

AGENDA

FOR THE 582TH RETIREMENT MEETING OF JULY 22, 1997

1. Meeting will be called to order at 11:30 A.M., Northern Trust Company, 50 South La Salle Street, Directors Dining Room - 6th Floor.
2. Roll call.
3. Approval of the Minutes of the 581st Meeting held June 24, 1997.
4. Investment Subcommittee report.
5. Real Estate Subcommittee report.
6. Subcommittee on General Administration
 - a) Announcement of deaths reported since the last meeting.
 - b) Presentation of Pre-Retirement Surviving Spouse Allowances for approval.
 - c) Presentation of new retirement applications for approval.
 - (i) Selmon Broughton - #4026 - (disability) - request for retroactivity to 07-01-97.
 - d) Presentation of Death Benefits for approval.
 - e) Presentation of Refunds of Contributions for approval.
 - f) Presentation of Bills and Remittances for approval.
7. Old Business
8. New Business
9. Financial Report
10. Adjournment.

RETIREMENT PLAN FOR CTA EMPLOYEES

10 SOUTH RIVERSIDE PLAZA

SUITE 1625

CHICAGO, ILLINOIS 60606

(312) 441-9694

NOTICE

RETIREMENT ALLOWANCE COMMITTEE MEMBERS AND ALTERNATES

THIS IS TO ANNOUNCE THAT THE MEETING OF THE SUBCOMMITTEE ON GENERAL ADMINISTRATION WILL BE HELD TUESDAY, JULY 22, 1997, AT 8:30 A.M.

THIS WILL BE FOLLOWED BY THE INVESTMENT SUBCOMMITTEE AT 9:30 A.M., THE REAL ESTATE SUBCOMMITTEE AT 10:30 A.M., AND THE RETIREMENT ALLOWANCE COMMITTEE MEETING AT 11:30 A.M.

THE MEETINGS WILL BE HELD AT THE NORTHERN TRUST COMPANY, 50 S. LA SALLE STREET, IN THE DIRECTORS' DINING ROOM ON THE 6TH FLOOR.



RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY

The 582nd Meeting of the Retirement Allowance Committee was held on Tuesday, July 22, 1997, at the Northern Trust Company, 50 South La Salle Street, 6th Floor. The following were in attendance:

Mr. E. Hill, Chairman
Mr. W. Buetow
Mr. D. Anosike
Ms. S. Leonis
Ms. M. Green

Mr. I. Thomas, Vice Chairman
Mr. T. Collins
Ms. W. Black

L. Morris sat in Mr. Brown's stead. B. Rayford sat in Mr. Williams' stead. Alternates also present were L. Sanford, P. Beavers, R. Baughn, D. Washington and C. Lang. J. Forte, L. Smith and A. Dungan of the Pension Office Staff were in attendance. Ms. P. Newton of Northern Trust Company was present. Mr. R. Burke of Burke, Warren and MacKay was present. Messrs. C. Wesley, C. Spears, J. Henderson, B. C. Gilmore and J. Guerrero were also in attendance.

1. The Chairman called the meeting to order at 9:50 A.M.
2. A roll call was taken which indicated that a quorum of Committee Members was present.
3. On a motion by Mr. Thomas, seconded by Ms. Leonis, the Committee approved the Minutes of the 581st Meeting.
4. Mr. W. Buetow, Chairman of the Investment Subcommittee, reported on the meeting held this date.

Mr. Buetow thought Watson Wyatt should give their report in an Executive Session because of the sensitivity of the document. The Chairman and the Committee agreed it should be in Executive Session.

Mr. Buetow discussed the cash flow projection and said it still indicates we are in a positive cash position. The American National Index Fund is used to pay the existing bills of the Pension Fund. This fund will be exhausted by October.

20th Century's portfolio is still in a hold pattern which consists of \$60 million. This is still a discussion point.

Mentor should be a help to the portfolio.

RXR has been approved. Both of these items will be funded in August.

Mr. Buetow discussed real estate items in the cash flow document such as CNL, which is a one time investment, and Capital Associates, Meridian which are draw downs as needed. Mr. Buetow stated the real estate portfolio based on asset allocation is down to about 10% of the portfolio; however, that is a running total. The portfolio fund hit \$1,700,000.00 a few days ago and if the Plan is going to abide by the 10%, the allocation would change as fast as the market changes and the Plan would be looking at \$170 million in the real estate portfolio. Also, the Committee should be aware real estate is not a liquid investment that can be dissolved and draw down as needs arise.

Mr. Buetow stressed an important item to note is the benefits paid in the current period. There are currently in excess of 700 retirees who left CTA. The last figure of disbursement was \$9,500,000.00. That has now gone up to \$11,500,000.00, and this is expected to increase as the months go by. Contributions from employee/ employer began in July. The first payment is to be received at the end of August.

The other items are basic and if the Committee does not draw down on 20th Century, which is still a discussion point, the ending balance on the bottom line which is really in the \$70 million range will drop with the unavailability of the 20th Century portfolio. This means in August we are down to \$13 million, which is still very workable in September but when we get to October and thereon we will have a concern about what we are going to do.

Mr. Hill asked about cash on hand at Northern. Mr. Hill wanted to know if we are maximizing the return on our cash account. Mr. Buetow said it was making money at the decision of the Committee for the investments that it is in. Mr. Hill thought it was a great deal of money projected all the way to December. This is a continual assumption with a draw down of American National. Between now and next meeting Mr. Hill said Mr. Buetow, Mr. Anosike, Mr. Collins and himself should meet to discuss cash flow.

Mr. Joachimi discussed 20th Century and the decision has been made to release them and the portfolio is still in tact because the growth and aggressive growth search was never finished. He felt that once the Committee speaks to the actuary there is going to be a need for another asset liability study because the Plan has more liabilities on a one to one basis than they did before. That should be completed as soon as the Committee and Mr. Joachimi can meet with the actuary. If 20th Century can be liquidated, Mr. Joachimi, as the Plan's consultant would like to know where that money is going to be put. He would like to complete what was started and had been put on hold. He discussed how several managers were looked at and the Committee had decided who they would like and that is something that has to come up before fixed income is looked at. Mr. Joachimi's recommendation for the next meeting is the Committee should look at the names on the list already and see if there are any changes or additions to be made. Mr. Joachimi was

concerned when American National Bank was released, that is equity money that is now being drawn down to pay liabilities so it is a disappearing asset which will change our asset allocation, and he did not feel comfortable with that type of interaction.

The next item the Committee had asked the Investment Subcommittee to review is an internal document which listed the trading involvement and the brokers. In reviewing the document, there are a number of brokers used by each one of our money managers. Some use the Wellesley Group which is part of the 22% where the Plan receives a rebate which is a basically a refund. There are more traders involved in this than the Committee would expect so Mr. Buetow said they could review the documents and Mr. Joachimi will explain.

There was a discussion about a report prepared by Mr. Joachimi regarding brokerage firms. The top 10 brokers are Merrill Lynch, Morgan Stanley, Kidder Peabody, Salomon Brothers, etc. Merrill Lynch, Bears Stearns and Paine Webber are three companies that Wellesley has in their program that the Plan's managers use. He spoke about the top 10 brokers which belong to NASDAQ for the smaller stocks. Basically, the only one who does quite a bit of business in that area is Foster Freiss possibly 20th Century. Ms. Rayford asked which brokers were used by Wellesley. Mr. Joachimi said Wellesley uses the following brokers: Merrill Lynch, Bears Stearns, Wilshire Associates, Paine Webber, Mc Donald & Company which is strictly small stocks and for international is Capel Associates. Mr. Joachimi said the three large brokers are Merrill Lynch, Bear, Stearns and Paine Webber. Ms. Rayford asked if the Plan gets a discount using these brokers. Mr. Joachimi said there is a letter written by the Pension Office to the money managers telling them the best daily price and the best execution has to be considered. Mr. Joachimi said Wellesley has nothing to say about this. It is strictly between the Pension Office and the money managers involved. In the report given to the Committee by Mr. Joachimi, it showed that Wellesley Resources is at or below the prices the Plan is getting from all the other brokers. Mr. Joachimi said the Committee would note the going rate is between 5 and 6 cents a share by all our managers.

Mr. Collins asked if the only time they get a chance to get soft dollars is if they go through Wellesley. Mr. Joachimi said it was and it has to be requested because otherwise the money managers will not give it. For instance, it was noted that some of the managers use the three brokers that are in Wellesley's program but the Plan is not getting any credit. Mr. Collins wanted to know why, if the money manager is using a broker that Wellesley is using anyway, we do not get soft dollars for it. Mr. Joachimi said the key is the Pension Office should write them and say use, for example, Merrill Lynch, because the Plan gets credit for it. Mr. Hill asked if there were any funds that are dealing directly with the brokers (forgetting the soft dollars) but getting initially the same and rather than going through Wellesley, the Fund saves the three cents or whatever it is. Mr. Joachimi said he did not know the

answer to that question. Mr. Hill said we already have consultants like Wyatt and Ernst Young that can take an independent look and get back to the Committee next month. Mr. Buetow and Mr. Collins will take care of this.

Mr. Buetow made a motion the Subcommittee will do the following: Mr. Buetow, Mr. Collins and Mr. Anosike will explore the float figure involvement for better yield. Mr. Buetow will work with Mr. Collins to find someone to do an independent study on the soft dollar involvement and regarding the float.

On a motion by Mr. Thomas, seconded by Mr. Collins, the Committee unanimously approved the Investment Subcommittee Report.

5. Ms. Maria Green, Chairman of the Real Estate Subcommittee, reported on the meeting held this date.

She met with Kevin Lynch and they are working on getting the strategic plan so it can be presented to the Committee next month.

The Plan Attorney spoke to RREEF's Office to get an update on the usage of the funds which have already gone into the venture fund and he spoke to Mr. Pat Hackett. There was a draw down for that particular fund already. They drew down about \$2.1 million and that was for three specific investments - the office complex in Memphis, a self-storage facility company in Deerfield Beach Florida and office property in Southfield, Michigan.

Most of the language has been worked out with CNL issues. The only issue still standing was choosing an investment manager for CNL. It was decided it would be the Townsend Group. Townsend has been recommended to Northern Trust by way of a letter.

On a motion by Mr. Thomas, seconded by Ms. Leonis, the Committee unanimously approved the Real Estate Subcommittee Report.

6. Mr. T. Collins, Chairman of the General Administration Subcommittee, reported on the meeting held this date.

Mr. Collins requested approval of items 6a through 6f.

Mr. Thomas asked the Plan Attorney if anything could be done for an employee who always said he would retire on the last date but on the last day his Mother had a stroke and he was unable to come in to fill out his papers.

Mr. Williams asked Mr. Thomas to find out from the Committee if anything could be done for this individual. According to the Plan Attorney, the Contract stated that the pension application would have to be made by a certain fixed date.

Mr. Burke said in order to do that it would be necessary to have an amendment between the unions and the Authority giving an explanation for some extraordinary event. He did not feel the Committee has the power to pass on that. It has to be Divisions 241, 308 and the Authority because they are the ones who negotiated the terms.

Ms. Rayford asked who gives out the retirement date for individuals. Mr. Forte said the General Managers give Mr. Pollack the date an individual can retire and he gives the dates to the employee who is retiring. Mr. Thomas questioned when the Pension Office gets this list and when would they find out if someone revokes.

There was a discussion about the concern about someone revoking after the 7 days has expired. Mr. Hill wanted to know when the Pension Office receives the report that someone has put in their retirement papers. Mr. Forte receives the list after the 7 days has expired. Mr. Hill said that sounds like the reason for the concern.

Mr. Sanford said they have a list which is supposed to be valid of individuals who come in the first day and that would be compared with the list on the 7th day to see who has revoked. Mr. Hill said it is probably valid, but the only individuals who would know this would be Mr. Pollack and Mr. Bruen. Mr. Thomas wants to have a list of the individuals who have revoked. Mr. Forte will get a list of everyone who signed up and revoked.

Mr. Hill felt the Committee has the right to make sure there is a process in place that guarantees that no one can revoke beyond the 7 days. Mr. Hill is not saying that there is something wrong. He is just saying there should be a process in place that gives everyone a comfort level that no one just independently decides to manipulate the program. Mr. Forte has a list of all the people that signed up and did not revoke which comes to about 1544 people. Mr. Hill felt that the simplest, most straightforward way is if the Pension Office is notified the day retirement applications are submitted. Mr. Hill asked Mr. Sanford to work with Mr. Pollack on this information. Mr. Collins asked Mr. Sanford how many revocations there had been. Mr. Sanford said there were approximately 8. Mr. Thomas wanted a list of the people who revoked.

Mr. Forte told about the letter he received from a former CTA Security Officer named Harvey Bell. He asked if he could repay his contributions now so he can retire. Mr. Forte sent a form letter.

Mr. Forte brought up the fact that the 3 top officers of 241 retired in April. As of July 22, 1997, the CTA portion of the pension contributions for 1995 and 1996 have not been received. The union officers have contributed to the Plan but the CTA has not contributed. Mr. Buetow will check on that.

Mr. Morris asked the Plan Attorney if they were legally bound by that part of the labor agreement that says that if alcohol is the cause of a person's illness, they cannot retire. Mr. Burke said that the contract provides that alcohol bars an individual from receiving a retirement benefit. Whether that provision in the contract would withstand a court challenge is an open question. There is no case authority which says that contract provision is wrong. No ruling has come from the feds and there is nothing that has come down from the IRS. There are writings and opinions being expressed by people saying that should not be the case. As of the present moment, Mr. Burke said he could say that this is an illegal provision in the contract. If the contract provision were challenged in a court action, the court might hold that this is not a permissible provision in the contract but at the present point in time there is nothing he could say that this definitively says that is an illegal provision in the contract. Unless the union and the Authority would like to change the contract provision, the provision would stay unless and until it is challenged in court and a judge says it is illegal.

Mr. Collins told about a ruling more or less from Dr. Realiza where a person has an alcohol problem as well as a psychology problem. The position she is about to take on that is if the alcoholic or EAP can sufficiently show that the person has been rehabilitated from the alcohol problem, they will then allow the disability based on the psychology problem.

On a motion by Mr. Thomas, seconded by Ms. Leonis, the Committee unanimously approved the General Administration Meeting.

7. Old Business - The Plan Attorney discussed how he met with Ms. Beavers and Mr. Burke wrote to the Chairman with a suggestion regarding implementation of the WBE/MBE regarding investment guidelines. He would like it considered at the next meeting.

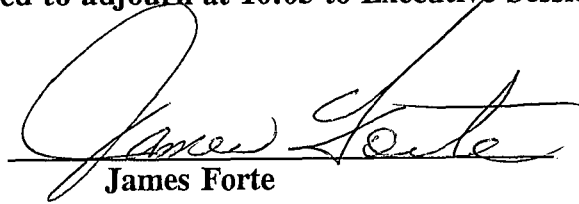
Ms. Rayford asked if there was a report on tax deferring our pension deductions. The Plan Attorney said if the Authority and the unions could structure a system whereby the individual contributions by the employee could be taken pre-taxable income rather than post-taxable income, if the Authority and the unions are receptive to implementing that system.

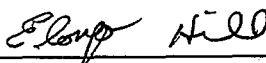
8. New Business - None
9. Financial Report - Mr. Hill asked Mr. Buetow to make the financial report part of the Investment Subcommittee in the future. Mr. Buetow agreed.

Lewis Smith then turned the Committee's attention to Report of Deposits, Disbursements and Investment in the Trustee Summary and noted that for the month of June, the performance for the total fund was 3.0 %, and the value of the

total assets of the Plan as of June 30, 1997, amounted to \$1,630,676,941. Mr. Joachimi was asked where our Fund ranks. He said through March it was in the top quarter of all balanced funds. The total fund for a long time shows it did better with real estate than without real estate.

10. The Committee unanimously agreed to adjourn at 10:05 to Executive Session.


James Forte


Chairman,
Retirement Allowance Committee

Dated: August 26, 1997
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