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

SUMMARY REPORT DIGEST

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

2010 ANNUAL REVIEW

Release Date: December 2010

SYNOPSIS

- The Auditing Act requires the Retirement Plan for Chicago Transit Authority Employees (Retirement Plan) to submit for review to the Auditor General its most recent audit, an annual statement, and an actuarial statement by September 30 of each year. The OAG reviewed documents submitted by the Retirement Plan and concluded that the Plan had complied with the requirements established in the Auditing Act.

- The Illinois Pension Code 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 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 OAG reviewed the Retirement Plan's assumptions contained in the January 1, 2010 Actuarial Valuation submitted on October 14 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.

- Salary scale assumptions were revised in this year's Actuarial Valuation to reflect expectations based on current furlough and salary programs and collective bargaining agreements. However, when we requested the documentation to support these changes, the Plan's actuary stated that "the parameters used to develop the salary scale assumptions . . . were provided to us in a conference call with various CTA and Retirement Plan members." The Plan's actuary subsequently summarized these conversations which explained changes in the headcount growth and salary increase assumptions.

- The January 1, 2010 Actuarial Valuation Report sets forth the statutory minimum contribution rates that are necessary to keep the projected funded ratio above 60 percent in all years through 2039, based on assumptions which are not unreasonable in the aggregate. The Retirement Plan Board voted to keep the Plan's 2010 employee and employer contribution rates in effect for plan year 2011. These rates are slightly higher than the statutorily minimum required contribution rates for 2011. The January 1, 2010 Actuarial Valuation noted that the "adoption of slightly higher rates by the Board will improve the funding of the Retirement Plan and reduce the fluctuation of the contribution rate in the future should the Plan incur actuarial losses."

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

STATUTORY REQUIREMENTS

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

The Auditing Act (30 ILCS 5/3-2.3(e)) requires the Retirement Plan for Chicago Transit Authority Employees 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, 2010, 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".

REVIEW OF ACTUARIAL VALUATION

The OAG reviewed the Retirement Plan's assumptions contained in the January 1, 2010 Actuarial Valuation submitted on October 14 and concluded that they were not unreasonable in the aggregate.

The Retirement Plan submitted the Actuarial Valuation as of January 1, 2010, to the OAG on September 30, 2010. This Actuarial Valuation was presented to the Retirement Plan Board at its September 23, 2010 meeting. At that meeting, the Board of Trustees approved the valuation for January 2010 and certified the employer and employee contribution rates for 2011. On October 14, 2010, the Plan submitted to the OAG a revised Actuarial Valuation as of January 1, 2010 which reflected a change of $50,000 in the market value of assets based on the Plan's audit report. This revision did not have an effect on the contribution rates that were approved by the Board at its September meeting. The conclusions contained in this report are based on the Actuarial Valuation submitted on October 14, 2010.

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 OAG reviewed the Retirement Plan's assumptions contained in the Actuarial Valuation submitted on October 14 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.

Furthermore, the salary scale assumptions were revised in this year's Actuarial Valuation to reflect expectations based on current furlough and salary programs and collective bargaining agreements, according to Plan officials. However, when we requested the documentation to support these changes, the Plan's actuary stated that "the parameters used to develop the salary scale assumptions that we used for our 2010 actuarial valuation, including the rate increases embedded in the Collective Bargaining Agreements, were provided to us in a conference call with various CTA and Retirement Plan members." On November 9, 2010 the Plan's actuary provided an email summarizing their conversations with the CTA Retirement Plan and CTA Budget and Finance staff and explaining changes in the headcount growth and salary increase assumptions.

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 Retirement Plan Board voted to keep the Plan's 2010 employee and employer contribution rates in effect for plan year 2011. These rates are slightly higher than the statutorily minimum required contribution rates for 2011.

The Actuarial Valuation Report submitted by the Retirement Plan to the Office of the Auditor General sets forth the statutory minimum contribution rates that are necessary to keep the projected funded ratio above 60 percent in all years through 2039, based on assumptions which are not unreasonable in the aggregate. The Retirement Plan Board voted to keep the Plan's 2010 employee and employer contribution rates in effect for plan year 2011. These rates (employee contribution of 8.345 percent of pay and employer contribution of 10.690 percent (which is net of the employer debt service credit of 6% per pay)) are slightly higher than the statutorily minimum required contribution rates for 2011. The January 1, 2010 Actuarial Valuation noted that the "adoption of slightly higher rates by the Board will improve the funding of the Retirement Plan and reduce the fluctuation of the contribution rate in the future should the Plan incur actuarial losses."

DELAYS IN REQUESTED INFORMATION

The Office of the Auditor General and our consulting actuaries Aon Hewitt experienced delays in getting timely responses to questions and supporting documentation during the course of this year's review. Documentation, such as Board meeting minutes and employee and CTA contribution amounts for

2009, took almost three weeks for the Plan to provide to the Auditor General. Similarly, responses to questions and associated follow-up questions and requested documentation were not always provided timely to our consultants.

WILLIAM G. HOLLAND
Auditor General

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