

**RETIREE HEALTH CARE PLAN**

**Financial Statements and Supplementary Information  
For the Years Ended December 31, 2013 and 2012  
With Report of Independent Auditors**

**RETIREE HEALTH CARE PLAN**  
For the Years Ended December 31, 2013 and 2012

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## **REPORT OF INDEPENDENT AUDITORS**

The Board of Trustees  
Retiree Health Care Plan

### **Report on the financial statements**

We have audited the accompanying financial statements of the Retiree Health Care Plan (the Plan), which comprise the statements of plan net position as of December 31, 2013 and 2012, the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2013 and 2012, and the changes in its financial position for the years then ended, in conformity with U.S. generally accepted accounting principles.

## **Other matters**

### *Required supplementary information*

Accounting principles generally accepted in the United States require that the management's discussion and analysis, the schedule of funding progress and the schedule of contributions from employer and other contributing entities be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of investment and administrative expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



*Mitchell & Titus, LLP*

September 29, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

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Management's discussion and analysis of the Retiree Health Care Plan (the Plan) provides an overview and analysis of the financial statements of the Plan, including highlights and a discussion of current activities for the years ended December 31, 2013 and 2012. For more detailed information regarding the Plan's financial activities, readers should also review the Plan's financial statements, including the notes and supplementary schedules.

### **Overview of the Financial Statements**

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the U.S. as established by the Governmental Accounting Standards Board (GASB) and are described below:

- *The Statement of Plan Net Position* presents the Plan's assets and liabilities and the resultant net position held in trust for plan benefits at year end. This statement reflects the Plan's investments at fair value as well as receivables and liabilities.
- *The Statement of Changes in Plan Net Position* presents the additions and deductions to the Plan during the current year. It reflects the investment income and net realized and unrealized gains or losses during the year, along with members' contributions and employer's contributions, if any, as well as benefit payments and administrative expenses.
- *The Notes to Financial Statements* provide additional information for a better understanding of the data provided in the financial statements. They explain the purpose of the Plan, significant accounting policies, investment details and related risks, and other relevant information.

The required supplementary information consists of a Schedule of Funding Progress, a Schedule of Contributions from Employer and Other Contributing Entities, as well as the related notes to discuss actuarial assumptions and methods. Such schedules provide the historical trend information for the Plan since its adoption of GASB Statement No. 43 to aid in the analysis of the funded status of the Plan and the progress being made in accumulating sufficient assets to pay benefits when due.

- *The Schedule of Funding Progress* contains actuarial valuations of the status of the Plan in an ongoing as well as historical basis. Actuarial liabilities in excess of the actuarial value of assets indicate that insufficient assets have been accumulated to fund future benefits of current members and retirees. Conversely, actuarial value of assets in excess of actuarial accrued liabilities indicates that the Plan is overfunded.
- *The Schedule of Contributions from Employer and Other Contributing Entities* contains historical trend information of employer contributions and other contributing entities. It shows the value of total annual contributions the employer must pay as determined under the parameters in GASB Statement No. 43 and the related percentage the employer has contributed to meet its requirement.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

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### **Overview of the Financial Statements (continued)**

- *The Notes to Required Supplementary Information* provide background information and the actuarial method and assumptions used to aid in the understanding of the required supplementary schedules.

The additional schedule provided consists of the *Schedule of Investment and Administrative Expenses*, which reflects the costs to manage the Plan.

### **Financial Highlights**

- Public Act 094-0839, which passed in June 2006, separated the funding for retiree health care benefits from funding for pension benefits by January 1, 2009.
- Public Act 095-0708, which was signed by the Governor on January 18, 2008, established the Retiree Health Care Trust (RHCT, or the Plan) and provided for funding and benefit changes to the retiree health care benefits. Beginning January 18, 2008, all Chicago Transit Authority (CTA) employees were required to contribute 3% of their compensation into the newly formed RHCT. The legislation also required changes to eligibility for health care benefits from the RHCT. Contributions from retirees, dependents, and survivors may not exceed 45% of the total cost of their benefits under the Plan. Public Act 095-0708 also authorized the CTA to issue pension obligation bonds to fund the RHCT. After the bond funding, the legislation provides that the CTA has no further obligation to provide funding for health care benefits to eligible retirees and their dependents and survivors. During 2013, 2012 and 2011, CTA employees' contributions remained at 3% of their compensation.
- The RHCT was established on May 12, 2008. Approximately \$529 million from bond proceeds were deposited in the RHCT in August 2008.
- During 2009, the RHCT's Board of Trustees developed the plan design and eligibility rules for retirees, which were required pursuant to Public Act 095-0708, and entered into contracts with health care providers to provide benefits to retirees, dependents, and surviving spouses. In May 2009, the RHCT held its first open enrollment for retirees, dependents, and survivors. All who elected coverage with RHCT began on July 1, 2009.
- Retiree and employee contributions totaled \$37.2 million, \$36.7 million, and \$40.7 million for the years ended December 31, 2013, 2012, and 2011, respectively.
- Net investment income was \$93.3 million, \$73.4 million, and \$6.5 million for the years ended December 31, 2013, 2012, and 2011, respectively.
- The Plan's net position totaled \$722.9 million, \$643.2 million, and \$581.5 million at December 31, 2013, 2012, and 2011, respectively.
- The funded ratio of the Plan was 122.9%, 141.3%, and 120.8% at December 31, 2013, 2012 and 2011, respectively.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

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### **Plan Net Position**

The following schedule presents the Plan's net position:

**Plan Net Position**  
**(in millions)**  
**As of December 31, 2013, 2012, and 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013-2012</u>	
				<u>\$</u>	<u>%</u>
Investments, at fair value	\$ 732.5	\$ 654.2	\$ 590.3	\$ 78.3	12.0%
Employee contributions receivable	0.3	-	0.1	0.3	100.0
Retiree contributions receivable	1.3	1.5	1.7	(0.2)	(13.3)
Retiree subsidy receivable	-	-	1.4	-	-
Securities sold but not received	1.8	3.2	2.2	(1.4)	(43.8)
Accrued interest and dividends	2.3	2.3	2.1	-	-
Other receivables	0.2	1.6	2.0	(1.4)	(87.5)
Funding security deposit	-	-	0.2	-	-
Total assets	<u>738.4</u>	<u>662.8</u>	<u>600.0</u>	<u>75.6</u>	
Accounts payable	4.5	5.0	7.8	(0.5)	(10.0)
Securities purchased but not paid	<u>11.0</u>	<u>14.6</u>	<u>10.7</u>	<u>(3.6)</u>	<u>(24.7)</u>
Total liabilities	<u>15.5</u>	<u>19.6</u>	<u>18.5</u>	<u>(4.1)</u>	
Plan net position	<u>\$ 722.9</u>	<u>\$ 643.2</u>	<u>\$ 581.5</u>	<u>\$ 79.7</u>	<u>12.4%</u>

Plan net position increased by \$79.7 million, or 12.4%, at December 31, 2013 compared to the prior year, primarily due to market conditions, which increased investments at year end by \$78.3 million. Receivables decreased by \$2.7 million at December 31, 2013, mainly due to a decrease in the securities sold but not received. Liabilities decreased by \$4.1 million at December 31, 2013, caused by decreases in accounts payable and pending purchases of securities at year end.

Plan net position increased by \$61.7 million, or 10.6%, at December 31, 2012 compared to the prior year, primarily due to market conditions, which increased investments at year end by \$63.9 million. Receivables decreased by \$1.0 million at December 31, 2012, mainly due to a decrease in the receivables. Liabilities increased by \$1.1 million at December 31, 2012, caused by a decrease in accounts payable and an increase in pending purchases of securities at year end.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

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### **Changes in Plan Net Position**

The following schedule presents changes in the Plan's net position during the years:

**Changes in Plan Net Position**  
**(in millions)**  
**For the Years Ended December 31, 2013, 2012, and 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013-2012</u>	<u>Change</u>
	<u> </u>	<u> </u>	<u> </u>	<u>\$</u>	<u>%</u>
<b>Additions</b>					
Employee contributions	\$ 19.9	\$ 18.7	\$ 18.6	\$ 1.2	6.4%
Retiree contributions	17.3	18.1	22.1	(0.8)	(4.4)
Medicare retiree drug subsidy program	0.1	0.6	4.6	(0.5)	(83.3)
Early retiree reinsurance program	-	-	4.3	-	-
Rebates and reimbursements related to claims	0.3	1.7	2.7	(1.4)	(82.4)
Net investment income	<u>93.3</u>	<u>73.4</u>	<u>6.5</u>	<u>19.9</u>	<u>27.1</u>
<b>Total additions</b>	<b><u>130.9</u></b>	<b><u>112.5</u></b>	<b><u>58.8</u></b>	<b><u>18.4</u></b>	
<b>Deductions</b>					
Medical claims paid to providers	23.9	25.9	42.4	(2.0)	(7.7)
Dental claims paid to providers	-	0.2	1.7	(0.2)	(100.0)
Medical premium payments to insurance companies	23.3	20.7	16.5	2.6	12.6
Dental premium payments to insurance companies	1.4	1.4	-	-	-
Claim administration fee	1.5	1.5	2.1	-	-
Administrative expenses	<u>1.1</u>	<u>1.1</u>	<u>1.6</u>	<u>-</u>	<u>-</u>
<b>Total deductions</b>	<b><u>51.2</u></b>	<b><u>50.8</u></b>	<b><u>64.3</u></b>	<b><u>0.4</u></b>	
<b>Net increase (decrease)</b>	<b><u>\$ 79.7</u></b>	<b><u>\$ 61.7</u></b>	<b><u>\$ (5.5)</u></b>	<b><u>\$ 18.0</u></b>	<b><u>29.2%</u></b>

Total additions of \$130.9 million in 2013 were \$18.4 million more than the amounts in 2012, primarily due to increased investment income related to market conditions. Total additions of \$112.5 million in 2012 were \$53.7 million more than the amounts in 2011, primarily due to increased investment income related to market conditions.

Deductions for medical claims and administration fees for 2013 were \$51.2 million compared to \$50.8 million in 2012. Deductions related to medical claims and administrative expenses of \$50.8 million in 2012 were \$13.5 million less than the amounts in 2011, mainly due to the change of health care providers in 2012. In 2013 and 2012, premium payments to insurance companies continued to increase as more retirees enrolled into the Plan. Administrative expenses remained at relatively same level in 2013 and 2012. Administrative expenses in 2012 were \$500,000 less than 2011 because of the cost incurred in 2011 for changing benefit options. Such benefits options, effective on January 1, 2012, helped reduce the medical claims paid to providers by \$16.5 million in 2012 compared to 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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### Plan Membership

The following table presents the changes in Plan membership as of December 31, 2013, 2012, and 2011:

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>2013-2012 %</b>
Retirees and beneficiaries receiving benefits	9,247	9,384	9,364	(137)	(1.5)%
Active employees	10,684	9,816	9,775	868	8.8
Terminated (inactive members) employees entitled to benefits or refunds of contributions	97	80	84	17	21.3
<b>Total</b>	<b><u>20,028</u></b>	<b><u>19,280</u></b>	<b><u>19,223</u></b>	<b><u>748</u></b>	

### Funding Results on the Retiree Health Care Trust and Plan

Section 22-101B(b)(3)(iii) of the Illinois Pension Code requires the Board of Trustees of the RHCT to make an annual assessment of the funding levels of the RHCT and to submit a report to the Auditor General regarding the assessment. The purpose of the RHCT is to fund the expenses of the Retiree Health Care Plan. If the actuarial present value of projected benefits exceeds the actuarial present value of projected contributions and trust income plus assets in excess of the statutory reserve, then a plan should be implemented by management of the RHCT to increase the contribution levels from employees, retirees, dependents, or survivors; to decrease benefit levels or both, which is projected to cure the shortfall over a period of not more than 10 years. At December 31, 2013, 2012, and 2011, the funded ratio of the Plan was 122.9%, 141.3% and 120.8%, respectively. The decrease in funding ratio at December 31, 2013 was due primarily to changes in demographic and economic assumptions. The increase in funding ratio at December 31, 2012 was due primarily to greater-than-expected investment returns. The decrease in funding ratio at December 31, 2011 was due primarily to less-than-expected actuarial value of the assets.

### Investment Activities

The rate of return for the RHCT for 2013, 2012, and 2011 was 15.4%, 13.2%, and 1.6%, respectively. The U.S. equity market finished the year 2013 strong, with the S&P 500 returned 32.4% for the year, but the fixed-income market suffered a loss for the calendar year 2013; high-yield fixed-income was the only segment to post a positive return; mortgages suffered losses due in part to the pending reduction in mortgage-backed securities purchases by the Federal Reserve. During 2012, the stock market performance was strong and favorable for U.S. equities, with double- and single-digit returns for U.S. fixed-income securities. After a volatile 2011, the U.S. market finished the year flat, impacted by the European debt problems, economic uncertainty, and rising market volatility during 2011.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

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### **Investment Activities (continued)**

The Plan's investment target asset allocation for 2013, 2012 and 2011 was 37.5% of assets in domestic equity, 40.0% in domestic fixed income, 12.5% in international equity, and 10.0% in international fixed income.

#### **Investment Return For the Years Ended December 31, 2013, 2012 and 2011**

	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Total Health Care Trust	15.4%	13.2%	1.6%
Benchmark portfolio	13.4	10.0	2.7
Domestic equities	36.7%	16.1%	(0.9)%
Benchmark portfolio (Russell 3000 Growth)	33.6	16.4	1.0
International equities	19.0%	19.7%	(10.8)%
Benchmark (MSCI EAFE)	22.8	17.3	(12.1)
Domestic fixed income	(1.3)%	8.2%	7.7%
Benchmark portfolio (Barclays U.S. Aggregate)	(2.0)	4.2	7.8
International fixed income	(3.9)%	14.3%	5.4%
Benchmark portfolio (Citigroup Non-U.S. Gov. Bond)	(4.6)	1.5	5.2

### **Contact Information**

This financial report is designed to provide the employer, plan participants, and others with a general overview of the Plan's finances and to show accountability for the monies received. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. John V. Kallianis  
Executive Director  
Retiree Health Care Trust  
55 West Monroe Street, Suite 1950  
Chicago, Illinois 60603

**RETIREE HEALTH CARE PLAN**

Statements of Plan Net Position

As of December 31, 2013 and 2012

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	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Investments, at fair value	\$ 732,493,564	\$ 654,179,078
<i>Receivables</i>		
Employee contributions receivable	325,070	5,919
Retiree contributions receivable	1,342,023	1,485,638
Accured interest and dividends	2,274,186	2,279,447
Securities sold but not received	1,771,239	3,245,956
Other receivables	<u>182,176</u>	<u>1,626,787</u>
Total receivables	5,894,694	8,643,747
Prepaid expense	<u>9,730</u>	<u>9,730</u>
Total assets	<u>738,397,988</u>	<u>662,832,555</u>
<b>LIABILITIES</b>		
Accounts payable	4,503,959	5,000,587
Securities purchased but not paid	<u>10,965,438</u>	<u>14,630,936</u>
Total liabilities	<u>15,469,397</u>	<u>19,631,523</u>
<b>Plan net position held in trust for other post-employment benefits</b>	<u><u>\$ 722,928,591</u></u>	<u><u>\$ 643,201,032</u></u>

The accompanying notes are an integral part of these financial statements.

**RETIREE HEALTH CARE PLAN**  
 Statements of Changes in Plan Net Position  
 For the Years Ended December 31, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>ADDITIONS</b>		
<i>Contributions</i>		
Employee contributions	\$ 19,892,618	\$ 18,658,507
Retiree contributions	17,354,300	18,052,981
Medicare retiree drug subsidy program	79,264	652,568
Rebates and reimbursements related to claims	322,603	1,741,280
Total contributions	37,648,785	39,105,336
<i>Investment income</i>		
Net appreciation in fair value of investments	80,605,902	58,748,707
Interest	10,792,994	11,498,553
Dividends	5,703,030	6,613,847
Total investment income	97,101,926	76,861,107
<i>Investment activity expenses</i>		
Investment management fees	(3,381,128)	(3,059,649)
Investment consulting fees	(175,500)	(175,500)
Custodian fees	(144,219)	(127,796)
Reporting, monitoring and other investment fees	(77,357)	(62,139)
Total investment activity expenses	(3,778,204)	(3,425,084)
Net investment income	93,323,722	73,436,023
Total additions	130,972,507	112,541,359
<b>DEDUCTIONS</b>		
Medical claims paid to providers	23,915,558	25,861,014
Dental claims paid to providers	4,953	244,113
Medical premium payments to insurance companies	23,345,125	20,712,259
Dental premium payments to insurance companies	1,435,418	1,440,223
Claim administration fees	1,490,121	1,517,271
Administrative expenses	50,191,175	49,774,880
Total deductions	1,053,773	1,050,194
Net increase	51,244,948	50,825,074
Net position held in trust for other post-employment benefits	79,727,559	61,716,285
Beginning of year	643,201,032	581,484,747
<b>End of year</b>	<u>\$ 722,928,591</u>	<u>\$ 643,201,032</u>

The accompanying notes are an integral part of these financial statements.

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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#### NOTE 1

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Reporting Entity

Pursuant to 40 ILCS 5/22-101B, as amended by Public Act 095-0708 on January 18, 2008, the Chicago Transit Authority (CTA) established the Retiree Health Care Trust (the Retiree Health Care Trust) and Plan, effective May 12, 2008. The primary responsibility of the Retiree Health Care Trust is to provide funding to the Retiree Health Care Plan (the Plan), which provides and administers health care benefits to CTA's retirees and their dependents and survivors. The financial information of the Trust is incorporated into the Plan's financial statements.

CTA intends for the Retiree Health Care Trust to satisfy the requirements of Section 115 of the Internal Revenue Code of 1986 (the Code), as amended. A private letter ruling regarding the exclusion of the Retiree Health Care Trust's income from gross income under Section 115 was received from the Internal Revenue Service (IRS).

Under Public Act 095-0708 (the Act), Section 22-101B, after the establishment of the Retiree Health Care Trust and starting January 1, 2009, and not later than July 1, 2009, the CTA no longer has any obligation to provide health care benefits to current or future retirees and their dependents or survivors. The retiree health care benefits are provided by the Retiree Health Care Plan.

Generally accepted accounting principles (GAAP) in the United States as established by the Governmental Accounting Standards Board (GASB) define a financial reporting entity as consisting of the primary government and its component units for which the primary government is financially accountable. Financial accountability includes appointing a voting majority of a component unit's governing board, the ability of the primary government to impose its will on the component unit or the potential for the component unit to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for its component units that are fiscally dependent on it.

Based on the above criteria, the Retiree Health Care Trust and Plan have no component units and are not a component unit of another entity.

##### Basis of Accounting

The Plan's financial statements are prepared on the accrual basis of accounting. Employee and retiree contributions are recognized when due. Benefits are recognized as deductions when paid; expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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#### **NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and the Plan's net position at the date of the financial statements, the funded status of the Plan, the actuarial information included in the required supplementary information as of the actuarial valuation date, the changes in the Plan's net position during the reporting period, and disclosures of contingent assets and liabilities at the date of the financial statements. Accordingly, actual results may differ from those estimates.

##### Investments

The Plan is authorized to invest in bonds, notes, and other direct obligations of the U.S. government and U.S. government agencies; certain common stocks, and convertible bonds of U.S. companies; equity securities of foreign companies that trade in the U.S. financial markets through American Depository Receipts (ADR); short-term investment funds; commingled funds composed of guaranteed investment contracts, bank investment contracts, and other stable value instruments; mortgage securities, venture capital, and partnerships.

The Plan does not have a formal investment risk policy. Investment risk management is a function of the Plan's asset allocation process. Plan assets are diversified over a broad range of asset classes, utilizing multiple investment strategies to limit concentration risk.

##### Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed-income securities are valued principally using quoted market prices provided by independent pricing services. For collective investments, the net asset value (NAV) is determined and certified by the investment managers as of the reporting date. Venture capital and partnerships do not have established market prices and are reported at estimated NAV by money managers.

## **RETIREE HEALTH CARE PLAN**

### Notes to Financial Statements

December 31, 2013 and 2012

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#### **NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### Security Transactions

Purchases and sales of securities are accounted for on the trade dates. For purposes of determining the realized gain or loss on the disposal of investments, the average cost of investments sold is used. Unrealized gains or losses on investments held during the year, as well as realized gains or losses on securities sold, are included in the statement of changes in Plan net position in the period in which they occur.

##### Investment Income

Interest income is recognized on an accrual basis when earned. Dividend income is recognized on the ex-dividend date.

##### Furniture and Office Equipment

Furniture and office equipment are not capitalized, as they are immaterial and are charged to expenses in the period of purchase.

##### Administrative Expenses

Administrative expenses are recorded as incurred and budgeted and approved by the Retiree Health Care Trust's Board of Trustees. Administrative expenses are paid from the Plan's assets and investment earnings. Certain administrative expenses are allocated between the Retirement Plan for CTA employees and the Retiree Health Care Plan based on periodic time and expense studies.

#### **NOTE 2      PLAN DESCRIPTION AND CONTRIBUTION INFORMATION**

##### Plan and Trust Description

The following brief description of the Plan and Retiree Health Care Trust is provided for general information purposes only. Participants should refer to the Plan and Retiree Health Care Trust documents, as amended, for complete information.

The Plan is a single-employer, defined-benefit post-employment health care plan. The Plan provides medical, prescription drug, and dental benefits to eligible retirees and their dependents and survivors starting not later than July 1, 2009, but no earlier than January 1, 2009. Dental benefits prior to age 65 are also available at cost.

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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#### **NOTE 2 PLAN DESCRIPTION AND CONTRIBUTION INFORMATION** *(continued)*

##### Plan and Trust Description (continued)

The Retiree Health Care Trust and Plan are administered by a 7-member Board of Trustees composed of members appointed by the CTA, the Amalgamated Transit Union (ATU) and the Regional Transportation Authority. The Board of Trustees of the Retiree Health Care Trust and Plan has the authority to establish or amend the contribution and benefit provisions under the Plan. The Plan is classified as a governmental plan and, therefore, is exempt from certain provisions of the Employee Retirement Income Security Act of 1974.

The Act, enacted on January 18, 2008, provides funding for the retiree health care benefits and makes substantive changes to the retirees' health care benefits. Under the Act, CTA issued pension obligation bonds and deposited approximately \$528,800,000 into the Retiree Health Care Trust in August 2008. Funding for retiree health care benefits comes from employees' contributions, retirees' contributions, and investment earnings in the Retiree Health Care Trust.

The Retiree Health Care Trust was required to assume financial responsibility for retiree health care benefits no later than July 1, 2009, and the CTA has no further responsibility to fund the retiree health care costs. The Board of Trustees of the Retiree Health Care Trust is required by the Act to make an annual assessment of the funding levels of the Retiree Health Care Trust and has the authority to increase members' contributions, decrease benefits, or a combination of both, to eliminate any funding shortfall within 10 years.

Major changes to the Plan's benefits under the Act include the following:

- All active CTA employees are required to contribute 3% of their compensation to the Retiree Health Care Trust. This rate is subject to change every year and it is subject to a 45% test according to Section 22-101B (b)(5) of the Illinois Pension Code. Total contributions from members taken together cannot exceed 45% of total retiree health care costs in the prior plan year.
- Beginning July 1, 2009, retirees were required to make contributions for their health care coverage.
- To be eligible for retiree health care benefits, the Act requires that a CTA employee must be at least 55 years old and have at least 10 continuous years of service if he or she retires after January 18, 2008. The Board of Trustees increased the minimum number of years required to get health care benefits to 20 years. As a result, to be eligible for retiree health care benefits, a CTA employee must be at least 55 years old and have at least 20 years of service.

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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#### **NOTE 2 PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (continued)**

##### Plan and Trust Description (continued)

However, participants are entitled to health care benefits from the Plan if years of service are equal to or higher than 25 if hired prior to September 5, 2001, regardless of age, as long as retirement occurs prior to the full execution of the next collective bargaining agreement (CBA) between CTA and Locals 241 and 308 of the Amalgamated Transit Union. The current CBA expired on December 31, 2011.

- Effective January 1, 2012, the Plan changed its benefits for participants who are eligible for Medicare by providing two new Medicare Advantage benefit options to them. For additional information regarding benefits, coverage, services and deductible, please refer to the enrollment guide.

##### Membership

At December 31, 2013 and 2012, the number of participants was as follows:

	<u>2013</u>	<u>2012</u>
Retirees and beneficiaries receiving benefits	9,247	9,384
Terminated plan members entitled to but not yet receiving benefits	97	80
Active participants	<u>10,684</u>	<u>9,816</u>
	<u>20,028</u>	<u>19,280</u>

##### Contributions

During 2013 and 2012, retiree health care benefits were funded through active employee contributions, retiree contributions, investment return on assets, other on-behalf payments from the Federal government, rebates, and other reimbursements.

The Act 095-0708, effective January 18, 2008, authorized the CTA to issue bonds and notes in the aggregate amount of \$639,680,000, of which net proceeds of \$528,800,000 were deposited into the Retiree Health Care Trust in August 2008 as advance funding.

During 2013 and 2012, active employees were required to contribute 3% of their salary to the Retiree Health Care Trust.

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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#### **NOTE 2 PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (continued)**

##### Funded Status and Funding Progress (continued)

According to the Act, the Plan should maintain an appropriate funding reserve level that should not be less than the amount of incurred and unreported claims plus 12 months of expected claims and administrative expenses. An annual assessment of the funding level is required to be submitted to the Auditor General at least 90 days prior to the end of the fiscal year.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The funded status of the Plan as of December 31, 2013 and 2012 was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/13	\$ 722,928,591	\$ 588,433,780	\$ (134,494,811)	122.9%	\$ 635,900,577	(21.2)%
12/31/12	643,201,032	455,088,976	(188,112,056)	141.3	625,807,630	(30.1)

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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#### NOTE 2

#### PLAN DESCRIPTION AND CONTRIBUTION INFORMATION *(continued)*

##### Funded Status and Funding Progress *(continued)*

The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Because actuarial calculations reflect a long-term perspective, actuarially determined amounts are subject to continual revision, as results are compared to past expectations and new estimates made about the future. Examples include assumptions about mortality, investment returns and healthcare cost trends. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2013 and 2012
Actuarial cost method	Projected-unit credit
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Market value
<i>Actuarial assumptions</i>	
Investment rate of return	7.00% for 2013 and 2012
Projected salary increases	For 2013 valuation: 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 For 2012 valuation: 1.50% for 2013-2014, and 5.00% thereafter
Inflation rate	3.25% for 2013 and 2012
Medical and prescription drug cost trend rate	For 2013 valuation: 7.50% for 2014, graded to 5.00% over 10 years For 2012 valuation: 8.00% for 2013, graded to 5.00% over 6 years

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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### NOTE 3 INVESTMENT RISK

#### Investment Policy

The primary objective of the Plan's investment policy is to provide a structured approach in implementing its investment strategies to achieve above-average returns consistent with prudent risk and investment volatility.

The Plan's investment policy takes a long-term investment perspective by allocating its assets across major asset classes and diversified broadly within each asset class in accordance with the "prudent person rule" as prescribed by the Illinois Statutes. The target asset allocation is 50% total equities and 50% total fixed income, with periodic rebalancing when the allocations approach plus or minus 5% of the target allocations. This asset allocation is designed to provide a high likelihood of achieving a 7.25% rate of return per year long-term..

#### Investment Summary

The Plan's investments were held by Northern Trust Company as custodian to the Plan.

The following table summarizes the Plan's investments by type at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Asset-backed securities	\$ 5,589,765	\$ 2,473,019
Commercial mortgage-backed securities	13,403,313	16,941,170
Collateralized bonds	-	74,338
Corporate bonds	148,038,374	156,761,902
Corporate convertible bonds	13,520	11,625
Government agency securities	7,778,595	7,886,852
Government bonds	55,272,923	38,048,952
Government-issued commercial mortgage-backed securities	2,014,312	1,561,161
Government mortgage-backed securities	42,820,683	48,941,965
Non-government-backed CMOs	6,554,168	7,971,473
Index-linked government bonds	10,112,301	6,543,608
Other fixed income	2,389,967	-
U.S. equities	293,970,929	248,536,114
Foreign equities	100,048,741	80,457,245
Venture capital and partnerships	2,895,162	7,943,194
Short-term investments and currency positions	<u>41,590,811</u>	<u>30,026,460</u>
<b>Total investments, at fair value</b>	<b>\$ 732,493,564</b>	<b>\$ 654,179,078</b>

## **RETIREE HEALTH CARE PLAN**

### Notes to Financial Statements

December 31, 2013 and 2012

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#### **NOTE 3 INVESTMENT RISK (continued)**

##### Investment Risks

The Plan's investments are subject to risks, including stable NAV risk, credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The following is a description of those risks:

*Stable NAV Risk:* The risk that the collective short-term investment fund will not be able to maintain a NAV per share of \$1.00 at all times. The investment advisor manages this risk by buying securities with remaining maturities of one year or less and investing only in U.S. dollar-denominated securities that represent minimal credit risks.

*Credit Risk:* Credit risk is the risk that an issuer of fixed-income securities held by the Plan may default on its obligation to pay interest and repay principal. This credit risk is measured by the credit quality ratings issued by a Nationally Recognized Statistical Rating Organization (NRSRO), such as Moody's and Standard & Poor's. The Plan has no formal credit risk policy. The Plan limits its investments to securities that have short-term debt ratings at the time of purchase in the two highest rating categories of a NRSRO or that are issued or guaranteed by, or otherwise allow the Plan to demand payment from, an issuer with such ratings.

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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### **NOTE 3 INVESTMENT RISK (continued)**

#### Investment Risks (continued)

The following tables provide information on the credit ratings associated with the Plan's investments in debt securities at December 31, 2013 and 2012. Rates were obtained from Standard & Poor's.

**2013**

	<b>Asset-backed securities</b>	<b>Commercial mortgage-backed securities</b>	<b>Other fixed income</b>	<b>Corporate bonds</b>	<b>Corporate convertible bonds</b>	<b>Government agency securities</b>
'AAA'	\$ 2,066,476	\$ 7,648,275	\$ -	\$ 1,846,173	\$ -	\$ 1,007,861
'AA'	2,631,303	538,496	-	6,081,188	-	6,770,734
'A'	368,231	1,346,691	-	26,758,000	-	-
'BBB'	-	717,595	-	29,220,331	-	-
'BB'	-	-	-	6,929,256	-	-
'B'	-	-	-	602,168	-	-
'CCC'	-	-	-	238,050	-	-
'CC'	-	-	-	-	-	-
'D'	-	196,848	-	-	-	-
Not rated	523,755	2,955,408	2,389,967	76,363,208	13,520	-
U.S. Gov't. Agencies	-	-	-	-	-	-
<b>Total</b>	<b>\$ 5,589,765</b>	<b>\$ 13,403,313</b>	<b>\$ 2,389,967</b>	<b>\$ 148,038,374</b>	<b>\$ 13,520</b>	<b>\$ 7,778,595</b>

**2013 (continued)**

	<b>Government-issued</b>	<b>Government</b>	<b>Non-government</b>	<b>Index-linked</b>	
	<b>commercial mortgage-backed securities</b>	<b>mortgage-backed securities</b>	<b>government-backed CMOs</b>	<b>government bonds</b>	<b>Total</b>
'AAA'	\$ 41,445	\$ -	\$ -	\$ -	\$ 12,610,230
'AA'	26,127	-	1,072,676	-	17,120,524
'A'	-	-	-	348,958	-
'BBB'	142,477	-	-	326,254	-
'BB'	-	-	-	-	6,929,256
'B'	-	-	-	308,534	-
'CCC'	-	-	-	1,959,153	-
'CC'	-	-	-	-	-
'D'	-	-	-	373,806	-
Not rated	1,060,689	-	2,404,758	3,237,463	-
U.S. Gov't. Agencies	54,002,185	2,014,312	39,343,249	-	10,112,301
<b>Total</b>	<b>\$ 55,272,923</b>	<b>\$ 2,014,312</b>	<b>\$ 42,820,683</b>	<b>\$ 6,554,168</b>	<b>\$ 293,987,921</b>

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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### NOTE 3 INVESTMENT RISK (*continued*)

#### Investment Risks (*continued*)

	2012					
	Asset-backed securities	Commercial mortgage-backed securities	Collateralized bonds	Corporate bonds	Corporate convertible bonds	Government agency securities
'AAA'	\$ 1,482,639	\$ 9,890,517	\$ -	\$ 250,000	\$ -	\$ 71,216
'AA'	583,529	563,967	-	6,479,975	-	7,815,636
'A'	406,851	1,437,138	-	24,503,068	-	-
'BBB'	-	754,389	74,338	28,896,857	-	-
'BB'	-	-	-	10,284,479	-	-
'B'	-	-	-	1,748,368	-	-
'CCC'	-	-	-	221,950	-	-
'CC'	-	-	-	-	-	-
'D'	-	-	-	-	-	-
Not rated	-	4,295,159	-	84,377,205	11,625	-
U.S. Gov't. Agencies	-	-	-	-	-	-
<b>Total</b>	<b><u>\$ 2,473,019</u></b>	<b><u>\$ 16,941,170</u></b>	<b><u>\$ 74,338</u></b>	<b><u>\$ 156,761,902</u></b>	<b><u>\$ 11,625</u></b>	<b><u>\$ 7,886,852</u></b>

#### 2012 (*continued*)

	Government-issued					Total
	commercial mortgage-backed securities	Government mortgage-backed securities	Non-government-backed CMOs	Index-linked government bonds		
	Government bonds	Government bonds	Government bonds	Government bonds	Government bonds	
'AAA'	\$ 43,890	\$ -	\$ -	\$ -	\$ -	\$ 11,738,262
'AA'	-	-	1,284,977	-	-	16,728,084
'A'	88,593	-	-	507,352	-	26,943,002
'BBB'	-	-	-	418,524	-	30,144,108
'BB'	-	-	-	-	-	10,284,479
'B'	-	-	-	1,006,840	-	2,755,208
'CCC'	-	-	-	1,773,290	-	1,995,240
'CC'	-	-	-	-	-	-
'D'	-	-	-	2,076,895	-	2,076,895
Not rated	1,257,682	-	3,359,109	2,188,572	-	95,489,352
U.S. Gov't. Agencies	<u>36,658,787</u>	<u>1,561,161</u>	<u>44,297,879</u>	<u>-</u>	<u>6,543,608</u>	<u>89,061,435</u>
<b>Total</b>	<b><u>\$ 38,048,952</u></b>	<b><u>\$ 1,561,161</u></b>	<b><u>\$ 48,941,965</u></b>	<b><u>\$ 7,971,473</u></b>	<b><u>\$ 6,543,608</u></b>	<b><u>\$ 287,216,065</u></b>

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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### NOTE 3 INVESTMENT RISK *(continued)*

#### Investment Risks *(continued)*

*Custodial Credit Risk:* For an investment, it is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty's trust department or agent but not in the Plan's name. The Plan's master custodian holds all investments of the Plan in the Plan's name. At December 31, 2013 and 2012, deposits of approximately \$15,000 and \$105,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

*Concentration of Credit Risk:* The concentration of credit risk is the risk of loss attributed to the magnitude of a Plan's investment in a single issuer.

The following investment represented 5% or more of the Plan's net position at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Institutional Emerging Markets Debt Fund	\$ 34,328,658	\$ 39,333,430

The Plan did not invest in derivative instruments during the years ended December 31, 2013 and 2012.

*Interest Rate Risk:* The risk that during periods of rising interest rates, the fixed-income investments' yield will be lower than prevailing market rates; in periods of falling interest rates, the fixed-income investments' yield will tend to be higher. All fixed-income investments are managed by external investment managers. Each investment manager is required to determine the maturities of all fixed-income securities in their portfolio. Additionally, guidelines are provided to the external investment managers, given the level of risk within the investment manager's portfolio. These guidelines include a target duration range that is consistent with each investment manager's respective strategy.

The following tables segment the distribution of the Plan's investments into time periods of maturities based on the investments' cash flows.

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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### NOTE 3 INVESTMENT RISK (*continued*)

At December 31, 2013, the Plan had the following investments and maturities related to certain fixed-income securities:

Investment Type	Market Value	Investment Maturities				
		Less Than 1 Year	1+ to 6 Years	6+ to 10 Years	More Than 10 Years	Maturity Not Determined
Asset-backed securities	\$ 5,589,765	\$ -	\$ -	\$ 1,008,546	\$ 4,581,219	\$ -
Commercial mortgage-backed securities	13,403,313	-	-	-	13,403,313	-
Other fixed income	2,389,967	-	-	-	-	2,389,967
Corporate bonds	148,038,374	4,834,877	33,845,406	17,812,299	15,745,356	75,800,436
Corporate convertible bonds	13,520	-	-	-	13,520	-
Government agency securities	7,778,595	1,075,519	3,887,395	93,353	2,722,328	-
Government bonds	55,272,923	2,734,652	20,804,266	22,940,752	8,793,253	-
Government-issued commercial mortgage-backed securities	2,014,312	-	-	1,645,781	368,531	-
Government mortgage-backed securities	42,820,683	4,273	716,260	4,469,147	28,815,402	8,815,601
Index-linked government bonds	10,112,301	3,301,153	6,146,053	-	665,095	-
Non-government-backed collateralized mortgage obligations	6,554,168	-	-	373,805	6,180,363	-
<b>Total</b>	<b>\$ 293,987,921</b>	<b>\$ 11,950,474</b>	<b>\$ 65,399,380</b>	<b>\$ 48,343,683</b>	<b>\$ 81,288,380</b>	<b>\$ 87,006,004</b>

At December 31, 2012, the Plan had the following investments and maturities related to certain fixed-income securities:

Investment Type	Market Value	Investment Maturities				
		Less Than 1 Year	1+ to 6 Years	6+ to 10 Years	More Than 10 Years	Maturity Not Determined
Asset-backed securities	\$ 2,473,019	\$ -	\$ -	\$ 74,020	\$ 2,398,999	\$ -
Commercial mortgage-backed securities	16,941,170	-	-	-	16,941,170	-
Collateralized bonds	74,338	-	74,338	-	-	-
Corporate bonds	156,761,902	4,674,467	28,001,852	23,771,078	16,510,130	83,804,375
Corporate convertible bonds	11,625	-	-	-	11,625	-
Government agency securities	7,886,852	730,587	4,343,642	71,216	2,741,407	-
Government bonds	38,048,952	-	15,498,517	11,043,651	11,506,784	-
Government-issued commercial mortgage-backed securities	1,561,161	-	-	1,160,335	400,826	-
Government mortgage-backed securities	48,941,965	-	600,206	5,773,928	30,586,460	11,981,371
Index-linked government bonds	6,543,608	1,448,188	4,455,912	-	639,508	-
Non-government-backed collateralized mortgage obligations	7,971,473	-	-	551,146	7,420,327	-
<b>Total</b>	<b>\$ 287,216,065</b>	<b>\$ 6,853,242</b>	<b>\$ 52,974,467</b>	<b>\$ 42,445,374</b>	<b>\$ 89,157,236</b>	<b>\$ 95,785,746</b>

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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#### **NOTE 3 INVESTMENT RISK (continued)**

##### Investment Risks (continued)

*Foreign Currency Risk:* The risk that changes in exchange rates will adversely affect the fair value of an investment. International equity securities purchased by the Plan meet exchange listing requirements and all foreign equities held by the Plan are denominated in U.S. dollars. The Plan has no formal foreign currency risk policy. The Plan's exposure to foreign currency risk is as follows:

<u>Type of investment</u>	<u>(US\$) 2013</u>	<u>(US\$) 2012</u>
<i>Short-term investment and currency positions</i>		
Australian dollar	\$ -	\$ 199,433
British pound sterling	133	-
Canadian dollar	20	-
European euro	2,252	847,593
New Taiwan dollar	12,522	-
New Zealand dollar	-	<u>39,936</u>
	<u>\$ 14,927</u>	<u>\$ 1,086,962</u>
<i>Equities</i>		
Australian dollar	\$ 772,091	\$ 1,914,969
British pound sterling	19,500,332	15,901,168
Canadian dollar	1,954,089	2,510,023
Danish krone	1,254,391	630,447
European euro	22,743,610	15,333,333
Hong Kong dollar	1,813,747	4,444,134
Japanese yen	17,908,486	13,398,797
Mexican peso	-	58,727
New Taiwan dollar	1,449,110	-
New Zealand dollar	-	223,348
Norwegian krone	837,764	1,156,240
Singapore dollar	1,690,989	2,364,383
Swedish krona	2,458,867	2,978,537
Swiss franc	4,648,613	3,063,784
	<u>\$ 77,032,089</u>	<u>\$ 63,977,890</u>

## RETIREE HEALTH CARE PLAN

### Notes to Financial Statements

December 31, 2013 and 2012

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### NOTE 3 INVESTMENT RISK *(continued)*

<u>Type of investment</u>	<u>(US\$) 2013</u>	<u>(US\$) 2012</u>
<i>Fixed income</i>		
Australian dollar	\$ -	\$ 62,225
British pound sterling	100,735	114,033
Canadian dollar	93,353	71,216
European euro	584,272	385,672
Japanese yen	551,344	102,155
Malaysian ringgit	-	42,738
New Zealand dollar	26,127	-
Singapore dollar	66,212	77,178
South African rand	-	29,865
Swedish krona	41,444	43,890
Swiss franc	-	29,865
	<u>\$ 1,463,487</u>	<u>\$ 958,837</u>

#### Investment Management Fees

Investment management fees from equity and fixed-income managers, including most of the collective funds, are included in the investment management fees on the statement of changes in Plan net position. Investment management fees from funds of short-term investments and private equity are reflected in the net investment income from such investment products. Such investment management fees are not significant to the financial statements.

### NOTE 4 RISKS AND UNCERTAINTIES

The Plan invests in various investment securities that are exposed to several risks such as interest rate, market volatility, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. The changes could materially affect the amounts reported in the statement of plan net position.

Contributions to the Plan and the actuarial information are reported based on certain assumptions pertaining to interest rates, health care inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption processes, it is at least reasonably possible that changes in these estimates and assumptions in the near term could materially affect the amounts reported and disclosed in the financial statements.

## **RETIREE HEALTH CARE PLAN**

### Notes to Financial Statements

December 31, 2013 and 2012

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#### **NOTE 4**

#### **RISKS AND UNCERTAINTIES** *(continued)*

The Plan is subject to various claims and legal proceedings arising in the ordinary course of business which, in management's opinion, will be resolved without any material adverse effect on the Plan's financial position or changes in its financial position.

#### **NOTE 5**

#### **OPERATING LEASE**

During 2013, the Retirement Plan for CTA employees entered into a new lease agreement for office space. The new lease expires on December 31, 2028. Rent paid by the Plan was \$26,176 in 2013 and \$23,866 in 2012, which represents 25% of the total amount of rent paid for the shared office facility. The remaining 75% of rent due was paid by the Retirement Plan for CTA employees based on management's expense allocation for the shared office space.

#### **NOTE 6**

#### **TAX STATUS**

The IRS issued a private letter ruling dated June 16, 2009, stating that the Retiree Health Care Trust is qualified under Section 115(1) of the Code and, therefore, the Retiree Health Care Trust's income is excludable from gross income. The Retiree Health Care Trust and the Plan are required to operate in conformity with the Code to maintain this tax-exempt qualification. The Plan's management is not aware of any course of action or series of events that have occurred that may adversely affect the Retiree Health Care Trust and the Plan's tax status.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**RETIREE HEALTH CARE PLAN**  
**Schedule of Funding Progress**  


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(b) (Unaudited)

<b>Year</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b> <b>(a)</b>	<b>Actuarial Accrued Liability (AAL)</b>		<b>Unfunded AAL (UAAL)</b> <b>(b-a)</b>	<b>Funded Ratio</b> <b>(a/b)</b>	<b>Covered Payroll</b> <b>(c)</b>	<b>UAAL as a Percentage of Covered Payroll</b> <b>(b-a)/c</b>
			<b>Projected Unit Credit</b> <b>(b)</b>	<b> </b>				
2013	12/31/2013	\$ 722,928,591	\$ 588,433,780		\$ (134,494,811)	122.9%	\$ 635,900,577	(21.2)%
2012	12/31/2012	643,201,032	455,088,976		(188,112,056)	141.3	625,807,630	(30.1)
2011	12/31/2011	581,484,747	481,348,984		(100,135,763)	120.8	617,246,244	(16.2)
2010	12/31/2010	586,961,435	485,221,881		(101,739,554)	121.0	598,267,896	(17.0)
2009	12/31/2009	533,264,932	622,939,043		89,674,111	85.6	579,379,265	15.5
2008	12/31/2008	549,435,879	605,639,395		56,203,516	90.7	588,471,442	9.6

See accompanying Report of Independent Auditors.

**RETIREE HEALTH CARE PLAN**  
 Schedule of Contributions from Employer and Other Contributing Entities  
 \_\_\_\_\_  
 (Unaudited)

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

\*Amount represents on-behalf reimbursements from the federal government under Medicare's Retiree Drug Subsidy Program and/or payments from the Early Retiree Reinsurance Program.

N/A—Not applicable.

See Accompanying Report of Independent Auditors.

**RETIREE HEALTH CARE PLAN**  
Notes to Required Supplementary Information  
For the Years Ended December 31, 2013 and 2012  
(Unaudited)

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**NOTE 1 ACTUARIAL ASSUMPTIONS**

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

Valuation date	December 31, 2013 and 2012
Actuarial cost method	Projected-unit credit
Amortization method	Level dollar, open
Amortization period	30 years remaining
Asset valuation method	Market value
<i>Actuarial assumptions</i>	
Investment rate of return	7.00% for 2013 and 2012
Projected salary increases	For 2013 valuation: 9.0% 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 For 2012 valuation: 1.50% for 2013-2014, and 5.00% thereafter
Inflation rate	3.25% for 2013 and 2012
Medical and prescription drug cost trend rate	For 2013 valuation: 7.50% for 2014, graded to 5.00% over 10 years For 2012 valuation: 8.00% for 2013, graded to 5.00% over 6 years

See accompanying Report of Independent Auditors.

## **SUPPLEMENTARY INFORMATION**

**RETIREE HEALTH CARE PLAN**  
 Schedule of Investment and Administrative Expenses  
 For the Years Ended December 31, 2013 and 2012

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	<b>2013</b>	<b>2012</b>
<b>Investment expenses</b>		
Investment management fees	\$ 3,381,128	\$ 3,059,649
Investment consulting fees	175,500	175,500
Custodian fees	144,219	127,796
Other investment fees	49,357	48,139
Reporting and monitoring	<u>28,000</u>	<u>14,000</u>
 Total investment expenses	 <u>\$ 3,778,204</u>	 <u>\$ 3,425,084</u>
<b>Administrative expenses</b>		
Staff salaries and fringe benefits	\$ 433,117	\$ 426,332
Outside consultants	20,707	6,235
Actuarial services	211,258	226,918
Auditing	13,082	92,813
Legal fees	29,520	36,064
Legal research	4,759	3,790
Data processing	80,164	21,771
Court reporting	6,893	6,637
Stationary and printing	48,863	61,007
Telephone and communication	26,457	16,914
Postage and messenger	37,964	28,506
Office space	26,176	23,866
Supplies	6,731	8,910
Utilities	912	1,142
Equipment	9,861	11,101
Fiduciary insurance	63,300	63,663
Travel and seminars	13,557	6,012
Seminars for retirees	7,689	7,513
Moving	6,783	-
Miscellaneous	<u>5,980</u>	<u>1,000</u>
 <b>Total administrative expenses</b>	 <u>\$ 1,053,773</u>	 <u>\$ 1,050,194</u>

See accompanying Report of Independent Auditors.