

Port of Houston Authority

Actuarial Valuation Of
Postretirement Benefits Under
GASB 45
As Of January 1, 2013

Prepared By
Milliman, Inc.
500 Dallas Street
Suite 2550
Houston, TX 77002



500 Dallas Street
Suite 2550
Houston, TX 77002
USA

Tel +1 713 658 8451
Fax +1 713 658 9656

milliman.com

December 23, 2013

Mr. Tom Heidt
Port of Houston Authority
Post Office Box 2562
Houston, Texas 77252-2562

**Re: Actuarial Valuation of Postretirement Benefits under GASB 45 for the
Port of Houston Authority – January 1, 2013 - *REVISED***

Dear Tom:

Please refer to our report to you dated May 30, 2013. Pursuant to your request, we have revised the actuarial valuation of the benefit cost and funded status relating to the future retiree medical benefits provided by the Port of Houston Authority (PHA) as of January 1, 2013 to reflect a 7.00% discount rate. The results of our calculations are set forth in the following report, as are the actuarial assumptions, methods and brief summary of the retiree eligibility and benefits upon which our calculations have been made. Our determinations reflect the procedures and methods as prescribed in Statement 45 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" ("Statement").

Actuarial computations under the Statement are for purposes of fulfilling certain employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of the Statement. Determinations for purposes other than meeting the employer financial accounting requirements of the Statement may differ significantly from the results reported herein.

In preparing our calculations for this report, we have relied without audit, on the employee data, plan provisions, and other plan financial information as provided by PHA. The data used in the valuation was provided by PHA. If any of this information, as summarized in this report, is inaccurate or incomplete, the results shown could be materially affected and this report may need to be revised.

This material assumes that the reader is familiar with PHA's post-employment benefit programs, their benefits, eligibility, administration and other factors. The material was prepared solely to provide assistance to PHA in reviewing the impact of the proposed GASB Statement 45 on PHA's financial statements. It may not be appropriate for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. This material should only be reviewed in its entirety.

This report is intended for the sole use of the addressee and is intended only to supply sufficient information for the Plan Sponsor to comply with the stated purpose of the report and may not be appropriate for other business purposes. Reliance on information contained in this report by anyone for other than the intended purpose puts the relying entity at risk of being misled. Accordingly, no person or entity, including the addressee, should base any representations or warranties in any business agreement on any statements or conclusions contained in this report without the written consent of Milliman.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Actuarial Standards of Practice.

We further certify that, in our opinion, each actuarial assumption, method and technique used is individually reasonable taking into account the experience of the Plan and reasonable expectations. Nevertheless, the emerging liabilities and costs of the plan will vary from those presented in this report to the extent that actual experience differs from that projected by the actuarial assumptions.

Please contact us if you have questions about our report or would like additional information.

We, Jake Pringle and Bryan Wilson, are consulting actuaries for Milliman, Inc. and are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

A handwritten signature in black ink that reads "Jake Pringle".

Jake Pringle, E.A., M.A.A.A.
Consulting Actuary

A handwritten signature in black ink that reads "Bryan Wilson".

Bryan Wilson, EA, M.A.A.A.
Consulting Actuary

cc (with enclosure): Ray Yi

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Introduction and Purpose

Historically, governmental entities offering postretirement medical plans – especially those that are self-funded – have accounted for such plans on essentially a pay-as-you-go basis. Consequently, the cost for such plans is attributed to the period of time that an employee is retired and not performing substantial work for the employer. In 2004, the Governmental Accounting Standards Board issued Statement No. 45 entitled “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*” (“GASB 45”) to address the accounting of these plans.

The major change under GASB 45 is to attribute the cost of postretirement benefits to the time during which the employee is working for the employer. Reasons provided by GASB for this change include:

- Recognize the cost of benefits in periods when the related services are received by the employer.
- Provide information about the actuarial liabilities for promised benefits associated with past services and to what extent those benefits are funded.
- Provide information that is useful to assess potential demands on the employer’s future cash flows.

While GASB 45 allocates the costs of a postretirement benefit plan onto the years of active employment (when the promise of future benefits is potentially motivating an employee), **it does not require the funding of such benefits**. There are two key points that need to be noted in this regard. First, the choice of the discount rate used in measuring the liabilities of the benefits is tied to the funding vehicle or lack thereof. GASB 45 requires the use of a discount rate that is related to the long-term investment yield on investments used to finance the payments of benefits. An unfunded plan must use a discount rate equal to what the sponsor earns on its general assets. Since a lower discount rate leads to higher liabilities, a funded plan will have lower liabilities than an unfunded plan with identical provisions and membership.

While the discount rate issue provides some encouragement for funding plans, there is a second key point. GASB 45 requires that assets can only be considered if they are paid as benefit payments or insurance premiums or are: (1) held in an irrevocable trust, (2) dedicated solely to provide benefits under the plan to retirees and their beneficiaries, and (3) are protected from creditors. This restriction may limit what can be funded, depending upon legal restraints and tax issues.

In order to illustrate how the results are impacted if the Plan is funded, results are often shown using two different discount rates. Since the Plan is funded and PHA is expected to earn a higher rate of return, we have determined the liabilities using a 7.00% discount rate, to reflect the potential effect of funding these liabilities using a trust fund. Without funding, the discount rate would be 4.50%, which represents a conservative estimate of short-term pooled funds.

Milliman, Inc. prepared this report at the request of the Port of Houston Authority to estimate the cost of the Port's current retiree health program and the potential impact of GASB 45. The intended purpose of this information is to provide actuarial cost information to the Port to help with financial and benefit planning. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. The report should only be used in its entirety to assure complete understanding of the estimates and the methodology and assumptions underlying the estimates.

In preparing this report, we relied on the overall employee census and benefit information provided by the Port. We reviewed the information for reasonableness, but we did not audit the information. To the extent that any of this data or information is incorrect, the results of this report may need to be revised. Experience data for the population was obtained from Aetna and CIGNA. This claims experience along with Milliman's 2012 *Health Cost Guidelines (HCG)*, was used to develop an estimate of the expected net claim costs under the medical plans offered by the Port.

For purposes of this valuation we assumed that the Port's existing Plan will continue unchanged in the future; however this assumption does not necessarily imply that an obligation to continue the Plan actually exists.

A number of assumptions have been made in projecting retiree health costs that should be reviewed prior to interpreting the results shown in this report. These assumptions, as well as the actuarial methodology, are described in this report. The projections in this report are estimates and, as such, the Port's actual liability will vary from these estimates. The actual liability will not be known until such time that all eligibility is exhausted and all benefits are paid. The projections and assumptions should be updated as actual costs under this program develop.

The Medicare Modernization Act (MMA) provides for a federal subsidy to sponsors of a postretirement benefit plan that provides prescription drug coverage, provided the coverage is at least actuarially equivalent to the prescription drug benefits provided by Medicare Part D. GASB has released a Proposed Technical Bulletin that indicates this future subsidy should not be reflected. We have not reflected any effect of this future subsidy in the calculations shown in this report.



EXHIBITS

This material assumes that the reader is familiar with PHA’s post-employment benefit programs, their benefits, eligibility, administration and other factors. The material was prepared solely to provide assistance to PHA in reviewing the impact of the proposed GASB Statement 45 on PHA’s financial statements. It may not be appropriate for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. This material should only be reviewed in its entirety.

Exhibit 1 — Summary of Participant Data as of January 1, 2013

Number of Active Members by Age and Service Groups											
Age	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40&Up	Total
0-24	3	2	-	-	-	-	-	-	-	-	5
25-29	7	18	9	1	-	-	-	-	-	-	35
30-34	11	14	19	2	-	-	-	-	-	-	46
35-39	14	22	20	14	6	-	-	-	-	-	76
40-44	8	19	30	16	7	7	-	-	-	-	87
45-49	6	17	19	13	18	7	2	-	-	-	82
50-54	5	15	13	7	11	12	5	12	-	-	80
55-59	4	16	23	16	9	2	2	3	4	-	79
60-64	2	8	14	10	4	2	1	-	-	-	41
65-69	-	1	4	-	2	-	-	1	-	1	9
70&Up	-	1	-	-	-	-	-	-	-	-	1
Total	60	133	151	79	57	30	10	16	4	1	541

Age	Retirees	Spouses	Total
< 55	1	18	19
55-59	34	22	56
60-64	52	22	74
65-69	65	31	96
70-74	73	33	106
75-79	46	12	58
80&Up	59	20	79
Total	330	158	488

Exhibit 2 — Actuarial Present Value of Total Projected Benefits

Prefunded – 7.00%

	Pre - 65 Medical	Post - 65 Medical	Life Insurance	Total
Active Participants	12,953,494	14,278,535	749,814	27,981,843
Spouse-Active	14,843,761	11,644,604	0	26,488,365
Retired	6,226,131	10,738,447	2,078,712	19,043,290
Spouse-Retired	6,790,824	6,026,311	0	12,817,135
TOTAL	40,814,210	42,687,897	2,828,526	86,330,633

Exhibit 3 — Actuarial Liability

Prefunded – 7.00%

	Pre - 65 Medical	Post - 65 Medical	Life Insurance	Total
Active Participants	6,011,411	6,640,367	429,883	13,081,661
Spouse-Active	6,699,898	5,409,680	0	12,109,578
Retired	6,226,131	10,738,447	2,078,712	19,043,290
Spouse-Retired	6,790,824	6,026,311	0	12,817,135
TOTAL	25,728,264	28,814,805	2,508,595	57,051,664

Exhibit 4 — Annual Required Contribution – Current Plan

	2012 7.25%	2013 7.00%
A. Normal Costs		
(1) Current Year Normal Cost as of January 1	\$	\$ 2,830,630
(2) Assumed Interest to the End of the Year		198,144
(3) Current Year Normal Cost as of Dec. 31 [(1) + (2)]	\$ 3,033,583	\$ 3,028,774
B. Determination of Current Year Amortization Payment		
(1) Outstanding Balance - Unfunded Actuarial Liability Bases		\$ 54,431,483
(2) Remaining Amortization Period		24-28 years
(3) Amortization Amount as of January 1		4,654,267
(4) Balance of Unfunded Actuarial Liability as of January 1		(13,653,819)
(5) Maximum Permissible Amortization Period		30 years
(6) Amortization Amount as of January 1		(1,028,329)
(7) Assumed Interest to the End of the Year		<u>\$ 253,816</u>
(8) Amortization Amount as of December 31 [(3)+(6)+(7)]	\$ 4,879,520	\$ 3,879,754
C. Determination of Annual Required Contribution		
(1) Normal Cost for Benefits Attributable to Service in the Year	\$ 3,033,583	\$ 3,028,774
(2) Amortization of Unfunded Actuarial Liability	4,879,520	3,879,754
(4) Annual Required Contribution (ARC) [(1) + (2)]	\$ 7,913,103	\$ 6,908,528

The amortization of the Unfunded Actuarial Liability is calculated here assuming 30 level annual payments. GASB 45 allows for these payments to be calculated as a level percent of payroll. If this were done, the 2013 ARC would be lower, but future years would be higher as payroll increases.

Exhibit 4.1 — Unfunded Actuarial Accrued Liability Bases

Date Established	Discount Rate	Initial UAAL	Initial Term	Remain Term	Annual Amortization	Outstanding Balance
01/01/2007	7.00%	\$107,291,548	30	24	\$7,893,329	\$96,868,406
01/01/2009	7.00%	\$14,493,845	28	26	\$1,117,209	\$14,136,703
01/01/2011	7.00%	(\$57,785,557)	30	28	(\$4,356,271)	(\$56,573,626)
01/01/2013	7.00%	(\$13,653,819)	30	30	(\$1,028,329)	(\$13,653,819)
				TOTAL	\$3,625,938	\$40,777,664

Exhibit 5 — Projected Benefit Payments

Year	Medical Plan	Retiree Contributions	Life Insurance	Total Plan
1	3,079,753	(19,424)	166,104	3,226,433
2	3,212,992	(20,324)	170,635	3,363,303
3	3,401,016	(21,099)	174,281	3,554,198
4	3,606,856	(21,823)	177,334	3,762,367
5	3,784,095	(22,547)	180,288	3,941,836
6	3,943,869	(23,363)	183,293	4,103,799
7	4,262,798	(24,177)	186,230	4,424,851
8	4,595,248	(24,957)	189,405	4,759,696
9	4,459,826	(25,697)	192,834	4,626,963
10	4,842,326	(26,367)	196,298	5,012,257
11	4,886,634	(27,127)	200,417	5,059,924
12	5,121,723	(28,049)	204,947	5,298,621
13	5,506,447	(28,793)	209,675	5,687,329
14	5,758,058	(29,371)	213,949	5,942,636
15	6,299,785	(29,744)	217,799	6,487,840
16	6,611,533	(30,032)	221,627	6,803,128
17	7,010,551	(30,256)	225,206	7,205,501
18	7,422,935	(30,426)	228,336	7,620,845
19	7,914,150	(30,547)	231,268	8,114,871
20	8,414,910	(30,655)	233,271	8,617,526

Note: Benefit Payments include administrative expenses and administration loads.

Exhibit 6 — Financial Statement Disclosures – Current Plan

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation.

	Plan Year Ending December 31	
	2012	2013
<i>Determination of Annual Required Contribution</i>		
Normal Cost at year end	\$ 3,033,583	\$ 3,028,774
Amortization of UAAL	<u>4,879,520</u>	<u>3,879,754</u>
Annual Required Contribution (ARC)	\$ 7,913,103	\$ 6,908,528
<i>Determination of Net OPEB Obligation</i>		
Annual Required Contribution	\$ 7,913,103	\$ 6,908,528
Interest on prior year Net OPEB Obligation	2,906,934	2,594,984
Adjustment to ARC	(3,088,753)	(2,791,995)
Annual OPEB Cost	7,731,284	6,711,517
Contributions made (estimated 2013)	(10,755,727)	(11,226,433)
Increase in Net OPEB Obligation	\$ (3,024,443)	\$ (4,514,916)
Net OPEB Obligation – beginning of year	\$ 40,095,648	\$ 37,071,205
Net OPEB Obligation – end of year	\$ 37,071,205	\$ 32,556,289

The following table shows the annual OPEB cost and net OPEB obligation for the prior 3 years assuming the plan is prefunded.

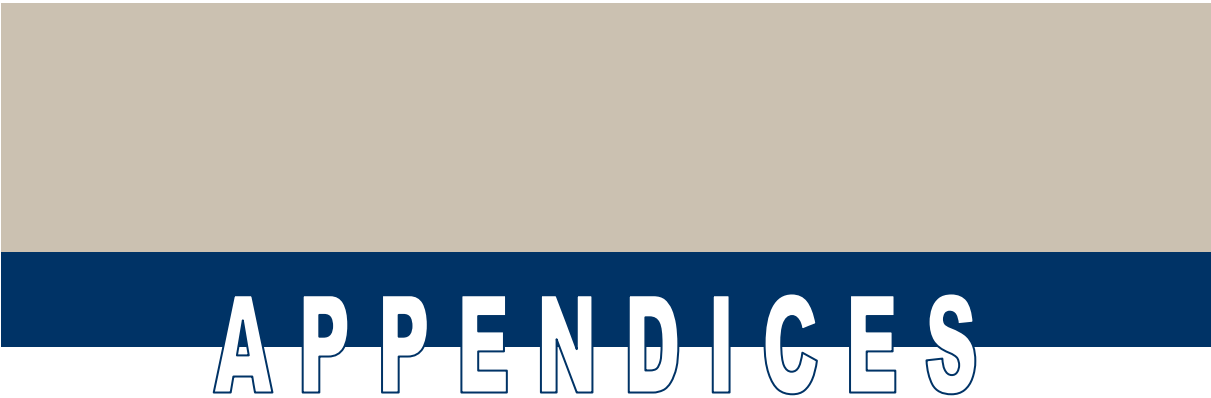
Plan Year Ended	Discount Rate	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2011	7.25%	\$7,920,857	133.0%	\$40,095,648
12/31/2012	7.25%	\$7,731,284	139.1%	\$37,071,205
12/31/2013	7.00%	\$6,711,517	167.3%	\$32,556,289

Exhibit 7 — Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)⁽¹⁾	Unfunded Actuarial Accrued Liabilities (UAAL)⁽²⁾	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2011	0	84,243,343	84,243,343	0.0%	34,938,502	241.1%
January 1, 2012	N/A	N/A	N/A	N/A	N/A	N/A
January 1, 2013	16,274,000	57,051,664	40,777,664	28.5%	34,615,344	117.8%

(1) Actuarial liability determined under the projected unit credit cost method.

(2) Actuarial accrued liability less actuarial value of assets.



APPENDICES

This material assumes that the reader is familiar with PHA’s post-employment benefit programs, their benefits, eligibility, administration and other factors. The material was prepared solely to provide assistance to PHA in reviewing the impact of the proposed GASB Statement 45 on PHA’s financial statements. It may not be appropriate for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. This material should only be reviewed in its entirety.

Appendix A — Actuarial Cost Method

Unit Credit Actuarial Cost Method

The actuarial cost method determines, in a systematic way, the incidence of plan sponsor contributions required to provide plan benefits. It also determines how actuarial gains and losses are recognized in pension costs. These gains and losses result from the difference between the actual experience under the plan and the experience by the actuarial assumptions.

The cost of the Plan is derived by making certain specific assumptions as to rates of interest, mortality, turnover, etc. which are assumed to hold for many years into the future. Since actual experience may differ somewhat from the long term assumptions, the costs determined by the valuation must be regarded as estimates of the true costs of the Plan.

Actuarial liabilities and comparative costs shown in this Report were computed using the **Unit Credit Actuarial Cost Method**, which consists of the following cost components:

1. **The Normal Cost** is the Actuarial Present Value of benefits allocated to the valuation year.
2. **The Actuarial Liability** is the Actuarial Present Value of benefits accrued as of the valuation date.
3. **Valuation Assets** are equal to the market value of assets as of the valuation date, if any.
4. **Unfunded Actuarial Liability** is the difference between the Actuarial Liability and the Valuation Assets. The initial Unfunded Actuarial Liability is amortized over the maximum permissible period under GASB 45 of 30 years (closed). Gains and losses at subsequent valuations are amortized over 30 years (closed). The single equivalent amortization period is approximately 20 years.

It should be noted that GASB 45 allows a variety of cost methods to be used. We elected this method because it is generally easy to understand and is widely used for the valuation of postemployment benefits other than pensions. Other methods used do not change the ultimate liability, but do allocate it differently between what has been earned in the past and what will be earned in the future. If a different method was used, either the normal cost would decrease and the unfunded amortization would increase, or the normal cost would increase and the amortization decrease. Please note that the net effect of the change may result in an increase or decrease in the annual required contribution (ARC). If desired, we can provide more details.

Appendix B — Actuarial Assumptions

In addition to the actuarial method used, actuarial cost estimates depend to an important degree on the assumptions made relative to various occurrences, such as rate of expected investment earnings by the fund, rates of mortality among active and retired employees, rates of termination from employment, and retirement rates. In the current valuation, the actuarial assumptions used for the calculation of costs and liabilities are as follows:

- 1. Discount Rate:** 7.00% per annum, compounded annually (funded)

- 2. Mortality (Actives & Retirees):**
 - Hourly: RP-2000 Blue Collar Mortality Table (Male and Female) with Projection Scale AA
 - Salaried: RP-2000 White Collar Mortality Table (Male and Female) with Projection Scale AA
 - Disabled: Pragmatic Disabled Mortality (unisex)

- 3. Withdrawal Rates:** Experience from the Port of Houston Authority (sample rates below):

Age	Rate
20	5.0%
25	10.0%
30	6.5%
35	5.0%
40	3.6%
45	2.4%
50	3.0%
55	2.0%
60	2.0%
64	0.0%

4. Disability Rates: Experience from the Port of Houston Authority (sample rates below):

Age	Males	Females
25	.00112	.00179
30	.00112	.00192
35	.00127	.00204
40	.00147	.00235
45	.00197	.00316
50	.00356	.00570
55	.00681	.01089
60	.01380	.02208

5. Salary Scale: N/A

6. Retirement Rates: Rates of retirement are shown below:

Age	Rate	Age	Rate
50-54	0%	63	25%
55-58	5%	64	30%
59	10%	65	35%
60	15%	66	40%
61	15%	67-69	50%
62	20%	70	100%

7. Marriage Assumption: For Actives it is assumed that wives are three years younger than husbands. 80% of men and 80% of women are assumed to have spouses who will elect coverage.

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8. Health Care Cost Trend Rate: Claim costs in future years equal the starting claim costs adjusted for the assumed ongoing cost trends. Such trends are based on the health care cost trend rate adjusted for the impact of plan design, cost containment features and Medicare coordination.

Please note that there is some political uncertainty that affects the trend assumptions used to project costs under the Medicare Advantage (MA) plans. MA premium rates depend on the level of CMS (Centers for Medicare and Medicaid Services) payments for each year. As a result, there can be significant swings in net premium cost estimates from one year to the next under an MA program. While we have included approximately one percentage point of additional trend in the projection trends to account for the current trend of CMS decreasing funding, it is beyond our expertise to estimate the impact of future political decisions regarding the funding of the MA program.

Duration	< 65	>65
1	6.00%	6.00%
2	6.50%	6.50%
3	6.00%	6.00%
4	6.10%	6.10%
5	6.00%	6.00%
6	6.40%	6.00%
7	7.00%	6.00%
8	7.60%	6.00%
9	7.90%	5.90%
10	7.70%	5.90%
11	7.70%	5.90%
12	7.60%	5.90%
13	7.40%	5.90%
14	7.40%	5.90%
15	7.30%	5.80%
16	7.20%	5.80%
...
83+	4.70%	5.10%

9. Participation:

One-hundred percent (100%) of all active employees are assumed to elect coverage at retirement. Pre-65 retirees are assumed to be covered in the KelseyCare HMO and post-65 retirees are covered in the AETNA Medicare Advantage Plan.

10. Annual Retiree Claim Costs:

Age	Medical Plan	
	Participant	Spouse
Male- Under 65	\$20,716	\$17,903
Male - Over 65	\$2,224	\$2,174
Female - Under 65	\$18,419	\$18,727
Female - Over 65	\$2,174	\$2,224

11. Per Capita Medical Benefit Costs for Plan Year Ending December 31, 2013

The assumed annual per capita cost of medical benefits is shown below. Premium history for the population was obtained from Aetna and CIGNA. This history along with Milliman's 2012 *Health Cost Guidelines (HCG)*, was used to develop an estimate of the expected net claim costs under the medical plans offered by the Port. These amounts are GROSS of retiree cost-sharing amounts, and are projected to increase with age as shown below:

Age	Male	Female	Age	Male	Female
40	14,928	16,097	65	2,224	2,174
45	14,062	14,981	70	2,513	2,454
50	12,213	13,175	75	2,806	2,741
55	12,964	12,966	80	3,063	2,998
60	15,755	14,630	85	3,294	3,233
64	19,464	17,454			

12. Administrative Expenses: Included in annual retiree claim costs.

13. Retiree Premiums: All retirees are assumed to choose the KelseyCare Basic HMO Plan (see Appendix C for retiree contribution schedule). 80% of employees elect the basic HMO plan and 67% of current post-65 retirees elect the HMO plan, with an annual cost of \$0 for single coverage and \$120 for family coverage. The retiree premiums are not indexed for inflation.

14. Changes since last valuation: The discount rate was changed from 7.25% to 7.00%.

Appendix C — Retiree Eligibility and Benefits

Eligibility

Employees who have reached age 62, or employees who have reached age 55 with 85 points, or employees who have 30 years of service at the time service terminates with the Port of Houston Authority, may continue coverage in the Port of Houston Authority Group Health Plan as a retiree. An eligible employee or may elect coverage for his or her dependents.

Disabled participants are covered in the Port of Houston Authority Group Health Plan from the date of disability.

The widow/widower of a retiree who has coverage as a retiree under the Port of Houston Authority Group Health Plan may continue coverage upon the death of the retiree.

Annual Contributions Required by Retirees – Current Plan

2013 Contribution rates for retirees. Contributions in future years will NOT be adjusted for cost trends:

	Medical Plan	
Medical Plan	Single	Family
KelseyCare Basic HMO	\$ 0	\$ 120
CIGNA Premium HMO	\$2,331	\$6,529
CIGNA Open Access Plus	\$2,456	\$6,874
AETNA Medicare Advantage	\$ 0	\$ 120

Base Plan Summary (KelseyCare Basic HMO)

1. Annual Deductible

None

2. Maximum Benefit

Unlimited

3. Co-pays

Service	Co-Pay
PCP Office Visit	\$10
Inpatient Hospital Services	\$0
Rehabilitative	\$20
Hospital Urgent Care	\$100
Maternity	\$0
Mental Health	\$0
Ambulance	\$0
Home Health	\$0

5. Prescription Drug Copay

	Retail	Mail Order
Generic	\$5	\$10
Brand Name - Formulary	\$10	\$20
Brand Name - Nonformulary	\$25	\$50

Post-65 Plan Summary (AETNA Medicare Choice 20/20)

1. Annual Deductible

None

2. Maximum Benefit

Unlimited

3. Co-pays

Service	Co-Pay
Dr. Office Visit	\$10
Inpatient Hospital Services	\$250
Rehabilitative	\$10
Hospital Urgent Care	\$10
Well Woman	\$0
Mental Health	\$250
Ambulance	\$50
Home Health	\$0

4. Prescription Drug Copay

	Retail	Mail Order
Tier 1 (Generic)	\$5	\$10
Tier 2 Brand Name – Formulary)	\$10	\$20
Tier 3 (Brand Name – Nonformulary)	\$25	\$50

Life Insurance

\$15,000 payable at death of retiree.

This material assumes that the reader is familiar with PHA’s post-employment benefit programs, their benefits, eligibility, administration and other factors. The material was prepared solely to provide assistance to PHA in reviewing the impact of the proposed GASB Statement 45 on PHA’s financial statements. It may not be appropriate for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. This material should only be reviewed in its entirety.

Appendix D — Glossary

The following is an explanation of many of the terms referenced by the Proposed Statement of the Governmental Accounting Standards Board, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions”.

1. **Actuarial Cost Method.** This is a procedure for determining the Actuarial Present Value of Benefits and allocating it to time periods to produce the Actuarial Accrued Liability and the Normal Cost. The Statement assumes a closed group of employees and other participants unless otherwise stated; that is, no new entrants are assumed. Six methods are permitted – Unit Credit, Entry Age Normal, Attained Age, Aggregate, Frozen Entry Age, and Frozen Attained Age.
2. **Actuarial Liability.** This is the portion of the Actuarial Present Value of Benefits attributable to periods prior to the valuation date by the Actuarial Cost Method (i.e., that portion not provided by future Normal Costs).
3. **Actuarial Present Value of Benefits.** This is the value, as of the applicable date, of future payments for benefits and expenses under the Plan, where each payment is:
 - (a) Multiplied by the probability of the event occurring on which the payment is conditioned, such as the probability of survival, death, disability, termination of employment, etc.; and
 - (b) Discounted at the assumed discount rate.
4. **Actuarial Value of Assets.** This is the value of cash, investments and other property belonging to the Plan, as used by the actuary for the purpose of an Actuarial Valuation.
5. **Amortization Payment.** This is the amount of the contribution required to pay interest on and to amortize over a given period the Unfunded Actuarial Accrued Liability or the Unfunded Frozen Actuarial Accrued Liability. A closed amortization period is a specific number of years counted from one date and reducing to zero with the passage of time; an open amortization period is one that begins again or is recalculated at each actuarial valuation date.

6. **Annual Required Contributions (“ARC”).** This is the employer’s periodic required contribution to a defined benefit OPEB plan, calculated in accordance with the set of requirements for calculating actuarially determined OPEB information included in financial reports.
7. **Attribution Period.** The period of an employee’s service to which the expected postretirement benefit obligation for that employee is assigned. The beginning of the attribution period is the employee’s date of hire. The end of the attribution period is the full retirement eligibility date. For disability retirement, the end of the attribution period is the date of disability.
8. **Benefit Payments.** The monetary or in-kind benefits or benefit coverage to which participants may be entitled under a post employment benefit plan, including health care benefits and life insurance not provided through a pension plan.
9. **Funding Excess.** This is the excess of the Actuarial Value of Assets over the actuarial accrued liability.
10. **Normal Cost.** This is the portion of the Actuarial Present Value of Benefits allocated to a valuation year by the Actuarial Cost Method.
11. **Net OPEB obligation.** This is the cumulative difference since the effective date of this statement between annual OPEB cost and the employer’s contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.
12. **Other Postemployment Benefits (“OPEB”).** This refers to postemployment benefits other than pension benefits, including healthcare benefits regardless of the type of plan that provides them, and all other postemployment benefits provided separately from a pension plan, excluding benefits defined as termination benefits or offers.
13. **Return on Plan Assets.** This is the actual investment return on plan assets during the fiscal year.
14. **Substantive Plan.** The terms of the postretirement benefit plan as understood by an employer that provides postretirement benefits and the employees who render services in exchange for those benefits. The substantive plan is the basis for the accounting for the plan.
15. **Unfunded Actuarial Accrued Liability.** This is the excess of the actuarial accrued liability over the Actuarial Value of Assets.