STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

ANNUAL REVIEW

INFORMATION SUBMITTED BY THE CHICAGO TRANSIT AUTHORITY'S RETIREE HEALTH CARE TRUST

DECEMBER 2011

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AUDITOR GENERAL

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

To the Legislative Audit Commission, the Speaker and Minority Leader of the House of Representatives, the President and Minority Leader of the Senate, the members of the General Assembly, and the Governor:

This is our 2011 Annual Review of Information Submitted by the Chicago Transit Authority Retiree Health Care Trust.

The review was conducted pursuant to Public Act 95-708 which amended the Illinois State Auditing Act by adding a requirement for the Auditor General to annually review and report on information submitted by the Board of Trustees of the Chicago Transit Authority Retiree Health Care Trust.

The report for this review is transmitted in conformance with Section 5/22-101B(b)(3)(iv) of the Illinois Pension Code.

WILLIAM G. HOLLAND
Auditor General

Springfield, Illinois
December 2011

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 RETIREE HEALTH CARE TRUST

2011 ANNUAL REVIEW
Release Date: December 2011

SYNOPSIS

The Board of Trustees of the Chicago Transit Authority Retiree Health Care Trust is required by the Illinois Pension Code to submit a report to the Office of the Auditor General (OAG). The report is intended to annually assess the funding level of the Retiree Health Care Trust.

The Illinois State Auditing Act (Section 5/3-2.3(f)) requires the OAG to examine the information on the funding level of the Retiree Health Care Trust submitted pursuant to Section 22-101B(b)(3)(iii) of the Illinois Pension Code.

The OAG is required to review the Retiree Health Care Trust's assumptions to ensure they are not unreasonable in the aggregate. Our review was limited to the specific conclusions required by the Pension Code. This report does not constitute an audit as that term is defined in generally accepted government auditing standards.

- The Retiree Health Care Trust submitted its Funding Valuation Report as of January 1, 2011 to the Office of the Auditor General on September 30, 2011.

- The Report concluded that the actuarial present value of projected contributions, trust income, and assets, in excess of the statutory reserve, exceeded the actuarial present value of the projected benefits. Consequently, no change in benefits or contributions was required.

- We examined the assumptions in the Retiree Health Care Trust's Funding Valuation Report and found that they were not unreasonable in the aggregate.

ANNUAL REVIEW
RESULTS AND CONCLUSIONS

STATUTORY REQUIREMENTS

The Illinois State Auditing Act (Section 5/3-2.3(f)) requires the Auditor General to annually examine the information on the funding level of the Retiree Health Care Trust (RHCT) submitted pursuant to Section 22-101B(b)(3)(iii) of the Illinois Pension Code. The Pension Code requires the Retiree Health Care Trust to prepare a report that meets the requirements delineated in the Code and to submit it to the Auditor General at least 90 days prior to the end of its fiscal year.

The Pension Code (Section 22-101B(b)(3)(iv)) provides the OAG 90 days to review the information submitted by the RHCT. If the RHCT projects a funding shortfall, it shall provide a plan to (1) increase contributions by employees, retirees, dependents, or survivors, or (2) decrease benefits, or (3) make other plan changes, or (4) any combination thereof to cure the shortfall within 10 years. If the RHCT projects a surplus, it may decrease contributions, increase benefits, or make other plan changes, to the extent of the surplus.

If the OAG review determines the RHCT's assumptions are not unreasonable in the aggregate, the Trust shall implement the plan. Otherwise, the OAG shall explain the basis for its determination to the RHCT and may recommend an alternative.

This report does not constitute an audit as that term is defined in generally accepted government auditing standards. The scope of OAG's review, established by the Pension Code, focused on whether the actuarial assumptions used in the RHCT report were not unreasonable in the aggregate.

REPORT DETERMINATION

The RHCT's Funding Valuation Report concluded that the actuarial present value of projected contributions and trust income plus assets in excess of the statutory reserve exceeded the actuarial present value of the projected benefits.

The Board of Trustees of the Chicago Transit Authority RHCT submitted its Funding Valuation Report as of January 1, 2011 to the Office of the Auditor General on September 30, 2011, which was subsequently revised on November 8, 2011. The Funding Valuation Report included information required by the Pension Code. As shown in Digest Exhibit 1, the Funding Valuation Report concluded that the actuarial present value of projected contributions and trust income plus assets in excess of the statutory reserve exceeded the actuarial present value of the projected benefits:

- The net actuarial present value of projected benefits was $693,547,803.
- The actuarial present value of projected active contributions, trust income, and assets was $737,920,275 (after subtracting $38,834,808 for the required statutory reserve).

- Consequently, projected income and assets exceeded projected benefits by 6.4 percent, and as such, no reduction in benefits or increase in contributions was necessary.

Digest Exhibit 1
RETIREE HEALTH CARE TRUST
ANNUAL ASSESSMENT
OF ADEQUACY OF TRUST FUNDING

ACTUARIAL PRESENT VALUE OF PROJECTED BENEFITS		**ACTUARIAL PRESENT VALUE OF PROJECTED INCOME AND ASSETS**	
Actuarial present value of projected benefits prior to reduction for retiree contributions	$1,110,006,950	Actuarial present value of projected active contributions and trust income plus assets	$776,755,083
Less: Projected current and future retiree contributions	($416,459,147)	Less: Statutory Reserve[1]	($38,834,808)[1]
Net actuarial present value of projected benefits	$693,547,803	Present value of projected income and assets, net of statutory reserve	$737,920,275
Projected income and assets exceed projected benefits by 6.4%			

Note: [1] The Statutory Reserve is net of retiree contributions.
Source: Retiree Health Care Trust Funding Valuation Report as of January 1, 2011.

The assumptions used in the RHCT's Funding Valuation Report were not unreasonable in the aggregate.

With the assistance of our consulting actuary, Aon Hewitt, we examined the RHCT's assumptions in the Funding Valuation Report. Overall, these assumptions were not unreasonable in the aggregate. Pages 4 – 7 of our 2011 Annual Review contain observations on the specific assumptions used in the Funding Valuation Report.

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.

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2011 Annual Review

Information Submitted by the CTA Retiree Health Care Trust

The Board of Trustees of the Chicago Transit Authority Retiree Health Care Trust is required by the Illinois Pension Code to submit a report to the Office of the Auditor General (OAG) each year. The report is intended to annually assess the funding level of the Retiree Health Care Trust.

STATUTORY REQUIREMENTS

The Illinois State Auditing Act (Section 5/3-2.3(f)) requires the Auditor General to annually examine the information on the funding level of the Retiree Health Care Trust submitted pursuant to Section 22-101B(b)(3)(iii) of the Illinois Pension Code. The Pension Code requires the Retiree Health Care Trust to prepare a report that meets the requirements delineated in the Code (see inset) and to submit it to the Auditor General at least 90 days prior to the end of its fiscal year.

The Pension Code (Section 22-101B(b)(3)(iv)) provides the OAG 90 days to review the information submitted by the Retiree Health Care Trust. If the Retiree Health Care Trust projects a funding shortfall, it **shall** provide a plan to (1) increase contributions by employees, retirees, dependents, or survivors, or (2) decrease benefits, or (3) make other plan changes, or (4) any combination thereof to cure the shortfall within 10 years. If the Retiree Health Care Trust projects a surplus, it **may** decrease contributions, increase benefits, or make other plan changes, to the extent of the surplus.

If the OAG review determines the Retiree Health Care Trust's assumptions are *not unreasonable in the aggregate*, the Trust shall implement the plan. Otherwise, the OAG shall explain the basis for its determination to the Retiree Health Care Trust and may recommend an alternative plan.

ILLINOIS PENSION CODE REQUIREMENTS
(iii) The Board of Trustees shall make an annual assessment of the funding levels of the Retiree Health Care Trust and shall submit a report to the Auditor General at least 90 days prior to the end of the fiscal year. The report shall provide the following: (A) the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors; (B) the actuarial present value of projected contributions and trust income plus assets; (C) the reserve required by subsection (b)(3)(ii); and (D) an assessment of whether the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors exceeds or is less than the actuarial present value of projected contributions and trust income plus assets in excess of the reserve required by subsection (b)(3)(ii).
Source: 40 ILCS 5/22-101B(b)(3)(iii).

REPORT DETERMINATION

The Board of Trustees of the Chicago Transit Authority Retiree Health Care Trust submitted its Funding Valuation Report as of January 1, 2011 to the Office of the Auditor General on September 30, 2011. The Funding Valuation was revised on November 8, 2011 and approved by the RHCT Board on November 22, 2011. The Report included information required by the Pension Code. As shown in Exhibit 1, the Report concluded that the actuarial present value of **projected contributions** and trust income plus assets in excess of the statutory reserve **exceeded** the actuarial present value of the **projected benefits**:

- The net actuarial present value of projected benefits was $693,547,803.

- The actuarial present value of projected active contributions, trust income, and assets was $737,920,275 (after subtracting $38,834,808 for the required statutory reserve).

- Consequently, projected income and assets exceeded projected benefits by 6.4 percent, and as such, no reduction in benefits or increase in contributions was necessary.

ILLINOIS PENSION CODE
If the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors exceeds the actuarial present value of projected contributions and trust income plus assets in excess of the reserve required by subsection (b)(3)(ii), then the report **shall** provide a plan, to be implemented over a period of not more than 10 years from each valuation date, which would make the actuarial present value of projected contributions and trust income plus assets equal to or exceed the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors. The plan may consist of increases in employee, retiree, dependent, or survivor contribution levels, decreases in benefit levels, or other plan changes or any combination thereof. If the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors is less than the actuarial present value of projected contributions and trust income plus assets in excess of the reserve required by subsection (b)(3)(ii), then the report **may** provide a plan of decreases in employee, retiree, dependent, or survivor contribution levels, increases in benefit levels, or other plan changes, or any combination thereof, to the extent of the surplus. [emphasis added]
Source: 40 ILCS 5/22-101B(b)(3)(iii).

Exhibit 1 **RETIREE HEALTH CARE TRUST** **ANNUAL ASSESSMENT OF ADEQUACY OF TRUST FUNDING**			
ACTUARIAL PRESENT VALUE OF PROJECTED BENEFITS		**ACTUARIAL PRESENT VALUE OF PROJECTED INCOME AND ASSETS**	
Actuarial present value of projected benefits prior to reduction for retiree contributions	$1,110,006,950	Actuarial present value of projected active contributions and trust income plus assets	$776,755,083
Less: Projected current and future retiree contributions	($416,459,147)	Less: Statutory Reserve [1]	($38,834,808)[1]
Net actuarial present value of projected benefits	$693,547,803	Present value of projected income and assets, net of statutory reserve	$737,920,275
Projected income and assets exceed projected benefits by 6.4%			
Note: [1] The Statutory Reserve is net of retiree contributions. Source: Retiree Health Care Trust Funding Valuation report as of January 1, 2011 (revised and approved by the RHCT Board in November 2011).			

Calculation of the Statutory Reserve

The Pension Code requires the Retiree Health Care Trust to establish *"an appropriate funding reserve level which* ***shall not be less than the amount of incurred and unreported claims plus 12 months of expected claims and administrative expenses****"* (40 ILCS 5/22-101B(b)(3)(ii)) [emphasis added]. The Actuarial Report submitted by the Trust contains a calculation of the statutory reserve. While the calculation includes $57.8 million for *"12 months of expected claims and administrative expenses,"* and $3.4 million for *"incurred and unreported claims,"* for a claims expense total of $61.2 million, it subtracts $22.4 million from the claims expense for *"12 months of expected retiree and dependent contributions."* The netting or subtraction of expected contributions from the expected claims and administrative expenses is not specifically delineated in the Pension Code.

The statutory reserve is one of the figures used in the annual assessment of the Trust funding level required by Section 22-101B(b)(3)(iii) of the Pension Code. A change in the statutory reserve figure, therefore, impacts the calculation as to whether the Trust is adequately funded. As shown in Exhibit 1, when the statutory reserve is calculated by netting expected retiree contributions from expected claims (benefit payments), the actuarial present value of projected income and assets exceeds the actuarial present value of projected benefits by 6.4 percent. However, the statutory reserve increases from $38.8 million to $61.2 million when expected claims are not reduced by expected retiree contributions of $22.4 million, which results in the actuarial present value of projected income and assets of $715.6 million being 3.2 percent more than the actuarial present value of projected benefits of $693.5 million.

As part of our 2009 Annual Review, we inquired of Trust officials why the statutory reserve was calculated by netting out expected retiree contributions. The Trust's actuary responded that they interpreted *"12 months of expected claims and administrative expenses"* to mean 12 months of net expenses. They noted that their understanding is that "contributions" means active contributions and "benefits" or "claims" to be net of retiree and dependent self-pay contributions. The actuary stated they used this interpretation for the initial January 1, 2008 actuarial valuation under Section 3-2.3(a)(7) of the Auditing Act as well as the January 1, 2009 actuarial valuation under Section 22-101B(b)(3) of the Pension Code. Our actuarial advisors, Aon Hewitt, indicated that it is not unreasonable to subtract out the contributions from the anticipated benefit payments when calculating a reserve, because no benefits could be paid without corresponding contributions being received.

Actuarial Assumptions

With the assistance of our consulting actuary, Aon Hewitt, we examined the Retiree Health Care Trust's assumptions as disclosed in Exhibit I of the January 1, 2011 actuarial report. Overall, we found that the assumptions are not unreasonable in the aggregate. Aon Hewitt provided the following observations about specific assumptions:

(A) **Net Investment Return.** The net investment return assumption for the Retiree Health Care Trust is seven percent. Aon Hewitt calculated the investment return that could be expected based on the target asset allocation in the Chicago Transit Authority (CTA) Retiree Health Care Plan financial statements and supplementary information for years ended December 31, 2010 and 2009. Aon Hewitt looked at two different sets of expected returns.

1. The expected return based on the Aon Hewitt Expected Return Model (as of the first quarter of 2011).
2. The 2011 report done by Wilshire Consulting, titled "State Retirement Systems: Funding Levels and Asset Allocation".

Based on the asset allocation in the Trust's investment policy, Wilshire and Aon Hewitt predicted a **weighted average** net investment return of 5.44 percent and 6.39 percent, respectively, both less than the actuarial assumption of 7.00 percent. However, Aon Hewitt's Expected Return Model indicated the **median** return based on the target asset allocation is 7.25 percent and that the probability of achieving a return of 7.00 percent or greater is 54.7 percent. The weighted average net investment return assumes that the asset classes are one hundred percent correlated, while the median return takes into account that the asset classes are not one hundred percent correlated. Therefore Aon Hewitt believes the median is a better representation of the true expected return. Given that the median return is higher than 7.00 percent, the net investment return assumption of 7.00 percent is within a reasonable range.

(B) **Salary Inflation.** The salary inflation assumption was updated to be more consistent with the Retirement Plan assumption. However, the Retirement Plan assumes 1.5 percent wage inflation for years 2012 through 2014 and the Retiree Health Care Trust assumes 1.75 percent wage inflation for the same years. Also, the overall salary increase assumption was updated to be more consistent with the Retirement Plan assumption, as suggested by the Office of the Auditor General. However, the Retirement Plan assumption for years 2015 and after is dependent upon service (shorter service individuals are assumed to have larger increases) but the Retiree Health Care Trust assumes a flat 5 percent for everyone. The Retiree Health Care Trust actuary should review this assumption with the Retirement Plan actuary in the future to ensure consistency.

(C) **Disability and Withdrawal Rates.** Disability and withdrawal rates matched those of the Retirement Plan. These assumptions were all analyzed in the last experience study performed by the Retirement Plan's prior actuary, which examined seven years of plan history from January 1, 2001 to December 31, 2007. Aon Hewitt reviewed that experience study and the assumptions as part of our 2009 assumption review.

(D) **Mortality.** Pre-retirement mortality rates are set at 90 percent of the 1994 Group Annuity Mortality Table and post-retirement mortality rates follow the 1994 Group Annuity Mortality Table. However, as noted in our 2011 Annual Review of Information Submitted by the Retirement Plan for CTA Employees, Actuarial Standard of Practice No. 35 (ASOP No. 35) was recently amended such that Section 3.5.3 has been revised to provide guidance with respect to mortality improvement before and after the measurement date. The revisions to ASOP No. 35 are effective for any actuarial valuation with a measurement date on or after June 30, 2011. Therefore, it is not necessary for the January 1, 2011 Actuarial Valuation for the Retiree Health Care Trust to comply with the revisions to the standard. However, we draw attention to the fact that changes to the mortality assumption will likely be needed for the January 1, 2012 Actuarial Valuation to include a projection of future mortality improvement.

(E) **Retirement Rates.** Active retirement rates matched those of the Retirement Plan. This assumption was analyzed in the Retirement Plan's experience study that has been reviewed previously.

(F) **Retirement Age.** Selecting age 65 as the expected retirement age for inactive retirees is not unreasonable.

(G) **Participation Rates.** The assumed participation rates decrease as retiree and dependent contributions increase. Participation rates for 2012 have been increased for certain service categories where the percentage of the cost paid by participants is decreasing for 2012 and beyond. Without more data on actual plan experience, it is difficult to fully assess this assumption. We recommend that the Trust's actuary conduct periodic experience studies to assess the appropriateness of the participation rates.

(H) **Dependents.** The percent married assumption is 75 percent for future retirees and a 3 year age difference is consistent with commonly used values.

(I) **Plan Election.** The plan election assumption is 75 percent of future retirees assumed to elect PPO coverage and 25 percent assumed to elect HMO coverage. Without more data on actual plan experience it is difficult to fully assess this assumption. The Retiree Health Care Trust should have periodic experience studies conducted to assess the appropriateness of this assumption.

(J) **Per Capita Claims.** The methodology used to calculate the per capita claims for self-insured medical and prescription drug benefits has been revised since the prior valuation. The prior valuation utilized a weighted average of three years of historical claim experience while the current valuation utilizes one year of experience (2010 claims and enrollment). Given the variety of plan design changes that have occurred over the last few years, this is a reasonable methodology to use for the current year, but multiple years of experience would increase credibility going forward.

(K) **Health Care Cost Trends.** The CTA Retiree Health Care Trust (RHCT) utilizes the same trend curve for all benefits, including pre- and post-Medicare medical and prescription drugs. Due to Medicare Advantage funding cuts passed in the Patient Protection and Affordable Care Act, Aon Hewitt notes it is possible that after the rate guarantee expires at the end of 2013, that double digit trend increases could be experienced for the new Medicare Advantage Plan in the early years. The RHCT should continue to monitor expected increases for this plan carefully and consider adopting a separate trend curve for this plan for future valuations. The period over which the combined medical and pharmacy trend grades down to the ultimate trend of 5 percent has been extended. The 5 percent ultimate trend is reached in 2019.

(L) **Retiree Drug Subsidy.** The methodology for determining the Retiree Drug Subsidy (RDS) assumption has been revised to be based on actual experience adjusted for trend and future expectations. This has resulted in a 22 percent decrease in the assumed RDS reimbursement amounts for 2011, but is more in line with what the CTA Retiree Health Care Trust is expected to receive in subsidy. The RDS assumption only applies for 2011 due to other changes in the prescription drug plan design and funding for Medicare retirees.

(M) **Retiree Contribution Increase Rate.** The application of the medical trend rate to the retiree and dependent contributions is a common practice.

(N) **Administrative Expense.** The administrative expense assumptions are not unreasonable.

Overall, we do not find these assumptions unreasonable in the aggregate.

Other Issues

In our review of the Actuarial Report submitted to the Trust, we identified other matters of note.

Limitation on Retiree Contributions

The Pension Code (40 ILCS 5/22-101B(b)(5)) requires that the *"aggregate amount of retiree, dependent and survivor contributions to the cost of their health care benefits shall not exceed more than 45% of the total cost of such benefits."* The Pension Code goes on to define *"total cost of such benefits"* as the *"total amount expended by the retiree health benefit program in the prior plan year, as calculated and certified in writing by the Retiree Health Care Trust's enrolled actuary . . . ."*

On October 28, 2011, the Executive Director of the Retiree Health Care Trust submitted to the Office of the Auditor General a letter prepared by the Board's actuary for the Board. The letter contained the results of the actuary's calculation of whether the 45 percent limitation established by the Pension Code was met. The actuary noted that the aggregate amount of retiree, dependent, and survivor contributions for 2010 was $21,829,966. The retiree health benefits payment for 2009 totaled $72,422,094. Consequently, the actuary calculated that the retiree self-pay as a percentage of total cost of benefits was 30.14 percent.

The Pension Code requires that the actuary certify in writing its calculation. While the calculation was put in writing and the letter signed by the Board's actuary, the actuary did not certify the results, similar to the past year. In the future years' calculations, the Board needs to ensure that the actuary provides a certification of its results, as required by the Pension Code.

Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act created a temporary reinsurance program for qualified plan sponsors that reimburse the plan sponsor for certain claims for retirees over age 55 and their dependents. The CTA has been accepted for this program which began June 1, 2010. Through early 2011 the CTA Retiree Health Care Trust has received $5.4 million in reinsurance payments related to plan year 2010. This amount has been reflected as an additional contribution in the January 1, 2011 funding assessment (revised and approved by the RHCT Board in November 2011). The Trust's actuary has indicated that due to the short nature of this program (expected to be 3 years or less) that the value of this program has not been reflected in the valuation beyond the amounts already received. This approach is similar to that being used by other employers.

SCOPE OF ANNUAL REVIEW

The Office of the Auditor General has conducted this annual review of information submitted by the Board of Trustees of the Chicago Transit Authority Retiree Health Care Trust pursuant to the Illinois State Auditing Act (30 ILCS 5/3-2.3(f)): *"The Auditor General shall annually examine the information submitted pursuant to Section 22-101B(b)(3)(iii) of the Illinois Pension Code and shall prepare the determination specified in Section 22-101B(b)(3)(iv) of the Illinois Pension Code."*

This report does not constitute an audit as that term is defined in generally accepted government auditing standards. The OAG's review, the scope of which is established by the Pension Code, focused on whether the actuarial assumptions used in the Retiree Health Care Trust's report were not unreasonable in the aggregate. The OAG performed the review with assistance from our consultants, Aon Hewitt. Aon Hewitt's review of the Health Care Trust's Actuarial Report concluded that:

- The Board of Trustees of the Retiree Health Care Trust has made an assessment of the funding levels of the Retiree Health Care Trust which concludes that the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and their survivors are less than the actuarial present value of projected contributions and Trust income plus assets in excess of the reserve required by Section 22-101B(b)(3)(ii) of the Illinois Pension Code, and

- The assumptions stated in the Actuarial Report submitted pursuant to Section 22-101B(b)(3)(iii) of the Pension Code are not unreasonable in the aggregate.

The Retiree Health Care Trust was provided a draft of this report to review.

APPENDIX A

Statutory Authority

ILLINOIS STATE AUDITING ACT

30 ILCS 5/3-2.3

(f) The Auditor General shall annually examine the information submitted pursuant to Section 22-101B(b)(3)(iii) of the Illinois Pension Code and shall prepare the determination specified in Section 22-101B(b)(3)(iv) of the Illinois Pension Code.

(Source: P.A. 95-708, eff. 1-18-08.)

ILLINOIS PENSION CODE

40 ILCS 5/22-101B

Sec. 22-101B. Health Care Benefits.

(a) The Chicago Transit Authority (hereinafter referred to in this Section as the "Authority") shall take all actions lawfully available to it to separate the funding of health care benefits for retirees and their dependents and survivors from the funding for its retirement system. The Authority shall endeavor to achieve this separation as soon as possible, and in any event no later than July 1, 2009.

(b) Effective 90 days after the effective date of this amendatory Act of the 95th General Assembly, a Retiree Health Care Trust is established for the purpose of providing health care benefits to eligible retirees and their dependents and survivors in accordance with the terms and conditions set forth in this Section 22-101B. The Retiree Health Care Trust shall be solely responsible for providing health care benefits to eligible retirees and their dependents and survivors upon the exhaustion of the account established by the Retirement Plan for Chicago Transit Authority Employees pursuant to Section 401(h) of the Internal Revenue Code, but no earlier than January 1, 2009 and no later than July 1, 2009.

(1) The Board of Trustees shall consist of 7 members appointed as follows: (i) 3 trustees shall be appointed by the Chicago Transit Board; (ii) one trustee shall be appointed by an organization representing the highest number of Chicago Transit Authority participants; (iii) one trustee shall be appointed by an organization representing the second-highest number of Chicago Transit Authority participants; (iv) one trustee shall be appointed by the recognized coalition representatives of participants who are not represented by an organization with the highest or second-highest number of Chicago Transit Authority participants; and (v) one trustee shall be selected by the Regional Transportation Authority Board of Directors, and the trustee shall be a professional fiduciary who has experience in the area of collectively bargained retiree health plans. Trustees shall serve until a successor has been appointed and qualified, or until resignation, death, incapacity, or disqualification.

Any person appointed as a trustee of the board shall qualify by taking an oath of office that he or she will diligently and honestly administer the affairs of the system, and will not knowingly violate or willfully permit the violation of any of the provisions of law applicable to the Plan, including Sections 1-109, 1-109.1, 1-109.2, 1-110, 1-111, 1-114, and 1-115 of Article 1 of the Illinois Pension Code.

Each trustee shall cast individual votes, and a majority vote shall be final and binding upon all interested parties, provided that the Board of Trustees may require a supermajority vote with respect to the investment of the assets of the Retiree Health Care Trust, and may set forth that requirement in the trust agreement or by-laws of the Board of Trustees. Each trustee shall have the rights, privileges, authority and obligations as are usual and customary for such fiduciaries.

(2) The Board of Trustees shall establish and administer a health care benefit program for eligible retirees and their dependents and survivors. Any health care benefit program established by the Board of Trustees for eligible retirees and their dependents and survivors effective on or after July 1, 2009 shall not contain any plan which provides for more than 90% coverage for in-network services or 70% coverage for out-of-network services after any deductible has been paid, except that coverage through a health maintenance organization ("HMO") may be provided at 100%.

(3) The Retiree Health Care Trust shall be administered by the Board of Trustees according to the following requirements:

(i) The Board of Trustees may cause amounts on deposit in the Retiree Health Care Trust to be invested in those investments that are permitted investments for the investment of moneys held under any one or more of the pension or retirement systems of the State, any unit of local government or school district, or any agency or instrumentality thereof. The Board, by a vote of at least two-thirds of the trustees, may transfer investment management to the Illinois State Board of Investment, which is hereby authorized to manage these investments when so requested by the Board of Trustees.

(ii) The Board of Trustees shall establish and maintain an appropriate funding reserve level which shall not be less than the amount of incurred and unreported claims plus 12 months of expected claims and administrative expenses.

(iii) The Board of Trustees shall make an annual assessment of the funding levels of the Retiree Health Care Trust and shall submit a report to the Auditor General at least 90 days prior to the end of the fiscal year. The report shall provide the following:

(A) the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors;

(B) the actuarial present value of projected contributions and trust income plus assets;

(C) the reserve required by subsection (b)(3)(ii); and

(D) an assessment of whether the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors exceeds or is less than the actuarial present value of projected contributions and trust income plus assets in excess of the reserve required by subsection (b)(3)(ii).

If the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors exceeds the actuarial present value of projected contributions and trust income plus assets in excess of the reserve required by subsection (b)(3)(ii), then the report shall provide a plan, to be implemented over a period of not more than 10 years from each valuation date, which would make the actuarial present value of projected contributions and trust income plus assets equal to or exceed the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors. The plan may consist of increases in employee, retiree, dependent, or survivor contribution levels, decreases in benefit levels, or other plan changes or any combination thereof. If the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors is less than the actuarial present value of projected contributions and trust income plus assets in excess of the reserve required by subsection (b)(3)(ii), then the report may provide a plan of decreases in employee, retiree, dependent, or survivor contribution levels, increases in benefit levels, or other plan changes, or any combination thereof, to the extent of the surplus.

(iv) The Auditor General shall review the report and plan provided in subsection (b)(3)(iii) and issue a determination within 90 days after receiving the report and plan, with a copy of such determination provided to the General Assembly and the Regional Transportation Authority, as follows:

(A) In the event of a projected shortfall, if the Auditor General determines that the assumptions stated in the report are not unreasonable in the aggregate and that the plan of increases in employee, retiree, dependent, or survivor contribution levels, decreases in benefit levels, or other plan changes, or any combination thereof, to be implemented over a period of not more than 10 years from each valuation date, is reasonably projected to make the actuarial present value of projected contributions and trust income plus assets equal to or in excess of the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors, then the Board of Trustees shall implement the plan. If the Auditor General determines that the assumptions stated in the report are unreasonable in the aggregate, or that the plan of increases in employee, retiree, dependent, or survivor contribution levels, decreases in benefit levels, or other plan changes to be implemented over a period of not more than 10 years from each valuation date, is not reasonably projected to make the actuarial present value of projected contributions and trust income plus assets equal to or in excess of the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors, then the Board of Trustees shall not implement the plan, the Auditor General shall explain the basis for such determination to the Board of Trustees, and the Auditor General may make recommendations as to an alternative report and plan.

(B) In the event of a projected surplus, if the Auditor General determines that the assumptions stated in the report are not unreasonable in the aggregate and that the plan of decreases in employee, retiree, dependent, or survivor contribution levels, increases in benefit levels, or both, is not unreasonable in the aggregate, then the Board of Trustees shall implement the plan. If the Auditor General determines that the assumptions stated in the report are unreasonable in the aggregate, or that the plan of decreases in employee, retiree, dependent, or survivor contribution levels, increases in benefit levels, or both, is unreasonable in the aggregate, then the Board of Trustees shall not implement the plan, the Auditor General shall explain the basis for such determination to the Board of Trustees, and the Auditor General may make recommendations as to an alternative report and plan.

(C) The Board of Trustees shall submit an alternative report and plan within 45 days after receiving a rejection determination by the Auditor General. A determination by the Auditor General on any alternative report and plan submitted by the Board of Trustees shall be made within 90 days after receiving the alternative report and plan, and shall be accepted or rejected according to the requirements of this subsection (b)(3)(iv). The Board of Trustees shall continue to submit alternative reports and plans to the Auditor General, as necessary, until a favorable determination is made by the Auditor General.

(4) For any retiree who first retires effective on or after January 18, 2008, to be eligible for retiree health care benefits upon retirement, the retiree must be at least 55 years of age, retire with 10 or more years of continuous service and satisfy the preconditions established by Public Act 95-708 in addition to any rules or regulations promulgated by the Board of Trustees. Notwithstanding the foregoing, any retiree hired on or before September 5, 2001 who retires with 25 years or more of continuous service shall be eligible for retiree health care benefits upon retirement in accordance with any rules or regulations adopted by the Board of Trustees; provided he or she retires prior to the full execution of the successor collective bargaining agreement to the collective bargaining agreement that became effective January 1, 2007 between the Authority and the organizations representing the highest and second-highest number of Chicago Transit Authority participants. This paragraph (4) shall not apply to a disability allowance.

(5) Effective January 1, 2009, the aggregate amount of retiree, dependent and survivor contributions to the cost of their health care benefits shall not exceed more than 45% of the total cost of such benefits. The Board of Trustees shall have the discretion to provide different contribution levels for retirees, dependents and survivors based on their years of service, level of coverage or Medicare eligibility, provided that the total contribution from all retirees, dependents, and survivors shall be not more than 45% of the total cost of such benefits. The term "total cost of such benefits" for purposes of this subsection shall be the total amount expended by the retiree health benefit program in the

prior plan year, as calculated and certified in writing by the Retiree Health Care Trust's enrolled actuary to be appointed and paid for by the Board of Trustees.

(6) Effective January 18, 2008, all employees of the Authority shall contribute to the Retiree Health Care Trust in an amount not less than 3% of compensation.

(7) No earlier than January 1, 2009 and no later than July 1, 2009 as the Retiree Health Care Trust becomes solely responsible for providing health care benefits to eligible retirees and their dependents and survivors in accordance with subsection (b) of this Section 22-101B, the Authority shall not have any obligation to provide health care to current or future retirees and their dependents or survivors. Employees, retirees, dependents, and survivors who are required to make contributions to the Retiree Health Care Trust shall make contributions at the level set by the Board of Trustees pursuant to the requirements of this Section 22-101B.

(Source: P.A. 95-708, eff. 1-18-08; 95-906, eff. 8-26-08; 96-1254, eff. 7-23-10.)