RETIREMENT PLAN FOR CTA EMPLOYEES

ACTUARIAL VALUATION AS OF JANUARY 1, 2007

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September 24, 2007

Mr. John Kallianis
Executive Director
Retirement Plan for CTA Employees
10 S. LaSalle – Suite 1100
Chicago, IL 60602

Subject: Actuarial Valuation Report for the Year Beginning January 1, 2007

Dear John:

At your request, we have performed an actuarial valuation for the Retirement Plan for Chicago Transit Authority Employees (the "Plan") as of January 1, 2007. This valuation has been performed to measure the funding status of the Plan and develop other reporting requirements mandated by the bargaining agreement. In addition, it includes disclosure information required under GASB Statement Nos. 25 and 43 and a summary of the retiree healthcare subordination test under Internal Revenue Code § 401(h). These actuarial valuations of the Plan are performed annually.

The contribution levels are not determined by this valuation. Contribution levels of six percent for the employer and three percent for active members are set by the bargaining agreement. The current bargained contribution rate of nine percent of pay will not support benefits indefinitely, and Plan assets are projected to be depleted within the next six years. However, Public Act 94-839 changes the contribution requirement starting in 2009 for pension and healthcare benefits. P.A. 94-839 separates pension and healthcare benefits into two separate trusts and requires that pension benefits be funded at 90 percent by the end of 2058 based on level percent of pay contributions. Our valuation does not include the provisions of P.A. 94-839 because it is not effective until January 1, 2009. Projections under the provisions of P.A. 94-839 have been provided in a separate letter and will be updated as necessary.

This valuation is based upon:

> **Data relative to the members of the Plan -** Data for active members and persons receiving benefits from the Plan was provided by the Plan's staff. We have tested this data for reasonableness.
>
> **Asset Values -** The asset amounts of the Plan were provided by the Plan's auditors. The results on the bargaining basis use an actuarial value of assets. The results for GASB purposes use an actuarial value of assets with the GASB 43 assets marked to the market value of the retiree healthcare account as of January 1, 2007.

Actuarial Method - The actuarial method utilized by the Plan is the Projected Unit Credit Cost Method. The objective of this method is to spread the costs of Plan benefits over the career of each employee based on service earned before and after the valuation date. Any Unfunded Actuarial Accrued Liability (UAAL), under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL.

Actuarial Assumptions - The actuarial assumptions have remained the same since last year except for those used to value the reimbursement of healthcare costs. For purposes of the financial reporting under GASB No. 43 applicable to retiree healthcare benefits, the discount rate used to value the reimbursement of healthcare has been reduced from nine percent to five percent. The assumptions are set forth in Section IV: Actuarial Assumptions and Methods.

The valuation results set forth in this report are based on the data and actuarial techniques described above, and upon the provision of the Plan as of the valuation date. Based on these items, we certify these results to be true and correct.

Respectfully yours,

Alex Rivera

Alex Rivera, F.S.A.	Larry Langer, A.S.A.
Senior Consultant	Senior Consultant

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SECTION I

EXECUTIVE SUMMARY

Executive Summary

In accordance with the request of the Retirement Allowance Committee, we have prepared an actuarial valuation of the Retirement Plan for Chicago Transit Authority Employees (the "Plan") as of January 1, 2007. The purposes of an actuarial valuation of a retirement plan include:

(1) To measure the funding status of the Plan as of the valuation date based on bargained assumptions;
(2) To develop the contribution level for the next year which, if made, would support the benefits of the Plan;
(3) To provide accounting information under GASB 25, 27, 43, and 45; and
(4) To provide a summary of the subordination test under IRC § 401(h).

Results based on bargained assumptions and methods are presented in Section II of this report. The development of the IRC § 401(h) account is also presented in Section II of this report. Results for GASB financial reporting purposes are presented in Section III of this report.

Following is a summary of highlights and key changes since the last valuation.

PLAN PROVISIONS

The plan provisions valued have not changed since the actuarial valuation as of January 1, 2006.

ACTUARIAL ASSUMPTIONS

Actuarial assumptions are subject to bargaining and include an investment return assumption of nine percent. An investment return assumption of nine percent will be difficult to achieve given current economic conditions and the Plan's current projected cash flow requirements. Based on the Plan's current asset allocation policy, capital market assumptions provided by the Plan's investment consultant, and without considering any liquidity constraints, the Fund only has a 27 percent likelihood of attaining a cumulative average return of nine percent or better over the next 25 years. Such a low likelihood, combined with liquidity concerns in the near future, implies that a nine percent investment return assumption is an extremely aggressive assumption according to actuarial standards of practice. If the nine percent investment return assumption falls outside the range of reasonableness in subsequent years, as defined in the actuarial standards of practice, then the discount rate used to develop actuarial liabilities for GASB 25 reporting and GASB 27 expensing may need to be reduced. The investment return of nine percent may no longer be defensible if the likelihood of reaching nine percent drops below 25 percent.

There was a change to the assumptions used to value retiree healthcare benefits. We updated the initial trend rate assumption to 10 percent for medical benefits and 12 percent for prescription drug benefits. Previously, the initial trend rate was 8 percent for medical benefits and 10 percent for prescription drug benefits. In addition, the ultimate trend rate was decreased from six percent to five percent. The trend rate is still decreasing at one percentage point per year until the ultimate trend rate is reached.

The Plan is required to disclose information for the retiree healthcare premium reimbursement program in accordance with Governmental Accounting Standard Board Statement Nos. 43 and 45. The GASB 43 and 45 discount rate depends on the plan sponsor's funding and investment policies.

Sponsors that contribute the full actuarially determined amount and invest in a long-term portfolio are generally able to use a discount rate that ranges from 7.5 percent to 8.5 percent, depending on the risk/return characteristics of the portfolio. Sponsors contributing on a pay-as-you-go basis are required to use a discount rate consistent with the investment return on the available source of assets to pay benefits. This generally implies the return on the employer's general fund, which is usually invested in short-term liquid accounts earning three to five percent. Because the CTA contributions allocated to the retiree healthcare account are only about 18 percent of the retiree healthcare ARC or 33 percent of employer paid healthcare benefits in fiscal year end 2006, a discount rate consistent with a pay-as-you-go policy is indicated, and we have assumed a discount rate of five percent.

The five percent investment return assumption applies only to the retiree healthcare program for GASB 43 and 45 reporting purposes. Consequently, our valuation includes two sets of results for the retiree healthcare plan – one set at the bargained investment return assumption of nine percent (disclosed in Section II), and a second set using the GASB 43 and 45 compliant discount rate of five percent (disclosed in Section III).

Prior to fiscal year 2007, the employer recognized annual expense for retiree healthcare benefits on an accrual basis in accordance with the provisions of GASB 27 paragraph 24. Starting with fiscal year 2007, the employer needs to recognize annual OPEB cost under the provisions of GASB 45, which requires the use of a lower discount rate. Starting with fiscal year 2006, the plan needs to disclose information at fiscal year end December 31, 2006, in accordance with the provisions of GASB 43. Consequently, fiscal year 2006 becomes the transition year for the GASB reporting of retiree healthcare benefits.

If the employer adopts GASB 45 in fiscal year 2006, one year earlier than required, the annual required contribution (ARC) for GASB 43 and GASB 45 reporting would be the same. However, if the employer adopts GASB 43 in fiscal year 2006, GASB 45 in fiscal year 2007, and recognizes fiscal year 2006 annual expense for retiree healthcare benefits in accordance with GASB 27, then the development of the fiscal year 2006 ARC could be inconsistent between plan and employer reporting. Consequently, our recommendation for fiscal year 2006 financial reporting is to develop the annual required contribution for fiscal year 2006 based on the valuation at December 31, 2005, and measure the actuarial liability at December 31, 2006. This approach produces consistency between plan and employer accounting. This implies using a discount rate of nine percent at December 31, 2005, and five percent at December 31, 2006, for the valuation of retiree healthcare benefits.

There was a change to the actuarial assumptions used to value pension benefits since the prior actuarial valuation as of January 1, 2006. For new members, with less than a year of participation, and members with reported pay of less than $20,000, we have assumed a minimum pay of $25,000. This was increased from new members and members with a reported pay of less than $15,000 assumed to have a minimum pay of $20,000 in the previous valuation.

ACTUARIAL METHODS

The asset method used for GASB purposes has been updated for this valuation. Previously, the total actuarial value of assets (AVA) was allocated proportionately between pension and healthcare based on liabilities. In this valuation, we have marked the GASB 43 asset value to the market value of the retiree healthcare account as disclosed in the plan's financial statement. The remainder of the AVA is allocated to pension benefits.

The amortization period for purposes of developing the annual required contribution ("ARC") under the GASB standards has changed since the prior valuation. GASB 25 and 27, applicable to pension benefits, requires that the unfunded liability be amortized over a period not to exceed 30 years. Previously 40 years was used. Similarly, the GASB 43 and 45 standards applicable to retiree healthcare benefits limit the amortization period to 30 years. The actuarially determined contributions using the bargained assumptions and methods are based on a 40-year amortization period, and have not been changed from the prior valuation as of January 1, 2006.

FUNDING POLICY

The current funding policy requires contributions of six percent and three percent of payroll from the employer and members, respectively, whereas the actuarially determined contribution requires a total contribution of about 50 percent of pay for 2007, using the bargained assumptions. The funding policy was changed with Public Act 94-839, which requires level percent of pay funding beginning in 2009 such that the Plan reaches a 90 percent funded ratio by the end of 2058. The new funding policy applies to pension benefits only. The public act also requires the separation of the retiree healthcare plan from the Retirement Plan for CTA Employees by January 1, 2009. These provisions did not impact the current valuation results or disclosure. Projections under the provisions of P.A. 94-839 have been provided in a separate letter and will be updated as necessary.

The Plan currently reimburses the CTA for healthcare benefits provided to retired members and their dependents. Based on the provisions of Internal Revenue Code § 401(h), the Plan may be restricted from providing retiree healthcare benefits in the near future. Based on our projections, contributions to the retiree healthcare account are expected to be limited by IRC § 401(h) during fiscal year 2007, because the aggregate limit of 25 percent of total contributions is projected to be reached. After the limit is reached, only 25 percent of prospective contributions can be allocated to the retiree healthcare account. Based on the current income allocation methodology to the retiree healthcare account and assuming a nine percent annualized rate of return from January of 2007 to April of 2009, the retiree healthcare account is projected to be depleted in April of 2009. If assets earn an annualized rate of return of 4.5 percent from January of 2007 to August of 2008, the retiree healthcare account is projected to be depleted in August of 2008. Details of the 401(h) test are shown on page 8 of this report.

CONTRIBUTION REQUIREMENTS FOR PENSION AND RETIREE HEALTHCARE

The following table shows the change in the 40-year amortization contribution for pension and healthcare benefits. As is shown in the table, the current bargained contribution rate of 9.0 percent is significantly lower than what is required to sustain the plan.

($ in Thousands)	January 1, 2006	January 1, 2007
40-year Amortization Contribution		
Amount	$ 290,548	$ 306,877
Rate	50.30%	49.74%
Bargainning Agreement Contribution		
Amount	$ 51,988	$ 55,521
Rate	9.00%	9.00%

Executive Summary (Cont'd)

FUNDING STATUS

The funding status of the Plan is measured as a ratio of the value of pension fund assets to the actuarial accrued liability. The valuation results shown below are based on the bargained assumptions and methods, including an investment return assumption of nine percent. Using this measure, the results of the valuation are as follows:

Funding Status - ($ in Millions)	January 1, 2005	January 1, 2006	January 1, 2007
Actuarial Value of Assets	$ 1,382.3	$ 1,199.1	$ 1,066.2
Actuarial Accrued Liability	3,510.6	3,483.4	3,528.5
Funded Ratio	39.37%	34.42%	30.22%

The decrease in funded ratio is primarily attributable to the following factors:

	2004	2005	2006
Funded Ratio as of January 1:	48.52%	39.37%	34.42%
Change in Funded Ratio Due to:			
Contribution Shortfall	-3.99%	-4.03%	-4.26%
Investment Return	-3.38%	-2.93%	-1.05%
Salary Scale	-0.06%	0.33%	-0.50%
Demographic Experience	-0.65%	-0.37%	0.34%
Claims Experience	-0.21%	1.34%	1.50%
Dependent Premium Experience	-0.13%	0.78%	-0.15%
Update of Healthcare Trend Assumption	-0.99%	0.00%	-0.08%
Additional Healthcare Coverage Data	0.26%	0.00%	0.00%
Update of Healthcare Participation Assumption	0.00%	-0.08%	0.00%
Other Sources	0.00%	0.01%	0.00%
Total Change in Funded Ratio	-9.15%	-4.95%	-4.20%
Funded Ratio as of December 31:	39.37%	34.42%	30.22%

As is shown in the table above, the most significant impact on the funded ratio was the contribution shortfall which decreased the funded ratio by 4.26 percentage points. The net effect of all other factors was to increase the funded ratio by 0.06 percentage points. The continued under-funding of the plan has created a funding crisis that can not be solved by investment return only. Additional contributions above the bargained rate are required to bring the Fund back to a healthy state.

Executive Summary (Cont'd)

PARTICIPANTS

The major characteristics of the data of the members of the Plan are summarized below.

	January 1, 2006	January 1, 2007
Active Participants		
Number	10,644	9,710
Average Age	44.6 yrs	45.4 yrs
Average Service	10.6 yrs	11.6 yrs
Average Annual Salary	$ 54,270	$ 63,533 [1]
Retirees		
Number	7,299	7,358
Average Age	66.4 yrs	66.8 yrs
Average Annual Benefit	$ 23,041	$ 23,463
Disabled		
Number	924	912
Average Age	60.5 yrs	61.1 yrs
Average Annual Benefit	$ 12,730	$ 12,937
Survivors		
Number	775	846
Average Age	75.3 yrs	75.1 yrs
Average Annual Benefit	$ 7,733	$ 8,117
Per Capita Claim Costs		
Pre-Medicare	$ 10,837	$ 10,984
Post-Medicare	$ 3,971	$ 4,143

[1] Increase in average annual salary from 2006 to 2007 reflects retroactive pay increases.

SECTION II

Valuation Results Based on Bargained Assumptions

VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
CONTRIBUTION REQUIREMENTS

The Authority's contribution is six percent of employee compensation and the employees' contribution is three percent of compensation. The Arbitration Board ruling in August 1993 specifies that the unfunded actuarial accrued liability be funded over an open 40-year period based on an interest rate assumption of nine percent. The following table shows contribution rates and funded status based on the assumptions and methods defined in the Arbitration Board ruling of 1993 and the current collective bargaining agreement:

($ in Thousands)		2007
Bargaining Basis		
Normal Cost	$	83,664
40-Year Amortization of Unfunded Actuarial Liability	$	209,998
Interest	$	13,215
Total Contribution for 40-year Amortization	$	306,877
40-year Amortization Contribution Rate		49.74%
Actuarial Accrued Liability	$	3,528,499
Actuarial Value of Assets	$	1,066,161
Funded Ratio		30.22%
Bargaining Agreement Contribution	$	55,521
Bargaining Agreement Contribution Rate		9.00%

The preceding table shows that the Bargaining Agreement Contribution is not sufficient to amortize the unfunded actuarial accrued liability or to fund the annual normal cost. The amortization component of the contribution is expected to increase more rapidly than compensation and will produce a contribution rate that steadily increases over future years under the open 40-year funding policy. The actuarially determined contribution rates based on bargained assumptions and methods are expected to continue to exceed the actual contribution rate of 9.0 percent. Accordingly, additional contribution shortfalls are expected to accumulate.

VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
COMPUTED ACTUARIAL LIABILITIES

EMPLOYEE DATA	01/01/2006	01/01/2007	Expected Annual Pay 01/01/2006	Expected Annual Pay 01/01/2007
Active Employees				
Number of Employees	10,644	9,710	$ 577,645,935	$ 616,904,610
Average Age	44.6 yrs	45.4 yrs		
Average Past Service	10.6 yrs	11.6 yrs		
Terminated Vesteds				
Number of Employees	35	41		

	Number of Participants 01/01/2006	Number of Participants 01/01/2007	Monthly Pension 01/01/2006	Monthly Pension 01/01/2007
Retired Employees & Survivors				
Age/Service Retirements	7,299	7,358	$ 14,014,829	$ 14,386,522
Disability Recipients	924	912	$ 980,175	983,189
Surviving Spouses	775	846	$ 499,391	572,272
Total	8,998	9,116	$ 15,494,394	$ 15,941,983

VALUATION RESULTS (In Thousands of Dollars)	01/01/2006 [1]	01/01/2007 [1]
Annual Normal Cost		
Age/Service Pensions	$ 49,204	$ 53,558
Disability Allowance	4,744	5,103
Pre-Retirement Death Benefits	923	980
Healthcare Premium Reimbursement	28,346	24,023
Total	$ 83,217	$ 83,664
Actuarial Accrued Liability		
Active Employees		
Age/Service Pensions	$ 697,216	$ 786,003
Disability Allowance	41,224	47,389
Pre-Retirement Death Benefits	10,568	12,032
Healthcare Premium Reimbursement	375,856	340,008
Total	$ 1,124,864	$ 1,185,432
Terminated Vested Employees	$ 1,532	$ 1,743
Retired Employees and Survivors		
Age/Service Pensions	$ 1,501,111	$ 1,517,612
Disability Allowance	86,326	84,855
Post-Retirement Death Benefits	16,148	16,472
Healthcare Premium Reimbursement	753,422	722,385
Total	$ 2,357,007	$ 2,341,324
Total Actuarial Accrued Liability	$ 3,483,403	$ 3,528,499
Actuarial Value of Assets	1,199,055	1,066,161
Unfunded Actuarial Accrued Liability	$ 2,284,348	$ 2,462,337
Funded Ratio	**34.42%**	**30.22%**

[1] Valuation results based on the bargaining agreement assumptions including a nine percent return.

VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
RETIREE HEALTHCARE SUBORDINATION TEST UNDER IRC §401(H)

Retirement plans providing retiree healthcare benefits through a qualified pension trust must satisfy the requirements of Internal Revenue Section Code § 401(h) which include:

- The Plan sponsor should establish and maintain a 401(h) account for retiree healthcare benefits.
- The Plan sponsor must allocate total contributions in a reasonable and well defined manner. Currently, total contributions are allocated ratably based on the relationship of the annual required contribution for pension and healthcare benefits.
- The Plan sponsor must allocate investment income in a reasonable and well defined manner. Currently, investment return is allocated ratably based on the relationship of liabilities for pension and healthcare benefits.
- Retiree healthcare benefits must be subordinate to pension benefits. This requirement is satisfied if the cumulative value of contributions made to the 401(h) account for retiree healthcare benefits does not exceed 25 percent of the total contributions made to the trust.

The following tables show the allocation of 2006 contributions and the results of the subordination test through December 31, 2006.

Allocation of Plan Year 2006 Contributions ($ in Thousands):

	Pension	Healthcare	Total
Plan Year 2006 Actuarially Determined Contribution [1]	$194,926	$95,622	$290,548
Percentage	67.09%	32.91%	100.00%
Allocation of 2006 Contributions	$35,902	$17,611	$53,513

[1] Based on bargained assumptions

IRC § 401(h) Subordination Test Contributions ($ in Thousands):

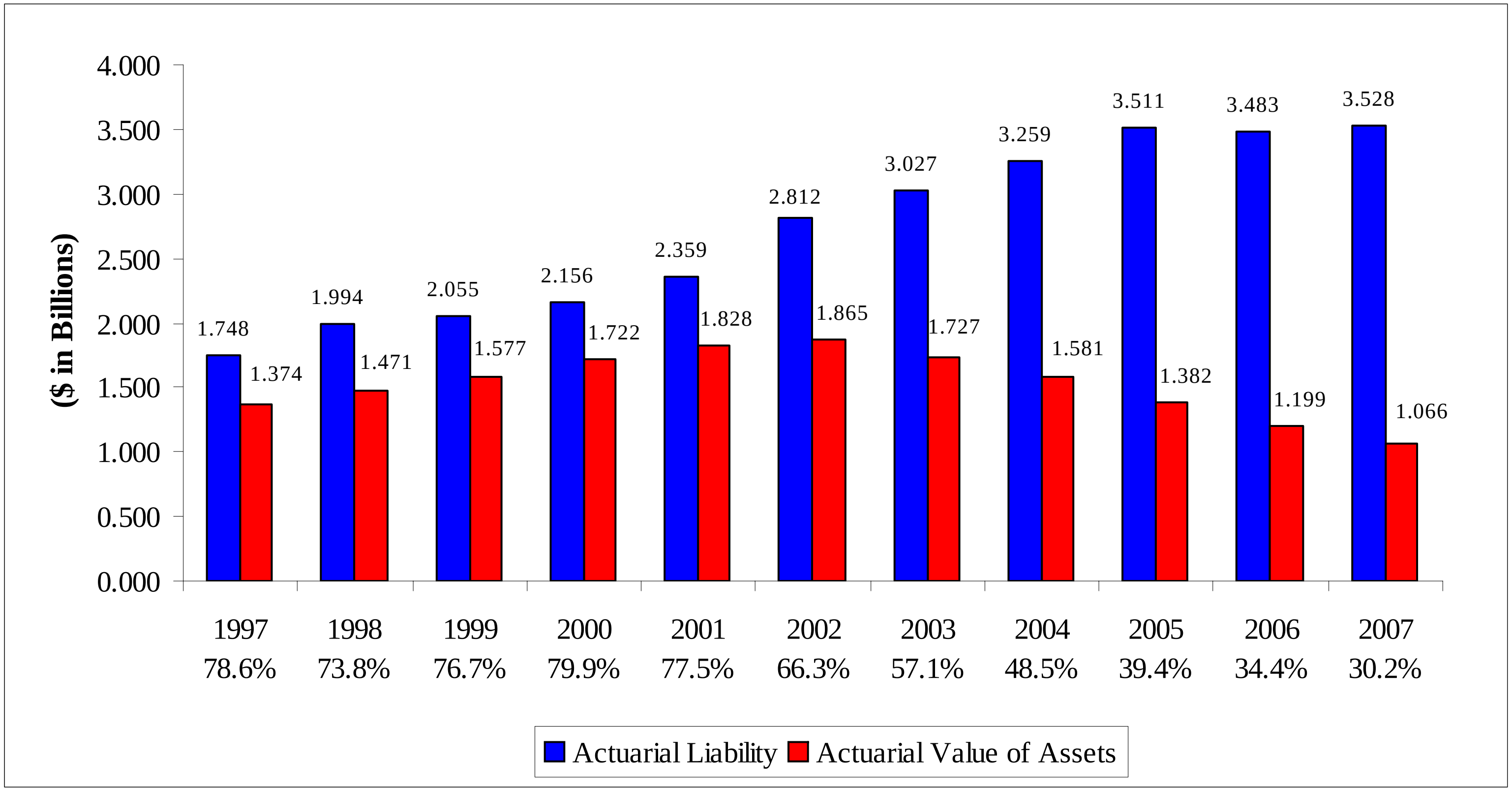
	(a) Pension	(b) Healthcare	Subordination Percentage b/(a+b)
Cumulative Contributions from 01/01/1994 to 12/31/2005	$283,868	$88,401	23.75%
2006 Contributions	$35,902	$17,611	
Cumulative Contributions at 12/31/2006	$319,770	$106,012	24.90%

Based on current Plan provisions and funding policies, the subordination percentage for plan year end 2006 is 24.90 percent, which is less than the statutory limit of 25.00 percent and the Plan satisfies the subordination test in 2006. However, there is a high likelihood that the retiree healthcare contributions will be limited by the subordination test within the next 12 months. The subordination percentage as defined in IRC § 401(h) is equal to the ratio of cumulative healthcare contributions to the sum of cumulative pension contributions, or pension normal cost if less, and cumulative healthcare contributions.

Our projections of the retiree healthcare account were based on the market value at December 31, 2006, and the methodology used to allocate investment earnings, contributions, and expenses during the fiscal year, as disclosed in the Plan's financial statement. Our projections, based on the Plan's use of the methodology as disclosed in the Plan's financial statement, does not constitute an endorsement of the methodology. We understand that the Plan's counsel is aware of the methodology being used.

Chart 1

VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
COMPONENTS OF FUNDING RATIO



The funding ratio has declined each year since 2000.

VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
PLAN EXPERIENCE

The unfunded actuarial accrued liability is expected to increase each year by the amount of the previous year's normal cost plus interest on both the normal cost and the unfunded actuarial accrued liability. Annual contributions are then applied to meet the normal cost plus the amortization of the unfunded actuarial accrued liability. The actual unfunded actuarial accrued liability will differ from the expected amount each year due to variations between actuarial assumptions and actual experience. Plan amendments and revisions to the assumptions will result in additional changes in the Plan's unfunded actuarial accrued liability.

The unfunded actuarial accrued liability at January 1, 2006, was $2,284,348,353. Adding normal cost and interest to the end of the year at the assumed rate of nine percent and subtracting the contributions of $53,513,000 made in 2006 with interest thereon, generates an expected unfunded actuarial accrued liability as of January 1, 2007 of $2,520,952,391. As shown in the second column of Schedule A, the actual unfunded actuarial accrued liability as of January 1, 2007, was $2,462,337,481. The actual unfunded is less than expected, so plan experience during 2006 produced an "actuarial gain" of $58,614,910. This gain is composed of the following elements:

SOURCES OF GAIN (LOSS)

Actuarial assumptions		
Economic		
Investment results	$ (38,182,385)	
Pay increases [1]	(63,174,998)	
		$ (101,357,383)
Demographic		
Retirement	$ 3,885,784	
Disability	1,666,468	
Withdrawal	39,810,740	
New entrants and rehires	(8,839,679)	
Mortality	6,555,941	
		$ 43,079,254
Claims Experience		$ 143,281,247
Premium Experience		$ (16,909,907)
Update of Healthcare Trend Assumption		$ (9,881,791)
Other Sources including data		$ 403,490
Total		$ 58,614,910

[1] Includes loss due to retroactive pay increases.

VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
PLAN EXPERIENCE (CONT'D)

SOURCES OF GAIN (LOSS) (cont'd)

A summary of the major components of the overall actuarial gain follows:

A loss occurred because the rate of investment return during 2006, based on the actuarial value of assets, was 5.8 percent and was less than the assumed rate of 9.0 percent. The actuarial value of assets at January 1, 2007 was $38,182,385 less than would have been expected if the rate of return on the actuarial value of assets had been 9.0 percent.

A loss was generated by pay increases in 2006. The total payroll was higher than expected. If pay had increased for each participant at the assumed rate of 5.5 percent, the actuarial accrued liability at January 1, 2007, would have been less by $63,174,998.

Retirement experience generated a gain of $3,885,784. This gain resulted from a lower number of employees retiring than expected.

The disability assumption produced a gain of $1,666,468 in 2006. This gain occurred because fewer employees became disabled in 2006 than expected.

The withdrawal assumption produced a gain of $39,810,740 in 2006. The unfunded liability of the Plan generally decreases when an employee withdraws from service because the value of benefits earned at withdrawal do no reflect future salary increases.

Dependent premiums were not increased since the last valuation. Our valuation assumes that dependent premiums will be increased each year to reflect annual trend. This produced a loss of $16,909,907.

Healthcare claims increased at a slower rate than expected during 2006, creating a gain of $143,281,247.

A component of loss was related to the healthcare trend assumption. We updated the initial trend rate assumption to 10 percent for medical benefits and 12 percent for prescription drug benefits. In addition, the ultimate trend rate was decreased from six percent to five percent. Changes in the assumed trend rate increased liabilities by $9,881,791.

VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
ASSETS

The market value of assets shown in the Schedule B is based on information provided by the auditors. The market value of assets decreased from $1.184 billion as of December 31, 2005, to $1.120 billion as of December 31, 2006. Page 13 details the development of asset values during 2006, and Page 14 shows the development of the actuarial value of assets as of January 1, 2007. In determining the actuarial value of assets, gains and losses are phased in over five years. As a result, the actuarial value of assets is $1.066 billion and the return on the actuarial value of assets was 5.80 percent even though the market return was 12.23 percent. Even with the market return of more than the assumed rate of 9.0 percent, the market value of assets still decreased. The disbursements are expected to continue to outpace income under the current funding policy.

Following is the asset allocation policy as of January 1, 2007:

Asset Class	**Allocation**
US Fixed Income	4%
US All Cap Stocks	46%
International Equities	5%
Stable Value	23%
US Real Estate	10%
Hedge Funds	6%
Private Equity	6%
Total	**100%**

VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
SCHEDULE B, RECONCILIATION OF ASSETS

	Pension Market Value	Healthcare Market Value	Total Market Value
1. Market Value of assets as of 12/31/2005	$ 1,130,349,811	$ 53,706,000	$ 1,184,055,811
2. Income for plan year:			
a) Member contributions	$ 11,971,026	$ 5,872,000	$ 17,843,026
b) CTA contributions	23,929,974	11,740,000	35,669,974
c) Investment income net of expenses	91,704,112	41,096,000	132,800,112
d) Miscellaneous revenue		-	-
e) Total income	$ 127,605,112	$ 58,708,000	$ 186,313,112
3. Disbursements for plan year:			
a) Pension and death benefits	$ 193,422,881	$ -	$ 193,422,881
b) Health benefits	-	52,787,382	52,787,382
c) Refunds	1,067,559	316,000	1,383,559
d) Administration	2,350,599	455,000	2,805,599
e) Total disbursements	$ 196,841,039	$ 53,558,382	$ 250,399,421
4. Market Value of assets as of 12/31/2006	$ 1,061,113,884	$ 58,855,618	$ 1,119,969,502
5. Estimated rate of return in 2006:			
a) Gross	9.32%	115.82%	12.82%
b) Net of investment expense (Investment expense of $6,407,721)	8.73%	115.01%	12.23%

Method used for calculating rate of return does not reflect specific timing of income and outflows. It is also based on total assets, not invested assets.

Contributions are allocated using the annual required contributions, based on bargained assumptions for the fiscal year. Investment income is allocated between the pension and healthcare accounts based on the proportion of total liabilities. Benefit payments are allocated based on actual disbursements. Refunds and administration are allocated based on an historical average of the annual required contribution.

VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
SCHEDULE B, RECONCILIATION OF ASSETS
(Cont'd)

The allocation of investment income is proportional to actuarial liabilities and consequently artificially inflates the rate of return for the retiree healthcare account and understates the return for the pension account. Had the allocation of investment income been based in proportion to the market value of assets, the rates of return for the retiree healthcare and pension accounts would be closer to the rate of return of the total portfolio. The current investment income allocation methodology will not apply after January 1, 2009, when P.A. 94-839 becomes effective and pension and healthcare programs are separated into two distinct trusts.

Our reporting of the methodology as disclosed in the Plan's financial statement does not constitute an endorsement of the methodology. We understand that the Plan's counsel is aware of the methodology being used.

VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

Year Ended December 31:	2002	2003	2004	2005	2006	2007	2008
A. Actuarial Value Beginning of Year	$1,899,066,970	$1,740,052,328	$1,581,045,979	$1,382,263,971	$1,199,054,944		
B. Market Value End of Year	1,298,624,027	1,377,002,130	1,284,662,081	1,184,055,811	1,119,969,502		
C. Market Value Beginning of Year	1,679,215,503	1,298,624,027	1,377,002,130	1,284,662,081	1,184,055,811		
D. Non-Investment Net Cash Flow	(178,148,646)	(172,493,059)	(219,893,405)	(194,113,356)	(196,886,421)		
E. Investment Return							
E1. Market Total: B - C - D	(202,442,830)	250,871,162	127,553,356	93,507,086	132,800,112		
E2. Amount for Immediate Recognition (9%)	143,112,706	109,113,975	114,034,988	106,884,486	97,705,134		
E3. Amount for Phased-In Recognition: E1-E2	(345,555,536)	141,757,187	13,518,368	(13,377,400)	35,094,978		
F. Phased-In Recognition of Investment Return							
F1. Current Year: 0.2 x E3	(69,111,107)	28,351,437	2,703,674	(2,675,480)	7,018,996	Unknown	Unknown
F2. First Prior Year	(55,248,681)	(69,111,107)	28,351,437	2,703,674	(2,675,480)	7,018,996	Unknown
F3. Second Prior Year	381,086	(55,248,681)	(69,111,107)	28,351,437	2,703,674	(2,675,480)	7,018,996
F4. Third Prior Year	-	381,086	(55,248,681)	(69,111,107)	28,351,437	2,703,674	(2,675,480)
F5. Fourth Prior Year	-	-	381,086	(55,248,681)	(69,111,107)	28,351,437	2,703,674
F6. Total Recognized Investment Gain	**(123,978,702)**	**(95,627,265)**	**(92,923,591)**	**(95,980,157)**	**(33,712,480)**	**35,398,627**	**7,047,190**
G. Actuarial Value End of Year: A + D + E2 + F6	1,740,052,328	1,581,045,979	1,382,263,971	1,199,054,944	1,066,161,177		
H. Actual/Projected Difference between Market and Actuarial Value	(441,428,301)	(204,043,849)	(97,601,890)	(14,999,133)	53,808,325	18,409,698	11,362,508
I. Market Rate of Return	-12.7%	20.7%	10.1%	7.9%	12.2%		
J. Actuarial Rate of Return	1.1%	0.8%	1.4%	0.8%	5.8%		
K. Ratio of Market Value to Actuarial Value	74.6%	87.1%	92.9%	98.7%	105.0%		

The Actuarial Value of Assets recognizes assumed investment return (line E2) fully each year. Differences between actual and assumed investment income (line E3) are recognized over a five-year period at a rate of 20 percent per year. During periods when investment performance exceeds the assumed rate, Actuarial Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Actuarial Value of Assets will tend to be greater than Market Value. *The Actuarial Value of Assets is unbiased with respect to Market Value.* At any time it may be either greater or less than Market Value. If assumed rates are exactly realized for four consecutive years, it will become equal to Market Value. The AVA for healthcare benefits was fresh started as of January 1, 2007, and marked to the market value of the healthcare account ($58,856,000) as disclosed in the Plan's financial statement.

VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
ASSET VALUATION METHOD

An essential step in the valuation process is comparing valuation assets with computed liabilities. Valuation assets are those assets that are recognized for funding purposes.

Asset valuation methods are distinguished by the timing of the recognition of investment income. Total investment income is the sum of ordinary income and capital value changes. Under a pure market value approach, ordinary investment income and all capital value changes would be recognized immediately. Because of market volatility, use of pure market values in retirement funding can result in volatile contribution rates and unstable financial ratios, contrary to Plan objectives.

Under the Plan's asset valuation method (see page 14), assumed investment return is recognized fully each year. Differences between actual and assumed investment return are phased in over a five-year period. During periods when investment performance exceeds the assumed rate, the actuarial value will tend to be less than the market value. Conversely, during periods when investment performance is less than the assumed rate, actuarial value will tend to be greater than market value. If assumed rates are exactly realized for four consecutive years, actuarial value will become equal to market value.

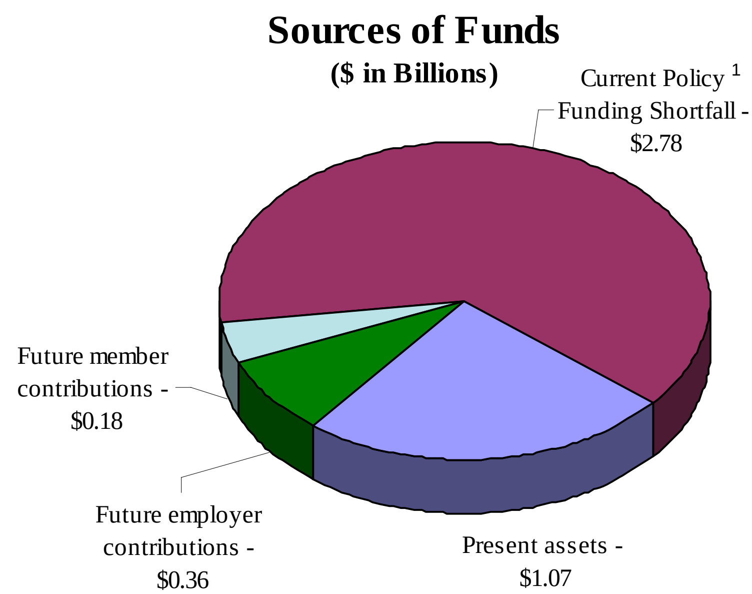
For GASB reporting purposes, the total actuarial value of assets is split between pension and healthcare benefits. The portion allocated to healthcare benefits for GASB 43 purposes has been marked to the market value of the retiree healthcare account as disclosed in the Plan's financial statement. The remainder of the AVA is allocated to pension benefits.

A multi-year comparison of market value to actuarial value is shown below ($ in millions):

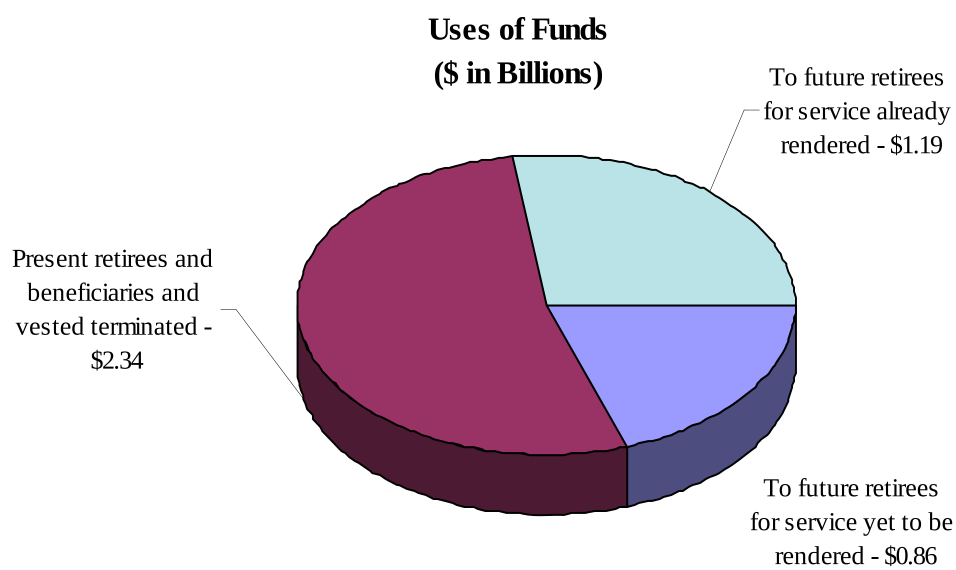
Valuation Date Dec. 31	Market Value of Assets (1)	Actuarial Value of Assets (2)	Ratio of MV to AV (1)/(2)
1994	$1,174	$1,256	93.5%
1995	1,354	1,285	105.4%
1996	1,501	1,374	109.2%
1997	1,726	1,471	117.3%
1998	1,797	1,577	114.0%
1999	1,897	1,722	110.2%
2000	1,925	1,828	105.3%
2001	1,679	1,865	90.1%
2002	1,299	1,740	74.6%
2003	1,377	1,581	87.1%
2004	1,285	1,382	92.9%
2005	1,184	1,199	98.7%
2006	1,120	1,066	105.0%

Chart 2

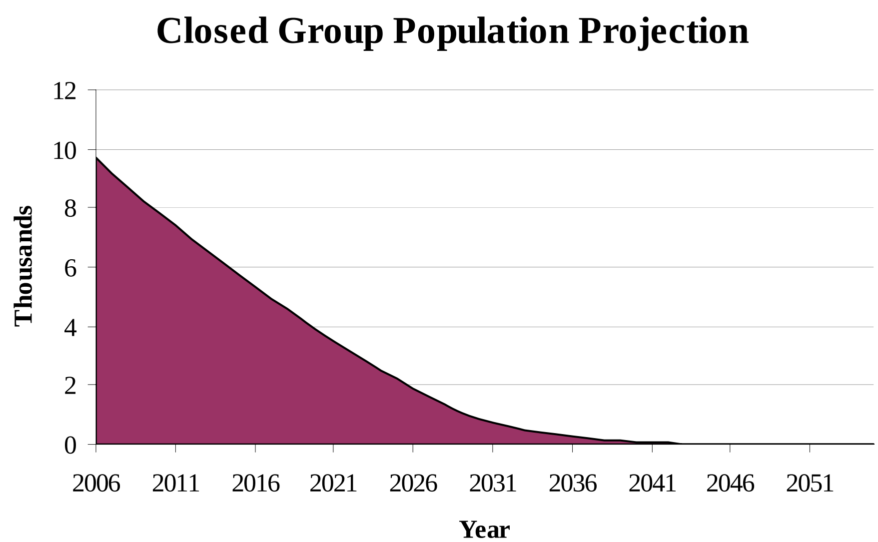
VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS FINANCING $4.39 BILLION OF BENEFIT PROMISES FOR PRESENT ACTIVE AND RETIRED MEMBERS



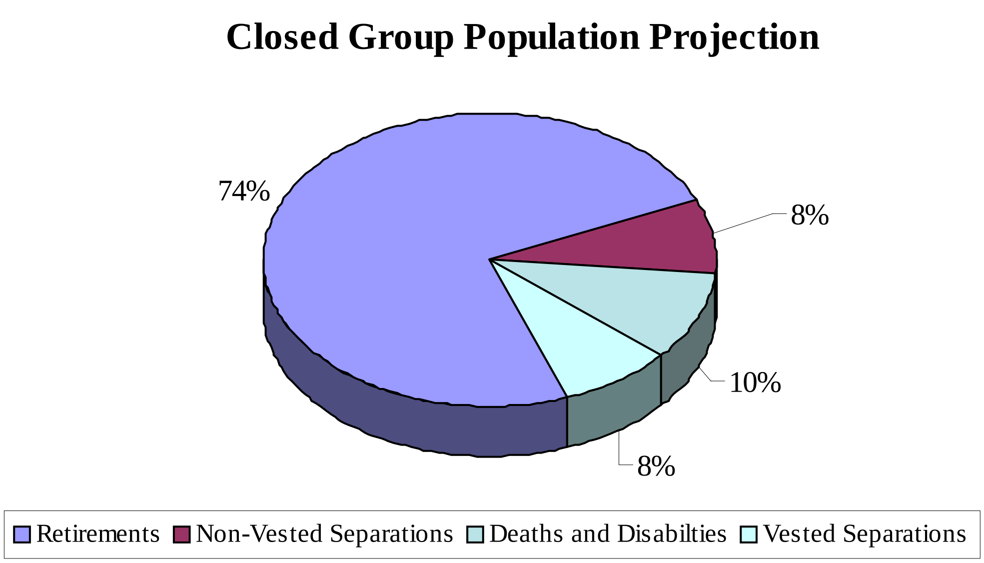
[1] The current funding policy of three percent of pay for employees and six percent of pay for the employer is projected to result in a shortfall of $2.78 billion of the present value of future benefits.



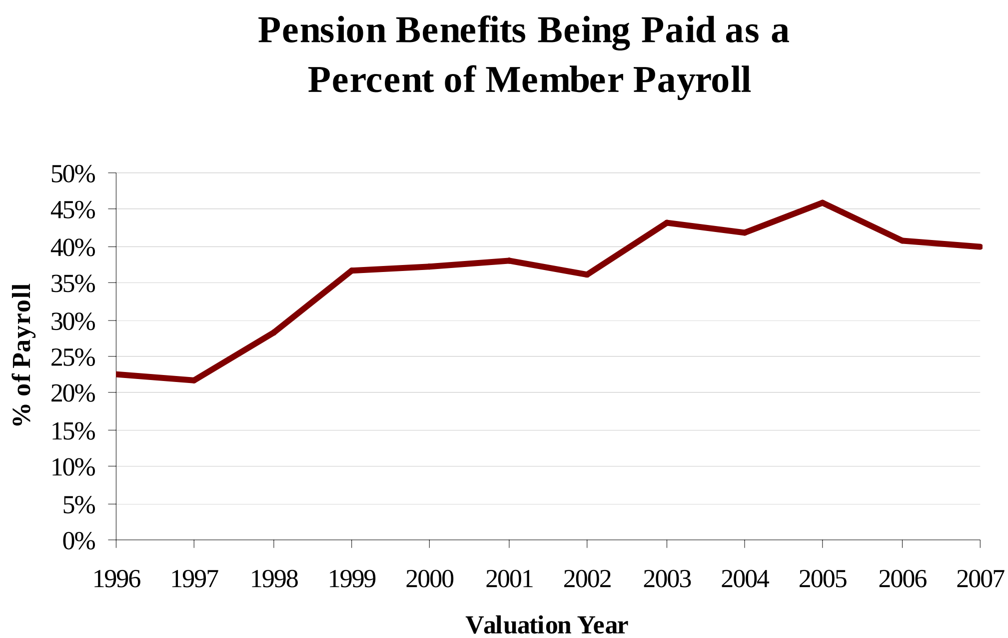
VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
EXPECTED DEVELOPMENT OF PRESENT POPULATION

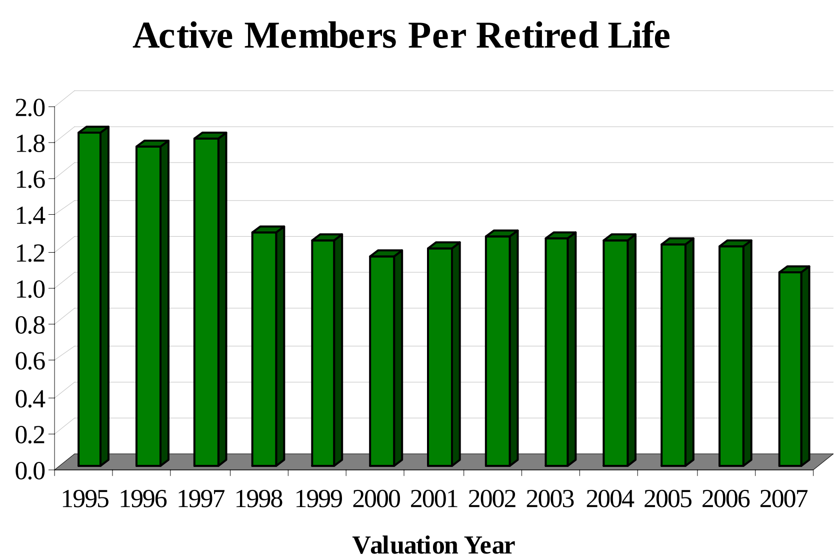


The charts show the expected future development of the present population in simplified terms. The retirement system presently covers 9,710 active members. Eventually, 8 percent of the population is expected to terminate covered employment prior to retirement and forfeit eligibility for an employer provided benefit. Approximately 82 percent of the present population is expected to receive monthly retirement benefits either by retiring directly from active service, or retiring from vested deferred status. 10 percent of the present population is expected to become eligible for death-in-service or disability benefits.



VALUATION RESULTS BASED ON BARGAINED ASSUMPTIONS
DATA TRENDS





SECTION III

GASB DISCLOSURES

GASB STATEMENT NO. 25

Schedule of Funding Progress
(Pension & Healthcare)

In Accordance with Statement No. 25 of the Governmental Accounting Standards Board ($ in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/2007 [a, b]	$1,007,305	$2,466,106	$1,458,801	40.8%	$584,744	249.5%
01/01/2006	1,199,055	3,483,403	2,284,348	34.4%	547,532	417.2%
01/01/2005	1,382,264	3,510,619	2,128,355	39.4%	544,442	390.9%
01/01/2004	1,581,046	3,258,627	1,677,581	48.5%	486,626	344.7%
01/01/2003	1,726,937	3,026,597	1,299,660	57.1%	480,740	270.3%
01/01/2002	1,864,727	2,812,194	947,467	66.3%	459,343	206.3%
01/01/2001	1,828,095	2,358,856	530,761	77.5%	431,703	122.9%
01/01/2000	1,722,215	2,156,279	434,064	79.9%	424,518	102.2%
01/01/1999	1,576,924	2,054,953	478,029	76.7%	407,406	117.3%
01/01/1998	1,470,510	1,994,422	523,912	73.7%	457,717	114.5%
01/01/1997	1,373,715	1,748,190	374,475	78.6%	443,508	84.4%
01/01/1996	1,285,155	1,669,915	384,760	77.0%	414,667	92.8%

[a] Effective December 31, 2006, retiree healthcare benefit liabilities will be recognized under the provisions of GASB No. 43. The results at January 1, 2007, are for pension benefits only. Results prior to January 1, 2007, included liabilities for both pension benefits and retiree healthcare benefits.

[b] Effective January 1, 2007, retiree healthcare assets have been marked to the market value of the retiree healthcare account, and are disclosed under GASB No. 43. Previously, retiree healthcare assets disclosed under GASB No. 25 were allocated in proportion to actuarial accrued liabilities.

The information presented has been reviewed by the Plan's auditor. Please let us know if there are any items that change so that we may maintain consistency with the Plan's financial statements.

GASB STATEMENT NO. 25

Schedule of Employer Contributions
(Pension & Healthcare)

In Accordance with Statement No. 25 of the Governmental Accounting Standards Board ($ in Thousands)

Year Ended 31-Dec	Authority Contribution (a)	Employee Contribution (b)	Total Contribution (a+b)	Annual Required Contribution (c)	Percentage Contributed ([a+b]/c)
2006	35,670	17,843	53,513	290,548	18.4%
2005	30,568	15,066	45,634	277,535	16.4%
2004	30,576	15,316	45,892	231,856	19.8%
2003	29,597	14,840	44,437	177,404	25.0%
2002	29,076	14,538	43,615	142,758	30.6%
2001	27,219	13,639	40,858	82,949	49.3%
2000	25,904	12,981	38,885	73,696	52.8%
1999	25,649	12,874	38,523	76,122	50.6%
1998	24,432	12,165	36,597	82,052	44.6%
1997	12,662	6,366	19,028	68,531	27.8%
1996	26,228	13,165	39,393	66,599	59.1%

Note that the year ended 2006 Annual Required Contribution was not remeasured as suggested in our 2006 valuation report. Please refer to our comment on page 2 of this report for further discussion.

The information presented has been reviewed by the Plan's auditor. Please let us know if there are any items that change so that we may maintain consistency with the Plan's financial statements.

GASB STATEMENT NO. 25

Schedule of Funding Progress
(Pension Only)

In Accordance with Statement No. 25 of the Governmental Accounting Standards Board ($ in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/2007 [a]	$1,007,305	$2,466,106	$1,458,801	40.8%	$584,744	249.5%
01/01/2006	810,336	2,354,125	1,543,790	34.4%	547,532	282.0%
01/01/2005	902,117	2,291,162	1,389,045	39.4%	544,442	255.1%
01/01/2004	1,062,399	2,189,666	1,127,267	48.5%	486,626	231.6%
01/01/2003	1,190,087	2,085,723	895,636	57.1%	480,740	186.3%
01/01/2002	1,355,567	2,044,330	688,763	66.3%	459,343	149.9%
01/01/2001	1,595,609	2,058,871	463,262	77.5%	431,703	107.3%
01/01/2000	1,494,585	1,871,277	376,692	79.9%	424,518	88.7%
01/01/1999	1,363,625	1,776,994	413,369	76.7%	407,406	101.5%
01/01/1998	1,269,568	1,721,888	452,320	73.7%	457,717	98.8%
01/01/1997	1,182,931	1,505,398	322,467	78.6%	443,508	72.7%
01/01/1996	1,098,856	1,427,840	328,984	77.0%	414,667	79.3%

[a] Effective January 1, 2007, retiree healthcare assets have been marked to the market value of the retiree healthcare account, and are disclosed under GASB No. 43. Previously, retiree healthcare assets disclosed under GASB No. 25 were allocated in proportion to actuarial accrued liabilities. Note that the increase in funded ratio is predominantly due to this change and without this change the funded ratio would have declined.

The information presented has been reviewed by the Plan's auditor. Please let us know if there are any items that change so that we may maintain consistency with the Plan's financial statements.

GASB STATEMENT NO. 25

Schedule of Employer Contributions
(Pension Only)

In Accordance with Statement No. 25 of the Governmental Accounting Standards Board ($ in Thousands)

Year Ended 31-Dec	Authority Contribution (a)	Employee Contribution (b)	Total Contribution (a+b)	Annual Required Contribution (c)	Percentage Contributed ([a+b]/c)
2006	23,931	11,971	35,902	194,926	18.4%
2005	19,850	9,784	29,634	180,227	16.4%
2004	20,210	10,123	30,334	153,253	19.8%
2003	19,570	9,813	29,383	117,305	25.0%
2002	19,766	9,883	29,648	97,044	30.6%
2001	24,081	12,067	36,148	73,387	49.3%
2000	22,827	11,439	34,266	64,943	52.8%
1999	22,481	11,284	33,765	66,720	50.6%
1998	21,417	10,664	32,081	71,928	44.6%
1997	11,075	5,568	16,643	59,943	27.8%
1996	22,769	11,429	34,198	57,815	59.2%

The information presented has been reviewed by the Plan's auditor. Please let us know if there are any items that change so that we may maintain consistency with the Plan's financial statements.

GASB STATEMENT NO. 43

Schedule of Funding Progress
(Healthcare Only)

In Accordance with Statement No. 43 of the Governmental Accounting Standards Board ($ in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/2007	$58,856	$1,765,884	$1,707,028	3.3%	$584,744	291.9%

The information presented has been reviewed by the Plan's auditor. Please let us know if there are any items that change so that we may maintain consistency with the Plan's financial statements.

GASB STATEMENT NO. 43

Schedule of Employer Contributions
(Healthcare Only [a])

In Accordance with Statement No. 43 of the Governmental Accounting Standards Board ($ in Thousands)

Year Ended 31-Dec	Authority Contribution (a)	Employee Contribution (b)	Total Contribution (a+b)	Annual Required Contribution (c)	Percentage Contributed ([a+b]/c)
2006	11,739	5,872	17,611	95,622	18.4%

[a] Based on results as of 12/31/2005 with a 9% return assumption. Refer to our commentary on actuarial assumptions on page 2 supporting the use of a 9% return for reporting purposes under GASB 43.

The information presented has been reviewed by the Plan's auditor. Please let us know if there are any items that change so that we may maintain consistency with the Plan's financial statements.

GASB STATEMENT NOS. 25 & 43

Annual Required Contribution
For Fiscal Year Ending December 31, 2007

In Accordance with Statement Nos. 25 & 43 of the Governmental Accounting Standards Board ($ in Thousands)

Fiscal Year 2007	GASB 25 Pension	GASB 43 Healthcare	Total
Assumptions and Methods			
Interest Rate	9.00%	5.00%	N/A
Amortization Period (years)	30	30	30
Amortization Method	Level Dollar	Level Dollar	Level Dollar
Cost Method	PUC	PUC	PUC
Basic Results			
Normal Cost	$ 59,641	$ 53,643	$ 113,284
Actuarial Accrued Liability	2,466,106	1,765,884	4,231,990
Actuarial Value of Assets	1,007,305	58,856	1,066,161
Unfunded Actuarial Liability	$ 1,458,801	$ 1,707,028	$ 3,165,829
Annual Required Contribution (ARC)			
Normal Cost	$ 59,641	$ 53,643	$ 113,284
Amortization of Unfunded Actuarial Liability	130,270	105,757	236,027
Interest Adjustment	8,546	3,985	12,531
Total ARC	$ 198,457	$ 163,385	$ 361,842

GASB STATEMENT NO. 25 REQUIRED SUPPLEMENTARY INFORMATION

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

Valuation Date:	January 1, 2007
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period for Unfunded Accrued Liabilities	30 Years
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	9.0%
Projected Salary Increases	5.5%

Membership of the plan consisted of the following at January 1, 2007, the date of the latest actuarial valuation:

Retirees, disabled and beneficiaries receiving benefits	9,116
Terminated plan members entitled to but not yet receiving benefits	41
Active plan members	9,710
Total	18,867

GASB STATEMENT NO. 43 REQUIRED SUPPLEMENTARY INFORMATION

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

Valuation Date:	January 1, 2007
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period for Unfunded Accrued Liabilities	30 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5.0%
Projected Salary Increases	5.5%
Initial Trend Medical	10.0%
Initial Trend Rx	12.0%
Increment Medical and Rx	1.0%
Ultimate Trend Medical and Rx	5.0%

Membership of the plan consisted of the following at January 1, 2007, the date of the latest actuarial valuation:

Retirees, disabled and beneficiaries receiving benefits	9,116
Terminated plan members entitled to but not yet receiving benefits	41
Active plan members	7,627
Total	16,784

SECTION IV

ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions and Methods used in the Valuation as of January 1, 2007

1. **Rate of Covered Pay:** The rate of covered pay for participants has been estimated at $616,904,610 for 2007. The following adjustments were made to the actual covered earnings for 2006 supplied by the Authority:

    - No earnings or a fractional year of earnings were submitted for employees with a work status date in 2006 who were hired during 2005. We have annualized the 2006 earnings as a participant and assumed minimum earnings of $25,000 per year for this group.
    - For employees on layoff, extended leave of absence, or on inactive status, we have assumed minimum earnings of $25,000 per year.
    - For employees whose 2006 earnings were less than $20,000, we have assumed an annual rate of $25,000 per year.
    - These estimates will increase by 5.5% per year in future valuations.
    - For all employees, 2006 earnings were increased by 5.5% to estimate the rate of pay for 2007.

2. **Retiree Benefits:** The benefit amounts received for retirees were compared to information received from the Authority for the prior valuation.

3. **Actuarial Cost Method:** The normal cost and actuarial liability were determined using the Projected Unit Credit cost method. The normal cost for each individual active member equals the portion of the actuarial present value of projected benefits allocated to service earned during the current year. The actuarial accrued liability for each individual active member equals the portion of the actuarial present value of projected benefits allocated to service earned during prior plan years. The actuarial accrued liability for retired and inactive members equals the present value of benefits.

4. **Asset Valuation Method:** Under the Plan's asset valuation method, assumed investment return is recognized fully each year. The differences between actual and assumed investment return are phased in over a five-year period with 20 percent of the difference between expected and actual return recognized each year. In any year the actuarial value of assets may be higher or lower than the market value of assets, but if the assumed return is earned for four years, the two will be equal. For GASB purposes, OPEB assets are marked to the market value of the retiree healthcare account while the pension assets are the difference between the total AVA and the OPEB assets.

5. **Amortization Method:** Unfunded liabilities are funded as a level dollar. For bargaining purposes, a 40-year period is used. For GASB purposes, a 30-year period is used.

6. **Mortality:**

    (a) *Retirees & Survivors*—According to the 1994 Group Annuity Mortality Table for males and females.

    (b) *Disabled Employees*—According to a blend of 50% of the 1974 Railroad Retirement Board Totally Disabled Annuitants Mortality Table (Ultimate) and 50% of the 1994 Group Annuity Mortality Table for males and females.

7. Interest on the Fund Based on Bargained Assumptions: 9% per annum, compounded annually for both pension and healthcare benefits.

Interest on the Fund for GASB Nos. 25, 27, 43, and 45 Purposes: 9% per annum, compounded annually, for pension benefits and 5% per annum, compounded annually, for healthcare benefits.

8. Withdrawals from Service: According to the following table as shown for illustrative ages:

Age	Rate of Termination for Reasons Other than Death or Disability
22	.0625
27	.0500
32	.0375
37	.0281
42	.0188
47	.0125
52	.0094
55 & Older	–

If service is 25 or greater, no withdrawal is assumed.

9. Disability Allowance: According to the following table as shown for illustrative ages:

Age	Rate of Disability
22	.0020
27	.0020
32	.0020
37	.0040
42	.0060
47	.0075
52	.0100
57	.0135
62	.0175
65 & Older	-

If service is 25 or greater, no disability is assumed.

10. **Compensation Increases:** 5.5% per annum, compounded annually, assumed beginning of year.

11. **Service Retirements:**

	Probability of Retirement	
Age	**If service is less than 25***	**If service is 25 or greater**
50 or less	.000	.075
51–54	.000	.075
55–56	.015	.150
57-59	.020	.150
60	.025	.200
61	.040	.200
62	.200	.550
63–64	.150	.400
65	.600	.750
66-69	.250	.333
70	1.000	1.000

* *For ages under 65, the above rates are multiplied by 75% if service is between 22 and 23 years, 50% if service is between 23 and 24 years and 25% if service is between 24 and 25 years.*

12. **Per Capita Claim Costs:** Per capita claim costs were developed using paid claims, enrollment and expense data for plan years 2004 through 2006. Separate claim costs were developed for coverage under the pre-Medicare PPO, Medicare Supplemental Plan and the Prescription Drug Plan. For members covered by an HMO plan, per capita claim costs were assumed to be 90% of the PPO per capita claim costs. Sample annual per capita claim costs are shown in the following table for PPO members.

	Male			Female		
Age	**Medical**	**Prescription**	**Total**	**Medical**	**Prescription**	**Total**
52	$ 7,019	$ 1,710	$ 8,729	$ 5,939	$ 1,447	$ 7,385
57	8,376	2,040	10,417	7,087	1,726	8,814
62	9,710	2,365	12,076	8,216	2,001	10,217
67	1,503	2,663	4,166	1,272	2,253	3,525
72	1,660	2,940	4,600	1,404	2,488	3,892
77	1,797	3,183	4,979	1,520	2,693	4,213
82	1,888	3,345	5,233	1,598	2,830	4,428

Actuarial Assumptions and Methods used in the Valuation as of January 1, 2007 (Cont'd)

13. **Dependent Contribution Rates:** Dependent contributions have not been updated since the valuation as of January 1, 2006. The average annual dependent contribution rate is approximately $6,161 for pre-Medicare coverage and $2,610 for post-Medicare coverage.

14. **Healthcare Trend Rate:** Per capita claim costs and dependent contribution rates were assumed to increase as follows:

Plan Year	Medical Trend	Prescription Drug Trend
2008	10%	12%
2009	9%	11%
2010	8%	10%
2011	7%	9%
2012	6%	8%
2013	5%	7%
2014	5%	6%
2015 and after	5%	5%

15. **Spouse Data:** 75% of employees eligible at retirement are assumed to be married, 50% of those married are assumed to elect a spouse option (Option A–50%) and the average equivalency factor to convert their accrued pension to a spouse option (Option A–50%) is assumed to be 85%. A wife is assumed to be 3 years younger than her husband. The valuation assumes 50% of all married retirees will elect healthcare coverage for their dependents. Actual dependent coverage data was used for participants retired as of the valuation date.

16. **Asset Valuation:** The actuarial value is determined by adjusting the market value of assets to reflect the investment gains and losses (the difference between the actual investment return and the expected investment return) during each of the last 5 years at the rate of 20% per year.

17. **Dependent Coverage:** 50% of spouses covered under the healthcare plan during retirement are assumed to continue coverage after the death of the retiree.

18. Miscellaneous and technical assumptions:

Pay Increase Timing:	Beginning of (Fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
Decrement Timing:	Decrements of all types are assumed to occur mid-year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Benefit Service:	Exact fractional service is used to determine the amount of benefit payable.
Decrement Relativity:	Decrement rates are used directly based on assumptions, without adjustment for multiple decrement table effects.
Decrement Operation:	Disability and turnover do not operate after 25 years of service.

SECTION V

SUMMARY OF PRINCIPAL PLAN PROVISIONS RECOGNIZED IN THE VALUATION

Summary of Principal Plan Provisions upon which the Actuarial Valuation as of January 1, 2007 has been Based

Eligibility—All non-temporary employees of the Chicago Transit Authority are included in the Plan after completing 12 months of continuous service unless specifically excluded by the terms of a collective bargaining agreement. Exempt non-vested employees may opt out of the plan. Chicago Transit Authority Board members are not included.

Contributions—The Chicago Transit Authority will contribute a percent of compensation for all participating employees and each participating employee will contribute a percent of his compensation to the Plan according to the following schedule:

	Contribution Percentage	
Dates	**Authority**	**Employees**
July 1, 1997 and thereafter	6%	3%

Normal Retirement—The normal retirement age is 65. The annual normal retirement pension is equal to the greater of (a) or (b) below, but not greater than 70.0% of the employee's average annual compensation:

(a) 1% of the employee's past service compensation as of May 31, 1948, for each full year of continuous service prior to June 1, 1949, plus 1-2/3% of the employee's compensation for continuous service after June 1, 1949.

(b) 1% of the employee's average annual compensation for each full year of continuous service prior to June 1, 1949, plus 2.15%[a] of average annual compensation for each year (and fraction to completed calendar months) of continuous service after June 1, 1949.

[a] The Arbitration Award increased the benefit multiplier for service after June 1, 1949, from 1.85% to 2.00% for employees retiring from January 1, 2000, to December 31, 2000, and to 2.15% for employees retiring on and after January 1, 2001. The multiplier for employees retiring before January 1, 2000 remained at 1.85%.

Average annual compensation is equal to the highest average compensation over any four calendar years out of the final 10 calendar years prior to normal retirement (or actual retirement, if later). If an employee has at least 20 years of service, his minimum annual pension is $2,220.

Early Retirement — An employee may retire early after attaining age 55 and completing at least three years of continuous service, or after completion of 25 years of continuous service. The early retirement pension is equal to the accrued normal retirement pension based on compensation and service at early retirement, reduced by 5% for each year or fraction younger than age 65. The 5% per year reduction is not applied if the employee has at least 25 years of service. Employees hired after September 5, 2001 may retire early with unreduced benefits after attaining age 55 and completing at least 25 years of service.

Summary of Principal Plan Provisions upon which the Actuarial Valuation as of January 1, 2007 has been Based (Cont'd)

Disability Allowance— An employee is eligible for a disability allowance if he becomes disabled after completing 10 years of service, or if his disability after completing five years of service is covered under the Workmen's Compensation Act. An employee is disabled if he either (a) is totally and permanently disabled or (b) is unable to return to work after receiving 26 weeks of benefits under the Authority's Group Accident and Sickness Insurance or from the Authority under the Workmen's Compensation Act. An employee is subject to a 26 week waiting period before disability allowance benefits are provided. The disability allowance is equal to the normal retirement pension based on compensation and service at disability subject to a minimum annual pension of $4,800.

Death Benefits—If an employee dies prior to retirement or disability and after one year of service, his contributions, accumulated with interest, are paid to his beneficiary. "Interest" is equal to the rate of interest earned by the Fund (to a maximum of 2%) prior to January 1, 1971, 1/2 of the rate of interest earned by the Fund (to a maximum of 3%) between January 1, 1971, and January 1, 1980, and 3% after December 31, 1979. If an employee dies after 90 days of service but prior to one year of service, his contributions, without interest, are paid to his beneficiary; and if he dies prior to 90 days of service, his contributions are not refunded.

If an employee is eligible for early retirement, he is automatically covered by a surviving spouse benefit, payable upon his death prior to retirement, in lieu of a return of his contributions. The spouse benefit is equal to 1/2 of the pension which would have been payable to the employee if he had retired on the first day of the month of his death and had elected an optional form of pension providing 1/2 of his reduced pension to his surviving spouse. Employees may elect not to be covered by this option and provide for the payment of their contributions with interest to their beneficiary in lieu thereof.

If an employee dies after his retirement pension has commenced, his beneficiary receives the excess, if any, of his contributions, accumulated with interest to his retirement date, over the sum of the pension payments made to him. However, if his surviving spouse is entitled to a pension after his death, such excess will not be paid to his beneficiary. At the death of the surviving spouse, the excess, if any, of the contributions accumulated with interest to his retirement date over the sum of the pension payments made to him and his surviving spouse will be paid.

A retired employee's beneficiary will receive a death benefit equal to the amount from the following schedule according to the employee's age and service at retirement:

Age	Service	Age + Service	Death Benefit
65	20	N/A	$8,000
60	N/A	90	8,000
N/A	25	N/A	8,000
N/A	N/A	94	8,000
60-64	20	N/A	6,000
55-59	20	N/A	5,000
All Others			2,000

Summary of Principal Plan Provisions upon which the Actuarial Valuation as of January 1, 2007 has been Based (Cont'd)

Termination Benefits—If an employee terminates his employment prior to eligibility for retirement or disability and after completing one year of service, he receives a refund of his contributions, plus interest (3% after December 31, 1979). If he terminates after 90 days but prior to one year, he receives his contributions, without interest, and if he terminates less than 90 days after hire, he receives no refund. If an employee has completed 10 years of continuous service and elects to leave his contributions in the Plan, he remains entitled to his normal retirement pension beginning at age 65 but based on his compensation and service at termination.

Optional Benefit Forms—In lieu of a normal pension, an employee may elect an optional annuity of equivalent actuarial value providing payments of 1/2, 2/3, or all of his reduced pension to his spouse after his death (Option A).

Alternatively, an employee may elect an optional annuity of equivalent actuarial value providing payments of 1/2, 2/3, or all of his reduced pension to his spouse after his death with the further provision that his benefit will be restored to the full amount to him after the death of his spouse (Option B).

Retired Employees—Benefits for retired employees have been valued according to benefits in effect at time of retirement as modified by subsequent amendments. Such benefits are kept on records maintained by the Authority.

Reimbursement of Healthcare Costs—The Plan provides for payment towards retirees' group healthcare costs. For purposes of our valuation, we have assumed that all retirees who meet the following conditions will be eligible for group healthcare benefits.

(a) Employees, full-time and part-time, on the payroll on September 5, 2001, upon retirement will receive the hospitalization supplement paid for by the plan.

(b) Retired employees under age 65 will receive a monthly healthcare reimbursement supplement covering the full cost of benefits under the Blue Cross Blue Shield PPO and Prescription Drug Program.

(c) Retired employees age 65 or older will receive a monthly reimbursement supplement covering the full cost of benefits under the Blue Cross Blue Shield Medicare Supplemental Plan and Prescription Drug Program

(d) Dependents of retired employees are also eligible for healthcare coverage provided they make the required contribution.

Summary of Principal Plan Provisions upon which the Actuarial Valuation as of January 1, 2007 has been Based (Cont'd)

Voluntary Early Retirement Incentive Program—During 1997, the Plan was amended to offer enhanced retirement benefits to all employees who have at least 25 years of continuous service on or before December 31, 1999, and who have not retired prior to January 1, 1997. Those eligible on or before June 30, 1997, must elect to participate during the period March 1, 1997, to June 30, 1997. Employees eligible during the period July 1, 1997, to December 31, 1999, must elect to participate between July 1, 1997, and February 28, 1998. All eligible employees who elect to participate must retire no later than December 31, 1999. The benefit is determined based on a formula multiplier of 2.40% of average annual compensation with the benefit cap at 70.0% of such average annual compensation.

Ad hoc increases in retiree benefits—As part of the Arbitration Award ruling of November 13, 2003, the following ad hoc increases were given to retirees in payment status as of January 1, 2000:

- $75 per month for members retired before January 1, 1980
- $50 per month for members who retired on or after January 1, 1980, but before January 1, 1991
- $40 per month for members who retired on or after January 1, 1991, but before January 1, 2000

SECTION VI

PARTICIPANT DATA

Retired Employees at January 1, 2007

Schedule D

Attained Ages	Retirees		Disability		Beneficiaries		Totals	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
<35	0	$ 0	0	$ 0	0	$ 0	0	$ 0
35-39	0	0	5	54,603	1	5,756	6	60,359
40-44	1	11,050	18	242,917	1	1,117	20	255,084
45-49	66	2,086,231	60	808,036	13	155,789	139	3,050,055
50-54	505	15,761,947	127	1,712,654	26	300,441	658	17,775,042
55-59	1,304	37,106,204	206	2,818,561	42	632,528	1,552	40,557,293
60-64	1,735	45,760,141	210	2,833,285	84	778,390	2,029	49,371,817
65-69	1,434	34,093,581	153	1,854,232	101	908,507	1,688	36,856,320
70-74	910	17,699,241	84	1,028,358	109	979,336	1,103	19,706,935
75-79	592	9,412,271	27	269,925	146	1,123,160	765	10,805,356
80-84	444	6,620,508	15	129,021	157	1,135,373	616	7,884,902
85-89	246	3,026,432	6	39,170	108	575,145	360	3,640,747
90-94	96	876,697	1	7,508	49	241,407	146	1,125,612
95-99	24	176,908	0	0	8	26,541	32	203,448
100-104	1	7,058	0	0	1	3,770	2	10,829
105+	0	0	0	0	0	0	0	0
Totals	**7,358**	**$172,638,269**	**912**	**$11,798,271**	**846**	**$6,867,259**	**9,116**	**$191,303,799**

Terminated Vested Data at January 1, 2007

Terminated, Vested Participants

Attained Ages	Terminated Vested No.	Terminated Vested Annual Allowances
<35	1	$ 187,105
35-39	0	0
40-44	1	88,574
45-49	8	1,448,268
50-54	12	1,743,276
55-59	12	1,915,803
60-64	5	512,091
65-69	2	180,741
70-74	0	0
75-79	0	0
Total	**41**	**$6,075,859**

Distribution of Active Employees at January 1, 2007 by Age and Length of Service

	Years of Service									
AGE	Under 1 year	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 and over	Total
Under 20	0	0	0	0	0	0	0	0	0	**0**
20 to 24	23	29	0	0	0	0	0	0	0	**52**
25 to 29	43	347	87	0	0	0	0	0	0	**477**
30 to 34	24	449	311	45	0	0	0	0	0	**829**
35 to 39	26	478	489	317	84	0	0	0	0	**1,394**
40 to 44	20	432	471	411	385	70	0	0	0	**1,789**
45 to 49	11	362	451	306	412	215	73	0	0	**1,830**
50 to 54	6	239	258	240	281	166	222	81	5	**1,498**
55 to 59	6	137	185	172	172	108	162	128	45	**1,115**
60 to 64	1	62	85	83	90	78	78	35	59	**571**
65 and over	0	14	27	26	34	20	16	6	12	**155**
Total Active	**160**	**2,549**	**2,364**	**1,600**	**1,458**	**657**	**551**	**250**	**121**	**9,710**

Number non-vested: 5,073
Number vested: 4,637