THE PORT AUTHORITY OF NY & NJ

January 23, 2013

SUBJECT: REQUEST FOR PROPOSALS FOR PERFORMANCE OF EXPERT PROFESSIONAL ACTUARIAL VALUATION SERVICES FOR OTHER POST-EMPLOYMENT BENEFITS (RFP#31884) - ADDENDUM # 1

Dear Sir or Madam:

The Port Authority of New York and New Jersey hereby amends the subject Request for Proposals, dated January 4, 2013 as follows:

On page 1, of the letter, in Section I, Proposer Requirements, Paragraph B, first sentence, after the words "professional license(s)" insert: "and/or any certifications and accreditations: e.g.: Associate of the Society of Actuaries (ASA), Fellow of the Conference of Consulting Actuaries (FCA), Member of the American Academy of Actuaries (MAAA), etc."

The following questions were received from RFP recipient(s). The questions and corresponding answers, as provided by the Authority, are for your information and use:

1. Can you provide a copy of the most recent OPEB and pension reports for the plans covered by the RFP?

   Yes. Copies of the reports are attached and available for information purposes only.

2. Is the current vendor eligible to submit a proposal in response to this RFP?

   All firms demonstrating compliance with the proposer requirements may propose.

3. Section III, paragraph C, item 5, of the RFP letter requests a list of clients with certain asset levels. Does this refer to just OPEB programs, pension programs or something else?

   Item 5 refers to both OPEB and Pension Programs.

4. Section III, paragraph C, item 8, of the RFP letter request information on assets being served. Does this pertain to asset management or just actuarial services?

   Actuarial services

5. How many contacts or data sources should the successful proposer expect?

   3 sources of data, 2 contacts each; Comptroller, Treasury, and the Human Resources Departments

The due date for receipt of proposals remains 2:00 pm on January 30, 2013.

If you have any questions, please contact Mr. David Gutiérrez, at david.gutierrez@panynj.gov.

Sincerely,

Tim Volonakis
Assistant Director
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November 23, 2011

Actuarial Valuation:

Postretirement Medical and Life Benefits for Financial Accounting Purposes as of January 1, 2011

Port Authority of New York and New Jersey

Contents

1. Executive Summary

Hay Group was retained to perform an actuarial valuation of the postretirement benefit plans sponsored by the Port Authority of New York and New Jersey ("the Port Authority"). This report presents the results of the actuarial valuation as of January 1, 2011. The valuation projects the Annual Required Contribution (ARC) for fiscal year 2011 based on data supplied by the Port Authority and selected actuarial assumptions. In addition, this valuation report presents the year-end disclosures.

The valuation of the Port Authority's postretirement benefit plans was prepared under GASB Statement No. 45 accounting rules. Prior to FY 2006 the Port Authority was valuing the postretirement benefit obligation under modified Financial Accounting Standards Board's Statement No. 106 accounting rules.

This valuation includes calculations made as of January 1, 2011 using census data collected as of January 1, 2011 and health care claims costs for calendar 2010 and prior years. These results were then used to develop the Annual Required Contribution for Fiscal Year 2011.

GASB Statement No. 45

Before January 1, 2006, the Port Authority reported the cost of retiree medical benefits on a modified FAS106 accounting basis. Beginning January 1, 2006, the Port Authority implemented Governmental Accounting Standards Board (GASB) standard (Statement Number 45) on Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. This standard requires the Port Authority to account for these benefits on a full accrual basis. A description of the GASB standard can be found in Section 2.

Changes in Actuarial Assumptions

Health Care Cost Trends

The accounting standard requires employers to anticipate future health care costs by adjusting today's per capita health care costs with projected health care trend rates. As shown in Appendix A, health care costs have fluctuated significantly over time. It is difficult to accurately predict health care cost increases even one or two years into the future. The assumed increase in health care costs varies by type of benefit and year. Each year when we prepare the valuation, the Actuarial Standards of Practice require that we take a fresh look to assess whether the rates are our "best estimate" of expected cost increases. Thus for the valuation the health care cost trend rates anticipate a variable trend rate reducing from an initial rate of 8.0 percent to an ultimate rate of 5.0 percent. The Pharmacy benefit costs are assumed to increase by 5.0 percent annually. The dental costs are assumed to increase by 4.5 percent annually. The complete table of new healthcare trend rates is shown in Section 5 ("Actuarial Assumptions").

Mortality Rates

For the January 1, 2011 valuation, we continue to use the RP-2000 table. The mortality experience of the Port Authority retirees will not be by itself sufficiently stable and credible to be used as a basis for the mortality assumption. Instead, we have adopted a standard mortality table developed from recent retiree pension experience and representative of the expected mortality of the Authority retirees and survivors. The table includes a measure of expected improvement in life expectancy.

Key Valuation Results

We have measured the postretirement medical liabilities for the retirees currently covered by the retiree health plans and for employees covered under the Port Authority health plan for active employees as of January 1, 2011. The liabilities were calculated using a discount rate of 6.0%, which is the same rate as that used in the prior valuation.

In Table 1.1 we have shown three measures of the liability: the present value of future benefits, the actuarial accrued liability, and the normal cost. The present value of future benefits is the discounted present value of all future employer-paid health premiums for both current and future retirees. The actuarial accrued liability is the portion of the present value of future benefits attributable to employee service rendered prior to January 1, 2011. The normal cost is the portion of the present value of benefits earned in Fiscal Year 2011.

The Port Authority had been accruing the cost of postretirement benefits under modified FAS 106 for over 15 years, and in consequence has accrued significant reserves on its books. As of January 1, 2011 these book reserves amounted to $497.5 million for the Port Authority and $42.5 million for PATH, a total of about $540 million compared to the actuarial accrued liability of $2.1 billion under GASB 45.

In December 2006, the Port Authority established a restricted trust to fund the benefits, contributed $40 million, and appointed Citibank, NA as a custodian. The trust was established for the exclusive benefit of certain retired employees and their dependents to provide funding for the post-employment benefits. It is expected that on or before March 15th of each year and quarterly thereafter, the Authority will deposit with the custodian additional securities or cash. The Port Authority contributed $40 million into the trust in quarterly intervals of $10 million during the 2007 and 2008 calendar years. On December 18, 2007, the Port Authority formally established the Trust, named Wells Fargo, NA as a trustee and transferred money from Citibank. Effective June 2009, Port Authority’s contributions to the OPEB Trust increased from $10 million a quarter to $15 million a quarter ($60 million annually). Effective December 2010, the total contribution to the OPEB Trust Fund was increased to $100 million annually ($25 million per quarter). In 2009 and 2010, contributions totaled $55 million and $70 million, respectively.

In September 2011 Port Authority signed an agreement with Express Scripts, Inc (ESI) to make changes to the Employer Group Waiver Plan (EGWP). The changes are designed to capture additional subsidies from the Affordable Care Act, which modified the Medicare Part D Plan. The additional savings are due to:

(a) Capturing the pharmaceutical manufacturer's discount on approved brand drugs purchased by retirees with drug expenses in excess of $2,650; and
(b) Reinsurance payments that are likely to be received by ESI (and passed through to Port Authority) with respect to retirees with very large drug expenses (over $7,000).

This new plan design is effective as of January 1, 2012 and allows Port Authority to maximize the amount of subsidy it can receive from CMS through the EGWP contract with ESI. It results in a $10.1 million reduction in the 2011 annual GASB45 OPEB expense.

Table 1.1 shows key valuation results, including the present value of future benefits, the actuarial accrued liability, the trust fund assets and book reserves, and the resulting unrecognized actuarial accrued liability. The table also shows the normal cost.

The actuarial assumptions are described in detail in Section 5 and summarized in Appendix B.

Table 1.1
Postretirement Medical Benefit Valuation Results for the Port Authority (Amounts in Thousands)

	January 1, 2011
Assumptions	
1. Discount Rate	6.0%
2. Healthcare Cost Trend Rates	
• Initial medical benefit trend rate	8.0%
• Initial pharmacy benefit trend rate	5.0%
• Dental benefit trend rate	4.5%
• Ultimate medical benefit trend rate	5.0%
• Ultimate pharmacy benefit trend rate	5.0%
PATH	
1. Present Value of Future Benefits	$183,649
2. Actuarial Accrued Liability	150,781
3. Assets	27,410
4. Book Accruals	42,508
5. Unrecognized Actuarial Accrued Liability[1]	80,863
6. Normal Cost	2,689
Port Authority	
1. Present Value of Future Benefits	$2,102,0976
2. Actuarial Accrued Liability	1,827,607,
3. Assets	246,686
4. Book Accruals	497,471
5. Unrecognized Actuarial Accrued Liability[1]	1,083,450
6. Normal Cost	33,081
Total	
1. Present Value of Future Benefits	$2,285,746
2. Actuarial Accrued Liability	1,978,388
3. Assets	274,096
4. Book Accruals	539,979
5. Unrecognized Actuarial Accrued Liability[1]	1,164,313
6. Normal Cost	35,770

[1] Actuarial accrued liability less assets less book accruals.

Annual Required Contribution

The Annual Required Contribution (ARC) is the sum of four parts:

(i) the Normal Cost,
(ii) the Amortization payment on the Unrecognized Actuarial Accrued Liability,
(iii) interest on the unfunded ARC (or overfunded ARC), and
(iv) adjustment to the ARC to prevent double accrual of principal payments on the unrecognized actuarial accrued liability. For simplicity in presentation this amount has been included in the Amortization Cost.

For an organization that fully funds the ARC each year, the ARC is simply the sum of (i) and (ii).

The Port Authority has decided to amortize the unrecognized actuarial accrued liability over 30 years, using fresh start amortization annually on a level dollar basis.

Table 1.2 shows the development of the Annual Required Contribution.

Table 1.2
Postretirement Medical Benefit Valuation Results
Development of the Annual Required Contribution for the Port Authority
(Amounts in Thousands)

	January 1, 2011
PATH	
1. Normal Cost	$ 2,689
2. Amortization Cost	5,828
3. Interest on unfunded (overfunded) ARC	(1,433)
4. Total Annual Required Contribution	7,084
Port Authority	
1. Normal Cost	$ 33,081
2. Amortization Cost	78,089
3. Interest on unfunded (overfunded) ARC	(5,176)
4. Total Annual Required Contribution	105,994
Total	
1. Normal Cost	$ 35,770
2. Amortization Cost	83,917
3. Interest on unfunded (overfunded) ARC	(6,609)
4. Total Annual Required Contribution	113,078

Actuarial Certification

The Port Authority retained the Hay Group to perform an actuarial valuation of the Postretirement Medical Plan to provide an estimate of the actuarial accrued liability and the Annual Required Contribution in accordance with GASB standards numbered 43 and 45. Use of the valuation results for other purposes may not be appropriate.

This valuation has been conducted in accordance with generally accepted actuarial principles and practices.

The results shown in this report are reasonable actuarial results. However, a different set of results could also be considered reasonable actuarial results. The reason for this is that actuarial standards of practice describe a "best-estimate range" for each assumption, rather than a single best-estimate value. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

The actuaries certifying to this valuation are members of the Society of Actuaries and/or other professional actuarial organizations, and meet the General Qualification Standards of the American Academy of Actuaries for purposes of issuing Statements of Actuarial Opinion.

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2. Description of GASB 45

Governmental Accounting Standards Board (GASB)

In June 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEBs).*

The standard covers both postretirement and post-employment benefits. The types of benefits covered include:

- Medical
- Dental
- Vision
- Hearing
- Life insurance
- Long term disability
- Long term care

However, if any of these benefits are provided through a pension plan they would be accounted for under GASB 25 — otherwise they will be accounted for under GASB 45.

It took GASB over 15 years to issue the standard as they first added OPEBs to their technical agenda in 1988. The delay has helped governmental employers in several ways. Over the ensuing period, private sector firms learned to grapple with the issue after the Financial Accounting Standards Board (FASB) released its exposure draft and then after due deliberation issued the final standard (FAS 106) in 1990. The actuarial and accounting professions geared up to handle the change from cash to accrual accounting. Claims administrators are now experienced with meeting the special data requests, actuaries have refined their valuation models, and accountants understand the valuation results. The actuarial profession revised and updated its Actuarial Standard of Practice, reissuing ASOP #6 — *Measuring Retiree Group Benefit Obligations* in December 2001. The GASB standard directs users to this actuarial standard for guidance on selection of actuarial assumptions.

The effective date for the new standard depends on the size of the employer. For entities with revenues in FY 2000 over $100 million, the effective date was the fiscal year beginning after December 15, 2006 — although earlier adoption is encouraged. Entities with smaller revenues have later effective dates. The Port Authority has adopted the standard with the FY 2006 financial reporting year beginning January 1, 2006.

The purpose of the standard is to treat postretirement benefits in a manner similar to pensions. Governmental employers should recognize that OPEBs constitute compensation for employee service and they should recognize the cost of benefits during the periods when employee service is rendered. By accounting for OPEBs, GASB believes the accounting statement will improve the relevance and usefulness of financial reporting, provide information about the size of the liabilities and the extent to which they are funded, and ensure systematic accrual-basis measurement over employee service.

While the standard will require governmental employers to adopt accrual accounting, the standard sets out a broad range of options for employers. These options include the ability to choose, within limits, the:

- Actuarial cost method,
- Period for amortizing the unfunded actuarial accrued liability,
- Measurement date, and
- Frequency of valuations

The most common and most expensive of the OPEBs are retiree medical benefits, which provide a valuable component in employees' retirement benefits programs. Most governmental employers fund their retiree medical plans on a pay-as-you-go (PAYG) basis. The GASB standard does not require employers to advance fund these benefits; however certain aspects of the measurement provide benefits for employers that choose to advance fund the OPEB liability. Accordingly, effective December 28, 2006, the Port Authority had established a restricted trust to fund OPEB benefits. Based on the information provided by the Port Authority, the account balance as of December 31, 2010 in the OPEB trust is equal to $274,096,471.

Actuarial Cost Method

A fundamental principle in financing the liabilities of any retirement program is that the cost of the benefits should be related to the period in which benefits are earned, rather than to the period of benefit distribution. There are several acceptable actuarial methods prescribed in the GASB standard. After consultation, the Port Authority selected the Projected Unit Credit cost method.

Under the Projected Unit Credit cost method, the actuary develops the discounted present value of all future benefit payments. For a retiree, this amount is the Actuarial Accrued Liability. For an employee that has not yet retired, the Actuarial Accrued Liability is determined as the ratio of the employee's service as of the valuation date to the expected service at retirement. As the valuation uses rates of retirement, the Projected Unit Credit cost method determines the Actuarial Accrued Liability as the weighted sum of the pro-rata calculations for expected retirements at each expected retirement age.

Actuarial Accrued Liability

The actuarial accrued liability is that portion of the present value of projected benefits which has been accrued during the employee's working life from the date of hire to the valuation date. Another way of viewing this liability is as the portion of the present value of projected benefits that will not be funded by future normal costs. Therefore, as long as participants enter the system with no past service credit (as is assumed in this case), there is no actuarial liability for a new entrant. Furthermore, the full present value of benefits is accrued by the end of each employee's working life.

The difference between the actuarial accrued liability and the funds accumulated as of the valuation date is referred to as the unfunded actuarial accrued liability. Unfunded actuarial accrued liabilities generally exist when (1) the liabilities are not funded, (2) benefits have been earned for periods in which no normal cost has been paid or (3) the amounts that have been funded were inadequate because of losses, changes in assumptions, changes in the funding method, or benefit improvements. The unfunded actuarial accrued liability equals the actuarial accrued liability less the value of the fund.

Development of the Normal Cost

The normal cost represents the benefits earned during the current reporting period. As stated in the previous section, the projected unit credit actuarial cost method is used in determining the normal cost.

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established a new prescription drug benefit, called Medicare Part D. In 2005 the Port Authority applied to the Centers for Medicare and Medicaid Services (CMS) to sponsor a Part D Plan for its retirees beginning in 2006, and the application was approved. The Port Authority renewed the contract annually through 2008. Effective January 2009, Port Authority contracted with Express Scripts Inc, for an Employer Group Waiver Plan covering the Port Authority retirees. This change has no impact on the cost of the benefits or the amount of the subsidy payment but does change the contract relationship from direct to indirect and relieves Port Authority of certain compliance related activities and expenses. For the 2011 valuation, we assumed the 2011 Medicare Part D Plan direct payment will be $657 per Medicare-eligible retiree (and Medicare-eligible dependent) with a risk score of 1.0. This payment was determined from the published 2011 National Average bid amount ($87.05 PM) less the National Average Part D Premium ($32.34 PM). The adjusted direct payment based on Port Authority's covered population risk factor is assumed to be $682 as shown in the table below.

Medicare Part D National Average Bid and Premium Payments						
	2006	2007	2008	2009	2010	2011
National Average Bid	$92.30	$80.43	$80.52	$84.33	$88.33	$87.05
National Average Premium	$32.20	$27.35	$27.93	$30.36	$31.94	$32.34
Monthly Subsidy (1.0 Risk)	$60.10	$53.08	$52.59	$53.97	$56.39	$54.71
PA assumed risk score						1.025
Annual subsidy						$682

In accordance with the GASB Technical Bulletin 2006-1 issued in June 2006, these payments have been taken into account when determining the Port Authority's net liability.

Change in Part D EGWP plan design

In a June 2010 memorandum, the Director of the Medicare Drug Benefit and C & D Data Group and the Deputy Director of the Medicare Plan Payment Group issued guidance on the interaction of the coverage gap with Employer Group Waiver Plans (EGWPs).

In addition to establishing a new attestation requirement and making EGWP benefit plan design information available upon audit, the guidance set out how the Medicare manufacturer coverage gap discount would apply.

The guidance clarifies that for a Part D enhanced benefit plan, the supplemental benefits must be calculated prior to the application of the Medicare manufacturer coverage gap discount. This requirement also applies to Part D benefits provided by sponsors of employer group health and waiver plans (EGWPs).

At the same time, the memorandum also provided guidance on how this restriction can be removed by restructuring the benefit arrangement. The guidance noted that:

> "if EGWP benefits are restructured to provide commercial (non-Part D) wrap-around coverage that supplements a basic Part D benefit package, sponsors would be permitted to apply the manufacturer coverage gap discount **before** any coverage or financial assistance is provided by the other commercial payer (See §1860D-14A(c)(1)(A)(v) of the Act)."

This language allows Port Authority to substantially expand the amount of subsidy it can receive from CMS through the EGWP contract with Express Scripts.

Using this additional saving opportunity, Port Authority signed an agreement with ESI to make the changes in EGWP by introducing commercial (non-Part D) wrap-around coverage that supplements a basic Part D benefit package. This new plan design is effective as of January 1, 2012. Since the EGWP+Wrap agreement has been finalized and signed by Port Authority in September 2011, we included the saving amount into the 2011 valuation results and the amount of Net Benefit Obligation that will appear in 2011 financial statement. Note that while the impact on annual GASB expense is recognized immediately in 2011, however, due to the timing of CMS payments, the expected cash saving will not occur until mid to late 2012 and during 2013.

Funding Policy

In December 2006, the Port Authority established a restricted trust to fund the benefits to which it contributed $40 million, and appointed Citibank, NA as a custodian. The trust was established for the exclusive benefit of certain retired employees and their dependents to provide funding for the post-employment welfare benefits.

On December 18, 2007, the Port Authority named Wells Fargo, NA as a trustee and transferred money from Citibank.

Effective June 2009, Port Authority's contributions to the OPEB Trust increased from $10 million a quarter to $15 million a quarter ($60 million annually). Effective December 2010, the Port Authority's quarterly contribution increased from $15 million to $25 million. In 2009 and 2010, contributions totaled $55 million and $70 million, respectively. The Port Authority's stated funding policy for 2011 and going forward is to contribute $100 million per year in quarterly installments of $25 million in addition to the pay-as-you-go amounts.

Discount Rate

The valuation results are dependent on the discount rate. GASB 45 sets out the requirements for determining the discount rate as the rate of return expected to be earned by the assets used to pay the benefits. After consultation with the Port Authority, we have valued the benefits using a discount rate of 6.0 percent. This is the same rate used in the prior valuation.

3. The Valuation Results

Table 3.1 shows the present value of benefits, actuarial accrued liability, and the normal cost, as well as the Annual Required Contribution (ARC) for current and future members, as of January 1, 2011 at a 6.0 percent discount rate.

The table shows the results for two separate populations: PATH employees and Port Authority employees, as well as the total.

Table 3.1
Postretirement Medical Valuation for Port Authority as of January 1, 2011
Liabilities Discounted at 6.0%
(Amounts in Thousands)

	PATH	Port Authority	Total
1. Present Value of Future Benefits	$183,649	$2,102,097	$2,285,746
2. Actuarial Accrued Liability	150,781	1,827,607	1,978,388
3. Assets	27,410	246,686	274,096
4. Book Accruals	42,508	497,471	539,979
5. Unrecognized Actuarial Accrued Liability (2 – 3 – 4)	80,863	1,083,450	1,164,313
6. Amortization Cost	5,828	78,089	83,917
7. Normal Cost	2,689	33,081	35,770
8. Interest on unfunded (over funded) ARC	(1,433)	(5,176)	(6,609)
9. Total Annual Required Contribution (6 + 7 + 8)	7,084	105,994	113,078
10. Expected Employer Funding on PAYG basis	**9,916**	**108,333**	**118,249**

Table 3.2 shows the present value of benefits, actuarial accrued liability, and the normal cost, as well as the expected employer contribution for current and future members, projected as of January 1, 2011 at a 6.0 percent discount rate. The results are shown separately for Medical and Life insurance benefits and in total.

Table 3.2
Post retirement Medical Valuation for Port Authority as of January 1, 2011
Liabilities Discounted at 6.0%
(Amounts in Thousands)

	Life Insurance	Medical	Total
PATH			
1. Present Value of Future Benefits	$15,393	$168,256	$183,649
2. Actuarial Accrued Liability	12,633	138,148	150,781
3. Normal Cost	177	2,512	2,689
4. Expected Employer Funding on PAYG basis	629	9,287	9,916
Port Authority			
1. Present Value of Future Benefits	$298,374	$1,803,723	$2,102,097
2. Actuarial Accrued Liability	266,717	1,560,890	1,827,607
3. Normal Cost	3,777	29,304	33,081
4. Expected Employer Funding on PAYG basis	14,557	93,776	108,333
Total			
1. Present Value of Future Benefits	$313,767	$1,971,979	$2,285,746
2. Actuarial Accrued Liability	279,350	1,699,038	1,978,388
3. Normal Cost	3,954	31,816	35,770
4. Expected Employer Funding on PAYG basis	15,186	103,063	118,249

4. Medicare Modernization Act of 2003

In December 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The Act added a voluntary prescription drug benefit to the Medicare program effective January 1, 2006.

Overview of the Prescription Drug Benefit

Beginning in 2006, Medicare beneficiaries have the option of obtaining prescription drug coverage through stand-alone private drug plans or through private preferred provider organizations or health maintenance organizations. In 2011, beneficiaries will pay monthly premiums just above $32. After an annual deductible of $310, beneficiaries pay 25 percent of up to $2,839 of prescription drug costs, with Medicare paying 75 percent. Once annual drug costs reach $2,839, beneficiaries pay 100 percent of their drug costs until their out-of-pocket expenses reach $4,550. This out-of-pocket limit is reached when total drug expenses reach $6,447. Above that level the catastrophic coverage feature of Medicare pays 95 percent of the drug costs with beneficiaries paying just 5 percent.

To encourage employers to continue providing retiree health coverage, qualifying retiree plans are eligible to apply for subsidies for 28 percent of the drug costs from $310 to $6,300 for their retirees who are enrolled in Medicare and who continue to be enrolled in the employer sponsored plan.

Employers are also eligible to sponsor a plan for just their retirees, providing coverage at least as generous as the Standard Part D plan design.

The Port Authority applied to the Centers for Medicare and Medicaid Services (CMS) to sponsor their own Part D plan, maintaining the same benefit level as under the prior plans. The application was approved for 2006 and renewed for 2007 and 2008. Effective January 2009, Port Authority contracted with Express Scripts for an Employer Group Waiver Part D Plan covering the Authority's Medicare-eligible retirees. Under the contract, Express Scripts assumed responsibility for the administrative and compliance obligations.

Implications of the Medicare Prescription Drug Modernization Act of 2003 on Port Authority Retiree Healthcare Costs

The Port Authority's EGWP Part D Plan results in CMS making payments to Express Scripts on behalf of the Port Authority retirees. Some of these retirees are eligible for lower cost-sharing from the standard Port Authority plan. Express Scripts receives additional funds from CMS to cover the cost of the different cost sharing.

For 2011, we have assumed that the direct payment from CMS per Medicare eligible retiree with a risk score of 1.0 will be $656 in 2011 and increasing at the pharmacy trend rate thereafter. We have used $682 as the average payment that reflects the covered population risk factor to offset the annual per capita cost for prescription drugs for post 65 retirees.

In September 2011, Port Authority signed an agreement with ESI to make the changes in the EGWP by introducing commercial (non-Part D) wrap-around coverage that supplements a basic Part D benefit package. This new plan design is effective as of January 1, 2012. Since the EGWP+Wrap agreement has been finalized and signed by Port Authority in September 2011, we included the saving amount into the 2011 valuation results and the amount of Net Benefit Obligation that will appear in 2011 financial statement. The saving has two components: a) a direct subsidy component that will result in quarterly cash flow savings during 2012 (expected in July and November 2012, and January and April 2013), and the savings from the catastrophic reinsurance payment that PANYNJ will receive in late 2013. Note that while the impact on annual GASB expense is recognized immediately in 2011, due to the timing of CMS payments the expected cash saving will not occur until mid to late 2012 and during 2013.

Table 4.1 shows the impact of Medicare Part D payments on the actuarial accrued liability, normal cost and annual required contribution. The results are split by PATH and Port Authority.

Table 4.1 shows the financial benefit accruing to Port Authority from sponsoring the Part D Plan. The payments from CMS reduced the present value of benefits by more than $160 million, reduced the actuarial accrued liability by more than $138 million, reduced the Annual Required Contribution by close to $12.4 million, and will save almost $4.5 million in cash in 2011.

The standard Medicare Part D Plan includes additional benefit payments for low-income beneficiaries (CMS determines who is eligible for these low-income subsidies). The Port Authority only has a few beneficiaries who are eligible for these benefits, and the additional payments from CMS offset the cost for the lower beneficiary copayments, therefore neither these payments nor the Low-Income Subsidy (LIS) copay reductions were included in the valuation.

Port Authority retirees who meet the eligibility requirements for these low income payments benefit from the Port Authority's sponsorship of the Part D Plan. As a result several members have lower out of pocket costs for their prescriptions. The Port Authority receives extra payments from CMS to fund the cost of these lower copayments/coinsurance payments.

Implications of the Healthcare Reform Law on Port Authority's Costs

The Patient Protection and Affordable Care Act (PPACA or ACA) expanded the coverage under Medicare Part D for individuals who enroll in standard Part D plans. Starting in 2011, individuals will receive some coverage for both generic and brand drugs after they have incurred $2,839 of drug expenses. The Part D Plan will pay 7% of the generic drug cost and, through a cost-sharing arrangement with pharmaceutical manufacturers, pay 50% of the applicable brand drug costs. This 50% payment will lower the out-of-pocket costs for retirees. In addition, the "Pharma" discounts will count towards the True Out-of-Pocket (TrOOP) costs.

These changes will not directly impact the Port Authority under the contract in place as of January 1, 2011.

Plan design changes and associated cost saving

The new agreement signed with ESI in September allows Port Authority to expand the amount of CMS subsidies and reflect these subsidies in additional saving in the annual GASB45 OPEB expense.

The GASB45 expense saving has two components. The first one is a direct subsidy component that will result in cash flow savings beginning in 2012. The projected cash savings are $2.7 million in 2012. To calculate the expected saving on GASB45 2011 ARC, we adjusted the per capita claims cost for pharmacy benefits. We estimated the saving equal to $392 per Medicare eligible employee, net of the additional administration fees.

The second component of the savings is the catastrophic reinsurance payment. That is cash that PANYNJ will receive in 2013.

Table 4.2 below shows the impact of EGWP + Wrap plan design on the actuarial accrued liability, normal cost and annual required contribution. The results are shown separately for PATH and Port Authority. The expected level of liability and ARC reduction associated with the EGWP & Wrap arrangement.

Table 4.1
Postretirement Medical Valuation for the Port Authority as of January 1, 2011
Liabilities Discounted at 6.0%
(Amounts in Thousands)

	Before Part D Payments	After Part D Payments	Impact of Part D
PATH			
1. Present Value of Future Benefits	$211,134	$194,142	$(16,992)
2. Actuarial Accrued Liability	173,169	159,383	(13,786)
3. Normal Cost	3,099	2,838	(261)
4. Expected Employer Funding on PAYG basis	10,389	9,916	(473)
5. Annual Required Contribution (ARC)	9,108	7,853	(1,255)
Port Authority			
1. Present Value of Future Benefits	$2,365,843	$2,222,204	$(143,639)
2. Actuarial Accrued Liability	2,056,910	1,931,875	(125,035)
3. Normal Cost	37,085	34,912	(2,173)
4. Expected Employer Funding on PAYG basis	112,337	108,333	(4,004)
5. Annual Required Contribution (ARC)	126,524	115,340	(11,184)
Total			
1. Present Value of Future Benefits	$2,576,977	$2,416,346	$(160,631)
2. Actuarial Accrued Liability	2,230,079	2,091,258	(138,821)
3. Normal Cost	40,184	37,750	(2,434)
4. Expected Employer Funding on PAYG basis	122,726	118,249	(4,477)
5. Annual Required Contribution (ARC)	135,632	123,193	(12,439)

Table 4.2
Postretirement Medical Valuation for the Port Authority as of January 1, 2011
Liabilities Discounted at 6.0%
(Amounts in Thousands)

	Before EGWP Plan Changes	After EGWP Plan Changes	Impact of the EGWP Plan Changes
PATH			
1. Present Value of Future Benefits	$194,142	$183,649	$(10,493)
2. Actuarial Accrued Liability	159,383	150,781	(8,602)
3. Normal Cost	2,838	2,689	(149)
4. Expected Employer Funding on PAYG basis	9,916	9,916	0
5. Annual Required Contribution (ARC)	7,853	7,084	(769)
Port Authority			
1. Present Value of Future Benefits	$2,222,204	$2,102,097	$(120,107)
2. Actuarial Accrued Liability	1,931,875	1,827,607	(104,268)
3. Normal Cost	34,912	33,081	(1,831)
4. Expected Employer Funding on PAYG basis	108,333	108,333	0
5. Annual Required Contribution (ARC)	115,340	105,994	(9,346)
Total			
1. Present Value of Future Benefits	$2,416,346	$2,285,746	$(130,600)
2. Actuarial Accrued Liability	2,091,258	1,978,388	(112,870)
3. Normal Cost	37,750	35,770	(1,980)
4. Expected Employer Funding on PAYG basis	118,249	118,249	0
5. Annual Required Contribution (ARC)	123,193	113,078	(10,115)

5. Actuarial Assumptions

The selection of all actuarial assumptions, in valuations of postretirement health care plans including the health care cost trend rate, should be guided by Actuarial Standard of Practice No. 6, Measuring Retiree Group Benefit Obligations, as revised from time to time by the Actuarial Standards Board. Accordingly, actuarial assumptions should be based on the actual experience of the covered group, to the extent that creditable experience data are available, but should emphasize expected long-term future trends rather than give undue weight to recent past experience. The reasonableness of each actuarial assumption should be considered independently based on its own merits, its consistency with each other assumption, and the combined impact of all assumptions.

The actuarial assumptions used to value the postretirement medical liabilities can be categorized into three groups: economic assumptions, medical assumptions, and demographic assumptions.

Economic Assumptions

The two economic assumptions used in the valuation are the discount rate and the health care cost trend rates. The economic assumptions are used to account for changes in the cost of benefits over time and to discount future benefit payments for the time value of money.

Discount Rate

The investment return assumption (discount rate) should be the estimated investment yield on the investments that are expected to be used to finance the payments of benefits. The investments expected to be used to finance the payments of benefits would be plan assets for funded plans, assets of the employer for pay-as-you-go plans, or a proportionate combination of the two for plans that are being partially funded.

The valuation used a discount rate of 6.0 percent which is the same rate as used last year.

Health Care Cost Trend Rates

From the most recent large survey of employers and their benefit costs conducted by Hay Group we saw an uptick in health care cost rate increases. For example, the Federal Employees Health Benefit Program (FEHBP) reported a 7.4 percent increase for 2011, same as 7.4 percent for 2010, up from 7.0 percent in 2009 and 2.0 percent in 2008 (the most recent history of health care cost increases based on FEHPB and Hay Benefits Prevalence Report is shown below). Based on this data and other inputs we collected, we predicted that 2011 health care costs would be 8.0 percent. The rate is assumed to decline by 1.0 percent every year, in 2014 the ultimate rate of 5.0 percent is achieved.

The "ultimate" rate is the long-term rate of increase in health care costs. For the past 30+ years, the proportion of GDP consumed by healthcare has risen steadily. Given the current financing arrangements for healthcare, we expected this trend to continue. However, at some point the rate of increase in health care share of GDP will flatten out. The ultimate trend rate is used to reflect that flattening out of the rate of increase. To examine the health care trend rates from both a historic perspective but also projecting for future costs, we used the recently released Society of Actuaries Getzen model on long-term health care trends to evaluate the projected long-term share of GDP.

For this valuation we have used an ultimate trend rate of 5.0 percent.

Table 5.1 below shows the new Healthcare Cost Trend Rate Assumptions adopted in 2010. We did not make any changes in Healthcare Trend Rates this year.

Table 5.1
Healthcare Cost Trend Rate Assumptions

	2011 Adopted Assumptions	
Year	**Medical Benefits**	**Pharmacy Benefits**
2011	8.00%	5.00%
2012	7.00%	5.00%
2013	6.00%	5.00%
2014	5.00%	5.00%
2015	5.00%	5.00%
2016	5.00%	5.00%
2017	5.00%	5.00%
2018+	5.00%	5.00%

The pharmacy trend rates of 5% for 2011 and 2012 were selected taking into account the large number of brand drugs with significant usage whose patents expire in 2011 and 2012.

Note that dental costs are assumed to grow at 4.5 percent per year.

Appendix A contains a chart showing the historical increases in health care premiums from two sources: the Hay Benefits Report and the Federal Employees Health Benefit Plan for the period 1982 through 2010.

Healthcare Assumptions

A fundamental building block of the actuarial valuation is the current per capita cost of benefits. We requested and received summaries of medical and pharmacy claims experience in 2010. As the covered population of retirees is large, one years' claims experience is deemed sufficiently credible to form the basis for the development of the per capita claims costs.

Development of Per Capita Claims Costs based on 2010 Experience

The applicable actuarial standard of practice (ASOP Number 6) requires the use of age-specific claim rates in age bands that are not overly broad. Based on our understanding of the benefits, we deemed it appropriate to use five-year age bands. Historical claims data were provided in aggregate. With the absence of company-specific historical claims data in five-year age bands, a set of relative weights was used to allocate the medical claims cost by age group. The retiree enrollment data provided by the Port Authority were used for each benefit type, together with age-based weights developed by the Hay Group from normative claims data. The resulting cost is the value of a unit of claims cost. For medical benefits, two standard units of costs were set: one for ages below 65 and one for ages above 65. For pharmacy and dental benefits, a standard unit of claim costs was set at the age 65-69 claim level. Tables 5.2, 5.3 and 5.4 below show the 2010 claims cost for medical and pharmacy benefits, weighted enrollment, unit claims cost and the age-based factors for each benefit.

Table 5.2
PATH – 2010 Claim Costs

Benefit	Medical		Pharmacy	Dental
Group	Below age 65	Above age 65	All	All
Paid Claims	$4,270,649	$1,167,088	$3,386,634	$193,090
Weighted Enrollment	2,277	935	1,104	219
Unit Cost	1,876	1,248	3,068	883

Table 5.3
Port Authority – 2010 Claim Costs

Benefit	Medical		Pharmacy	Dental
Group	Below age 65	Above age 65	All	All
Paid Claims	$37,981,050	$10,678,781	$29,215,928	$8,292,505
Weighted Enrollment	24,201	7,963	9,888	8,472
Unit Cost	1,569	1,341	2,955	979

These unit costs are to be multiplied by the following age-based factors:

Table 5.4 Age Based Factors			
Benefit	**Medical**	**Pharmacy**	**Dental**
Under age 55	5.4911	0.7593	1.3129
55 – 59	6.1603	0.8023	1.2025
60 – 64	7.0191	0.9335	1.1043
65 – 69	1.0000	1.0000	1.0000
70 – 74	1.1285	1.0568	0.8957
75 – 79	1.3079	1.0724	0.7362
Age 80 & over	1.3422	1.0020	0.5767

The 2011 per capita claims costs for medical and pharmacy benefits were determined by taking the product of the 2010 unit cost, the age-based factor, and the 2011/2010 trend rate. Trend rates of 8.8 percent for medical, 8.8 percent for pharmacy and 4.5 percent for dental were used to adjust the 2010 paid claims to 2011 (these trends are average of trends in Hay Benefits Report). The resulting per capita claims cost for the 2011 valuation is based on 2010 experience as shown in Tables 5.5 and 5.6 below.

Table 5.5 PATH — Per Capita Claims Cost for 2011 Valuation Based on 2009 Experience			
Age	**Medical**	**Pharmacy**	**Dental**
<55	$11,207	$2,534	$1,212
55 - 59	12,573	2,678	1,110
60 - 64	14,325	3,116	1,019
65 - 69	1,358	3,338	923
70 - 74	1,533	3,527	827
75 - 79	1,776	3,579	679
80 +	1,823	3,344	532

Table 5.6 Port Authority — Per Capita Claims Cost for 2011 Valuation Based on 2010 Experience			
Age	**Medical**	**Pharmacy**	**Dental**
<55	$9,376	$2,441	$1,343
55 - 59	10,519	2,579	1,230
60 - 64	11,985	3,001	1,130
65 - 69	1,459	3,215	1,023
70 - 74	1,646	3,397	916
75 - 79	1,908	3,447	753
80 +	1,958	3,221	590

Application of Credibility Weights and Development of the Final Per Capita Claims Costs for 2011 Valuation

Based on the enrollment data provided by the Port Authority, we assigned credibility weights to per capita claims costs developed based on 2010 experience. The credibility factors are shown in Table 5.7 below.

Table 5.7 Credibility Factors (%)						
	PATH			**Port Authority**		
	Medical	**Pharmacy**	**Dental**	**Medical**	**Pharmacy**	**Dental**
Pre-65	34%	48%	26%	100%	100%	100%
Post-65	73%	72%	28%	100%	100%	100%

To develop the final per capita claims costs for the 2011 valuation, we used the rates from Tables 5.5 and 5.6 multiplied by the credibility factor in combination with the 2010 valuation rates trended for 2011 (the trends were 8.8 percent for medical and pharmacy costs and 4.5 percent for dental). Finally, we assumed the Part D Plan direct payment would be $682 per Medicare eligible retiree (and Medicare eligible dependent). The $682 value was determined by taking the 2011 National Average Bid Amount (as announced by CMS) adjusted by projected Port Authority risk score factor and subtracting 2011 National Average Premium Amount. This payment has been subtracted from the Pharmacy costs for ages 65 and older. The resulting per capita claims costs are shown in Tables 5.8 and 5.9 below.

Table 5.8 shows the valuation per capita claims costs for PATH retirees.

Table 5.8 PATH – Final Per Capita Claims Cost for 2011 Valuation			
Age	**Medical**	**Pharmacy**	**Dental**
< 55	$10,087	$2,542	$1,148
55 – 59	11,316	2,686	1,051
60 – 64	12,893	3,125	965
65 – 69	1,327	2,661	876
70 – 74	1,497	2,851	784
75 – 79	1,735	2,903	645
80+	1,781	2,668	505

Table 5.9 shows the valuation per capita claims costs for Port Authority retirees.

Table 5.9 Port Authority – Final Per Capita Claims Cost for 2011 Valuation			
Age	**Medical**	**Pharmacy**	**Dental**
< 55	$ 9,376	$2,441	$1,343
55 – 59	10,519	2,579	1,230
60 – 64	11,985	3,001	1,130
65 – 69	1,459	2,533	1,023
70 – 74	1,646	2,715	916
75 – 79	1,908	2,765	753
80+	1,958	2,539	590

Comparison of the 2011 Valuation Blended Rates with 2010 Valuation Blended Rates

Table 5.10 shows the percentage increase (or decrease) in costs between the 2010 valuation rates, projected to 2011 based on the 2010 assumptions, and the new 2011 blended rates (based on the weighted average of 2010 non-blended experience and 2010 valuation rates trended for 2011, with credibility factors equal to weights).

Table 5.10
Increases (Decreases) in Health Care Valuation Rates

		Medical	Pharmacy	Dental
PATH	Pre-65	-16%	1%	6%
	Post-65	5%	3%	6%
Port Authority	Pre-65	-4%	-2%	-2%
	Post-65	-11%	-1%	-2%
Valuation Assumption for both Port Authority and PATH	Pre-65	9.0%	5.5%	4.5%
	Post-65	9.0%	5.5%	4.5%

The following observations are made regarding the summary experience shown in Table 5.10.

Demographic Assumptions

The demographic assumptions include the rate of mortality, the rate of withdrawal, the rate of retirement, and the rate of disability. Ancillary demographic assumptions include the age of female spouses, coverage rates, and participation rates. The complete set of demographic assumptions is included in Appendix B.

Valuation Experience

In addition to recognizing emerging claims experience, the valuation includes two elements first accounted for in this year's valuation. The two elements are ICP reserves held by Prudential and the EGWP+Wrap.

Claims Cost

Table 5.11 shows the impact of the new claims costs was a 5.3% reduction in the Normal Cost, a 5.5% reduction in the Actuarial Accrued Liability and an 8.1% reduction in the Annual Required Contribution.

Table 5.11 Impact of the 2011 Claims Costs			
	Normal Cost	Actuarial Accrued Liability	Total Annual Required Contribution
2010 Claims Costs	$39,851	$2,222,659	$134,764
2011 Claims Costs	$37,750	$2,099,671	$123,799
Impact	($2,101)	($122,988)	($10,965)
% Change	-5.3%	-5.5%	-8.1%

The favorable claims cost impact shown above is the result of emerging health care claims experience as well as plan management activities that led to fee reductions in the pharmacy contract, United Healthcare ASO contract, and Blue Cross dental program. In addition, Port Authority negotiated improved discounts in the pharmacy contract that will lead to lower cost in 2011 and 20112. Details of these plan management activities are shown below:

<u>Express Scripts Discounts and Fee Reductions</u>

As a result of contract negotiations with Express Scripts Port Authority reported the following estimated savings per year for the period of 2009-2012:

2009: $2,276,209 (actual)
2010: $9,904,477 (actual)
2011: $10,422,104 (estimated)
2012: $11,684,314 (estimated)

In 2010, due to a better than expected Port Authority experience in the use of mail order delivery program and generics substitution, the ESI discounts amount improved to $9.9 million (compared to previously estimated $5,755,722). Per Capita Claims Costs developed for 2011 actuarial valuation based on 2010 benefit cost data already reflect higher actual savings in 2010. Overall experience in 2010 was favorable: PA cost was +3.1% compared to assumed 5.5% and PATH cost was +5.2% compared to assumed 5.5%.

Estimated savings developed from ratio of savings to sum of active and retiree claims x prescription drug costs. We estimated the impact on 2011 ARC to be equal to $8.9 million (6.7%).

<u>United Healthcare ASO Fee Reduction</u>

As reported by Port Authority, estimated savings in 2009-2011 are as follows:

2009: $850,000
2010: $850,000
2011: $850,000

Savings accrue over all UHC contracts, and therefore a pro-rated portion applies to the retirees.

<u>Dental Costs Reduction</u>

Blue Cross Dental Costs Reduction. Premium Fee Reduction of $45,000 in 2011. Savings accrue over all Blue Cross Dental contracts and therefore a pro-rated portion applies to the retirees.

ICP Reserves

During 2011, while investigating the merits of a Retiree Life Insurance Buyout proposal from Prudential, we identified that Prudential held certain reserves that are dedicated to fund certain life insurance benefits. Therefore for the 2011 valuation, we excluded the life insurance benefits that are backed by ICP reserves from the valuation.

Table 5.12 shows the impact of recognizing the ICP reserves was a 0.4% reduction in the Actuarial Accrued Liability and a 0.5% reduction in the Annual Required Contribution. The ICP reserves are held for current retiree life insurance benefits, so there was no impact on the Normal Cost.

Table 5.12
Impact of Recognizing the ICP Reserves

	Normal Cost	Actuarial Accrued Liability	Total Annual Required Contribution
Before Reflecting ICP Reserves	$37,750	$2,099,671	$123,799
After Reflecting ICP Reserves	$37,750	$2,091,258	$123,193
Impact	$0	($8,413)	($606)
% Change	0.0%	-0.4%	-0.5%

EGWP+Wrap

During 2011, Port Authority modified the pharmacy benefit integration contract with Medicare Part D resulting in a larger expected payment from CMS, including the Coverage Gap discount and enhanced federal reinsurance payments.

Table 5.13 shows the impact of the EGWP+Wrap contract was a 5.2% reduction in the Normal Cost, a 5.4% reduction in the Actuarial Accrued Liability and an 8.2% reduction in the Annual Required Contribution.

Table 5.13 Impact of the EGWP+Wrap Contract			
	Normal Cost	Actuarial Accrued Liability	Total Annual Required Contribution
Before Reflecting the EGWP+Wrap	$37,750	$2,091,258	$123,193
After Reflecting the EGWP+Wrap	$35,770	$1,978,388	$113,078
Impact	($1,980)	($112,870)	($10,115)
% Change	-5.2%	-5.4%	-8.2%

Table 5.14 shows the summary of the changes in Actuarial Accrued Liability, Normal Cost and ARC due to the changes in actuarial assumptions, plan design and experience, identified separately to demonstrate the impact of each change.

The combined valuation experience resulted in an Actuarial Accrued Liability of $2.0 billion, around 7 percent lower than projected in the prior valuation, and a Normal Cost of $35.8 million, almost 3.5 percent lower than projected in the prior valuation. These changes, however, include some incremental changes due to implementation of the new per capita claim costs (real experience shown in Column (b)) and recognition of ICP life insurance reserve maintained by Prudential on behalf of Port Authority to fully fund ICP insurance benefits for certain current retirees.

Table 5.14
Port Authority of New York and New Jersey
Post Retirement Medical Benefits Plan
Impact of the Experience and Assumption Changes on 2011 Valuation Results

Annual Required Contribution (amount in thousands)				
	(a)	(b)	(c)	(d)
	2011 Results Based on 2010 Claim Costs Trended to 2011	2011 Results Based on New 2011 Claims Cost before ICP Reserve Adjustment	2011 Results Based on New 2011 Claims Cost After ICP Reserve Adjustment	2011 Results Based on New 2011 Claims Cost After ICP Reserve Adjustment and EGWP plan changes
PATH				
▪ Normal Cost	$3,463	$2,838	$2,838	$2,689
▪ Actuarial Accrued Liability	$179,805	$160,735	$159,383	$150,781
▪ Total Annual Required Contribution	$9,950	$7,950	$7,853	$7,084
Port Authority				
▪ Normal Cost	$36,388	$34,912	$34,912	$33,081
▪ Actuarial Accrued Liability	$2,042,854	$1,938,937	$1,931,875	$1,827,607
▪ Total Annual Required Contribution	$124,814	$115,849	$115,340	$105,994
Total				
▪ Normal Cost	$39,851	$37,750	$37,750	$35,770
▪ Actuarial Accrued Liability	$2,222,659	$2,099,671	$2,091,258	$1,978,388
▪ Total Annual Required Contribution	$134,764	$123,799	$123,193	$113,078

6. Financial Accounting Information

In addition to establishing the Annual Required Contribution (ARC), this report shows the progress toward funding of the plan benefits. This section includes a schedule of the funding progress, which is a statement of disclosure to report the information required by Governmental Accounting Standards Board (GASB) Statement No. 43.

Also included is a schedule of employer contributions. This schedule compares the expected contribution to the plan with the Annual Required Contribution. Since there are timing differences between the determination of the ARC and the determination of the amounts actually funded, the tables show estimated amounts based on the funding policy as of the measurement date.

Funding Policy

Effective June 2009, the Port Authority's current funding policy was, in addition to pay-as-you-go amounts, to make quarterly contributions of $15 million into the employee benefits trust account on March 15, June 15, September 15, and December 15. Effective December 2010, the Port Authority's funding policy was revised to increase annual contribution to $100 million ($25 million per quarter). In 2009 and 2010, contributions into OPEB Trust totaled $55 million and $70 million, respectively.

GASB Statement number 45 sets out the requirements for governmental employers to determine the Annual Required Contribution for the postretirement benefit plan costs. GASB Statement number 43 sets out the required disclosures for the plans.

The following tables have been prepared as of January 1, 2011 using estimated covered payroll and projected valuation results.

GASB 43 Disclosures

Table 6.1 shows the schedule of funding progress for the Port Authority for the fiscal year ending December 31, 2011.

Table 6.2 shows the projected Annual Required Contribution for FY 2011, and the projected employer contributions. The ratio of the projected employer contributions to the ARC is the percentage of the ARC that is funded.

Table 6.1 Port Authority Schedule of Funding Progress for Fiscal Year Ending December 31, 2011 Liabilities Discounted at 6.0% (Amounts in Thousands)			
	PATH	**Port Authority**	**Total**
1. Actuarial Value of Assets[1]	$ 39,055	$351,487	$ 390,542
2. Actuarial Accrued Liability (AAL)	152,469	1,860,794	2,013,263
3. Unfunded Actuarial Accrued Liability (UAAL) [2 – 1]	113,414	1,509,307	1,622,721
4. Funded Ratio [1/2]	25.6%	18.9%	19.4%
5. Estimated 2011 Covered Payroll	$ 97,414	$ 616,000	$ 713,414
6. UAAL as a Percentage of Covered Payroll [(2 – 1)/5]	116.42%	245.02%.	227.46%

Table 6.2 Port Authority Schedule of Employer Contributions Liabilities Discounted at 6.0% (Amounts in Thousands)	
	Fiscal Year Ending December 31, 2011
1. Annual OPEB Cost	$113,078
2. Employer Contribution	218,249[2]
3. Percentage Contributed [2/1]	193.01%

[1] Assumes accrued interest on assets equal to 6.0% in 2011.

[2] Includes $100 million in additional funding contributed to the trust account in quarterly installments of $25 million on March 15, June 15, September 15, and December 15.

GASB No. 43 Disclosure Development of Net OPEB Obligation

Table 6.3 Postretirement Medical Benefits for All Employees Liabilities Discounted at 6.0% (Amounts in Thousands)		
1. Actuarial Valuation Date	1/1/2010	1/1/2011
2. Normal Cost	$ 37,024	$ 35,770
3. Amortization Cost	98,406	83,917
4. Interest on Unfunded ARC	(4,488)	(6,609)
5. Adjustment of the ARC	0	0
6. Annual OPEB Cost [2 + 3 + 4 + 5]	130,942	113,078
7. Actual Contribution	166,277[1]	218,249[2]
8. Increase (Decrease) in OPEB Obligation [6 – 7]	(35,335)	(105,171)
9. Net OPEB Liability at End of Year [Prior year 9 + 8]	539,979[1]	434,808[2]

Projected Liability and Expense

Table 6.5 shows the projection of actuarial accrued liability and annual required contribution (ARC), using standardized actuarial projection techniques, assuming the Port Authority makes a contribution of $100 million starting in 2011 (by depositing $25 million per quarter). The liabilities are based on a 6.0 percent discount rate. Table 6.5 reflects the existing funding policy of Port Authority.

Table 6.4 shows the projection of actuarial accrued liability and annual required contribution (ARC), using standardized actuarial projection techniques, assuming that the Port Authority contributes $100 million (by depositing $25 million per quarter) in addition to the pay as you go costs in 2011, and no additional contribution will be made from 2012. The liabilities are based on a 6.0 percent discount rate.

These projections assume that all the assumptions are met. The actual APBO and expense will depend on the experience of the participants and changes in the discount rate. In addition, any major changes in the plan design would impact these projections.

[1] Recorded in balance sheet.
[2] Estimation based on the expected benefit payments for the fiscal year ending December 31, 2011.

Table 6.4
Projection Assuming Port Authority Contributes $100 million for 2011 in addition to PAYG, and $0 for 2012+ (Amounts in Thousands)

	TOTAL	2011	2012	2013	2014	2015	2016
1.	**Unrecognized and Unreserved Actuarial Accrued Liability**						
	a. Actuarial Accrued Liability	1,978,388	2,013,263	2,048,856	2,085,958	2,124,488	2,164,434
	b. Assets	274,096	390,542	413,974	438,813	465,142	493,051
	c. Book Accruals	539,979	434,808	423,640	412,822	402,186	391,627
	d. Unrecognized and Unreserved Actuarial Accrued Liability	1,164,313	1,187,913	1,211,242	1,234,323	1,257,160	1,279,756
2.	**Normal Cost**						
	a. Medical	31,816	33,407	35,077	36,831	38,672	40,606
	b. Life	3,954	4,112	4,276	4,447	4,625	4,810
	c. Total	35,770	37,519	39,353	41,278	43,297	45,416
3.	**Annual Required Contribution**						
	a. Normal Cost	35,770	37,519	39,353	41,278	43,297	45,416
	b. Amortization Cost	83,917	85,617	87,299	88,963	90,608	92,237
	c. Interest on Unfunded (Overfunded) ARC	(6,609)	(12,919)	(13,589)	(14,239)	(14,877)	(15,510)
	d. ARC adjustment	0	0	0	0	0	0
	e. Total	113,078	110,217	113,063	116,002	119,028	122,143
4.	**Funding**						
	a. Assets at start of year	274,096	390,542	413,974	438,813	465,142	493,051
	b. Paid to trust fund*	218,249	121,385	123,881	126,638	129,587	132,336
	c. Paid from trust fund	118,249	121,385	123,881	126,638	129,587	132,336
	d. Investment earnings	16,446	23,432	24,839	26,329	27,909	29,583
	e. Assets at end of year	390,542	413,974	438,813	465,142	493,051	522,634
5.	**Unfunded ARC**						
	a. Cumulative Unfunded (Overfunded) ARC at BOY	(110,150)	(215,321)	(226,489)	(237,307)	(247,943)	(258,502)
	b. ARC	113,078	110,217	113,063	116,002	119,028	122,143
	c. Funding PAYG	118,249	121,385	123,881	126,638	129,587	132,336
	d. Additional $100 million in 2011, $0 for 2012+	100,000	0	0	0	0	0
	e. Additional Unfunded (Overfunded) ARC for Plan Year	(105,171)	(11,168)	(10,818)	(10,636)	(10,559)	(10,193)
	f. Cumulative Unfunded (Overfunded) ARC at EOY	(215,321)	(226,489)	(237,307)	(247,943)	(258,502)	(268,695)
6.	**Retiree Payments**	118,249	121,385	123,881	126,638	129,587	132,336
7.	**Increase in Operational Expenses Due to GASB**						
	a. Accrual Cost under GASB (ARC)	113,078	110,217	113,063	116,002	119,028	122,143
	b. Funded amount (PAYG + $100M in 2011)	218,249	121,385	123,881	126,638	129,587	132,336
	c. Additional Accrual (Drawdown)	(105,171)	(11,168)	(10,818)	(10,636)	(10,559)	(10,193)
8.	**Drawdown of Existing Reserve**						
	a. Reserve at Start of year	539,979	444,808	423,640	412,822	402,186	391,627
	b. Increase (Drawdown)	(105,171)	(11,168)	(10,818)	(10,636)	(10,559)	(10,193)
	c. Interest earned on Reserve	0	0	0	0	0	0
	d. Reserve at End of Year	434,808	423,640	412,822	402,186	391,627	391,434

* Includes a contribution of $100 million in 2011($25 million per quarter), $0 from 2012+

Table 6.5
Projection Assuming Port Authority Contributes $100 million for 2011+ in Addition to PAYG Annually (Amounts in Thousands)

	TOTAL	2011	2012	2013	2014	2015	2016
1.	**Unrecognized and Unreserved Actuarial Accrued Liability**						
	a. Actuarial Accrued Liability	1,978,388	2,013,263	2,048,856	2,085,958	2,124,488	2,164,434
	b. Assets	274,096	390,542	513,974	644,813	783,502	930,512
	c. Book Accruals	539,979	434,808	323,640	206,822	95,576	0
	d. Unrecognized and Unreserved Actuarial Accrued Liability	1,164,313	1,187,913	1,211,242	1,234,323	1,245,410	1,233,922
2.	**Normal Cost**						
	a. Medical	31,816	33,407	35,077	36,831	38,672	40,606
	b. Life	3,954	4,112	4,276	4,447	4,625	4,810
	c. Total	35,770	37,519	39,353	41,278	43,297	45,416
3.	**Annual Required Contribution**						
	a. Normal Cost	37,770	37,519	39,353	41,278	43,297	45,416
	b. Amortization Cost	83,917	85,617	87,299	88,963	89,761	88,933
	c. Interest on Unfunded (Overfunded) ARC	(6,609)	(12,919)	(19,589)	(26,599)	(33,978)	(41,809)
	d. ARC adjustment	0	0	0	0	0	0
	e. Total	113,078	110,217	107,063	103,642	99,080	92,540
4.	**Funding**						
	a. Assets at start of year	274,096	390,542	513,974	644,813	783,502	930,512
	b. Paid to trust fund*	218,249	221,385	223,881	226,638	229,587	232,336
	c. Paid from trust fund	118,249	121,385	123,881	126,638	129,587	132,336
	d. Investment earnings	16,446	23,432	30,839	38,689	47,010	55,831
	e. Assets at end of year	390,542	513,974	644,813	783,502	930,512	1,086,343
5.	**Unfunded ARC**						
	a. Cumulative Unfunded (Overfunded) ARC at BOY	(110,150)	(215,321)	(326,489)	(443,307)	(566,303)	(696,810)
	b. ARC	113,078	110,217	107,063	103,642	99,080	92,540
	c. Funding PAYG	118,249	121,385	123,881	126,638	129,587	132,336
	d. Additional $100 million in 2011+	100,000	100,000	100,000	100,000	100,000	100,000
	e. Additional Unfunded (Overfunded) ARC for Plan Year	(105,171)	(111,168)	(116,818)	(122,996)	(130,507)	(139,796)
	f. Cumulative Unfunded (Overfunded) ARC at EOY	(215,321)	(326,489)	(443,307)	(566,303)	(696,810)	(836,606)
6.	**Retiree Payments**	118,249	121,385	123,881	126,638	129,587	132,336
7.	**Increase in Operational Expenses Due to GASB**						
	a. Accrual Cost under GASB (ARC)	113,078	110,217	107,063	103,642	99,080	92,540
	b. Funded amount (PAYG + $100M in 2011+)	218,249	221,385	223,881	226,638	229,587	232,336
	c. Additional Accrual (Drawdown)	(105,171)	(111,168)	(116,818)	(122,996)	(130,507)	(139,796)
8.	**Drawdown of Existing Reserve**						
	a. Reserve at Start of year	539,979	434,808	323,640	206,822	95,576	0
	b. Increase (Drawdown)	(105,171)	(111,168)	(116,818)	(122,996)	(130,507)	(139,796)
	c. Interest earned on Reserve	0	0	0	0	0	0
	d. Reserve at End of Year	434,808	323,640	206,822	95,576	0	0

* Includes a contribution of $60 million starting from 2011 ($25 million per quarter).

7. Summary of Plan Provisions

The following description of the benefit provisions was prepared based on summaries provided by the Port Authority.

Postretirement Benefits

Eligibility:	*PATH:* Eligible to retire from the Railroad Retirement Board (30 or more years of creditable service and at least age 60 or 10 to 29 years of creditable service (5-9 years if at least 5 years were after 1995) and at least age 62. *Port Authority:* Eligible to retire from the New York State Retirement System (minimum of 5 years of NYS Retirement System credit and at least age 55).
Dependent Eligibility:	Spouse and unmarried children up to age 19; or age 26 if unmarried, dependent on employee for support and full-time student.
Survivor Eligibility:	Surviving spouses continue to be eligible beyond the retiree's death as long as they remain unmarried.
Medical Plan Benefits:	Eligible participants can enroll in the plans offered by the Port Authority.
Termination of Coverage:	Coverage (dental and life insurance) terminates if a retiree stops paying the required premium.

Summary of Postretirement Healthcare Coverage

All Retirees:	Medical coverage administered by United Healthcare. Pharmacy coverage administered by Express Scripts Inc.
Deductible:	*In Network:* none *Out of Network:* $50 for individual, $100 for family; $200 for individual $400 for family (non-represented employees hired on/after 1/1/04)
Coinsurance:	*In Network:* none *Out of Network:* 20%
Maximum Out-of-Pocket:	*In Network:* not applicable *Out of Network:* $1,000 per person
Preventive Care:	*In Network:* - Physical Examinations: $5 copay per visit - Routine Pediatric Care: 100% coverage *Out of Network:* - Routine Pediatric Care: 100% coverage

Outpatient Care:	*In Network:* - Physician Office visits: $5 copay per visit - Surgery: 100% coverage - Laboratory Services: 100% coverage *Out of Network:* - Physician Office visits: subject to deductible and coinsurance - Surgery: 100% coverage of R&C - Laboratory Services: 100% coverage of R&C
Hospital Care:	For semi-private room & board *In Network:* 100% coverage *Out of Network:* 120 days at 100% balance paid at 80%
2006 Benefit Changes:	Effective January 1, 2006 for pre 1998 retirees i.e. those retirees whose prescription benefits were administered under the United Healthcare plan described above. For those Medicare-eligible retirees, the benefit plan will be changed as follows.
Medical Benefit:	$50 per person, $100 per family deductible and a maximum out-of-pocket limit of $500
Pharmacy Benefit:	No deductible, 20 percent coinsurance, and an annual out-of-pocket limit of $500.
Post-1998 Retirees:	
Pharmacy Benefit:	Per prescription copays of $2 for generic scripts and $5 for brand-named scripts filled at retail. A mail-order program provides up to 90-day supply for a copay of $2 for generic prescriptions and $5 for brand-named prescriptions. Any non-represented employees hired after January 1, 2004 and CWA-1032 members hired after January 1, 2006 have a 15% copay.

Dental Benefits

Preventive Benefits:	100% reimbursed, exclusive of deductible and maximum reimbursement
Restorative Services:	80% reimbursed, up to maximum reimbursement for certain union & management new hires.
Orthodontics:	80% reimbursed, up to $2,000, one treatment per lifetime per eligible dependent under age 19.
Deductible:	$50 per individual and $100 per family.
Maximum Reimbursement:	$2,000 per person.

Medicare Part B Premiums

Reimbursement Benefits:

Management employees who retire after 7/1/2000 are eligible for reimbursement of the standard Medicare Part B premium upon attainment of age 65 and enrolling in Medicare Part B.

The reimbursement benefit covers the spouse of the Part B premium, beginning with the date that both the retiree and the spouse are age 65 or older.

Due to a decline in CPI between September 2008 and September 2009, Social Security Benefits did not increase effective January 1, 2010. Similarly, the CPI in September 2010 was still below the September 2008 value so there was no COLA in 2011. Medicare limits the amount by which the Part B premium can increase to the amount by which the Social Security benefit increases. Accordingly, for current retirees, the Part B premium in 2011 is the same as for 2009 ($96.40 per month).

For new retirees, the standard Medicare Part B monthly premium will be $110.50 in 2010, which is a 15% increase over the 2009 premium, and $115.40 in 2011, which is a 4% increase over the 2010 premium.

Some individuals pay more than the standard if their income is above certain thresholds. For the valuation, we have only measured the costs for the standard Part B premiums.

Summary of Life Insurance Plan Valuation for Future Retirees

Group Life Insurance					
			Retiree Contributions per month/$1,000		
Benefit Program	**Amount**	**Reduction**	**< 25 Years**	**> 25 Years**	
ATD	1X, 2X or 3X Salary or $15,000	ICP at Age 65	$0.325 $0.000	$0.325 $0.000	
ARS	1X, 2X or 3X Salary	ICP at Age 65	$0.325	$0.325	
BLE	1X, 2X or 3X Salary	ICP at Age 65	$0.325	$0.325	
BRC	1X, 2X or 3X Salary or $15,000	ICP at Age 65	$0.325 $0.000	$0.325 $0.000	
BRS	1X, 2X or 3X Salary or $10,000	ICP at Age 65	$0.325 $0.000	$0.325 $0.000	
BTU -Pre 10/6/94 hires -Post 10/6/94 hires	 1X, 2X or 3X Salary 1X Salary	 ICP at Age 65	Retire > 3/3/01 $0.306	Retire > 3/3/01 $0.000	Retire < 3/3/01 $0.325
CWA-1032 -Pre 10/1/93 hires -Post 10/1/93 hires	 1X, 2X or 3X Salary 1X Salary	 ICP at Age 65	Retire > 6/30/98 $0.306	Retire > 6/30/98 $0.000	Retire < 6/30/98 $0.325
CWA-1177 -Pre 4/14/94 hires -Post 4/14/94 hires	 1X, 2X or 3X Salary 1X Salary	 ICP at Age 65	Retire > 6/30/98 $0.306	Retire > 6/30/98 $0.000	Retire < 6/30/98 $0.325
IBC -Pre 11/1/97 hires -Post 11/1/97 hires	 1X, 2X or 3X Salary 1X Salary	 ICP at Age 65	 $0.325	 $0.325	
IBS -Pre 11/1/97 hires -Post 11/1/97 hires	 1X, 2X or 3X Salary 1X Salary	 Retire before 2/7/92 - ICP at Age 65 Retire after 2/7/92 - 1X Salary at Age 65	 $0.325	 $0.325	
IBT -Pre 1/1/98 hires -Post 1/1/98 hires	 1X, 2X or 3X Salary 1X Salary or $10,000	 ICP at Age 65	 $0.325 $0.325	 $0.325 $0.325	
IBW -Pre 6/21/89 hires -Post 6/21/89 hires	 1X, 2X or 3X Salary 2% x Salary x Service	 2% x Salary x Service at Age 65 n/a	Retire > 6/3/01 $0.306	Retire > 6/3/01 $0.000	Retire < 6/3/01 $0.325
FP -Pre 7/1/88 hires -Pre 7/1/88 hires -Post 7/1/88 hires	 1X, 2X or 3X Salary 1X, 2X or 3X Salary 1X Salary	 Retired before 1/1/93 - 10%/year 65 to 71 Retired after 1/1/93 - 5%/year 65 to 71 Retired after 1/1/93 - 10%/year 65 to 71	Retire > 7/1/96 $0.306	Retire > 7/1/96 $0.000	Retire < 7/1/96 $0.325
PBA/SBA/DEA/LBA	 1X, 2X or 3X Salary	 10%/year 65 to 71	Retire > 7/1/96 $0.306	Retire > 7/1/96 $0.000	Retire < 7/1/96 $0.325
MGT/MAN -Pre 7/1/88 hires -Post 7/1/88 hires	 1X, 2X or 3X Salary 2% x Salary x Service	 5%/year 65 to 71 n/a	Retire > 7/1/96 $0.306	Retire > 7/1/96 $0.000	Retire < 7/1/96 $0.325
NCL/NUC -Pre 2/1/93 hires -Post 2/1/93 hires	 1X, 2X or 3X Salary 2% x Salary x Service	 ICP at Age 65	Retire > 7/1/96 $0.306	Retire > 7/1/96 $0.000	Retire < 7/1/96 $0.325

Group Life Insurance

			Retiree Contributions per month/$1,000		
Benefit Program	**Amount**	**Reduction**	**< 25 Years**	**> 25 Years**	
TWT -Pre 11/1/97 hires -Post 11/1/97 hires	1X, 2X or 3X Salary 1X Salary or $10,000	ICP at Age 65	$0.325 $0.000	$0.325 $0.000	
TWU	1X, 2X or 3X Salary	ICP at Age 65	Retire > 7/28/04 $0.611	Retire > 7/28/04 $0.611	Retire < 7/28/04 $0.325
UAT	1X, 2X or 3X Salary	ICP at Age 65	Retire > 7/1/96 $0.306	Retire > 7/1/96 $0.000	Retire < 7/1/96 $0.325
UOE -Pre 10/6/94 hires -Post 10/6/94 hires	1X, 2X or 3X Salary 1X Salary	ICP at Age 65	Retire > 3/3/01 $0.353	Retire > 3/3/01 $0.000	Retire < 3/3/01 $0.325
UTU/UTC -Pre 10/1/97 hires -Post 10/1/97 hires	1X, 2X or 3X Salary 1X Salary	ICP at Age 65	$0.325	$0.325	

Insurance Continuation Program (ICP)*

		Retiree Contributions per month/$1,000		
Benefit Program	**Amount**	**< 25 Years**	**> 25 Years**	
MGT/MAN	N/A	N/A	N/A	
FP	N/A	N/A	N/A	
ATD/ARS	Varies by Hire Date	$0.000	$0.000	
BLE/BRC	Varies by Hire Date	$0.000	$0.000	
BRS	Varies by Hire Date	$0.000	$0.000	
BTU/UOE	Varies by Hire Date	Retire > 3/3/01 $0.59	Retire > 3/3/01 $0.000	Retire < 3/3/01 $1.18
CWA-1032/1177	$10,000	Retire > 6/30/98 $0.59	Retire > 6/30/98 $0.000	Retire < 6/30/98 $1.18
IBC/IBS	Varies by Hire Date	$0.000	$0.000	
IBT	Varies by Hire Date	$0.000	$0.000	
IBW	Varies by Hire Date	Retire < 6/21/89 $1.18	Retire < 6/21/89 $1.18	Retire > 6/21/89 N/A
NCL/NUC	$10,000	Retire > 7/1/96 $0.59	Retire > 7/1/96 $0.000	Retire < 7/1/96 $1.18
PBA/SBA/DEA/LBA	Varies by Hire Date	$1.18	$1.18	
TWT	Varies by Hire Date	$0.000	$0.000	
TWU	Varies by Hire Date	$1.18	$1.18	
UAT	Varies by Hire Date	$1.18	$1.18	
UTU/UTC	Varies by Hire Date	$0.000	$0.000	

* ICP is considered fully paid-up at age 65.

Supplemental Life Insurance

Face amount based on the election choice of 1 or 2 times pay.
Employee contributions are $.4875 per $1,000 of coverage per month.

Summary of Life Insurance Plan Valuation for Current Retirees

Actual Life, Death, Supplemental Life, and ICP amounts are valued for current retirees.

Retiree Contributions for Postretirement Health Plans

The Port Authority postretirement medical plans are fully employer paid except as described below:

For MGT/FP/NCL/MAN/NUC (retired > 6/30/96), CWA (retired > 6/30/98), BTU/UOE (retired > 3/3/01), IBW (retired > 6/3/01), dental plans are fully employer paid if retired with 25 or more years of service; if less than 25 years of service, retiree contribution is 50% of cost. For all other circumstances, no contribution is required for R&C dental.

8. Participant Data

The following tables show the current retired participants, and the potential participants who are currently active.

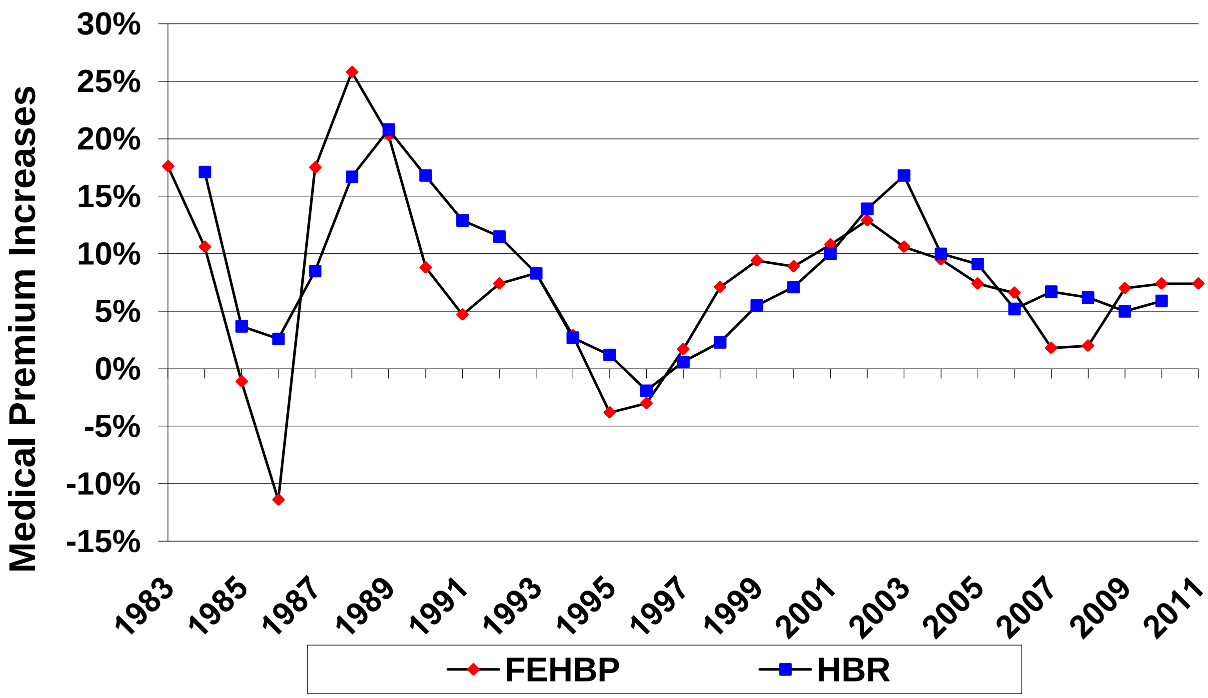
Table 8
Summary of Participant Data as of January 1, 2011

	Males	Females	Total
PATH			
Retirees and Beneficiaries	506	243	749
Eligible Active employees	28	4	32
Other Included Active employees	282	23	305
Ineligible Active employees	607	122	729
Total Included employees	**1,423**	**392**	**1,815**
Average Age for Included Actives	46.68	40.98	45.89
Average Service for Included Actives	16.39	10.51	15.58
Port Authority			
Retirees and Beneficiaries	4,276	2,539	6,815
Eligible Active employees	690	244	934
Other Included Active employees	1,692	593	2,285
Ineligible Active employees	2,075	570	2,645
Total Included employees	**8,733**	**3,946**	**12,679**
Average Age for Included Actives	45.38	46.27	45.59
Average Service for Included Actives	14.90	17.20	15.45
Total			
Retirees and Beneficiaries	4,782	2,782	7,564
Eligible Active employees	718	248	966
Other Included Active employees	1,974	616	2,590
Ineligible Active employees	2,682	692	3,374
Total Included employees	**10,156**	**4,338**	**14,494**
Average Age for Included Actives	45.60	45.77	45.64
Average Service for Included Actives	15.15	16.56	15.47

Data on employees and retirees who are currently not participating were not included in this analysis.

Appendix A

HBR & FEHBP Medical Premium Increases
Selected Calendar Years from 1981 to 2011



FEHBP = Federal Employees Health Benefit Program
HBR = Hay Benefits Report

The above chart shows the annual percentage change in the premiums for the Federal Employees Health Benefit Program as well as the annual change in the average premiums among the Hay Benefits Report participants.

The chart shows the cyclical nature of annual premium rate increases (and decreases).

Since 2003 we saw the gradual decline in premium rate increases, the premium rate increase has started to increase since 2006. The FEHBP appears to be a leading indicator of price changes. In 2005 the FEHBP average was 7.9 percent, in 2006 it was 6.6 percent, in 2007 and 2008 it was 2 percent, in 2009 it was 7 percent, and in 2010 and 2011 it was 7.4%.

Appendix B

Actuarial Assumptions

Measurement Date:	January 1, 2011
Actuarial Cost Method:	Projected Unit Credit
Discount Rate:	6.0% per annum
Mortality Decrement:	RPA2000 Table – Male and Female

Withdrawal Decrement:

- Management/Clerical -

Years of Service	*Rate*
0 – 1	15%
1 – 2	10%
more than 2 years	Sarason T-5

- Unions – Sarason T-5 ranging from 7.72% at age 25 to 3.98% at age 45

Retirement Decrement:

- Police

Age	Eligible Actives	Age	Eligible Active
55	0.050	61	0.100
56	0.050	62	0.500
57	0.050	63	0.200
58	0.050	64	0.200
59	0.100	65 and over	1.000
60	0.100		

- Management, Clerical, other Unions and PATH *

Age	Eligible Actives	Age	Eligible Actives
55	0.050	63	0.150
56	0.050	64	0.150
57	0.050	65	0.250
58	0.050	66	0.250
59	0.050	67	0.300
60	0.100	68	0.300
61	0.100	69	0.500
62	0.200	70 and over	1.000

Disability: None assumed

* All PATH employees are assumed to become eligible for postretirement benefits upon attainment of age 62.

Percentage Joining Plan:	All eligible employees are assumed to participate in the plan.
Percentage Married:	86% of active male participants and 38% of active female participants are assumed to cover a spouse at retirement. Wives are assumed to be three years younger than their husbands. Actual spouse data were used for current retirees.
Per Capita Value of the Prescription Drug Payment from CMS:	$682 in calendar year 2011, increasing thereafter at the pharmacy trend rate. We estimated the saving for the EGWP+Wrap as $392 per Medicare eligible employee, net of the additional administration fees. All current active employees who are enrolled in HMOs are assumed to switch to the United Healthcare upon retirement.
Life Benefit Face Amount:	Life insurance is valued according to Plan provisions summarized in Section 7 of this report. Our valuation reflects the ICP insurance reserve maintained by Prudential to use the funds to pay claims for the retirees with ICP coverage.

September 19, 2011

Actuarial Valuation Report:

PATH Exempt Employees Supplemental Pension Plan as of December 31, 2011

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The Port Authority of New York & New Jersey

HayGroup®

Contents

Introduction

This Report was commissioned by the Port Authority of New York & New Jersey to determine the 2011 Actual Required Contribution (ARC) and the projected December 31, 2011 balance sheet accrual (net pension obligation) for the PATH Employees Supplemental Pension Plan.

The Plan is a non-qualified, unfunded defined benefit plan for certain PATH exempt employees.

The Port Authority does not currently fund the Plan, and, therefore, there are no plan assets as such. The Port Authority accrues a liability based on the accumulation of annual pension expense charges.

The results of this valuation are based on:

a) the Plan Document and amendments thereto through January 1, 2011 as provided to us by The Port Authority, and summarized in Section 4;
b) the end of year 2010 participant census data provided to us by the Dickinson Group, including plan compensation, projected forward with salary scale and adjustments made for retiree benefit payments;
c) the financial information was provided to us by The Port Authority;
d) the actuarial cost method and assumptions outlined in Section 5.

The report contains the exhibits required under the Government Accounting Standards Board (GASB) Statement No. 27, as it was amended by GASB No. 50.

We are available to answer any questions that may arise regarding these results.

Respectfully,

Adam E. Meyers, FSA, EA, MAAA
Vice President

Yuri Nisenzon, ASA, EA, MAAA
Principal

Section 1: Actual Required Contribution (ARC) and Net Pension Obligation (NPO)

GASB Statement No. 27 establishes the standards of accounting and financial reporting for pension expenditures/expense and related pension liability, pension assets, note disclosures and required supplementary information in the financial reports of governmental employers.

GASB Statement No. 27 does not require the employer to fund any specific amount. Rather it determines the standards (parameters) to be used for purposes of expensing the cost of pension benefits on the employer's financial statements.

Statement No. 27 uses certain specific terms including:

Net Pension Obligation (NPO) – Represents the employer's transition obligation/asset for past underfunding/overfunding of contribution amounts compared to those actuarially determined. After the effective date of Statement No. 27, it will include the cumulative difference between annual pension cost (actual required contribution) and the employer's contributions.

Actual Required Contribution (ARC) – Represents the "contribution amount" that can also be used for purposes of reporting annual pension expense/accounting. If an employer has a NPO, an adjustment to the ARC is required for expense/accounting purpose. In determining the ARC amount, certain actuarial parameters must be met. The summary of these parameters can be found in Section 5 of this report.

Table 1 below shows development of ARC. Table 2 discloses ARC and NPO for the current and each of the two preceding years (see GASB 27, Paragraph 21). Table 3 shows the percentage of ARC contributed.

In May 2007 GASB issued a new Statement No. 50 to amend statements No. 25 and No. 27. The purpose of the new statement is to conform with applicable changes adopted in statements No. 43 and 45 related to amendment of note disclosure and required supplementary information (RSI). Generally, the requirements of this statement are effective for the periods beginning after June 15, 2007 (with early implementation encouraged). We refer to amendments made by GASB No. 50 throughout the report.

Table 1
Actual Required Contribution (ARC) for 2011

1.	Service cost with interest for plan year 2011	$1,235,920
2.	Amortization of unfunded projected benefit obligation (PBO)[1]	$2,573,189
3.	Interest on NPO	$1,356,968
4.	Adjustment to ARC due to amortization of unfunded portion of NPO[2]	($1,232,167)
5.	**Total Actual Required Contribution (1) + (2) + (3) + (4)**	**$3,933,910**
6.	Payroll[3]	$9,185,366
7.	Actual Required Contribution as a percentage of payroll (5) / (6)	42.83%

Table 2
Development of Actual Required Contribution and Net Pension Obligation for the Year Ended

		31-Dec-11	31-Dec-10	31-Dec-09
1.	Service Cost with interest	$ 1,235,920	$ 1,309,503	$ 1,199,280
2.	Interest on Net Pension Obligation (NPO)	$ 1,356,968	$ 1,324,890	$ 1,273,388
3.	Adjustment due to Actuarial Amortization	$ 1,341,022	$ 1,341,406	$ 1,478,516
4.	Actual Required Contribution (1)+(2)+(3)	$ 3,933,910	$ 3,975,799	$ 3,951,184
5.	Actual Required Employer's Contribution for the Year	$ 3,934,000	$ 3,976,000	$ 3,951,000
6.	NPO at the Beginning of the Year	$25,847,000	$25,236,000	$24,255,000
7.	Benefits Paid during the Year[4]	$ 2,877,171	$ 3,365,000	$ 2,970,000
8.	Railroad Retirement Plan Annual Cost	$ 0	$ 0	$ 0
9.	NPO at the End of the Year (5)+(6)-(7)+(8)	$26,903,829	$25,847,000	$25,236,000
10.	Percentage of ARC Contributed (7)/(5)	73.14%	84.64%	75.17%

[1] Table 1, Line 2 is the amortization of the unfunded PBO as of 12/31/2011 of $53,977,434 for 30 years based on 5.25% interest and 2.5% CPI portion of future salary increase assumptions.
[2] Table 1, Line 4 is 30 years amortization of NPO at the end of the prior year based on the same assumptions.
[3] Estimated amount based on the information reported by the Dickinson Group.
[4] Estimated 12/31/2011 total (based on the projected number reported by The Port Authority-Comptroller's Department).

Table 3
Schedule of Employer Contributions

Calendar Year	Actual Required Contribution (ARC)	Actual Contribution	Percentage Contributed	Net Pension Obligation
1999	$2,551,000	$1,463,000	57.35%	$15,728,000
2000	$2,675,000	$1,710,000	63.93%	$16,718,000
2001	$2,769,000	$1,837,000	66.34%	$17,666,000
2002	$2,510,000	$1,945,000	77.44%	$18,231,000
2003	$2,942,000	$1,956,000	66.48%	$19,217,000
2004	$3,123,000	$2,146,000	68.72%	$20,194,000
2005	$3,423,000	$2,354,000	68.77%	$21,263,000
2006	$3,515,000	$2,610,000	74.25%	$22,168,000
2007	$3,729,000	$2,578,000	69.13%	$23,319,000
2008	$3,694,000	$2,807,000	75.99%	$24,255,000
2009	$3,951,000	$2,765,000	69.98%	$25,236,000
2010	$3,976,000	$3,365,000	84.64%	$25,847,000
2011	$3,934,000	$2,877,171	73.14%	$26,903,829

According to Paragraph 198 of Statement No. 27, as amended by GASB No. 50, the information disclosed in Table 3 must be included in the notes to the Financial Statements. Note that the Supplemental Retirement Plan is included in The Port Authority's financial reporting entity. Accordingly, the requirement of Paragraph 22 of Statement 27 and Paragraph 9 of Statement 50 to present a schedule of funding progress covering at least three actuarial valuations would be met by complying with Paragraphs 33 – 40 of Statement No. 25 and Paragraph 6 of Statement No. 50. This schedule is shown below in Table 4.

Section 2: Funding Progress and Notes to GASB 25/27/50

Under GASB 27, an Employer is required to disclose the information about funding progress (even if the plan is not accumulating assets). Since separate financial statements are not issued for PATH Supplemental Pension Plan, a schedule of funding progress for six years should be included as required supplementary information immediately after the notes to the financial statements (see GASB 25, Paragraphs 33 – 40 as amended by Paragraph 6 of Statement No. 50). Table 4 below shows the schedule of Funding Progress for the current and each of the 12 previous years. Paragraph 4c of Statement No. 50 requires that the illustrated funded status information be disclosed as of the most recent actuarial valuation date.

Table 4
Schedule of Funding Progress as of December 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a percentage of payroll
	(1)	(2)	(2) – (1)	(1)/(2)	(3)	[(2)-(1)]/(3)
12/31/99	0	$22,141,722	$22,141,722	0%	$7,399,642	299.23%
12/31/00	0	$23,680,524	$23,680,524	0%	$ 7,695,628	307.71%
12/31/01	0	$25,018,271	$25,018,271	0%	$ 8,003,452	312.59%
12/31/02	0	$35,963,911	$35,963,911	0%	$ 6,289,438	571.81%
12/31/03	0	$40,289,181	$40,289,181	0%	$ 8,298,977	485.47%
12/31/04	0	$40,518,477	$40,518,477	0%	$ 9,060,611	447.19%
12/31/05	0	$46,908,260	$46,908,260	0%	$ 8,514,476	550.92%
12/31/06	0	$51,712,312	$51,712,312	0%	$ 7,505,546	688.99%
12/31/07	0	$53,175,523	$53,175,523	0%	$ 8,709,404	610.55%
12/31/08	0	$54,126,462	$54,126,462	0%	$ 8,314,914	650.96%
12/31/09	0	$55,269,634	$55,269,634	0%	$ 9,042,845	611.20%
12/31/10	0	$53,382,467	$53,382,467	0%	$10,455,710	510.56%
12/31/11	0	$53,977,437	$53,977,437	0%	$ 9,185,366	587.65%

The December 31, 2010 and December 31, 2011 PBOs are as follows:

Table 5

	2010	2011
Actives	$16,774,805	$17,363,169
Retirees	33,758,200	33,415,374
Terminated Vesteds	2,849,462	3,198,895
Total PBO	$53,382,467	$53,977,437

The schedule of funding progress, shown as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits.

Notes to GASB 25 (Paragraph 40)/GASB27 (Paragraph 21)/GASB 50 (Paragraph 4)

The information presented in the required schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date:	December 31, 2011
Measurement Date:	January 1, 2011
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	30-Year level
Asset Valuation Method:	N/A
Actuarial Assumptions:	
Mortality Assumption:	RP-2000 Mortality Table
Interest rate:	5.25%[1]
Projected Salary Increases:	3.0%[1]
Amortization Period:	20.98[2]
Withdrawal Rates:	Age 25 4.8948%
	Age 35 2.3492%
	Age 45` 0.2653%
Retirement Age:	Age 55 for Category I For Categories II, III, IV, and V the following Retirement Rates were used:

Age	Rate
55	30%
56-61	0%
62	100%

[1] Includes inflation at 2.5%.
[2] For the level salary amortization period only the inflation related part (equal to 2.5%) of the annual salary increase is used.

Section 3: Summary of Plan Provisions

Name of Plan: PATH Exempt Employees Pension Plan

Type of Plan: Non-Qualified Defined Benefit Plan

Plan Year: Calendar Year

Last Plan Amendment: The Plan was amended and restated as of January 1, 2010

Eligibility Requirement: Upon date of employment as a PATH Exempt Employee

Credited Service: Credited Service shall equal all service as an employee of PATH or its predecessors for employees in exempt service on February 28, 1982. For employees entering exempt service on or after March 1, 1982, Credited Service shall equal only service as an exempt employee.

Final Average Salary: Average of the three highest consecutive years of salary.

Normal Retirement Age: 62, except as listed below.

Normal Form of Benefit: Life annuity.

Vesting: For Participant who is Category I, II, III, or IV Employee, 100% after either 5 years of exempt service or a combination of 10 years of exempt and non-exempt service.

For a Participant who is a Category V Employee, such Participant's right to receive his Retirement Benefit shall become non-forfeitable only if the Participant has accumulated upon Retirement either (a) ten (10) years of Vesting Service as an Exempt Employee, or (b) ten (10) years of Vesting Service in any combination of service as an Exempt Employee and not as an Exempt Employee.

Death Benefit: (while active) for those hired before July 1, 1973 lump sum equal to last 12 months average of salary for each year of service up to 36. For everybody else is equal to annual salary for each year of service up to 3, reduced by 4% a year starting from age 61 (total reduction cannot be more than 40%).

Benefit Structure

<u>Category I</u>. Those hired before July 1, 1973 who also were employed as exempt employees before January 1, 1990*:*

a. With at least 20 years of Credited Service: 2% of Final Average Salary for each full year of Credited Service payable at age 55.

b. With less than 20 years of Credited Service: 1.66% of Final Average Salary for each full year of Credited Service payable at age 55.

Neither A nor B may exceed a maximum of 75% of Final Average Salary.

The above benefit is to be reduced by the amount of the employee's Railroad Retirement Tier II Benefit upon receipt of such Benefit.

<u>Category II</u>. Those hired on or after July 1, 1973 but before July 27, 1976 who were also employed as exempt employees before January 1, 1990.

a. With at least 20 years of Credited Service: 2% of Final Average Salary for each full year of Credited Service payable at age 62.

b. With less than 20 years of Credited Service: 1.66% of Final Average Salary for each full year of Credited Service payable at age 62.

Neither A nor B may exceed the lesser of 75% of Final Average Salary.

This benefit would be reduced by ½% for each of the 24 months benefit commencement precedes age 62 and by an additional ¼% for each month commencement precedes age 60.

The above benefit would be further reduced by the amount of the employee's Railroad Retirement Tier II Benefit upon receipt of such Benefit.

<u>Category III</u>. Those hired on or after July 27, 1976 but before September 1, 1983 and who were employed as exempt employees before January 1, 1990.

a. With at least 20 years of Credited Service: 2% of Final Average Salary for each year of Credited Service not to exceed 30 years plus an additional 1.5% of Final Average Salary for each year of Credited Service beyond 30 years, commencing at age 62.

b. With less than 20 years of Credited Service: 1.66% of Final Average Salary for each year of Credited Service commencing at age 62.

This benefit would be reduced by ½% for each of the 24 months benefit commencement precedes age 62 and by an additional ¼% for each month commencement precedes age 60.

The above benefit would be further reduced by the amount of the employee’s Railroad Retirement Tier II Benefit upon receipt of such Benefit.

Category IV. Eligible exempt employees hired on or after September 1, 1983 or who were not employed as exempt employees before January 1, 1990.

a. With at least 20 years of Credited Service: 2% of Final Average Salary for each year of Credited Service not to exceed 30 years plus an additional 1.5% of Final Average Salary for each year or Credited Service beyond 30 years commencing at age 62.

b. With less than 20 years of Credited Service: 1.66% of Final Average Salary for each year of Credited Service commencing at age 62.

This benefit would be reduced by ½% for each of the 24 months benefit commencement precedes age 62 and by an additional ¼ % for each month commencement precedes age 60.

The supplemental benefit would be reduced by the amount of the employee’s Railroad Retirement Tier II Benefit upon receipt of such benefit.

Category V. Eligible exempt employees hired on or after January 1, 2010 and who was not an exempt employee before January 1, 1990.

a. With at least 20 years of Credited Service: 2% of Final Average Salary for each year of Credited Service not to exceed 30 years plus an additional 1.5% of Final Average Salary for each year or Credited Service beyond 30 years commencing at age 62.

b. With less than 20 years of Credited Service: 1.66% of Final Average Salary for each year of Credited Service commencing at age 62.

This benefit would be reduced by 1/180 for each of the 24 months benefit commencement precedes age 62 and by an additional 1/240 for each month commencement precedes age 60.

The supplemental benefit would be reduced by the amount of the employee’s Railroad Retirement Tier II Benefit upon receipt of such benefit.

For all eligible exempt employees, employee contributions made toward the Railroad Retirement Tier II benefit while employed in service other than exempt service may be excluded in determining the amount of the reduction of the Supplemental Benefit resulting from receipt of the Tier II Benefit.

Eligible exempt employees hired before January 1, 2001 who upon retirement would have received a greater Service Retirement Pension under the Basic Plan Description than from the above, may receive such Pension under the Basic Plan Description without reference to the above.

Final Average Salary

Final Average Salary is defined as the average of the three (3) highest consecutive years (that is, thirty-six (36) consecutive months) of Compensation.

a. For a Participant who was a Category I Employee and who was not employed by the Employer before June 17, 1971, to the extent that Compensation earned in any Plan Year used in the Final Average Salary calculation exceeds the Compensation earned in the preceding Plan Year by more than twenty percent (20%), the amount over twenty percent (20%) is not included in determining Final Average Salary.

b. For a Participant who was a Category II Employee, if Compensation earned in any Plan Year used to determine Final Average Salary exceeds the average of the Compensation earned for the previous two (2) Plan Years by more than twenty percent (20%), the amount in excess of twenty percent (20%) is excluded from the computation of Final Average Salary.

c. For a Participant who was a Category III Employee, if Compensation earned in any of the three (3) Plan Years used to determine Final Average Salary is more than ten percent (10%) higher than the average of the Compensation earned for the previous two (2) Plan Years, the amount over ten percent (10%) is not included in determining Final Average Salary.

d. For a Participant who was a Category IV Employee, if Compensation earned in any of the three (3) Plan Years used to determine Final Average Salary is more than ten percent (10%) higher than the average of the Compensation earned for the previous two (2) Plan Years, the amount over ten percent (10%) is not included in determining Final Average Salary.

e. For a Participant who was a Category V Employee, if Compensation earned in any of the three (3) Plan Years used to determine Final Average Salary is more than ten percent (10%) higher than the average of the Compensation earned for the previous two (2) Plan Years, the amount over ten percent (10%) is not included in determining Final Average Salary; in addition, no more than $15,000 (subject to annual increases of three percent (3%)) of overtime pay may be included in determining Final Average Salary.

Section 4: Actuarial Basis

Actuarial Cost Method

All results are based on an application of the Projected Unit Credit cost method. The principal components of this method are:

1. Current Service Cost,
2. Past Service Cost

The Current Service Cost is the total for all active participants of the present value of the unit benefit for each employee to be accrued each year. The unit benefit for the year is computed for each active participant as the projected benefit at assumed retirement age divided by the total number of years of service which that participant would have at normal retirement.

The Past Service Cost is generally determined as the annual amortization of the Unrecognized Past Service Liability. The amortization period utilized in this case is 30 years (under GASB 27). The Projected Benefit Obligation (PBO) is the total for all participants of the Present Value of Projected Benefits allocated to past service.

The future changes in Past Service Cost due to changes in plan, changes in assumptions or actuarial gain/losses will be amortized over the same number of years. There are no asset gains or losses due to the accrual of interest on the Balance Sheet Account at the assumed rate.

Actuarial Assumptions

All calculations of liabilities have been based on the following assumptions:

Mortality rates are in accordance with the RP-2000 Males/Females Mortality Table.

Interest is at the rate of 5.25% per annum.

Terminations are assumed to occur in accordance with the following schedule of percent withdrawing per year:

Age 25	4.8948%
Age 35	2.3492%
Age 45	.2653%

Salaries are assumed to increase at a rate of 3% per annum.

Retirement: Assumed to occur at age 55 for category I. For categories II, III, IV, V

Early Retirement is reflected by application of the following retirement rates:

Age	Rate
55	30%
56-61	0%
62	100%

Railroad Retirement Tier II Benefit offset:

- Category I – the assumed benefit commencement date is age 60 (or current age, if older).
- Categories II, III, IV, and V – the assumed benefit commencement date is 62. If participant has more than 30 years of credited service under PATH Supplemental Pension Plan provisions, the assumed benefit commencement date is age 60.
- Participants with Year of Birth after 1943 (and less than 30 years of credited service at retirement) – the Tier II Benefit reduced (at commencement) by 0.667% a month from age 66 to 64 and 0.5% a month from age 63 to 62.
- Participants with Year of Birth after 1960 (and less than 30 years of credited service at retirement) – the Tier II Benefit reduced (at commencement) by 0.667% a month from age 67 to 65 and 0.5% a month from age 64 to 62.

Section 5: Census Information

Participant Distribution			
	2011	**2010**	**2009**
Active Members			
▪ Number	77	92	86
▪ Payroll	$9,185,366	$10,455,710	$9,042,845
Retired			
▪ Number	95	93	87
▪ Annual Benefit	$3,293,756	$3,296,398	$3,101,038
Terminated Vested Number	31	28	31
Annual Benefit	$ 405,466	$ 351,655	$ 419,285

Distribution by Category						
	Number of Active Participants	**Average Age**	**Average Service**		**Average Salary**	**Accrued Pension Benefits**[1]
			Total	**Exempt**		
Category I	3	59.15	40.19	23.71	$105,178	$1,452,115
Category II	3	59.28	35.67	23.92	114,239	1,216,067
Category III	9	54.78	29.71	25.41	102,912	3,354,171
Category IV	62	49.63	23.90	9.99	122,595	7,885,215
Category V	0	n/a	n/a	n/a	n/a	n/a

[1] Present value of accrued pension benefits.