



Annual Review of the
**Information Submitted by the Chicago Transit Authority's
Retiree Health Care Trust**

Background:

The Illinois State Auditing Act (30 ILCS 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 or Trust) submitted pursuant to Section 22-101B(b)(3)(iii) of the Illinois Pension Code.

If the Retiree Health Care Trust projects a funding shortfall, it **shall** provide a plan which may (1) increase contributions by employees, retirees, dependents, or survivors; (2) decrease benefits; (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.

Key Findings:

- The Retiree Health Care Trust submitted its Actuarial Valuation Report as of January 1, 2024 to the Office of the Auditor General on September 27, 2024.
- 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.**
- With the assistance of our consulting actuary, Aon, we examined the assumptions in the Retiree Health Care Trust's Actuarial Valuation Report and found that they were not unreasonable in the aggregate.

Key Recommendations:

- The investment return and inflation assumptions should continue to be monitored and justified on an annual basis.
- The Retirement Plan should conduct a mortality experience study, potentially outside the standard five-year experience study cycle, once sufficient mortality experience has been observed.
- The trend rate assumption should be reviewed on a by component basis each year and incorporated in the valuation report.

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

Report Digest

Statutory Requirements

The Illinois State Auditing Act (30 ILCS 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 or 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 and to submit it to the Auditor General at least 90 days prior to the end of its fiscal year.

The Pension Code (Section 5/22-101B(b)(3)(iv)) provides the Auditor General 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 which may (1) increase contributions by employees, retirees, dependents, or survivors; (2) decrease benefits; (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 Auditor General’s review determines the Retiree Health Care Trust’s assumptions are *not unreasonable in the aggregate*, the Trust shall implement the plan. Otherwise, the Auditor General shall explain the basis for its determination to the Retiree Health Care Trust and may recommend an alternative plan.

The scope of the Auditor General’s review, established by the Pension Code, focused on whether the actuarial assumptions used in the Trust’s Actuarial Valuation were not unreasonable in the aggregate.

Report Determination

The Board of Trustees of the Chicago Transit Authority Retiree Health Care Trust submitted its Actuarial Valuation as of January 1, 2024 to the Office of the Auditor General on September 27, 2024. The Actuarial Valuation included information required by the Pension Code. As shown in Digest Exhibit 1, the Actuarial Valuation 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 \$753,682,223.
- The actuarial present value of projected active contributions, trust income, and assets was \$1,051,361,165 (after subtracting \$34,171,427 for the required statutory reserve).
- Consequently, projected income and assets exceeded projected benefits by 39.5 percent and, as such, no reduction in benefits or increase in contributions was necessary.

Digest Exhibit 1
RETIREE HEALTH CARE TRUST ANNUAL ASSESSMENT
 January 1, 2024 RHCT Actuarial Valuation Report

Actuarial Present Value of Projected Benefits		Actuarial Present Value of Projected Income and Assets	
Actuarial present value of projected benefits prior to reduction of retiree contributions	\$1,055,958,636	Actuarial present value of projected contributions and trust income plus assets	\$1,085,532,592
<u>Less: Projected current and future retiree contributions</u>	<u>\$(302,276,413)</u>	<u>Less: Statutory Reserve¹</u>	<u>\$(34,171,427)¹</u>
Net actuarial present value of projected benefits	<u>\$753,682,223</u>	Actuarial present value of projected contributions and trust income plus assets (net of statutory reserve)	<u>\$1,051,361,165</u>

Projected income and assets exceed projected benefits by 39.5%

¹The Statutory Reserve is net of retiree contributions.

Source: Retiree Health Care Trust Actuarial Valuation report as of January 1, 2024.

With the assistance of our consulting actuary, Aon, we examined the assumptions in the Trust’s Actuarial Valuation. Overall, Aon found that the assumptions are not unreasonable in the aggregate. However, Aon did have some suggestions for the CTA and the Trust actuary for select assumptions, as outlined below:

- **Investment Return and Inflation Assumptions:** While Aon recognizes the plan’s policy is to complete an experience study every five years, Aon believes the investment return and inflation assumptions should continue to be monitored and justified on an annual basis.
- **Mortality Assumptions:** Aon suggests the Retirement Plan conduct a mortality experience study, potentially outside the standard five-year experience study cycle, once sufficient mortality experience has been observed (excluding 2020 and 2021 experience due to the unique effect of the COVID-19 pandemic on mortality experience during those years). At such time, Aon recommends the Trust consider adopting the changes proposed by the Retirement Plan, if reasonable.
- **Trend Rate Assumption:** Aon believes it is best practice to review trend rates by component (medical vs. prescription drug) and encourage the Trust actuary to review these assumptions on a by component basis each year and incorporate in the valuation report, regardless of whether the trend rates used in the valuation are by component or on a composite basis. Additionally, the Trust actuary should consider the impacts of reduced Centers for Medicare & Medicaid Services (CMS) funding and ensure the potentially increased costs are being adequately captured in the trend rates modeled beyond 2025.
- **Assumption Documentation in Valuation Report:** Aon suggests the Trust actuary add documentation of the inflation assumption underlying the salary

increase assumption and underlying the expected return in the actuarial valuation report. Additionally, Aon suggests the Trust actuary review the new retirement rates with the Retirement Plan actuary to ensure consistent valuation and documentation of this assumption.

Pages 5 through 15 of our 2024 Annual Review contain observations on the specific assumptions used in the Actuarial Valuation.

Agency Review

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

This report does not constitute an audit as that term is defined in generally accepted government auditing standards.

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

SIGNED ORIGINAL ON FILE

JOE BUTCHER
Division Director

This report is transmitted in accordance with Sections 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:DJB

