Chicago Transit Authority Retiree Health Care Trust

Actuarial Valuation as of January 1, 2014
Including Accounting Disclosures for the
Year Ended December 31, 2013

This report has been prepared at the request of the Board of Trustees to assist in administering the Fund. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Board of Trustees and may only be provided to other parties in its entirety. The measurements shown in this actuarial valuation may not be applicable for other purposes.

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August 26, 2014

Board of Trustees
Chicago Transit Authority Retiree Health Care Trust
Chicago, Illinois

Dear Trustees:

We are pleased to submit this valuation of the Retiree Health Care Trust as of January 1, 2014.

This report is based on information received from Group Administrators and the Retiree Health Care Trust. Segal Consulting does not audit the data provided. The accuracy and comprehensiveness of the data is the responsibility of those supplying the data. Segal, however, does review the data for reasonableness and consistency.

The actuarial computations made are for purposes of determining compliance with certain requirements of the Illinois Pension Code, and accounting disclosures under the Governmental Accounting Standards Board Statement. Determinations for purposes other than meeting these requirements may be significantly different from the results reported here.

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with Illinois Pension Code Section 22-101B(b)(3)(iii), Illinois Pension Code Section 22-101B(b)(5), and GASB Statement 43 with respect to the benefit obligations addressed. We are members of the Society of Actuaries, the American Academy of Actuaries, and other professional actuarial organizations, and collectively meet their "General Qualification Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained herein.

We look forward to discussing this material with you at your next meeting.

Sincerely,

Segal Consulting, a Member of The Segal Group, Inc.

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INTRODUCTION

Prior to Public Act 095-0708, the Retirement Plan for CTA Employees reimbursed the CTA for healthcare benefits provided to retired members and their dependents.

Under Section 22-101B of Public Act 095-0708, a new Retiree Health Care Trust was established, and all retiree health benefits are paid from that trust. Since 2009, the Retiree Health Care Trust has been responsible for providing health care benefits to eligible retirees and their dependents and survivors.

Retiree health benefits are funded through a combination of active contributions, retiree self-pay contributions, proceeds from a sale of bonds, and investment return on assets.

This valuation report contains information required by the Trustees of the Retiree Health Care Trust in order to comply with various accounting and funding requirements.

The projected present value of income and payments shown in this report are contingent upon a variety of assumptions about future events. Actual experience is likely to vary from these assumptions.

FUNDING ASSESSMENT

Section 22-101B (b)(3)(iii) of the Illinois Pension Code requires the Board of Trustees of the Retiree Health Care Trust to make an annual assessment of the funding levels of the Retiree Health Care Trust and to submit a report to the Auditor General at least 90 days prior to the end of the fiscal year (i.e. by October 2).

The report must demonstrate that the present value of projected benefits is exceeded by the present value of projected contributions and income plus assets in excess of the statutory reserve. If there is a shortfall, the report must describe a plan to eliminate the shortfall.

As of January 1, 2014, projected income and assets exceed projected benefits, and no changes are necessary.

Table A

January 1, 2014 Funding Assessment

Actuarial Present Value of Projected Benefits			Actuarial Present Value of Projected Income and Assets		
Current retirees					
Present value of benefits	$596,019,205		Present value of active contributions	$166,705,295	
Less: Retiree self-payments	(224,086,149)		Less: Value of health-savings-type accounts	(61,208,603)	
Net present value		$371,933,056	Net active contributions		$105,496,692
Future retirees			Assets		722,928,591
Present value of benefits	706,145,760		Less: Statutory reserve		(34,072,490)
Less: Retiree self-payments	(322,724,115)		Total income and assets		$794,352,793
Net present value		383,421,645			
Total present value of projected benefits		$755,354,701	Income and assets in excess of projected benefits		$38,998,092
			Income and assets as a percentage of projected benefits		105.2%

This year's valuation includes a number of changes since last year's valuation. These include:

- Assets more than expected.
- Changes in the covered population.
- Changes to per capita claims, based on updated claim experience, along with changes to retiree contribution rates.
- Assuming the active contribution rate remains at 3% of pay.
- Based on changes in assumptions for the January 1, 2014 valuation of the Retirement Plan for CTA Employees, changes to salary scale, and to mortality, withdrawal, disability, and retirement rates.
- Based on our review of assumptions, changes to assumed rates of spouse participation, plan election, timing of disableds becoming eligible for Medicare, termination rates for participants who are not full-time permanent, and trend rates.

Table B

Effect of Changes on Funding Levels

	Actuarial Present Value of Projected Benefits	Actuarial Present Value of Projected Income and Assets	Income and assets as a % projected benefits
January 1, 2013 valuation	$645.7 million	$813.4 million	126.0%
Effect of expected changes	+13.3 million	+46.4 million	+4.5%
Effect of assets more or less than expected	--	+45.9 million	+7.0%
Effect of other gains/losses, including changes in census data and IBNR	-1.9 million	+20.1 million	+3.4%
Effect of changes in per capita claims and retiree contribution rates	+24.0 million	-5.4 million	-5.8%
Effect of assuming active contributions remain at 3% of pay	--	-102.7 million	-15.1%
Effect of changes in other assumptions	+74.3 million	-23.3 million	-14.8%
Effect of plan changes	--	--	--
January 1, 2014 valuation	$755.4 million	$794.4 million	105.2%

STATUTORY RESERVE

Section 22-101B (b)(3)(ii) of the Illinois Pension Code requires the Board of Trustees of the Retiree Health Care Trust to maintain an appropriate funding reserve level which shall not be less than the amount of incurred and unreported claims plus 12 months of expected claims and administrative expenses.

Table C

Calculation of January 1, 2014 Statutory Reserve

1.	12 months of expected claims and administrative expenses	$52,390,984
2.	Less: 12 months of expected retiree and dependent contributions	(19,715,894)
3.	12 months of net expected claims and administrative expenses	32,675,090
4.	Incurred and unreported claims*	1,397,400
5.	Total statutory reserve: (3) + (4)	$34,072,490

* *Incurred but not reported claims represents the amount of claims that were incurred during a certain time period but have not yet been paid due to the timing difference between when the services were rendered and day the claim was actually paid.*

45% TEST

Section 22-101B (b)(5) of the Illinois Pension Code states that the Board of Trustees shall have the discretion to provide different contribution levels for retirees, dependents and survivors based on their years of service, level of coverage or Medicare eligibility, provided that the total contribution from all retirees, dependents and survivors shall not be more than 45% of the total cost of such benefits. The term “total cost of such benefits” is the total amount expended by the retiree health benefit program in the prior plan year.

According to the preliminary December 31, 2013 audit of the Chicago Transit Authority Retiree Health Care Trust, the aggregate amount of retiree, dependent, and survivor contributions for 2013 was $16.08 million. The total cost of retiree health benefits paid from the Health Care Trust in 2012 was $47.40 million. Dental benefits and contributions are excluded from these totals, since the Fund does not provide dental benefits, but only serves as a “pass-through” for dental premiums.

Aggregate retiree, dependent, and survivor contributions in 2013 were less than 45% of the total cost of benefits in 2012.

Table D

45% Test (Retiree Contributions versus Cost of Benefits)

1.	Aggregate retiree, dependent, and survivor contributions in 2013	$16,078,090
2.	Total cost of benefits in 2012	$47,399,458
3.	**Retiree self-pay as a percentage of total cost of benefits: (1) / (2)**	**33.92%**

ACCOUNTING REQUIREMENTS

The Governmental Accounting Standards Board (GASB) issued Statement Number 43 -- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* Under this statement, all state and local government entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements. The accounting standards supplement cash accounting, under which the expense for postemployment benefits is equal to benefit and administrative costs paid on behalf of retirees and their dependents (*i.e.*, a pay-as-you-go basis).

The statement covers postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are *not* offered as part of a pension plan; and long-term disability insurance for employees. The benefits valued in this report are limited to those described in Section 4, which are based on those provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing costs between the employer and plan members. The projection of benefits is not limited by legal or contractual limits on funding the plan unless those limits clearly translate into benefit limits on the substantive plan being valued.

The standard introduced an accrual-basis accounting requirement, thereby recognizing the employer cost of postemployment benefits over an employee's career. The standard also introduced a consistent accounting requirement for both pension and non-pension benefits.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. These assumptions are summarized in Section 4. This amount is then discounted to determine the actuarial present value of the total projected benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan.

Once the UAAL is determined, the Annual Required Contribution (ARC) is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made. In addition, Required Supplementary Information (RSI) must be reported, including historical information about the UAAL and the progress in funding the Plan.

The calculation of an accounting obligation does not, in and of itself, imply that there is any legal liability to provide the benefits valued, nor is there any implication that the Employer is required to implement a funding policy to satisfy the projected expense.

Actuarial calculations reflect a long-term perspective, and the methods and assumptions use techniques designed to reduce short term volatility in accrued liabilities and the actuarial value of assets, if any.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

ACTUARIAL ACCRUED LIABILITY (AAL) AND UNFUNDED AAL (UAAL)

The actuarial accrued liability shows that portion of the actuarial present value of total projected benefits allocated to periods prior to the valuation date by the actuarial cost method. The chart below shows the portion covered by active and retiree contributions and the portion covered by accumulated plan assets.

Employers may accumulate assets to pay for future OPEB. In order to be treated as plan assets under GASB 43, the funds must be set aside in a trust fund or equivalent arrangement that has the following characteristics:

a. Employer contributions are irrevocable;

b. Plan assets are dedicated to OPEB only; and

c. Plan assets are legally protected from the creditors of the employer and the plan administrator.

Chicago Transit Authority Retiree Health Care Trust has an arrangement that meets these requirements.

CHART 1

Actuarial Accrued Liability (AAL) and Unfunded AAL (UAAL)

	December 31, 2013
Participant Category	
Current retirees, beneficiaries, and dependents	$371,933,056
Future retirees and dependents	216,500,724
Total	$588,433,780
Effect of Active and Retiree Contributions	
Actuarial accrued liability before reduction for active and retiree contributions	$1,036,250,753
Less projected active contributions	29,505,985
Less projected retiree contributions	418,310,988
Net employer actuarial accrued liability	$588,433,780
Actuarial value of assets	722,928,591
Unfunded/(Overfunded) actuarial accrued liability	($134,494,811)

ANNUAL REQUIRED CONTRIBUTION (ARC)

The Annual Required Contribution (ARC) is the annual cost of the OPEB plan for accounting purposes *as if* the plan were being funded through contributions to a trust fund. The GASB standards do not require that the contributions are actually made to a trust fund. The ARC is simply a device used to measure annual plan costs on an accrual basis. The calculation consists of adding the Normal Cost of the plan, net of active and retiree contributions, to an amortization payment.

The unfunded actuarial accrued liability may be amortized over periods of up to 30 years. Amortization payments may be calculated as level dollar amounts or as amounts designed to remain level as a percent of a growing payroll base. The Chicago Transit Authority Retiree Health Care Trust has elected to amortize the unfunded actuarial accrued liability as a level dollar amount over a period of 30 years.

CHART 2

Determination of Annual Required Contribution (ARC)

	Cost Element	Fiscal Year Ending December 31, 2013 Amount	Fiscal Year Ending December 31, 2013 Percentage of Compensation
1.	Normal cost (net of active and retiree contributions)	$7,341,421	1.2%
2.	Amortization of the unfunded actuarial accrued liability (30 years)	(10,129,395)	(1.6%)
3.	Total Annual Required Contribution (ARC): (1)+(2), not less than zero	$0	0.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

For GASB 43 (plan reporting) purposes, the schedule of employer contributions compares actual contributions to the ARC. For the fiscal year ending December 31, 2008, actual contributions include only bond proceeds. In all subsequent years, the only "employer contributions" are Medicare Part D reimbursements and payments from the Early Retiree Reinsurance Program.

CHART 3

Required Supplementary Information – Schedule of Contributions from Employer(s) and Other Contributing Entities

Fiscal Year Ended December 31,	Annual Required Contributions	Actual Contributions	Percentage Contributed
2008	$10,037,152	$528,800,000	5,268.4%
2009	10,699,065	0	0.0%
2010	0	3,925,041	N/A
2011	0	8,895,704	N/A
2012	0	652,568	N/A
2013	0	79,264	N/A

SCHEDULE OF FUNDING PROGRESS

This schedule of funding progress will present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CHART 4

Required Supplementary Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
December 31, 2008	$549,435,879	$605,639,395	$56,203,516	90.7%	$588,471,442	9.6%
December 31, 2009	533,264,932	622,939,043	89,674,111	85.6%	579,379,265	15.5%
December 31, 2010	586,961,435	485,221,881	(101,739,554)	121.0%	598,267,896	(17.0%)
December 31, 2011	581,484,747	481,348,984	(100,135,763)	120.8%	617,246,244	(16.2%)
December 31, 2012	643,201,032	455,088,976	(188,112,056)	141.3%	625,807,630	(30.1%)
December 31, 2013	722,928,591	588,433,780	(134,494,811)	122.9%	635,900,577	(21.2%)

SUMMARY OF ASSUMPTIONS AND METHODS

A more complete description of actuarial assumptions is included in Section 4.

CHART 5

Notes to Required Supplementary Information - Summary of Assumptions and Methods

Valuation Date:	December 31, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level dollar, open
Remaining Amortization Period	30 years remaining as of December 31, 2013
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment rate of return	7.00%
Projected salary increases	9% for 1 year of service, 11% for 2 years of service, 16% for 3 years of service, 5% for 4 years of service, and 4% thereafter
Inflation rate	3.25%
Medical and prescription drug cost trend rate	7.50% for 2014, graded to 5.00% over 10 years
Participants (excluding dependent children) as of January 1, 2014	
Total Retirees, Spouses, and Surviving Spouses	9,247
Active Employees	10,684
Inactive Vested Participants	97

DEFINITIONS OF TERMS

The following list defines certain technical terms used in GASB Statements:

Assumptions or Actuarial Assumptions: The estimates on which the cost of the Plan is calculated including:

(a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;

(b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;

(c) Retirement rates — the rate or probability of retirement at a given age;

(d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Actuarial Present Value of Total Projected Benefits (APB): Present value of all future benefit payments for current retirees and active employees taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions.

Normal Cost: The amount of contributions required to fund the benefit allocated to the current year of service.

Actuarial Accrued Liability For Actives: The equivalent of the accumulated normal costs allocated to the years before the valuation date.

Actuarial Accrued Liability For Retirees: The single sum value of lifetime benefits to existing retirees. This sum takes account of life expectancies appropriate to the ages of the retirees and of the interest which the sum is expected to earn before it is entirely paid out in benefits.

Actuarial Value of Assets (AVA):	The value of assets used by the actuary in the valution. These may be at market value or some other method used to smooth variations in market value from one valuation to the next.
Funded Ratio:	The ratio AVA/AAL.
Unfunded Actuarial Accrued Liability (UAAL):	The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.
Amortization of the Unfunded Actuarial Accrued Liability:	Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.
Investment Return (discount rate):	The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next. If the plan is funded on a pay-as-you-go basis, the discount rate is tied to the expected rate of return on day-to-day employer funds.
Health Care Cost Trend Rates:	The annual rate of increase in net claims costs per individual benefiting from the Plan.
Annual Required Contribution (ARC):	The ARC is equal to the sum of the normal cost and the amortization of the unfunded actuarial accrued liability.

Exhibit I
Summary of Participant Data

	January 1, 2014	January 1, 2013
Retirees and Disableds		
Number of retirees and disableds	6,475	6,569
Average age of retirees and disableds	69.4	69.1
Number of spouses (not including dependent children)	2,081	2,121
Average age of spouses	66.8	66.5
Surviving Spouses		
Number	691	694
Average age	79.1	79.1
Active Employees (including those not yet accruing service under the Retirement Plan)		
Number	10,684	9,816
Average age	46.1	46.9
Average years of service for contribution schedule	10.4	11.6
Average salary	$63,774	$64,495
Inactive Vested Participants		
Number	97	80
Average age	55.8	55.9

EXHIBIT II

Summary of Income and Expenses

	Year Ended December 31, 2013	Year Ended December 31, 2012
Additions		
Employee contributions	$19,897,480	$18,658,507
Retiree contributions	17,354,300	18,052,981
Medicare Part D subsidy	79,264	652,568
Early retirement reinsurance program	0	0
Investment income (net of investment expenses)	93,351,722	73,436,023
Total additions	$130,682,766	$110,800,079
Deductions		
Benefit payments (net of rebates)	$49,873,434	$48,033,600
Administrative expenses	1,081,773	1,050,194
Total deductions	$50,955,207	$49,083,794
Net increase (decrease)	$79,727,559	$61,716,285
Net assets available for benefits		
Beginning of year	$643,201,032	$581,484,747
End of year	$722,928,591	$643,201,032

EXHIBIT III
Actuarial Assumptions

Valuation Date: January 1, 2014

Data: Claims experience and premiums were provided by the Retiree Health Care Trust and by vendors hired by the Trust. Detailed census data was provided by Group Administrators and the Trust.

Net Investment Return: 7.00%

Salary Scale:

Years of Service	Salary Increase
1	9.0%
2	11.0%
3	16.0%
4	5.0%
5+	4.0%

Inflation Rate 3.25%

Decrements Prior to Retirement:

	Rates (%)			
	Mortality*			
Age	Male	Female	Withdrawal**	Disability
20	0.03	0.02	9.50	0.10
25	0.04	0.02	7.00	0.10
30	0.07	0.03	5.10	0.10
35	0.10	0.05	4.10	0.20
40	0.13	0.08	2.90	0.30
45	0.17	0.13	2.40	0.40
50	0.23	0.19	1.90	0.50
55	0.40	0.26	0.00	0.60

* Rates shown are those applicable for the base rate table, before any generational projection.

** None for those with 25 or more years of service. 15% assumed in first year for non-full-time permanent employees.

Post-Retirement Mortality Rates:

Healthy: RP-2000 Combined Healthy Blue Collar Mortality Tables projected to 2016 using Scale BB, then projected generationally from 2016 using Scale BB

Disabled: RP-2000 Disabled Retiree Mortality Tables projected to 2016 using Scale BB, then projected generationally from 2016 using Scale BB

The above mortality tables were determined to reasonably provide for future mortality improvement, based on the analysis completed for the January 1, 2014 valuation of the Retirement Plan for the CTA Employees.

Active Retirement Rates:

	Rates (%)		
	Hired Before 1/18/08		
Age	Svc < 25	Svc >=25	Hired 1/18/08 or After
45-54	0.0	20.0	0.0
55	1.5	20.0	1.5
56	1.5	22.5	1.5
57	2.0	25.0	2.0
58	2.0	27.5	2.0
59	2.0	30.0	2.0
60	2.5	32.5	2.5
61	4.0	35.0	4.0
62	15.0	42.5	20.0
63	15.0	40.0	15.0
64	20.0	42.5	15.0
65	30.0	45.0	60.0
66	30.0	45.0	25.0
67	30.0	45.0	25.0
68	30.0	45.0	25.0
69	30.0	45.0	25.0
70-74	30.0	45.0	30.0
75	100.0	100.0	100.0

Retirement Age for Eligible Inactives: Age 65.

Participation:

The percent of those eligible for coverage who are assumed to decline is equal to 50% of the percent of full cost paid by the retiree (based on contribution service at retirement). The resulting rates of retiree enrollment for January 1, 2014 are:

Service	Rate (%)
35+	97.5
30-34	95.0
25-29	85.0
20-24	77.5
15-19	62.5
10-14	57.5
<10	50.0

Dependents:

75% of future retirees are assumed to be married, with husbands assumed to be three years older than their wives. The percent of spouses assumed to decline coverage is equal to 80% of the percent of full cost paid by the spouse (based on retiree's contribution service at retirement). The resulting rates of spouse enrollment for January 1, 2014 are:

Service	Rate (%)
45+	96.0
40-44	86.4
35-39	72.0
30-34	61.6
25-29	48.0
20-24	44.0
15-19	40.0
10-14	32.0
<10	20.0

Plan Election:	70% of future pre-Medicare retirees are assumed to elect BCBS PPO coverage, and the remaining 30% elect HMO Illinois coverage. 97% of future Medicare retirees are assumed to elect the Aetna EN Medicare Advantage coverage, and the remaining 3% elect Aetna PPN Medicare Advantage coverage. Upon retirement, 50% of pre-65 disabled retirees are assumed to be eligible for Medicare, increasing to 90% eligible for Medicare two years after retirement. All pre-Medicare disabled retirees are assumed to elect BCBS PPO coverage, and all Medicare disabled retirees are assumed to elect the Aetna EN Medicare Advantage coverage.
Missing Participant Data:	A missing census item for a given participant was assumed to equal the average value of that item over all other participants of the same status for whom the item is known. For those hired in 2013, salaries were annualized. For employees whose 2013 earnings were less than $20,000, an annual rate of $25,000 was assumed. Those currently in part-time status are assumed to attain full time permanent status at a salary of $43,000.
Service for Eligibility:	Future accruals assumed to equal one credit per year.
Service for Contribution Schedule:	Future accruals assumed to be equal to an average of 2012 and 2013 hours divided by 2,080. If hired in 2012, only 2013 hours are used. If hired in 2013 or currently part-time, participants earn 0.85 credit in each future year.

Per Capita Cost Development:

HMO Illinois	Based on January 1, 2014 premium rates.
Other Pre-Medicare Medical	Per capita claims costs were based on actual pre-Medicare retiree paid claim experience for the period May 1, 2011 through April 30, 2013, including PPO fees. Claims were adjusted as follows: ➤ total adjusted claims were divided by the number of adult members to yield a per capita claim; and ➤ the per capita claim was trended to the midpoint of the valuation year at assumed trend rates. Per capita claims for each plan year were then combined by taking a weighted average. The weights used in this average account for a number of factors including each plan year's volatility of claims experience and distance to the valuation year. Actuarial factors were then applied to the weighted average cost to estimate individual retiree and spouse costs by age and by gender.
Other Pre-Medicare Prescription Drugs	Per capita claims costs were based on actual retiree paid claim experience for the period May 1, 2011 through April 30, 2013. Claims were then adjusted as follows: ➤ total adjusted claims were divided by the number of adult members to yield a per capita claim; ➤ the per capita claim was trended to the midpoint of the valuation year at assumed trend rates; and ➤ the per-capita prescription drug claims were decreased for estimated prescription drug rebates. Per capita claims for each plan year were then combined by taking a weighted average. The weights used in this average account for a number of factors including each plan year's volatility of claims experience and distance to the valuation year. Actuarial factors were then applied to the weighted average cost to estimate individual retiree and spouse costs by age and by gender.

Medicare Medical	Based on January 1, 2014 premium rates for Aetna Extended Network Medicare Advantage Plan (EN). Actuarial factors were then applied to estimate individual retiree and spouse costs by age and by gender.
Medicare Prescription Drugs	Based on January 1, 2014 premium rates for CVS/Caremark EGWP, plus CVS/Caremark's estimate for self-funded wrap coverage. Actuarial factors were then applied to estimate individual retiree and spouse costs by age and by gender.
Administrative Expenses	Administrative expenses were based on experience furnished by the Plan Administrator for the period January 1, 2012 through December 31, 2012 trended to the valuation date. Expenses were divided by the number of adult members to yield a per participant cost. Transitional Reinsurance and Patient Centered Outcomes Research Institute (PCORI) fees mandated by the Affordable Care Act were added to the expenses.

Per Capita Health Costs: Medical and prescription drug claims costs for the plan year beginning January 1, 2014 are shown in the table below for retirees at selected ages. These costs are net of deductibles and other benefit plan cost sharing provisions.

	HMO Illinois				Other Medical				Other Prescription Drug			
	Retiree		Spouse		Retiree		Spouse		Retiree		Spouse	
Age	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
55	$9,416	$9,416	$14,929	$14,929	$8,632	$8,912	$6,794	$7,695	$1,607	$1,659	$1,265	$1,433
60	9,416	9,416	14,929	14,929	10,251	9,606	9,095	8,924	1,909	1,789	1,693	1,662
64	9,416	9,416	14,929	14,929	11,761	10,190	11,481	10,044	2,190	1,897	2,138	1,870
65					1,099	934	1,099	934	1,971	1,675	1,971	1,675
70					1,274	1,007	1,274	1,007	2,284	1,805	2,284	1,805
75					1,373	1,084	1,373	1,084	2,462	1,943	2,462	1,943

For disabled retirees under age 65, per capita medical cost is $1,044 and prescription drug cost is $1,883.

Administrative Expenses: Administrative expenses of $134 per participant were added to projected incurred claims costs. An additional expense for ACA reinsurance fees of $63 in 2014, $44 in 2015, and $26 in 2016 was added for pre-65 PPO participants.

Medicare Part D Subsidy: Effective January 1, 2012, the Plan switched to an EGWP and no longer receives Medicare Part D subsidies.

Health Care Cost Trend Rates: Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The rates shown below are "net" and are applied to the net per capita costs shown above.

Year Ending December 31	Medical & Prescription Drug	Fees and Administrative Expenses
2014	7.50%	5.00%
2015	7.25%	5.00%
2016	7.00%	5.00%
2017	6.75%	5.00%
2018	6.50%	5.00%
2019	6.25%	5.00%
2020	6.00%	5.00%
2021	5.75%	5.00%
2022	5.50%	5.00%
2023	5.25%	5.00%
2024 & later	5.00%	5.00%

All medical and prescription drug trend rates except for HMO Illinois were reduced by 0.3% to reflect the annual CPI adjustment of prescription drug copays, annual deductibles, and annual out-of-pocket maximums.

Retiree Contribution Increase Rate: Retiree and dependent contribution rates were assumed to increase at medical trend with adjustments.

Active Contributions: 3.00% of pay in all future years

Plan Design:	Development of plan liabilities was based on the plan of benefits in effect as described in Exhibit II. Cost of dental coverage was not included in this valuation since retirees and dependents pay the full cost for this coverage.
Lifetime Maximum Benefits:	No information was available regarding accumulations toward lifetime maximum benefits and no such accumulations were assumed.
Health Care Reform:	This is a retiree-only plan, and most aspects of the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (HCERA) of 2010 do not apply. Any future aspects that do apply are assumed to have a *de minimis* effect. Beginning in 2018, the PPACA imposes a 40% excise tax on health plans if the cost of coverage exceeds certain thresholds. When estimating the potential effect of this excise tax, we assumed that the plan would elect to treat retirees who have not attained age 65 and retirees who have attained age 65 as similarly situated beneficiaries, which produces a cost of coverage that is below the threshold for the tax.

EXHIBIT IV

Summary of Plan

This exhibit summarizes the major benefit provisions. To the best of our knowledge, the summary represents the substantive plans as of that date. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

Active Contributions:	3% of pay as of January 1, 2014.
Benefit Eligibility:	Retirement: Age 55 with 20 years of service, or any age with 25 years of continuous service if hired prior to September 5, 2001 and retired before the full execution of the next collective bargaining agreements. Disability: o 5 years of service if covered under Workmen’s Compensation; or o 10 years of service.
Service for Eligibility Purposes:	Pension service to January 18, 2008 plus RHCT service after January 17, 2008. After January 17, 2008, employees accrue one year of service for every plan year worked.
Service for Contribution Schedule:	Pension service to January 18, 2008 plus RHCT service after January 17, 2008. After January 17, 2008, salaried employees accrue one year of service for every plan year worked, and non-salaried employees earn service based on the actual hours worked in the plan year divided by 2,080 hours.

Benefit Types: Medical and prescription drug. Dental is available at full cost. In lieu of retiree medical coverage, participants may receive a health-savings-type account equal to their active contributions. Those who terminate prior to retiree health eligibility may receive a health-savings-type account equal to their active contributions at age 65. Rules for any health-savings-type account have not yet been defined by the Board of Trustees.

Duration of Coverage: Lifetime.

Dependent Benefits: Medical and prescription drug. Dental is available at full cost.

Dependent Coverage: Eligible dependents covered during retirement may continue coverage after the death of the retiree.

Retiree Contributions: Self-pay rates depend on service at retirement and Medicare status. Self-pay rates for disabled retirees depend on Medicare status and service at time of disability. The monthly rates effective January 1, 2014 are shown below.

	Non-Medicare				Medicare			
	Retiree		Dependent(s) or Surviving Spouse		Retiree		Dependent(s) or Surviving Spouse	
Service	PPO	HMO I	PPO	HMO I	Aetna EN	Aetna PPN	Aetna EN	Aetna PPN
45+	$47	$40	$47	$40	$15	$11	$15	$11
40 - 44	47	40	161	135	15	11	50	37
35 - 39	47	40	331	279	15	11	103	75
30 - 34	95	80	455	382	29	22	141	103
25 - 29	284	239	616	517	88	65	190	140
20 - 24	426	358	663	557	132	97	205	151
15 - 19	710	597	710	597	220	161	220	161
10 - 14	805	677	805	677	249	183	249	183
Less than 10	947	796	947	796	293	215	293	215

Benefit Descriptions:

PRE-MEDICARE

	BCBS PPO		HMO Illinois	
Medical	**In-network**	**Out-of-network**		
Annual Deductible (indexed)*	$341 individual/$682 family		Not applicable	
Annual Out-of-Pocket Maximum (after deductible) (indexed)*	$3,406 individual/ $6,812 family	$4,541 individual/ $9,082 family	Not applicable	
Lifetime Maximum	$2,000,000 per person		Unlimited	
Coinsurance (after deductible)	90%	60%	100% after co-pays	
Prescription Drugs				
*Copay** (indexed)*	Retail* (30 day)	Mail* (90 day)	Retail	Mail
Generic	$11	$23	$5	$10
Brand Formulary if no generic	$23	$45	$10	$20
Brand Non-Formulary or brand with generic	$57	$114	$25	$50

* *Indexed each year to the CPI, Chicago-Gary Kenosha, IL-IN-WI CMSA.*
** *Mandatory mail-order for 2nd refill.*

MEDICARE

	Aetna EN MA Plan		Aetna PPN MA Plan	
Medical				
Annual Deductible (indexed)*	$341 individual/$682 family		Not applicable	
Annual Out-of-Pocket Maximum (after deductible) (indexed)*	$3,406 individual/ $6,812 family		Not applicable	
Lifetime Maximum	Unlimited		Unlimited	
Prescription Drugs				
Copay (indexed)*	Retail	Mail	Retail	Mail
Generic	$6	$11	$6	$11
Brand Formulary if no generic	$11	$23	$11	$23
Brand Non-Formulary or brand with generic	$28	$57	$28	$57

* *Indexed each year to the CPI, Chicago-Gary Kenosha, IL-IN-WI CMSA.*