STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

ANNUAL REVIEW

INFORMATION SUBMITTED BY THE CHICAGO TRANSIT AUTHORITY'S EMPLOYEE RETIREMENT PLAN

NOVEMBER 2009

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OFFICE OF THE AUDITOR GENERAL
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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 Annual Review of Information Submitted by the Chicago Transit Authority's Employee Retirement Plan.

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 Retirement Plan for Chicago Transit Authority Employees.

The report for this review is transmitted in conformance with Section 5/3-2.3(e) of the Illinois State Auditing Act.

WILLIAM G. HOLLAND
Auditor General

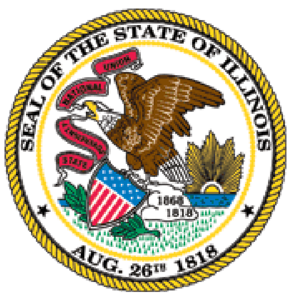
Springfield, Illinois
November 2009

REPORT DIGEST

Annual Review

INFORMATION SUBMITTED BY THE CTA'S EMPLOYEE RETIREMENT PLAN

Released: November 2009



State of Illinois
Office of the Auditor General

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SYNOPSIS

Public Act 95-708 requires the Chicago Transit Authority's Employee Retirement Plan (Retirement Plan) to annually submit certain information to the Auditor General for review. Our review was limited to the specific conclusions required by the Act. This report does not constitute an audit as that term is defined in generally accepted government auditing standards. This is our second year of review.

The Illinois Pension Code requires the Retirement Plan to determine the Plan's funded ratio of assets to liabilities and determine employee and employer contribution rates needed to meet the Pension Code's funding requirements. The OAG is required to review the Board's determination and the assumptions on which it is based and determine whether they are "unreasonable in the aggregate".

The conclusions reached in this report are based on the Actuarial Valuation as of January 1, 2009, prepared by the Board's actuary, including its determination of increases in contribution rates needed for the CTA and its employees to comply with the funding requirements of the Pension Code. This Actuarial Valuation was presented to the Retirement Plan Board at its August 27, 2009 meeting but was not formally acted upon by the Board. Further, as of the conclusion of our review, **no formal action had yet been taken by the Board to set employee and employer contribution rates to meet the Pension Code's funding requirements**. Readers of this report, therefore, are cautioned that this report's conclusions are contingent upon the Board's approval of the Actuarial Valuation and implementation of its recommendations for changes in contribution rates.

The OAG's review of the Retirement Plan's Actuarial Valuation as of January 1, 2009 concluded its assumptions were not unreasonable in the aggregate. However, we do note that the investment return assumption (i.e., expected rate of return) of 8.75 percent, while selected using established standards for pension plans and not unreasonable in the aggregate, is an **optimistic** assumption and should be viewed as such.

The Pension Code requires the CTA to contribute 12 percent of pay to the Plan, less up to a 6 percent credit for debt service paid on the bonds issued in 2008 to fund the Plan; employees are required to pay 6 percent of pay. If the funded ratio is projected to decline below 60 percent prior to 2040, the CTA is required to pay two-thirds and employees one-third of the required contribution. The actuary determined that increases in employer and employee contributions will be necessary in 2010 to meet the 60 percent funding requirement: the employer contribution rate would need to increase to 10.690 percent (which is net of the employer debt service credit of 6% per pay); and the employee contribution rate would need to increase to 8.345 percent.

REVIEW OF RETIREMENT PLAN SUBMISSIONS

The Illinois State Auditing Act (30 ILCS 5/3-2.3(e)) requires the Retirement Plan to submit to the Office of the Auditor General (OAG) the following documents: the most recent audit, an annual statement (see inset with Section 1A-109 of the Illinois Pension Code), and an actuarial statement by September 30 of each year. The OAG reviewed the documents submitted and concluded that the Retirement Plan had complied with the requirements established in the Auditing Act.

ILLINOIS PENSION CODE REQUIREMENTS
The Auditing Act requires the CTA Retirement Plan to annually file with the Auditor General the following information specified in Section 1A-109 of the Pension Code: (1) a financial balance sheet as of the close of the fiscal year; (2) a statement of income and expenditures; (3) an actuarial balance sheet; (4) statistical data reflecting age, service, and salary characteristics concerning all participants; (5) special facts concerning disability or other claims; (6) details on investment transactions that occurred during the fiscal year covered by the report; (7) details on administrative expenses; and (8) such other supporting data and schedules as in the judgement of the Division may be necessary for a proper appraisal of the financial condition of the pension fund and the results of its operations. The annual statement shall also specify the actuarial and interest tables used in the operation of the pension fund.
Source: Pension Code (40 ILCS 5/1A-109) and Auditing Act (30 ILCS 5/3-2.3(e))

The Illinois Pension Code requires the Retirement Plan to determine the Plan's funded ratio of assets to liabilities and determine employee and employer contribution rates needed to meet the Pension Code's funding requirements. The OAG is required to review the Board's determination and the assumptions on which it is based and determine whether they are "unreasonable in the aggregate".

The Retirement Plan submitted to the Auditor General the Actuarial Valuation as of January 1, 2009, prepared by its actuary. The conclusions reached in this report are based on the Actuarial Valuation as of January 1, 2009, including its determination of increases in contribution rates for the CTA and its employees to comply with the funding requirements of the Pension Code. This Actuarial Valuation was presented to the Retirement Plan Board at its August 27, 2009 meeting but was not formally acted upon or accepted by the Board. Further, as of the conclusion of our review, no formal action had yet been taken by the CTA Retirement Plan Board to set employee and employer contribution rates to meet funding requirements established by the Pension Code. Readers of this report, therefore, are cautioned that the conclusions reached in this report are contingent upon the Board's

No formal action has been taken by the CTA Retirement Plan Board to set employee and employer contribution rates to meet funding requirements established by the Pension Code.

approval of the Actuarial Valuation as of January 1, 2009, and implementation of its recommendations for changes in contribution rates.

The OAG's review of the Retirement Plan's Actuarial Valuation as of January 1, 2009 concluded its assumptions were not unreasonable in the aggregate.

The Retirement Plan's investment return assumption of 8.75% is optimistic.

Investment Return Assumption

The actuarial valuation has one assumption that warrants additional discussion. The Retirement Plan's actuary wrote that *"the current assumed rate of 8.75 percent falls within the range of reasonable assumptions,"* but noted that *"this assumption may be viewed as being very aggressive."*

- **The Retirement Plan's actuary noted only a 27% chance of achieving a return of 8.75%.**
- **They found the median investment return to be 7.63%.**

We concur that the investment return assumption (i.e., expected rate of return) of 8.75 percent, while selected using established standards for pension plans and not unreasonable in the aggregate, is an **optimistic** assumption and should be viewed as such. An 8.75 percent investment return rate is very aggressive, based both on the data contained in the Retirement Plan's experience study, as well as with respect to other government pension plans. In fact, the Retirement Plan's actuary noted that an investment return rate of 8.75 percent had only a 27 percent chance of occurring over the next 30 years. The Retirement Plan's actuaries found the **median investment return** over 30 years to be **7.63 percent**.

Funded Ratio

The Illinois Pension Code (40 ILCS 5/22-101(e)(3)) contains specific requirements regarding the funded ratio of the CTA Retirement Plan. The Pension Code states that: *"(3). . . . If the funded ratio is projected to decline below 60% in any year before 2040, the Board of Trustees shall also determine the increased contribution required each year as a level percentage of payroll over the years remaining until 2040 using the projected unit credit actuarial cost method so the funded ratio does not decline below 60% . . . ."*

The Pension Code requires the CTA to contribute 12 percent of pay, less up to a 6 percent credit for debt service paid on the bonds issued in 2008 to fund the Plan; employees are required to pay 6 percent of pay. The Pension Code further requires that contribution rates be increased if the funded ratio is projected to decline below 60 percent prior to 2040, with the CTA paying two-thirds and employees one-third of the required contribution.

The Actuarial Valuation report concluded that without an increase in employee and employer contribution rates, the Retirement Plan's funded ratio would decline below 60 percent prior to 2040. The Plan's actuary determined that the contribution rates would need to increase beginning in 2010: the employer contribution rate would need to increase to 10.690 percent (which is net of the employer debt service credit of 6% per pay); and the employee contribution rate would need to increase to 8.345 percent. The January 1, 2009 Actuarial Valuation was presented to the Board at its August 27, 2009 meeting. As noted above, the Board did not formally act to enact or approve these increased rates.

As of January 1, 2009, the actuarial value of assets for pension benefits was approximately $2 billion and the actuarial liability was $2.6 billion, according to the Actuarial Valuation by the Retirement Plan's actuary.

- The funded ratio **increased** from 37.2 percent as of January 1, 2008 to 75.8 percent as of December 31, 2008, primarily due to a one-time extraordinary employer contribution of $1.11 billion from the issue of debt.
- Investment losses **decreased** the funded ratio by 2.4 percent.
- Changes due to assumptions **decreased** the funded ratio by 1.1 percent.
- Lowering the investment return assumption from 8.75 percent to 8.50 percent **would** also **decrease** the funded ratio by 1.8 percent.

Retirement Plan actuary:

- **Employer contribution rate would need to increase to 10.690% (which is net of the employer debt service credit of 6% per pay); and**
- **Employee contribution rate would need to increase to 8.345%.**

WILLIAM G. HOLLAND
Auditor General

WGH:AD
November 2009

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Information Submitted by the CTA Retirement Plan

The Illinois State Auditing Act (30 ILCS 5/3-2.3(e)), as amended by Public Act 95-708, requires the Auditor General to review certain documents submitted by the Board of Trustees of the Retirement Plan for Chicago Transit Authority Employees (Retirement Plan). In addition, the Illinois Pension Code (40 ILCS 5/22-101(e)(3)) requires the Retirement Plan to determine, based on a report prepared by an enrolled actuary, the estimated funded ratio of the Retirement Plan's total assets to its total actuarially determined liabilities. The Plan is also required to determine the employee and employer contribution rates needed to meet funding requirements established by the Pension Code. The Auditor General is then required to review the determination and the assumptions on which it is based and determine whether they are "unreasonable in the aggregate".

The conclusions reached in this report are based on the Actuarial Valuation as of January 1, 2009, prepared by the Board's actuary, including its determination of increases in contribution rates for the CTA and its employees to comply with the funding requirements of the Pension Code. This Actuarial Valuation was presented to the Retirement Plan Board at its August 27, 2009 meeting but was not formally acted upon or accepted by the Board. Further, as of the conclusion of our review, no formal action had yet been taken by the CTA Retirement Plan Board to set employee and employer contribution rates to meet funding requirements established by the Pension Code. Readers of this report, therefore, are cautioned that the conclusions reached in this report are contingent upon the Board's approval of the Actuarial Valuation as of January 1, 2009, and implementation of its recommendations for changes in contribution rates.

REPORT CONCLUSIONS

The Auditing Act (30 ILCS 5/3-2.3(e)) requires the Retirement Plan to submit to the Office of the Auditor General (OAG) an audit, an annual statement, and an actuarial statement by September 30 of each year. On September 30, 2009, the Retirement Plan submitted these documents to the OAG. The OAG reviewed these documents and concluded that the Retirement Plan had complied with the requirements established in the Auditing Act.

In addition, the Illinois Pension Code (40 ILCS 5/22-101(e)(3)) requires the Retirement Plan to determine, based on a report prepared by an enrolled actuary, the estimated funded ratio of the Retirement Plan's total assets to its total actuarially determined liabilities. The Plan is then required to determine the employee and employer contribution rates needed to meet funding requirements established by the Pension Code.

The Auditor General is required to review the determination and the assumptions on which it is based and determine whether they are "unreasonable in the aggregate".

The Retirement Plan submitted the Actuarial Valuation as of January 1, 2009, to the OAG on September 15, 2009 to fulfill the Pension Code's reporting requirements. However, while the Actuarial Valuation contained determinations and increased contribution rates to meet the Pension Code's funding requirements, the Actuarial Valuation and its determinations and increased contribution rates have not been formally adopted or approved by the Board of Trustees.

The OAG reviewed the Retirement Plan's assumptions contained in the Actuarial Valuation and concluded that they were not unreasonable in the aggregate. However, the investment return assumption of 8.75 percent, while selected using established standards for pension plans and not unreasonable in the aggregate, is an optimistic assumption and should be viewed as such.

The Pension Code requires the CTA to contribute 12 percent of pay, less up to a 6 percent credit for debt service paid on the bonds issued in 2008 used to fund the Plan; employees are required to pay 6 percent of pay. The Pension Code further requires that contribution rates be increased if the funded ratio is projected to decline below 60 percent prior to 2040, with the CTA paying two-thirds and employees one-third of the required contribution.

The Actuarial Valuation report concluded that without an increase in employee and employer contribution rates, the Retirement Plan's funded ratio would decline below 60 percent prior to 2040. The Plan's actuary calculated the additional contribution amount that would result in a funded ratio projected to be at least 60 percent. The actuary determined that the contribution rates would need to increase beginning in 2010: the employer contribution rate would need to increase to 10.690 percent (which is net of the employer debt service credit of 6% per pay); and the employee contribution rate would need to increase to 8.345 percent. The January 1, 2009 Actuarial Valuation was presented to the Board at its August 27, 2009 meeting. As noted above, the Board did not formally act to enact or approve these increased rates.

REVIEW OF RETIREMENT PLAN SUBMISSIONS

The Auditing Act (30 ILCS 5/3-2.3(e)) requires the Retirement Plan to submit certain specific documents to the Auditor General by September 30 of each year:

1. **Audit.** The most recent audit or examination of the Retirement Plan;

2. **Annual Statement.** An annual statement containing the information specified in Section 1A-109 of the Illinois Pension Code (see inset); and

3. **Actuarial Statement.** A complete actuarial statement applicable to the prior plan year, which may be the annual report of an enrolled actuary retained by the Retirement Plan specified in Section 22-101(e) of the Illinois Pension Code.

ILLINOIS PENSION CODE REQUIREMENTS
The Auditing Act requires the CTA Retirement Plan to annually file with the Auditor General the following information specified in Section 1A-109 of the Pension Code: (1) a financial balance sheet as of the close of the fiscal year; (2) a statement of income and expenditures; (3) an actuarial balance sheet; (4) statistical data reflecting age, service, and salary characteristics concerning all participants; (5) special facts concerning disability or other claims; (6) details on investment transactions that occurred during the fiscal year covered by the report; (7) details on administrative expenses; and (8) such other supporting data and schedules as in the judgement of the Division may be necessary for a proper appraisal of the financial condition of the pension fund and the results of its operations. The annual statement shall also specify the actuarial and interest tables used in the operation of the pension fund.
Source: Pension Code (40 ILCS 5/1A-109) and Auditing Act (30 ILCS 5/3-2.3(e))

On September 30, 2009 the Retirement Plan Board submitted the three documents below. We reviewed the documents and concluded the information required by Section 5/3-2.3(e) of the Auditing Act was contained in these reports:

- Audited Financial Statements for the Plan for December 31, 2008;
- Investment Performance Report for December 31, 2008; and
- Actuarial Valuation for the Plan as of January 1, 2009.

Review of Actuarial Determination and Assumptions

The Illinois Pension Code (40 ILCS 5/22-101(e)(3)) places an additional reporting requirement on the Auditor General. The Code requires that the Retirement Plan, *"By September 15 of each year beginning in 2009 and ending on December 31, 2039, on the basis of a report prepared by an enrolled actuary retained by the Plan,* ***the Board of Trustees of the***

Retirement Plan shall determine *the estimated funded ratio of the total assets of the Retirement Plan to its total actuarially determined liabilities. A report containing that determination and the actuarial assumptions on which it is based shall be filed with the . . . Auditor General . . . .”* [emphasis added] The Pension Code requires the Auditor General to review the determination and the assumptions on which it is based to determine whether they are unreasonable in the aggregate.

On September 15, 2009, the Executive Director of the Plan submitted the Actuarial Valuation Report as of January 1, 2009, prepared by the Plan’s actuary, which contained both its estimated funded ratio, as well as the assumptions on which it was based. The transmittal letter noted that it was being submitted by the Board of Trustees pursuant to the requirements of the Pension Code (40 ILCS 5/22-101(e)). However, while the Actuarial Valuation was presented to the Board at its August 27, 2009 meeting, the Board did not take a vote to formally accept the report, including the required determinations.

The Illinois Pension Code (40 ILCS 5/22-101(e)(3)) also requires the Board to determine the increased contribution rates:

> (3). . . . If the funded ratio is projected to decline below 60% in any year before 2040, **the Board of Trustees shall also determine** the increased contribution required each year as a level percentage of payroll over the years remaining until 2040 using the projected unit credit actuarial cost method so the funded ratio does not decline below 60% . . . . [emphasis added]

The actuary’s Actuarial Valuation Report presented to the Board at its August 27, 2009 meeting contained increased contribution rates to meet the 60 percent funding requirement. This Report was then submitted to the Auditor General on September 15, 2009. However, the Board has not yet taken a vote to formally accept the report, including the required determination.

Finally, Section 5/22-101(g) of the Pension Code requires that *“**the Board of Trustees shall certify** to the Governor, the General Assembly, the Auditor General . . . at least 90 days prior to the end of each fiscal year the **amount of the required contributions** to the retirement system for the next retirement system fiscal year under this Section. The certification shall include a copy of the actuarial recommendations upon which it is based.”* According to the Plan’s Executive Director, the Actuarial Valuation submitted to the Auditor General on September 15 was submitted to meet this requirement. While the Actuarial Valuation contained a certification, the certification was from the actuary to the Board, and was not a certification officially enacted by the Board.

Review of Actuarial Assumptions Used

We have reviewed assumptions used in the Plan’s Actuarial Valuation as of January 1, 2009 and find that the assumptions used are not unreasonable in the aggregate. As part of our review of the assumptions, we reviewed an experience study completed by the Plan's actuary in August 2009. The experience study covered the period January 1, 2001 through December 31, 2007. The primary purpose of the study was to compare the demographic and economic experience against the Plan's actuarial assumptions used in the annual valuations.

An experience study provides critical information to actuaries by assessing how well assumptions used by the plan aligned with the actual experience of the plan. The experience study noted that for any retirement system, actuarial assumptions are intended to provide reasonable estimates of future expected events. To the extent that the actual experience deviates from the assumptions, gains or losses to the plan will occur. It noted that actuarial assumptions should be periodically reviewed to ensure they remain appropriate.

Actuarial assumptions which the experience study analyzed included:

- investment return
- wage inflation
- seniority and merit salary increases
- mortality
- disability
- withdrawal
- retirement

Based on this analysis and comparison with other norms, actuarial judgment and prior assumptions, the Plan's actuary modified many of the assumptions. These modified assumptions were then used in the 2009 Actuarial Valuation report submitted to the Office of the Auditor General.

Investment Return Assumption

While the assumptions used in the Actuarial Valuation were not unreasonable in the aggregate, one assumption, the investment return assumption, warrants additional discussion. In the Plan's experience study, the actuary finds that *"the current assumed rate of 8.75 percent falls within the range of reasonable assumptions."* The Plan's actuary, however, goes on to note that *"this assumption may be viewed as being very aggressive."*

We concur that an 8.75 percent investment return rate is very aggressive, based both on the data contained in the Plan's experience study, as well as with respect to other government pension plans.

In order to select an investment return rate, the Plan's actuaries ran a Monte Carlo simulation, which projects the return on assets numerous times, and then examines the annual returns determined in each projection in aggregate. As a result of this simulation, the actuaries found the **median investment return** over 30 years to be **7.63 percent**. They determined the 75th percentile investment return to be 8.85 percent, and while not disclosed, the 25th percentile investment return can be estimated by extrapolation as 6.4 percent. Under actuarial standards of practice known as *"best estimate range,"* a return assumption is generally assumed to be reasonable if it falls within this 25th to 75th percentile range. The 8.75 percent investment return falls within this range. However, selecting an assumption at the edge of this interval can be overly optimistic. In fact, in the experience study, the Plan's actuary notes that an investment return rate of 8.75 percent has only a 27 percent chance of occurring over the next 30 years.

Not only does an investment return assumption of 8.75 percent fall near the 75th percentile, it is also outside the range of investment returns for comparable plans. The 2007 Public Fund Survey, which surveyed 125 public pension plans with estimated combined assets of $2.6 trillion, found a median investment return assumption is 8.0 percent. Further, the median assumed *real rate of return*, which accounts for inflation, is 4.5 percent, compared to the Retirement Plan's assumption of 5.5 percent. In fact, of these 125 plans, the highest investment return assumption is 8.50 percent (19 plans). The highest real return in the survey is 5.50 percent (5 plans). The Retirement Plan's assumptions are thus as aggressive, or more aggressive, than any plan in the survey. While we do not find the assumption "unreasonable in the aggregate," an assumption of 8.50 percent or 8.00 percent would generally be considered more reasonable.

A revision to the investment return assumption would significantly impact the contribution rates paid by the employees and the CTA. Under the 8.75 percent assumption, the Actuarial Valuation shows that beginning in 2010 employees would be required to pay 8.345 percent and the CTA to pay 10.69 percent (which is net of the employer debt service credit of 6% per pay). However, if the investment return assumption is reduced to 8.5 percent, the employee contributions would increase to 8.629 percent and the CTA contribution would increase to 11.258 percent for 2010.

Funded Ratio

The Illinois Pension Code (40 ILCS 5/22-101(e)(3)) contains specific requirements regarding the funded ratio of the CTA Retirement Plan. The Code states that:

> (3). . . . If the funded ratio is projected to decline below 60% in any year before 2040, the Board of Trustees shall also determine the increased contribution required each year as a level percentage of payroll over the years remaining until 2040 using the projected unit credit actuarial cost method so the funded ratio does not decline below 60% . . . .

The Pension Code requires the CTA to contribute 12 percent of pay, less up to a 6 percent credit for debt service paid on the bonds issued in 2008 used to fund the Plan; employees are required to pay 6 percent of pay. If the funded ratio is projected to decline below 60 percent prior to 2040, the Pension Code requires the CTA to pay two-thirds and employees one-third of the required contribution.

The Actuarial Valuation report concluded that without an increase in employee and employer contribution rates, the Retirement Plan's funded ratio would decline below 60 percent prior to 2040. The Plan's actuary calculated the additional contribution amount that would result in a funded ratio projected to be at least 60 percent. The actuary determined that the contribution rates would need to increase beginning in 2010: the employer contribution rate would need to increase to 10.690 percent (which is net of the employer debt service credit of 6% per pay); and the employee contribution rate would need to increase to 8.345 percent. The January 1, 2009 Actuarial Valuation was presented to the Board at its August 27, 2009 meeting. As noted above, the Board did not formally act to enact or approve these increased rates. The Pension Code requires that if contributions need to be increased to meet the 60 percent funded ratio, they take effect the following January 1.

The Plan's funded ratios have been declining over the past 25 years and have become more pronounced in recent years due to insufficient employer and employee contributions, several early retirement programs, increased benefits, and significant increases in the cost of healthcare. The Retirement Plan and the retiree healthcare were in one entity until January 1, 2009, when they were separated. The Auditor General will be reviewing the funding status of retiree healthcare trust in a separate report later this year.

As of January 1, 2009, the actuarial value of assets for pension benefits under GASB 25 approached $2 billion and the actuarial liability was approximately $2.6 billion, according to the Actuarial Valuation by the Retirement Plan's actuary.

- The funded ratio **increased** from 37.2 percent as of January 1, 2008 to 75.8 percent as of December 31, 2008, primarily due to a one-time extraordinary employer contribution of $1.11 billion from the issue of debt.
- Investment losses **decreased** the funded ratio by 2.4 percent.
- Changes due to assumptions **decreased** the funded ratio by 1.1 percent.
- Lowering the investment return assumption from 8.75 percent to 8.50 percent **would** also **decrease** the funded ratio by 1.8 percent.

SCOPE OF ANNUAL REVIEW

The Office of the Auditor General conducted an annual review of information submitted by the Retirement Plan pursuant to the Illinois State Auditing Act and the Illinois Pension Code. This report does not constitute an audit as that term is defined in generally accepted government auditing standards.

The OAG performed the review with assistance from our consultants, Aon Consulting. Aon's review concluded that:

1) the required documents were submitted by the Retirement Plan and that they met the statutory requirements of Section 5/3-2.3(e)(1), (2), and (3) of the Auditing Act;

2) the assumptions in the Actuarial Valuation report as of January 1, 2009, submitted pursuant to 40 ILCS 5/22-101(e)(3) are not unreasonable in the aggregate;

3) the investment return assumption of 8.75 percent, while selected using established standards for pension plans and not unreasonable in the aggregate, is an optimistic assumption and should be viewed as such; and

4) unless contribution rates are increased, the funding ratio is projected to decline below 60 percent prior to 2040, and the Actuarial Valuation prepared by the Board's actuary has determined the increased contribution rates required, based on assumptions which are not unreasonable in the aggregate.

The Retirement Plan was provided a draft of this report for their review.

APPENDIX A

Statutory Authority

ILLINOIS STATE AUDITING ACT

30 ILCS 5/3-2.3(e)

(e) Annual Retirement Plan Submission to Auditor General. The Board of Trustees of the Retirement Plan for Chicago Transit Authority Employees established by Section 22-101 of the Illinois Pension Code shall provide the following documents to the Auditor General annually no later than September 30:

(1) the most recent audit or examination of the Retirement Plan;

(2) an annual statement containing the information specified in Section 1A-109 of the Illinois Pension Code; and

(3) a complete actuarial statement applicable to the prior plan year, which may be the annual report of an enrolled actuary retained by the Retirement Plan specified in Section 22-101(e) of the Illinois Pension Code.

The Auditor General shall annually examine the information provided pursuant to this subsection and shall submit a report of the analysis thereof to the General Assembly, including the report specified in Section 22-101(e) of the Illinois Pension Code.

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

ILLINOIS PENSION CODE

40 ILCS 5/1A-109

Sec. 1A-109. Annual statements by pension funds. Each pension fund shall furnish to the Division an annual statement in a format prepared by the Division. The Division shall design the form and prescribe the content of the annual statement and, at least 60 days prior to the filing date, shall furnish the form to each pension fund for completion. The annual statement shall be prepared by each fund, properly certified by its officers, and submitted to the Division within 6 months following the close of the fiscal year of the pension fund.

The annual statement shall include, but need not be limited to, the following:

1) a financial balance sheet as of the close of the fiscal year;
2) a statement of income and expenditures;
3) an actuarial balance sheet;
4) statistical data reflecting age, service, and salary characteristics concerning all participants;
5) special facts concerning disability or other claims;
6) details on investment transactions that occurred during the fiscal year covered by the report;
7) details on administrative expenses; and
8) such other supporting data and schedules as in the judgement of the Division may be necessary for a proper appraisal of the financial condition of the pension fund and the results of its operations. The annual statement shall also specify the actuarial and interest tables used in the operation of the pension fund.

A pension fund that fails to file its annual statement within the time prescribed under this Section is subject to the penalty provisions of Section 1A-113. (Source: P.A. 90-507, eff. 8-22-97.)

40 ILCS 5/22-101

Sec. 22-101. Retirement Plan for Chicago Transit Authority Employees.

(e)

(1) Beginning January 1, 2009 the Authority shall make contributions to the Retirement Plan in an amount equal to twelve percent (12%) of compensation and participating employees shall make contributions to the Retirement Plan in an amount equal to six percent (6%) of compensation. These contributions may be paid by the Authority and participating employees on a payroll or other periodic basis, but shall in any case be paid to the Retirement Plan at least monthly.

(2) For the period ending December 31, 2040, the amount paid by the Authority in any year with respect to debt service on bonds issued for the purposes of funding a contribution to the Retirement Plan under Section 12c of the Metropolitan Transit Authority Act, other than debt service paid with the proceeds of bonds or notes issued by the Authority for any year after calendar year 2008, shall be treated as a credit against the amount of required contribution to the Retirement Plan by the Authority under subsection (e)(1) for the following year up to an amount not to exceed 6% of compensation paid by the Authority in that following year.

(3) By September 15 of each year beginning in 2009 and ending on December 31, 2039, on the basis of a report prepared by an enrolled actuary retained by the Plan, the Board of

Trustees of the Retirement Plan shall determine the estimated funded ratio of the total assets of the Retirement Plan to its total actuarially determined liabilities. A report containing that determination and the actuarial assumptions on which it is based shall be filed with the Authority, the representatives of its participating employees, the Auditor General of the State of Illinois, and the Regional Transportation Authority. If the funded ratio is projected to decline below 60% in any year before 2040, the Board of Trustees shall also determine the increased contribution required each year as a level percentage of payroll over the years remaining until 2040 using the projected unit credit actuarial cost method so the funded ratio does not decline below 60% and include that determination in its report. If the actual funded ratio declines below 60% in any year prior to 2040, the Board of Trustees shall also determine the increased contribution required each year as a level percentage of payroll during the years after the then current year using the projected unit credit actuarial cost method so the funded ratio is projected to reach at least 60% no later than 10 years after the then current year and include that determination in its report. Within 60 days after receiving the report, the Auditor General shall review the determination and the assumptions on which it is based, and if he finds that the determination and the assumptions on which it is based are unreasonable in the aggregate, he shall issue a new determination of the funded ratio, the assumptions on which it is based and the increased contribution required each year as a level percentage of payroll over the years remaining until 2040 using the projected unit credit actuarial cost method so the funded ratio does not decline below 60%, or, in the event of an actual decline below 60%, so the funded ratio is projected to reach 60% by no later than 10 years after the then current year. If the Board of Trustees or the Auditor General determine that an increased contribution is required to meet the funded ratio required by the subsection, effective January 1 following the determination or 30 days after such determination, whichever is later, one-third of the increased contribution shall be paid by participating employees and two-thirds by the Authority, in addition to the contributions required by this subsection (1).

(4) For the period beginning 2040, the minimum contribution to the Retirement Plan for each fiscal year shall be an amount determined by the Board of Trustees of the Retirement Plan to be sufficient to bring the total assets of the Retirement Plan up to 90% of its total actuarial liabilities by the end of 2059. Participating employees shall be responsible for one-third of the required contribution and the Authority shall be responsible for two-thirds of the required contribution. In making these determinations, the Board of Trustees shall calculate the required contribution each year as a level percentage of payroll over the years remaining to and including fiscal year 2059 using the projected unit credit actuarial cost method. A report containing that determination and the actuarial assumptions on which it is based shall be filed by September 15 of each year with the Authority, the representatives of its participating employees, the Auditor General of the State of Illinois and the Regional Transportation Authority. If the funded ratio is projected to fail to reach 90% by December 31, 2059, the Board of Trustees shall also determine the increased contribution required each year as a level percentage of payroll over the years remaining until December 31, 2059 using the projected unit credit actuarial cost method so the funded ratio will meet 90% by December 31, 2059 and include that determination in its report. Within 60 days after receiving the report, the Auditor General shall review the determination and the assumptions on which it is based and if he finds that the determination and the assumptions on which it is based are unreasonable in the aggregate, he shall issue a new determination of the funded ratio, the assumptions on which it is based and the increased contribution required each year as a level percentage of payroll over the years remaining until December 31, 2059 using the projected unit credit actuarial cost method so the funded ratio reaches no less than 90% by December 31, 2059. If the Board of Trustees or the Auditor General determine that an increased contribution is required to meet the funded ratio required by this subsection, effective January 1 following the determination or 30 days after such determination, whichever is

later, one-third of the increased contribution shall be paid by participating employees and two-thirds by the Authority, in addition to the contributions required by subsection (e)(1).

(5) Beginning in 2060, the minimum contribution for each year shall be the amount needed to maintain the total assets of the Retirement Plan at 90% of the total actuarial liabilities of the Plan, and the contribution shall be funded two-thirds by the Authority and one-third by the participating employees in accordance with this subsection.

(g) The Board of Trustees shall certify to the Governor, the General Assembly, the Auditor General, the Board of the Regional Transportation Authority, and the Authority at least 90 days prior to the end of each fiscal year the amount of the required contributions to the retirement system for the next retirement system fiscal year under this Section. The certification shall include a copy of the actuarial recommendations upon which it is based. In addition, copies of the certification shall be sent to the Commission on Government Forecasting and Accountability and the Mayor of Chicago.