REPORT DIGEST

Annual Review

INFORMATION SUBMITTED BY THE CTA RETIREE HEALTH CARE TRUST

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State of Illinois
Office of the Auditor General

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SYNOPSIS

The Board of Trustees of the Chicago Transit Authority Retiree Health Care Trust (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 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 Health Care Trust submitted pursuant to Section 22-101B(b)(3)(iii) of the Illinois Pension Code.

The OAG is required to review the 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 State Auditing Act. This report does not constitute an audit as that term is defined in generally accepted government auditing standards. This is our second year of review.

- The Health Care Trust submitted its Actuarial Report to the Office of the Auditor General on September 30, 2009, as required by the Pension Code.
- 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 Health Care Trust's assumptions and did not find them to be unreasonable in the aggregate.
- In its calculation of the statutorily required reserve, the Actuarial Report deducted $25 million for expected retiree and dependent contributions from the $62 million of expected claims, for a reserve of $37 million. The subtraction of expected contributions is not delineated in the Pension Code. If not netted, the actuarial present value of projected income and assets is 99.4 percent of the actuarial present value of projected benefits.

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 Health Care Trust submitted pursuant to the Illinois Pension Code. The Pension Code requires the Health Care Trust to prepare a report that meets the requirements delineated in the inset and submit it to the Auditor General at least 90 days before the end of its fiscal year.

If the Health Care Trust projects a funding shortfall, it **shall** provide a plan to (1) increase contributions, or (2) decrease benefits, or (3) both to cure the shortfall within 10 years. If it projects a surplus, it **may** decrease contributions, increase benefits, or both, to the extent of the surplus.

If the OAG review determines the Health Care Trust's assumptions are *not unreasonable in the aggregate*, the Trust shall implement the plan.

Our review was limited to the specific conclusions required by the State Auditing Act. This report does not constitute an audit as that term is defined in generally accepted government auditing standards. This is our second year of review.

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).

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 of increases in employee, retiree, dependent, or survivor contribution levels, decreases in benefit levels, or both, which is projected to cure the shortfall over a period of not more than 10 years. 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 both, to the extent of the surplus. [emphasis added]

Source: 40 ILCS 5/22-101B(b)(3)(iii).

REPORT DETERMINATION

The Health Care Trust submitted its Report to the OAG on September 30, 2009. The Actuarial Report as of January 1, 2009 included information required by the Pension Code.

As shown in Digest 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:

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	$1,256,295,988	Actuarial present value of projected active contributions and trust income plus assets	$789,983,611
Less: Projected retiree and dependent contributions	($523,595,924)	Less Statutory Reserve[1]	($36,690,856)[1]
Net actuarial present value of projected benefits	$732,700,064	Present value of projected income and assets, net of statutory reserve	$753,292,755
Projected Income and Assets Exceed Projected Benefits by 2.8%			
Note: [1] Statutory Reserve is net of retiree contributions Source: RHCT Actuarial Report as of January 1, 2009			

Projected income and assets exceed projected benefit payments, thus no changes are required to benefits or contributions.

- Net actuarial present value of projected benefits: $732,700,064.
- Actuarial present value of projected contributions, trust income, and assets: $753,292,755 (after $36,690,856 for reserve).
- Projected income and assets **exceeded** projected benefits by 2.8 percent and as such, no reduction in benefits or increase in contributions was necessary. The Pension Code gives the Health Care Trust the option to make changes if projected benefits are lower than income and assets; no changes were proposed.

With the assistance of our consulting actuary, Aon Consulting, we examined the Health Care Trust's assumptions in its Actuarial Report and did not find them to be unreasonable in the aggregate.

The Health Care Trust's assumptions in its Actuarial Report were not unreasonable in the aggregate.

Calculation of the Statutory Reserve

The Pension Code requires the Health Care Trust to establish a statutory reserve (40 ILCS 5/22-101B(b)(3)(ii)). The Trust's Actuarial Report calculated the statutory reserve to be $36.7 million, which was computed by taking the $61.7 million for expected claims and administrative expenses and deducting $25 million for expected retiree and dependent contributions. The netting or subtraction of expected retiree contributions is not delineated in the Pension Code. If it is not netted, the statutory reserve increases from $36.7 million to $61.7 million which results in the actuarial present value of projected income and assets to be 99.4 percent of the actuarial present value of projected benefits.

Our actuarial advisors, Aon Consulting, indicated that it is not unreasonable to subtract contributions from anticipated benefit payments when calculating a reserve, because no benefits could be paid without corresponding contributions being received.

Incurred and Unreported Claims

The Actuarial Report's calculation of the statutory reserve shows $0 for *"incurred and unreported claims"* because the Health Care Trust had not started paying benefits by January 1, 2009. We inquired of Trust officials as to whether there were incurred or unreported claims from 2008, when the retiree health care plan was administered by the Retirement Plan, that would reasonably be expected to become the responsibility of the Health Care Trust in 2009. The Health Care Trust's actuary said they *"had no information as to whether any incurred and unreported claims from 2008 may or may not become the responsibility of the RHCT in 2009. Therefore, the valuation included only the costs associated with the plan of benefits adopted by the RHCT."*

When asked whether the Health Care Trust has paid claims incurred but not reported in 2008, the Health Care Trust's Executive Director (who also serves as the Executive Director of the CTA Retirement Plan) responded that he could not verify whether any portion of such claims were paid by the Retiree Health Care Trust.

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 . . ."* [emphasis added].

The Health Care Trust's actuary did not address compliance with the requirements in Section 22-101B(b)(5). The Health Care Trust's actuary said the limitation on contributions is effective January 1, 2009; therefore, the actuary's understanding is that the first certification will compare contributions for 2009 to gross retiree health benefit costs and expenses for 2008. The comparison and certification will be completed in 2010 when the 2009 figures become available.

WILLIAM G. HOLLAND
Auditor General

WGH:AD
December 2009