

**RETIREE HEALTH CARE PLAN**

**Financial Statements and Supplementary Information  
For the Years Ended December 31, 2018 and 2017  
With Independent Auditor's Report**



**MITCHELL TITUS**  
ACHIEVING EXCELLENCE TOGETHER

**RETIREE HEALTH CARE PLAN**  
For the Years Ended December 31, 2018 and 2017

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**MITCHELL TITUS**

## **INDEPENDENT AUDITOR'S REPORT**

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 Fiduciary net position as of December 31, 2018 and 2017, the related statements of changes in Fiduciary 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

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## MITCHELL TITUS

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, 2018 and 2017, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 of America, 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 basic financial statements, and other knowledge we obtained during our audits of the basic 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.



*Other Information*

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

*Mitchell Titus, LLP*

September 27, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The 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, 2018 and 2017. 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 United States of America as established by the Governmental Accounting Standards Board (GASB) and are described below:

- *The Statements of Fiduciary Net Position* present 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 Statements of Changes in Fiduciary Net Position* present 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 changes in the net OPEB asset and related ratios and a schedule of investment returns, 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. 74 (a schedule of contributions is not required).

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### 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 2018, 2017 and 2016, CTA employees' contributions remained at 3% of their compensation.
- The RHCT was established on May 12, 2008. Approximately \$529 million from bond proceeds was deposited into the RHCT in August 2008.
- During 2009, the RHCT's Board of Trustees developed the Plan's 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 \$41.9 million, \$39.6 million, and \$39.6 million for the years ended December 31, 2018, 2017 and 2016, respectively.
- Net investment income (loss) was \$(35.3) million, \$111.1 million, and \$44.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.
- The Plan's net position totaled \$806.7 million, \$852.8 million, and \$750.5 million at December 31, 2018, 2017, and 2016, respectively.
- According to GASB 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*, Plan fiduciary net position as a percentage of the total OPEB liability was 130.68% as of December 31, 2018 and 123.57% as of December 31, 2017.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### Fiduciary Net Position

The following schedule presents the Plan's net position:

#### Fiduciary Net Position (in millions) As of December 31, 2018, 2017 and 2016

	2018	2017	2016	2018-2017 Change	
				\$	%
Investments, at fair value	\$ 818.4	\$ 869.1	\$ 759.4	\$ (50.7)	(5.8)%
Retiree contributions receivable	1.4	1.4	1.4	-	-
Securities sold, but not received	1.0	1.2	3.4	(0.2)	(16.7)%
Accrued interest and dividends	3.2	2.3	1.6	0.9	39.1 %
Other receivables	0.4	0.3	0.4	0.1	33.3 %
Prepaid expense	1.5	1.8	-	(0.3)	(16.7)%
<b>Total assets</b>	<b>825.9</b>	<b>876.1</b>	<b>766.2</b>	<b>(50.2)</b>	
Accounts payable	3.6	2.8	3.7	0.8	28.6 %
Securities purchased, but not paid	15.6	20.5	12.0	(4.9)	(23.9)%
<b>Total liabilities</b>	<b>19.2</b>	<b>23.3</b>	<b>15.7</b>	<b>(4.1)</b>	
<b>Fiduciary net position</b>	<b>\$ 806.7</b>	<b>\$ 852.8</b>	<b>\$ 750.5</b>	<b>\$ (46.1)</b>	<b>(5.4)%</b>

Fiduciary net position decreased by \$46.1 million, or 5.4%, at December 31, 2018 compared to the prior year, primarily due to market conditions, which decreased investments at year end by \$50.7 million rather than an increase of \$109.7 million at December 31, 2017. Receivables increased by \$0.8 million at December 31, 2018, mainly due to an increase in accrued interest and dividends. Liabilities decreased by \$4.1 million at December 31, 2018, caused by a decrease in pending purchases of securities at year end.

Fiduciary net position increased by \$102.3 million, or 13.6%, at December 31, 2017 compared to the prior year, primarily due to market conditions, which increased investments at year end by \$109.7 million rather than an increase of \$35.1 million at December 31, 2016. Receivables decreased by \$1.6 million at December 31, 2017, mainly due to a decrease in the securities sold, but not received. Liabilities increased by \$7.6 million at December 31, 2017, caused by an increase in pending purchases of securities at year end.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### Changes in Fiduciary Net Position

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

#### Changes in Fiduciary Net Position (in millions) For the Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016	2018-2017 Change	
				\$	%
<b>Additions</b>					
Employee contributions	\$ 23.3	\$ 21.2	\$ 21.0	\$ 2.1	9.9 %
Retiree contributions	18.6	18.4	18.6	0.2	1.1 %
Rebates and reimbursements related to claims	0.9	0.6	0.8	0.3	50.0 %
Net investment (loss) income	(35.3)	111.1	44.0	(146.4)	(131.8)%
<b>Total additions</b>	<b>7.5</b>	<b>151.3</b>	<b>84.4</b>	<b>(143.8)</b>	<b>(95.0)%</b>
<b>Deductions</b>					
Medical claims paid to providers	18.4	16.6	17.9	1.8	10.8 %
Medical premium payments to insurance companies	28.3	27.2	28.1	1.1	4.0 %
Dental premium payments to insurance companies	2.2	2.2	2.1	-	-
Health reimbursement account	0.9	-	-	0.9	100.0 %
Claim administration fee	1.3	1.3	1.3	-	-
Administrative expenses	2.5	1.7	1.4	0.8	47.1 %
<b>Total deductions</b>	<b>53.6</b>	<b>49.0</b>	<b>50.8</b>	<b>4.6</b>	<b>9.4 %</b>
<b>Net (decrease)/increase</b>	<b>\$ (46.1)</b>	<b>\$ 102.3</b>	<b>\$ 33.6</b>	<b>\$ (148.4)</b>	<b>(145.1)%</b>

Total additions of \$7.5 million in 2018 were significantly lower than the amount in 2017, primarily due to a net investment loss of \$35.3 million in 2018 compared to a net investment gain of \$111.1 million in 2017. A decrease in the 2018 total additions over 2017 represents a decrease of \$143.8 million, or 95%.

Total additions of \$151.3 million in 2017 were significantly higher than the amount in 2016, primarily due to a net investment gain of \$111.1 million in 2017 compared to a net investment gain of \$44.0 million in 2016. An increase in the 2017 total additions over 2016 represents an increase of \$66.9 million, or 79.3%.

Deductions for medical claims and administration fees for 2018 were \$53.6 million compared to \$49.0 million in 2017. Medical claims paid to providers increased by \$1.8 million and medical premium payments to insurance companies increased by \$1.1 million. Dental premium payments to insurance companies remained the same \$2.2 million while administrative expenses increased by \$0.8 million. Effective January 1, 2018, the Trustees established a Health Reimbursement Account (HRA). During 2018, the HRA transaction amount was \$0.9 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### Changes in Fiduciary Net Position (*continued*)

Deductions for medical claims and administration fees for 2017 were \$49.0 million compared to \$50.8 million in 2016. Medical claims paid to providers decreased by \$1.3 million and medical premium payments to insurance companies decreased by \$0.9 million. Dental premium payments to insurance companies increased by \$0.1 million while administrative expenses increased by \$0.3 million.

### Plan Membership

The following table presents the changes in Plan membership as of December 31, 2018, 2017 and 2016:

	2018	2017	2016	2018-2017	
				Change	%
Retirees and beneficiaries receiving benefits	8,547	8,663	8,795	(116)	(1.3)%
Active employees	10,135	10,556	10,329	(421)	(4.0)%
Terminated (inactive members) employees entitled to benefits or refunds of contributions	109	56	108	53	94.6 %
Separated participants only eligible for HRA at Age 65	7,798	6,359	4,903	1,439	22.6 %
<b>Total</b>	<b>26,589</b>	<b>25,634</b>	<b>24,135</b>	<b>955</b>	<b>3.7 %</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 not to exceed 10 years. At December 31, 2018, 2017, and 2016, income and assets as a percentage of projected benefits were 130.9%, 118.8% and 104.2%, respectively.

At December 31, 2018, income and assets as a percentage of projected benefits increased to 130.9% from 118.8% due to lower-than-expected assets, changes in covered population, changes in per capita claims, updated claims experience, changes to retiree contribution rates, updated assumed trend rates on future per capita health costs and changes to assumptions based on an actuarial experience study for the five-year period ended December 31, 2018.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### Investment Activities

The Plan's net position held for investment was \$818.4 million at year-end 2018, a decrease of \$50.7 million compared to 2017, with a total Plan rate of return of (4.0)%. Domestic equity investment managers returned (7.5)%, while non-U.S. equity investment managers returned a (12.3)%, total fixed income returned (1.4)% and real estate managers returned 8.6% for the year ended December 31, 2018. The Plan's net position held for investment was \$869.1 million at year-end 2017, an increase of \$109.7 million compared to 2016, with a total Plan rate of return of 15.3%. Domestic equity investment managers returned 20.9%, while non-U.S. equity investment managers returned 34.4%, total fixed income returned 5.3% and real estate managers returned 8.0% for the year ended December 31, 2017.

During 2014, a new investment asset allocation was approved by the Board of Trustees as recommended by our Investment Consultants; therefore, the Plan began to move assets in-line with the newly adopted policy target. The restructuring of the asset allocation in the Plan was completed in 2015. Investment asset allocation for 2018 and 2017 was core fixed income 30%, non-U.S. fixed income 5%, emerging markets debt 5%, U.S. equity 35%, total non-U.S. equity 15%, and real estate 10%. During 2018 and 2017, the Plan's investment asset allocation stayed within its target asset allocation ranges.

### Investment Return (Calendar Year Performance Gross of Fees Basis) For the Years Ended December 31, 2018, 2017 and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total Health Care Trust	(4.0)%	15.3%	7.0 %
Benchmark portfolio	(3.2)	13.4	7.9
Domestic equities	(7.5)%	20.9%	13.2 %
Benchmark (Wilshire 5000 Total Market)	(7.8)	18.8	13.4
International equities	(12.3)%	34.4%	(1.7)%
Benchmark (MSCI ACWI ex USA)	(14.2)	27.2	4.5
Domestic fixed income	(0.1)%	2.9%	3.3 %
Benchmark (Barclays U.S. Aggregate)	0.0	3.5	2.6
International fixed income	(6.4)%	13.1%	8.1 %
Benchmark (Citigroup Non-U.S. Govt. Bond)	(4.0)	9.9	5.8
Real estate	8.6 %	8.0%	9.8 %
Benchmark (NFI)	8.3	7.6	8.8

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

### **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 Fiduciary Net Position  
 December 31, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<i>Receivables</i>		
Employee contributions	\$ 7,271	\$ 42,399
Retiree contributions	1,448,591	1,429,062
Securities sold, but not received	955,231	1,253,328
Accrued interest and dividends	3,151,633	2,301,443
Other	389,090	298,301
<b>Total receivables</b>	<b>5,951,816</b>	<b>5,324,533</b>
Prepaid expense	1,509,466	1,794,852
<i>Investments</i>		
Fixed income	332,036,743	322,726,712
Domestic equities	262,151,636	298,714,345
International equities	113,673,312	131,062,910
Real estate	92,791,146	86,250,517
Short-term investments	17,765,485	30,305,954
<b>Total investments</b>	<b>818,418,322</b>	<b>869,060,438</b>
<b>Total assets</b>	<b>825,879,604</b>	<b>876,179,823</b>
<b>LIABILITIES</b>		
<i>Payables</i>		
Accounts payable	3,553,688	2,834,823
Securities purchased, but not paid	15,578,624	20,522,761
<b>Total liabilities</b>	<b>19,132,312</b>	<b>23,357,584</b>
<b>Net position restricted for postemployment benefits other than pensions</b>	<b>\$ 806,747,292</b>	<b>\$ 852,822,239</b>

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

## RETIREE HEALTH CARE PLAN

Statements of Changes in Fiduciary Net Position  
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ADDITIONS</b>		
<i>Contributions</i>		
Employee contributions	\$ 23,300,031	\$ 21,205,666
Retiree contributions	18,638,908	18,389,983
Rebates and reimbursements related to claims	<u>919,233</u>	<u>581,135</u>
Total contributions	<u>42,858,172</u>	<u>40,176,784</u>
<i>Investment income</i>		
Net (depreciation) appreciation in fair value of investments	(52,821,430)	95,185,963
Interest	14,683,186	13,600,396
Dividends	<u>6,615,539</u>	<u>6,113,189</u>
Net investment (loss) income before investment activity expenses	<u>(31,522,705)</u>	<u>114,899,548</u>
<i>Investment activity expenses</i>		
Investment management fees	(3,297,289)	(3,306,930)
Investment consulting fees	(165,000)	(165,000)
Custodian fees	(235,266)	(231,293)
Reporting, monitoring and other investment fees	<u>(72,171)</u>	<u>(63,180)</u>
Total investment activity expenses	<u>(3,769,726)</u>	<u>(3,766,403)</u>
Net investment (loss) income	<u>(35,292,431)</u>	<u>111,133,145</u>
Total additions	<u>7,565,741</u>	<u>151,309,929</u>
<b>DEDUCTIONS</b>		
Medical claims paid to providers	18,469,810	16,624,191
Medical premium payments to insurance companies	28,280,253	27,175,307
Dental premium payments to insurance companies	2,211,456	2,235,670
Health reimbursement account (HRA)	867,429	-
Claim administration fees	<u>1,315,201</u>	<u>1,306,781</u>
Administrative expenses	51,144,149	47,341,949
Total deductions	<u>2,496,539</u>	<u>1,718,880</u>
Net (decrease) increase in net position	<u>53,640,688</u>	<u>49,060,829</u>
Net position restricted for postemployment benefits other than pensions	(46,074,947)	102,249,100
Beginning of year	<u>852,822,239</u>	<u>750,573,139</u>
<b>End of year</b>	<u>\$ 806,747,292</u>	<u>\$ 852,822,239</u>

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

## **RETIREE HEALTH CARE PLAN**

Notes to Financial Statements  
December 31, 2018 and 2017

### **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 (RHCT) and Plan, effective May 12, 2008. The primary responsibility of the RHCT 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.

The CTA intends for the RHCT 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 RHCT'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 RHCT 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.

Accounting principles generally accepted in the United States of America (U.S. GAAP) 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 RHCT 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, 2018 and 2017

### **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; 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

To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 6. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net appreciation (depreciation) in the fair value of investments is recognized as a component of investment income.

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. The pooled real estate investment funds are reported at NAV of shares held by the Plan at year end based on independent appraisals of the underlying properties.

## **RETIREE HEALTH CARE PLAN**

Notes to Financial Statements  
December 31, 2018 and 2017

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

#### Security Transactions

Purchases and sales of securities are accounted for on the trade-date basis. 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 Fiduciary 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 RHCT'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.

#### Recently Issued Accounting Pronouncements

During 2017, the GASB issued Statement No. 87, *Leases* (GASB 87). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Plan is evaluating the impact of this Statement on the financial statements and does not anticipate a significant impact on the Plan's financial statements.

## **RETIREE HEALTH CARE PLAN**

Notes to Financial Statements  
December 31, 2018 and 2017

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

#### Plan and Trust Description

The following brief description of the Plan and RHCT is provided for general information purposes only. Participants should refer to the Plan and RHCT 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.

The RHCT and Plan are administered by a seven-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 RHCT and Plan have 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, as amended.

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 RHCT in August 2008. Funding for retiree health care benefits comes from employees' contributions, retirees' contributions, and investment earnings in the RHCT.

The RHCT 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 RHCT is required by the Act to make an annual assessment of the funding levels of the RHCT 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 RHCT. 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.

## RETIREE HEALTH CARE PLAN

Notes to Financial Statements  
December 31, 2018 and 2017

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

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

- 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.
- However, participants are entitled to health care benefits from the Plan if years of service are equal to or higher than 25 if they were 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, 2015. However, the terms and conditions remain in effect pending execution of a new CBA.
- Effective January 1, 2013, 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.
- Effective January 1, 2018, participants become eligible to receive health care benefits if they meet the following criteria (1) they separate from service at or after age 55 with at least 20 years of eligibility service, or (2) they separate with at least 10 years of service and are at least age 65 at the time they enroll.
- Effective January 1, 2018, the Trustees established a Health Reimbursement Account (HRA). Former employees who contributed to the Trust and have never received health benefits from the Trust are eligible for an HRA at age 65 equal to their contributions.

#### Membership

At December 31, 2018 and 2017, the number of participants was as follows:

	<u>2018</u>	<u>2017</u>
Retirees and beneficiaries receiving benefits	8,547	8,663
Terminated plan members entitled to but not yet receiving benefits	109	56
Active participants	10,135	10,556
Separated participants only eligible for HRA at Age 65	7,798	6,359
	<u>26,589</u>	<u>25,634</u>

## **RETIREE HEALTH CARE PLAN**

Notes to Financial Statements  
December 31, 2018 and 2017

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

#### Contributions

During 2018 and 2017, retiree health care benefits were funded through active employee contributions, retiree contributions, investment return on assets, 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 RHCT in August 2008 as advance funding.

During 2018 and 2017, active employees were required to contribute 3% of their salary to the RHCT.

### **NOTE 3 INVESTMENTS**

*Investment Policy:* The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees. The primary objective of the Plan's investment policy is to provide a structured approach in implementing the Plan's 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 following was the Board of Trustees' adopted asset allocation policy as of December 31, 2018 and 2017:

<u>Asset Class</u>	<u>Target Allocation At December 31</u>	
	<u>2018</u>	<u>2017</u>
Fixed income	40%	40%
Domestic equities	35	35
International equities	15	15
Real estate	10	10
<b>Total</b>	<b>100%</b>	<b>100%</b>

There were no changes to the target asset allocation between December 31, 2018 and 2017.

*Rate of Return:* For the years ended December 31, 2018 and 2017, the annual money-weighted rate of return on investments, net of investment expense, was (4.48)% and 14.7%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## RETIREE HEALTH CARE PLAN

Notes to Financial Statements  
December 31, 2018 and 2017

### NOTE 4 INVESTMENT SUMMARY

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

The following table summarizes the Plan's investments by type at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Asset-backed securities	\$ 6,892,739	\$ 5,522,377
Commercial mortgage-backed securities	1,300,396	785,721
Corporate bonds	124,645,016	155,295,521
Government agency securities	25,581,261	28,850,071
Government bonds	77,046,397	57,200,075
Government-issued commercial mortgage-backed securities	1,218,835	638,238
Government mortgage-backed securities	61,464,530	50,644,646
Municipal/provincial bonds	408	408
Non-government-backed CMOs	4,517,195	2,597,708
Index-linked government bonds	2,098,313	2,053,769
Opportunistic core bonds	27,271,653	19,138,178
U.S. equities	262,151,636	298,714,345
Foreign equities	113,673,312	131,062,910
Real estate	92,791,146	86,250,517
Short-term investments and currency positions	<u>17,765,485</u>	<u>30,305,954</u>
<b>Total investments, at fair value</b>	<b><u>\$ 818,418,322</u></b>	<b><u>\$ 869,060,438</u></b>

### NOTE 5 INVESTMENT RISK

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 an 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, 2018 and 2017

### NOTE 5 INVESTMENT RISK (*continued*)

The following tables provide information on the credit ratings associated with the Plan's investments in debt securities at December 31, 2018 and 2017. Ratings were obtained from Standard & Poor's.

	2018					
	Commercial		Government		Government- Issued CMOs	
	Asset- Backed Securities	Mortgage- Backed Securities	Corporate Bonds	Agency Securities	Government Bonds	
'AAA'	\$ 2,319,561	\$ 376,104	\$ 712,821	\$ 584,514	\$ -	\$ -
'AA'	1,100,455	-	9,630,797	24,694,932	-	-
'A'	1,083,953	-	40,657,415	-	-	-
'BBB'	-	-	27,863,290	301,815	-	-
'BB'	180,344	-	3,572,785	-	-	-
'B'	-	-	834,025	-	-	-
'CCC'	-	-	-	-	-	-
Not rated	2,208,426	924,292	41,373,883	-	4,649,761	-
U.S. Govt. agencies	-	-	-	-	72,396,636	1,218,835
<b>Total</b>	<b>\$ 6,892,739</b>	<b>\$ 1,300,396</b>	<b>\$ 124,645,016</b>	<b>\$ 25,581,261</b>	<b>\$ 77,046,397</b>	<b>\$ 1,218,835</b>

  

	2018 (continued)					
	Government Mortgage- Backed Securities	Municipal/ Provincial Bonds	Non- Government- Backed CMOs	Index- Linked Government Bonds	Opportunistic Core Bonds	Total
'AAA'	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,993,000
'AA'	-	-	354,808	-	-	35,780,992
'A'	-	-	348,222	-	-	42,089,590
'BBB'	-	-	-	-	-	28,165,105
'BB'	-	-	-	-	-	3,753,129
'B'	-	-	747,420	-	-	1,581,445
'CCC'	-	-	849,677	-	-	849,677
Not rated	-	408	2,217,068	-	27,271,653	78,645,491
U.S. Govt. agencies	61,464,530	-	-	2,098,313	-	137,178,314
<b>Total</b>	<b>\$ 61,464,530</b>	<b>\$ 408</b>	<b>\$ 4,517,195</b>	<b>\$ 2,098,313</b>	<b>\$ 27,271,653</b>	<b>\$ 332,036,743</b>

## RETIREE HEALTH CARE PLAN

Notes to Financial Statements  
December 31, 2018 and 2017

### NOTE 5 INVESTMENT RISK (*continued*)

#### *Credit Risks (*continued*)*

	2017					
	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Corporate Bonds	Government Agency Securities	Government Bonds	Government-Issued CMOs
'AAA'	\$ 1,265,287	\$ 475,773	\$ 1,069,888	\$ 582,354	\$ -	\$ -
'AA'	1,652,778	-	8,909,113	27,886,712	-	-
'A'	278,517	-	24,691,034	-	-	-
'BBB'	229,221	-	27,829,827	381,005	-	-
'BB'	-	-	6,567,822	-	-	-
'B'	-	-	461,875	-	-	-
'D'	-	-	-	-	-	-
Not rated	2,096,574	309,948	85,765,962	-	826,328	-
U.S. Govt. agencies	-	-	-	-	56,373,747	638,238
<b>Total</b>	<b>\$ 5,522,377</b>	<b>\$ 785,721</b>	<b>\$ 155,295,521</b>	<b>\$ 28,850,071</b>	<b>\$ 57,200,075</b>	<b>\$ 638,238</b>

  

	2017 ( <i>continued</i> )					
	Government Mortgage-Backed Securities	Municipal/Provincial Bonds	Non-Government-Backed CMOs	Index-Linked Government Bonds	Opportunistic Core Bonds	Total
'AAA'	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,393,302
'AA'	-	-	-	-	-	38,448,603
'A'	-	-	236,140	-	-	25,205,691
'BBB'	-	-	261,262	-	-	28,701,315
'BB'	-	-	-	-	-	6,567,822
'B'	-	-	388,646	-	-	850,521
'D'	-	-	181,088	-	-	181,088
Not rated	1,642,102	408	1,530,572	-	19,138,178	111,310,072
agencies	49,002,544	-	-	2,053,769	-	108,068,298
<b>Total</b>	<b>\$ 50,644,646</b>	<b>\$ 408</b>	<b>\$ 2,597,708</b>	<b>\$ 2,053,769</b>	<b>\$ 19,138,178</b>	<b>\$ 322,726,712</b>

**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, 2018 and 2017, deposits of approximately \$3,370 and \$23,596, 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.

## RETIREE HEALTH CARE PLAN

Notes to Financial Statements  
December 31, 2018 and 2017

### NOTE 5 INVESTMENT RISK (*continued*)

The following investments represented 5% or more of the Plan's net position at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Institutional Emerging Markets Debt Fund	\$ (a)	\$ 42,000,437
NT S&P 400 Index – Lending Fund	(a)	44,594,379
NT S&P 500 Equity Index – Lending Fund	(a)	98,076,783
Clarion Lion Properties Fund LLC	48,052,969	44,220,572
OFI International Small Cap	39,724,614	44,061,881
Prudential Institutional Emerging Market Bond	40,518,123	43,053,375
Heitman America Real Estate Trust	44,738,177	42,029,945

(a)–Closed investment in 2018.

The Plan did not invest in derivative instruments during the years ended December 31, 2018 and 2017.

*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, 2018 and 2017

### NOTE 5 INVESTMENT RISK (*continued*)

At December 31, 2018, the Plan had the following investments and maturities related to certain fixed-income securities:

Investment Type	Market Value	Investment Maturities					Maturity Not Determined
		Less Than 1 Year	1+ to 6 Years	6+ to 10 Years	More Than 10 Years		
Asset-backed securities	\$ 6,892,739	\$ -	\$ 507,439	\$ 956,670	\$ 5,428,630	\$ -	
Commercial mortgage-backed securities	1,300,396	-	-	75,204	1,225,192	-	
Corporate bonds	124,645,016	7,644,560	53,724,134	15,845,925	6,912,274	40,518,123	
Government agency securities	25,581,261	10,415,875	14,863,571	-	301,815	-	
Government bonds	77,046,397	-	35,966,295	10,434,913	30,645,189	-	
Government-issued commercial mortgage-backed securities	1,218,835	-	-	705,215	513,620	-	
Government mortgage-backed securities	61,464,530	-	1,294,876	1,282,103	49,368,228	9,519,323	
Municipal/provincial bonds	408	-	408	-	-	-	
Non-government-backed CMOs	4,517,195	-	66,918	-	4,450,277	-	
Index-linked government bonds	2,098,313	-	234,869	1,275,563	587,881	-	
Opportunistic core bonds	<u>27,271,653</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,271,653</u>	
<b>Total</b>	<b>\$ 332,036,743</b>	<b>\$ 18,060,435</b>	<b>\$ 106,658,510</b>	<b>\$ 30,575,593</b>	<b>\$ 99,433,106</b>	<b>\$ 77,309,099</b>	

At December 31, 2017, the Plan had the following investments and maturities related to certain fixed-income securities:

Investment Type	Market Value	Investment Maturities					Maturity Not Determined
		Less Than 1 Year	1+ to 6 Years	6+ to 10 Years	More Than 10 Years		
Asset-backed securities	\$ 5,522,377	\$ -	\$ -	\$ 412,129	\$ 5,110,248	\$ -	
Commercial mortgage-backed securities	785,721	-	-	-	785,721	-	
Corporate bonds	155,295,521	1,576,737	46,273,796	12,808,385	9,582,792	85,053,811	
Government agency securities	28,850,071	12,411,086	16,057,980	-	381,005	-	
Government bonds	57,200,075	-	27,190,367	3,195,227	26,814,481	-	
Government-issued commercial mortgage-backed securities	638,238	-	-	455,256	182,982	-	
Government mortgage-backed securities	50,644,646	-	2,340,255	5,984,325	30,979,533	11,340,533	
Municipal/provincial bonds	408	-	-	408	-	-	
Non-government-backed CMOs	2,597,708	-	99,862	-	2,497,846	-	
Index-linked government bonds	2,053,769	-	417,954	933,945	701,870	-	
Opportunistic core bonds	<u>19,138,178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,138,178</u>	
<b>Total</b>	<b>\$ 322,726,712</b>	<b>\$ 13,987,823</b>	<b>\$ 92,380,214</b>	<b>\$ 23,789,675</b>	<b>\$ 77,036,478</b>	<b>\$ 115,532,522</b>	

## RETIREE HEALTH CARE PLAN

Notes to Financial Statements  
December 31, 2018 and 2017

### NOTE 5 INVESTMENT RISK (*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\$) 2018</u>	<u>(US\$) 2017</u>
<i>Short-term investment and currency positions</i>		
European euro	\$ 3,370	\$ 2,125
Japanese yen	9	-
	<u>\$ 3,379</u>	<u>\$ 2,125</u>
<i>Equities</i>		
Australian dollar	\$ -	\$ 249,304
British pound sterling	6,829,156	8,373,608
Canadian dollar	1,854,845	1,546,620
Danish krone	525,502	1,005,900
European euro	7,684,692	8,803,385
Hong Kong dollar	289,577	-
Japanese yen	3,947,590	6,397,475
New Israeli shekel	229,148	-
Norwegian krone	966,003	973,400
Singapore dollar	827,864	836,254
Swedish krona	1,422,385	1,197,945
Swiss franc	<u>1,515,512</u>	<u>1,527,248</u>
	<u>\$ 26,092,274</u>	<u>\$ 30,911,139</u>

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 Fiduciary 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.

## **RETIREE HEALTH CARE PLAN**

Notes to Financial Statements  
December 31, 2018 and 2017

### **NOTE 6 FAIR VALUE OF INVESTMENTS**

GASB 72, *Fair Value Measurements and Application*, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. GASB 72 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liabilities as of the measurement date. The three levels are defined as follows:

*Level 1:* Observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.

*Level 2:* Inputs other than quoted prices included within Level 1 – that are observable for the asset or liability, either directly or indirectly.

*Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## RETIREE HEALTH CARE PLAN

Notes to Financial Statements  
December 31, 2018 and 2017

### NOTE 6 FAIR VALUE OF INVESTMENTS *(continued)*

The Plan categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of December 31, 2018:

	12/31/2018	Fair Value Measurements Using				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Investments by fair value level</b>						
<i>Fixed-income investments</i>						
Asset-backed securities	\$ 6,892,739	\$ -	\$ 6,892,739	\$ -	-	
Commercial mortgage-backed securities	1,300,396	-	1,300,396	-	-	
Corporate bonds	84,126,893	-	84,126,893	-	-	
Government agency securities	25,581,261	-	25,581,261	-	-	
Government bonds	79,144,710	-	79,144,710	-	-	
Government-issued commercial mortgage-backed securities	1,218,835	-	1,218,835	-	-	
Government mortgage-backed securities	61,464,530	-	61,464,530	-	-	
Municipal/provincial bonds	408	-	408	-	-	
Non-government-backed CMOs	4,517,195	-	4,517,195	-	-	
<b>Total fixed-income investments</b>	<b>264,246,967</b>	<b>-</b>	<b>264,246,967</b>	<b>-</b>	<b>-</b>	
<i>Equity investments</i>						
Corporate stocks	291,612,031	\$ 291,612,031	\$ -	\$ -	-	
<i>Investments measured at net asset value (NAV)</i>						
Emerging markets debt fund	40,518,123					
Opportunistic core bonds plus fund	27,271,653					
Emerging markets small-cap fund	15,058,507					
International small-cap fund	39,724,614					
Emerging markets instl fund	29,429,796					
Real estate open fund	92,791,146					
<b>Total investments measured at NAV</b>	<b>244,793,839</b>					
<b>Total investments by fair value level</b>	<b>\$ 800,652,837</b>					
<i>Investments not subject to fair value leveling (at cost or amortized cost)</i>						
<b>Short-term investments and currency positions</b>	<b>\$ 17,765,485</b>					

## RETIREE HEALTH CARE PLAN

Notes to Financial Statements  
December 31, 2018 and 2017

### NOTE 6 FAIR VALUE OF INVESTMENTS *(continued)*

The Plan has the following recurring fair value measurements as of December 31, 2017:

	Fair Value Measurements Using				
	12/31/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Investments by fair value level</b>					
<i>Fixed-income investments</i>					
Asset-backed securities	\$ 5,522,377	\$ -	\$ 5,522,377	\$ -	
Commercial mortgage-backed securities	785,721	-	785,721	-	
Corporate bonds	70,241,709	-	70,241,709	-	
Government agency securities	28,850,071	-	28,850,071	-	
Government bonds	59,253,844	-	59,253,844	-	
Government-issued commercial mortgage-backed securities	638,238	-	638,238	-	
Government mortgage-backed securities	50,644,646	-	50,644,646	-	
Municipal/provincial bonds	408	-	408	-	
Non-government-backed CMOs	2,597,708	-	2,597,708	-	
Total fixed-income investments	<u>218,534,722</u>	<u>-</u>	<u>218,534,722</u>	<u>-</u>	
<i>Equity investments</i>					
Corporate stocks	<u>332,276,991</u>	<u>\$ 188,676,558</u>	<u>\$ 143,600,433</u>	<u>\$ -</u>	
<i>Investments measured at net asset value (NAV)</i>					
International bond fund	42,000,437				
Emerging markets debt fund	43,053,375				
Opportunistic core bonds plus fund	19,138,178				
Emerging markets small-cap fund	18,043,555				
International small-cap fund	44,061,881				
Emerging markets instl fund	35,394,828				
Real estate open fund	86,250,517				
Total investments measured at NAV	<u>287,942,771</u>				
<b>Total investments by fair value level</b>	<b><u>\$ 838,754,484</u></b>				
<i>Investments not subject to fair value leveling (at cost or amortized cost)</i>					
<b>Short-term investments and currency positions</b>	<b><u>\$ 30,305,954</u></b>				

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Equity funds and fixed-income securities classified in Level 2 of the fair market hierarchy are valued using either a bid evaluation or a matrix pricing technique maintained by various pricing vendors. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

## RETIREE HEALTH CARE PLAN

Notes to Financial Statements  
December 31, 2018 and 2017

### NOTE 6 FAIR VALUE OF INVESTMENTS *(continued)*

The redemption restrictions for investments measured at the NAV per share (or its equivalent) is presented on the following table:

<b>Investments Measured at NAV</b>	<b>Fair Value 2018</b>	<b>Redemption Frequency (if Current Eligible)</b>	<b>Redemption Notice Period</b>
Emerging markets debt fund	\$ 40,518,123	Monthly	5 days
Opportunistic core plus fund	27,271,653	Daily	1 to 3 days
Emerging markets small-cap fund	15,058,507	Monthly	1 to 15 days
International small-cap fund	39,724,614	Monthly	1 to 15 days
Emerging markets fund	29,429,796	Daily	1 to 3 days
Real estate open fund	92,791,146	Quarterly	90 days
<b>Total investments measured at NAV</b>	<b>\$ 244,793,839</b>		
<b>Investments Measured at NAV</b>	<b>Fair Value 2017</b>	<b>Redemption Frequency (if Current Eligible)</b>	<b>Redemption Notice Period</b>
International bond fund	\$ 42,000,437	Monthly	10 days
Emerging markets debt fund	43,053,375	Monthly	5 days
Opportunistic core plus fund	19,138,178	Daily	1 to 3 days
Emerging markets small-cap fund	18,043,555	Monthly	1 to 15 days
International small-cap fund	44,061,881	Monthly	1 to 15 days
Emerging markets fund	35,394,828	Daily	1 to 3 days
Real estate open fund	86,250,517	Quarterly	90 days
<b>Total investments measured at NAV</b>	<b>\$ 287,942,771</b>		

*International bond fund.* This fund invests principally in debt securities, including obligations of foreign government or corporate entities or supranational agencies (such as the World Bank) denominated in various currencies. The fair value in this type of investment has been determined using the NAV per unit of the fund and is calculated on each business day by dividing the total value of assets, less liabilities, by the number of units of beneficial ownership outstanding.

*Emerging markets debt fund.* This fund invests primarily in a diversified portfolio of fixed-income securities issued by entities whose principal domicile is in an emerging market country. The value of each unit of participation is determined daily and calculated by dividing the total value of assets, less liabilities, by the number of units outstanding.

## **RETIREE HEALTH CARE PLAN**

Notes to Financial Statements  
December 31, 2018 and 2017

### **NOTE 6 FAIR VALUE OF INVESTMENTS (continued)**

*Opportunistic core plus fund.* This fund includes investments in commingled investment entities, such as open-ended limited partnerships and registered or unregistered investment companies maintained or offered by the investment manager or any affiliate of the investment manager. Any assets of the account which are held in any fund will be redeemed only at such time as permitted by the applicable governing documents of such funds. The NAV of each fund's shares is determined by dividing the net assets attributable to each class of shares of the fund by the number of issued and outstanding shares of the class/fund on each business day.

*Emerging markets small-cap fund.* This fund invests in developing markets. It may invest directly or indirectly in securities and other instruments, including in other pooled investment vehicles sponsored or managed by the investment manager or, otherwise affiliated with the investment manager. The per unit NAV of the fund is determined each business day.

*International small-cap fund.* This fund invests in international small-cap securities and the NAV of its units is calculated at the end of the day each business day.

*Emerging markets fund.* This fund invests primarily in equity securities, principally common stocks, of non-U.S. companies whose principal activities are located in emerging market countries that the manager believes are undervalued based on their earnings, cash flow and asset values. The net asset value per share is determined by dividing the value of the total assets of the portfolio represented by such class, less all liabilities, by the total number of portfolio shares of such class outstanding.

*Real estate funds.* This fund consists of two core open-end real estate funds. Open-end funds provide liquidity to investors quarterly, subject to each fund's ability to honor investment and redemption requests. However, the funds will not be required to cause the funds to sell any investments to satisfy redemption requests. Additionally, redemptions may be suspended at any given time by the funds. The NAV per share on any given date is equal to the NAV on such date divided by the total number of outstanding interests on such date.

### **NOTE 7 UNFUNDED INVESTMENT COMMITMENTS**

The Plan had no unfunded commitments at December 31, 2018 and 2017.

## RETIREE HEALTH CARE PLAN

Notes to Financial Statements  
December 31, 2018 and 2017

### NOTE 8 NET OPEB ASSET

The components of the net OPEB asset at December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 617,379,894	\$ 690,173,180
Plan fiduciary net position	<u>806,785,470</u>	<u>852,822,239</u>
<b>Net OPEB asset</b>	<b><u>\$(189,405,576)</u></b>	<b><u>\$(162,649,059)</u></b>
Plan fiduciary net position as a percentage of the total OPEB liability	130.68%	123.57%

*Actuarial assumptions:* The total OPEB asset was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2018</u>	<u>2017</u>
Inflation	3.10%	3.25%
Salary increases		
Years of service		
1	11%	9%
2	12%	11%
3	16%	16%
4	8%	5%
Equal to or more than 5	3.5%	4%
Investment rate of return (net of the plan investment expense, including inflation)	6.85%	7.00%
Healthcare costs trend rates	7.5% graded down to 4.5% over 12 years	7.5% graded down to 4.5% over 12 years

For 2018, the mortality rates for healthy were based on the SOA Public 2010 General Healthy Retiree Headcount-Weighted Below Median Mortality Tables, multiplied by 113% for females, with generational projection using Scale MP-2018. Mortality rates for disabled employees were based on the SOA Public 2010 Non-Safety Disabled Retiree Headcount-Weighted Mortality Tables, with generational projection using Scale MP-2018.

## **RETIREE HEALTH CARE PLAN**

Notes to Financial Statements  
December 31, 2018 and 2017

### **NOTE 8      NET OPEB ASSET (continued)**

For 2017, the mortality rates for active members and retirees and survivors were based on the RP-2000 Combined Healthy Blue Collar Mortality Table, projected to 2016 using BB, then projected generationally from 2016 using Scale BB. Mortality rates for disabled employees were based on the RP-2000 Disabled Retiree Mortality Tables, projected to 2016 using Scale BB, then projected generationally from 2016 using Scale BB.

For 2018, rates of mortality, turnover, disability, and retirement, salary increases, and the rate of inflation were based on the results of an actuarial experience study covering plan years from January 1, 2013 through December 31, 2017. Rates of retiree and spouse participation, plan election assumptions, the percent of disabled participants eligible for Medicare, and turnover rates for participants who are not full-time permanent employees were based on an analysis on historical data and projections for various periods ended December 31, 2018.

For 2017, rates of mortality, termination, disability and retirement, salary increases, and inflation were based on the results of an actuarial experience study covering Plan years from January 1, 2018 through December 31, 2012. Rates of retiree and spouse participation, plan election assumptions, the percent of disabled participants eligible for Medicare, and rates of termination for participants who are not full-time permanent employees were based on an analysis on historical data and projections for various periods ended December 31, 2013.

The long-term expected rate of return on OPEB Plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding the expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB Plan's target asset allocation as of December 31, 2018 and 2017 are summarized in the following table:

#### Long-Term Expected Real Rate of Return

<u>Asset Class</u>	<u>2018</u>	<u>2017</u>
Domestic fixed income	1.96%	1.75%
International fixed income	4.16%	4.30%
Domestic equities	6.41%	6.40%
International equities	6.96%	7.40%
Emerging markets equities	9.86%	9.80%
Real estate	4.76%	5.10%

## RETIREE HEALTH CARE PLAN

Notes to Financial Statements  
December 31, 2018 and 2017

### NOTE 8 NET OPEB ASSET (continued)

*Discount rate:* The discount rate used to measure the total OPEB asset was 6.85%. The projection of cash flows used to determine the discount rate assumed that active members will continue to contribute 3% of payroll. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future net benefit payments for current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

*Sensitivity of the net OPEB asset to changes in the discount rate:* The following presents the net OPEB asset, calculated using the discount rate of 6.85%, as well as the net OPEB asset if it were calculated using a discount rate that is 1 percentage point lower (5.85%) or 1 percentage point higher (7.85%) than the current rate:

Net OPEB Asset	1% Decrease (5.85%)	Current Discount Rate (6.85%)	1% Increase (7.85%)
December 31, 2018	\$118,885,809	\$189,405,576	\$248,670,466
December 31, 2017	\$ 80,024,887	\$162,649,059	\$231,729,536

*Sensitivity of the net OPEB asset to changes in the healthcare cost trend rates:* The following presents the net OPEB asset, as well as the net OPEB asset rate if it was to be calculated using healthcare cost trend rates that are one percentage point lower (6.50% decreasing to 3.50%) or one percentage point higher (8.50%, decreasing to 5.50%) than the current healthcare cost trend rate:

Net OPEB Asset	1% Decrease (6.50%, Decreasing to 3.50%)	Current Trend (7.50%, Decreasing to 4.50%)	1% Increase (8.50%, Decreasing to 5.50%)
December 31, 2018	\$247,961,128	\$189,405,576	\$119,109,066
December 31, 2017	\$233,788,709	\$162,649,059	\$ 76,536,610

### NOTE 9 STATUTORY RESERVE

Section 22-101B (b)(3)(ii) of the Illinois Pension Code requires the Board of Trustees of the Retiree Healthcare Trust to maintain an appropriate funding reserve level that shall not be less than the amount of incurred and unreported claims, plus 12 months of expected claims and administrative expenses. Total statutory reserve as of December 31, 2018 and 2017 is \$31,277,044 and \$34,600,933, respectively.

## **RETIREE HEALTH CARE PLAN**

Notes to Financial Statements  
December 31, 2018 and 2017

### **NOTE 10 RISKS AND UNCERTAINTIES**

The Plan invests in 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 fiduciary 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.

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 future employment.

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 11 LEGAL PROCEEDINGS**

Williams et al v. Retirement Plan for Chicago Transit Authority Employees, et al., No. 11 CH 15446 (Circuit Court of Cook County, Illinois). Plaintiffs are retirees from the CTA who allege that the Trust and its Board (among others) violated their rights to health care benefits and breached a contract (Retirement Plan Agreement) relating to their health care benefits. Though Plaintiffs claim to represent a class of CTA retirees, no class has been certified and no trial date has been scheduled.

### **NOTE 12 OPERATING LEASE**

During 2013, the Retirement Plan for CTA employees entered into a new lease agreement for office space. The lease expires on December 31, 2028. Rent paid by the Plan was \$37,645 in 2018 and \$35,944 in 2017, 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.

## **RETIREE HEALTH CARE PLAN**

Notes to Financial Statements

December 31, 2018 and 2017

### **NOTE 13      TAX STATUS**

The IRS issued a private letter ruling dated June 16, 2009, stating that the RHCT is qualified under Section 115(1) of the Code and, therefore, the RHCT's income is excludable from gross income. The RHCT 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 RHCT and the Plan's tax status.

**REQUIRED SUPPLEMENTARY INFORMATION**

## RETIREE HEALTH CARE PLAN

Schedule of Changes in the Net OPEB Asset and Related Ratios  
 December 31, 2018  
 (Unaudited)

	<b>2018</b>	<b>2017</b>
<b>Total OPEB liability</b>		
Service cost	\$ 6,956,979	\$ 7,348,611
Interest	47,693,601	50,748,662
Change of benefit terms	-	(231,265)
Differences between expected and actual experience	5,503,572	(7,235,941)
Changes of assumptions	(101,361,429)	(35,532,918)
Benefit payments net of retiree contributions	<u>(31,586,009)</u>	<u>(28,370,831)</u>
<b>Net change in total OPEB liability</b>	(72,793,286)	(13,273,682)
Total OPEB liability - beginning	<u>690,173,180</u>	<u>703,446,862</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 617,379,894</u></u>	<u><u>\$ 690,173,180</u></u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ -	\$ -
Contributions - member	23,300,031	21,205,666
Net investment income	(35,292,431)	111,133,146
Benefit payments net of retiree contributions	(31,586,009)	(28,370,831)
Administrative expense	<u>(2,458,360)</u>	<u>(1,718,881)</u>
<b>Net change in plan fiduciary net position</b>	(46,036,769)	102,249,100
Plan fiduciary net position - beginning	<u>852,822,239</u>	<u>750,573,139</u>
<b>Plan fiduciary net position - ending</b>	<u><u>\$ 806,785,470</u></u>	<u><u>\$ 852,822,239</u></u>
<b>Net OPEB asset - ending</b>	<u><u>\$ (189,405,576)</u></u>	<u><u>\$ (162,649,059)</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	130.68%	123.57%
Covered employee payroll	\$ 671,698,469	\$ 684,200,773
Plan net OPEB asset as a percentage of covered employee payroll	(28.20)%	(23.77)%

*The above information is required beginning in 2017. A full 10-year trend will be compiled in future years.*

## **RETIREE HEALTH CARE PLAN**

Notes to Schedule of Changes in the Net OPEB Asset and Related Ratios  
December 31, 2018  
(Unaudited)

Benefit changes:

January 1, 2018: On April 27, 2017, the Trustees changed eligibility requirements for retirements on or after January 1, 2018 to be (1) separate from the service at or after age 55 with at least 20 years of eligibility service, or (2) separate with at least 10 years of service and are at least age 65 at the time they enroll.

Effective January 1, 2018, the HRA program was established.

January 1, 2019: None.

Changes of assumptions:

January 1, 2018: Valuation-year per capita health costs, retiree contribution rates, and future assumed trend rates on such costs and rates were updated.

January 1, 2019: Valuation-year per capita health costs, retiree contribution rates, and future assumed trend rates on such costs and rates were updated. Assumed retirement, turnover, disability, and mortality rates and salary scale were modified. The percent of future retirees assumed to enroll in health care was decreased. The percent of future retirees assumed to enroll in the PPO versus HMO plans was changed to 85% PPO and 15% HMO for non-Medicare retirees and 95% PPO and 5% HMO for Medicare retirees. The percentage of future disabled retirees assumed to be on Medicare was decreased to 40% in the first two years of disability and 70% thereafter. The discount rate was lowered from 7.00% to 6.85%.

See accompanying Independent Auditor's Report.

**RETIREE HEALTH CARE PLAN**Schedule of Investment Returns  
(Unaudited)

	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	(4.48)%	14.70%

*The above information is required beginning in 2017. A full 10-year trend will be compiled in future years.*

## **RETIREE HEALTH CARE PLAN**

Notes to Required Supplementary Information  
For the Years Ended December 31, 2018  
(Unaudited)

### Actuarial Method and 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, 2018
Actuarial cost method:	Entry age
Amortization method:	Level dollar, open
Amortization period:	30 years remaining
Asset valuation method:	Market value
<i>Actuarial assumptions</i>	
Investment rate of return:	6.85% for 2018
Projected salary increases:	For 2018 valuation: 11.0% for 1 year of service, 12.0% for 2 years of service, 16.0% for 3 years of service, 8.0% for 4 years of service, and 3.5% thereafter
Inflation rate:	3.10% for 2018
Healthcare costs trend rates:	For 2018 valuation: 7.50% graded down to 4.50% over 12 years
Mortality:	Healthy: SOA Public 2010 General Healthy Retiree Headcount-Weighted Below Median Mortality Tables, multiplied by 113% for females, with generational projection using Scale MP-2018
	Disabled: SOA Public 2010 Non-Safety Disabled Retiree Headcount-Weighted Mortality Tables, with generational projection using Scale MP-2018
Retirement age:	Normal Retirement: Age 65; Early retirement if hired before 1/18/08: Age 55 with 3 years of service or any age with 25 years of service; Early retirement if hired on or after 1/18/08: Age 55 with 10 years of service or age 64 with 25 years of service

See accompanying Independent Auditor's Report.

## **OTHER INFORMATION**

## RETIREE HEALTH CARE PLAN

Schedule of Investment and Administrative Expenses  
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<i>Investment expenses</i>		
Investment management fees	\$ 3,297,289	\$ 3,306,930
Investment consulting fees	165,000	165,000
Custodian fees	235,266	231,293
Other investment fees	72,171	56,180
Reporting and monitoring	-	7,000
<b>Total investment expenses</b>	<b><u>\$ 3,769,726</u></b>	<b><u>\$ 3,766,403</u></b>
<i>Administrative expenses</i>		
Staff salaries and fringe benefits	\$ 365,321	\$ 343,673
Outside consultants	13,293	16,365
Actuarial services	283,254	305,739
Auditing	67,537	68,615
Legal fees	1,422,367	636,976
Data processing	48,628	75,673
Court reporting	8,066	12,018
Stationery and printing	66,194	47,714
Telephone and communication	5,563	5,393
Postage and messenger	52,959	43,247
Office space	37,645	35,944
Supplies	5,440	3,779
Utilities	1,209	1,145
Equipment	6,282	6,479
Insurance	70,157	65,025
Travel and seminars	15,904	15,699
Seminars for retirees	11,169	18,780
PCORI fee	3,668	3,644
Forms submission	7,567	8,071
Miscellaneous	4,316	4,901
<b>Total administrative expenses</b>	<b><u>\$ 2,496,539</u></b>	<b><u>\$ 1,718,880</u></b>

See accompanying Independent Auditor's Report.

