

RETIREMENT PLAN
FOR
CHICAGO TRANSIT AUTHORITY EMPLOYEES

The 333rd Meeting of the Retirement Allowance Committee was held on Monday, December 20, 1976, in the Board Room, Room 734, Merchandise Mart and the following were in attendance:

Mr. W. A. Ashley	Mr. E. Langosch
Mr. E. Barley, Sr.	Mr. W. Spears
Mr. J. Blaa	Mr. J. Tiffy
Mr. J. Hastings	Mr. J. Touhy
Mr. P. J. Kole	

Neither Mr. Brabec nor his alternate was present. Mr. J. Turner of Callan Associates, Inc.; Messrs. E. Hamilton and W. Leszinske of Continental Bank; Messrs. Hall, Hegarty and Mullen; and Mr. C. Heatter, Superintendent of Pensions, were also present.

The Chairman called the meeting to order at 10:08 A.M.

Mr. Leszinske began his presentation by announcing to the Committee that at the January Meeting the Continental Bank will discuss the Retirement Fund's investment strategy and objectives.

A presentation was made by Mr. Leszinske of Continental relative to the current and future economic environment, pointing out factors which attributed both to the strength and weaknesses of the current and future economic situation.

Each Committee Member was given their personal written copy of Mr. Leszinske's report on the current and future economic situation. A copy of Mr. Leszinske's written report is part of the Committee's records in the Secretary's Office.

Mr. Leszinske indicated that the recent 5% increase in petroleum announced by OPEC seemed to be unwarranted because the world wide rate of inflation is not at the 5% level. He indicated that it is too early to predict the ramifications of the OPEC increase but indicated that it pointed toward a higher inflation rate. He stated that the retail sales appear to be strengthening and the leading indicators are trending upward from the flat level over the past months.

Mr. Leszinske pointed out that Continental has been restructuring the Fund's Portfolio and has set up a separate account for the portion of the fund to be managed under the Economic Diversification Concept.

Mr. Touhy asked Mr. Leszinske if the portion of the Fund managed under the Economic Diversification Concept was successful, would Continental restructure the whole Portfolio. Mr. Leszinske stated in the affirmative pointing out that this would be done gradually.

Mr. Barley asked Mr. Leszinske why a separate account was needed for setting up the Economic Diversification Portfolio Management. Mr. Hamilton responded that this would be necessary in order that Continental could track the performance of the portion of the Fund managed under the new Concept.

Mr. Turner of Callan Associates, Inc. pointed out that the setting up of separate accounts in a Fund was not uncommon in order to facilitate the monitoring of Performance.

Mr. Ashley asked if there would be an increase in Trustee Fees to set up separate accounts. Mr. Leszinske indicated that there would be no increase in Trustee Fees.

Mr. Leszinske continued his presentation by referring to the Quarterly Report of the Fund Performance as prepared by Continental Bank. He pointed out that for the period June 30, 1976 to September 30, 1976 the Rate of Return for Equities was 1.8% and the period December 31, 1975 to September 30, 1976 the Rate of Return for Equities was 17.0%. He also pointed out that for the period June 30, 1976 to September 30, 1976 the Rate of Return on Fixed Income was 4.8% and for the period December 31, 1975 to September 30, 1976 was 10.3%. He further pointed out that the Rate of Return for the Total Fund for June 30, 1976 to September 30, 1976 was 2.9% and 14.1% for the period December 31, 1975 to September 30, 1976.

Mr. Hastings asked what a 17.0% Rate of Return meant. Mr. Leszinske indicated that if \$1,000,000 was invested for the period December 31, 1975 to September 30, 1976, it would be worth \$1,170,000 at the end of the 9th month period.

Mr. Leszinske reviewed the percentage composition of the Fund as of September 30, 1976 indicating that 62.5% of the Fund's money was in Common Stock and 29.9% in Fixed Income and 7.6% in Cash and Equivalents.

He continued by reviewing the sales, purchases and investment changes during the period June 30, 1976 to September 30, 1976. He pointed out that due to the investment changes, the Fund realized a gain of \$98,087.00.

Mr. Leszinske pointed out that as of September 30, 1976, the Fund's Book Value was \$205,785,426.38 as compared to the Market Value of \$194,287,918.50.

Each Committee Member was given their personal copy of Continental's September 30, 1976 Quarterly Report. A copy of this report is part of the Committee's records in the Secretary's Office.

Mr. Leszinske concluded his presentation at 10:30 A.M.

Mr. J. Turner of Callan Associates, Inc. made a presentation on the Fund's Performance up to the quarter ended September 30, 1976.

Mr. Turner pointed out that during the period there was one discrepancy as pointed out in the Portfolio Audit for the quarter ended September 30, 1976 and there were two discrepancies which were reported in the Quarterly Report ending June 30, 1976 which have not been cleared up.

Mr. Hamilton indicated the discrepancies will be reviewed and a report will be given on each one by next meeting.

Mr. Turner recommended that his firm do a separate performance monitoring analysis on the portion of the Fund to be managed under the Economic Diversification Concept.

Mr. Barley asked if there would be an additional cost to do the recommended analysis. Mr. Turner responded in the affirmative.

Mr. Ashley indicated that he felt the Committee should authorize Mr. Turner to do the recommended analysis. Mr. Ashley recommended that this matter be held in abeyance until after Mr. Turner has completed his report.

Mr. Turner directed the Committee to the booklet titled, "Portfolio Audit Summary." He indicated that there has been no major changes in composition of the Fund's Portfolio since the last Report. He pointed out that in the last quarter ending September 30, 1976, the Average Daily Cash Balance increased to \$92,618.00, as compared to \$74,920.00 during the last seven quarters ending September 30, 1976. He indicated that the \$92,618.00 was an acceptable range for Average Daily Cash Balance for a Fund this size, but that Continental should give this area attention.

Mr. Touhy asked if the Average Daily Cash Balance meant that the Fund did not receive interest on that amount. Mr. Turner responded in the affirmative.

Mr. Spears asked the purpose of leaving this amount uninvested. Mr. Turner indicated that when Continental receives dividends and other forms of income it may not be able to make investments the same day, thusly, leaving a certain amount of cash uninvested. Mr. Hamilton stated that according to a Financial Journal, 1% is a reasonable Average Daily Cash Balance.

Messrs. Barley and Touhy asked if Continental could look into setting up a special account in order to receive interest on the Average Daily Cash Balance. Mr. Turner responded by indicating that the transaction cost to set up a special account may exceed any gain realized from such an arrangement.

Mr. Turner suggested that Continental pay particular attention to the Average Daily Cash Balance. Mr. Hamilton indicated that the Average Daily Cash Balance may be reduced by having the Secretary's Office telephone Continental informing the Bank before 10:00 A.M. on the day before contributions are to be received by the Bank in order to facilitate investment decisions. The Secretary indicated that he would review the situation and report back to the Committee.

Mr. Turner reported that during the quarter there were no transactions involving New York City securities.

Mr. Turner pointed out that the Internal Rate of Return for over the last quarter ending September 30, 1976 was 1.81% as compared to the S&P 500 Index at 1.99% and the Internal Rate of Return for Equities over the last seven quarters ending September 30, 1976 was 42.55% as compared to the S&P 500 Index at 59.33%.

He indicated that the Fixed Income Portfolio Rate of Return for the last quarter ending September 30, 1976 was 4.92% as compared to the S&P AAA Bond Index at 5.14% and the Internal Rate of Return for the Fixed Income over the seven quarters ending September 30, 1976 was 27.46% as compared to the S&P AAA Bond Index of 17.78%. He also stated that the Fixed Income Portfolio outperformed the S&P AAA Bond Index over the seven quarter period ending September 30, 1976.

Mr. Turner then referred Committee Members to the Booklet titled, "Investment Measurement Review." He pointed out that over the last 5-3/4 years ending September 30, 1976 the Fund has grown in asset size from \$122,216,000 to

\$194,288,000 of which \$27,321,000 was attributed to Investment Return for a Dollar Weighted Return of 3.88%.

Mr. Turner then referred to page 6 of the "Investment Measurement Review," which compares the Fund's Equity Performance to other Funds in the Callan Sample, indicating that the Fund ranked 86 out of the 150 Funds over the last two year period ending September 30, 1976 and 97 out of 138 over the 5-3/4 year period ending September 30, 1976. He indicated that the Fund's performance has been better in recent quarters. This was further established by a comparison done on page 7 depicting that for one quarter ending September 30, 1976 the Fund ranked 37 out of 151 Funds in the Callan Sample, for the two quarters ending September 30, 1976 the Fund ranked 44 out of 151 Funds in Callan Sample. Mr. Turner indicated that this was pretty good performance.

Mr. Turner referred to page 4, which compared the Fund's performance to the Standard and Poors indicator. This comparison illustrated that the Fund has underperformed the S&P 500 since the middle of 1973. He pointed out to the Committee Members that only 12% of all managed Pension and Profit Sharing Funds outperformed the S&P 500.

Mr. Turner referred to page 9, which illustrated both the rates of return and position of the Fund as far as Fixed Income Portfolio. He pointed out that over the last 2 years ending September 30, 1976 the Fixed Income rate of return was 16.38% and ranked 8 out of the 50 Funds in the Callan Sample. He further indicated that the performance of the Fixed Income

was very strong and it outperformed the S&P AAA Bond Index in every period for the last 5-3/4 years. He referred to page 10 and indicated that the Fund's Rate of Return for fixed income ranked in the 1st Quartile of the Callan Sample for the quarter and year ending September 30, 1976.

Mr. Touhy stated that he felt that the Percentage Composition of the Fixed Income Portfolio should not be changed and consideration given to increase Percentage Composition of Fixed Income Portfolio. Mr. Hastings reminded Mr. Touhy that the Continental Bank as Trustee has full discretion over Investments. Mr. Kole asked Mr. Touhy why he thought the Trustee should increase the Fixed Income Percentage Composition due to the fact the report indicates that the Rate of Return for the last year ended September 30, 1976 for equities was 24.72% as compared to the Rate of Return on Fixed Income at 19.10%. Mr. Turner interjected that the Fund should not have all equities and that he indicated the equity-fixed income composition appeared reasonable, and that Continental should take advantage of the equity market for new investments.

Each Committee Member was given their personal copy of the Callan Associates, Inc. reports, dated December 20, 1976. A copy of these reports are part of the Committee's records in the Secretary's Office. Mr. Turner concluded his presentation at 11:12 A.M. and he, Messrs. Hamilton and Leszinske left the meeting.

The Chairman asked for the approval of the Minutes of the 331st Meeting, held November 15, 1976.

On a motion by Mr. Touhy, seconded by Mr. Kole, the Minutes of the 331st Meeting, held November 15, 1976, were unanimously approved.

The Chairman asked for the approval of the Minutes of the 332nd Special Meeting, held December 6, 1976.

On a motion by Mr. Touhy, seconded by Mr. Blaa, the Minutes of the 332nd Special Meeting, held December 6, 1976, were unanimously approved.

The announcements of deaths since last meeting were made by the Secretary, as per the attached list.

The Secretary presented five (5) Survivorship Options for approval at this meeting. He pointed out that the birth dates for Mr. Agis Bray and his wife were not established as of the date of this meeting, but the Secretary's Office is in the process of obtaining necessary documents to establish birth dates. On a motion by Mr. Touhy, seconded by Mr. Kole, the Committee unanimously approved the five (5) Survivorship Options submitted by the Secretary.

The Secretary advised that one hundred and thirty (130) Applications for Retirement were submitted for approval at this meeting. The Secretary pointed out that amongst these applications was one for Mr. Zavier Artis, which was requested by the Maintenance Department to be made retroactive to November 1, 1976 due to a serious injury on the job which resulted in a delay by Mr. Artis making application for retirement. On a motion by Mr. Tiffy, seconded by Mr. Touhy, the Committee unanimously approved the one hundred and thirty (130) applications, including

Mr. Artis' retroactive retirement to November 1, 1976, submitted by the Secretary.

The Secretary reported that during the month, three (3) employees on Total and Permanent Disability were examined by the Medical Department or their records reviewed.

The Secretary presented forty-nine (49) refunds totaling \$188,553.22 for approval at this meeting. On a motion by Mr. Touhy, seconded by Mr. Spears, the refunds to be paid December 31, 1976, as per the attached statement, were unanimously approved.

The Secretary read a report of deposits, disbursements and investments during the month of November, as per the attached statement.

The Secretary presented the Chicago Transit Authority bills totaling \$14,026.75 and miscellaneous bills totaling \$149,200.54. On a motion by Mr. Touhy, seconded by Mr. Kole, the Committee unanimously approved payment of these bills.

The Secretary reported that for the payment of December 31, 1976, Death Benefits numbering thirty-six (36) and amounting to \$72,000.00 were submitted for approval. On a motion by Mr. Touhy, seconded by Mr. Spears, the Committee unanimously approved the Death Benefits, as per the attached list.

The Secretary then opened the discussion relative to employees being reinstated who were refunded Retirement Plan Contributions and Earned Interest. The Secretary referred to the "Application for Refund of Retirement Contributions" pointing out that this form should be utilized with the

wording, "I understand that if I am reinstated for any reason I cannot return to active service until I have reimbursed the Retirement Fund the total amount refunded, and I agree to make such refund in accordance with this provision prior to return." Mr. Hastings stated that the Committee is obligated to enforce the provisions of the Plan and the aforementioned sentence would serve to inform an employee at date of termination of his obligation if the employee is reinstated.

Mr. Barley indicated that the Committee should provide some flexibility giving the employee a fixed period to pay Contributions and Earned Interest back to the Fund.

Mr. Hastings stated that the Committee does not have the Authority to provide the flexibility of allowing a fixed period for repayment of Contributions and Earned Interest by a reinstated employee.

Mr. Blaa asked what happens if an employee is reinstated under the conditions pointed out by Mr. Barley. Mr. Hastings responded by indicating that the employee could sue the Fund for Benefits and the Fund would be obligated to pay Benefits.

Mr. Hastings recommended that some arrangement be made without involving the Fund, such as borrowing money from the credit union.

After further discussion between Messrs. Ashley, Barley, Hastings, Langosch, Tiffy and Touhy, on a motion by Mr. Tiffy, seconded by Mr. Spears, it was agreed that this matter be held in abeyance until the next meeting.

Mr. Ashley then presented the matter of Mr. Daryl V. Russell. The Committee agreed to extend a 60 day period

statement for Mr. Russell to repay the
and Earned Interest, which was refunded due
s employment by the Authority. Mr. Ashley
Russell was obligated to pay the Contributions
by December 18, 1976, and Mr. Russell had
Mr. Spears requested that Mr. Blaa call this
discuss the matter, and Mr. Spears further
be present at the time of this discussion.
and indicated that he will report on this matter
ing.

Ashley and Hastings reiterated their position
repayment of Contributions and Earned Interest
ment using the Daryl V. Russell matter as an
problem which arises in extending repayment
employees.

Secretary reported that it would be necessary to
Chairman for the 1977 Plan Year. He explained to
that inasmuch as the Chairman for the past two
representative of the union, according to past
Management Member should be elected.

Chairman requested nominations from the floor
y nominated Mr. Barley; and Mr. Blaa nominated
Mr. Kole as Chairman.

After general discussion by the Committee, Mr. Barley
withdrew his name and Mr. Blaa's nomination was seconded by
Mr. Hastings. There being no further nominations, the Secretary
was instructed to cast one unanimous vote for Mr. Kole as
Chairman for the Plan Year 1977.

The Secretary referred the Committee to the pass-out material and explained that there has been an increase in Hospital, Surgical and Major Medical Premiums for retired employees from \$24.54 per month to \$36.33 per month and from \$50.84 per month to \$57.34 per month for a dependent spouse and an increase in the dental premium from \$2.34 to \$3.16 per month for retired employees and from \$2.66 per month to \$3.59 for retired employee's dependents, effective December 1, 1976, and an increase in the Medical Expense Benefits Complementary to Medicare from \$3.25 per month to \$4.15 per month, effective January 1, 1977. The Secretary stated that an insert as was in each Committee Member's pass-out material will be sent out to each retired employee affected by the premium increases with the December 31, 1976 Retirement Allowance Benefit Check.

The Secretary reported that due to an error by the computer, pension contributions were not being deducted from Ms. Cynthia A. Lewis' payroll check, the Secretary's Office is in the process of ensuring the money is paid into the Fund.

The Secretary referred to the November issue of Transit News which was in each Committee Members' pass-out material and described the details of a Pilot Pre-Retirement Program which was developed by the Pension Section and publicized in Transit News.

Mr. Ashley was presented a letter by Mr. Barley from the widow of our deceased retired employee, Ernest Sivels, regarding payment of Life Insurance Benefits to her. The

Secretary advised Mr. Barley that he had responded to a similar letter and would send copies to Mr. Barley's Office.

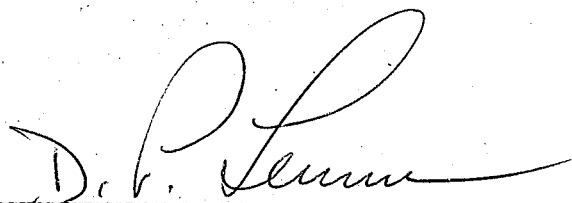
The Secretary then called for approval in order that Callan Associates, Inc. may set up separate performance monitoring analysis on the portion of the Fund to be managed by Continental Bank under the Economic Diversification. On a motion by Mr. Kole, seconded by Mr. Spears, the Committee unanimously agreed to have Callan set up separate Performance Monitoring on the portion of the Fund managed under Economic Diversification Concept.

Mr. Spears asked the Secretary if an Application for Early Retirement could be withdrawn once approved. The Secretary advised that the employee could withdraw his application at any time up to the effective date of retirement and that it should be done through normal departmental channels.

The Secretary referred the Committee to the pass-out material to the two articles; one titled, "Focus on State Funds: Sizing Up Their Asset Package" and an article titled, "ERISA Boss Makes Major Statement on Prudency, Fiduciary Responsibilities" and advised each Committee Member to read the articles.

Mr. Spears requested that the Secretary's Office develop and distribute an insert informing all retired employees belonging to Division 308 and 241 that they may have inactive union dues deducted from Monthly Retirement Allowance Benefit Checks. The Secretary responded by indicating that his office would develop an insert for distribution.

There being no further business, on a motion by
Mr. Touhy, seconded by Mr. Tiffy, the meeting adjourned at
12:18 P.M.



SECRETARY
RETIREMENT ALLOWANCE COMMITTEE

SECRETARY PROTEMPORE



CHAIRMAN
RETIREMENT ALLOWANCE COMMITTEE

DATED: JAN 17 1977