STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REVIEW OF INFORMATION SUBMITTED BY THE RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

2014 ANNUAL REVIEW
Release Date: November 2014

SYNOPSIS

The Illinois State Auditing Act requires the Retirement Plan for Chicago Transit Authority Employees (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, 2014, the OAG received these documents from the Retirement Plan. The OAG reviewed these documents and concluded that the Retirement Plan had complied with the requirements established in the Auditing Act.

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 required to review the determination and the assumptions on which it is based and determine whether they are *"unreasonable in the aggregate"*. This report does not constitute an audit as that term is defined in generally accepted government auditing standards.

The OAG and our consultants, Aon Hewitt, reviewed the Retirement Plan's assumptions contained in the January 1, 2014 Actuarial Valuation and concluded that they were not unreasonable in the aggregate. However, the Plan should conduct reviews of the following three assumptions prior to next year's valuation:

- Investment return assumption: While the January 1, 2014 Valuation lowered the investment return assumption from 8.50 percent to 8.25 percent, it remains at the upper end of investment return assumptions used by other plans. We recommend that the Plan annually review the reasonableness of its investment return assumption, rather than wait for the next experience study.
- Mortality assumption: The mortality assumptions used by the Plan were changed in the January 1, 2014 Valuation to account for future mortality improvements. However, the assumptions were chosen before final 2014 mortality tables were issued by the Society of Actuaries. We recommend that the Plan's mortality experience be reviewed next year based on the new tables.
- Active participant assumption: Over the past five years, the headcount of active plan members (i.e., employees) has been declining. Given the impact such a decline can have on future contribution levels, we recommend that the Plan review the use of a constant headcount.

The contribution rates adopted by the Retirement Plan Board for 2015 remained unchanged from the 2014 contribution rates: 14.250 percent of pay for the employer rate (which is net of the employer debt service credit of 6% of pay) and 10.125 percent of pay for employees.

The funded ratio of the Retirement Plan increased slightly from 59.4 percent as of January 1, 2013, to 60.9 percent as of January 1, 2014. At January 1, 2014, the Plan's assets totaled $1.893 billion and the actuarial accrued liability was $3.106 billion, according to the Plan's January 1, 2014 Actuarial Valuation.

ANNUAL REVIEW
RESULTS AND CONCLUSIONS

STATUTORY REQUIREMENTS

The OAG reviewed the documents submitted by the Retirement Plan and concluded the Retirement Plan had complied with the Auditing Act.

The Illinois State Auditing Act (30 ILCS 5/3-2.3(e)) requires the Retirement Plan for Chicago Transit Authority Employees (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, 2014, the OAG received these documents from the Retirement Plan.
- 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 also 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"*. (pages 3-4)

REVIEW OF ACTUARIAL VALUATION

The Retirement Plan submitted the Actuarial Valuation as of January 1, 2014, to the OAG on September 30, 2014. This Actuarial Valuation was presented to the Retirement Plan Board at its September 25, 2014 meeting. At that meeting, the Board of Trustees accepted the January 1, 2014 Actuarial Valuation and certified the employer and employee contribution rates for 2015.

The Retirement Plan's assumptions were not unreasonable in the aggregate.

The OAG and our consultants, Aon Hewitt, reviewed the Retirement Plan's assumptions contained in the January 1, 2014 Actuarial Valuation and concluded that they were not unreasonable in the aggregate. However, the Plan should conduct additional reviews of three of the assumptions prior to next year's valuation. The three assumptions are investment return, mortality, and the number of active participants in future years.

The Plan's actuary completed an experience study for the five year period ending December 31, 2012. An experience study assesses how well assumptions used by the Plan align with the actual experience of the Plan. If past experience differs from the assumptions used, then the actuary may recommend revisions to the assumptions used in future valuations.

As a result of the experience study, the actuary recommended lowering the investment return assumption from 8.50 percent to 8.25 percent. This recommended change was incorporated into the January 1, 2014 Actuarial Valuation. Our prior reviews have concluded that the investment return assumptions previously used by the Plan were at the upper range of investment return assumptions for comparable plans. While the investment return assumption was lowered to 8.25 percent, it remains at the upper end of investment return assumptions used by other plans. We recommend that the Plan annually review the reasonableness of its investment return assumption, rather than wait for the next experience study.

The Plan's actuary also recommended certain demographic assumptions be revised as a result of the experience study, including rates of retirement, mortality, disability, and salary increases. The mortality assumptions used by the Plan were changed in the January 1, 2014 Valuation to account for future mortality improvements. However, the assumptions were chosen before final 2014 mortality tables were issued by the Society of Actuaries. We recommend that the Plan's mortality experience be reviewed next year, on a benefits weighted basis, based on the new tables.

One assumption that was unchanged was the use of a constant headcount assumption. Over the past five years, the headcount of active plan members (i.e., employees) has been declining every year. Given the continued decline in active members, and the impact such a decline can have on future contribution levels, we recommend that the Plan review this assumption.

January 1, 2014:

- **Assets . . . . $1.893 billion**
- **Liabilities . . . . .$3.106 billion**
- **Funded Ratio 60.9%**

The funded ratio of the Retirement Plan increased slightly from 59.4 percent as of January 1, 2013, to 60.9 percent as of January 1, 2014. At January 1, 2014, the Plan's assets totaled $1.893 billion and the actuarial accrued liability was $3.106 billion, according to the Plan's January 1, 2014 Actuarial Valuation. (pages 4-12)

CONTRIBUTION RATES

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 for contribution to the Retirement 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 employee and employer contribution rates remained unchanged for 2015: the employee contribution rate was 10.125% of pay and the employer contribution rate was 14.250% of pay (the employer contribution rate is net of the debt service credit of 6% of pay).

The contribution rates adopted by the Retirement Plan Board for 2015 remained unchanged from the 2014 contribution rates which were 14.250 percent for the employer (which is net of the employer debt service credit of 6% of pay) and 10.125 percent for employees. (pages 11, 12)

A draft of this Review was provided to the Retirement Plan for their review. This report does not constitute an audit as that term is defined in generally accepted government auditing standards.

WILLIAM G. HOLLAND
Auditor General

WGH:JS

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