

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

BILL NO: **HB 3667, as amended by Senate Amendment 003** September 28, 2007
SPONSOR (S): Moffitt - Durkin, et al. (J. Sullivan - Forby, et al.)
SYSTEM(S): Chicago Transit Authority Retirement Fund

FISCAL IMPACT: The CTA Pension Fund's actuary is currently working on a comprehensive study of the costs of HB 3667, as amended by Senate Amendment 003. Therefore, the exact fiscal impact of HB 3667, as amended by Senate Amendment 003, cannot be determined at this time.

SUBJECT MATTER: HB 3667, as amended by Senate Amendment 003, amends the Metropolitan Transit Authority Act to revise various aspects of the administration, management and funding of the Chicago Transit Authority Retirement Fund. These revisions include: (1) Increasing pension contribution rates for both the employees and the CTA, (2) Changing the retirement age for full benefits from age 55 to 64 for new employees, (3) Authorizing a \$1.45 billion (net after issuance costs) pension obligation bond, shoring up the pension system by \$1 billion and establishing a new Retiree Healthcare Trust with an initial balance of \$450 million, (4) Creating a self-sustaining Retiree Healthcare Trust, funded by bond proceeds and a 3% payroll tax on all active employees for up to 45% of trust costs, and, (5) Establishing on-going procedures to automatically increase employee and CTA contributions whenever the plan funded ratio falls below specified minimums.

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COMMENT/DISCUSSION:

Management Structure: The committee responsible for the governance and administration of this retirement system is known as the Retirement Allowance Committee. HB 3667, as amended by Senate Amendment 003, abolishes this committee and replaces it with an 11 member Board of Trustees. Five members shall be appointed by the Chicago Transit Board. Three members shall be appointed by the labor organization representing the highest number of CTA participants. One member shall be appointed by the labor organization representing the second-largest number of CTA participants. One member shall be appointed by the employees

not represented by a labor organization representing the highest or second-highest number of CTA participants. The final member shall be appointed by the Regional Transportation Authority Board of Directors and shall be a professional fiduciary who is an expert in pension plan collective bargaining. The Board of Trustees may cause Retirement Plan funds to be invested in any type of investment permitted for the investment of moneys held by any of the State pension or retirement systems, any unit of local government or school district, or any agency or instrumentality thereof, and may be placed under investment management of the Illinois State Board of Investment.

Benefit Eligibility: All individuals who were previously participants in the current retirement fund shall automatically be members of the new retirement fund, and shall continue receiving the same benefits. For all CTA employees hired on or after January 1, 2008 the following terms, conditions and provisions with respect to retirement shall be applicable: (1) Such participant shall be eligible for full retirement benefits at age 64 with 25 years of continuous service. (2) Such participant shall be eligible for a reduced retirement benefit at age 55 with 10 years of continuous service. (3) Service with other state and local retirement systems may comprise a portion of the continuous service, provided the employee forfeits all pension rights in the other systems and makes all required contributions to the Retirement Plan for Chicago Transit Authority Employees.

Contribution Rates: Beginning January 1, 2008, all participating employees shall contribute 6% of compensation, and the CTA shall contribute 12% of compensation to the Plan. For the period ending December 31, 2039, the amount of debt service on any pension obligation bonds will be treated as a credit against the CTA contribution to the Plan, up to a limit of 6% of compensation.

Contribution Increases: HB 3667, as amended by Senate Amendment 003, makes the following contribution changes: (1) If the funded ratio is projected to fall below 60% for any year before 2039, the Board of Trustees will calculate as a level percentage of payroll the amount of increased contributions necessary to eliminate the shortfall within 10 years. This higher level of contributions will be implemented for each year prior to 2039 with one-third of the increase coming from increased employee contributions and two-thirds coming from increased employer contributions, in excess of the previously established contribution rates. (2) For the period beginning 2039, the minimum contribution to the retirement Plan for each fiscal year shall be an amount sufficient to increase the funded ratio to 90% by the end of 2058. Participating employees will be responsible for one-third of the required additional contribution and the CTA will be responsible for two-thirds of the required additional contribution. (3) Beginning in 2059, the required total contributions will be the amount necessary to keep the funded ratio at 90% each year, and the contribution shall be funded two-thirds by the CTA and one-third by the participating employees.

Health Care Trust: HB 3667, as amended by Senate Amendment 003, provides the CTA shall take all lawful actions necessary to separate the funding of retirement health benefits from the funding for retirement systems. A Retiree Health Care Trust shall be established by January 1, 2008 for the purpose of providing retirement health care benefits. The Trust shall be governed and administered by a Board of Trustees consisting of 7 members. Three members shall be appointed by the Chicago Transit Board. One member shall be appointed by the labor organization representing the highest number of CTA participants. One member shall be appointed by the labor organization representing the second-largest number of CTA participants. One member shall be appointed by the employees not represented by a labor organization representing the highest or second-highest number of CTA participants. The final

member shall be a professional fiduciary who has experience in collectively bargained employee pension health plans, and shall be selected by the Regional Transportation Authority Board of Directors. The Board shall make all decisions regarding the expenditure of funds from the Trust, including selection of appropriate health care plans and payment of the associated claims and costs.

Trust Contributions and Investment: Contributions into the Trust will come from employee contributions equaling at least 3% of compensation totaling up to no more than 45% of the health care plan costs. The remainder of the contributions into the Trust will be comprised of CTA contributions, bond proceeds and investment earnings. The Board will establish these contribution rates at a level necessary to establish and keep a balance in the Trust equal to the amount of incurred and unreported claims plus 12 months of estimated claims and administrative expenses. If fund assets are judged insufficient to pay projected costs, the Board will establish the plan benefit reductions and/or increases in the various contribution rates required to eliminate the shortfall within not more than 10 years. Funds in the Trust may be invested in the manner described above for other retirement plan moneys.

Bond Issuance: The CTA is authorized to issue \$1,227,000,000 in new bonds for the pension system. After payment of the costs of issuance and necessary deposits related to debt service, the bond sale net proceeds of approximately \$1 billion will go only into the Retirement Plan for Chicago Transit Authority Employees. In addition, the CTA is authorized to issue \$553,000,000 in new bonds for healthcare funding. After payment of the costs of issuance and necessary deposits related to debt service, the bond sale net proceeds of approximately \$450 million will go only into the Retiree Health Care Trust.

Early Retirement Incentive Plan: HB 3667, as amended by Senate Amendment 003, requires no early retirement incentive plan shall be offered to participants of the Retirement Plan for Chicago Transit Authority Employees unless the Funded Ratio of the Plan is 80% or more.

GS:dkb

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