COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

BILL NO: **SB 0572, as amended by House Amendment 013** January 9, 2008

SPONSOR (S): Cullerton - Silverstein, et al. (Hamos - Mathias, et al.)

SYSTEM(S): Chicago Transit Authority Retirement Fund

FISCAL IMPACT: *See Table 1 on Page 4.*

SUBJECT MATTER: SB 0572, as amended by House Amendment 013, 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 $1.45 billion (net after issuance costs) of pension obligation bonds, 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, a 3% payroll tax on all active employees plus appropriate contributions by retirees, and, (5) Establishing on-going procedures to automatically increase employee and CTA contributions whenever the funded ratio falls below specified minimums.

FISCAL IMPACT: *See Table 1 on Page 4.*

COMMENT/DISCUSSION:

Management Structure: The committee responsible for the governance and administration of this retirement system is known as the Retirement Allowance Committee. SB 0572, as amended by House Amendment 013, 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 a professional fiduciary who is an expert in pension plan collective bargaining, and shall be selected by the Regional Transportation Authority Board of Directors. 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 place these funds 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: SB 0572, as amended by House Amendment 013, 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: SB 0572, as amended by House Amendment 013, 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 3% of compensation. The Board of Trustees will also have the discretion to require contributions from retirees, dependants and survivors based upon their years of service, levels of coverage or Medicare eligibility, provided that the total of these contributions do not exceed 45% of the total benefit costs. The remainder of the contributions into the Trust will be comprised of CTA contributions, bond proceeds and investment earnings. The Board will establish all 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. 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 $1,348,550,000 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 $1.1 billion will go only into the Retirement Plan for Chicago Transit Authority Employees. In addition, the CTA is authorized to issue $639,680,000 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 $528 million will go only into the Retiree Health Care Trust.

Table 1

Retirement Plan for Chicago Transit Authority Employees
(Assumes $1 Billion Bond Proceeds Deposited on July 1, 2008)

Year	Funded Ratio	Employee Contributions (Millions)	Regular Employer Contributions (Millions)	POB Debt Service (Millions)	Total Employer Pension Cost (Millions)
2006	50.9%	$17.8	$35.7	$0.0	$35.7
2007	44.1%	$17.5	$35.0	$0.0	$35.0
2008	42.3%	$35.5	$35.5	$70.6	$106.1
2009	80.7%	$36.3	$36.3	$70.6	$106.9
2010	80.2%	$40.4	$43.6	$70.6	$114.2
2011	80.2%	$41.4	$44.7	$70.6	$115.3
2012	79.8%	$42.9	$46.3	$70.6	$116.9
2013	79.4%	$44.5	$48.0	$70.6	$118.6
2014	79.0%	$46.1	$50.0	$70.6	$120.6
2015	78.6%	$47.8	$51.6	$70.6	$122.2
2016	78.1%	$49.5	$53.4	$70.6	$124.0
2017	77.6%	$51.3	$55.3	$70.6	$125.9
2018	77.1%	$53.0	$57.3	$70.6	$127.9
2019	76.6%	$55.0	$59.3	$70.6	$129.9
2020	76.0%	$56.8	$61.3	$70.6	$131.9
2021	75.4%	$58.7	$63.4	$70.6	$134.0
2022	74.8%	$60.7	$65.5	$70.6	$136.1
2023	74.1%	$62.7	$67.7	$70.6	$138.3
2024	73.4%	$64.8	$70.0	$70.6	$140.6
2025	72.7%	$66.9	$72.2	$70.6	$142.8
2026	71.9%	$69.1	$74.5	$70.6	$145.1
2027	71.0%	$71.2	$76.9	$70.6	$147.5
2028	70.1%	$73.5	$79.3	$70.6	$149.9
2029	69.1%	$76.0	$82.1	$70.6	$152.7
2030	68.0%	$78.6	$86.7	$70.6	$157.3
2031	67.0%	$81.4	$92.3	$70.6	$162.9
2032	65.9%	$84.5	$98.4	$70.6	$169.0
2033	64.8%	$87.7	$104.8	$70.6	$175.4
2034	63.7%	$91.1	$111.6	$70.6	$182.2
2035	62.7%	$94.7	$118.8	$70.6	$189.4
2036	61.7%	$98.4	$126.3	$70.6	$196.9
2037	60.7%	$102.4	$134.1	$70.6	$204.7
2038	59.7%	$106.5	$212.9	$0.0	$212.9
2039	60.0%	$117.3	$234.6	$0.0	$234.6
2044	64.1%	$142.9	$285.8	$0.0	$285.8
2049	70.4%	$173.9	$347.8	$0.0	$347.8
2054	78.9%	$211.3	$422.7	$0.0	$422.7
2059	90.0%	$256.9	$513.7	$0.0	$513.7

NOTE: Projections for 2006 include healthcare and pension benefits. Benefits for 2007 and after are for pension only.

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