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

2013 ANNUAL REVIEW
Release Date: November 2013

SYNOPSIS

The Illinois State Auditing Act requires the Retirement Plan for Chicago Transit Authority Employees (Retirement 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 30, 2013, the OAG received these documents from the Retirement Plan. 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 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"*. This report does not constitute an audit as that term is defined in generally accepted government auditing standards.

- The OAG and our consultants, Aon Hewitt, reviewed the Retirement Plan's assumptions contained in the January 1, 2013 Actuarial Valuation and concluded that they were not unreasonable in the aggregate.
- However, the 8.50 percent investment return assumption used by the Plan is an aggressive assumption. We followed up with the Plan to determine what analysis was done to show that the assumption was still a reasonable assumption and whether any consideration was given to reduce it. The Plan's Executive Director stated that there have been no changes to the Plan's investment policy or asset allocation during the past year and the Plan's previous assumption was determined to be in line with actuarial standards of practice. The Executive Director further noted that the investment return assumption, along with all other assumptions, will be reviewed as part of the experience review which is currently underway, the results of which will be implemented with the January 1, 2014 Actuarial Valuation.
- The contribution rates adopted by the Retirement Plan Board for 2014 remained unchanged from the 2013 contribution rates: 14.250 percent of pay for the employer rate (which is net of the employer debt service credit of 6% of pay) and 10.125 percent of pay for employees. The January 1, 2013 Actuarial Valuation concluded that the contribution rates applicable for Plan year 2014 should result in the Plan's funded ratio reaching the statutorily required 60 percent level by 2022.
- The funded ratio of the Retirement Plan increased slightly from 59.2 percent as of January 1, 2012, to 59.4 percent as of January 1, 2013. The actuarial value of assets was $1.662 billion at January 1, 2012. At January 1, 2013, the actuarial value of assets was $1.703 billion and the actuarial accrued liability was $2.867 billion, according to the Plan's January 1, 2013 Actuarial Valuation.

ANNUAL REVIEW
RESULTS AND CONCLUSIONS

STATUTORY REQUIREMENTS

The 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 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, 2013, the OAG received these documents from the Retirement Plan.
- 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 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"*. (pages 3-4)

REVIEW OF ACTUARIAL VALUATION

The Retirement Plan submitted the Actuarial Valuation as of January 1, 2013, to the OAG on September 30, 2013. This Actuarial Valuation was presented to the Retirement Plan Board at its August 13, 2013 meeting. At that meeting, the Board of Trustees accepted the January 1, 2013 Actuarial Valuation and certified the employer and employee contribution rates for 2014.

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

The OAG and our consultants, Aon Hewitt, reviewed the Retirement Plan's assumptions contained in the January 1, 2013 Actuarial Valuation and concluded that 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.

However, the 8.50 percent investment return assumption used by the Plan is an aggressive assumption. We followed up with the Plan to determine what analysis was done to show that the assumption was still a reasonable assumption and whether any consideration was given to reduce it. The Plan's Executive Director stated that there have been no changes to the Plan's investment policy or asset allocation during the past year and the Plan's previous assumption was determined to be in line with actuarial standards of practice. The Executive Director further noted that the investment return assumption, along with all other assumptions, will be reviewed as part of the experience review which is currently underway, the results of which will be implemented with the January 1, 2014 Actuarial Valuation.

Since 1990, the Plan's return on investments has averaged 8.9 percent, according to the Plan's 2012 Investment Performance Report. However, we continue to conclude that the 8.50 percent rate of return assumption is at the upper range of investment return assumptions for comparable plans.

January 1, 2013:

- **Assets . . . . $1.703 billion**
- **Liabilities . . . .$2.867 billion**
- **Funded Ratio 59.4%**

The funded ratio of the Retirement Plan increased slightly from 59.2 percent as of January 1, 2012, to 59.4 percent as of January 1, 2013. The actuarial value of assets was $1.662 billion at January 1, 2012. At January 1, 2013, the actuarial value of assets was $1.703 billion and the actuarial accrued liability was $2.867 billion, according to the Plan's January 1, 2013 Actuarial Valuation. (pages 5-9, 11)

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 declines, or is projected to decline, below 60 percent prior to 2040, with the CTA paying two-thirds and employees one-third of the required contribution.

Since the funded ratio of the Plan declined below 60 percent, 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."*

The funded ratio declined below 60 percent in the January 1, 2012 Valuation. In 2012, the Retirement Plan increased the employer and employee contribution rates for 2013: the employer rate increased from 11.3 to 14.250 percent (which is net of the employer debt service credit of 6% of pay); the

The employee and employer contribution rates remained unchanged for 2014: the employee contribution rate was 10.125% of pay and the employer contribution rate was 14.250% of pay (the employer contribution rate is net of the debt service credit of 6% of pay).

employee rate increased from 8.65 to 10.125 percent. The contribution rates adopted by the Retirement Plan Board for 2014 remained unchanged from the 2013 contribution rates. The January 1, 2013 Actuarial Valuation concluded that the contribution rates applicable for Plan year 2014 should result in the Plan's funded ratio reaching the statutorily required 60 percent level within 10 years of 2012 (i.e., by 2022). (pages 9 - 10)

A draft of this Review was provided to the Retirement Plan for their review.

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.