

2012 ACI-NA Pension/ Other Post Employment Benefits Survey

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Accounting/Financing Working Group meeting
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Outline

- Definitions and background information
- Survey sample
- Pension - Defined benefit retirement plan
- OPEB - Health care benefits for retirees
- Conclusion

Definition of OPEB

- OPEB stands for “Other (than Pension) Post Employment Benefits” paid (or to be paid) by an employer for its eligible retirees, including in some cases their beneficiaries
- Generally takes the form of:
 - Health insurance
 - Dental, vision, prescription or other healthcare benefits
 - May also include life insurance, legal services and other benefits

Government Accounting Standards Board has implemented GASB #45

- OPEB is viewed as a form of deferred compensation and should be treated in the same manner as pensions for the purpose of accounting and financial reporting.
- GASB #45 (Accounting and Financial Reporting by Employers for Postemployment benefits Other Than Pensions) requires that the cost of OPEB be expensed over employees' working career (which is assumed to be 30 years).

Types of OPEB plans

→ Defined Benefit

- Specify the amount of benefits to be provided to the employees after the end of their employment.

→ Defined Contribution

- Stipulate only the amounts to be contributed by a government employer to a plan member's account each year of active employment, and do not specify the amount of benefits employees will receive after the end of their employment.

What are the components of this cost?

- For current retirees and employees, there is an existing Actuarial Accrued Liability - this represents the portion of future benefits that the employee has already earned.
- Annually there is a new or normal cost (also called service cost) that represents the cost of future benefits that a current employee earns that year.

Factors Impacting OPEB Expenses

- **Benefits** provided, including health care plan designs and retiree contribution rates
- **Investment returns** on plan assets (if a funding plan exists)
- **Medical inflation rates**, that have significantly out paced general inflation
- **Number** of current and future retirees

Key Definitions

GASB	<i>in English</i>
Actuarial Accrued Liability (AAL)	<i>Amortized cost of benefits promised in prior years</i>
Normal Cost or Service Cost	<i>Current cost of benefits promised in this year</i>
Annual Required Contribution (ARC)	<i>Amount required to fund past and current benefits</i>

Personnel Compensation and Benefits as a Percent of Overall Operating Expenses

Hub size	% of overall FY 2009 operating expenses	% of overall FY 2011 operating expenses
Overall	27.6%	26.4%
Large	27.3%	26.1%
Medium	26.6%	25.7%
Small	29.8%	28.2%
Non-hub	30.8%	27.3%

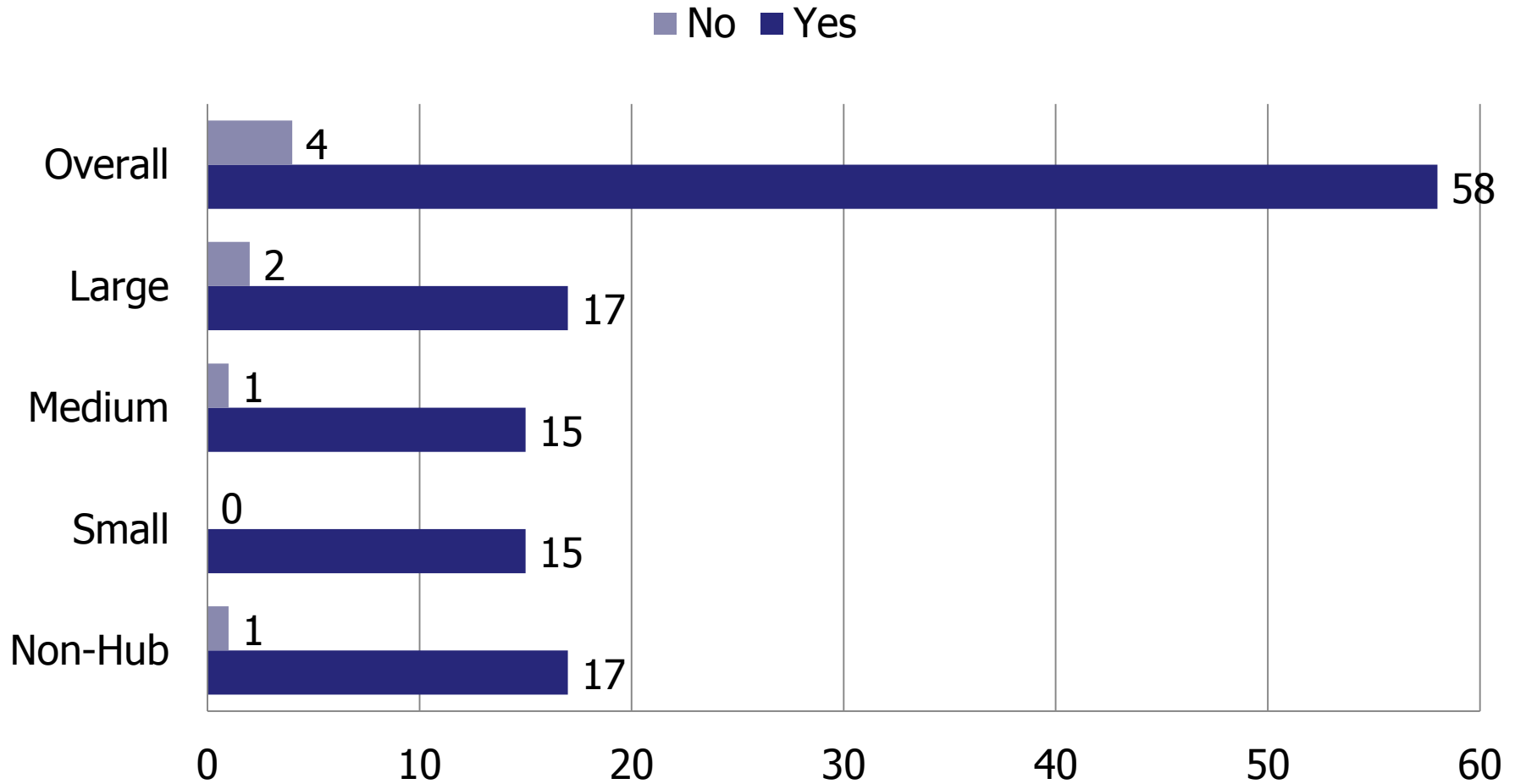
Source: FAA CATS database for all 516 commercial service airports

Survey Sample

Hub Size	Number of airports 2009	Number of airports 2012	Industry total	% represented 2009	% represented 2012
Large	17	23	29	58.6%	79.3%
Medium	14	16	35	40%	45.7%
Small	17	15	73	23.3%	20.5%
Non-hub	21	23	244	8.6%	9.4%
Total Respondents	58	63			

Note: Organizations managing multiple airport systems only submitted one response but may represent multiple airports.

Does your airport/governing body have a defined benefit (DB) retirement plan?



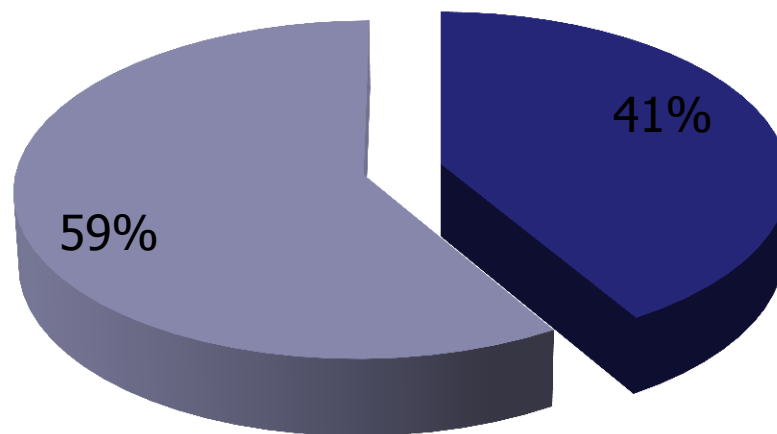
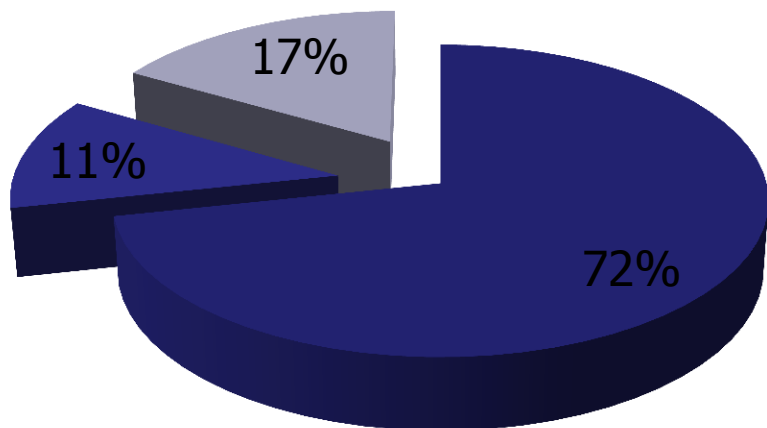
What is the status of your DB plan?

■ Plan is active

■ The plan has been closed for new entry

■ Other

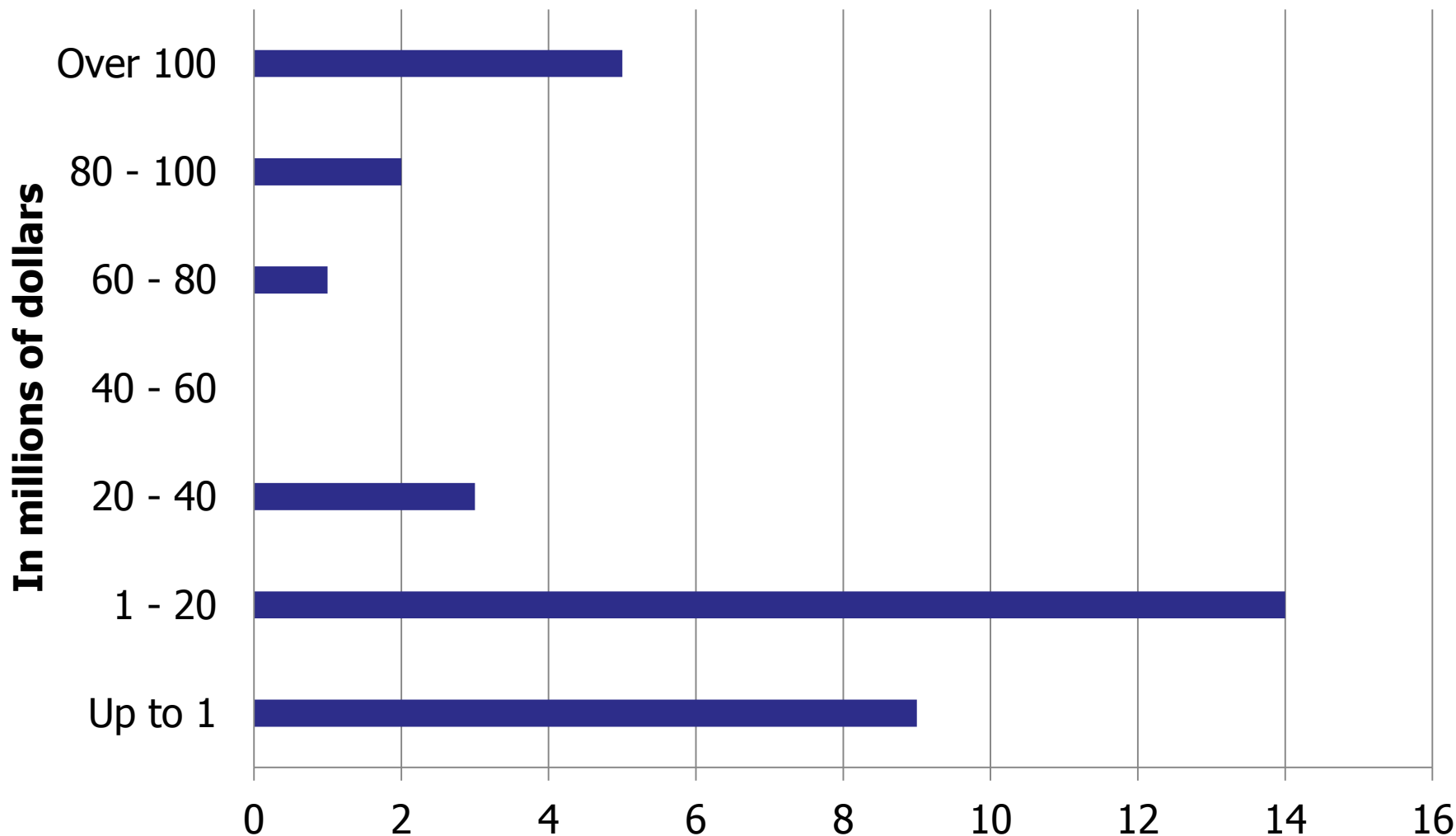
■ Yes, plan has changed over the last three years



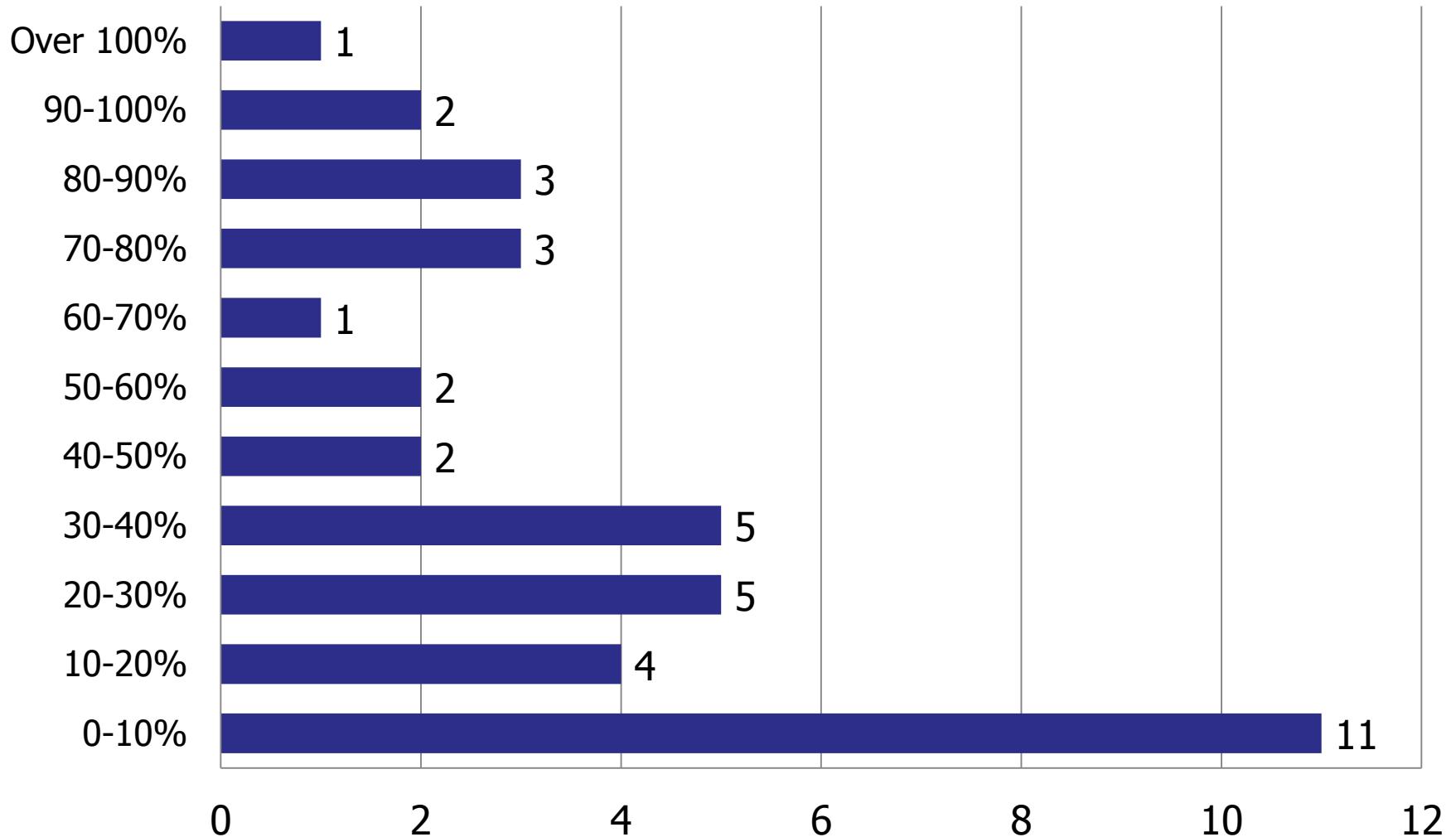
Changes to the DB plan over the last three years

- Airport employers reduced benefits to their employees to control cost
 - Required employee to contribute a certain percent of salary
 - Closure of plan to new employees
 - Reduced employer contribution
 - Introduced new tiers
 - Changes mostly geared towards new employees, e.g. hybrid DB/DC plan for new hires
 - Changed employee qualification calculation, e.g. delay the earliest retirement date
 - Reduced the percentage paid upon retirement
 - Increased years of service required to retire

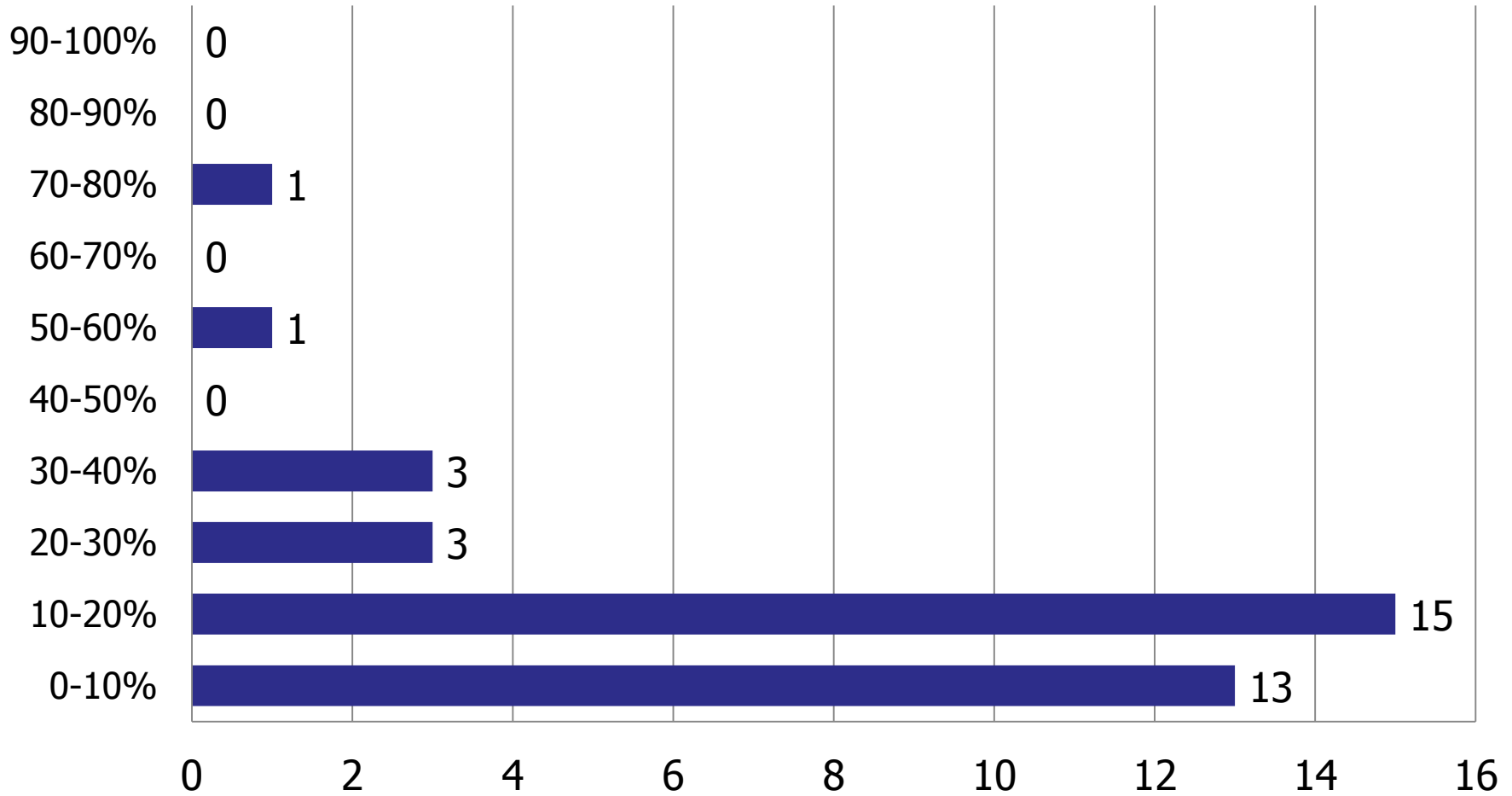
Unfunded Actuarial Accrued Liability (UAAL) for DB plan



DB Plan's Unfunded Ratio

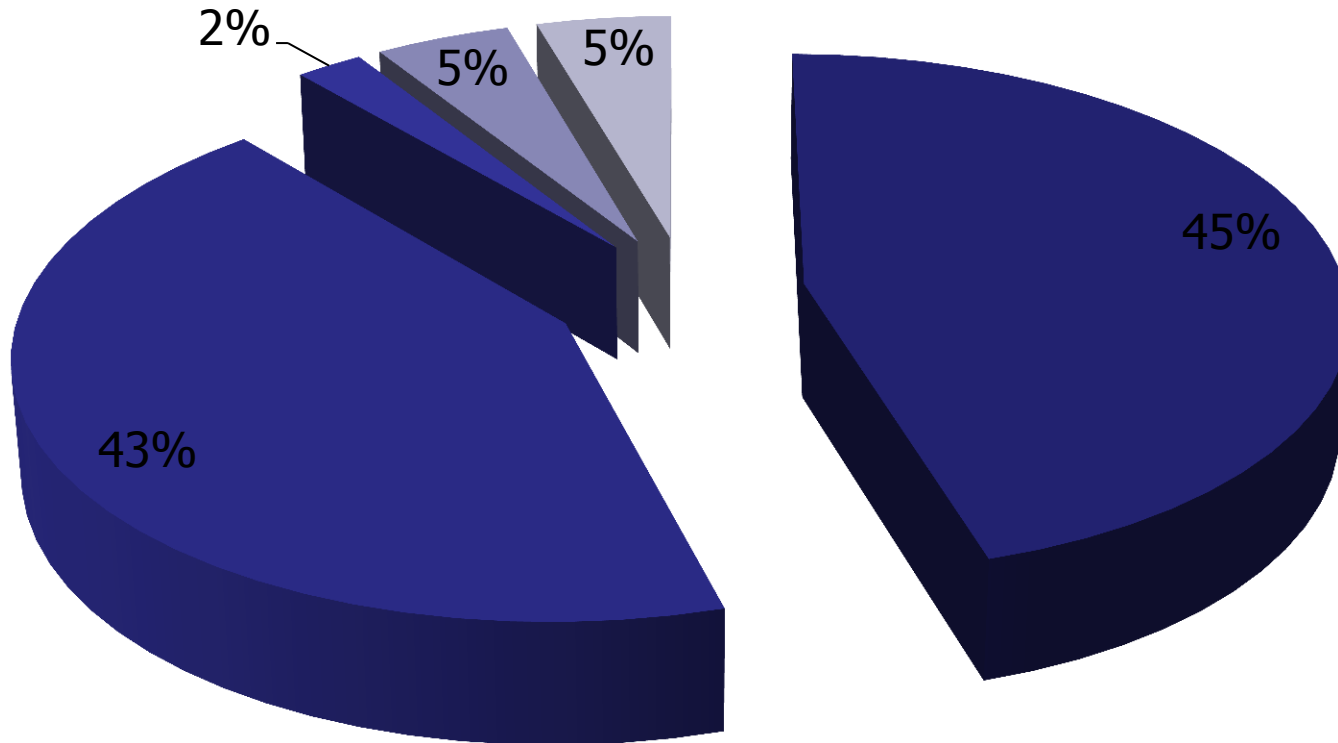


DB Plan Contribution as a Percent of Covered Payroll



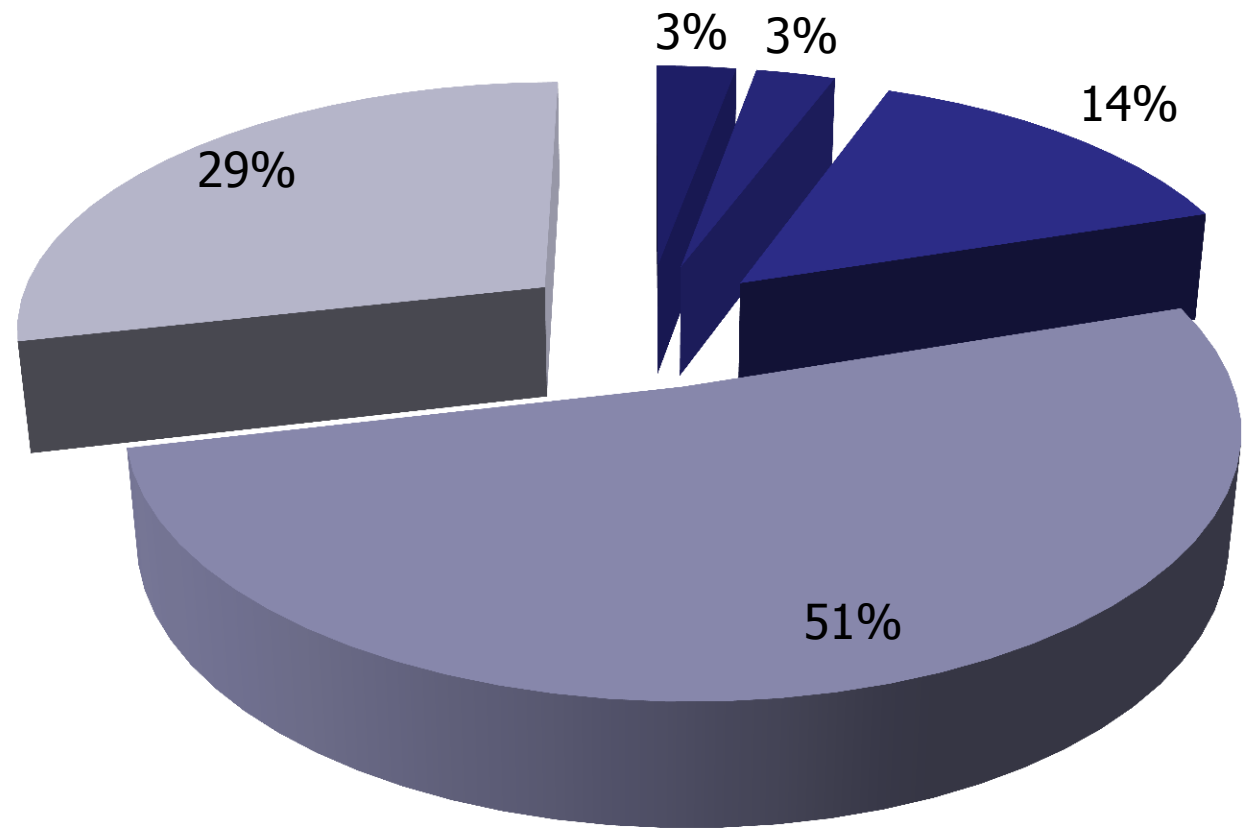
Employee Contribution to the DB Plan

■ 0-5% ■ 5%-10% ■ 10%-15% ■ 15%-20% ■ more than 20%

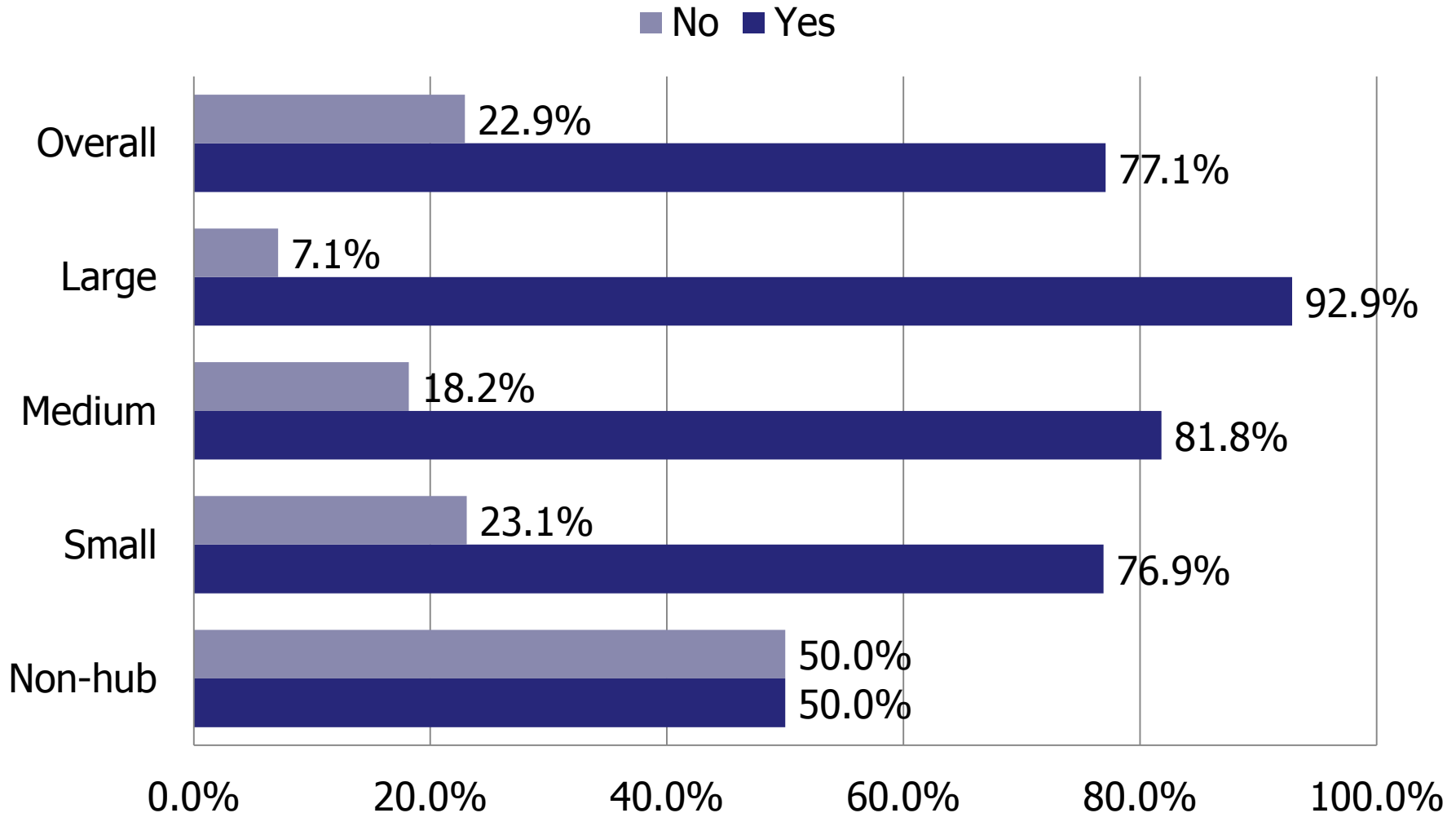


DB Plan Earning Rate Assumptions

■ 0-2% ■ 2-4% ■ 4-6% ■ 6-8% ■ 8-10%

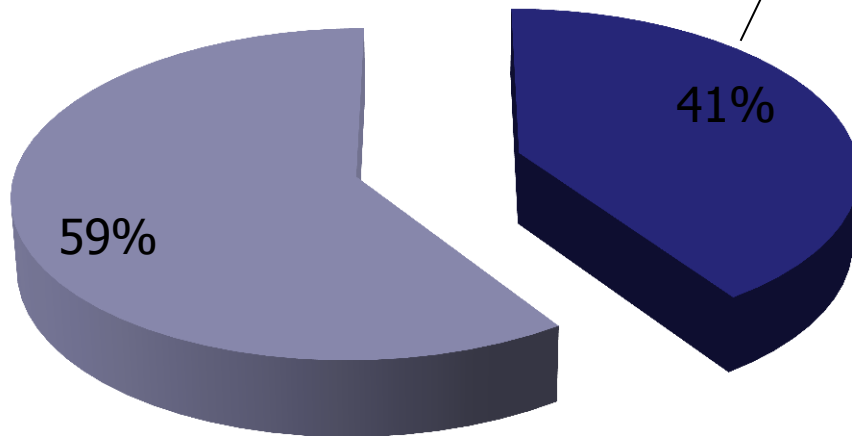


Does your airport/Governing body provide healthcare benefits for retirees?



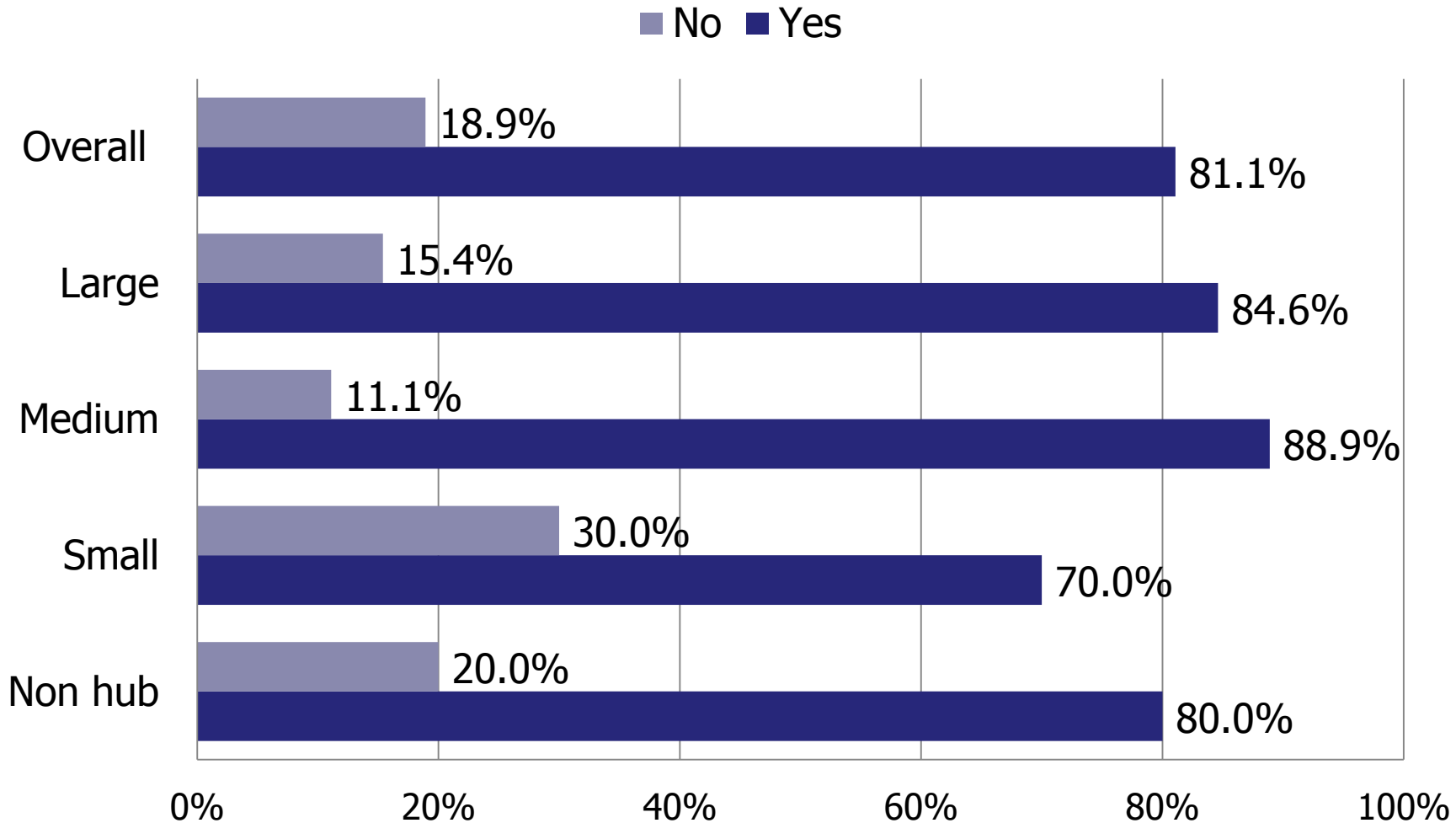
Who are eligible for healthcare benefits for retirees?

- Certain segment of the airport employee population
- All airport employees

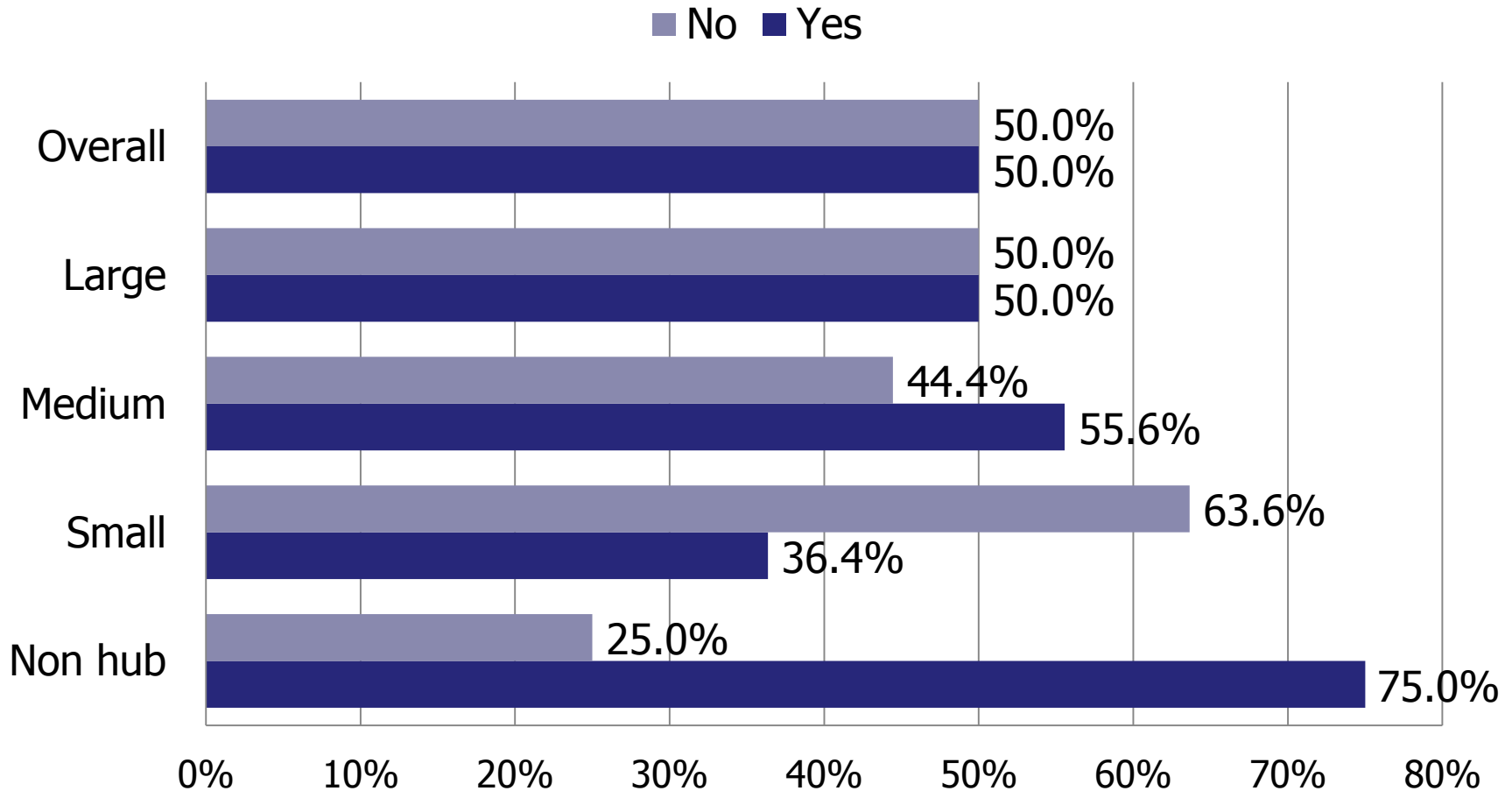


- Certain segment of the airport employee population
 - Those employed by authority or city
 - Employees with certain number of years of service
 - Hired before certain date
 - Retired before certain date
 - No temporary employees
 - Law enforcement officers or fire fighters only or hired before certain date

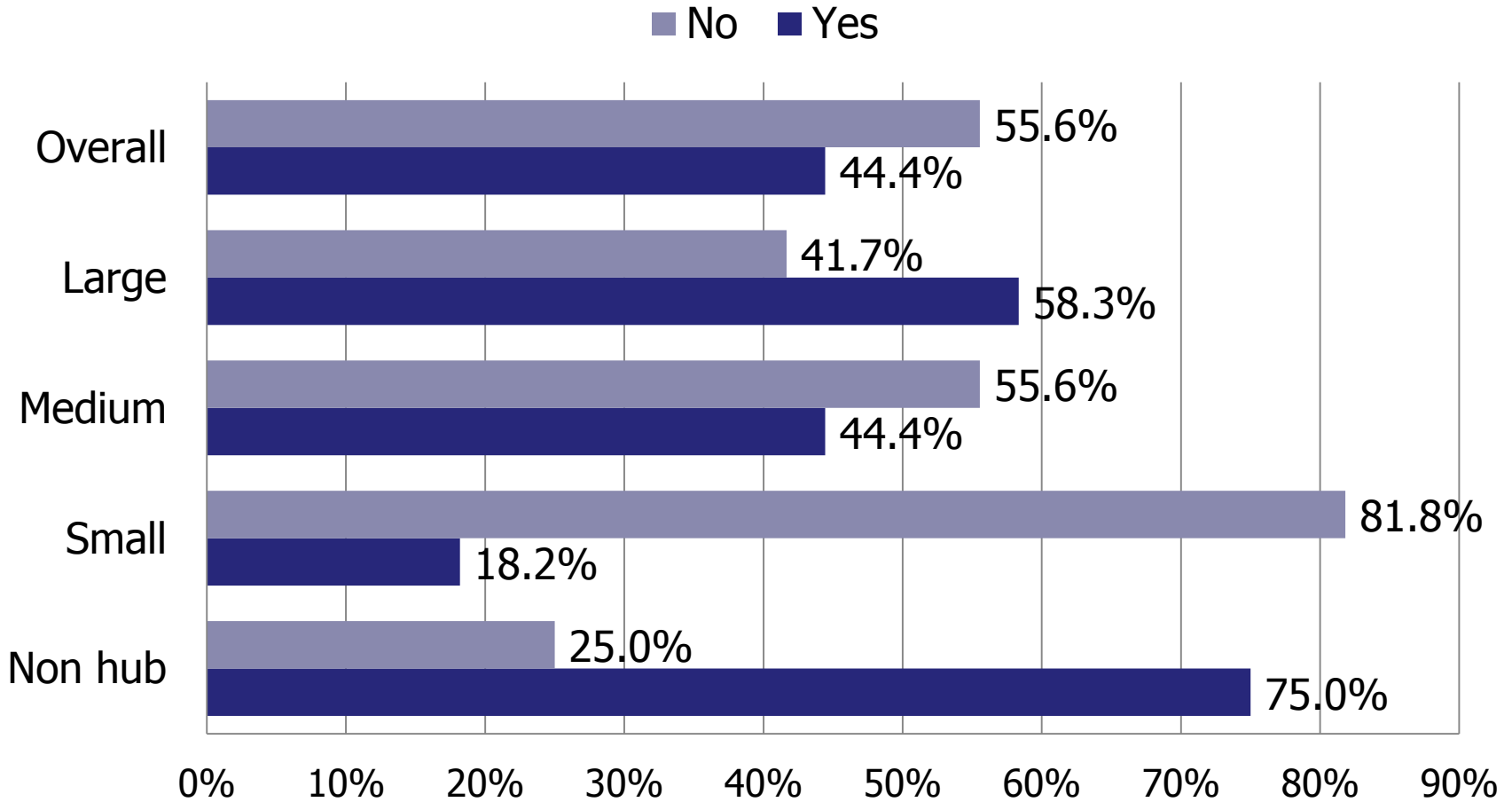
Are retiree healthcare benefits extended after a retiree becomes eligible for Medicare?



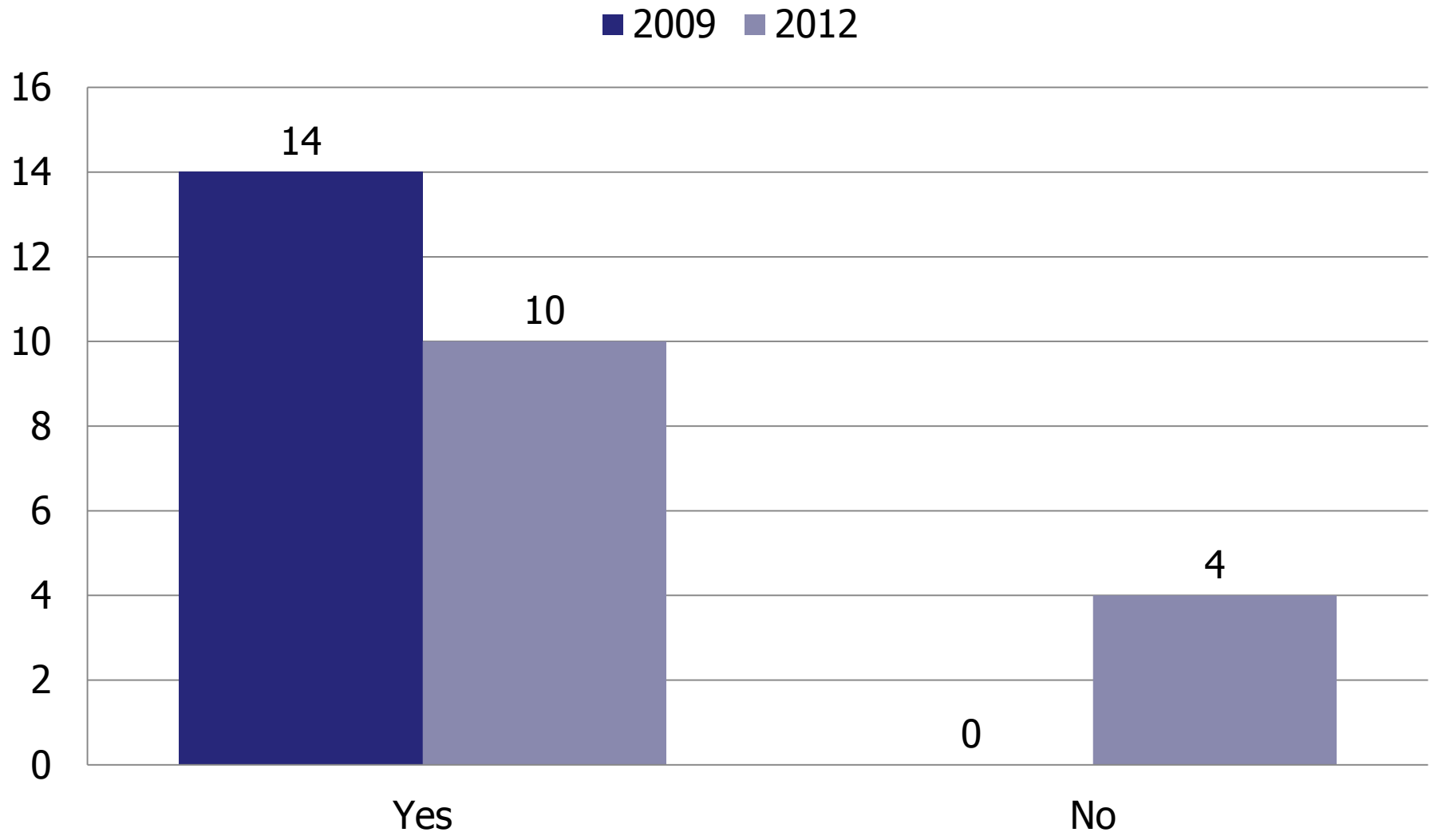
Do you require your employee to enroll in Medicare?



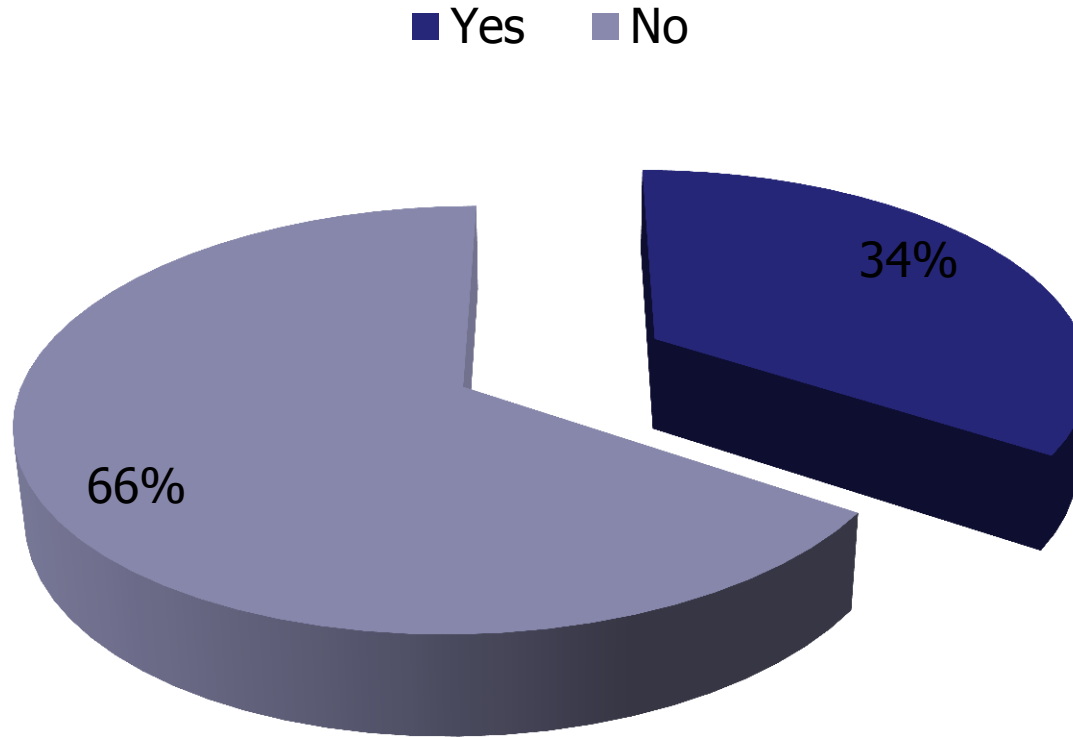
Do you offer Medicare supplement coverage? (1)



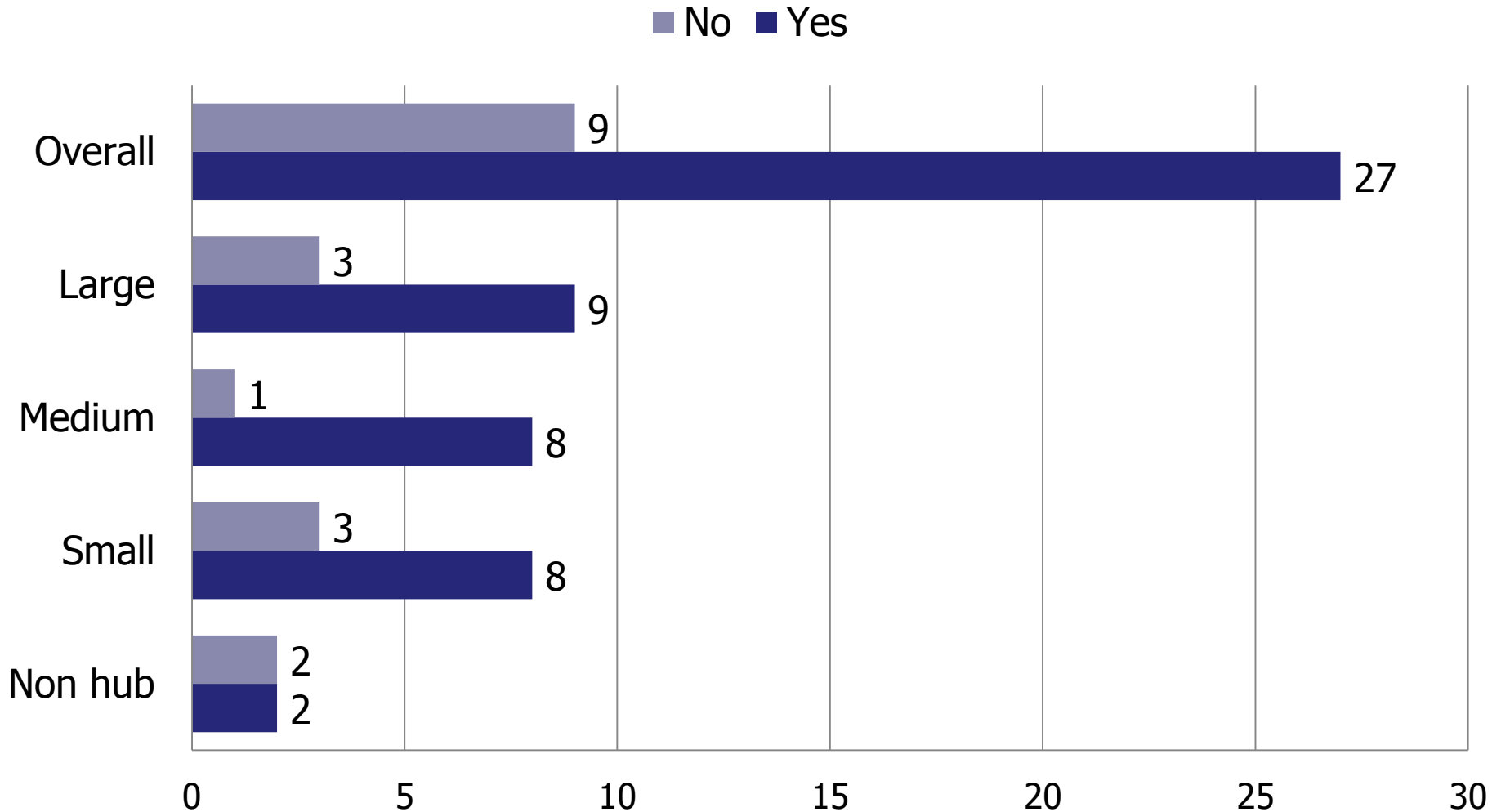
Do you offer Medicare supplement coverage? (2)



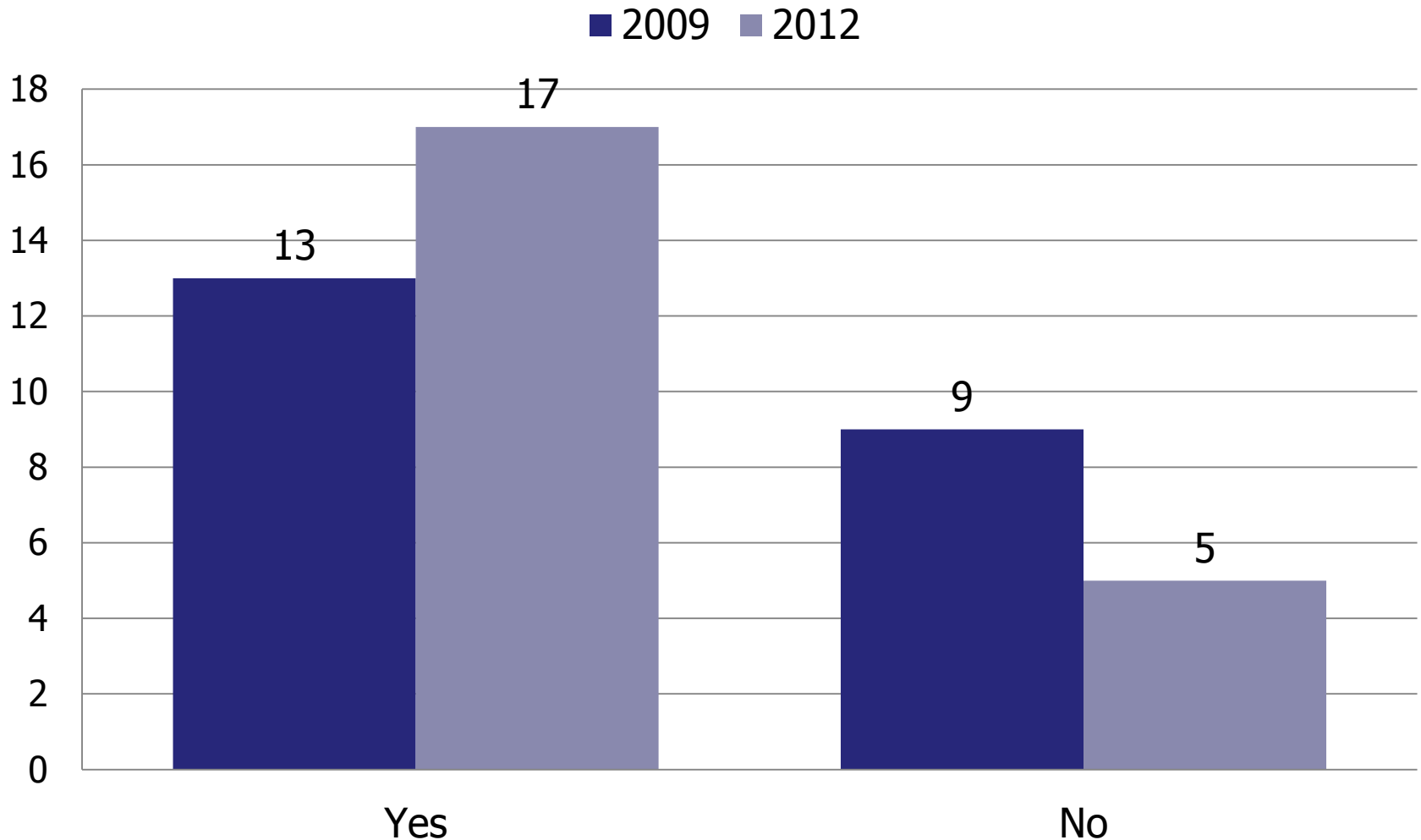
Do you have Health Savings Accounts (HSA) for active or retired employees?



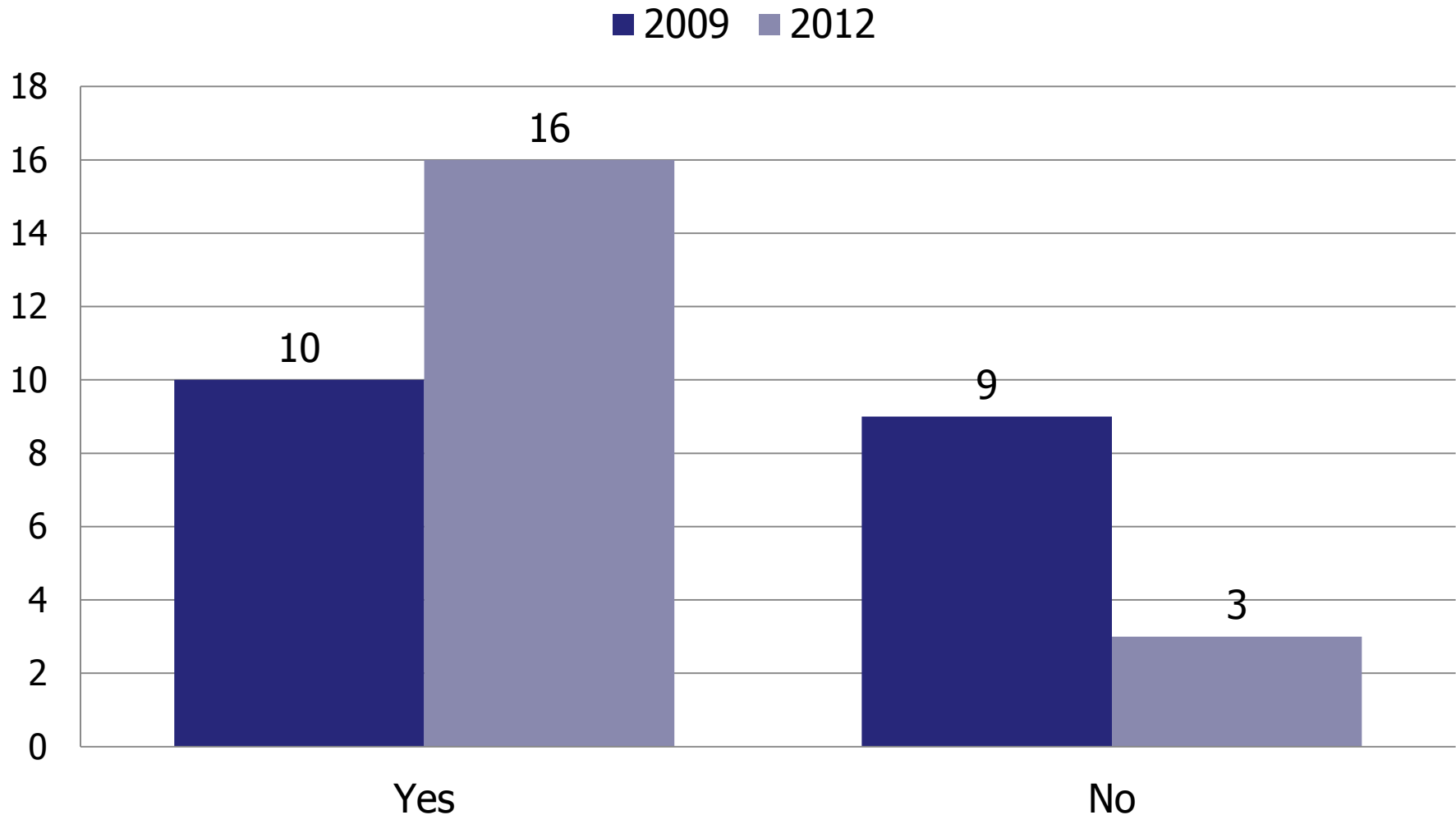
Are retirees healthcare benefits the same as active employees? (1)



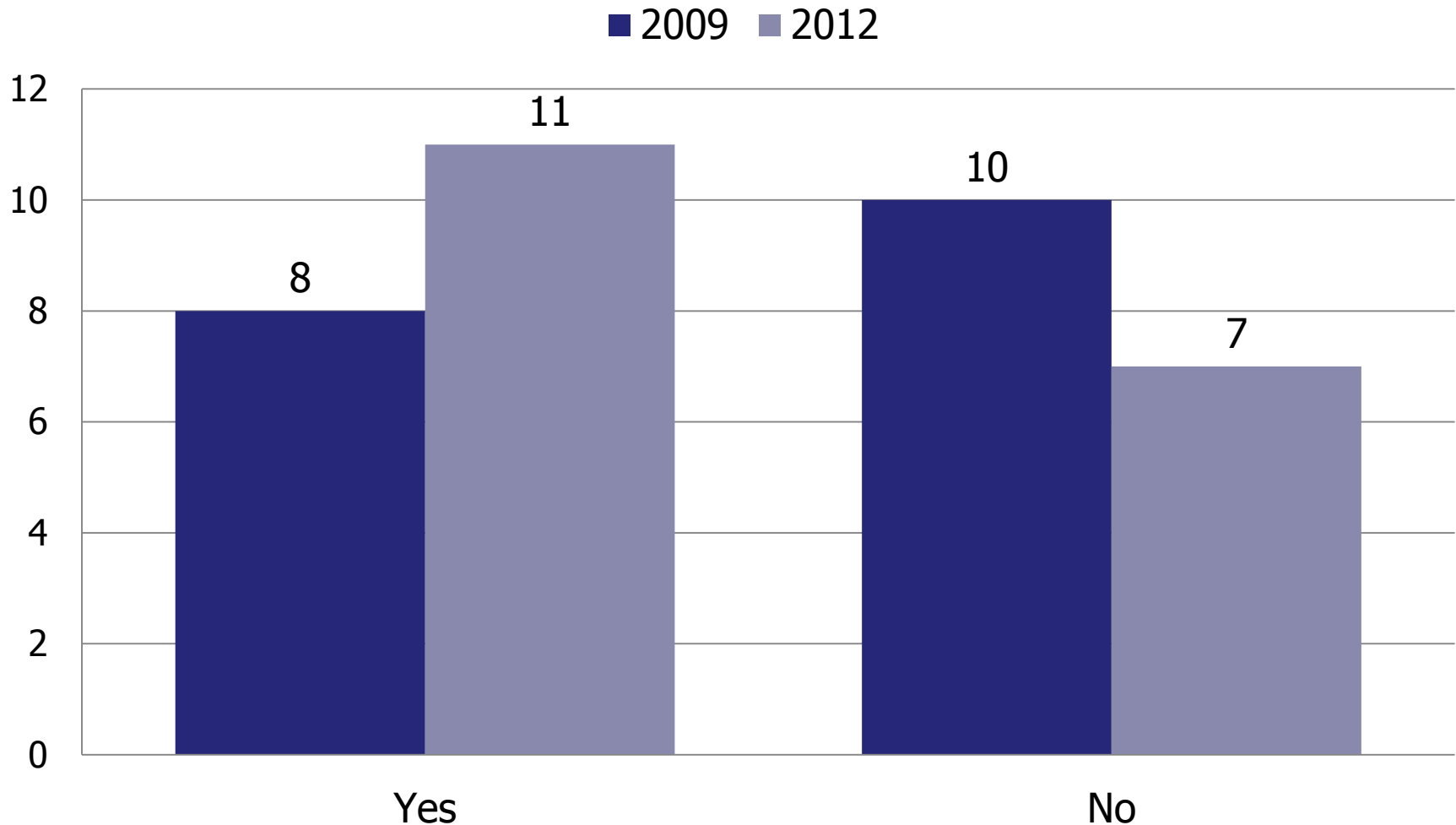
Are retirees healthcare benefits the same as active employees? (2)



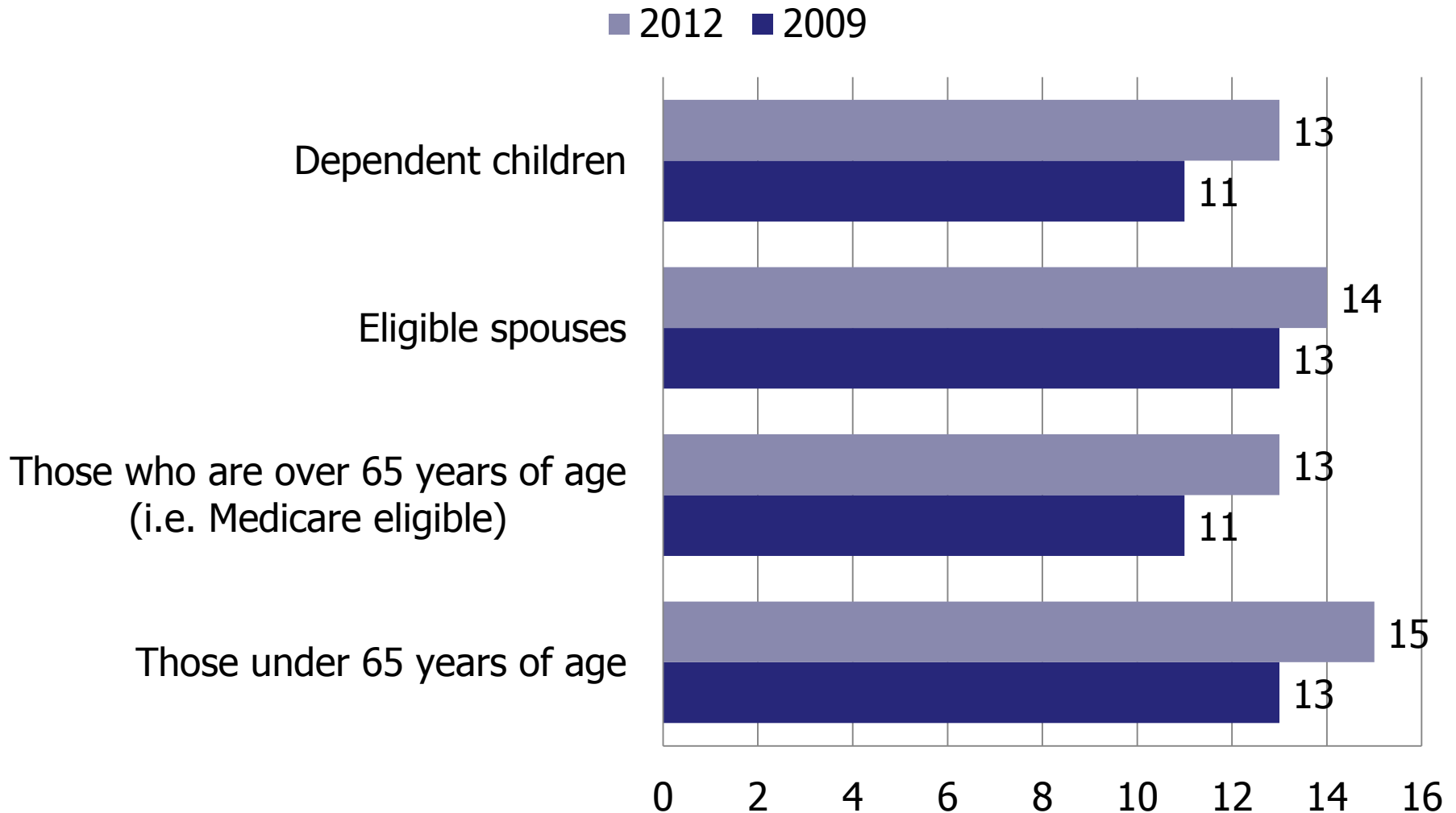
Are pay-as-you-go costs for current retirees included in rates and charges?



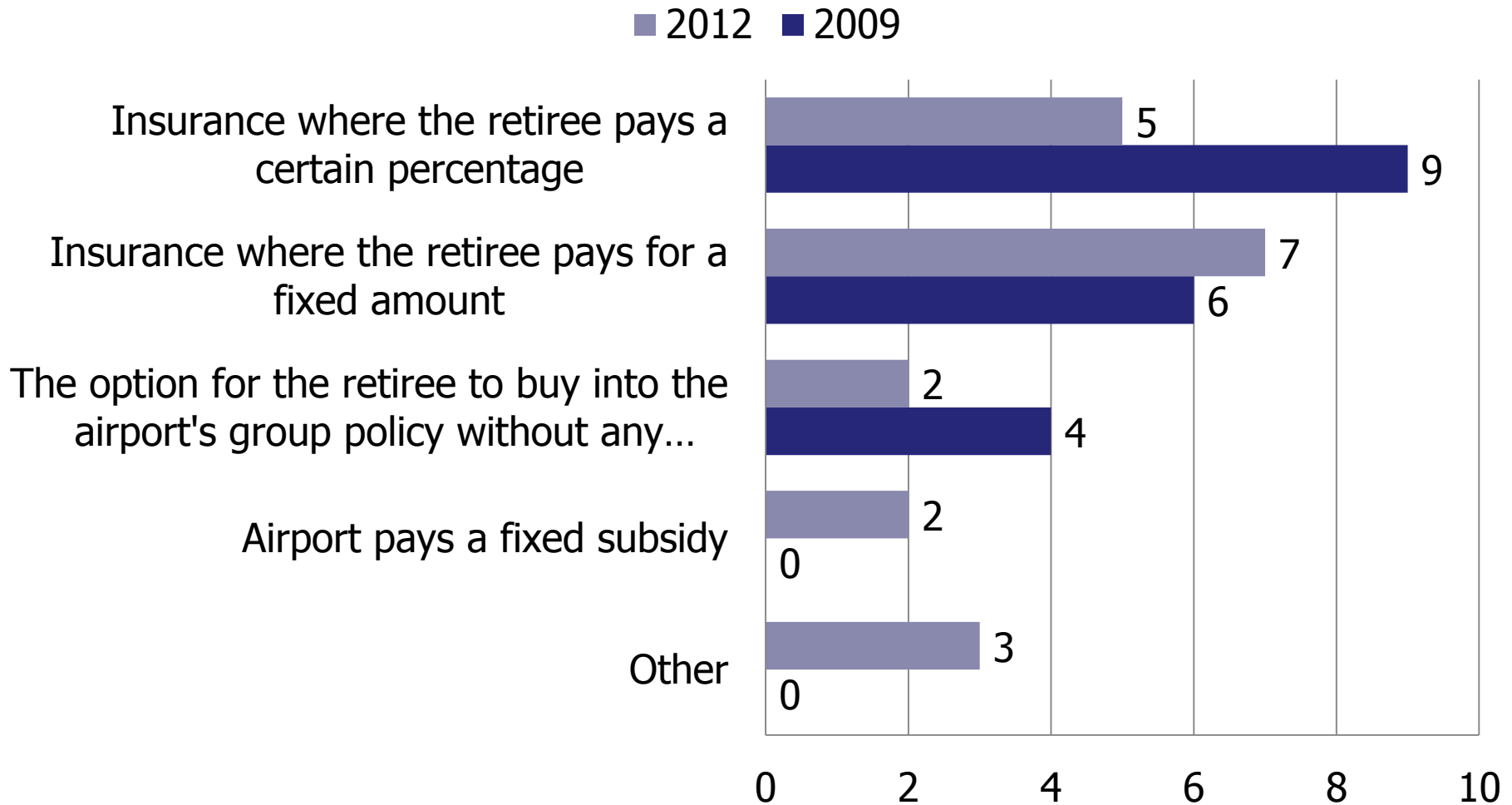
Is any proportion of the future cost of benefit for active employees or vested in actives included in the rates and charges?



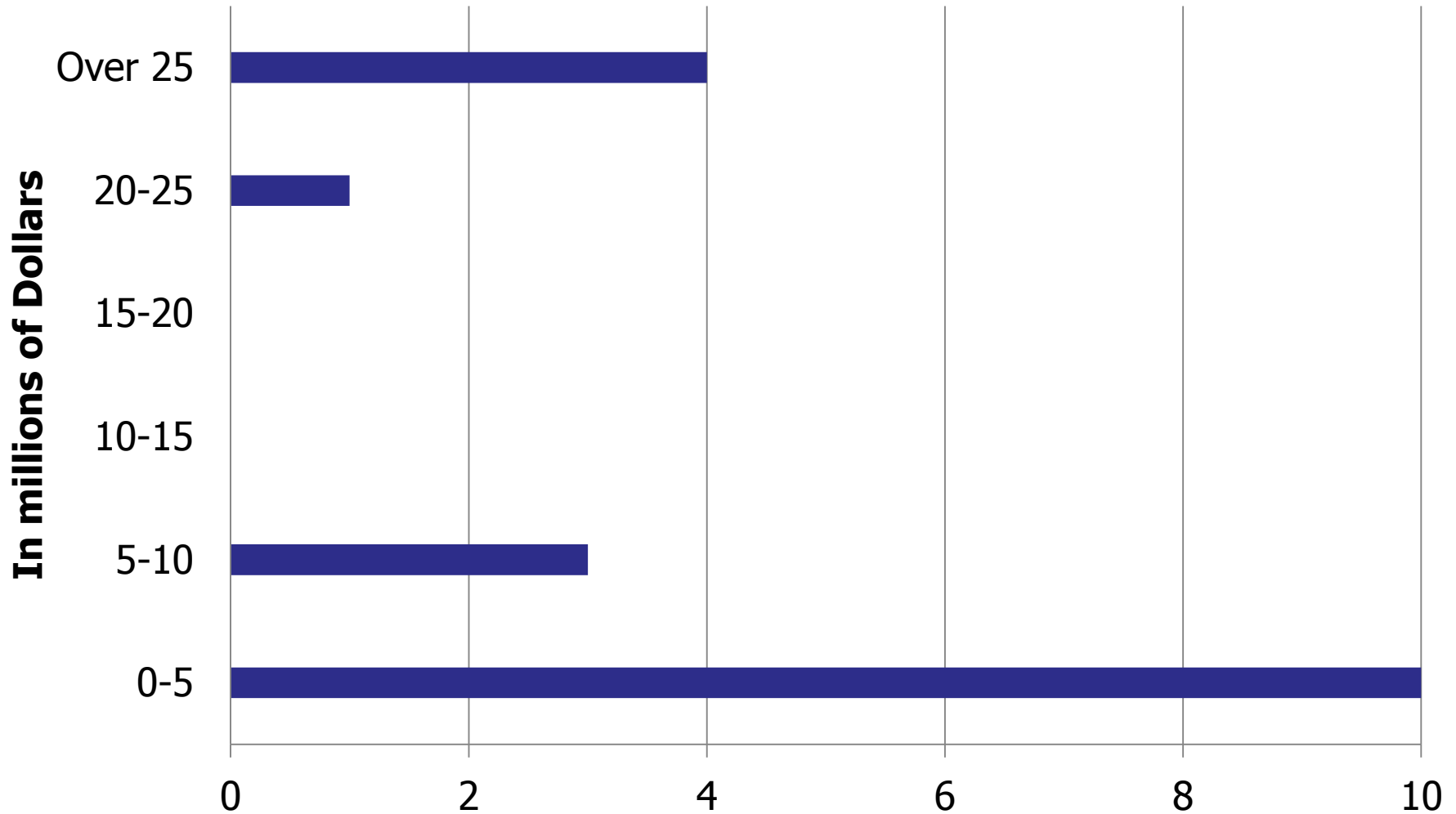
If retirees are provided with healthcare, who do benefits cover?



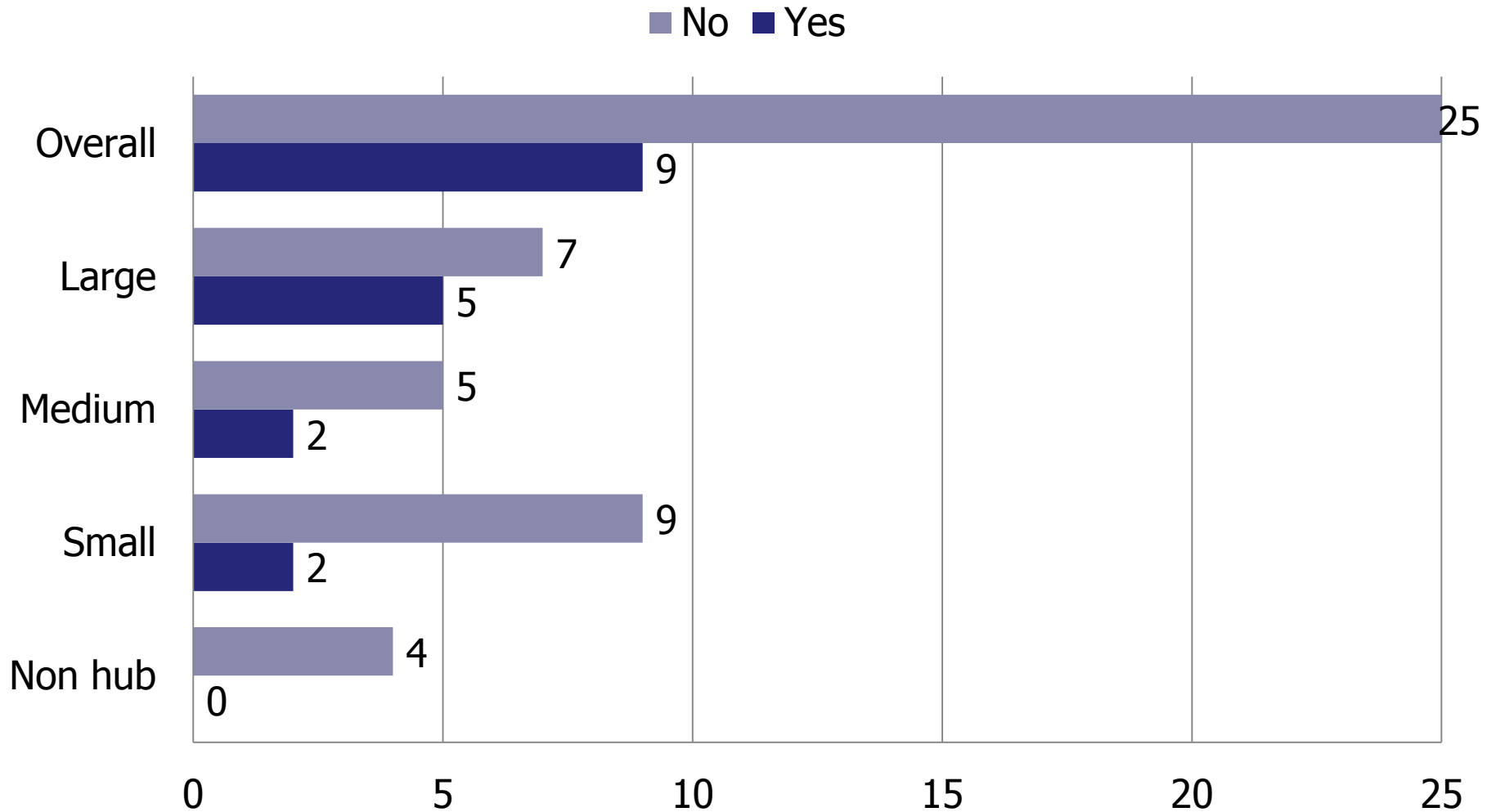
What does benefit consist of?



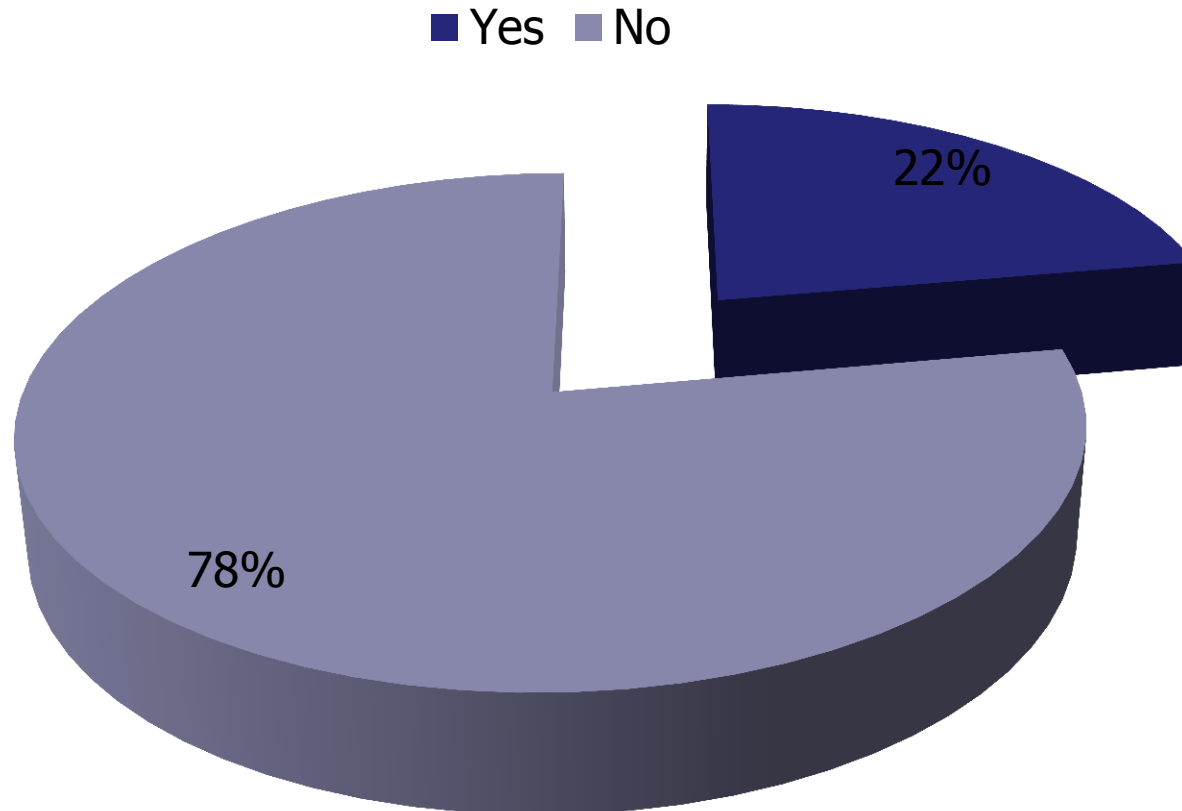
Actuarial Evaluation of the Airport OPEB Liability



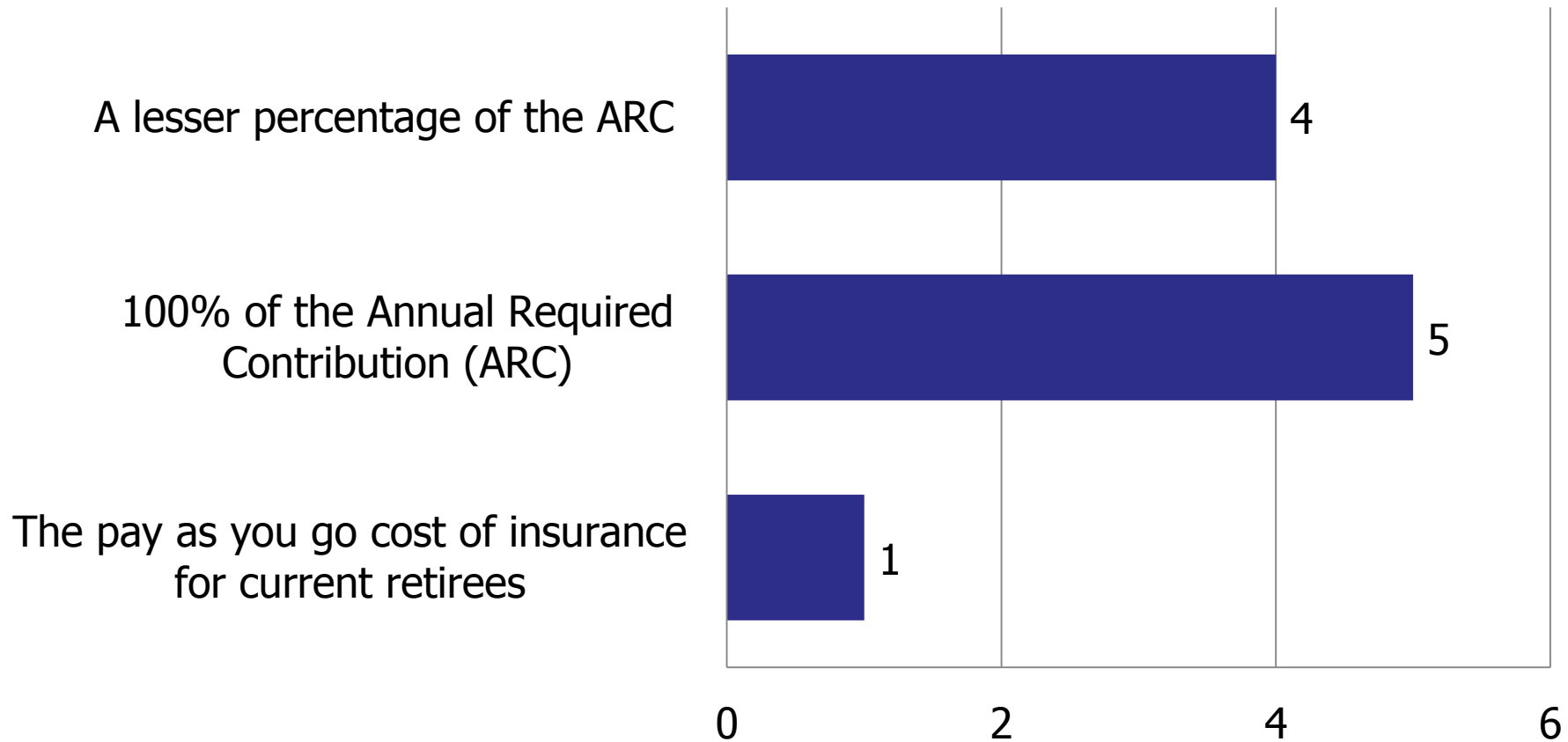
Has airport or governing body established a trust to fund liability?



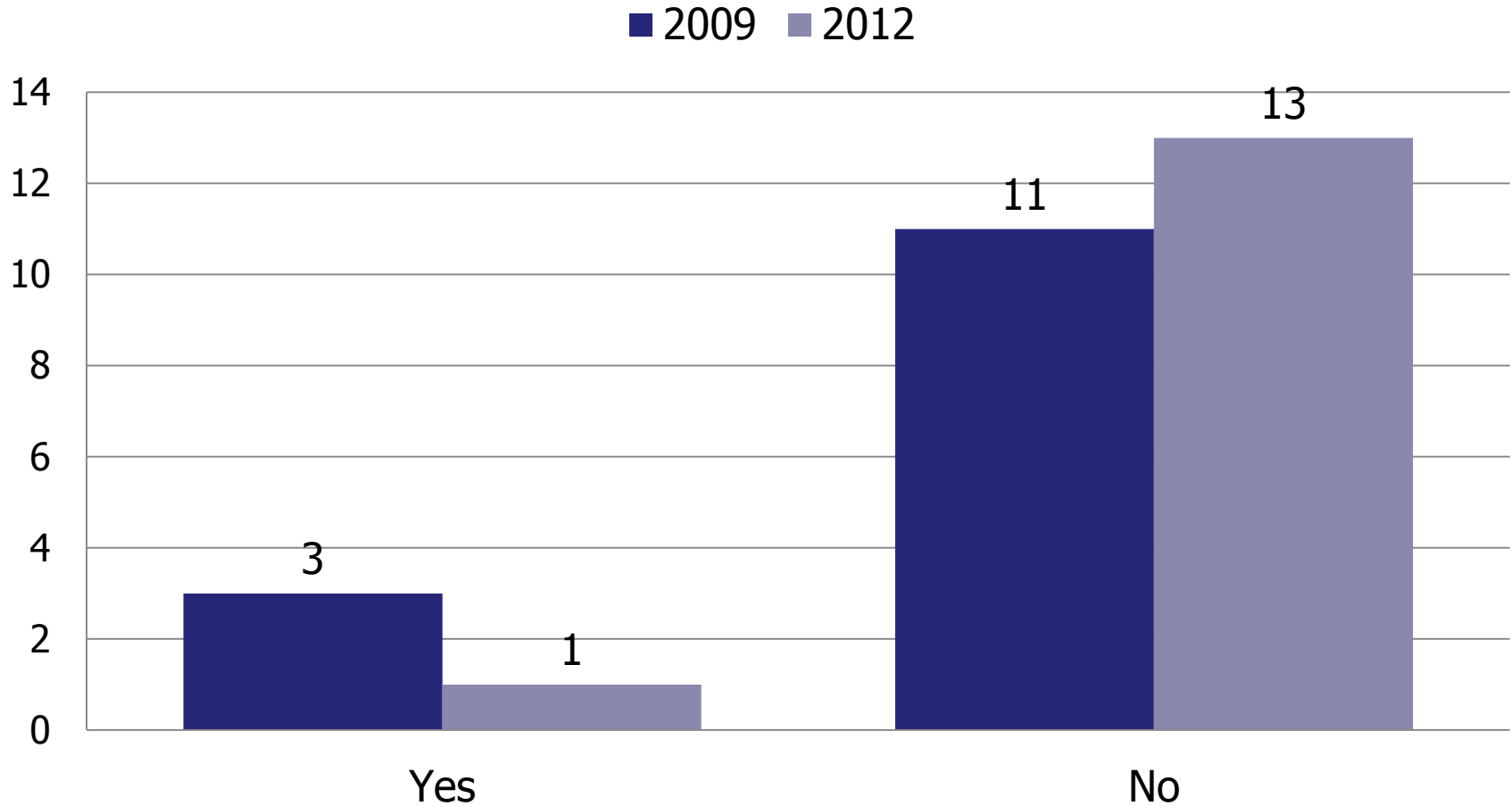
Is the trust revocable?



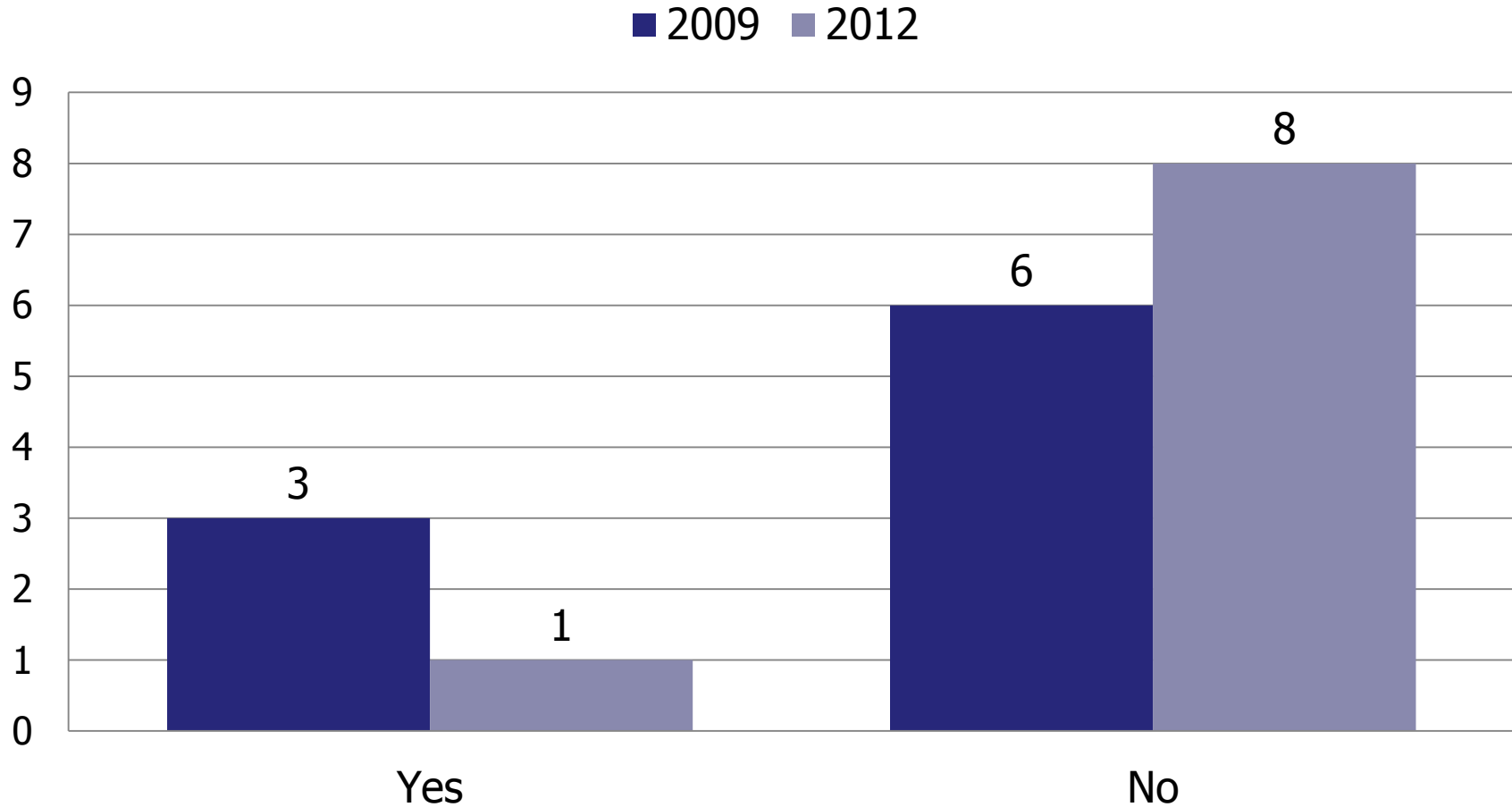
What is paid into the trust each year?



Funding a vehicle other than a trust to pay for OPEB?



If there is no fund in place, is some manner of funding (other than pay as you go) under consideration?



Conclusions on Pension

- Majority (94%) of airport organizations have a defined benefit retirement plan
- Nearly 40% of these plans have changed over the last 3 years that reduced benefits to their employees as efforts to control cost
- Most airports carry \$1-20 million unfunded actuarial accrued liability for their DB plan
- Two-thirds of airport organizations kept their unfunded ratio below 40%, still over one-third of airport organizations have above 40% unfunded ratio
- DB plan contribution is typically below 20% of covered payroll for the majority

Conclusions on OPEB

- Compared with pension, less airport organizations offer OPEB (93.5% with pension vs. 77.1% with OPEB)
- Close to 60% offer OPEB to all airport employees, while the rest only offer to certain segment of the airport employee population
- Most airports carry below \$10 million OPEB liability
- Compared with 09, more airports include pay-as-you-go costs for current retirees in rates and charges, and some include a proportion of the future cost of benefit
- Majority have not established a trust to fund liability and close to 80% of the trust are irrevocable