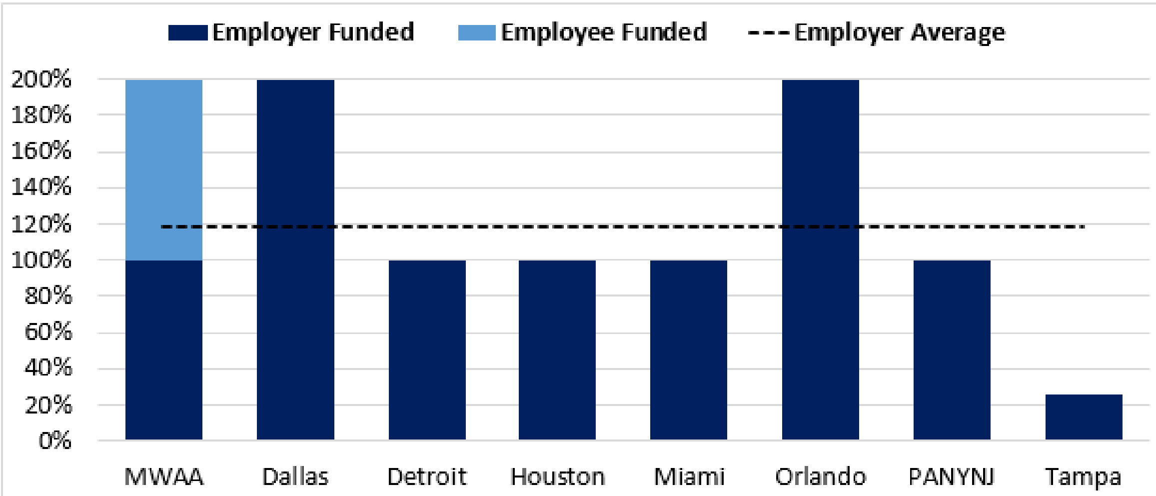
In the graph below, we show the same data comparing MWAA's basic life insurance program with the programs maintained by the responding airports. As the data shows, the MWAA total benefit (2X pay) is in line with the benefit provided by DFW and Orlando; the employer paid portion is in line with all the remaining airports with the exception of Tampa, and more generous than Tampa's flat $20,000 life insurance benefit.

Figure 40

Life Insurance--Airports

BENCHMARKING RESULTS

Basic group life insurance is fully employer funded by all airports. Tampa provides a flat $20,000 benefit. Detroit benefit for union employees is a flat $30,000 with a $100,000 maximum; on the non-union 1x pay.



Retiree Life Insurance

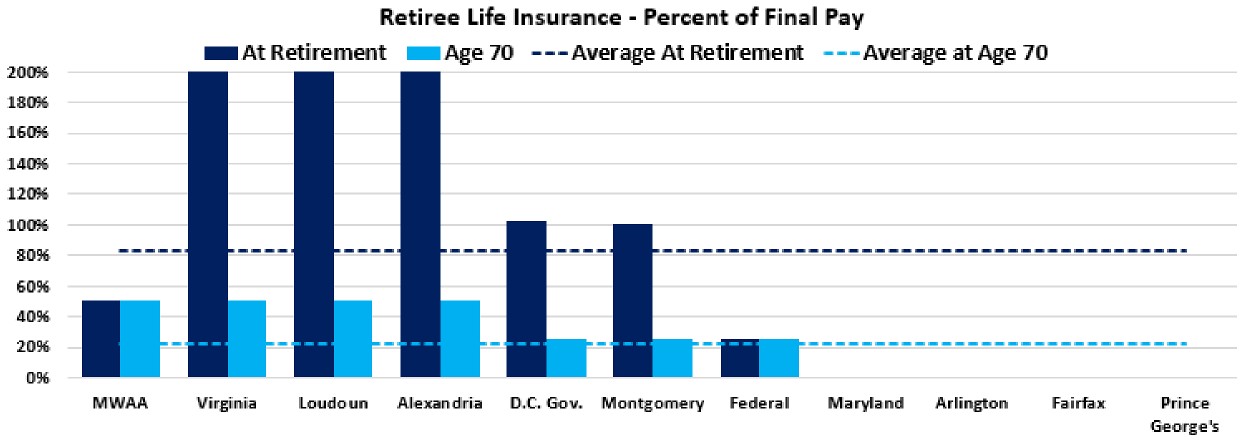
In the graphs below, we show the life insurance benefit that is continued for the employee into retirement, both at retirement and later at age 70. The first graph shows the MWAA benefit compared with the benefit provided by the local jurisdictions and under the federal plan. We should note that the federal retiree life insurance benefit is funded in part through premiums paid by active federal employees. As is common where employers provide a continuation of life insurance to retirees, many of these employers provide age based reductions in the life insurance benefit continued after retirement.

Figure 41

Retiree Life Insurance--Local Jurisdictions and Federal

BENCHMARKING RESULTS

Four of the comparator employers do not provide employer funded retiree life insurance. The VRS group life insurance coverage is 200% of pay at retirement, dropping to 150% after 1-year, 100% after 2-years and then to 50% three years after retirement. MWAA benefit is therefore in line with the market.



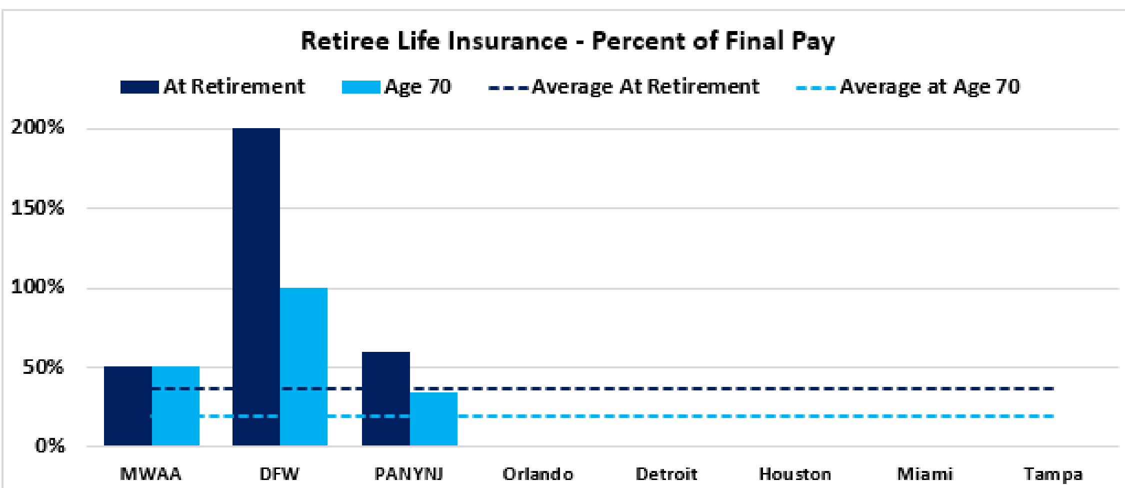
In the graph below, we show the same data for the airports.

Figure 42

Retiree Life Insurance--Airports

BENCHMARKING RESULTS

DFW benefit is 2 x pay at retirement, reducing by 50% of age 70. PANYNJ retiree life insurance benefits vary by union, date of hire, and date of retirement. Management benefit is 2% x years of service x final pay at retirement reducing 5% per year from 66 to 71. Orlando retiree life insurance benefit is a flat amount of $1,000.



Total Benefit Value

Overall the benefits package provided MWAA employees is comprehensive, and somewhat (though in our judgment not materially) more generous than benefits provided on average by the comparator groups, both the local jurisdictions including federal and the airports responding to our survey instrument.

To give some sense to MWAA and the Human Resources Committee of the magnitude of MWAA's benefits expenditure, we have prepared the following table which breaks down the expense attributable to each element of the benefits package described and discussed in this report. As the Committee can see, that expense represents 41.5% of salary for a General employee earning $77,000 per annum, or the average salary of MWAA employees. The cost for Police Officers & Firefighters is higher by $2,500 or 3.25% of pay, all attributable to the defined benefit plan. This cost includes the statutory benefits provided through Social Security and Medicare. But by any measure, benefits represent a significant part of MWAA's total compensation package provided to employees, and a significant and effective tool in attracting, recruiting and retaining the staff required to meet the Airport Authority's needs. The paid leave (Holidays and Annual leave) are equivalent to an additional 11.4% of payroll.[1]

Figure 43

Total Benefit Value

BENCHMARKING RESULTS

The following table shows the annual cost of benefits for MWAA's average employee with 11 years of service and an annual salary of $77,000.

	General Employees		Police & Firefighters	
Program	**2015 Cost**	**Percent of Pay**	**2015 Cost**	**Percent of Pay**
Defined Benefit	$4,782	6.21%	$7,277	9.45%
Defined Contribution	$2,310	3.00%	$2,310	3.00%
Employee Medical	$15,503	20.13%	$15,503	20.13%
Employee Dental	$540	0.70%	$540	0.70%
Retiree Health	$2,464	3.20%	$2,464	3.20%
Life insurance	$162	0.21%	$162	0.21%
Retiree Life Insurance	$312	0.41%	$312	0.41%
Social Security & Medicare	$5,891	7.65%	$5,891	7.65%
Total	**$31,963**	**41.51%**	**$34,458**	**44.75%**
Paid Leave	**$8,770**	**11.4%**	**$8,770**	**11.4%**

[1] The paid leave amount is determined based on annual salary earned over 260 work days. For jobs that require staffing on all work days, the paid leave amount represents the additional cost for staffing when a full-time employee is off work.

The benefit costs were determined for each comparator employer. The following table shows the average cost for the local jurisdictions, for the responding airports, the cost for the federal benefits as well as a representative cost for private sector employers. The private sector costs were obtained from the Bureau of Labor statistics for civilian workers at employers with more than 500 employees.

The comparison table shows that MWAA's costs are 3.2% higher than the average cost for general employees in the local jurisdictions; 3.8% higher than the average cost for airports and 4.7% higher than the federal government benefits.

Figure 44

Employer Group	Benefit Cost as a Percent of Pay
MWAA	41.5%
Local Jurisdictions	38.3%
Airports	37.7%
Federal Government	36.8%
Private Sector	29.5%

The key drivers for the 3.2% of pay difference in costs between MWAA and the local jurisdictions are retirement benefits (1.4%), employee medical benefits (1.1%) and retiree healthcare (0.7%).

Compared to the airports in the study, the key drivers for the 3.8% of pay difference in costs are retirement benefits (1.7%), retiree healthcare (1.5%) and employee medical (0.5%).
The 4.7% of pay difference between MWAA's costs and the federal benefit cost is concentrated in healthcare benefits (4.1% for employee medical, 0.75% for retiree healthcare and 0.70% for dental insurance), offset by 1.2% higher costs for the combination of FERS/TSP compared to MWAA's DB and DC costs.

Risk Factors/Sustainability Issues Now and in the Future

Funding MWAA's Retirement Liabilities

MWAA maintains a strong and competitive benefits program for employees and their families. As shown in the following table, both retirement plans are over 100% funded, which means the assets in the funds are sufficient to pay for the benefits for current retirees and the benefits earned by employees. The Airport Authority began funding the retiree medical and life insurance plans a decade ago which has led to the retiree life insurance plan to be 66% funded and the retiree medical plan 80%. In aggregate MWAA has assets covering 96% of all liabilities – a very strong financial position.

Figure 45

Benefit Plan	Actuarial Liabilities	Fund Assets	Funded Status
General Employees' Retirement Plan	$132.0	$139.9	106%
Police Officers & Firefighters Retirement Plan	$80.6	$84.1	104%
Retiree Medical Plan	$104.2	$83.2	80%
Retiree Life Insurance Plan	$11.7	$7.7	66%
Total for all plans	$328.5	$314.9	96%

That strong funding posture reflects several factors including:

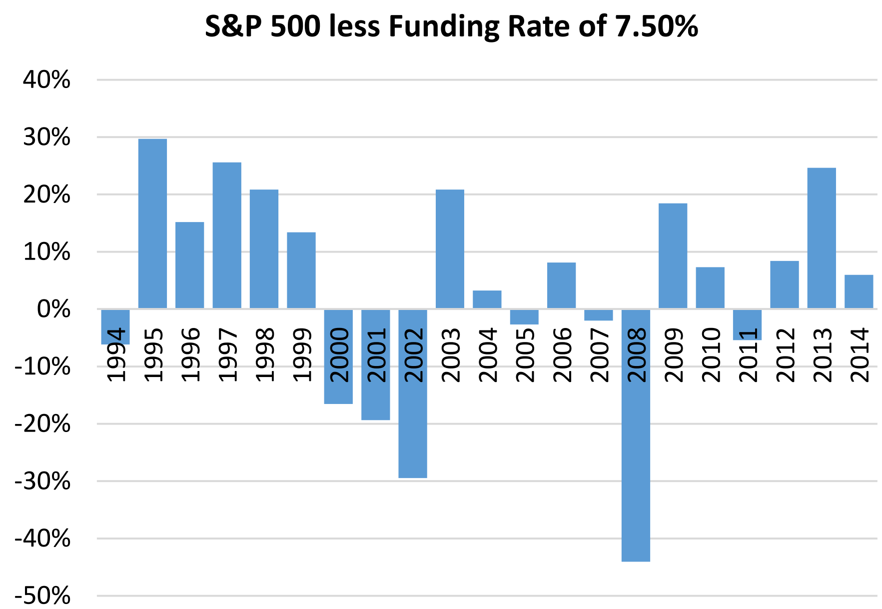
- A prudent decision by MWAA to fund the retiree health benefits through the establishment of the VEBA Trust and regular contributions to the Trust that envision fully funding this benefit over time;
- Favorable investment results in recent years, reflecting the especially robust performance of the equities markets since 2008; and
- The decisions MWAA made in 2014 to adopt the Medicare Advantage and EGWP programs for Medicare eligible retirees, which much more effectively integrated the retiree health benefits with Medicare.

While these programs are well-funded at the moment, MWAA shares with all pension plan sponsors and with those employers who have adopted prudent funding policies for retiree health care benefits the financial risks and potential volatility associated with funding such liabilities, particularly investment risk and the risk that factors such as improving life expectancies or greater increases in health care costs than expected will increase costs more rapidly than expected.

Examples of those types of risks are depicted in the graphs below:

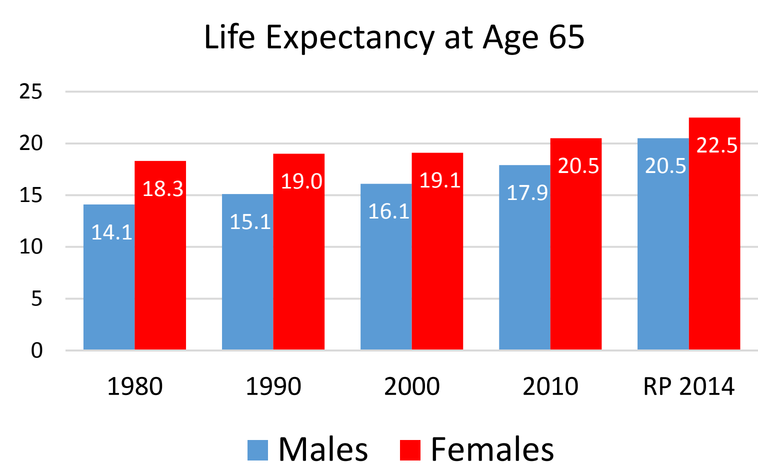
All of the funded plans face the financial risk of potential shocks from under-performance of the plan assets. The period from 2000 to 2002 included three consecutive years of large negative asset returns when compared to the plan's assumed investment performance. Less than a decade later the equity market declined sharply, resulting in over 40% underperformance. As the benefit plans become more mature volatile investment returns will have a larger impact on the Airport Authority's finances.

Figure 46



Both the retirement plans and the retiree medical plans have longevity risks. As depicted in the chart below, life expectancies have been increasing steadily. Even modest improvements in mortality have increased the life expectancy at age 65 since 2000 by 18% for females and 27% for males.

Figure 47

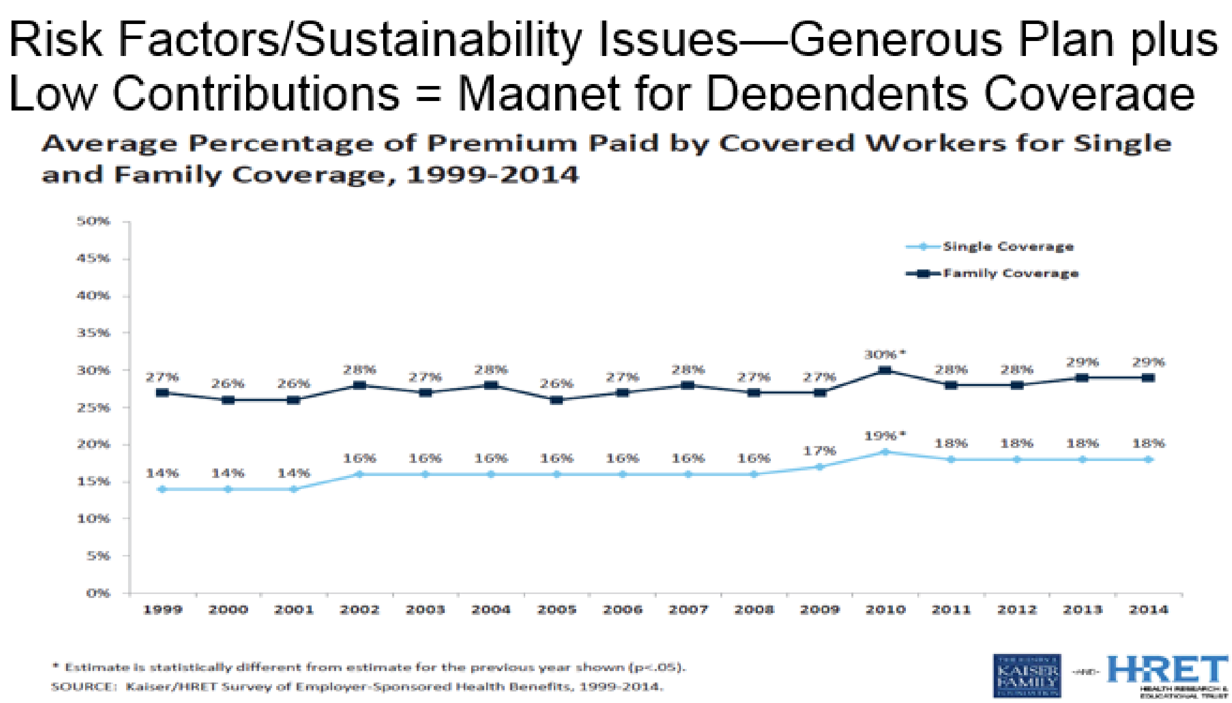


Participant Contributions for Health Care and the Effect on Costs

In addition, as we have noted MWAA's requirement of a 20% participant contribution for both self only and family coverage under the health benefits plan (and an even lower contribution for Medicare eligible retirees and dependents) is competitive with market among the local jurisdictions surveyed (with the notable exceptions of Fairfax County and Loudoun County). However, the contribution required for dependents coverage is out of step with private sector practice and with the much higher contributions (30% of premiums on average) for federal employees. That has the effect of increasing the percentage of MWAA participants who elect dependents coverage, even in those situations where two spouses work and coverage would be available through the spouse's employer. That effectively subsidizes the health benefit costs of other employers, since MWAA's plans absorb costs that with a different contribution arrangement would be absorbed by other employer's plans.

As we noted earlier, the common practice in the private sector is to differentiate the contribution for self only and family coverage. That practice is of long standing, as illustrated in the graph below from the most recent survey by the Kaiser Family Foundation of employer-sponsored health benefit plans in the private sector.

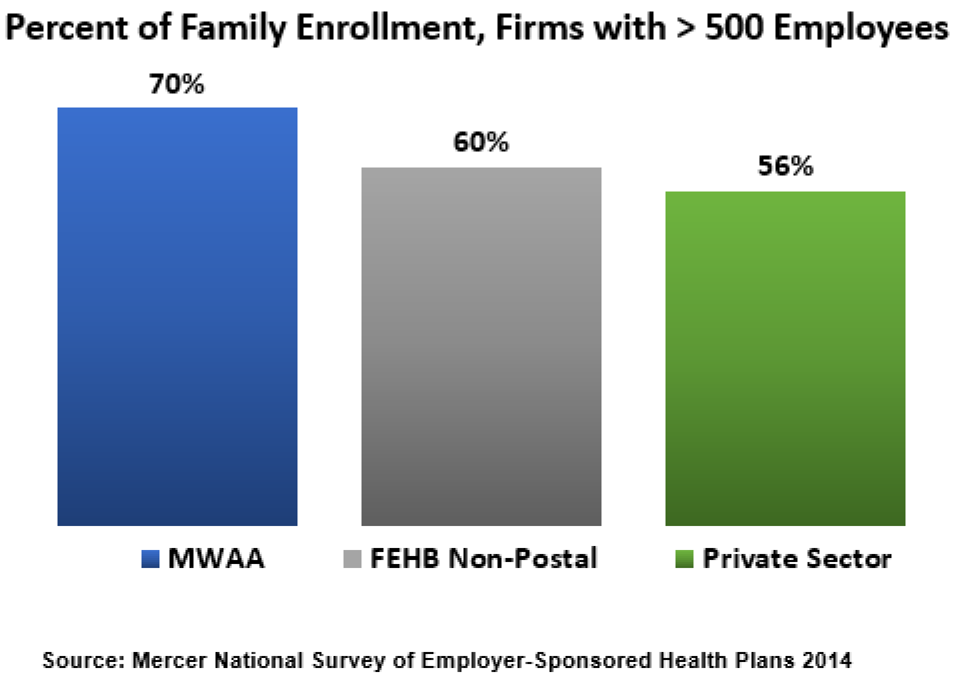
Figure 48



The effect on dependent participation is illustrated in the graph below, which compares family coverage participation for MWAA with that participation in FEHBP (excluding Postal participants) and in the private sector based on data compiled in Mercer's most recent survey on employer-sponsored health benefit plans.

Figure 49

Risk Factors/Sustainability Issues



In addition to these two longer term risk factors/sustainability issues we discuss other factors facing employer-sponsored health benefit plans in the private sector in the concluding section of this report below. We describe more generally the private sector environment including trends that are observable now and that we believe will likely emerge in the future in the dynamic environment that confronts plan sponsors in seeking to balance market competitiveness with long term affordability and sustainability.

Private Sector Environment and Trends

Employee benefits is a dynamic environment, made more challenging by recent developments including:

- The advent of the Patient Protection and Affordable Care Act (PPACA) the major provisions of which affecting employer-sponsored plans are just now beginning to take effect;
- The continuing decline in the private sector of defined benefit plans, and the continuing growth of defined contribution plans in which the participant rather than the employer assumes both investment and longevity risk;
- The fact that retiree health benefits are no longer provided by the majority of U.S. employers, including large employers—a development that we believe is likely to accelerate with the emergence of private exchanges in the health care marketplace and the availability of coverage including federal subsidies through state exchanges or the federal exchange established under PPACA;
- The rapid growth of Consumer Directed Health Plans. These plans generally require a high deductible, coupled with either a Health Savings Account to which both employers and employees can contribute before taxes; or a Health Reimbursement Account which employers fund; and
- The continuing interest in and development of robust wellness programs, especially among employers with relatively low turnover where improving participant's health habits and fitness can yield a long term dividend for the investment that is required to make these plans work.

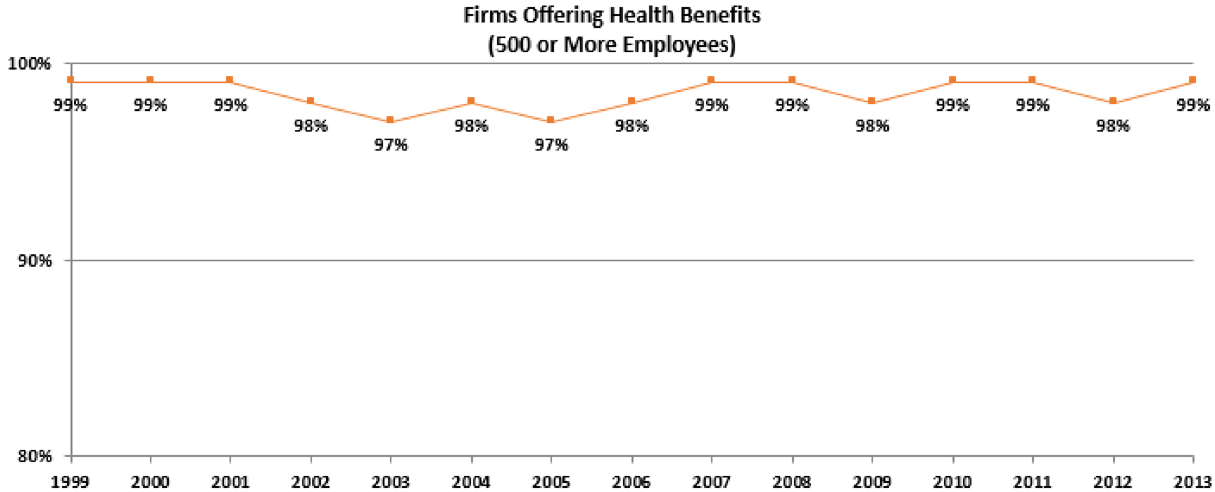
Current and Future Effects of the PPACA

So long as employer-sponsored health care benefits retain their favored status under current tax law, health care benefits will continue to be a mainstay of the benefits package employers provide, and that is particularly the case among larger employers who will need to remain competitive in the marketplace for people.

The graph below from Mercer's most recent annual survey of employer-sponsored health care plans is instructive in this regard.

Figure 50

Private Sector Environment/Trends

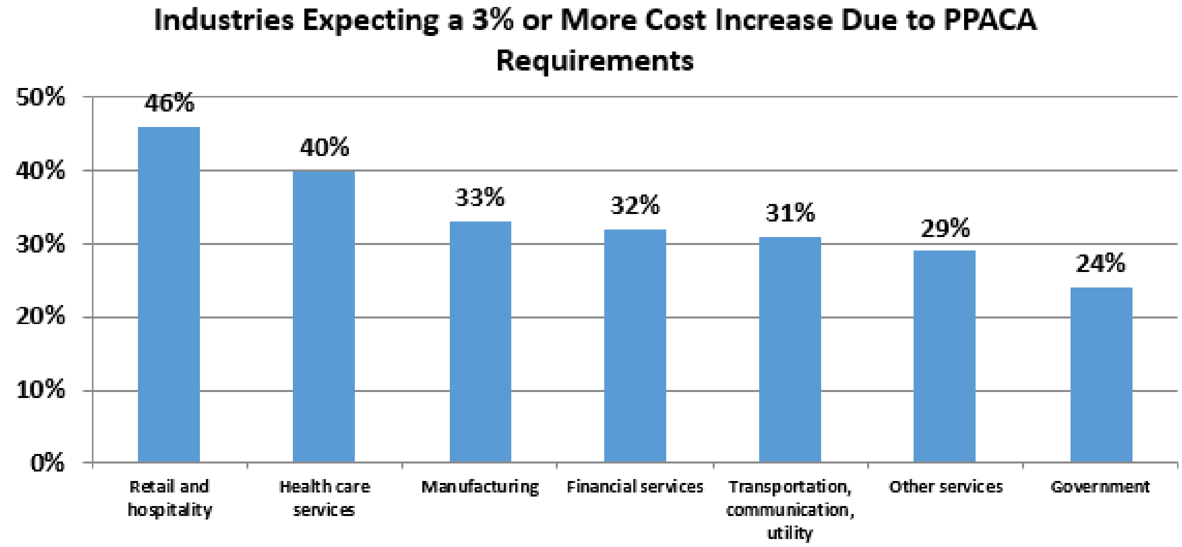


As the graph indicates, the percentage of large employers offering health benefits to employees is virtually unchanged over the fifteen year period ending in 2013. And recent surveys also confirm that a very small minority of large employers is considering exiting the provision of health care benefits to employees and their families altogether.

While cost increases in employer-sponsored health care plans have abated over the last few years, as would be expected given the same trend in Medicare costs and health care costs in the U.S. economy generally, those increases continue to exceed general inflation by a healthy margin and will be further increased as the full effects of the PPACA flow through to employer-sponsored plans. That is especially the case for employers with large numbers of seasonal and part-time workers, as indicated by the following data from Mercer's 2013 survey.

Figure 51

Private Sector Environment/Trends



Source—Mercer's National Survey of Employer-Sponsored Health Plans 2013

Another factor adding to the pressure to take steps to mitigate cost increases in employer-sponsored plans is the impending imposition of the so-called "Cadillac Tax" on more costly health benefit plans. This tax is an integral part of the financing for the PPACA, and is scheduled to take effect in 2018. Plans which exceed a cost threshold of $10,200 for self only coverage and $27,500 for family coverage will be required to pay a nondeductible excise tax of 40% on costs in excess of those thresholds.

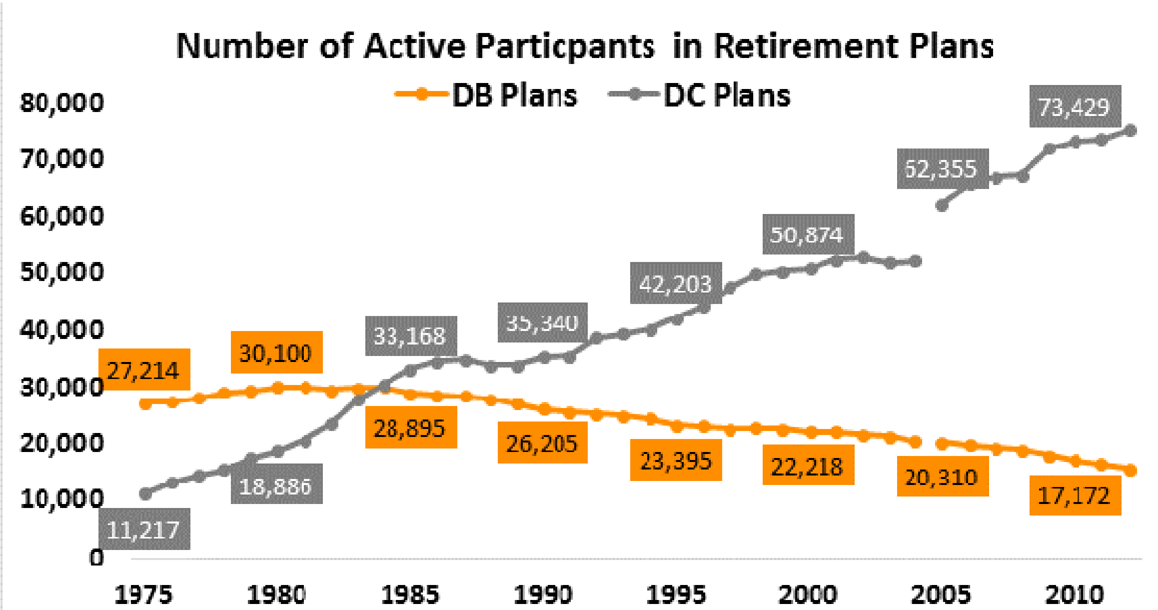
While MWAA's plans are less costly than those thresholds currently, the fact that the limits are indexed eventually to CPI rather than to the more costly trend in employer-sponsored health plan costs that have characterized the past five decades suggests that most if not all employer-sponsored health care plans will face the risk of incurring this tax at some point in the future. That will put downward pressure on benefit provisions, especially for plans that are more generous and therefore more costly than the norm.

The Retirement Plan Environment in the Private Sector

With Americans living longer, the cost of funding a lifetime pension benefit has grown significantly. Increased volatility in investment returns and low inflation have added another layer of uncertainty for employers. In response to these environmental factors, employers who sponsor retirement plans have been looking for ways to reduce risk.

The move away from defined benefit plans to defined contribution plans shifts investment and longevity risk from employers to plan participants and is well-established in the private sector, as the data below indicate.

Figure 52

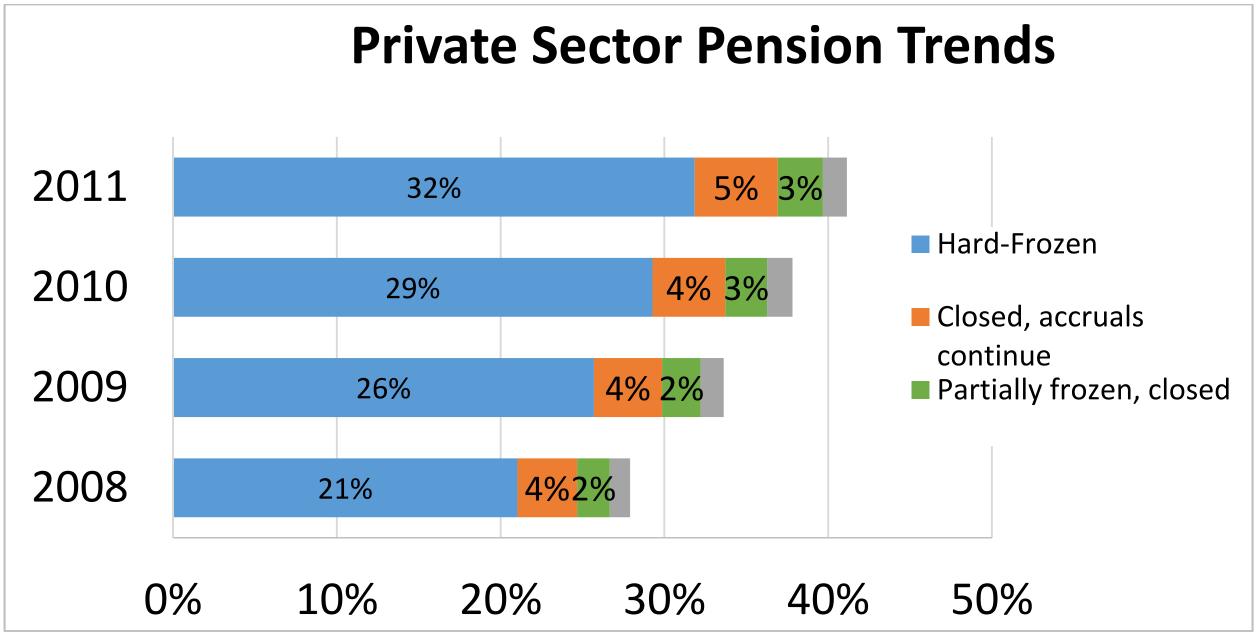


Source: "Private Pension Plan Bulletin historical Tables and Graphs." U.S Department of Labor Employee Benefits Security Administration December 2014. 2012 Data Release Version 2.0. Numbers in 1,000s. Note that there was a change in the definition of active plan participant in 2005.

The sharp decline in private sector employers sponsoring defined benefit plans (including a 75% reduction in all PBGC insured pension plans from 1985–2005), is continuing and is now affecting large employers. Of the 30 Dow companies, only 20 sponsored DB plans five years ago, and five of these companies have since "frozen" their plans. The current trend for private sector pension plans is likely to continue, with more large employers closing their defined plans to new hires to mitigate the financial risk and volatility associated with funding and accounting for pension plans. Data obtained from PBGC's 2012 Pension Insurance Data Tables (the latest available) shows the continued rise over the last few years of pension plan freezes, with most of the increase due to so-called "hard" freezes.2

[2] A plan that is "hard-frozen" is closed to new entrants and all accrued benefits are determined as of the date of the plan change. A plan that is "soft-frozen" is closed to new entrants, however current employees may continue to earn additional benefits (e.g. if their pay increases, then the final average pay would also increase) or employees may continue to earn service credits or age into eligibility for early retirement benefits, but based on the final average pay at the date of the plan change.

Figure 53



Source: 2012 PBGC Pension Insurance Data Tables, Table S-36

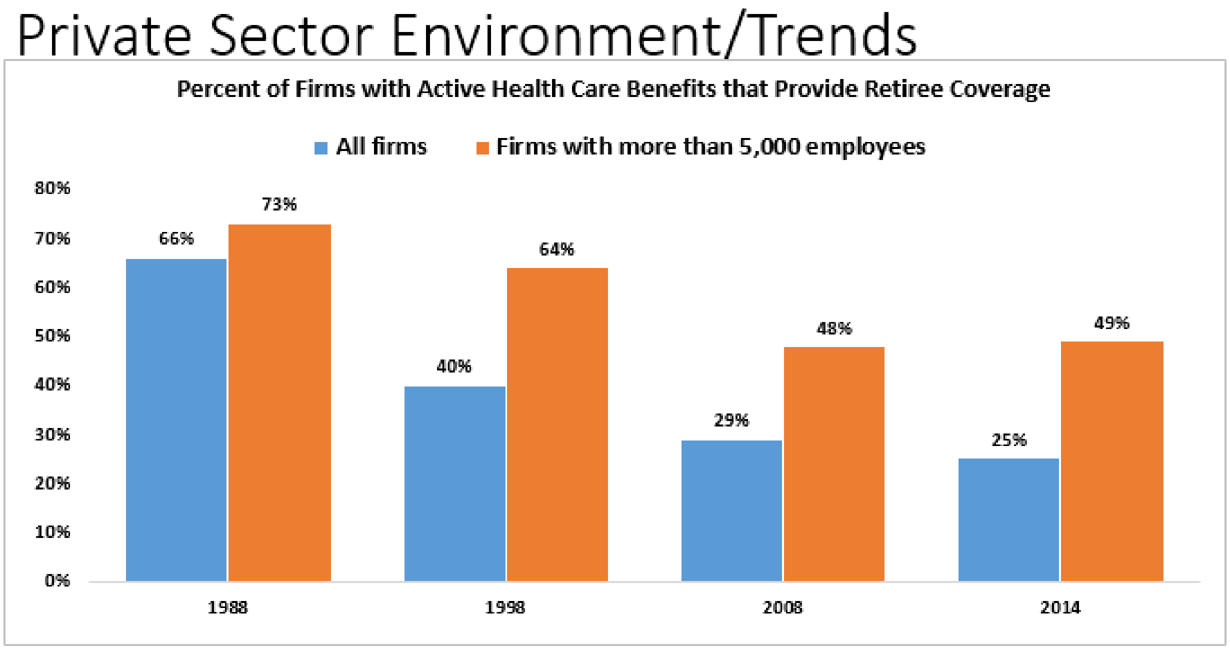
While this trend is well-established in the private sector, defined benefit plans remain very much the norm in state and local government plans, though there has been some erosion even in public sector plans, especially in those states where the plans are in financial distress. We should note also that the laws in many jurisdictions limit the scope of changes that can be applied to future benefit accruals for current employees.

Retiree Health Benefits in the Private Sector

Prior to 1992, a private sector employer who maintained retiree health benefits was required to book only cash expense on the company's financial statement, and there was no accounting of the liability for retiree health care benefits on the balance sheet. The advent of Financial Accounting Statement 106 for large plans at the end of 1992 required accrual basis accounting, including both a statement of the liability for promised future benefits and an expense that allocated the cost to the employees working lifetime, similar to pension accounting standards.

The graph below from the annual Kaiser/HRET survey of employer-sponsored health benefit plans illustrates vividly how dramatically the new accounting standard changed the practice of large employers continuing to provide health benefits to retirees.

Figure 54



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2014

As the graph shows, the impending imposition of FAS-106 created a sharp decline in the availability of employer-provided health care benefits to retirees, with the percentage of Kaiser's survey respondents continuing to drift down to the last reported percentage of 25%. Moreover the graph understates the continued decline in the protection provided retirees, since it does not capture other measures private sector employers have adopted to limit or even eliminate liability and expense for retiree health benefits, including:

- Adopting a hard cap on the employer contribution, which effectively removes further inflation in health care costs from the calculation of the liability and expense;
- Increasing contributions for retirees, including tying contributions to length of service so that short service retirees receive lower employer contribution support; and
- Offering coverage on an "access only" basis, with retirees being required to pay the full cost of benefits continued after retirement.

While retiree health care benefits continue to be offered by most public sector employers, we should note that the advent of Governmental Accounting Standards Board Statement 45 which imposes similar accrual basis accounting for public employers beginning in 2005 is illuminating this liability and expense issue in a similar fashion among governmental employers and will no doubt highlight the need for continuing assessment of the affordability of such benefits and drive the consideration of changes in the conditions under which they continue to be offered.

Interest in Private Exchanges

Another recent development in the employer-sponsored health plan area is the development of "private exchanges" in the private sector. In 2011, only 18% of private sector employers had considered offering a private exchange. By 2012, this number had grown to 56%. These plans have been heavily promoted by the major benefits consulting firms, and have already been adopted by several large employers including Walgreens, Sears, and Darden Restaurants. Other employers including IBM and Time Warner have adopted such private exchanges for health benefits for retirees and are considering them for employees in the future.

The 2013 Mercer survey indicates that private sector employers adopt private health care exchanges because they offer a one-stop shop across core medical, life, disability, and voluntary benefits. In addition, private health care exchanges offer collective buying power and help control total benefit costs, while shifting more risk to participants depending on the contribution structure that accompanies this kind of change.

This data, along with articles published in trade magazines, suggest that large employers that have adopted this approach expect that it will result in lower costs. Under this approach, the employer often sets a fixed employer contribution, and the plans offered compete for business directly to participants based on the usual factors of network coverage, benefit features, and price. In some models, the benefits under all the plans are the same.

Employers adopting this approach have noted that they are relying on increasing competition among the insurers and plans competing for participants to slow the rate of future cost increases. It is too early in the development of these programs to determine whether these expectations and objectives will be realized.

Consumer Directed Health Plans

Consumer Directed Health Plans (CDHPs) are High Deductible Health Plans (HDHP) with a savings option offered as part of the employers' health insurance. The savings option can be provided through either a Health Savings Account (HSA) or a Health Reimbursement Arrangement (HRA).

- HAS--HSAs may be funded by employees, employers, or both, up to a maximum of $3,300 for Self coverage and $6,550 for Family coverage in 2014. Employee contributions to HSAs are pre-tax and contributions made by employers are not taxable to the employee. Withdrawals from the HSA by the employee to pay for health care expenses are also not taxed. Since the account is owned by the employee, if the employee leaves the job, the HSA balance is retained and continues to be available for future medical expenses.

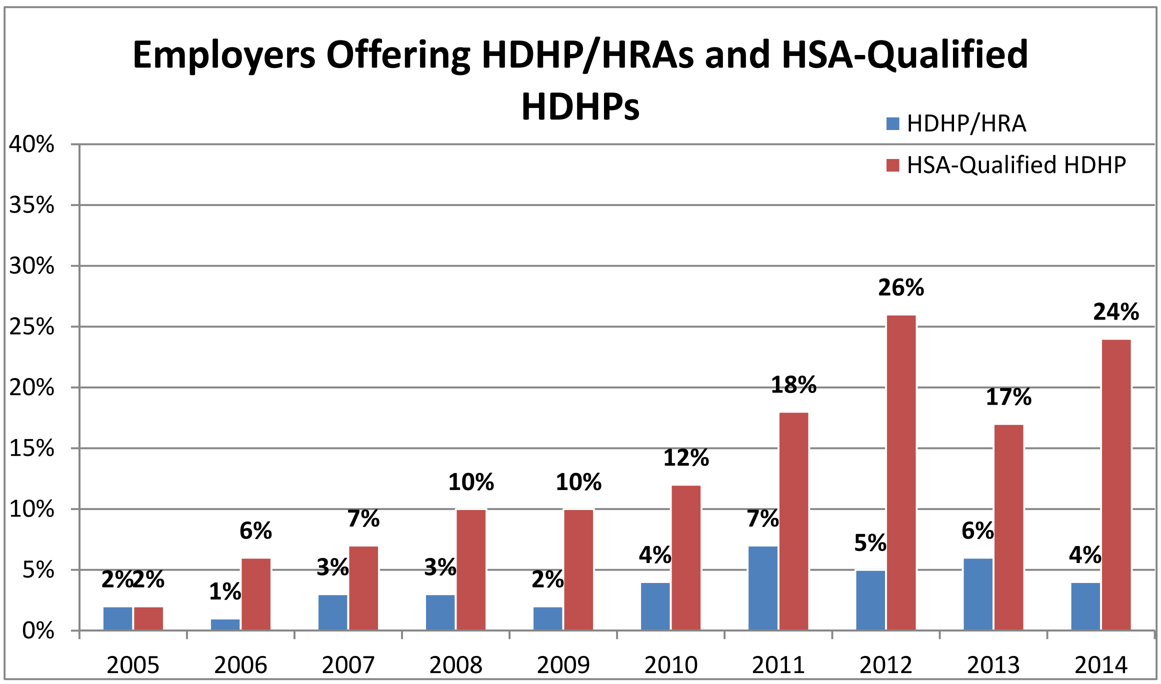
  For 2014, the U.S. Department of Treasury determined that HSA-linked HDHPs must have an individual deductible of $1,250 or higher, or a family deductible of $2,500 or higher. In addition, the total out-of-pocket expenses must not exceed $6,350 for Self coverage and $12,700 for Self and Family coverage. These dollar limits are indexed and will increase in future years.

- HRA--HDHP members who are not eligible for an HSA are eligible for an HRA. HRAs are funded solely by the employer. Employers may contribute a certain amount to an employee's HRA for premiums and medical expenses. Typically, funds not used can be carried over from year to year, usually with a maximum limit. HRAs have no required deductibles or out-of-pocket maximums.

The remainder of this section discusses private and public sector trends in CDHPs including prevalence, deductibles, and employer and participant contributions.

CDHPs have continued to grow in importance in the employer-sponsored plan marketplace. The Kaiser/HRET Survey of Employer Sponsored Health Benefits first reported a market share of 4% for CDHPs in 2006, which has steadily grown to a 20% market share as of 2013. The actual percentage of organizations offering CDHPs varies by the study conducted. The 2014 Employee Benefits Report, published by the Society for Human Resource Management (SHRM) reports that 30% of organizations offer a CDHP. However, this data is not differentiated based on employer size. Mercer's 2013 National Survey of Employer-Sponsored Health Plans indicates that 51% of very large employers (5,000 employees or more) offer CDHPs to their employees. The KFF/HRET survey found that 28% of firms offering some type of health coverage offer either an HDHP/HRA or an HSA-qualified HDHP, as seen in the table below. The figure also shows a steady increase in the percent of employers offering HSA-qualified HDHPs, as opposed to HDHP/HRAs, since 2005.

Figure 55

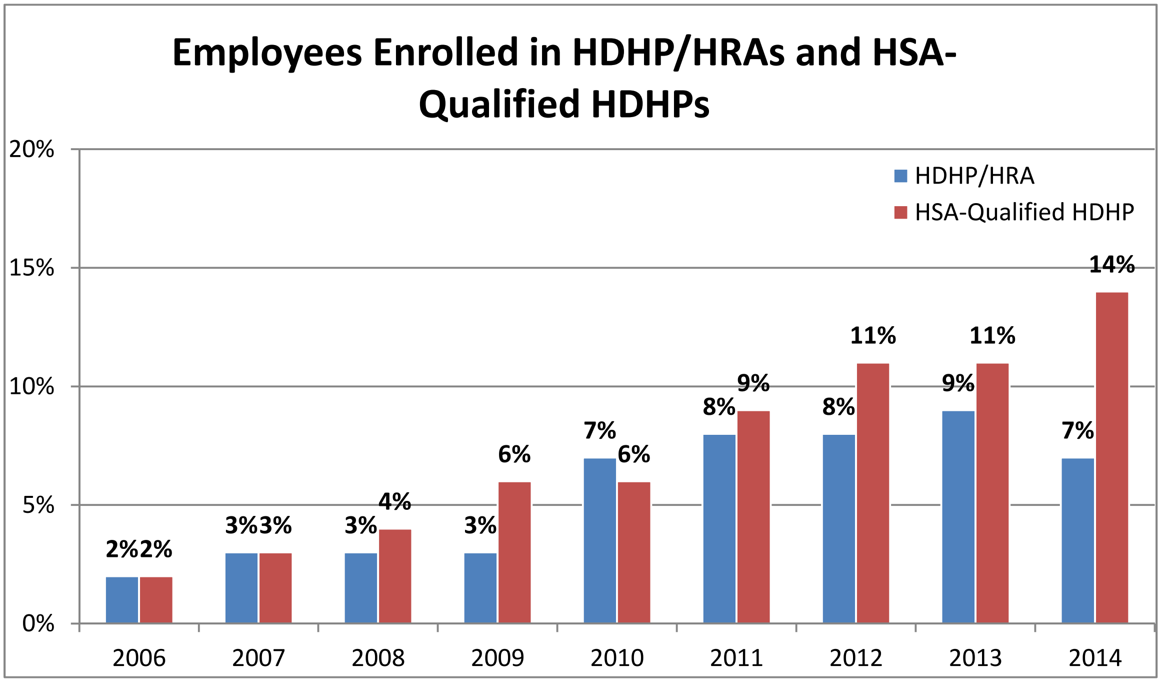


Employers Offering HDHP/HRAs and HSA-Qualified HDHPs

Source: 2014 Kaiser/HRET Survey of Employer-Sponsored Health Benefits

The graph below, also from the Kaiser/HRET survey, focuses on the number of employees enrolled in HSA and HRA plans (as opposed to the number of employers offering such plans) and shows that, in recent years, more employees are enrolled in HSA-qualified HDHPs than HDHP/HRAs.

Figure 56



Source: 2014 Kaiser/HRET Survey of Employer-Sponsored Health Benefits

Overall, more employers are offering HRA and HSA plans, with a visible trend toward an increasing usage of HSAs. Where these plans are offered, employee enrollment is increasing.

The principal driver for the strong growth of CDHPs over the last several years is that CDHPs cost less than other forms of delivering health care coverage to employees and their families, while still meeting or exceeding the 60% threshold for minimum-value coverage required under PPACA. The cost differential is illustrated in Mercer's survey, as seen in the Table below.

Figure 57

Medical Plan
(Cost per Employee)

Medical Plan	Cost per Employee
PPO	$10,007
HMO	$10,167
HSA-eligible CDHP	$7,833

Source: Mercer's National Survey of Employer-Sponsored Health Benefit Plans

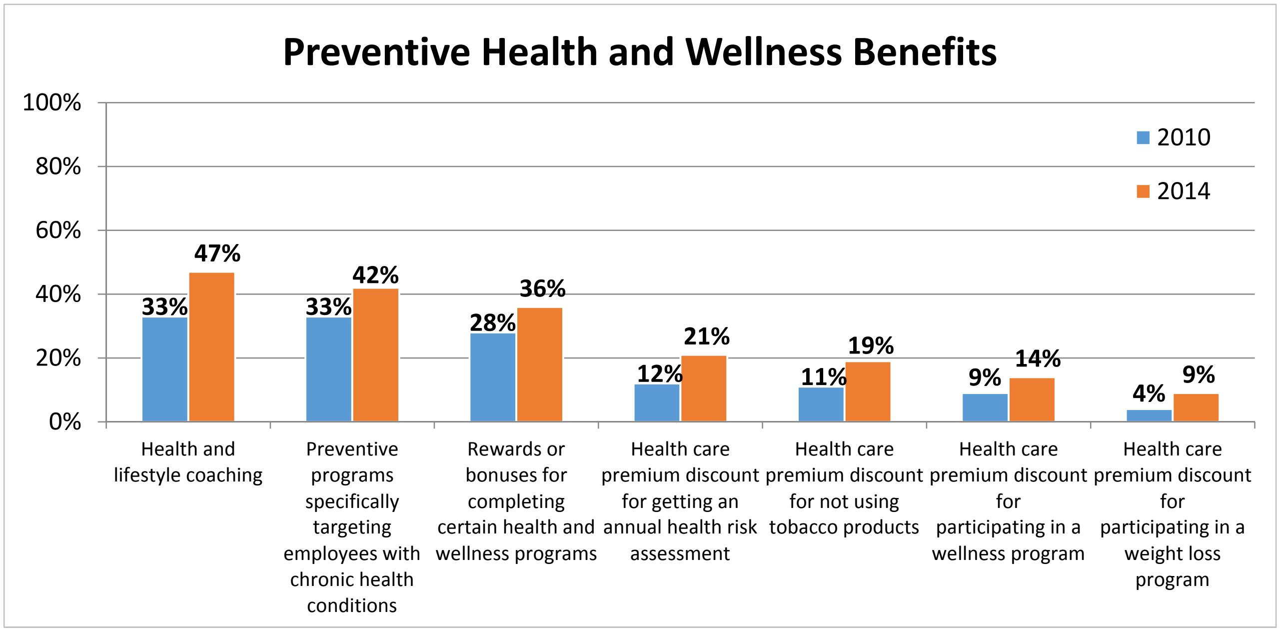
Wellness Programs in the Private Sector

The costs paid by employers for health care and other benefits obviously increase when employees use their benefits. Thus it is reasonable to conclude that encouraging employees to live healthier lifestyles can help reduce costs. To this end, employers continue to establish and promote health and wellness programs in the workplace. These programs can range from the distribution of wellness-related resources and information to more sophisticated training to on-site fitness centers.

Larger organizations have been even more aggressive in their approach to promoting health and wellness, offering weight loss programs, health risk assessments, and biometric screenings, and tying incentives and/or penalties to participation in the programs they offer. This concluding section discusses the prevalence of wellness programs and initiatives in the private sector as well as specific incentives used to encourage participation in wellness programs.

According to SHRM, 79% of surveyed employers provide wellness resources and information to their employees, and 62% offer wellness programs. As we show below, the percentage of organizations offering a variety of preventative health and wellness benefits has increased from 2010 to 2014.

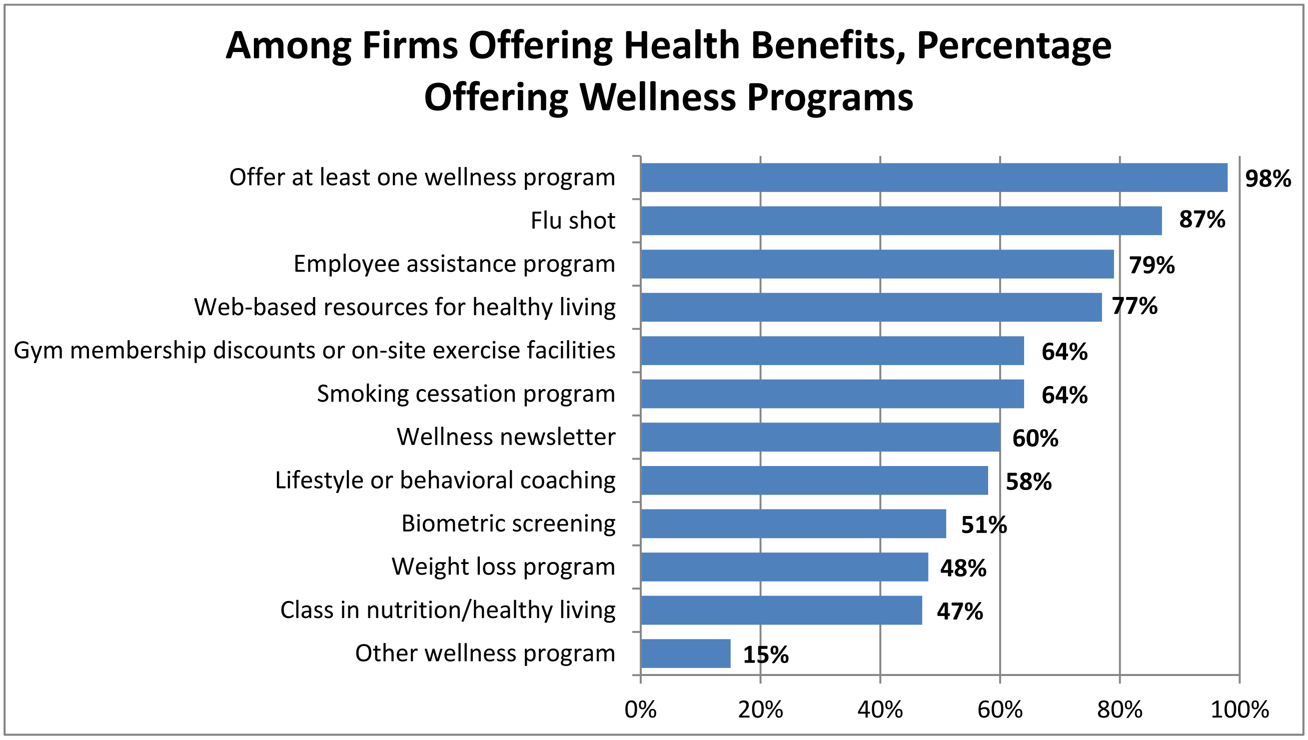
Figure 58



Source: SHRM 2014 Employee Benefits Report

Similarly, the 2014 KFF/HRET study indicates that 98% of the large employers offering health benefits also offer at least one wellness program, as indicated in the following table. Of these employers, 55% report that the program(s) are provided by the company health plan.

Figure 59



Source: 2014 Kaiser/HRET Survey of Employer-Sponsored Health Benefits

Incentives Offered for Participation

According to the 2014 KFF/HRET study, 36% of large employers offer incentives to employees to participate in wellness programs, and 33% report that incentives are "very effective" in encouraging employee participation. The Table below shows the percentages of large employers that offer different types of incentives. The KFF/HRET survey also indicates that large employers are doing more to incentivize employees to complete wellness programs and activities. Of the firms reporting the use of incentives, 32% offer a maximum incentive value of more than $500 for completing wellness programs.

Figure 60

Percentage of Large Firms Offering Incentives for Participation in Wellness Program

Incentive	Percentage of Large Firms (> 200 employees)
Lower health premiums	14%
Lower deductible	3%
Higher HRA or HSA contributions	8%
Gift cards, travel, merchandise, or cash	24%

Source—2014 Kaiser/HRET Survey of Employer-Sponsored Health Benefits

Biometric Screenings and Health Risk Assessments

A small number of organizations require employees to complete biometric screenings or take health risk assessments to be eligible to enroll in a health plan, and some penalize employees with potential health risk factors for not completing wellness programs or meeting prescribed biometric screening outcomes.

Figure 61

Percentage of Large Firms Requiring Health Risk Assessments or Screenings

Requirement	Percentage of Large Firms (> 200 employees)
Require employees to complete health risk assessment to enroll in health plan	3%
Require employees to complete biometric screening	1%
Require employees with health risk factor to complete wellness program	7%
Penalize employees for not meeting biometric outcomes	8%

Source: 2014 Kaiser/HRET Survey of Employer-Sponsored Health Benefit

We believe that wellness programs will continue to grow in importance as the metrics required to measure results and employers' return on investment continue to improve. A key factor in the return on investment is the rate of employee turnover, reflecting the fact that improving employees' health is a long term effort while the costs of setting that process in motion are front-loaded. The long term dividends include not just reduced benefit expense but also reduced absenteeism and improved productivity. MWAA's relatively low turnover is a factor weighing in favor of MWAA's continuing to develop its wellness program.

Appendix – Study Methodology

Overview

The methodology used in the study was designed to compare the benefit costs actually incurred by MWAA based on their population and current benefit plan designs to the benefit costs that would apply had MWAA adopted the benefit plans of the comparator employers. The actual costs for the other employers may differ due to differences in the age and demographics of their population as well as geographic differences in costs (e.g. healthcare costs).

Defined Benefit Retirement Plans

The MWAA cost shown is the Normal Cost from the 12/31/2014 actuarial valuation reports. The cost reflects MWAA's current population of employees and expected workforce dynamics, including turnover, retirement, and salary increases. Separate costs were used for the General Employees Retirement Plan and the Police Officers and Firefighters Retirement Plan. The cost for the other employers that sponsor defined benefit plans was developed as the MWAA Normal Cost times the ratio of the value of the employer provided benefits at retirement at age 62 with 30 years of service. The value takes into account the benefit accrual rate, service maximums, final averaging period, and cost-of-living adjustment features (if any) of each retirement plan. The employer provided value was developed as the total value less the accumulated value of employee contributions from hire until retirement age, using the common interest rate of 7.50% and common salary increase assumption. The value at age 62 was selected to incorporate the additional Social Security bridge benefits provided by several jurisdictions. The cost of living adjustments were incorporated assuming inflation at 2.75% per year.

Defined Contribution Plans

The cost shown is the employer contribution amount assuming employees contribute the minimum amount needed to maximize any employer matching. Thus for MWAA, employees are assumed to contribute 4 percent of pay and receive 3% of pay as the employer contribution. Contributions are accumulated from hire to retirement age with an assumed investment earnings rate of 7.50% and salary increases based on MWAA's valuation assumptions.

Employee Health Care

The cost for MWAA was developed from the 2015 healthcare premium rates for self only (single) coverage and family coverage for the prevalent plan. The blended cost per person was developed using the current election rate for self only coverage (30%) and 70% for self and family coverage. Although MWAA has more than two tiers of coverage, only the Self and Self & Family rate tiers were used to accommodate those employers that only use two tiers. The employer paid portion of the cost was developed from the total cost and the percentage of the premium paid by the employer for each tier of coverage. The cost for the comparator employers was developed by adjusting MWAA's costs by the ratio of the plans' actuarial values. Plans that pay a larger share of the claims would have a higher cost and therefore a higher premium rate. Plans with higher copays, deductibles, and cost-sharing would result in a lower cost and therefore lower premium rate. The actuarial value was determined using the MV calculator. The actuarial value represents the portion of the incurred medical charges that are expected to be paid by the plan, based on the plan's deductibles, coinsurance payments, copays and other cost-sharing features. The Minimum Value (MV) calculator was developed by the Center for Consumer Information and Insurance Oversight (CCIIO) of the Department of Health and Human Services. This calculator was principally designed to allow employers to determine whether their health plan offerings meet the requirements for a minimum AV of 60% (i.e., the plan is expected to cover 60% or more of a plan participant's health care costs), as required under employer mandate provisions of PPACA. The calculator values benefits provided for both medical care and through the prescription drug features of each plan. The MV calculator can be used to compare the value of different plan designs and was designed by CCIIO to determine what percentage of total health care costs would be covered for plan participants throughout the U.S. population based on a particular plan's design features. Thus, it provides a well-documented, non-proprietary basis for measuring the generosity or richness of plan benefits for the plans provided by different employers.

Where an employer has multiple health plans the plan with the largest enrollment was used as the representative plan for that organization. No adjustment was made for geography or differences in the age of the groups. The result is therefore the expected cost to MWAA if the MWAA health plan were replaced with the plan design used by the other employers and the MWAA premium subsidy policy were replaced with the premium subsidy policy of the other employer.

Dental and Vision Insurance

The value was developed directly from the employer paid portion of the premiums. A blended cost was developed using the same enrollment assumptions of 30% self only and 70% self and family.

Retiree Healthcare

The retiree healthcare cost for MWAA is the Normal Cost obtained from the 1/1/2015 actuarial valuation report. The Normal Cost reflects the expected cost for benefits earned in the year and takes into account MWAA's costs for pre-65 retirees as well as the cost for the Medicare eligible retirees. The cost reflects MWAA's retiree contribution policy as well as the enrollment mix of self only and self and family member s in retirement. The cost is developed using MWAA's expected earnings on the VEBA and expected healthcare inflation and life expectancy assumptions.

The cost for the other employers was developed as the MWAA Normal Cost adjusted by the ratio of the value of the other employer retiree healthcare subsidy to the value of MWAA's subsidy for an employee retiring at age 62.

Life Insurance

The MWAA group life insurance cost was developed based on the MWAA population and current mortality rates. The cost for the other employers was developed as the MWAA cost adjusted by the ratio of the benefit level provided by the other organization to the benefit level provided by MWAA (1 times pay). For employers with a flat dollar benefit, the adjustment factor was applied to the average pay for MWAA employees of $77,000.

Retiree Life Insurance

The retiree life insurance cost for MWAA is the Normal Cost obtained from the 1/1/2015 actuarial valuation report. The other employers' costs were developed by adjusting the MWAA Normal Cost for the difference in insurance coverage. Where the retiree life insurance benefit level changed after retirement the value used was the weighted average of the benefit at retirement (40% weight) and the benefit at age 70 (60% weight).

Paid Leave

The value of one day's leave was determined as 1/260 times the annual salary. Using the annual leave data obtained by years of service the average paid leave cost was determined using the following weights.

Service	Weight
Hire	30%
5 years	40%
15 years	22%
25 years	8%