November 29, 2022
Annual Review

OFFICE OF THE AUDITOR GENERAL

Report Highlights

Frank J. Mautino *Auditor General*
www.auditor.illinois.gov

Annual Review of the

Information Submitted by the Retirement Plan for Chicago Transit Authority Employees

Background:

Signed into law in 2008, Public Act 95-708 made sweeping changes to the Retirement Plan for CTA Employees. It required that the contributions from the CTA and employees must be at a level so that the funded ratio of the Retirement Plan does not decline below 60 percent in any year before 2040, and achieves 90 percent funding by the end of 2059.

The Retirement Plan is required to submit to the Auditor General an audit, an annual statement, and an actuarial statement by September 30 of each year. The Retirement Plan must determine the estimated funded ratio and must determine the employee and employer contribution rates needed to meet the requirements established by the Pension Code.

The Auditor General is required to review the documents and review the actuarial determination and assumptions to determine whether they are unreasonable in the aggregate.

Key Findings:

- The Retirement Plan submitted the required documents by the September 30 deadline.
- The OAG and our consultant, Aon, reviewed the Retirement Plan's assumptions contained in the January 1, 2022 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. The Plan's investment consultant conducted projections that found an expected 10-year return of 8.32 percent.
- The funded ratio of the Retirement Plan increased from 53.27 percent in the January 1, 2021 Valuation to 54.99 percent in the January 1, 2022 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 2023 were **unchanged** from the 2022 contribution rates. For both 2022 and 2023, the employer contribution rate is 20.647 percent (which is net of the employer debt service credit of 6% of pay) and the employee contribution rate is 13.324 percent. The January 1, 2022 Actuarial Valuation concluded that the contribution rates applicable for Plan year 2023 would result in the Plan's funded ratio reaching the statutorily required 60 percent level within 10 years (i.e., by 2032) and therefore, there was no need to increase the contribution rates.

Key Recommendations:

- We recommend that the investment return and inflation assumptions continue to be monitored and justified on an annual basis.

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

Report Digest

Statutory Requirements

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.

- On September 29, 2022, the Auditor General 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".

The January 1, 2022 Actuarial Valuation was presented to the Retirement Plan Board at its August 25, 2022 meeting. At that meeting, the Board of Trustees accepted the January 1, 2022 Actuarial Valuation and certified the employer and employee contribution rates for 2023. (pages 1-4)

Review of Actuarial Assumptions Used

The OAG and our consultant, Aon, reviewed the Retirement Plan's assumptions contained in the January 1, 2022 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 an investment return analysis conducted by the Plan's Investment Consultant 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. However, the investment return assumption remained unchanged at

8.25 percent. In the Plan's January 1, 2022 Actuarial Valuation, there were no changes in actuarial assumptions compared to the prior year.

Key Retirement Plan Information	
Plan investment return assumption	8.25%
10-year historical rate of return	9.0%
Plan actuarial value of assets	$2.057 billion
Plan liabilities	$3.741 billion
Funded ratio	54.99%
Employee contribution rate (2023)	13.324%
Employer contribution rate (2023)	20.647%

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 is at the upper end of investment return assumptions used by other plans. The Plan's Investment Consultant conducted projections that found an expected 10-year return of 8.32 percent. We recommend that the investment return and inflation assumptions continue to be monitored and justified on an annual basis.

The Retirement Plan's active participant headcount decreased from the prior year. Additionally, the ratio of active participants to annuitants continued to decrease. The *Public Fund Survey Summary of Findings for FY 2020* 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 4-11)

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 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 paying one-third of the required contribution.

The funded ratio of the Retirement Plan increased from 53.27 percent in the January 1, 2021 Valuation to 54.99 percent in the January 1, 2022 Valuation. At January 1, 2022, the actuarial value of assets was reported at $2.057 billion and the actuarial accrued liability was $3.741 billion.

Since the funded ratio of the Plan was below 60 percent in the January 1, 2022 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 2023 were unchanged from the 2022 contribution rates. For both 2022 and 2023, the employer contribution rate is 20.647 percent (which is net of the employer debt service credit of 6% of pay) and the employee contribution rate is 13.324 percent.

The January 1, 2022 Actuarial Valuation concluded that the contribution rates applicable for Plan year 2023 would result in the Plan's funded ratio reaching the statutorily required 60 percent level within 10 years (i.e., by 2032) and therefore, there was no need to increase the contribution rates. (pages 11-12)

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 Sections 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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