
**RETIREMENT PLAN FOR
CHICAGO TRANSIT AUTHORITY EMPLOYEES**

ACTUARIAL VALUATION REPORT

for the Year Beginning January 1, 2006

GRS

Gabriel Roeder Smith & Company

September 26, 2006

Mr. John Kallianis
Executive Director
Chicago Transit Authority
Retirement Allowance Committee
10 S. LaSalle – Suite 1100
Chicago, IL 60602

Subject: Actuarial Valuation Report for the Year Beginning January 1, 2006

Dear John:

At your request, we have performed an actuarial valuation for the Retirement Plan for Chicago Transit Authority Employees (the “Plan”) as of January 1, 2006. This valuation has been performed to measure the funding status of the Plan and determine the contribution levels for 2006. In addition, it includes disclosure information required under GASB Statement No. 25 and a summary of the retiree healthcare subordination test under Internal Revenue Code 401(h). These actuarial valuations of the Fund are performed annually.

This valuation is based upon:

Data relative to the members of the Plan - Data for active members and persons receiving benefits from the Plan was provided by the Plan’s staff. We have tested this data for reasonableness.

Asset Values - The asset amounts of the Plan were provided by the Plan’s auditors. The results for GASB Statement No. 25 use an actuarial value of assets.

Actuarial Method - The actuarial method utilized by the Plan is the Projected Unit Credit Cost Method. The objective of this method is to spread the costs of Plan benefits over the career of each employee based on service earned before and after the valuation date. Any Unfunded Actuarial Accrued Liability (UAAL), under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL.

Actuarial Assumptions - The actuarial assumptions have remained the same since last year except for those used to value the reimbursement of healthcare costs. They are set forth in Appendix 4: Actuarial Assumptions and Methods.

The funding objective is to provide employer and employee contributions sufficient to fund the benefits of the Plan when due.

The valuation results set forth in this report are based on the data and actuarial techniques described above, and upon the provision of the Plan as of the valuation date. Based on these items, we certify these results to be true and correct.

Respectfully yours,



Michael R. Kivi, F.S.A.
Senior Consultant



Alex Rivera, F.S.A.
Senior Consultant

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SECTION I

Valuation Results

Retirement Plan for Chicago Transit Authority Employees Actuarial Study as of January 1, 2006

Introduction

In accordance with the request of the Retirement Allowance Committee, we have prepared an actuarial valuation of the Retirement Plan for Chicago Transit Authority Employees (the "Plan") as of January 1, 2006. The purposes of an actuarial valuation of a retirement plan are:

- (1) To examine the funding status of the Plan as of the valuation date, and
- (2) To develop the contribution level for the next year which would support the benefits of the Plan.

PLAN PROVISIONS

- The plan provisions valued have not changed since the actuarial valuation as of January 1, 2005.

ACTUARIAL METHODS

- The actuarial methods have not changed since the actuarial valuation as of January 1, 2005.

ACTUARIAL ASSUMPTIONS

- The actuarial assumptions have not changed since the prior actuarial valuation as of January 1, 2005. Actuarial assumptions are subject to bargaining and include an investment return assumption of nine percent. An investment return assumption of nine percent may be difficult to support given current economic conditions. Based on the Plan's current asset allocation policy, capital market assumptions provided by the Plan's investment consultant, and without considering any liquidity constraints, the Fund only has a 27 percent likelihood of attaining a return of nine percent over the next ten years. Such a low likelihood, combined with liquidity concerns in the near future, implies that a nine percent investment return assumption is an extremely aggressive assumption according to actuarial standards of practice. If the nine percent investment return assumption falls outside the range of reasonableness in subsequent years, as defined in the actuarial standards of practice, then the discount rate used to develop actuarial liabilities for GASB 25 reporting and GASB 27 expensing may need to be reduced. The investment return of nine percent may no longer be defensible if the likelihood of reaching nine percent drops below 25 percent.
- Starting with the fiscal year ending December 31, 2006, the Plan is required to disclose information for the retiree healthcare premium reimbursement program in accordance with Governmental Accounting Standard Board Statement No. 43 ("GASB No. 43"). Based on the current funding policy, a nine percent investment return assumption may be difficult to defend, and a discount rate in the range of 4.5 percent to 5.5 percent may be required for GASB 43 reporting purposes, when developing actuarial liabilities for the retiree healthcare premium

Retirement Plan for Chicago Transit Authority Employees Actuarial Study as of January 1, 2006 (Cont'd)

reimbursement program. The new GASB 43 reporting and disclosure requirements will become effective in the next valuation cycle.

FUNDING POLICY

- Based on the Plan's current funding policy, investment policy, and capital market assumptions provided by the Plan's investment consultant, there is a 53 percent likelihood that assets will be depleted by 2012. Furthermore, if the Fund earns nine percent in the future, assets are projected to be depleted in plan year 2012. The current funding policy requires contributions of six percent and three percent of payroll from the employer and members, respectively, whereas the actuarially determined contribution requires a total contribution of 50 percent of pay for 2006.
- The Plan currently reimburses the CTA for healthcare benefits provided to retired members and their dependents. Based on the provisions of Internal Revenue Code 401(h), the Plan may be restricted from providing retiree healthcare benefits in the near future.
- The funding policy was changed with Senate Bill 1977, which requires level percent of pay funding beginning in 2009 such that the Plan reaches a 90 percent funded ratio by the end of 2058. The new funding policy applies to pension benefits only. These provisions had no impact on the current valuation, and will be reflected in subsequent valuations.

Retirement Plan for Chicago Transit Authority Employees Actuarial Study as of January 1, 2006 (Cont'd)

PARTICIPANTS

The major characteristics of the data of the members of the Plan are summarized below.

| | January 1, | |
|-------------------------------|------------|-----------|
| | 2005 | 2006 |
| Active Participants | | |
| Number | 10,751 | 10,644 |
| Average Age | 44.2 yrs | 44.6 yrs |
| Average Service | 10.4 yrs | 10.6 yrs |
| Average Annual Salary | \$ 53,426 | \$ 54,270 |
| Retirees | | |
| Number | 7,211 | 7,299 |
| Average Age | 66.3 yrs | 66.4 yrs |
| Average Annual Benefit | \$ 22,512 | \$ 23,041 |
| Disabled | | |
| Number | 905 | 924 |
| Average Age | 60.3 yrs | 60.5 yrs |
| Average Annual Benefit | 12,453 | 12,730 |
| Survivors | | |
| Number | 761 | 775 |
| Average Age | 74.9 yrs. | 75.3 yrs. |
| Average Annual Benefit | 8,130 | 7,733 |
| Per Capita Claim Costs | | |
| Pre-Medicare | 10,549 | 10,837 |
| Post-Medicare | 3,980 | 3,971 |

Retirement Plan for Chicago Transit Authority Employees Actuarial Study as of January 1, 2006 (Cont'd)

FUNDING STATUS

The funding status of the Plan is measured as a ratio of the value of pension fund assets to the actuarial present value of benefits earned to date. While there are several methods by which the present value of earned benefits may be measured, we recommend the use of the AAL (Actuarial Accrued Liability) developed in accordance with Statement #25 promulgated by the Governmental Accounting Standards Board ("GASB 25").

Using this measure, the results of the valuation are as follows (\$ in millions):

| Funding Status - GASB #25 | January 1, | |
|----------------------------------|-------------------|-------------|
| | 2005 | 2006 |
| Actuarial Value of Assets | \$ 1,382.3 | \$ 1,199.1 |
| Actuarial Accrued Liability | 3,510.6 | 3,483.4 |
| Funded Ratio | 39.37% | 34.42% |

The decrease in funded ratio is primarily attributable to the following factors:

| | |
|---|--------|
| Funded Ratio as of January 1, 2005 | 39.37% |
| Change in Funded Ratio Due to: | |
| Contribution Shortfall | -4.03% |
| Investment Return | -2.93% |
| Salary Scale | 0.33% |
| Demographic Experience | -0.37% |
| Dependent Premium Increase | 0.78% |
| Claims Experience | 1.34% |
| Update of Healthcare Participation Assumption | -0.08% |
| Other Sources | 0.01% |
| Total Change in Funded Ratio | -4.95% |
| Funded Ratio as of January 1, 2006 | 34.42% |

Retirement Plan for Chicago Transit Authority Employees Actuarial Study as of January 1, 2006 (Cont'd)

CONTRIBUTIONS

The Authority's contribution is 6.0 percent of employee compensation and the employees' contribution is 3.0 percent of compensation. The Arbitration Board ruling in August 1993 specifies that the unfunded actuarial accrued liability be funded over a 40-year period.

The table below shows the contribution percentages specified in the collective bargaining agreement as well as contributions expected under the 40-year funding policy for plan year 2006. The chart also shows the funded status using the actuarial value of assets (\$ in thousands):

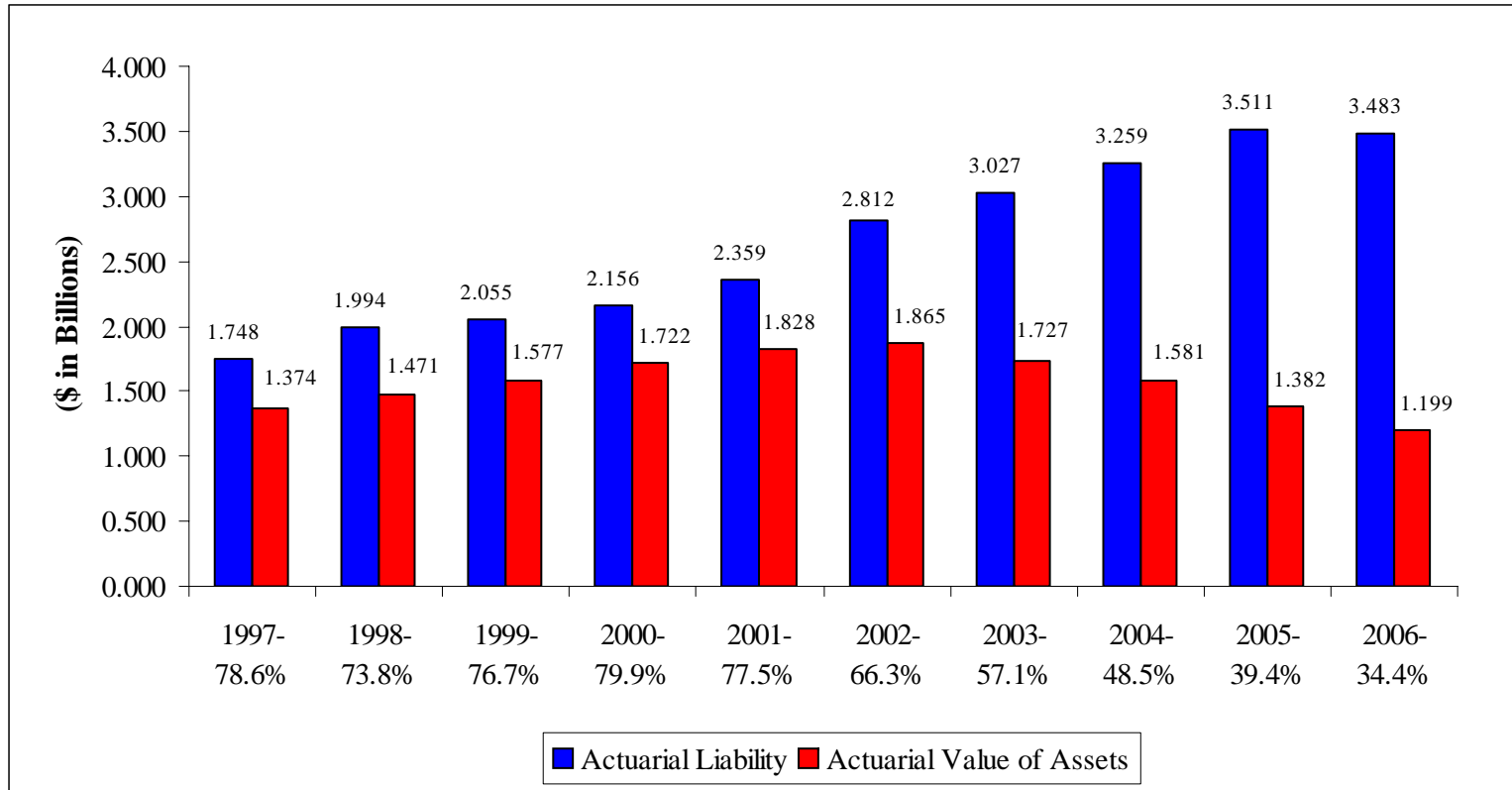
| | 2006 |
|--|--------------|
| Normal Cost | \$ 83,218 |
| 40-Year Amortization of Unfunded Actuarial Liability | \$ 194,819 |
| Interest | \$ 12,512 |
| Total Contribution for 40-year Amortization | \$ 290,549 |
| 40-year Amortization Contribution Rate | 50.30% |
| | |
| Bargaining Agreement Contribution | \$ 51,988 |
| Bargaining Agreement Contribution Rate | 9.00% |
| | |
| Actuarial Accrued Liability | \$ 3,483,403 |
| Actuarial Value of Assets | \$ 1,199,055 |
| Funded Ratio | 34.42% |

The preceding table shows that the Bargaining Agreement Contribution is not sufficient to amortize the unfunded actuarial accrued liability. The amortization component of the contribution is expected to increase more rapidly than compensation and will produce a 40-year amortization contribution rate that steadily increases over future years. This contribution rate is expected to continue to exceed the actual contribution rate of 9.0 percent. Accordingly, additional contribution shortfalls are expected to accumulate.

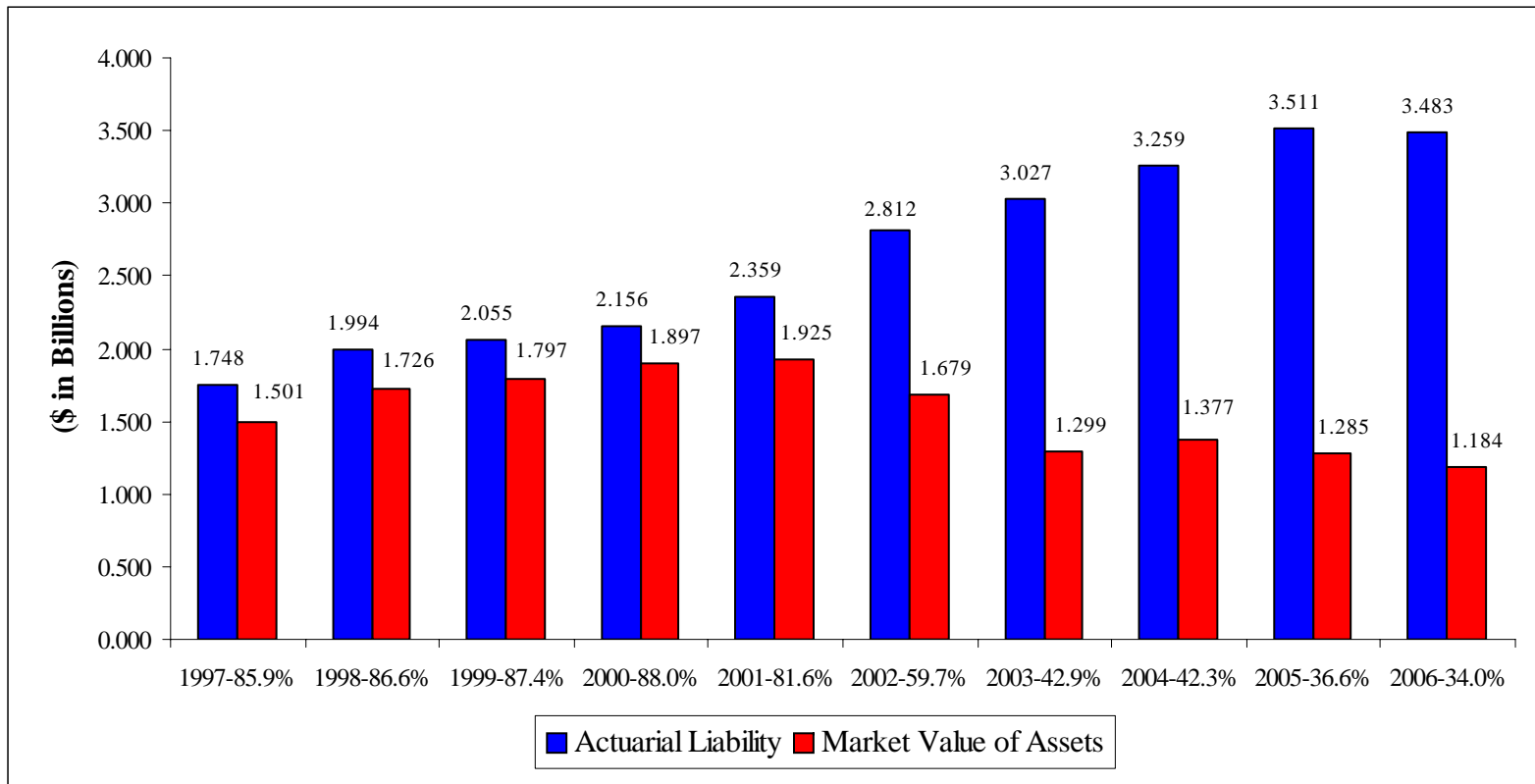
COMPUTED ACTUARIAL LIABILITIES AS OF JANUARY 1, 2006

| EMPLOYEE DATA | 01/01/2005 | 01/01/2006 | Expected Annual Pay | |
|---|------------------------|---------------|---------------------|----------------|
| | | | 01/01/2005 | 01/01/2006 |
| Active Employees | | | | |
| Number of Employees | 10,751 | 10,644 | \$ 574,386,392 | \$ 577,645,935 |
| Average Age | 44.2 yrs. | 44.6 yrs. | | |
| Average Past Service | 10.4 yrs. | 10.6 yrs. | | |
| Terminated Vesteds | | | | |
| Number of Employees | 33 | 35 | | |
| | Number of Participants | | Monthly Pension | |
| | 01/01/2005 | 01/01/2006 | 01/01/2005 | 01/01/2006 |
| Retired Employees & Survivors | | | | |
| Age/Service Retirements | 7,211 | 7,299 | \$ 13,527,793 | \$ 14,014,829 |
| Disability Recipients | 905 | 924 | \$ 939,154 | 980,175 |
| Surviving Spouses | 761 | 775 | \$ 515,596 | 499,391 |
| Total | 8,877 | 8,998 | \$ 14,982,543 | \$ 15,494,394 |
| VALUATION RESULTS | | | | |
| (In Thousands of Dollars) | | | | |
| | 01/01/2005 | | 01/01/2006 | |
| Annual Normal Cost | | | | |
| Age/Service Pensions | | \$ 48,487 | | \$ 49,204 |
| Disability Allowance | | 4,628 | | 4,744 |
| Pre-Retirement Death Benefits | | 888 | | 923 |
| Healthcare Premium Reimbursement | | 30,067 | | 28,346 |
| Total | | \$ 84,070 | | \$ 83,217 |
| Actuarial Accrued Liability | | | | |
| Active Employees | | | | |
| Age/Service Pensions | | \$ 690,052 | | \$ 697,216 |
| Disability Allowance | | 39,183 | | 41,224 |
| Pre-Retirement Death Benefits | | 10,235 | | 10,568 |
| Healthcare Premium Reimbursement | | 392,865 | | 375,856 |
| Total | | \$ 1,132,335 | | \$ 1,124,864 |
| Terminated Vested Employees | | | | |
| | | \$ 1,181 | | \$ 1,532 |
| Retired Employees and Survivors | | | | |
| Age/Service Pensions | | \$ 1,452,515 | | \$ 1,501,111 |
| Disability Allowance | | 82,090 | | 86,326 |
| Post-Retirement Death Benefits | | 15,906 | | 16,148 |
| Healthcare Premium Reimbursement | | 826,592 | | 753,422 |
| Total | | \$ 2,377,103 | | \$ 2,357,007 |
| Total Actuarial Accrued Liability | | \$ 3,510,619 | | \$ 3,483,403 |
| Actuarial Value of Assets | | 1,382,264 | | 1,199,055 |
| Unfunded Actuarial Accrued Liability | | \$ 2,128,355 | | \$ 2,284,348 |
| Funded Ratio | | 39.37% | | 34.42% |

**RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
COMPONENTS OF FUNDING RATIO
ON GASB #25 BASIS**



**RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
COMPONENTS OF FUNDING RATIO
BASED ON MARKET VALUE**



Retirement Plan for Chicago Transit Authority Employees Actuarial Study as of January 1, 2006 (Cont'd)

PLAN EXPERIENCE

The unfunded actuarial accrued liability is expected to increase each year by the amount of the previous year's normal cost plus interest on both the normal cost and the unfunded actuarial accrued liability. Annual contributions are then applied to meet the normal cost plus the amortization of the unfunded actuarial accrued liability. The actual unfunded actuarial accrued liability will differ from the expected amount each year due to variations between actuarial assumptions and actual experience. Plan amendments and revisions to the assumptions will result in additional changes in the Plan's unfunded actuarial accrued liability.

The unfunded actuarial accrued liability at January 1, 2005, was \$2,128,354,972. Adding normal cost and interest to the end of the year at the assumed rate of 9.0 percent and subtracting the contributions of \$45,634,362 made in 2005 with interest thereon, generates an expected unfunded actuarial accrued liability as of January 1, 2006 of \$2,360,034,826. As shown in the second column of Schedule A, the actual unfunded actuarial accrued liability as of January 1, 2006, was \$2,284,348,353. The actual unfunded is less than expected, so plan experience during 2005 produced an "actuarial gain" of \$75,686,473. This gain is composed of the following elements:

SOURCES OF GAIN (LOSS)

| | | |
|---|------------------|----------------|
| Actuarial assumptions | | |
| Economic | | |
| Investment results | \$ (107,436,654) | |
| Pay increases | 36,395,458 | |
| | \$ (71,041,196) | |
| Demographic | | |
| Retirement | \$ (38,514,697) | |
| Disability | (1,391,266) | |
| Withdrawal | 9,845,482 | |
| New entrants and rehires | (21,262,835) | |
| Mortality | 10,040,596 | |
| | \$ (41,282,719) | |
| Dependent Premium Increase | | \$ 73,631,378 |
| Claims Experience | | \$ 120,597,765 |
| Update of Healthcare Participation Assumption | | \$ (6,976,486) |
| Other Sources including data | | \$ 757,731 |
| Total | | \$ 75,686,473 |

Retirement Plan for Chicago Transit Authority Employees Actuarial Study as of January 1, 2006 (Cont'd)

PLAN EXPERIENCE (Cont'd)

A loss occurred because the rate of investment return during 2005, based on the actuarial value of assets, was 0.8 percent and was less than the assumed rate of 9.0 percent. The actuarial value of assets at January 1, 2006 was \$107,436,654 less than would have been expected if the rate of return on the actuarial value of assets had been 9.0 percent.

A gain was generated by pay increases in 2005. The total payroll was lower than expected. If pay had increased for each participant at the assumed rate of 5.5 percent, the actuarial accrued liability at January 1, 2006, would have increased by an additional \$36,395,458.

Retirement experience generated a loss of \$38,514,697. This loss resulted from a higher number of employees retiring than expected with greater actual benefits when compared to expected benefits.

The disability assumption produced a small loss of \$1,391,266 in 2005. This loss occurred because more employees became disabled in 2005 than expected.

The withdrawal assumption produced a gain of \$9,845,482 in 2005. The unfunded liability of the Plan generally decreases when an employee withdraws from service because the value of benefits earned at withdrawal do not reflect future salary increases.

Healthcare claims experience generated a gain of \$120,597,765. This gain occurred because healthcare claims increased at a rate lower than what was assumed. Prescription drug costs were lower than expected primarily because of the results of the new prescription benefit manager.

The dependent premiums were increased by \$200 per month for pre-Medicare coverage and \$100 per month for post-Medicare coverage, creating a gain of \$73,631,378. This was the first time premiums have been updated since 1995.

A component of the loss was related to the healthcare participation experience and assumptions. Changes in elected coverage from one plan to another and a change in the continuation of benefits after the death of the retiree increased liabilities by \$6,976,486.

Retirement Plan for Chicago Transit Authority Employees Actuarial Study as of January 1, 2006 (Cont'd)

ASSETS

The market value of assets shown in the Schedule B is based on information provided by the auditors. The market value of assets decreased from \$1.285 billion as of December 31, 2004, to \$1.184 billion as of December 31, 2005. Page 11 details the development of asset values during 2005, and Page 12 shows the development of the actuarial value of assets as of January 1, 2006. In determining the actuarial value of assets, gains and losses are phased in over five years. As a result, the actuarial value of assets is \$1.199 billion and the return on the actuarial value of assets was 0.80 percent even though the market return was 7.87 percent.

Following is the asset allocation policy as of January 1, 2006:

| Asset Class | Allocation |
|------------------------|-------------|
| US Fixed Income | 4% |
| US All Cap Stocks | 46% |
| International Equities | 5% |
| Stable Value | 23% |
| US Real Estate | 10% |
| Hedge Funds | 6% |
| Private Equity | 6% |
| Total | 100% |

SCHEDULE B
RECONCILIATION OF ASSETS
AS OF JANUARY 1, 2006

| | <u>Market Value</u> |
|--|---------------------|
| 1. Market Value of assets as of 12/31/2004 | \$1,284,662,081 |
| 2. Income for plan year: | |
| a) Member contributions | \$ 15,066,332 |
| b) CTA contributions | 30,568,030 |
| c) Investment income net of expenses | 93,507,086 |
| d) Miscellaneous revenue | - |
| e) Total income | \$ 139,141,448 |
| 3. Disbursements for plan year: | |
| a) Pension and death benefits | \$ 179,035,372 |
| b) Health benefits | 56,880,663 |
| c) Refunds | 1,452,286 |
| d) Administration | 2,379,397 |
| e) Total disbursements | \$ 239,747,718 |
| 4. Market Value of assets as of 12/31/2005 | \$1,184,055,811 |
| 5. Estimated rate of return in 2005: | |
| a) Gross | 8.38% |
| b) Net of investment expense (Investment expense of \$6,042,800) | 7.87% |
| Method used for calculating rate of return does not reflect specific timing of income and outflows. It is also based on total assets, not invested assets. | |

The total market value of assets of \$1,184,056,000 at December 31, 2005, includes \$53,706,000 for the payment of postemployment healthcare benefits as disclosed in the Plan's financial statement.

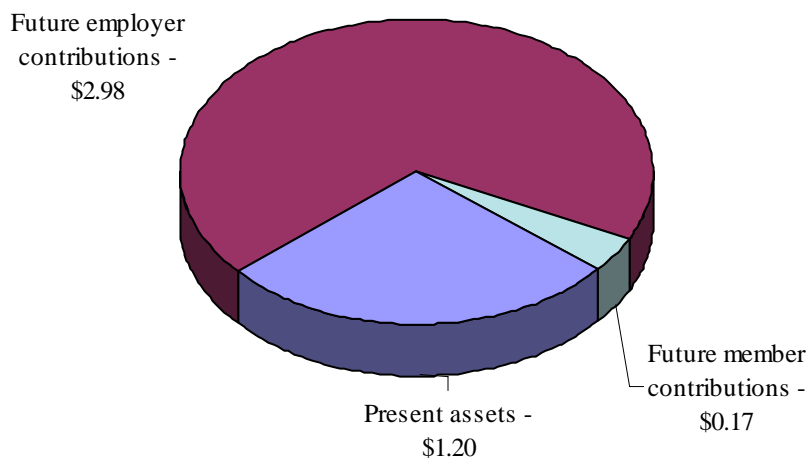
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

| Year Ended December 31: | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---------------------|----------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| A. Actuarial Value Beginning of Year | \$1,923,533,436 | \$1,899,066,970 | \$1,740,052,328 | \$1,581,045,979 | \$1,382,263,971 | | |
| B. Market Value End of Year | 1,679,215,503 | 1,298,624,027 | 1,377,002,130 | 1,284,662,081 | 1,184,055,811 | | |
| C. Market Value Beginning of Year | 1,925,057,781 | 1,679,215,503 | 1,298,624,027 | 1,377,002,130 | 1,284,662,081 | | |
| D. Non-Investment Net Cash Flow | (136,702,461) | (178,148,646) | (172,493,059) | (219,893,405) | (194,113,356) | | |
| E. Investment Return | | | | | | | |
| E1. Market Total: B - C - D | (109,139,817) | (202,442,830) | 250,871,162 | 127,553,356 | 93,507,086 | | |
| E2. Amount for Immediate Recognition (9%) | 167,103,590 | 143,112,706 | 109,113,975 | 114,034,988 | 106,884,486 | | |
| E3. Amount for Phased-In Recognition: E1-E2 | (276,243,407) | (345,555,536) | 141,757,187 | 13,518,368 | (13,377,400) | | |
| F. Phased-In Recognition of Investment Return | | | | | | | |
| F1. Current Year: 0.2 x E3 | (55,248,681) | (69,111,107) | 28,351,437 | 2,703,674 | (2,675,480) | Unknown | Unknown |
| F2. First Prior Year | 381,086 | (55,248,681) | (69,111,107) | 28,351,437 | 2,703,674 | (2,675,480) | Unknown |
| F3. Second Prior Year | - | 381,086 | (55,248,681) | (69,111,107) | 28,351,437 | 2,703,674 | (2,675,480) |
| F4. Third Prior Year | - | - | 381,086 | (55,248,681) | (69,111,107) | 28,351,437 | 2,703,674 |
| F5. Fourth Prior Year | - | - | - | 381,086 | (55,248,681) | (69,111,107) | 28,351,437 |
| F6. Total Recognized Investment Gain | (54,867,595) | (123,978,702) | (95,627,265) | (92,923,591) | (95,980,157) | (40,731,476) | 28,379,631 |
| G. Actuarial Value End of Year: A + D + E2 + F6 | 1,899,066,970 | 1,740,052,328 | 1,581,045,979 | 1,382,263,971 | 1,199,054,944 | | |
| H. Actual/Projected Difference between Market and Actuarial Value | (219,851,467) | (441,428,301) | (204,043,849) | (97,601,890) | (14,999,133) | 25,732,343 | (2,647,288) |
| I. Market Rate of Return | -5.9% | -12.7% | 20.7% | 10.1% | 7.9% | | |
| J. Actuarial Rate of Return | 6.0% | 1.1% | 0.8% | 1.4% | 0.8% | | |
| K. Ratio of Market Value to Actuarial Value | 88.4% | 74.6% | 87.1% | 92.9% | 98.7% | | |

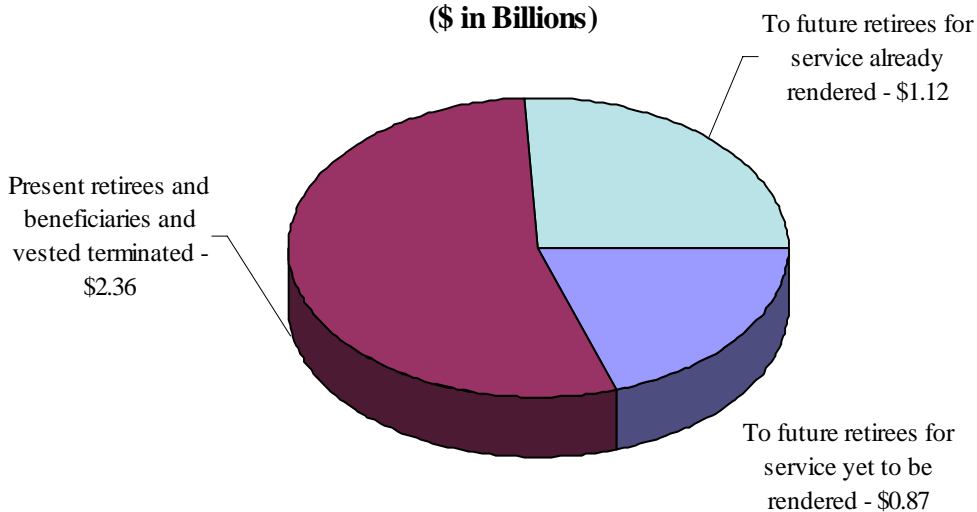
The Actuarial Value of Assets recognizes assumed investment return (line E2) fully each year. Differences between actual and assumed investment income (line E3) are recognized over a five-year period at a rate of 20 percent per year. During periods when investment performance exceeds the assumed rate, Actuarial Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Actuarial Value of Assets will tend to be greater than Market Value. *The Actuarial Value of Assets is unbiased with respect to Market Value.* At any time it may be either greater or less than Market Value. If assumed rates are exactly realized for four consecutive years, it will become equal to Market Value. The AVA is allocated proportionately between pension and healthcare benefits based on the accrued liability.

**FINANCING \$4.41 BILLION OF BENEFIT PROMISES
FOR PRESENT ACTIVE AND RETIRED MEMBERS
JANUARY 1, 2006**

Sources of Funds
(\$ in Billions)

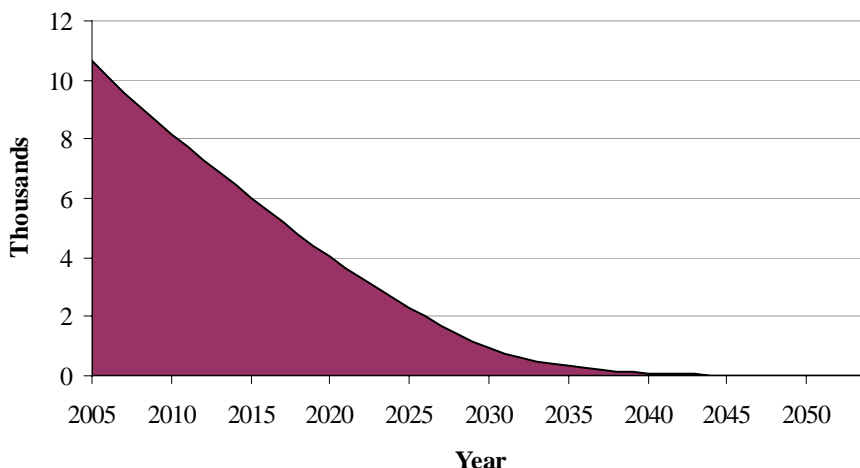


Uses of Funds
(\$ in Billions)



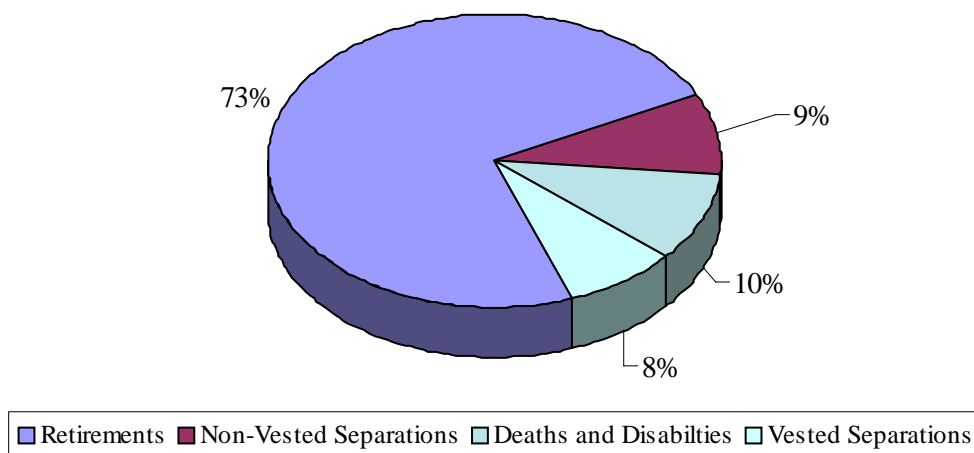
EXPECTED DEVELOPMENT OF PRESENT POPULATION JANUARY 1, 2006

Closed Group Population Projection



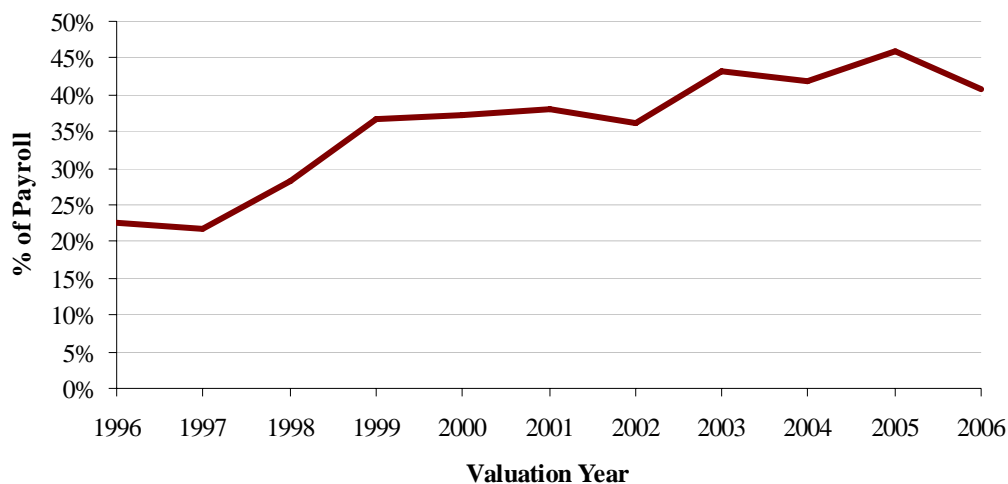
The charts show the expected future development of the present population in simplified terms. The retirement system presently covers 10,644 active members. Eventually, nine percent of the population is expected to terminate covered employment prior to retirement and forfeit eligibility for an employer provided benefit. Approximately 81 percent of the present population is expected to receive monthly retirement benefits either by retiring directly from active service, or retiring from vested deferred status. 10 percent of the present population is expected to become eligible for death-in-service or disability benefits.

Closed Group Population Projection

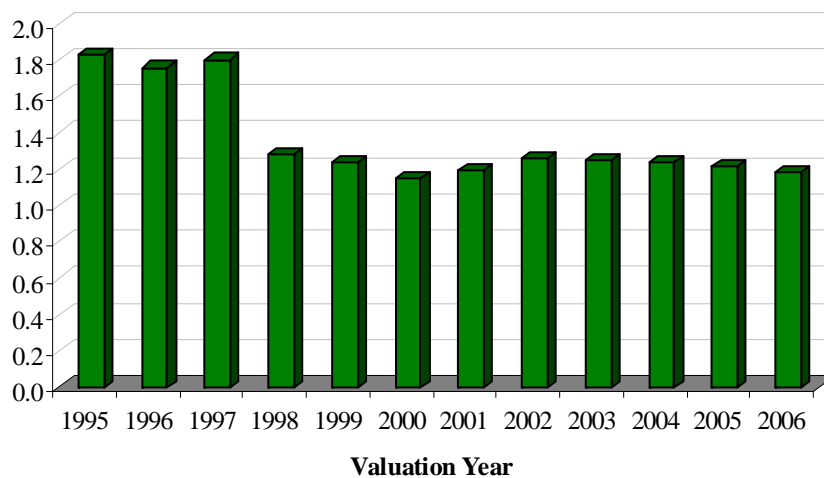


RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES ACTUARIAL STUDY AS OF JANUARY 1, 2006 (CONT'D)

Pension Benefits Being Paid as a Percent of Member Payroll



Active Members Per Retired Life



VALUATION METHOD

An essential step in the valuation process is comparing valuation assets with computed liabilities. Valuation assets are those assets that are recognized for funding purposes.

Asset valuation methods are distinguished by the timing of the recognition of investment income. Total investment income is the sum of ordinary income and capital value changes. Under a pure market value approach, ordinary investment income and all capital value changes would be recognized immediately. Because of market volatility, use of pure market values in retirement funding can result in volatile contribution rates and unstable financial ratios, contrary to Plan objectives.

Under the Plan's asset valuation method (see page 26), assumed investment return is recognized fully each year. Differences between actual and assumed investment return are phased in over a five-year period. During periods when investment performance exceeds the assumed rate, the actuarial value will tend to be less than the market value. Conversely, during periods when investment performance is less than the assumed rate, actuarial value will tend to be greater than market value. If assumed rates are exactly realized for four consecutive years, actuarial value will become equal to market value.

A multi-year comparison of market value to actuarial value is shown below (\$ in millions):

| Valuation Date Dec. 31 | Market Value of Assets (1) | Actuarial Value of Assets (2) | Ratio of MV to AV (1)/(2) |
|---------------------------------------|---|--|--|
| 1994 | \$1,174 | \$1,256 | 93.5% |
| 1995 | 1,354 | 1,285 | 105.4% |
| 1996 | 1,501 | 1,374 | 109.2% |
| 1997 | 1,726 | 1,471 | 117.3% |
| 1998 | 1,797 | 1,577 | 114.0% |
| 1999 | 1,897 | 1,722 | 110.2% |
| 2000 | 1,925 | 1,828 | 105.3% |
| 2001 | 1,679 | 1,865 | 90.1% |
| 2002 | 1,299 | 1,727 | 75.2% |
| 2003 | 1,377 | 1,581 | 87.1% |
| 2004 | 1,285 | 1,382 | 92.9% |
| 2005 | 1,184 | 1,199 | 98.7% |

Retiree Healthcare Subordination Test under IRC §401(h)

Retirement plans providing retiree healthcare benefits through a qualified pension trust must satisfy the requirements of Internal Revenue Section Code § 401(h) which include:

- The Plan sponsor should establish and maintain a 401(h) account for retiree healthcare benefits.
- The Plan sponsor must allocate total contributions in a reasonable and well defined manner. Currently, total contributions are allocated ratably based on the relationship of the GASB 25 annual required contribution for pension and healthcare benefits.
- Retiree healthcare benefits must be subordinate to pension benefits. This requirement is satisfied if the cumulative value of contributions made to the 401(h) account for retiree healthcare benefits does not exceed 25 percent of the total contributions made to the trust.

The following tables show the allocation of 2005 contributions and the results of the December 31, 2005 subordination test.

Allocation of Plan Year 2005 Contributions (\$ in thousands):

| | Pension | Healthcare | Total |
|---|----------------|-------------------|--------------|
| Plan Year 2005 GASB ARC | \$180,227 | \$97,308 | \$277,535 |
| Percentage | 64.94% | 35.06% | 100.00% |
| Allocation of 2005 Contributions | \$29,634 | \$16,000 | \$45,634 |

IRC § 401(h) Subordination Test Contributions (\$ in thousands):

| | (a) Pension | (b) Healthcare | Subordination Percentage b/(a+b) |
|---|--------------------|-----------------------|---|
| Updated Cumulative Contributions at 1/1/2005 | \$254,234 | \$72,401 | 22.17% |
| 2005 Contributions | \$29,634 | \$16,000 | |
| Cumulative Contributions at 12/31/2005 | \$283,868 | \$88,401 | 23.75% |

Based on current Plan provisions and funding policies, the subordination percentage for plan year end 2005 is 23.75 percent, which is less than the statutory limit of 25.00 percent and the Plan satisfies the subordination test in 2005. However, there is a high likelihood that the Plan will fail the subordination test within the next 36 months. Based on our stochastic modeling there is a 75 percent likelihood that the retiree healthcare will be depleted by May of 2008 due to the limitations of IRC 401(h). The subordination percentage as defined in IRC 401(h) is equal to the ratio of cumulative healthcare contributions to the sum of cumulative pension contributions, or pension normal cost if less, and cumulative healthcare contributions.

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
GASB STATEMENT NO. 25

Schedule of Funding Progress
(Pension & Healthcare)

In Accordance with Statement No. 25 of the
Governmental Accounting Standards Board
(\$ in Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|--|
| 01/01/2006 ^a | \$1,199,055 | \$3,483,403 | \$2,284,348 | 34.4% | \$547,532 | 417.2% |
| 01/01/2005 | 1,382,264 | 3,510,619 | 2,128,355 | 39.4% | 544,442 | 390.9% |
| 01/01/2004 | 1,581,046 | 3,258,627 | 1,677,581 | 48.5% | 486,626 | 344.7% |
| 01/01/2003 | 1,726,937 | 3,026,597 | 1,299,660 | 57.1% | 480,740 | 270.3% |
| 01/01/2002 | 1,864,727 | 2,812,194 | 947,467 | 66.3% | 459,343 | 206.3% |
| 01/01/2001 | 1,828,095 | 2,358,856 | 530,761 | 77.5% | 431,703 | 122.9% |
| 01/01/2000 | 1,722,215 | 2,156,279 | 434,064 | 79.9% | 424,518 | 102.2% |
| 01/01/1999 | 1,576,924 | 2,054,953 | 478,029 | 76.7% | 407,406 | 117.3% |
| 01/01/1998 | 1,470,510 | 1,994,422 | 523,912 | 73.7% | 457,717 | 114.5% |
| 01/01/1997 | 1,373,715 | 1,748,190 | 374,475 | 78.6% | 443,508 | 84.4% |
| 01/01/1996 | 1,285,155 | 1,669,915 | 384,760 | 77.0% | 414,667 | 92.8% |

^a Actuarial liabilities for healthcare benefits at fiscal year end December 31, 2006, will be remeasured based on the provisions of GASB 43.

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
GASB STATEMENT NO. 25

Schedule of Employer Contributions
(Pension & Healthcare)

In Accordance with Statement No. 25^a of the
 Governmental Accounting Standards Board
 (\$ in Thousands)

| Year Ended 31-Dec | Authority Contribution (a) | Employee Contribution (b) | Total Contribution (a+b) | Annual Required Contribution (c) | Percentage Contributed ([a+b]/c) |
|-------------------------|----------------------------------|---------------------------------|--------------------------------|---|--|
| 2006 ^b | \$34,659 | \$17,329 | \$51,988 | \$290,549 | 17.9% |
| 2005 | 30,568 | 15,066 | 45,634 | 277,535 | 16.4% |
| 2004 | 30,576 | 15,316 | 45,892 | 231,856 | 19.8% |
| 2003 | 29,597 | 14,840 | 44,437 | 177,404 | 25.0% |
| 2002 | 29,076 | 14,538 | 43,615 | 142,758 | 30.6% |
| 2001 | 27,219 | 13,639 | 40,858 | 82,949 | 49.3% |
| 2000 | 25,904 | 12,981 | 38,885 | 73,696 | 52.8% |
| 1999 | 25,649 | 12,874 | 38,523 | 76,122 | 50.6% |
| 1998 | 24,432 | 12,165 | 36,597 | 82,052 | 44.6% |
| 1997 | 12,662 | 6,366 | 19,028 | 68,531 | 27.8% |
| 1996 | 26,228 | 13,165 | 39,393 | 66,599 | 59.1% |

^a The annual required contribution for healthcare benefits for fiscal year end December 31, 2006, will be remeasured based on the provisions of GASB 43.

^b Estimated contributions for fiscal year end 2006 based on expected covered payroll.

**RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
GASB STATEMENT NO. 25**

**Schedule of Funding Progress
(Pension Only)**

In Accordance with Statement No. 25 of the
Governmental Accounting Standards Board
(\$ in Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|--|
| 01/01/2006 | \$810,336 | \$2,354,125 | \$1,543,790 | 34.4% | \$547,532 | 282.0% |
| 01/01/2005 | \$902,117 | \$2,291,162 | \$1,389,045 | 39.4% | \$544,442 | 255.1% |
| 01/01/2004 | 1,062,399 | 2,189,666 | 1,127,267 | 48.5% | 486,626 | 231.6% |
| 01/01/2003 | 1,190,087 | 2,085,723 | 895,636 | 57.1% | 480,740 | 186.3% |
| 01/01/2002 | 1,355,567 | 2,044,330 | 688,763 | 66.3% | 459,343 | 149.9% |
| 01/01/2001 | 1,595,609 | 2,058,871 | 463,262 | 77.5% | 431,703 | 107.3% |
| 01/01/2000 | 1,494,585 | 1,871,277 | 376,692 | 79.9% | 424,518 | 88.7% |
| 01/01/1999 | 1,363,625 | 1,776,994 | 413,369 | 76.7% | 407,406 | 101.5% |
| 01/01/1998 | 1,269,568 | 1,721,888 | 452,320 | 73.7% | 457,717 | 98.8% |
| 01/01/1997 | 1,182,931 | 1,505,398 | 322,467 | 78.6% | 443,508 | 72.7% |
| 01/01/1996 | 1,098,856 | 1,427,840 | 328,984 | 77.0% | 414,667 | 79.3% |

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
GASB STATEMENT NO. 25

Schedule of Employer Contributions
(Pension Only)

In Accordance with Statement No. 25 of the
Governmental Accounting Standards Board
(\$ in Thousands)

| Year Ended 31-Dec | Authority Contribution (a) | Employee Contribution (b) | Total Contribution (a+b) | Annual Required Contribution (c) | Percentage Contributed ([a+b]/c) |
|----------------------------------|---|--|---|---|---|
| 2006 | \$23,252 | \$11,626 | \$34,878 | \$194,926 | 17.9% |
| 2005 | 19,850 | 9,784 | 29,634 | 180,227 | 16.4% |
| 2004 | 20,210 | 10,123 | 30,334 | 153,253 | 19.8% |
| 2003 | 19,570 | 9,813 | 29,383 | 117,305 | 25.0% |
| 2002 | 19,766 | 9,883 | 29,648 | 97,044 | 30.6% |
| 2001 | 24,081 | 12,067 | 36,148 | 73,387 | 49.3% |
| 2000 | 22,827 | 11,439 | 34,266 | 64,943 | 52.8% |
| 1999 | 22,481 | 11,284 | 33,765 | 66,720 | 50.6% |
| 1998 | 21,417 | 10,664 | 32,081 | 71,928 | 44.6% |
| 1997 | 11,075 | 5,568 | 16,643 | 59,943 | 27.8% |
| 1996 | 22,769 | 11,429 | 34,198 | 57,815 | 59.2% |

Estimated contributions for fiscal year end 2006 based on expected covered payroll.

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
GASB STATEMENT NO. 25

Annual Required Contribution
For Fiscal Year Ending December 31, 2006
^a
In Accordance with Statement No. 25 of the
Governmental Accounting Standards Board
(\$ in Thousands)

| Fiscal Year 2006 | Pension | Healthcare ^a | Total |
|--|----------------|-------------------------|------------------|
| Assumptions and Methods | | | |
| Interest Rate | 9.00% | 9.00% | 9.00% |
| Amortization Period (years) | 40 | 40 | 40 |
| Cost Method | PUC | PUC | PUC |
| Basic Results | | | |
| Normal Cost | \$ 54,871 | \$ 28,346 | \$ 83,217 |
| Actuarial Accrued Liability | 2,354,125 | 1,129,278 | 3,483,403 |
| Actuarial Value of Assets | <u>810,336</u> | <u>388,719</u> | <u>1,199,055</u> |
| Unfunded Actuarial Liability | \$ 1,543,789 | \$ 740,559 | \$2,284,348 |
| Annual Required Contribution (ARC) | | | |
| Normal Cost | \$ 54,871 | \$ 28,346 | \$ 83,217 |
| Amortization of Unfunded Actuarial Liability | 131,661 | 63,158 | 194,819 |
| Interest Adjustment | <u>8,394</u> | <u>4,118</u> | <u>12,512</u> |
| Total ARC | \$ 194,926 | \$ 95,622 | \$ 290,548 |

^a Annual required contribution (ARC) for fiscal year end 2006, for healthcare benefits will be remeasured based on the provisions of GASB 43.

GASB STATEMENT NO. 25 REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

| | |
|---|------------------------|
| Valuation Date: | January 1, 2006 |
| Actuarial Cost Method | Projected Unit Credit |
| Amortization Method | Level Dollar |
| Remaining Amortization Period for Unfunded Accrued Liabilities | 40 Years |
| Asset Valuation Method | 5-Year Smoothed Market |
| Actuarial Assumptions: | |
| Investment Rate of Return | 9.0% |
| Projected Salary Increases | 5.5% |

Membership of the plan consisted of the following at January 1, 2006, the date of the latest actuarial valuation:

| | |
|---|--------|
| Retirees, disabled and beneficiaries receiving benefits | 8,998 |
| Terminated plan members entitled to but not yet receiving benefits | 35 |
| Active plan members | 10,644 |
| Total | 19,677 |

SECTION II

Actuarial Assumptions and Methods

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Actuarial Assumptions and Methods
used in the Valuation as of January 1, 2006

1. **Rate of Covered Pay:** The rate of covered pay for participants has been estimated at \$577,645,935 for 2006. The following adjustments were made to the actual covered earnings for 2005 supplied by the Authority:
 - No earnings or a fractional year of earnings were submitted for employees with a work status date in 2005 who were hired during 2004. We have annualized the 2005 earnings as a participant and assumed minimum earnings of \$20,000 per year for this group.
 - For employees on layoff, extended leave of absence, or on inactive status, we have assumed minimum earnings of \$25,000 per year.
 - For employees whose 2005 earnings were less than \$15,000, we have assumed an annual rate of \$20,000 per year.
 - For all employees, 2005 earnings were increased by 5.5% to estimate the rate of pay for 2006.

2. **Retiree Benefits:** The benefit amounts received for retirees were compared to information received from the Authority for the prior valuation.

3. **Actuarial Cost Method:** The normal cost and actuarial liability were determined using the Projected Unit Credit cost method. The normal cost for each individual active member equals the portion of the actuarial present value of projected benefits allocated to service earned during the current year. The actuarial accrued liability for each individual active member equals the portion of the actuarial present value of projected benefits allocated to service earned during prior plan years. The actuarial accrued liability for retired and inactive members equals the present value of benefits.

4. **Mortality:**
 - (a) *Retirees & Survivors*—According to the 1994 Group Annuity Mortality Table for males and females.
 - (b) *Disabled Employees*—According to a blend of 50% of the 1974 Railroad Retirement Board Totally Disabled Annuitants Mortality Table (Ultimate) and 50% of the 1994 Group Annuity Mortality Table for males and females.

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Actuarial Assumptions and Methods
used in the Valuation as of January 1, 2006 (Cont'd)

5. **Interest on the Fund:** 9% per annum, compounded annually.
6. **Withdrawals from Service:** According to the following table as shown for illustrative ages:

| Age | Rate of Termination for Reasons Other than Death or Disability |
|------------|---|
| 22 | .0625 |
| 27 | .0500 |
| 32 | .0375 |
| 37 | .0281 |
| 42 | .0188 |
| 47 | .0125 |
| 52 | .0094 |
| 55 & Older | - |

If service is 25 or greater, no withdrawal is assumed.

7. **Disability Retirements:** According to the following table as shown for illustrative ages:

| Age | Rate of Disability |
|------------|-----------------------|
| 22 | .0020 |
| 27 | .0020 |
| 32 | .0020 |
| 37 | .0040 |
| 42 | .0060 |
| 47 | .0075 |
| 52 | .0100 |
| 57 | .0135 |
| 62 | .0175 |
| 65 & Older | - |

If service is 25 or greater, no disability is assumed.

8. **Compensation Increases:** 5.5% per annum, compounded annually.

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Actuarial Assumptions and Methods
used in the Valuation as of January 1, 2006 (Cont'd)

9. Service Retirements:

| Age | Probability of Retirement | |
|------------|--------------------------------|--------------------------------|
| | If service is less than 25* | If service is 25 or greater |
| 50 or less | .000 | .075 |
| 51-54 | .000 | .075 |
| 55-56 | .015 | .150 |
| 57-59 | .020 | .150 |
| 60 | .025 | .200 |
| 61 | .040 | .200 |
| 62 | .200 | .550 |
| 63-64 | .150 | .400 |
| 65 | .600 | .750 |
| 66-69 | .250 | .333 |
| 70 | 1.000 | 1.000 |

* For ages under 65, the above rates are multiplied by 75% if service is between 22 and 23 years, 50% if service is between 23 and 24 years and 25% if service is between 24 and 25 years.

10. Per Capita Claim Costs: Per capita claim costs were developed using paid claims, enrollment and expense data for plan years 2003 through 2005. Separate claim costs were developed for coverage under the pre-Medicare PPO, Medicare Supplemental Plan and the Prescription Drug Plan. For members covered by an HMO plan, per capita claim costs were assumed to be 90% of the PPO per capita claim costs. Sample annual per capita claim costs are shown in the following table for PPO members.

| Age | Male | | | Female | | |
|-----|----------|--------------|----------|----------|--------------|----------|
| | Medical | Prescription | Total | Medical | Prescription | Total |
| 52 | \$ 7,297 | \$ 1,663 | \$ 8,960 | \$ 6,174 | \$ 1,407 | \$ 7,581 |
| 57 | 8,708 | 1,985 | 10,693 | 7,368 | 1,679 | 9,047 |
| 62 | 10,095 | 2,301 | 12,396 | 8,542 | 1,947 | 10,488 |
| 67 | 1,563 | 2,590 | 4,153 | 1,322 | 2,192 | 3,514 |
| 72 | 1,725 | 2,860 | 4,586 | 1,460 | 2,420 | 3,880 |
| 77 | 1,868 | 3,096 | 4,964 | 1,580 | 2,620 | 4,200 |
| 82 | 1,963 | 3,254 | 5,217 | 1,661 | 2,753 | 4,414 |

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Actuarial Assumptions and Methods
used in the Valuation as of January 1, 2006 (Cont'd)

- 11. Dependent Contribution Rates:** Dependent contributions have been updated since the valuation as of January 1, 2005. Rates were increased by \$200 per month for pre-Medicare dependents and by \$100 per month for post-Medicare dependents. This produced an average annual dependent contribution rate of \$ 6,161 for pre-Medicare coverage and \$ 2,610 for post-Medicare coverage.
- 12. Healthcare Trend Rate:** Per capita claim costs and dependent contribution rates were assumed to increase as follows:

| <u>Plan Year</u> | <u>Medical Trend</u> | <u>Prescription Drug Trend</u> |
|-------------------|----------------------|--------------------------------|
| 2007 | 9% | 11% |
| 2008 | 8% | 10% |
| 2009 | 7% | 9% |
| 2010 | 6% | 8% |
| 2011 | 6% | 7% |
| 2012 | 6% | 6% |
| 2013 and after | 6% | 6% |

- 13. Spouse Data:** 75% of employees eligible at retirement are assumed to be married, and the average factor to convert their accrued pension to a spouse option (Option A-50%) is assumed to be .8500. A wife is assumed to be 3 years younger than her husband. The valuation assumes 50% of all married retirees will elect healthcare coverage for their dependents. Actual dependent coverage data was used for participants retired as of the valuation date.
- 14. Asset Valuation:** The actuarial value is determined by adjusting the market value of assets to reflect the investment gains and losses (the difference between the actual investment return and the expected investment return) during each of the last 5 years at the rate of 20% per year.
- 15. Dependent Coverage:** 50% of spouses covered under the healthcare plan during retirement are assumed to continue coverage after the death of the retiree.

SECTION III

Summary of Principal Plan Provisions Recognized in the Valuation

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Summary of Principal Plan Provisions upon which the
Actuarial Valuation as of January 1, 2006 has been Based

Eligibility—All non-temporary employees of the Chicago Transit Authority are included in the Plan after completing 12 months of continuous service unless specifically excluded by the terms of a collective bargaining agreement.

Contributions—The Chicago Transit Authority will contribute a percent of compensation for all participating employees and each participating employee will contribute a percent of his compensation to the Plan according to the following schedule:

| Dates | Contribution Percentage | |
|-----------------------------|-------------------------|-----------|
| | Authority | Employees |
| July 1, 1997 and thereafter | 6% | 3% |

Normal Retirement—The normal retirement age is 65. The annual normal retirement pension is equal to the greater of (a) or (b) below, but not greater than 70.0% of the employee's average annual compensation:

- (a) 1% of the employee's past service compensation as of May 31, 1948, for each full year of continuous service prior to June 1, 1949, plus 1-2/3% of the employee's compensation for continuous service after June 1, 1949.
- (b) 1% of the employee's average annual compensation for each full year of continuous service prior to June 1, 1949, plus 2.15%^a of average annual compensation for each year (and fraction to completed calendar months) of continuous service after June 1, 1949.

^a The Arbitration Award increased the benefit multiplier for service after June 1, 1949, from 1.85% to 2.00% for employees retiring from January 1, 2000, to December 31, 2000, and to 2.15% for employees retiring on and after January 1, 2001. The multiplier for employees retiring before January 1, 2000 remained at 1.85%.

Average annual compensation is equal to the highest average compensation over any four calendar years out of the final 10 calendar years prior to normal retirement (or actual retirement, if later). If an employee has at least 20 years of service, his minimum annual pension is \$2,220.

Early Retirement — An employee may retire early after attaining age 55 and completing at least three years of continuous service, or after completion of 25 years of continuous service. The early retirement pension is equal to the accrued normal retirement pension based on compensation and service at early retirement, reduced by 5% for each year or fraction younger than age 65. The 5% per year reduction is not applied if the employee has at least 25 years of service. Employees hired after September 5, 2001 may retire early with unreduced benefits after attaining age 55 and completing at least 25 years of service.

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Summary of Principal Plan Provisions upon which the
Actuarial Valuation as of January 1, 2006 has been Based (Cont'd)

Disability Retirement— An employee is eligible for a disability allowance if he becomes disabled after completing 10 years of service, or if his disability after completing five years of service is covered under the Workmen's Compensation Act. An employee is disabled if he either (a) is totally and permanently disabled or (b) is unable to return to work after receiving 26 weeks of benefits under the Authority's Group Accident and Sickness Insurance or from the Authority under the Workmen's Compensation Act. The disability allowance is equal to the normal retirement pension based on compensation and service at disability subject to a minimum annual pension of \$4,800.

Death Benefits—If an employee dies prior to retirement or disability and after one year of service, his contributions, accumulated with interest, are paid to his beneficiary. "Interest" is equal to the rate of interest earned by the Fund (to a maximum of 2%) prior to January 1, 1971, 1/2 of the rate of interest earned by the Fund (to a maximum of 3%) between January 1, 1971, and January 1, 1980, and 3% after December 31, 1979. If an employee dies after 90 days of service but prior to one year of service, his contributions, without interest, are paid to his beneficiary; and if he dies prior to 90 days of service, his contributions are not refunded.

If an employee is eligible for early retirement, he is automatically covered by a surviving spouse benefit, payable upon his death prior to retirement, in lieu of a return of his contributions. The spouse benefit is equal to 1/2 of the pension which would have been payable to the employee if he had retired on the first day of the month of his death and had elected an optional form of pension providing 1/2 of his reduced pension to his surviving spouse. Employees may elect not to be covered by this option and provide for the payment of their contributions with interest to their beneficiary in lieu thereof.

If an employee dies after his retirement pension has commenced, his beneficiary receives the excess, if any, of his contributions, accumulated with interest to his retirement date, over the sum of the pension payments made to him. However, if his surviving spouse is entitled to a pension after his death, such excess will not be paid to his beneficiary. At the death of the surviving spouse, the excess, if any, of the contributions accumulated with interest to his retirement date over the sum of the pension payments made to him and his surviving spouse will be paid.

A retired employee's beneficiary will receive a death benefit equal to the amount from the following schedule according to the employee's age and service at retirement:

| <u>Age</u> | <u>Service</u> | <u>Age + Service</u> | <u>Death Benefit</u> |
|------------|----------------|----------------------|----------------------|
| 65 | 20 | N/A | \$8,000 |
| 60 | N/A | 90 | 8,000 |
| N/A | 25 | N/A | 8,000 |
| N/A | N/A | 94 | 8,000 |
| 60-64 | 20 | N/A | 6,000 |
| 55-59 | 20 | N/A | 5,000 |
| All Others | | | 2,000 |

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Summary of Principal Plan Provisions upon which the
Actuarial Valuation as of January 1, 2006 has been Based (Cont'd)

Termination Benefits—If an employee terminates his employment prior to eligibility for retirement or disability and after completing one year of service, he receives a refund of his contributions, plus interest (3% after December 31, 1979). If he terminates after 90 days but prior to one year, he receives his contributions, without interest, and if he terminates less than 90 days after hire, he receives no refund. If an employee has completed 10 years of continuous service and elects to leave his contributions in the Plan, he remains entitled to his normal retirement pension beginning at age 65 but based on his compensation and service at termination.

Optional Benefit Forms—In lieu of a normal pension, an employee may elect an optional annuity of equivalent actuarial value providing payments of 1/2, 2/3, or all of his reduced pension to his spouse after his death (Option A).

Alternatively, an employee may elect an optional annuity of equivalent actuarial value providing payments of 1/2, 2/3, or all of his reduced pension to his spouse after his death with the further provision that his benefit will be restored to the full amount to him after the death of his spouse (Option B).

Retired Employees—Benefits for retired employees have been valued according to benefits in effect at time of retirement as modified by subsequent amendments. Such benefits are kept on records maintained by the Authority.

Reimbursement of Healthcare Costs—The Plan provides for payment towards retirees' group healthcare costs. For purposes of our valuation, we have assumed that all retirees who meet the following conditions will be eligible for group healthcare benefits.

- (a) Employees, full-time and part-time, on the payroll on September 5, 2001, upon retirement will receive the hospitalization supplement paid for by the plan.
- (b) Retired employees under age 65 will receive a monthly healthcare reimbursement supplement covering the full cost of benefits under the Blue Cross Blue Shield PPO and Prescription Drug Program.
- (c) Retired employees age 65 or older will receive a monthly reimbursement supplement covering the full cost of benefits under the Blue Cross Blue Shield Medicare Supplemental Plan and Prescription Drug Program
- (d) Dependents of retired employees are also eligible for healthcare coverage provided they make the required contribution.

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Summary of Principal Plan Provisions upon which the
Actuarial Valuation as of January 1, 2006 has been Based (Cont'd)

Voluntary Early Retirement Incentive Program—During 1997, the Plan was amended to offer enhanced retirement benefits to all employees who have at least 25 years of continuous service on or before December 31, 1999, and who have not retired prior to January 1, 1997. Those eligible on or before June 30, 1997, must elect to participate during the period March 1, 1997, to June 30, 1997. Employees eligible during the period July 1, 1997, to December 31, 1999, must elect to participate between July 1, 1997, and February 28, 1998. All eligible employees who elect to participate must retire no later than December 31, 1999. The benefit is determined based on a formula multiplier of 2.40% of average annual compensation with the benefit cap at 70.0% of such average annual compensation.

Ad hoc increases in retiree benefits—As part of the Arbitration Award ruling of November 13, 2003, the following ad hoc increases were given to retirees in payment status as of January 1, 2000:

- \$75 per month for members retired before January 1, 1980
- \$50 per month for members who retired on or after January 1, 1980, but before January 1, 1991
- \$40 per month for members who retired on or after January 1, 1991, but before January 1, 2000

SECTION IV

Participant Data

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Retired Employees at January 1, 2006

| Attained Ages | Retirees | | Disability | | Beneficiaries | | Totals | |
|------------------|--------------|----------------------|------------|----------------------|---------------|----------------------|--------------|----------------------|
| | No. | Annual Allowances | No. | Annual Allowances | No. | Annual Allowances | No. | Annual Allowances |
| <35 | 0 | \$ 0 | 1 | \$ 8,465 | 1 | \$ 3,381 | 2 | \$ 11,846 |
| 35-39 | 0 | 0 | 5 | 72,365 | | 0 | 5 | 72,365 |
| 40-44 | 1 | 28,218 | 24 | 240,748 | 1 | 9,697 | 26 | 278,663 |
| 45-49 | 101 | 3,076,765 | 60 | 782,987 | 10 | 98,965 | 171 | 3,958,717 |
| 50-54 | 571 | 17,199,102 | 138 | 1,945,015 | 22 | 222,049 | 731 | 19,366,167 |
| 55-59 | 1,383 | 38,634,424 | 231 | 2,985,454 | 46 | 622,272 | 1,660 | 42,242,150 |
| 60-64 | 1,684 | 43,947,274 | 212 | 2,818,780 | 79 | 708,587 | 1,975 | 47,474,641 |
| 65-69 | 1,316 | 29,919,970 | 139 | 1,714,084 | 81 | 713,696 | 1,536 | 32,347,751 |
| 70-74 | 856 | 16,089,037 | 69 | 814,588 | 92 | 801,804 | 1,017 | 17,705,429 |
| 75-79 | 586 | 9,108,142 | 26 | 228,759 | 140 | 1,043,274 | 752 | 10,380,175 |
| 80-84 | 440 | 6,390,937 | 12 | 102,994 | 147 | 987,670 | 599 | 7,481,601 |
| 85-89 | 254 | 2,875,596 | 6 | 41,030 | 104 | 529,526 | 364 | 3,446,152 |
| 90-94 | 87 | 760,930 | 1 | 6,829 | 47 | 235,418 | 135 | 1,003,177 |
| 95-99 | 19 | 141,105 | 0 | 0 | 5 | 16,347 | 24 | 157,453 |
| 100-104 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 105+ | 1 | 6,443 | 0 | 0 | 0 | 0 | 1 | 6,443 |
| Totals | 7,299 | \$168,177,945 | 924 | \$11,762,098 | 775 | \$5,992,688 | 8,998 | \$185,932,731 |

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Terminated Vested Data at January 1, 2006

Terminated, Vested Participants

| Attained Ages | Terminated Vested | |
|------------------|-------------------|----------------------|
| | No. | Annual Allowances |
| <35 | 1 | \$ 12,037 |
| 35-39 | 0 | 0 |
| 40-44 | 1 | 7,381 |
| 45-49 | 6 | 76,879 |
| 50-54 | 12 | 143,334 |
| 55-59 | 9 | 112,054 |
| 60-64 | 5 | 42,209 |
| 65-69 | 1 | 14,465 |
| 70-74 | 0 | 0 |
| 75-79 | 0 | 0 |
| Total | 35 | \$408,359 |

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Distribution of Active Employees at January 1, 2006 by Age and Length of Service

| AGE | Years of Service | | | | | | | | | Total |
|---------------------|------------------|-------------|-------------|-------------|-------------|------------|------------|------------|----------------|---------------|
| | Under 1 year | 1 to 4 | 5 to 9 | 10 to 14 | 15 to 19 | 20 to 24 | 25 to 29 | 30 to 34 | 35 and over | |
| Under 20 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| 20 to 24 | 43 | 86 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 129 |
| 25 to 29 | 80 | 442 | 86 | 0 | 0 | 0 | 0 | 0 | 0 | 608 |
| 30 to 34 | 109 | 563 | 311 | 54 | 1 | 0 | 0 | 0 | 0 | 1,038 |
| 35 to 39 | 94 | 637 | 457 | 319 | 70 | 0 | 0 | 0 | 0 | 1,577 |
| 40 to 44 | 79 | 553 | 427 | 451 | 356 | 55 | 0 | 0 | 0 | 1,921 |
| 45 to 49 | 69 | 466 | 395 | 308 | 411 | 175 | 97 | 5 | 0 | 1,926 |
| 50 to 54 | 40 | 313 | 233 | 233 | 264 | 144 | 257 | 86 | 5 | 1,575 |
| 55 to 59 | 25 | 160 | 173 | 175 | 200 | 103 | 199 | 113 | 56 | 1,204 |
| 60 to 64 | 6 | 65 | 79 | 81 | 76 | 61 | 77 | 32 | 45 | 522 |
| 65 and over | 0 | 18 | 27 | 24 | 35 | 12 | 10 | 8 | 8 | 142 |
| Total Active | 547 | 3303 | 2188 | 1645 | 1413 | 550 | 640 | 244 | 114 | 10,644 |

Number non-vested: 6,038

Number vested: 4,606