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

2011 ANNUAL REVIEW
Release Date: November 2011

SYNOPSIS

The Illinois State Auditing Act requires the Retirement Plan for Chicago Transit Authority Employees (Retirement Plan) to submit its most recent audit, annual statement, and actuarial statement to the Office of the Auditor General (OAG) by September 30 of each year. These documents were submitted by the Retirement Plan on September 30, 2011. 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 determine, based on a report prepared by an enrolled actuary, the estimated funded ratio of the total assets of the Retirement Plan to its total actuarially determined liabilities. The Retirement Plan is also required to determine the contribution rates needed to meet the funding requirements established by the Pension Code. The Auditor General is then required to review the Retirement Plan's determination and assumptions to 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 reviewed the Retirement Plan's assumptions in the January 1, 2011 Actuarial Valuation and concluded they were not unreasonable in the aggregate.
  - The Retirement Plan kept most of its assumptions unchanged from the prior year's Actuarial Valuation except that it reduced the investment rate of return assumption from 8.75 percent to 8.5 percent.
  - While this reduction improves its reasonableness, the 8.5 percent investment return assumption remains at the upper end of returns used by other pension plans.

- The Pension Code requires the Retirement Plan to set employee and employer contribution rates at levels so that the Plan's projected funded ratio does not decline below 60 percent in all years through 2039.

  - Based on the January 1, 2011 Actuarial Valuation, the Retirement Board increased the employee and employer contribution rates for 2012 to keep the Plan's funded ratio from declining below the statutorily required 60 percent level in all years through 2039.
  - The employee contribution rate will increase from 8.345 percent to 8.65 percent of pay and the employer contribution rate will increase from 10.69 percent to 11.3 percent of pay (the employer contribution rate is net of debt service credit of 6% of pay).

ANNUAL REVIEW
RESULTS AND CONCLUSIONS

STATUTORY REQUIREMENTS

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 an audit, annual statement, and actuarial statement to the Office of the Auditor General (OAG) by September 30 of each year.

- On September 30, 2011, the Retirement Plan submitted these documents to the Auditor General.
- 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 determine the estimated funded ratio of the total assets of the Retirement Plan to its total actuarially determined liabilities, based on a report prepared by an enrolled actuary.

- The Retirement Plan is also required to determine the contribution rates needed to meet the funding requirements established by the Pension Code.
- The Auditor General is then required to review the determination and the assumptions to determine whether they are "*unreasonable in the aggregate*". (pages 3-4)

REVIEW OF ACTUARIAL VALUATION

While the reduction of the investment rate of return from 8.75% to 8.5% improves the reasonableness of this actuarial assumption, the 8.5% investment return assumption remains at the upper end of returns used by other pension plans.

The Retirement Plan submitted the Actuarial Valuation as of January 1, 2011 to the OAG on September 30, 2011. This Actuarial Valuation was adopted by the Retirement Plan's Board of Trustees (Board) at its September 22, 2011 meeting.

Most of the Valuation's assumptions were the same as the prior year's Valuation. However, the Board reduced the investment return assumption from 8.75 percent to 8.5 percent. While this reduction improves the reasonableness of the investment return assumption, the 8.5 percent investment return assumption remains at the upper end of returns used by other pension plans.

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

The OAG reviewed the Retirement Plan's assumptions in the January 1, 2011 Actuarial Valuation and concluded they were not unreasonable in the aggregate. This report does not constitute an audit as that term is defined in generally accepted government auditing standards. (pages 4-10)

January 1, 2011:

- **Assets . . . . $1.9 billion**
- **Liabilities . . . . $2.7 billion**
- **Funded Ratio 70.1%**

As of January 1, 2011, the actuarial value of assets for pension benefits was approximately $1.91 billion and the actuarial liability was $2.72 billion, according to the Retirement Plan's Actuarial Valuation.

- The funded ratio **decreased** from 74.8 percent as of January 1, 2010 to 70.1 percent as of January 1, 2011.
- The 2011 Valuation notes the decrease is due primarily to the amortization of deferred asset losses and the decrease in the investment return assumption from 8.75 percent to 8.5 percent. (page 10)

CONTRIBUTION RATES

The Board increased employee contribution rates from 8.345% to 8.65% of pay and employer contribution rates from 10.69% to 11.3% of pay (the employer contribution rate is net of debt service credit of 6% of pay).

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.

- Based on the January 1, 2011 Actuarial Valuation, the Retirement Plan increased the employer and employee contribution rates for 2012 to keep the Plan's funded ratio from declining below the statutorily required 60 percent level in all years through 2039.
- The Board increased the employee contribution rate for 2012 from 8.345 percent to 8.65 percent of pay and the employer contribution rate from 10.69 percent to 11.3 percent of pay (the employer contribution rate is net of debt service credit of 6% of pay). (pages 4, 9-10)

WILLIAM G. HOLLAND
Auditor General

WGH:mad

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