STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

2020 ANNUAL REVIEW

INFORMATION SUBMITTED BY THE CHICAGO TRANSIT AUTHORITY'S RETIREE HEALTH CARE TRUST

DECEMBER 2020

FRANK J. MAUTINO

AUDITOR GENERAL

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OFFICE OF THE AUDITOR GENERAL
FRANK J. MAUTINO

To the Legislative Audit Commission, the Speaker and Minority Leader of the House of Representatives, the President and Minority Leader of the Senate, the members of the General Assembly, and the Governor:

This is our 2020 Annual Review of Information Submitted by the Chicago Transit Authority Retiree Health Care Trust.

The review was conducted pursuant to Public Act 95-708 which amended the Illinois State Auditing Act by adding a requirement for the Auditor General to annually review and report on information submitted by the Board of Trustees of the Chicago Transit Authority Retiree Health Care Trust.

The report for this review is transmitted in conformance with Section 5/22-101B(b)(3)(iv) of the Illinois Pension Code.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

Springfield, Illinois
December 2020

STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL

Frank J. Mautino, Auditor General

REPORT DIGEST

2020
ANNUAL REVIEW

Release Date:
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Review performed in accordance with
Public Act 95-708

Office of the Auditor General
Iles Park Plaza
740 E. Ash Street
Springfield, IL 62703

Phone: (217) 782-6046
TTY: (888) 261-2887

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EXECUTIVE SUMMARY

Review of Information Submitted by the Chicago Transit Authority's Retiree Health Care Trust

The Board of Trustees of the Chicago Transit Authority Retiree Health Care Trust is required by the Illinois Pension Code to submit a report to the Office of the Auditor General each year. The report is intended to annually assess the funding level of the Retiree Health Care Trust.

The Illinois State Auditing Act (30 ILCS 5/3-2.3(f)) requires the Auditor General to examine the information on the funding level of the Retiree Health Care Trust submitted pursuant to Section 22-101B(b)(3)(iii) of the Illinois Pension Code.

The Auditor General is required to review the Retiree Health Care Trust's assumptions to ensure they are not unreasonable in the aggregate.

- The Retiree Health Care Trust submitted its Actuarial Valuation Report as of January 1, 2020 to the Office of the Auditor General on September 30, 2020.
- The Report concluded that the actuarial present value of projected contributions, trust income, and assets, in excess of the statutory reserve, exceeded the actuarial present value of the projected benefits. Consequently, no change in benefits or contributions was required.
- With the assistance of our consulting actuary, Aon, we examined the assumptions in the Retiree Health Care Trust's Actuarial Valuation Report and found that they were not unreasonable in the aggregate.

This report does not constitute an audit as that term is defined in generally accepted government auditing standards.

ANNUAL REVIEW SUMMARY AND RESULTS

The Illinois State Auditing Act (30 ILCS 5/3-2.3(f)) requires the Auditor General to annually examine the information on the funding level of the Retiree Health Care Trust (RHCT or Trust) submitted pursuant to Section 22-101B(b)(3)(iii) of the Illinois Pension Code. The Pension Code requires the Retiree Health Care Trust to prepare a report that meets the requirements delineated in the Code and to submit it to the Auditor General at least 90 days prior to the end of its fiscal year.

The Pension Code (Section 5/22-101B(b)(3)(iv)) provides the Auditor General 90 days to review the information submitted by the Retiree Health Care Trust. If the Retiree Health Care Trust projects a funding shortfall, it **shall** provide a plan which may (1) increase contributions by employees, retirees, dependents, or survivors; (2) decrease benefits; (3) make other plan changes; or (4) any combination thereof to cure the shortfall within 10 years. If the Retiree Health Care Trust projects a surplus, it **may** decrease contributions, increase benefits, or make other plan changes, to the extent of the surplus.

If the Auditor General's review determines the Trust's assumptions are *not unreasonable in the aggregate*, the Trust shall implement the plan. Otherwise, the Auditor General shall explain the basis for its determination to the Retiree Health Care Trust and may recommend an alternative plan.

This report does not constitute an audit as that term is defined in generally accepted government auditing standards. The scope of the Auditor General's review, established by the Pension Code, focused on whether the actuarial assumptions used in the Trust's Actuarial Valuation were not unreasonable in the aggregate.

Report Determination

The Trust's Actuarial Valuation concluded that the actuarial present value of projected contributions and trust income plus assets in excess of the statutory reserve exceeded the actuarial present value of the projected benefits.

The Board of Trustees of the Chicago Transit Authority Retiree Health Care Trust submitted its Actuarial Valuation as of January 1, 2020 to the Office of the Auditor General on September 30, 2020. The Actuarial Valuation included information required by the Pension Code. As shown in Digest Exhibit 1, the Actuarial Valuation concluded that the actuarial present value of **projected contributions** and trust income plus assets in excess of the statutory reserve **exceeded** the actuarial present value of the **projected benefits**:

- The net actuarial present value of projected benefits was $763,860,961.
- The actuarial present value of projected active contributions, trust income, and assets was $1,085,891,401 (after subtracting $34,385,288 for the required statutory reserve).
- Consequently, projected income and assets exceeded projected benefits by 42.2 percent and, as such, no reduction in benefits or increase in contributions was necessary.

Digest Exhibit 1
RETIREE HEALTH CARE TRUST ANNUAL ASSESSMENT
January 1, 2020 RHCT Actuarial Valuation Report

ACTUARIAL PRESENT VALUE OF PROJECTED BENEFITS		ACTUARIAL PRESENT VALUE OF PROJECTED INCOME AND ASSETS	
Actuarial present value of projected benefits prior to reduction of retiree contributions	$1,101,200,804	Actuarial present value of projected contributions and trust income plus assets	$1,120,276,689
Less: Projected current and future retiree contributions	($337,339,843)	Less: Statutory Reserve[1]	($34,385,288)[1]
Net actuarial present value of projected benefits	$763,860,961	Actuarial present value of projected contributions and trust income plus assets (net of statutory reserve)	$1,085,891,401
Projected income and assets exceed projected benefits by 42.2%			

[1]The Statutory Reserve is net of retiree contributions.

Source: Retiree Health Care Trust Actuarial Valuation report as of January 1, 2020.

The assumptions used in the Trust's Actuarial Valuation were not unreasonable in the aggregate.

With the assistance of our consulting actuary, Aon, we examined the assumptions in the Trust's Actuarial Valuation. Overall, these assumptions were not unreasonable in the aggregate. Pages 3 through 7 of our 2020 Annual Review contain observations on the specific assumptions used in the Actuarial Valuation.

This Annual Review was conducted by OAG staff with the assistance of our consulting actuary, Aon.

SIGNED ORIGINAL ON FILE

JOE BUTCHER
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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APPENDICES

2020 Annual Review

INFORMATION SUBMITTED BY THE CTA RETIREE HEALTH CARE TRUST

The Board of Trustees of the Chicago Transit Authority (CTA) Retiree Health Care Trust (RHCT or Trust) is required by the Illinois Pension Code to submit a report to the Office of the Auditor General each year. The report is intended to annually assess the funding level of the Retiree Health Care Trust.

STATUTORY REQUIREMENTS

The Illinois State Auditing Act (30 ILCS 5/3-2.3(f)) requires the Auditor General to annually examine the information on the funding level of the Retiree Health Care Trust submitted pursuant to Section 22-101B(b)(3)(iii) of the Illinois Pension Code. The Pension Code requires the Retiree Health Care Trust to prepare a report that meets the requirements delineated in the Code (see inset) and to submit it to the Auditor General at least 90 days prior to the end of its fiscal year.

The Pension Code (Section 5/22-101B(b)(3)(iv)) provides the Auditor General 90 days to review the information submitted by the Retiree Health Care Trust. If the Retiree Health Care Trust projects a funding shortfall, it **shall** provide a plan which may (1) increase contributions by employees, retirees, dependents, or survivors; (2) decrease benefits; (3) make other plan changes; or (4) any combination thereof to cure the shortfall within 10 years. If the Retiree Health Care Trust projects a surplus, it **may** decrease contributions, increase benefits, or make other plan changes, to the extent of the surplus.

ILLINOIS PENSION CODE REQUIREMENTS
(iii) The Board of Trustees shall make an annual assessment of the funding levels of the Retiree Health Care Trust and shall submit a report to the Auditor General at least 90 days prior to the end of the fiscal year. The report shall provide the following: (A) the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors; (B) the actuarial present value of projected contributions and trust income plus assets; (C) the reserve required by subsection (b)(3)(ii); and (D) an assessment of whether the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors exceeds or is less than the actuarial present value of projected contributions and trust income plus assets in excess of the reserve required by subsection (b)(3)(ii).
Source: 40 ILCS 5/22-101B(b)(3)(iii).

If the Auditor General's review determines the Retiree Health Care Trust's assumptions are *not unreasonable in the aggregate*, the Trust shall implement the plan. Otherwise, the Auditor General shall explain the basis for its determination to the Retiree Health Care Trust and may recommend an alternative plan.

REPORT DETERMINATION

The Board of Trustees of the Chicago Transit Authority Retiree Health Care Trust submitted its Actuarial Valuation as of January 1, 2020 to the Office of the Auditor General on September 30, 2020. The Actuarial Valuation included information required by the Pension Code. As shown in Exhibit 1, the Actuarial Valuation concluded that the actuarial present value of **projected contributions** and trust income plus assets in excess of the statutory reserve **exceeded** the actuarial present value of the **projected benefits**:

- The net actuarial present value of projected benefits was $763,860,961.
- The actuarial present value of projected active contributions, trust income, and assets was $1,085,891,401 (after subtracting $34,385,288 for the required statutory reserve).
- Consequently, projected income and assets exceeded projected benefits by 42.2 percent and, as such, no reduction in benefits or increase in contributions was necessary.

Exhibit 1
RETIREE HEALTH CARE TRUST
ANNUAL ASSESSMENT OF ADEQUACY OF TRUST FUNDING
January 1, 2020 Retiree Health Care Trust Actuarial Valuation Report

ACTUARIAL PRESENT VALUE OF PROJECTED BENEFITS		**ACTUARIAL PRESENT VALUE OF PROJECTED INCOME AND ASSETS**	
Actuarial present value of projected benefits prior to reduction of retiree contributions	$1,101,200,804	Actuarial present value of projected contributions and trust income plus assets	$1,120,276,689
Less: Projected current and future retiree contributions	($337,339,843)	Less: Statutory Reserve[1]	($34,385,288)[1]
Net actuarial present value of projected benefits	$763,860,961	Actuarial present value of projected contributions and trust income plus assets (net of statutory reserve)	$1,085,891,401
Projected income and assets exceed projected benefits by 42.2%			

[1]The Statutory Reserve is net of retiree contributions.

Source: Retiree Health Care Trust Actuarial Valuation report as of January 1, 2020.

With the assistance of our consulting actuary, Aon, we examined the Retiree Health Care Trust's Actuarial Valuation and concluded that:

- The Board of Trustees of the Retiree Health Care Trust has made an assessment of the funding levels of the Retiree Health Care Trust which concluded that the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and their survivors are less than the actuarial present value of projected contributions and Trust income plus assets in excess of the reserve required by Section 22-101B(b)(3)(ii) of the Illinois Pension Code, and

- The assumptions stated in the Actuarial Valuation submitted pursuant to Section 22-101B(b)(3)(iii) of the Pension Code are not unreasonable in the aggregate.

Calculation of the Statutory Reserve

The Pension Code requires the Retiree Health Care Trust to establish *"an appropriate funding reserve level which* ***shall not be less than the amount of incurred and unreported claims plus 12 months of expected claims and administrative expenses."*** (40 ILCS 5/22-101B(b)(3)(ii)) [emphasis added] The Actuarial Valuation submitted by the Trust contains a calculation of the statutory reserve. The calculation includes $49.0 million for *"12 months of expected claims and administrative expenses,"* and $1.0 million for *"incurred and unreported claims,"* for a claims expense total of $50.0 million. It also subtracts $15.6 million from the claims expense for *"12 months of expected retiree and dependent contributions."* The netting or subtraction of expected contributions from the expected claims and administrative expenses is not specifically delineated in the Pension Code.

The statutory reserve is one of the figures used in the annual assessment of the Trust funding level required by Section 22-101B(b)(3)(iii) of the Pension Code. A change in the statutory reserve figure, therefore, would impact the calculation as to whether the Trust is adequately funded. As shown in Exhibit 1, when the statutory reserve is calculated by netting expected retiree contributions from expected claims (benefit payments), the actuarial present value of projected income and assets exceeds the actuarial present value of projected benefits by 42.2 percent. When expected claims are not reduced by expected retiree contributions, the statutory reserve increases from $34.4 million to $50.0 million. However, even increasing the statutory reserve to $50.0 million, the actuarial present value of projected income and assets of $1,070.3 million still exceeds the actuarial present value of projected benefits of $763.9 million by 40.1 percent.

As part of our 2009 Annual Review, we inquired of Trust officials why the statutory reserve was calculated by netting out expected retiree contributions. The Trust's actuary responded that they interpreted *"12 months of expected claims and administrative expenses"* to mean 12 months of **net** expenses. They noted that their understanding is that "contributions" means active contributions and "benefits" or "claims" to be net of retiree and dependent self-pay contributions. The actuary stated they used this interpretation for the initial January 1, 2008 Actuarial Valuation under Section 3-2.3(a)(7) of the Auditing Act as well as the January 1, 2009 Actuarial Valuation under Section 22-101B(b)(3) of the Pension Code. Our consulting actuary, Aon, indicated that it is not unreasonable to subtract the contributions from the anticipated benefit payments when calculating a reserve because no benefits could be paid without corresponding contributions being received.

Actuarial Assumptions

Aon examined the Retiree Health Care Trust's assumptions as disclosed in the January 1, 2020 Actuarial Valuation. Overall, Aon found that the assumptions are not unreasonable in the aggregate. Aon did note that **the investment return and inflation assumptions should be monitored and justified on an annual basis**.

Aon has the following observations regarding specific assumptions:

(A) **Net Investment Return.** The net investment return assumption for the plan is 6.85 percent. This assumption is unchanged from the previous valuation. In October 2019, the Trust's Investment Consultant, prepared an analysis based on the asset allocation and found an expected ten-year net return of 6.85 percent. This expected return assumes a dynamic inflation based on an underlying inflation of 2.0 percent and assumes no alpha.

Aon calculated the investment return that could be expected based on the target asset allocation. Aon reviewed the expected return based on the Aon Expected Return Model (as of the first quarter of 2020). Based on the target asset allocation and Aon's expected return assumptions by asset class, Aon predicted a weighted average net investment return of 5.63 percent. However, Aon's Expected Return Model indicates that the median net return over a thirty-year time horizon based on the target asset allocation is 6.23 percent and that the probability of achieving a net return of 6.85 percent or greater over a thirty-year time horizon is 37.7 percent. Further, Aon found that the 35th to 65th percentile range of investment returns is 6.99 percent to 5.48 percent. The weighted average investment return assumes that the asset classes are one hundred percent correlated, while the median and percentile returns take into account that the asset classes are not one hundred percent correlated. Therefore, Aon believes the median is a better representation of the true expected return.

The underlying inflation assumption used in Aon's Expected Return Model as of the first quarter of 2020 is 2.2 percent, compared to the Trust's assumption of 2.0 percent. If the results of the Aon model are adjusted for this difference in inflation assumption the resulting 35th to 65th percentile range of investment returns is 6.82 percent to 5.31 percent with the median gross return equal to 6.07 percent. The probability of achieving a gross return of 6.85 percent over a thirty-year time horizon is 34.5 percent.

The Trust's actuary provided some information in the current valuation report related to the development of the long-term rate of return. The report includes the target allocation and long-term expected real rate of return by asset class. From this information Aon was able to calculate a weighted average real rate of return equal to 4.59 percent. Adding the expected inflation rate of 2.00 percent to the average real rate of return then implies the Trust's actuary's analysis supports an average net expected rate of return equal to 6.59 percent under the current target allocation. It is not uncommon for different firms to have different outlooks with respect to capital market expectations which will give rise to variances in the expected return.

Actuarial Standard of Practice No. 27 (ASOP No. 27) provides guidance on the selection of economic assumptions for measuring pension obligations and is referenced as part of Actuarial Standard of Practice No. 6, Measuring Retiree Group Benefit Obligations (ASOP No. 6). ASOP No. 27 was revised and effective for plans with a measurement date on or after September 30, 2014. ASOP No. 27 states that each economic assumption should be reasonable and have no significant bias, but also recognizes that a range of reasonable assumptions may develop across actuarial practice. Further, the ASOP also states that it should not be assumed that superior returns will be achieved from an active investment management strategy (alpha) compared to a passive investment management strategy unless the actuary believes, based on relevant supporting data, that such superior or inferior returns represent a reasonable expectation over the measurement period.

Given this information, Aon believes the 6.85 percent net investment return assumption is on the upper end of the reasonable range, and that the Trust's actuary should perform an analysis to support this assumption on an annual basis, separate from the analysis conducted by the Trust's Investment Consultant.

(B) **Inflation and Salary Increase.** The salary inflation and salary increase assumptions are consistent with the Retirement Plan assumptions. The underlying salary inflation assumption of 3.1 percent is higher than Aon's long-term inflation expectation of 2.2 percent and the Trust's general inflation for purposes of net investment return of 2.0 percent. The Trust's actuary should perform an analysis to support the variance in salary inflation and general inflation assumptions on an annual basis.

(C) **Disability and Withdrawal Rates.** Disability rates and withdrawal rates for full-time permanent employees match those of the Retirement Plan. Withdrawal rates for non-full-time permanent employees are assumed to be 15 percent. These assumptions were analyzed in the 2019 Retirement Plan experience study performed by the Plan's actuary, which examined 5 years of plan history from January 1, 2013 through December 31, 2017. These rates are unchanged from the prior year and Aon finds that the assumptions utilized are not unreasonable.

(D) **Mortality.** Pre-retirement and post-retirement mortality rates follow the Society of Actuaries (SOA) Public 2010 General Healthy Retiree Headcount-Weighted Below-Median mortality tables increased by 113 percent for females, fully generational using Scale MP-2018. Mortality rates for disabled employees are set at the SOA Public 2010 Non-Safety Disabled Retiree Headcount-Weighted mortality tables, fully generational with Scale MP-2018.

These assumptions were last reviewed and updated as part of the 2019 Retirement Plan experience study. The selected headcount-weighted mortality table is inconsistent with the Retirement Plan mortality assumption. This is not unreasonable given the differences in the plan benefits. According to the Pub-2010 report: "Per ASOP 35, the actuary should select a mortality assumption that is appropriate for the purpose of the measurement. Therefore, it would not necessarily be inappropriate— or inconsistent—to use amount-weighted tables to measure pension obligations and the corresponding headcount-weighted tables to measure most postretirement medical obligations, even when the two covered populations are identical." Overall, the mortality assumption appears to be reasonable.

(E) **Active Retirement Rates.** Active retirement rates match those of the Retirement Plan. This assumption was last analyzed in the 2019 Retirement Plan experience study which Aon reviewed. Aon finds that this assumption is not unreasonable.

(F) **Retirement Age.** Selecting age 65 as the expected retirement age for inactive participants is not unreasonable.

(G) **Participation Rates for Retirees.** The participation assumption for future retirees is based on service at retirement. The assumed participation rates decrease as retiree contributions increase. The methodology for setting the participation rates is that the percent assumed to decline coverage is assumed to be 100 percent of the percent of full cost paid by retirees and is unchanged from the prior valuation. However, because retiree contributions did not increase while per capita costs did generally increase, the percentage paid by retirees has decreased and the participation rates have increased. Aon finds that the retiree participation assumption is not unreasonable.

(H) **Participation Rates for Dependents.** The participation assumption for dependents is based on retiree service at retirement. The assumed participation rates decrease as dependent contributions increase. The methodology for setting the dependent participation rates is that the percent assumed to decline coverage is assumed to be 100 percent of the percent of full cost paid by dependents and is unchanged from the prior valuation. Aon finds that the dependent participation assumption is not unreasonable.

(I) **Married Assumption.** The percent married assumption of 75 percent for future retirees and a 3-year age difference is consistent with commonly used values and not unreasonable.

(J) **Plan Election.** The plan election assumption for future retirees pre-Medicare assumes 85 percent elect Blue Cross Blue Shield PPO coverage and 15 percent elect HMO Illinois coverage and assumes 95 percent of Medicare retirees elect PPO coverage and the remaining 5 percent elect HMO coverage. This assumption is unchanged from the prior valuation and is not unreasonable.

(K) **Disabled Retirees Medicare Eligibility.** The percent of disabled participants eligible for Medicare varies based on number of years on disability. It is assumed that upon retirement 40 percent of pre-65 disabled retirees are eligible for Medicare, increasing to 70 percent eligible for Medicare two years after retirement. This assumption is unchanged from the prior valuation and is not unreasonable.

(L) **Missing Participant Data.** The methodology for assigning values for missing participant data is not unreasonable.

(M) **Per Capita Claims.** The methodology used to calculate the pre-Medicare per capita claims for the self-insured medical and prescription drug benefits utilizes two years of experience (medical: 8/1/2017 – 7/31/2019; prescription drugs: 7/1/2017 – 6/30/2019) adjusted for plan design changes and health care trend. This methodology is consistent with the prior valuation. Per capita claims for the fully insured HMO and Medicare Advantage plan are based on the premium rates for 2020. The changes in per capita health costs are not unreasonable. Overall, the methodology and resulting claims presented are not unreasonable.

(N) **Health Care Cost Trends.** The Trust valuation utilizes the same trend curve for pre-Medicare and post-Medicare medical and prescription drug claims. In the current trend environment this is not unreasonable. The initial (first year) health care trend rates, the period of grading down to the ultimate trend, and the ultimate trend rates of 4.5 percent assumed are not unreasonable. Health care cost trend rates for Medicare Advantage Prescription Drug were decreased in 2020 to -7.00 percent to account for the removal of the Health Insurers Fee in 2021 and no negotiated increase in base rates for 2021. Overall, Aon finds that the retiree trend curve assumption is not unreasonable.

(O) **Retiree Drug Costs.** For the 2020 valuation, it is assumed that there will be no CPI adjustments of prescription drug copays, annual deductibles, and annual out-of-pocket maximums. The Trustees changed their policy so CPI adjustments to retiree cost share provision are no longer automatic. This also resulted in the removal of the assumption that the effect of annual CPI adjustment of prescription drug copays, annual deductibles, and annual out-of-pocket maximums would decrease health care trend rates by 0.3 percent for all plans expect HMO Illinois.

(P) **Retiree Contribution Increase Rate.** The application of the medical trend rate to the retiree and dependent contributions is a common practice and not unreasonable. Actual contribution increases in the future should be compared against this assumption to ensure that it continues to be reasonable.

(Q) **Administrative Expense.** The administrative expense assumption for 2020 increased 16.3 percent (from $240 per participant to $279 per participant) from the 2019 assumption. The administrative expense assumption is not unreasonable.

(R) **Lifetime Maximum Benefits.** The assumption of no lifetime maximum benefits in the plan is not unreasonable, as past information was not available on accumulated benefits.

(S) **Excise Tax.** As part of the Patient Protection and Affordable Care Act (PPACA) there was a provision that was supposed to take effect in 2022 for high cost health plans called the Excise Tax, a 40 percent tax on health plan costs that exceed certain thresholds written into the law. The excise tax was repealed on December 20, 2019. All other aspects of the PPACA and the Health Care and Education Reconciliation Act (HCERA) of 2010 are assumed to not apply, and any future aspects are assumed to have a de minimis effect. Aon finds that this assumption is not unreasonable. However, it is important to note that should future aspects be released, certain assumptions in this analysis may need to be revised.

Overall, Aon does not find the Retiree Health Care Trust’s assumptions to be unreasonable in the aggregate.

Limitation on Retiree Contributions

The Pension Code (40 ILCS 5/22-101B(b)(5)) requires that the *“aggregate amount of retiree, dependent and survivor contributions to the cost of their health care benefits shall not exceed more than 45% of the total cost of such benefits.”* The Pension Code goes on to define *“total cost of such benefits”* as the *“total amount expended by the retiree health benefit program* *in the prior plan year, as calculated and certified in writing by the Retiree Health Care Trust's enrolled actuary…."*

The January 1, 2020 Actuarial Valuation prepared by the Trust's actuary contained the results of the actuary's calculation of whether the 45 percent limitation established by the Pension Code was met. The Actuarial Valuation noted that according to the preliminary December 31, 2019 balance sheet of the Retiree Health Care Trust, the aggregate amount of retiree, dependent, and survivor **contributions** for 2019 was $14.7 million. The total cost of retiree health benefits paid from the Trust in 2018 was $49.6 million. The Actuarial Valuation calculated that the retirees paid 29.6 percent of the total cost of benefits, which did not exceed the statutory limit of 45 percent. The Actuarial Valuation notes that dental benefits and contributions are excluded from this calculation, since the Fund does not provide dental benefits, but only serves as a "pass-through" for dental premiums.

SCOPE OF ANNUAL REVIEW

The Office of the Auditor General has conducted this annual review of information submitted by the Board of Trustees of the Chicago Transit Authority Retiree Health Care Trust pursuant to the Illinois State Auditing Act (30 ILCS 5/3-2.3(f)): *"The Auditor General shall annually examine the information submitted pursuant to Section 22-101B(b)(3)(iii) of the Illinois Pension Code and shall prepare the determination specified in Section 22-101B(b)(3)(iv) of the Illinois Pension Code."* The scope of the Auditor General's review is established by the Pension Code and focused on whether the actuarial assumptions used in the Retiree Health Care Trust's report were not unreasonable in the aggregate.

This report does not constitute an audit as that term is defined in generally accepted government auditing standards. Consequently, while we reviewed the information provided by the CTA Retiree Health Care Trust for reasonableness and consistency, we did not conduct an audit of the accuracy of the information provided as that is the responsibility of the Trust.

The scope of our work included reviewing the RHCT Actuarial Valuation as of January 1, 2020, submitted by the RHCT Board on September 30, 2020. Our consulting actuary, Aon, followed-up with the RHCT on various questions they had based upon their review of the Valuation. Aon reviewed the reasonableness of the actuarial assumptions used by the RHCT in its January 1, 2020 Actuarial Valuation.

In prior years, we reported that the Trust's Executive Director noted that the Williams case (Williams v. Retirement Plan for CTA Employees, CTA Retiree Health Care Trust, et al., No. 11 CH 15446 (Circuit Court of Cook County, Illinois)) could have a significant impact on either the Retirement Plan or the Retiree Health Care Trust in the magnitude of $100 million or more. The plaintiffs were current and former employees of the CTA who argued that after years of fully paid health care benefits for retired CTA employees, they were being asked to pay for a portion of their health care benefits and were no longer entitled to the same level of health care coverage as active CTA employees. The changes to their coverage occurred as a result of an arbitration award and related amendments to the Pension Code made by Public Act 95-708. On October 23, 2020, the Executive Director provided an update on the status of the case.

In April 2011, several CTA employees and retirees brought a purported class action against the CTA, the Retirement Plan, the Retiree Health Care Trust, and their respective boards of trustees challenging the requirement that retirees contribute to the cost of the their health care benefits after July 1, 2009. The case was initially dismissed in its entirety and the ruling was appealed. In May 2016, the Illinois Supreme Court affirmed the dismissal of the claims against the CTA and affirmed the dismissal of the claims of the active CTA employees and recent retirees. The Court reversed the dismissal of the claims brought on behalf of CTA employees who retired prior to January 1, 2007. The case returned to the trial court. On July 7, 2020, the trial court ruled that the action could proceed as a class action on behalf of all CTA retirees who were hired on or before September 5, 2001, retired from the CTA before January 1, 2007, and were eligible for retiree health benefits on July 1, 2009. The class contains 6,369 members. The claims certified for class treatment include Plaintiffs' claims that the defendants breached the Retirement Plan Agreement and violated the pension protection clause of the Illinois Constitution by charging retirees for health care coverage beginning in July 1, 2009 and deducting those amounts from their monthly pension benefits. The Retirement Plan and the Retiree Health Care Trust deny that they breached the contract or violated the pension protection clause. The Court has not ruled on the validity of the claims or the validity of the defenses.

The Retiree Health Care Trust was provided a draft of this report for review and comment.

APPENDIX A

STATUTORY AUTHORITY

ILLINOIS STATE AUDITING ACT

30 ILCS 5/3-2.3

(f) The Auditor General shall annually examine the information submitted pursuant to Section 22-101B(b)(3)(iii) of the Illinois Pension Code and shall prepare the determination specified in Section 22-101B(b)(3)(iv) of the Illinois Pension Code.

(Source: P.A. 95-708, eff. 1-18-08.)

ILLINOIS PENSION CODE

40 ILCS 5/22-101B

Sec. 22-101B. Health Care Benefits.

(a) The Chicago Transit Authority (hereinafter referred to in this Section as the "Authority") shall take all actions lawfully available to it to separate the funding of health care benefits for retirees and their dependents and survivors from the funding for its retirement system. The Authority shall endeavor to achieve this separation as soon as possible, and in any event no later than July 1, 2009.

(b) Effective 90 days after the effective date of this amendatory Act of the 95th General Assembly, a Retiree Health Care Trust is established for the purpose of providing health care benefits to eligible retirees and their dependents and survivors in accordance with the terms and conditions set forth in this Section 22-101B. The Retiree Health Care Trust shall be solely responsible for providing health care benefits to eligible retirees and their dependents and survivors upon the exhaustion of the account established by the Retirement Plan for Chicago Transit Authority Employees pursuant to Section 401(h) of the Internal Revenue Code of 1986, but no earlier than January 1, 2009 and no later than July 1, 2009.

   (1) The Board of Trustees shall consist of 7 members appointed as follows: (i) 3 trustees shall be appointed by the Chicago Transit Board; (ii) one trustee shall be appointed by an organization representing the highest number of Chicago Transit Authority participants; (iii) one trustee shall be appointed by an organization representing the second-highest number of Chicago Transit Authority participants; (iv) one trustee shall be appointed by the recognized coalition representatives of participants who are not represented by an organization with the highest or second-highest number of Chicago Transit Authority participants; and (v) one trustee shall be selected by the Regional Transportation Authority Board of Directors, and the trustee shall be a professional fiduciary who has experience in the area of collectively bargained retiree health plans. Trustees shall serve until a successor has been appointed and qualified, or until resignation, death, incapacity, or disqualification.

Any person appointed as a trustee of the board shall qualify by taking an oath of office that he or she will diligently and honestly administer the affairs of the system, and will not knowingly violate or willfully permit the violation of any of the provisions of law applicable to the Plan, including Sections 1-109, 1-109.1, 1-109.2, 1-110, 1-111, 1-114, and 1-115 of Article 1 of the Illinois Pension Code.

Each trustee shall cast individual votes, and a majority vote shall be final and binding upon all interested parties, provided that the Board of Trustees may require a supermajority vote with respect to the investment of the assets of the Retiree Health Care Trust, and may set forth that requirement in the trust agreement or by-laws of the Board of Trustees. Each trustee shall have the rights, privileges, authority and obligations as are usual and customary for such fiduciaries.

(2) The Board of Trustees shall establish and administer a health care benefit program for eligible retirees and their dependents and survivors. Any health care benefit program established by the Board of Trustees for eligible retirees and their dependents and survivors effective on or after July 1, 2009 shall not contain any plan which provides for more than 90% coverage for in-network services or 70% coverage for out-of-network services after any deductible has been paid, except that coverage through a health maintenance organization ("HMO") may be provided at 100%.

(2.5) The Board of Trustees may also establish and administer a health reimbursement arrangement for retirees and for former employees of the Authority or the Retirement Plan, and their survivors, who have contributed to the Retiree Health Care Trust but do not satisfy the years of service requirement of subdivision (b)(4) and the terms of the retiree health care plan; or for those who do satisfy the requirements of subdivision (b)(4) and the terms of the retiree health care plan but who decline coverage under the plan prior to retirement. Any such health reimbursement arrangement may provide that: the retirees or former employees of the Authority or the Retirement Plan, and their survivors, must have reached age 65 to be eligible to participate in the health reimbursement arrangement; contributions by the retirees or former employees of the Authority or the Retirement Plan to the Retiree Health Care Trust shall be considered assets of the Retiree Health Care Trust only; contributions shall not accrue interest for the benefit of the retiree or former employee of the Authority or the Retirement Plan or survivor; benefits shall be payable in accordance with the Internal Revenue Code of 1986; the amounts paid to or on account of the retiree or former employee of the Authority or the Retirement Plan or survivor shall not exceed the total amount which the retiree or former employee of the Authority or the Retirement Plan contributed to the Retiree Health Care Trust; the Retiree Health Care Trust may charge a reasonable administrative fee for processing the benefits. The Board of Trustees of the Retiree Health Care Trust may establish such rules, limitations and requirements as the Board of Trustees deems appropriate.

(3) The Retiree Health Care Trust shall be administered by the Board of Trustees according to the following requirements:

(i) The Board of Trustees may cause amounts on deposit in the Retiree Health Care Trust to be invested in those investments that are permitted investments for the investment of moneys held under any one or more of the pension or retirement systems of the State, any unit of local government or school district, or any agency or instrumentality thereof. The Board, by a vote of at least two-thirds of the trustees, may transfer investment management to the Illinois State Board of Investment, which is hereby authorized to manage these investments when so requested by the Board of Trustees.

(ii) The Board of Trustees shall establish and maintain an appropriate funding reserve level which shall not be less than the amount of incurred and unreported claims plus 12 months of expected claims and administrative expenses.

(iii) The Board of Trustees shall make an annual assessment of the funding levels of the Retiree Health Care Trust and shall submit a report to the Auditor General at least 90 days prior to the end of the fiscal year. The report shall provide the following:

(A) the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors;

(B) the actuarial present value of projected contributions and trust income plus assets;

(C) the reserve required by subsection (b)(3)(ii); and

(D) an assessment of whether the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors exceeds or is less than the actuarial present value of projected contributions and trust income plus assets in excess of the reserve required by subsection (b)(3)(ii).

If the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors exceeds the actuarial present value of projected contributions and trust income plus assets in excess of the reserve required by subsection (b)(3)(ii), then the report shall provide a plan, to be implemented over a period of not more than 10 years from each valuation date, which would make the actuarial present value of projected contributions and trust income plus assets equal to or exceed the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors. The plan may consist of increases in employee, retiree, dependent, or survivor contribution levels, decreases in benefit levels, or other plan changes or any combination thereof. If the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors is less than the actuarial present value of projected contributions and trust income plus assets in excess of the reserve required by subsection (b)(3)(ii), then the report may provide a plan of decreases in employee, retiree, dependent, or survivor contribution levels, increases in benefit levels, or other plan changes, or any combination thereof, to the extent of the surplus.

(iv) The Auditor General shall review the report and plan provided in subsection (b)(3)(iii) and issue a determination within 90 days after receiving the report and plan, with a copy of such determination provided to the General Assembly and the Regional Transportation Authority, as follows:

(A) In the event of a projected shortfall, if the Auditor General determines that the assumptions stated in the report are not unreasonable in the aggregate and that the plan of increases in employee, retiree, dependent, or survivor contribution levels, decreases in benefit levels, or other plan changes, or any combination thereof, to be implemented over a period of not more than 10 years from each valuation date, is reasonably projected to make the actuarial present value of projected contributions and trust income plus assets equal to or in excess of the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors, then the Board of Trustees shall implement the plan. If the Auditor General determines that the assumptions stated in the report are unreasonable in the aggregate, or that the plan of increases in employee, retiree, dependent, or survivor contribution levels, decreases in benefit levels, or other plan changes to be implemented over a period of not more than 10 years from each valuation date, is not reasonably projected to make the actuarial present value of projected contributions and trust income plus assets equal to or in excess of the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors, then the Board of Trustees shall not implement the plan, the Auditor General shall explain the basis for such determination to the Board of Trustees, and the Auditor General may make recommendations as to an alternative report and plan.

(B) In the event of a projected surplus, if the Auditor General determines that the assumptions stated in the report are not unreasonable in the aggregate and that the plan of decreases in employee, retiree, dependent, or survivor contribution levels, increases in benefit levels, or both, is not unreasonable in the aggregate, then the Board of Trustees shall implement the plan. If the Auditor General determines that the assumptions stated in the report are unreasonable in the aggregate, or that the plan of decreases in employee, retiree, dependent, or survivor contribution levels, increases in benefit levels, or both, is unreasonable in the aggregate, then the Board of Trustees shall not implement the plan, the Auditor General shall explain the basis for such determination to the Board of Trustees, and the Auditor General may make recommendations as to an alternative report and plan.

(C) The Board of Trustees shall submit an alternative report and plan within 45 days after receiving a rejection determination by the Auditor General. A determination by the Auditor General on any alternative report and plan submitted by the Board of Trustees shall be made within 90 days after receiving the alternative report and plan, and shall be accepted or rejected according to the requirements of this subsection (b)(3)(iv). The Board of Trustees shall continue to submit alternative reports and plans to the Auditor General, as necessary, until a favorable determination is made by the Auditor General.

(4) For any retiree who first retires effective on or after January 18, 2008, to be eligible for retiree health care benefits upon retirement, the retiree must be at least 55 years of age,

retire with 10 or more years of continuous service and satisfy the preconditions established by Public Act 95-708 in addition to any rules or regulations promulgated by the Board of Trustees. Notwithstanding the foregoing, any retiree hired on or before September 5, 2001 who retires with 25 years or more of continuous service shall be eligible for retiree health care benefits upon retirement in accordance with any rules or regulations adopted by the Board of Trustees; provided he or she retires prior to the full execution of the successor collective bargaining agreement to the collective bargaining agreement that became effective January 1, 2007 between the Authority and the organizations representing the highest and second-highest number of Chicago Transit Authority participants. This paragraph (4) shall not apply to a disability allowance.

(5) Effective January 1, 2009, the aggregate amount of retiree, dependent and survivor contributions to the cost of their health care benefits shall not exceed more than 45% of the total cost of such benefits. The Board of Trustees shall have the discretion to provide different contribution levels for retirees, dependents and survivors based on their years of service, level of coverage or Medicare eligibility, provided that the total contribution from all retirees, dependents, and survivors shall be not more than 45% of the total cost of such benefits. The term “total cost of such benefits” for purposes of this subsection shall be the total amount expended by the retiree health benefit program in the prior plan year, as calculated and certified in writing by the Retiree Health Care Trust’s enrolled actuary to be appointed and paid for by the Board of Trustees.

(6) Effective January 18, 2008, all employees of the Authority shall contribute to the Retiree Health Care Trust in an amount not less than 3% of compensation.

(7) No earlier than January 1, 2009 and no later than July 1, 2009 as the Retiree Health Care Trust becomes solely responsible for providing health care benefits to eligible retirees and their dependents and survivors in accordance with subsection (b) of this Section 22-101B, the Authority shall not have any obligation to provide health care to current or future retirees and their dependents or survivors. Employees, retirees, dependents, and survivors who are required to make contributions to the Retiree Health Care Trust shall make contributions at the level set by the Board of Trustees pursuant to the requirements of this Section 22-101B.

(Source: P.A. 95-708, eff. 1-18-08; 95-906, eff. 8-26-08; 96-1254, eff. 7-23-10; P.A. 98-1164, eff. 6-1-15.)

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