REPORT DIGEST

2019
ANNUAL REVIEW

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EXECUTIVE SUMMARY

Review of Information Submitted by the Retirement Plan for Chicago Transit Authority Employees

The Illinois State Auditing Act requires the Retirement Plan for Chicago Transit Authority Employees (Retirement Plan or 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. The OAG reviewed the documents submitted by the Retirement Plan and concluded that they met the requirements of the Auditing Act.

The funded ratio of the Retirement Plan decreased slightly from 52.65 percent in the January 1, 2018 Valuation to 52.62 percent in the January 1, 2019 Valuation. When the funded ratio declines below 60 percent, the Pension Code requires that contribution rates be increased so that the funded ratio is projected to reach 60 percent within 10 years. The contribution rates certified by the Retirement Plan Board for 2020 were **increased** from the 2019 contribution rates. The employer contribution rate (which is net of the employer debt service credit of 6% of pay) was increased from 18.019 percent to 20.647 percent and the employee contribution rate was increased from 12.010 percent to 13.324 percent.

The OAG and our consultant, Aon, reviewed the Retirement Plan's assumptions contained in the January 1, 2019 Actuarial Valuation and concluded that they were not unreasonable in the aggregate. However, we believe that two of the assumptions, investment return and inflation, should continue to be monitored and justified on an annual basis.

The 8.25 percent investment return assumption used by the Plan is at the upper edge of reasonable based on the Plan's asset allocation and remains at the upper end of investment return assumptions used by other plans. The underlying inflation assumption is on the upper end of the reasonable range based on current and recent historical capital market assumptions. Both the Plan's actuary and Investment Consultant conducted projections that concluded the Plan's investments have a reasonable likelihood of achieving an investment return of 8.25 percent over a 10 to 30 year period.

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

ANNUAL REVIEW RESULTS AND CONCLUSIONS

STATUTORY REQUIREMENTS

The OAG reviewed the documents submitted by the Retirement Plan and concluded that they met the requirements of 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 or 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.

- By September 27, 2019, the OAG received these documents from the Retirement Plan.
- The OAG reviewed these documents and concluded that they met the requirements of 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 4-5)

REVIEW OF ACTUARIAL VALUATION

The Retirement Plan submitted the Actuarial Valuation as of January 1, 2019, to the OAG on September 25, 2019. This Actuarial Valuation was presented to the Retirement Plan Board at its September 19, 2019 meeting. At that meeting, the Board of Trustees accepted the January 1, 2019 Actuarial Valuation and certified the employer and employee contribution rates for 2020.

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

The OAG and our consultant, Aon, reviewed the Retirement Plan's assumptions contained in the January 1, 2019 Actuarial Valuation and concluded that they were not unreasonable in the aggregate. The investment return assumption continues to be higher than most public plans but is supported by investment return analysis conducted by the Plan actuary and investment advisor and a high underlying inflation assumption. The underlying inflation assumption is on the upper end of the reasonable range based on current and recent historical capital market assumptions. While we recognize the Plan's policy of completing an experience study every five years, we believe that these two assumptions, investment return and inflation, should continue to be monitored and justified on an annual basis.

In 2019, the Plan's actuary completed an experience study for the five year period ending December 31, 2017. 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, several of the assumptions used in the Plan's January 1, 2019 Actuarial Valuation were revised including the mortality assumption and inflation assumption. However, the investment return assumption remained unchanged at 8.25 percent.

Our prior reviews have concluded that the investment return assumption used by the Plan was at the upper range of investment return assumptions for comparable plans. The 8.25 percent investment return assumption is at the upper edge of reasonable based on the Plan's asset allocation and remains at the upper end of investment return assumptions used by other plans. The Plan's December 31, 2018 Investment Report shows that the Plan's investments have earned 6.9 percent over the past 10 years. Both the Plan's actuary, as well as the Plan's Investment Consultant, conducted projections that concluded the Plan's investments have a reasonable likelihood of achieving an investment return of 8.25 percent over a 10 to 30 year period. However, we recommend that the investment return and inflation assumptions should be monitored and justified on an annual basis.

Key Retirement Plan Information

Plan investment return assumption	8.25%
10-year historical rate of return	6.9%
Plan assets	$1.836 billion
Plan liabilities	$3.489 billion
Funded ratio	52.62%
Employee contribution rate (2019)	12.010%
Employee contribution rate (2020)	13.324%
Employer contribution rate (2019)	18.019%
Employer contribution rate (2020)	20.647%

The Retirement Plan's active participant headcount decreased from the prior year. Additionally, the ratio of active participants to annuitants continued to decrease. A study sponsored by the National Association of State Retirement Administrators titled the *Public Fund Survey Summary of Findings for FY 2017* states "*When combined with an unfunded liability, however, a low or declining ratio of actives to annuitants can cause fiscal distress for a pension plan sponsor….*" (pages 4-10)

CONTRIBUTION RATES

The Pension Code requires the Chicago Transit Authority (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 paying one-third of the required contribution.

The funded ratio of the Retirement Plan decreased slightly from 52.65 percent in the January 1, 2018 Valuation to 52.62 percent in the January 1, 2019 Valuation. At January 1, 2019, the Plan's assets totaled $1.836 billion and the actuarial accrued liability was $3.489 billion, according to the Plan's January 1, 2019 Actuarial Valuation.

Since the funded ratio of the Plan was below 60 percent in the January 1, 2019 Valuation, the Pension Code requires the Plan to "*…determine the increased contribution required each year as a level percentage of payroll during the years after the then current year…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.*" (40 ILCS 5/22-101(e)(3)) The contribution rates certified by the Retirement Plan Board for 2020 were increased from the 2019 contribution rates. In 2019, the employer contribution rate was 18.019 percent (which is net of the employer debt service credit of 6% of pay) and the employee contribution rate was 12.010 percent. For 2020, the rates were increased so that the employer contribution rate will become 20.647 percent (which is net of the employer debt service credit of 6% of pay) and the employee contribution rate will become 13.324 percent.

The January 1, 2019 Actuarial Valuation concluded that the new contribution rates applicable for Plan year 2020 would result in the Plan's funded ratio reaching the statutorily required 60 percent level within 10 years (i.e., by 2029). (pages 10-11)

AGENCY REVIEW

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.

This Annual Review was conducted by OAG staff with the assistance of our consultant, 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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