SUMMARY MINUTES
HUMAN RESOURCES COMMITTEE
MEETING OF JUNE 17, 2015

Mr. Williams chaired the June 17 Human Resources Committee Meeting, calling it to order at 11:26 a.m. A quorum was present during the Meeting: Ms. Hanley, Ms. Lang, Ms. Wells and Mr. Conner, *ex officio*. Mr. Caputo, Mr. Chapman, Mr. Griffin, Mr. Kennedy, Mr. McDermott, Mr. Mims, Mr. Session and Mr. Williams were also present.

<u>Information Paper on the Benchmarking Study of the Airports Authority Employee Benefits Program</u>. Tony Vegliante, Vice President for Human Resources and Administrative Services, presented a follow-up report on the benchmarking study (Study), which had been presented at the March 18, 2015 Committee Meeting. As promised, he and Tom Rand of PRM Consulting Group, who had conducted the Study, would expand on information learned and discuss how the Authority could proceed. Mr. Vegliante reported that the Study had been used to provide pertinent information to the relevance of the Authority's current benefits program. He stated that the Study would help to develop a framework that could be used repeatedly going forward to assess the sustainability of the Authority's benefits program in the marketplace. Mr. Vegliante reported that the comparisons performed with local jurisdictions and other airports had indicated that the Authority has a very competitive and comprehensive benefits plan. He also reported that the Authority is extremely well funded noting that the pension plan and retiree health benefits plan are funded at approximately 105 percent and 80 percent, respectively.

Mr. Vegliante reviewed three risk factors: 1) Investment, which defined the interest rate offered and the interest rate that sets the return on funds during any given year; 2) Longevity, which created a liability on the retiree; and 3) Cadillac Tax, which will occur inevitably as time passed.

Mr. Rand reviewed elements of the Cadillac Tax, which had been deferred to 2018. He reported that it is a critical part of the financing for the Patient Protection Affordable Care Act (Affordable Care Act) that established thresholds. Mr. Rand explained that if the total cost of a health plan exceeded those thresholds, a 40-percent excise tax would be assessed. He stated that the actuaries who support the Authority's benefit plans, as well as the PRM Consulting Group, had projected that the Cadillac Tax will begin to affect the Authority in 2020 and rapidly thereafter. Mr. Rand noted that employers' general strategies to reduce the amount and timeline associated with an applicable Cadillac Tax include modest adjustments in the levels of benefits, insurance copays and deductibles. Directors and Mr. Rand exchanged dialogues regarding: 1) actions that the Authority could take in an effort to avoid the tax; 2) whether the impending Supreme Court decision would impact the Cadillac Tax, which it would not; and 3) no current arrangements were available to employees to subsidize the coverage on health exchanges other than partially subsidizing it by reflecting savings in additional wages.

Mr. Curto encouraged Mr. Vegliante to work with Mr. Rand to continue to review the Authority's benefits packages and consider other ways of cost containment while keeping its current design in place. Mr. Vegliante stated that another Study would be conducted with the next three to 5 years. Additionally, the Authority would remain vigilant with regard to the Affordable Care Act and the Cadillac Tax to develop options to sustain its health care plan and alleviate the excise tax.

<u>Recommendation on the Airports Authority Sponsored Post-Employment Benefits</u>. Mr. Vegliante presented the staff recommendation to change the service eligibility requirement for retiree health care from five to ten years for employees hired after January 1, 2016. He reported that employees presently vested in the current five-year vesting plan are eligible for 100 percent of the retiree health care benefit – 80 percent paid by the Authority and 20 percent paid by the retiree. Mr. Vegliante reviewed information that compared the Authority vesting requirements to Federal and local jurisdictions for general employees, as well as police officers and firefighters. The presentation highlighted the changes that some of the local municipalities had made that lengthened the eligibility period for retiree healthcare to a minimum of ten years. Mr. Vegliante stated that local municipalities had also chosen to offer health care to the retiree only, eliminating spouse and family coverage as a cost savings. He noted that although police officers and firefighters contribute to a different retirement system with higher values, local municipalities had still chosen to offer benefits to retirees only.

Ms. Hanley asked if the recommendation would eliminate spousal coverage, to which Mr. Vegliante responded negatively. The recommended change, effective January 1, 2016, would require an employee to work for the Authority a minimum of ten years to be vested.

With regard to Fairfax County, Mr. Griffin shared his personal knowledge. He stated that spouses are actually covered if a retiree chose to use a family plan and explained that Fairfax paid a fixed-dollar amount per month. Mr. Vegliante stated that a substantial number of options were available with regard to prorating but noted that the first step to control cost is to define the minimum threshold. He reported that a five-year vesting eligibility equated to a $200,000 net present value for each Authority retiree. Mr. Vegliante noted that a lot of different options would be proposed for future discussion, but the simple approach focused on the minimum cost.

Ms. Hanley stated that appropriate time should be dedicated to identifying future options.

Mr. Curto stated that he believed that staff's recommendation is a prudent exercise of discretionary authority to modify the existing plan in order to avoid the concerns articulated. Based on best practices in the industry, Mr. Curto believed it was a wise decision.

The Committee approved the staff recommendation. Mr. Williams did not participate in the vote and stated that he would abstain when the Board considered the recommendation at its July 15 Meeting. Mr. Mims noted that he would also abstain when the recommendation was considered in July.

The meeting was there upon adjourned at 12:10 p.m.