



Information Paper for the Human Resources Committee

Benchmarking Study of the Airports Authority Employee Benefits Program

June 2015



Airports Authority Benefits Program Goals

- Assure over time the employee benefits program remains:
 - Affordable, both to the Airports Authority and its employees;
 - Sustainable; and
 - Competitive
- Commissioned a benchmarking study to determine whether the Airports Authority is achieving its present goals and to chart a future path.



Agenda

- Review Benchmarking Study
- Review future risks
- Proposed next steps

Benchmarking Study

- Provided a base line comparison of the Airports Authority's benefit program to:
 - The local jurisdictions;
 - The federal employee benefit plans; and
 - Plans provided at major metropolitan airports
- Study Results:
 - Airports Authority's benefits are competitive and within range of comparative organizations
 - Better funded than other comparative organizations
 - More generous vesting eligibility requirement for Airports Authority retiree healthcare

Benchmarking Study Risk Factors

- The Airports Authority, like other benefit plan sponsors, has elements of risk, including:
 - Investment Risk
 - Longevity Risk
 - “Cadillac Tax” Risk



Investment Risk

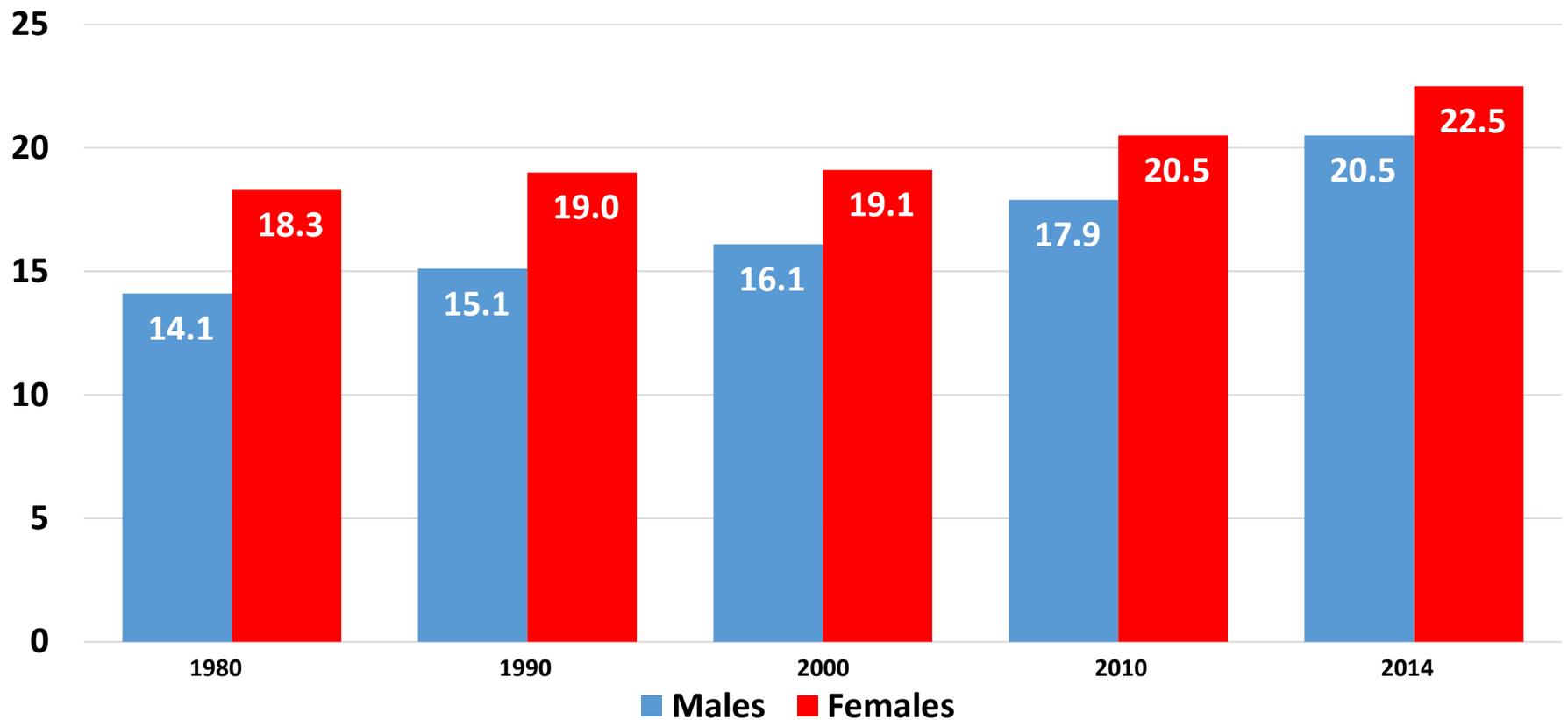
Change in Investment Return Assumption

Investment Return Assumption	7.50%	7.25%	7.00%	6.50%
Total Plan Liability	\$212.81	\$231.25	\$238.93	\$255.46
Total Plan Assets	\$224.00	\$224.00	\$224.00	\$224.00
Funded Status	105.26%	96.86%	93.75%	87.68%



Longevity Risk

Life Expectancy at Age 65





Cadillac Tax Risk

Effect of Leverage on Excise Tax Growth Once "Cadillac Tax" Threshold is Reached

Assumed Trend in Annual Premiums:	5.6%
Assumed CPI Change Each Year:	2.0%
Index for Threshold, 2018 and 2019	CPI + 1%
Index for Threshold Thereafter	CPI
Excise Tax on Excess Premiums	40%

Years	Growth in Threshold First Ten Years (Ee Only)	Growth in Premiums First Ten Years	Excess Premium Over Threshold	Excise Tax Each Year	Excise Tax as % of Premiums
0	\$10,200		N/A		
1	\$10,506	\$10,771	\$265	\$106	0.98%
2	\$10,821	\$11,374	\$553	\$221	1.95%
3	\$11,038	\$12,011	\$974	\$389	3.24%
4	\$11,258	\$12,684	\$1,426	\$570	4.50%
5	\$11,484	\$13,394	\$1,911	\$764	5.71%
6	\$11,713	\$14,144	\$2,431	\$972	6.88%
7	\$11,947	\$14,936	\$2,989	\$1,196	8.00%
8	\$12,186	\$15,773	\$3,586	\$1,435	9.10%
9	\$12,430	\$16,656	\$4,226	\$1,690	10.15%
10	\$12,679	\$17,589	\$4,910	\$1,964	11.17%

Annual Compound Rate of Growth in Taxes: 33.9%

Benchmarking Study Path Forward

- Update benchmarking review every 3 – 5 years;
- Legislative mandates (Patient Protection and Affordable Care Act, Cadillac Tax); and
- Propose one change to retiree healthcare vesting eligibility requirements (as reflected in separate recommendation paper to be considered by the Committee on June 17, 2015)



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 ON THE
BENCHMARKING STUDY OF THE AIRPORTS AUTHORITY
EMPLOYEE BENEFITS PROGRAM**

JUNE 2015

PURPOSE

This paper provides the Human Resources Committee a follow-up on the results of the employee benefits program benchmarking study that staff presented in March 2015; and presents additional information regarding risks that sponsors of employee benefit plans must monitor.

BACKGROUND

The Office of Human Resources retained Aon Hewitt 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.

Overall the study found that:

- The Airports Authority's Retirement Plans are competitive in terms of benefit levels. The key difference from those plans provided by the other employers with which the Airports Authority compared its plans, is that it requires no contribution for the defined benefit plan for General Employees, and a modest contribution of 1.5 percent of pay from its Police Officers and Firefighters. All the local jurisdictions other than the District of Columbia maintain a defined benefit plan, and the average contribution required for General Employees is just under 5 percent of pay; for Police Officers and Firefighters, the average is 6.5 percent of pay.
- The Airports Authority's health benefit plans are competitive; and
- The leave policy is competitive at all service levels, from date of hire through 25 years of service.

The study also noted that the plans that cover the Airports Authority's retirees are exceptionally well-funded. As of the most recent valuation, its Retirement Plans' assets exceeded liabilities by 5.25 percent. Additionally, the funding level of 79 percent of liabilities for its post-retirement health and life insurance benefits exceeds, by a very wide margin, the funding levels for almost all public sector employers providing post-retirement health benefits.

DISCUSSION

Presently, the Airports Authority's benefit plans today, are competitive and well-funded. However the Airports Authority bears certain risks like many other benefit plan sponsors. Principal among these risks are:

- Investment risk—the assumed long term rate of return on assets in the pension fund and in the Voluntary Employee Beneficiary Association trust fund, which funds the retiree health benefits is 7.5 percent. Table I shows the impact of a change in the investment return assumption downward to 6.5 percent to the Retirement Plans (combined General and Police and Fire Plans). A move of just a quarter of a percent in investment yield would have the effect of eliminating the current modest over-funding of the pension plans and move the annual contribution up by approximately 14 percent. Although, investment markets have been strong since 2009, in just the past 15 years there have been four years where equity values have declined by 10 percent or more, and two years where they have declined by 30 percent or more. Future investment declines would affect funding level and costs.
- Life expectancy - In addition, Americans are living longer. Increased longevity compared with our mortality rate assumptions could also increase costs in the future. There have been steady improvements in life expectancy over the past 35 years. For males, life expectancy at age 65 has increased by more than six years; for females, the increase was more than four years. Table II shows there has been a steady improvement in life expectancy from 1980 to 2014. The Society of Actuaries recently released new mortality tables. The Airports Authority Retirement Plans' Actuary has estimated that it could experience up to a 5 percent increase in liabilities once the new mortality tables are adopted by the Retirement Committee.
- Cadillac Tax – The Airports Authority has to be watchful about the implications of the so-called “Cadillac Tax” under the Patient Protection and Affordable Care Act for its health benefit plans. The Cadillac Tax is effective in 2018. Although the Airports Authority plans are unlikely to exceed the thresholds in the first year. The Hay Group (Retirement Plans' Actuary) has estimated that the tax will kick-in for the Airports Authority as early as 2020, without benefit plan changes. Table III shows the projected growth in the excise tax when the thresholds are reached.

CONCLUSION

This paper is for information purposes only. Staff will continue to monitor the various risks and update the Board as appropriate.

Prepared by:
Office of Human Resources
June 2015

Table I

Change in Investment Return Assumption (Combined General and Police Officer and Firefighter Plans)				
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Table II

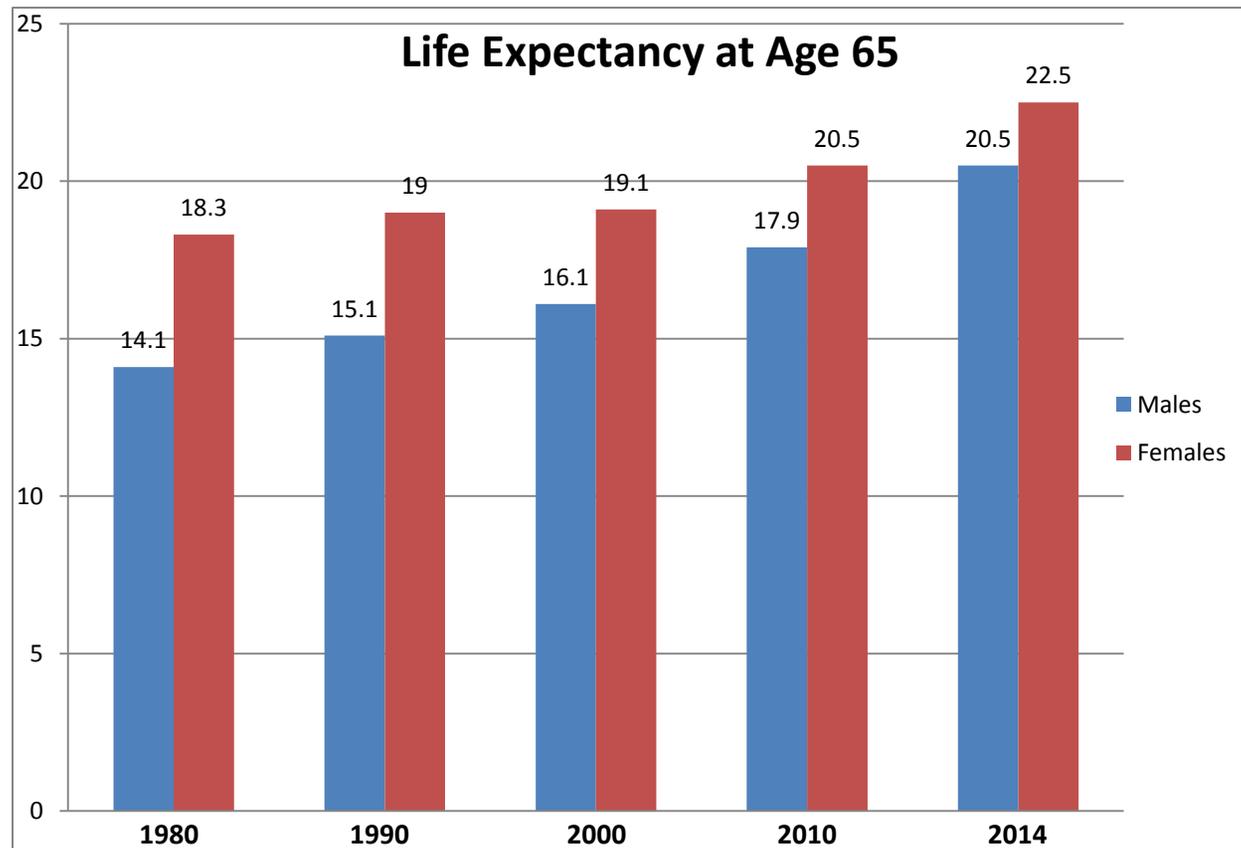


Table III

Projected Growth in Excise Taxes When Threshold is Reached

Effect of Leverage on Excise Tax Growth Once "Cadillac Tax" Threshold is Reached	
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