RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

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

MITCHELL TITUS
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RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES
For the Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Retirement Plan for Chicago Transit Authority Employees

Report on the Financial Statements

We have audited the accompanying financial statements of the Retirement Plan for Chicago Transit Authority Employees (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

The Plan's 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.

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

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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 which 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)

Management's Discussion and Analysis of the Retirement Plan for Chicago Transit Authority Employees (the Plan) provides an overview and analysis of the financial statements of the Plan, including highlights and comparisons for the years ended December 31, 2018 and 2017. For more detailed information regarding the Plan's financial activities, 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 (U.S. GAAP), 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 the end of the year. The 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; and then benefit payments, refunds, 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 employer's net pension liability and related ratios, a schedule of employer contributions and a schedule of investment returns, as well as the related notes to required supplementary information to discuss actuarial assumptions and methods. Such schedules provide information to aid in the analysis of the Plan's funded status and the internal rate of return on pension plan investments.

- *The Schedule of Changes in the Employer's Net Pension Liability and Related Ratios* shows the liability of the employer to Plan members and retirees for benefits provided through the pension plan and the changes thereof during the year.

- *The Schedule of Employer Contributions* contains historical trend information of employer contributions. It shows the amounts of required employer contributions and the related amounts the employer has contributed to meet its requirement.

- *The Schedule of Investment Returns* shows the period-by-period returns on pension plan investments that adjust for the changing amounts actually invested. It represents an internal rate of return on pension plan investments, net of pension plan investment expenses.

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

The additional schedule provided is the *Schedule of Investment and Administrative Expenses,* which reflects the costs to manage the defined benefit pension plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Financial Highlights

- The fiduciary net position held in trust for Plan benefits totaled approximately $1.71 billion at December 31, 2018, compared to $1.86 billion at December 31, 2017 and $1.73 billion at December 31, 2016. The fiduciary net position is available for payment of members' pensions.

- For the 2018 Plan year, the addition to fiduciary net position was $134.1 million, which consisted of contribution revenue of $195.4 million, decreased by a net investment loss of $61.3 million. The addition to fiduciary net position for the 2017 Plan year was $408.5 million, which consisted of contribution revenue of $174.8 million, increased by a net investment gain of $233.7 million.

- Benefit payments to retirees increased by $5.4 million in 2018, $7.4 million in 2017, and $7.9 million in 2016. Refunds of member contributions increased by $0.1 million in 2018 and $2.5 million in 2017, and decreased by $1.5 million in 2016.

- The funded ratio of the Plan for pension benefits was 52.62% at December 31, 2018, 52.65% at December 31, 2017, compared to 52.49% at December 31, 2016. The slight decrease in the funded ratio at December 31, 2018 compared to December 31, 2017, was mainly due to a market value return of (3.58)% compared to an 8.25% assumed rate of return, demographic experience, updated participant data, and greater-than-expected payroll and salary increases. The increase in the funded ratio at December 31, 2017 compared to December 31, 2016, mainly was due to a market value return of 13.9% compared to an 8.25% assumed rate of return.

Fiduciary Net Position

A condensed schedule of the Plan's fiduciary net position is presented below:

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

	2018	2017	2016	2018-2017 Change $	2018-2017 Change %
Receivables	$ 18.6	$ 16.7	$ 27.8	$ 1.9	11.4 %
Brokers–unsettled trades	13.3	8.4	18.2	4.9	58.3 %
Investments, at fair value	1,699.8	1,849.2	1,725.1	(149.4)	(8.1)%
Invested securities lending collateral	73.6	123.0	126.0	(49.4)	(40.2)%
Total assets	1,805.3	1,997.3	1,897.1	(192.0)	
Brokers–unsettled trades	13.2	5.0	31.2	8.2	164.0 %
Securities lending payable	73.6	123.0	126.0	(49.4)	(40.2)%
Accounts payable and accrued expenses	3.3	3.4	3.5	(0.1)	(2.9)%
Total liabilities	90.1	131.4	160.7	(41.3)	
Fiduciary net position	$ 1,715.2	$ 1,865.9	$ 1,736.4	$(150.7)	(8.1)%

Fiduciary net position decreased by $150.7 million, or 8.1%, at December 31, 2018 from $1,865.9 million at December 31, 2017. It increased by $129.5 million, or 7.5%, at December 31, 2017 from $1,736.4 million at December 31, 2016.

The decrease in fiduciary net position at December 31, 2018, primarily was due to unfavorable market conditions, which decreased investments at year end by $149.4 million. The overall reduction of fiduciary net position was impacted by the liquidation of marketable securities to meet monthly benefit obligations because member and employer contributions and investment returns were less than benefit payments.

The increase in fiduciary net position at December 31, 2017, primarily was due to favorable market conditions, which increased investments by $124.1 million at year end. Receivables decreased by $11.1 million at December 31, 2017 compared to the prior year because of the timing of deposit of contributions. In 2016, receivables included November and December contributions compared to 2017, in which only December contributions were included.

Changes in Fiduciary Net Position

The following schedule presents a condensed comparison of various changes in the Plan's fiduciary net position:

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

	2018	2017	2016	2018-2017 Change $	2018-2017 Change %
Additions					
Member contributions	$ 78.3	$ 70.3	$ 59.6	$ 8.0	11.4 %
Employer contributions	117.1	104.5	83.8	12.6	12.1 %
Net investment (loss) gain and investment income	(61.3)	233.7	118.6	(295.0)	(126.2)%
Total additions	134.1	408.5	262.0	(274.4)	
Deductions					
Annuity and disability benefits	274.2	268.8	261.4	5.4	2.0 %
Refunds of contributions	7.4	7.3	4.8	0.1	1.4 %
Administrative expenses	3.2	2.9	2.6	0.3	10.3 %
Total deductions	284.8	279.0	268.8	5.8	
Net increase (decrease)	$ (150.7)	$ 129.5	$ (6.8)	$ (280.2)	(216.4)%

Additions to the Plan's fiduciary net position are derived from member contributions, employer contributions and investment income. Total additions were $134.1 million in 2018, $408.5 million in 2017 and $262.0 million in 2016.

Total additions of $134.1 million in 2018 were lower than the amounts in 2017, primarily due to a net investment loss of $61.3 million in 2018 compared to a net investment gain of $233.7 million in 2017. This represents a decrease of $295 million, or 126.2%, in 2018 compared to 2017. In 2018, member contributions increased slightly by $8 million, or 11.4%, and employer contributions increased by $12.6 million, or 12.1%, compared to 2017 due to a slight increase in employee salaries.

Total additions of $408.5 million in 2017 were higher than the amounts in 2016, primarily due to a net investment gain of $233.7 million in 2017 compared to a net investment gain of $118.6 million in 2016. This represents an increase of $115.1 million, or 97.0%, in 2017 compared to 2016. In 2017, member contributions increased slightly by $10.7 million, or 18.0%, and employer contributions increased by $20.7 million, or 24.7%, compared to 2016 due to an increase in employee and employer contribution rates.

Deductions increased by $5.8 million in 2018, $10.2 million in 2017, and $6.1 million in 2016. The increases in 2018, 2017 and 2016 were mainly due to increases in annuity and disability benefits. Administrative expenses increased by $0.3 million in 2018, or 10.3%, mainly due to an increase in legal and professional services during the year. Administrative expenses increased by $0.3 million in 2017, or 11.5%, mainly due to an increase in legal and professional services during the year.

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	2018-2017 %
Retirees and beneficiaries receiving benefits	10,482	10,387	10,150	95	0.9 %
Active employees	8,159	8,192	8,129	(33)	(0.4)%
Terminated (inactive members) employees entitled to benefits or refunds of contributions	113	106	105	7	6.6 %
Total	18,754	18,685	18,384	69	0.4 %

Funding Status

The Plan’s funding status for pension benefits is as follows:

Funding Status for Pension Benefits
At December 31, 2018, 2017 and 2016
(in millions)

	2018	2017	2016
GASB Statement No. 67			
Employer’s net pension liability	$1,847	$1,657	$1,721
Plan fiduciary net position as a percentage of the total pension liability	48.15%	52.97%	50.23%
Current funding policy under 40 ILCS 5/22-101(e)			
Unfunded actuarial accrued liability	$1,653	$1,621	$1,586
Funded ratio	52.62%	52.65%	52.49%

Actuarial assumption changes: The Board adopted the recommended changes to the demographic, economic assumptions and optional forms of benefit payment elections at retirement, effective with the January 1, 2019 actuarial valuation. There were no changes to assumptions during the valuation for the year ended December 31, 2017. For statutory funding purposes, during 2016, the asset valuation method was changed from the market value of assets to a five-year smoothed actuarial value of assets.

The table above presents funding information for pension benefits, reflecting the requirements under GASB Statement No. 67 and the current funding policy under 40 Illinois Compiled Status 5 Section 22-101(e).

Effects of Economic Factors

Funding

The Plan's funding objective is to meet long-term benefit obligations by accumulating sufficient assets through contributions and investment income. The Plan is well funded when it has sufficient assets to meet all expected future obligations to participants.

The funded ratio, under 40 ILCS 5/22-101(e) of the Plan was 52.62% at December 31, 2018, 52.65% at December 31, 2017, and 52.49% at December 31, 2016. The slight decrease in the funded ratio at December 31, 2018 compared to December 31, 2017, mainly was due to a market value return of (3.53)% compared to an 8.25% assumed rate of return, demographic experience, updated participant data, payroll and salary increases that were greater than expected. The increase in the funded ratio at December 31, 2017 compared to December 31, 2016, was mainly due to a market value return of 13.9% compared to an 8.25% assumed rate of return.

Effective January 1, 2007, the retiree healthcare assets included in the Retirement Plan were marked to the fair market value of the retiree healthcare account and allocated in proportion to the actuarial accrued liabilities. During 2009, the retiree healthcare liability was transferred from the Retirement Plan to the Retiree Health Care Plan.

Public Act 095-0708 changed the structure and funding of the Retirement Plan significantly. The Act requires that the funding and liability for retiree healthcare be removed from the Retirement Plan. The Act also changed the eligibility for retirement benefits for Chicago Transit Authority (CTA) employees hired after January 17, 2008 and created a separate Retiree Healthcare Trust to administer the benefits for retirees. Further, the Act gave the CTA the authority to issue debt in order to fund the Retirement Plan and the Retiree Healthcare Trust, which was created in May 2008.

Changes to the Plan from Public Act 095-0708 effectively removed the liability for retiree healthcare benefits from the Retirement Plan, effective January 1, 2009. There were no Plan assets available for retiree healthcare benefits in the Retirement Plan since December 31, 2009, as the retiree healthcare liability was transferred to the CTA Retiree Health Care Plan in 2009. There were no legislative or administrative changes that affected the Plan's funding during the years ended December 31, 2018, 2017 and 2016.

Investment Activities

The Plan's fiduciary net position held for investment was $1.71 billion at year-end 2018, a decrease of $8.1 million over 2017, with a total Plan rate of return of (3.2)%. Domestic equity investment managers returned (8.0)%, while non-U.S. equity investment managers returned (14.3)%, and total fixed income returned (0.6)% for the year ended December 31, 2018. The Plan's fiduciary net position held for investment was $1.86 billion at year-end 2017, an increase of $129.5 million over 2016, with a total Plan rate of return of 14.9%. Domestic equity investment managers returned 18.6%, while non-U.S. equity investment managers returned 31.2%, and total fixed income returned 4.9% for the year ended December 31, 2017. The Plan's fiduciary net position held for investment was $1.7 billion at year-end 2016, a decrease of $6.8 million over 2015, with a total Plan rate of return of 7.2%. Domestic equity investment managers returned a positive 14.1%, while non-U.S. equity investment managers returned a positive 3.9%, and total fixed income returned a positive 4.9% for the year ended December 31, 2016.

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 its assets in-line with the newly adopted policy target. Investment asset allocation for 2018 and 2017 was 28% of assets invested in domestic equity, 21% in international equity, 17% in real estate (including 5% in infrastructure), 10% in private equity, 7% in hedge funds, and 17% in fixed income. During 2018, 2017 and 2016, the Plan's investment asset allocation stayed within its target asset allocation ranges.

Investment Returns
(Calendar Year Gross of Fees Performance Basis)
Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
Total Plan	(3.2)%	14.9%	7.2%
Benchmark portfolio	(3.6)	14.1	6.4
Domestic equities	(8.0)%	18.6%	14.1%
Benchmark (Russell 3000)	(5.2)	21.1	12.7
International equities	(14.3)%	31.2%	3.9%
Benchmark (MSCI EAFE)	(14.2)	27.2	4.5
Fixed income	(0.6)%	4.9%	4.9%
Benchmark (Barclays Aggregate)	0.0	3.5	2.6
Real estate	7.5 %	7.6%	8.3%
Benchmark (CPI +5.5% over rolling five-year periods)	7.0	7.2	7.2
Private equity	9.9 %	14.8%	3.0%
Benchmark (Cambridge Associates All PE)	10.5	18.7	9.7
Hedge fund	(1.0)%	5.3%	0.6%
Benchmark (HFRI FOF Conservative Index)	(0.9)	4.1	1.9

Subsequent Events

Starting January 1, 2020, covered employees are required to contribute 13.324% of their salary to the Plan and the employer is required to contribute 20.647%, which is net of a credit for debt service on pension obligation bonds.

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
Retirement Plan for Chicago Transit Authority Employees
55 West Monroe Street, Suite 1950
Chicago, Illinois 60603

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Statements of Fiduciary Net Position
December 31, 2018 and 2017
(Amounts in thousands)

	2018	2017
ASSETS		
Deposits	$ 101	$ 101
Securities lending cash collateral	73,566	122,896
Total cash	73,667	122,997
Receivables		
Employer contributions	8,974	8,349
Employee contributions	5,944	5,645
Securities sold, but not received	13,340	8,400
Accrued interest and dividends	2,685	1,977
Other	979	758
Total receivables	31,922	25,129
Prepaid expense	13	14
Investments		
Fixed income	320,526	330,794
Domestic equities	438,113	515,057
International equities	303,425	386,923
Venture capital and partnerships	164,677	145,789
Real estate	243,735	248,134
Hedge funds	109,339	114,687
Infrastructure	84,587	54,106
Short-term investments	35,360	53,673
Total investments	1,699,762	1,849,163
Total assets	1,805,364	1,997,303
LIABILITIES		
Payables		
Collateral payable for securities lending	73,566	122,896
Accounts payable	1,763	1,953
Other payables	1,555	1,538
Securities purchased, but not paid	13,253	5,015
Total liabilities	90,137	131,402
Net position restricted for pensions	$ 1,715,227	$ 1,865,901

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

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

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

	2018	2017
ADDITIONS		
Contributions		
Employer	$ 117,115	$ 104,523
Employee	78,340	70,286
Total contributions	195,455	174,809
Investment income		
Net (depreciation) appreciation in fair value of investments	(84,213)	211,144
Interest and dividends	28,495	28,965
Miscellaneous	37	33
Less: Investment expense, other than from securities lending	(6,053)	(6,849)
Net (loss) income from investing, other than from securities lending	(61,734)	233,293
Securities lending income	521	595
Less: Securities lending expense	(130)	(149)
Net income from securities lending	391	446
Net investment (loss) income	(61,343)	233,739
Total additions	134,112	408,548
DEDUCTIONS		
Benefit payments and contribution refunds		
Benefit payments	274,151	268,776
Contribution refunds, including interest	7,402	7,345
Administrative expenses	3,233	2,895
Total deductions	284,786	279,016
Net (decrease) increase in net position	(150,674)	129,532
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of year	1,865,901	1,736,369
End of year	$ 1,715,227	$ 1,865,901

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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 Retirement Plan for Chicago Transit Authority Employees (the Plan) has no component units and is not a component unit of any other entity.

Basis of Accounting

The Plan's financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized as additions in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan; expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

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 of fiduciary net position at the date of the financial statements and the actuarial information included in the required supplementary information as of the benefit information date, the changes in fiduciary 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.

Deposit and Investments

The Plan is authorized to invest in bonds, notes, and other direct obligations of the U.S. Government and U.S. Government agencies; corporate bonds, debentures, and notes; certain notes secured by mortgages (including pass-through securities); common and preferred stocks; and certain real estate funds, private equity funds, hedge funds, and stable value funds.

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

Deposit and Investments *(continued)*

The Plan does not have a formal deposit and 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 increase (decrease) in the fair value of investments is recognized as a component of investment income.

Deposit and 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. Guaranteed investment contracts are carried at contract value, which is principal plus accumulated interest less any withdrawals. The real estate open-end investment funds are reported at NAV of shares held by the Plan at year end based on independent appraisals of the underlying properties. Hedge funds do not have established market prices and are reported at NAV of shares held by the Plan at year end as estimated by money managers. The fair value of investments in certain private equity funds and real estate closed-end funds have been determined using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments.

Security Transactions

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

Investment Income

Dividend income is recorded on the ex-dividend date. Income from other investments is recorded when earned.

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

Furniture and Office Equipment

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

Administrative Expenses

Administrative expenses are recorded as incurred and budgeted and approved by the Plan's Board of Trustees. Administrative expenses are paid from Plan assets and investment earnings. Certain administrative expenses are allocated between the Plan and the Retiree Health Care Plan based on periodic time and expense studies. The Retiree Health Care Plan provides and administers health care benefits to the CTA's retirees and their dependents and survivors.

Securities Lending Transactions

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets in the statement of fiduciary net position at fair value. Securities received as collateral are reported as assets only if the Plan has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statement of fiduciary net position.

Interest on Refunds of Participant Contributions

Interest on refunds of participant contributions is expensed when the refunds are recorded. Interest on accumulated contributions from continuing participants is reflected in each participant's account annually.

Recently Issued/Adopted Accounting Pronouncements

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an Amendment of GASB Statements No. 67, No. 68, and No. 73.* This Statement addresses certain issues raised by GASB Statement No. 67, No. 68 and No. 73 regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The Plan adopted this Statement in its year ended December 31, 2017. Adoption of this Statement did not have a significant impact on the financial statements.

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

Recently Issued/Adopted Accounting Pronouncements *(continued)*

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 and earlier application is encouraged. Management is evaluating the impact of this Statement on the financial statements and does not anticipate a significant impact on the Plan’s financial statements.

NOTE 2 PLAN DESCRIPTION

Plan Administration: The following brief description of the Plan is provided for general information purposes only. Arbitration awards are periodically handed down and negotiated changes occur. Certain aspects of the Plan are now governed by Illinois state statute (40 ILCS 5/22-101). These changes can revise certain provisions of the Plan regarding the CTA, employee contributions, and employee death benefits. Those changes that have affected the Plan are summarized in the following notes. Participants should refer to the Plan document, as amended, for complete information.

The Plan is a single-employer, contributory defined-benefit public pension plan, covering all full-time CTA permanent employees. The Plan is administered by an 11-member Board of Trustees composed of members appointed by the CTA, the Amalgamated Transit Union (ATU), the Regional Transportation Authority and a member appointed to represent the employees not represented by the ATU. The Board of Trustees has the authority to establish or amend the contribution and benefit provisions under the Plan. The Plan is classified as a “governmental plan” and is, therefore, exempt from certain provisions of the Employee Retirement Income Security Act of 1974.

The Plan was amended, effective January 31, 2012, to comply with applicable laws. Employees who have completed one year of continuous service are eligible for participation.

NOTE 2 PLAN DESCRIPTION *(continued)*

Plan Membership: At December 31, 2018 and 2017, pension plan membership consisted of the following:

	2018	2017
Retirees, disabled participants, and beneficiaries of deceased retirees currently receiving benefits	10,482	10,387
Terminated employees entitled to benefits but not yet receiving benefits	113	106
Active	8,159	8,192
	18,754	18,685

Benefits Provided: Employees are entitled to annual pension benefits upon normal retirement at age 65, in an amount generally based on a percentage of their average annual compensation in the highest four of the 10 preceding years, multiplied by the number of years of continuous participating service. For employees retiring before December 1, 1987, the percentage was 1.65%. The agreement between the CTA and its unions, signed in September 1987, raised the percentage to 1.70% and 1.75% for retirements on or after December 1, 1987 and 1989, respectively. The agreement between the CTA and its unions, signed in August 1993, raised the percentage to 1.80% and 1.85% for retirements on or after January 1, 1993 and January 1, 1995, respectively. The Arbitration Award of November 12, 2003, increased the benefit multiplier for service after June 1, 1949 to 2.00% from 1.85% 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%.

During 1995, a Voluntary Early Retirement Incentive Program was offered, which provided a percentage of 2.05% for employees retiring after January 1, 1994. Employees who met the requirements for early retirement had to respond by February 28, 1995. During 1997, the Plan offered a Voluntary Early Retirement Program to eligible employees who had 25 years of continuous service on or before December 31, 1999, and had not retired prior to January 1, 1997, in the form of a retirement allowance of 2.40% for each year of continuous service, with a maximum retirement allowance of 70% of the employee's annual compensation. All eligible employees who elected to participate were allowed to retire as soon as possible, but no later than December 31, 1999.

The Plan permits early retirement at age 55, generally with reduced benefits. However, in the event of early retirement by an employee who has 25 years or more of continuous service, regardless of their age, benefits will not be reduced. In accordance with Public Act 095-0708, for all employees hired after January 17, 2008, eligibility for an unreduced pension benefit has changed to age 64 with 25 years of service. All retirees receive a monthly pension benefit. Married employees can elect to receive their pension benefits in the form of a joint and survivor option.

NOTE 2 PLAN DESCRIPTION *(continued)*

Death Benefits: Lump-sum death benefits based on age and years of service, ranging from $2,000 to $8,000, are paid to the designated beneficiaries. Also, the excess, if any, of employee contributions plus interest on such contributions over pension benefits previously paid to the retiree, and spouse in the case of a survivorship option, is paid to the designated beneficiary.

Disability Allowance: An employee is eligible for a disability allowance if he or she becomes disabled after completing 10 years of continuous service or, if the disability is covered under the Illinois Workers Compensation Act, after completing five years of continuous service. The disability allowance is based on compensation and service to date of the disability, with a minimum benefit of $400 per month.

Refund of Contributions: A participant's accumulated contributions plus interest (currently 3% annually) are refunded when the participant is separated from service and has less than 10 years of continuous participation, or when a participant with more than 10 years of service is separated and elects to receive a refund of his or her contributions.

Deferred, Vested Retirement: A participant who is separated from service after completing 10 or more years of continuous service who is not eligible for a retirement or disability allowance at separation, and who elects not to receive a refund of his contributions, is entitled to receive, at normal retirement age, a deferred vested pension based on length of service and compensation to date of the separation.

Contributions and Vesting: Contributions from the CTA and employees are based on a percentage of compensation pursuant to various agreements between the CTA and the unions. For years beginning January 1, 2009 through 2040, the amount of contributions to be paid by the CTA, with respect to debt service on bonds issued for contribution to the Plan, is treated as a credit against the amount of required contribution, up to an amount not to exceed 6% of compensation.

Starting January 1, 2020, covered employees are required to contribute 13.324% of their salary to the Plan and the employer is required to contribute 20.647%, which is net of a credit for debt service on pension obligation bonds.

During 2019 and 2018, covered employees were required to contribute 12.01% of their salary to the Plan and the employer was required to contribute 24.019% of compensation, less a credit for debt service of 6%, with a total net employer contribution of 18.019%. During 2017, covered employees were required to contribute 11.962% of their salary to the Plan and the employer was required to contribute 23.925% of compensation, less a credit for debt service of 6%, with a total net employer contribution of 17.925%.

NOTE 2 PLAN DESCRIPTION *(continued)*

In accordance with Public Act 095-0708 (effective January 18, 2008), the CTA issued bonds and notes in the aggregate amount of $1,348,550,000, of which net proceeds of $1,110,500,000 were deposited into the Plan during the year ended December 31, 2008. No bond proceeds were received in 2018 and 2017.

Funding Ratio: According to Public Act 095-0708, beginning in 2009 and ending on December 31, 2039, if the funding ratio is projected to decline below 60% in any year before 2040, the Board of Trustees will determine the increased contribution required each year as a level percentage of payroll over the years remaining until 2040, using the projected-unit credit actuarial cost method, so that the funded ratio does not decline below 60%.

NOTE 3 INVESTMENTS

Investment Policy: The pension plan's policy regarding 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.

To minimize the impact of large losses and to reduce annual variability of returns, the Plan's assets are allocated across major asset classes and diversified broadly within each asset class.

The following was the Board of Trustees' adopted asset allocation policy as of December 31, 2018 and 2017:

	Target Allocation At December 31	
Asset Class	**2018**	**2017**
Fixed income	17%	17%
Domestic equities	28	28
International equities	21	21
Venture capital and partnerships	10	10
Real estate	12	12
Hedge funds	7	7
Infrastructure	5	5

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

NOTE 3 INVESTMENTS *(continued)*

Rate of Return: For the years ended December 31, 2018 and 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (3.58)% and 13.61%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 4 INVESTMENT SUMMARY

The Plan's investments were held by The Northern Trust Company (TNT) as Trustee under a 1996 trust agreement. TNT is also the custodian for the Plan.

The following table summarizes the Plan's investments by type at December 31, 2018 and 2017 (amounts in thousands):

	2018	2017
Asset-backed securities	$ 12,659	$ 14,606
Bank loans	37,558	37,587
Commercial mortgage-backed securities	3,248	2,827
Core fixed-income fund	50,140	-
Corporate bonds	43,044	47,810
Emerging market	51,534	55,145
Global aggregate	53,656	52,600
Government agency securities	5,718	5,700
Government bonds	21,577	49,933
Government mortgage-backed securities	25,121	38,499
Government-issued commercial mortgage-backed securities	1,130	2,482
Index-linked government bonds	384	488
Municipal/provincial bonds	1,772	1,895
Non-government-backed CMOs	948	1,640
Guaranteed investment contracts	12,037	19,582
U.S. equities	438,113	515,057
Foreign equities	303,425	386,923
Venture capital and partnerships	164,677	145,789
Real estate—pooled funds	243,735	248,134
Hedge funds	109,339	114,687
Infrastructure	84,587	54,106
Short-term investments and currency positions	35,360	53,673
Total investments, at fair value	$ 1,699,762	$ 1,849,163

NOTE 5 DEPOSIT AND INVESTMENT RISK

The Plan's deposits and investments are subject to risks, including credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The following describes those risks:

Credit Risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations to pay interest or principal in a timely manner, or that a negative perception of the issuer's ability to make payments will cause a decline in the security's price. One measure of credit risk is the quality ratings issued by national credit rating agencies, such as Moody's Investors Service and Standard & Poor's Financial Services (S&P). The Plan does not have a formal policy regarding aggregate credit quality of fixed-income holdings.

The Plan utilizes external investment management firms to invest in fixed-income securities and credit quality is addressed within the guidelines of the mandate to the investment managers. Unless allowed by the mutually agreed-upon guidelines of the mandate, all securities invested in are investment grade. If a holding falls below investment grade, the manager will immediately notify the Trustees in writing of the event and describe the portfolio manager's plans for dealing with the security.

The following tables provide information on the credit ratings associated with the Plan's investments in debt securities. Ratings were obtained from Standard & Poor's (amounts in thousands):

NOTE 5 DEPOSIT AND INVESTMENT RISK *(continued)*

		December 31, 2018										
Investment Type	**Total**	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**D**	**Not Rated**	**U.S. Gov't. Guaranteed**
Asset-backed securities	$ 12,659	$ 3,929	$ 531	$ 12	$ 3	$ -	$ -	$ -	$ -	$ -	$ 8,184	$ -
Bank loans	37,558	-	-	-	-	-	-	-	-	-	37,558	-
Commercial mortgage-backed securities	3,248	502	-	-	-	-	-	-	-	-	2,746	-
Core fixed-income fund	50,140	-	-	-	-	-	-	-	-	-	50,140	-
Corporate bonds	43,044	268	2,083	12,005	27,201	988	-	-	-	-	499	-
Emerging market	51,534	-	-	-	-	-	-	-	-	-	51,534	-
Global aggregate	53,656	-	-	-	-	-	-	-	-	-	53,656	-
Government agency securities	5,718	2,866	2,798	-	54	-	-	-	-	-	-	-
Government bonds	21,577	-	909	-	197	-	-	-	-	-	2,188	18,283
Government mortgage-backed securities	25,121	-	-	-	-	-	-	-	-	-	-	25,121
Government-issued commercial mortgage-backed securities	1,130	205	-	-	-	-	-	-	-	-	-	925
Index-linked government bonds	384	-	-	-	-	-	-	-	-	-	-	384
Municipal/provincial bonds	1,772	250	656	141	151	-	-	-	-	-	574	-
Non-government-backed CMOs	948	156	273	-	119	26	-	32	-	-	342	-
Guaranteed investment contracts	12,037	-	-	-	-	-	-	-	-	-	12,037	-
Total	$ 320,526	$ 8,176	$ 7,250	$ 12,158	$ 27,725	$ 1,014	$ -	$ 32	$ -	$ -	$ 219,458	$ 44,713

		December 31, 2017										
Investment Type	**Total**	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**D**	**Not Rated**	**U.S. Gov't. Guaranteed**
Asset-backed securities	$ 14,606	$ 5,233	$ 438	$ -	$ -	$ 11	$ 58	$ -	$ -	$ -	$ 8,866	$ -
Bank loans	37,587	-	-	-	-	-	-	-	-	-	37,587	-
Commercial mortgage-backed securities	2,827	595	-	-	-	-	-	-	-	-	2,232	-
Corporate bonds	47,810	375	2,439	14,078	29,524	658	259	-	-	-	477	-
Emerging market	55,145	-	-	-	-	-	-	-	-	-	55,145	-
Global aggregate	52,600	-	-	-	-	-	-	-	-	-	52,600	-
Government agency securities	5,700	1,955	3,593	-	152	-	-	-	-	-	-	-
Government bonds	49,933	-	431	203	431	-	-	-	-	-	-	48,868
Government mortgage-backed securities	38,499	-	-	-	-	-	-	-	-	-	2,222	36,277
Government-issued commercial mortgage-backed securities	2,482	210	-	-	-	-	-	-	-	-	-	2,272
Index-linked government bonds	488	-	-	-	-	-	-	-	-	-	-	488
Municipal/provincial bonds	1,895	248	753	154	158	-	-	-	-	-	582	-
Non-government-backed CMOs	1,640	195	258	252	-	96	-	62	-	55	722	-
Guaranteed investment contracts	19,582	-	-	-	-	-	-	-	-	-	19,582	-
Total	$ 330,794	$ 8,811	$ 7,912	$ 14,687	$ 30,265	$ 765	$ 317	$ 62	$ -	$ 55	$ 180,015	$ 87,905

NOTE 5 DEPOSIT AND INVESTMENT RISK *(continued)*

Custodial Credit Risk: The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Plan will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The custodial credit risk for investments 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 its investments or collateral securities that are in the possession of an outside party.

Deposits consist of a certificate of deposit held in the Plan's name by TNT Company; such certificate of deposit is insured by the Federal Deposit Insurance Corporation. Deposits balance at December 31, 2018 and 2017 was $101,372 and $101,006, respectively.

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. As of December 31, 2018 and 2017, deposits of $419,634 and $1,758,290, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. These amounts are included in short-term investments on the statements of fiduciary net position.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. According to the Plan's investment policy, no purchase shall be made which would cause the holding of any one issuer to exceed 10% of the investment manager's portfolio value at market. The Plan does not have a formal policy in regards to aggregate concentration of credit risk. The following investments represented 5% or more of the Plan's fiduciary net position at December 31, 2018 and 2017 (amount in thousands):

	2018	2017
Northern Trust Collective S&P 500 Index Fund	$113,224	$139,718
Northern Trust Collective MSCI Emerging Markets Fund (a)	$ *	$107,037

(*) Amount is less than 5% of the Plan's fiduciary net position.

Interest Rate Risk: The risk that the fair value of debt securities will decrease due to increases in the prevailing market interest rate. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Plan manages its exposure to interest rate risk by purchasing a combination of short- and long-term investments and by timing cash flow from maturity evenly over time, as necessary, to provide cash flow and liquidity needed for operations.

NOTE 5 DEPOSIT AND INVESTMENT RISK *(continued)*

The following tables show the segmented time distribution of the Plan's investment maturities based on the investments' cash flows.

At December 31, 2018 and 2017, the Plan had the following investments and maturities related to certain fixed-income securities (amounts in thousands):

	2018	Investment Maturities				
Investment Type	Fair Value	Less Than 1 Year	1+ to 6 Years	6+ to 10 Years	More Than 10 Years	Not Determined
Asset-backed securities	$ 12,659	$ -	$ 1,485	$ 2,720	$ 8,454	$ -
Bank loans	37,558	-	-	-	-	37,558
Commercial mortgage-backed securities	3,248	-	-	-	3,248	-
Core fixed-income fund	50,140	-	-	-	-	50,140
Corporate bonds	43,044	1,697	21,991	10,951	8,405	-
Emerging market	51,534	-	-	-	-	51,534
Global aggregate	53,656	-	-	-	-	53,656
Government agency securities	5,718	200	4,314	1,169	35	-
Government bonds	21,577	-	5,452	6,288	9,837	-
Government mortgage-backed securities	25,121	-	469	442	19,012	5,198
Government-issued commercial mortgage-backed securities	1,130	-	331	649	150	-
Index-linked government bonds	384	-	-	384	-	-
Municipal/provincial bonds	1,772	-	-	728	1,044	-
Non-government-backed CMOs	948	254	69	-	625	-
Guaranteed investment contracts	12,037	6,896	3,782	-	-	1,359
Total	$ 320,526	$ 9,047	$ 37,893	$ 23,331	$ 50,810	$ 199,445

	2017	Investment Maturities				
Investment Type	Fair Value	Less Than 1 Year	1+ to 6 Years	6+ to 10 Years	More Than 10 Years	Not Determined
Asset-backed securities	$ 14,606	$ 4	$ 2,726	$ 3,959	$ 7,917	$ -
Bank loans	37,587	-	-	-	-	37,587
Commercial mortgage-backed securities	2,827	-	-	-	2,827	-
Corporate bonds	47,810	2,578	23,808	11,069	10,355	-
Emerging market	55,145	-	-	-	-	55,145
Global aggregate	52,600	-	-	-	-	52,600
Government agency securities	5,700	-	4,333	1,313	54	-
Government bonds	49,933	-	15,965	18,759	15,209	-
Government mortgage-backed securities	38,499	281	614	788	36,816	-
Government-issued commercial mortgage-backed securities	2,482	-	1,603	879	-	-
Index-linked government bonds	488	-	-	402	86	-
Municipal/provincial bonds	1,895	-	-	582	1,313	-
Non-government-backed CMOs	1,640	-	785	-	855	-
Guaranteed investment contracts	19,582	4,173	14,074	-	-	1,335
Total	$ 330,794	$ 7,036	$ 63,908	$ 37,751	$ 75,432	$ 146,667

NOTE 5 DEPOSIT AND INVESTMENT RISK *(continued)*

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. International equity securities purchased by the Plan meet exchange listing requirements; 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 (amounts in thousands):

Investment Type	(US$) 2018	(US$) 2017
Short-term investments and currency position		
Australian dollar	$ 9	$ -
British pound sterling	5	19
Canadian dollar	51	1
Danish krone	1	-
European euro	5	67
Hong Kong dollar	13	-
Japanese yen	12	208
New Israeli shekel	-	2
New Zealand dollar	16	-
Norwegian krone	55	-
Singapore dollar	4	39
South Korean won	188	137
Swiss franc	66	-
Swedish krona	4	99
	$ 429	$ 572

NOTE 5 DEPOSIT AND INVESTMENT RISK *(continued)*

Type of Investment	(US$) 2018	(US$) 2017
Equities		
Australian dollar	$ 5,116	$ 4,406
British pound sterling	18,785	25,779
Canadian dollar	5,184	7,376
Danish krone	5,212	4,207
European euro	33,517	38,956
Hong Kong dollar	3,426	4,130
Japanese yen	17,169	24,400
Mexican peso	2,053	2,265
New Israeli shekel	442	515
New Zealand dollar	447	520
Norwegian krone	591	713
Singapore dollar	353	931
South Korean won	2,887	3,092
Swedish krona	1,335	1,585
Swiss franc	13,192	15,247
	$ 109,709	$ 134,122

Investment Management Fees

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

NOTE 6 FAIR VALUE OF INVESTMENTS

GASB Statement No. 72 (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 that quoted prices included within Level 1 – that are observable for the asset or liability, either directly or indirectly.

NOTE 6 FAIR VALUE OF INVESTMENTS *(continued)*

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

The Plan categorized its fair value measurements within the fair value hierarchy established by U.S. GAAP. The Plan has the following recurring fair value measurements as of December 31, 2018 and 2017 (amounts in thousands):

		Fair Value Measurements Using		
	12/31/2018	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments by fair value level				
Fixed-income investments				
Asset-backed securities	$ 12,659	$ -	$ 7,795	$ 4,864
Limited partnership - Bank loans	37,558	-	-	37,558
Commercial mortgage-backed securities	3,248	-	3,248	-
Corporate bonds	43,044	-	43,044	-
Government agency securities	5,718	-	5,718	-
Government bonds	21,961	-	21,961	-
Government mortgage-backed securities	25,121	-	25,121	-
Government-issued commercial mortgage-backed securities	1,130	-	1,130	-
Municipal/provincial bonds	1,772	-	1,772	-
Non-government-backed CMOs	948	-	948	-
Total fixed-income investments	153,159	-	110,737	42,422
Equity investments				
Common stock and other equity	390,564	390,525	-	39
Common and collective trusts	42,711	42,711	-	-
Total equity investments	433,275	433,236	-	39
Private equity funds				
Private equity - non-real estate focused	92,902	-	-	92,902
Limited partnership - infrastructure	41,876	-	-	41,876
Real estate - closed-end funds	35,565	-	-	35,565
Total private equity	170,343	-	-	170,343
Total investments by fair value level	$ 756,777	$ 433,236	$ 110,737	$ 212,804

NOTE 6 FAIR VALUE OF INVESTMENTS *(continued)*

		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)
Investments by fair value level				
Fixed-income investments				
Asset-backed securities	$ 14,606	$ -	$ 9,735	$ 4,871
Limited partnership - Bank loans	37,587	-	-	37,587
Commercial mortgage-backed securities	2,827	-	2,827	-
Corporate bonds	47,810	-	47,810	-
Government agency securities	5,700	-	5,700	-
Government bonds	50,421	-	50,421	-
Government mortgage-backed securities	38,499	-	38,499	-
Government-issued commercial mortgage-backed securities	2,482	-	2,482	-
Municipal/provincial bonds	1,895	-	1,895	-
Non-government-backed CMOs	1,640	-	990	650
Total fixed-income investments	203,467	-	160,359	43,108
Equity investments				
Corporate stocks	519,969	519,969	-	-
Common and collective trusts	54,106	54,106	-	-
Total equity investments	574,075	574,075	-	-
Private equity funds				
Private equity - non-real estate focus	95,789	-	-	95,789
Real estate - closed-end funds	50,308	-	-	50,308
Total private equity	146,097	-	-	146,097
Total investments by fair value level	$ 923,639	$ 574,075	$ 160,359	$ 189,205

NOTE 6 FAIR VALUE OF INVESTMENTS *(continued)*

	December 31, 2018	December 31, 2017
Investments measured at NAV		
Collective investment funds, fixed	$ 50,140	$ -
Collective investment funds, global fixed	105,190	107,745
Collective investment funds, U.S. equity	168,937	139,717
Collective investment funds, non-U.S. equity	182,037	242,294
Venture capital - open-end funds	71,775	50,000
Real estate funds - open-end funds	208,170	197,826
Hedge funds	109,339	114,687
Total investments measured at NAV	895,588	852,269
Total investments by fair value level	$ 1,652,365	$ 1,775,908
Investments not subject to fair value leveling		
Guaranteed investment contracts	$ 12,037	$ 19,582
Short-term investments and currency positions	35,360	53,673
Total investments not subject to fair value leveling	$ 47,397	$ 73,255

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

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.

Fixed-income investments, equity investments and private equity funds classified in Level 3 of the fair value hierarchy are securities whose stated market price is unobservable by the market place. Many of these securities are priced by the issuers of industry groups. These prices are obtained from various pricing sources by the Fund's custodian bank.

The valuation method for investments measured at NAV per share (or its equivalent) is presented on the following tables (amounts in thousands):

NOTE 6 FAIR VALUE OF INVESTMENTS *(continued)*

	2018					
	Fair Value		Unfunded Commitments		Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Investments measured at NAV						
Collective investment fund, fixed	$	50,140	$	-	Daily	1 to 3 days
Collective investment fund, global fixed		105,190		-	Daily	1 to 3 days
Collective investment fund, U.S. equity		168,937		-	Daily	1 to 3 days
Collective investment fund, non-U.S. equity		182,037		-	Daily	1 to 3 days
Private equity open-end funds		71,775		-	Quarterly	90 days
Real estate open-end funds		208,170		-	Quarterly	90 days
Hedge funds		109,339		-	Quarterly	90 days
Total investments measured at NAV	$	895,588				
Private equity - non-real estate	$	92,902	$	100,294	NA	NA
Limited partnership - infrastructure	$	41,876	$	6,127	NA	NA
Real estate - closed-end funds	$	35,565	$	11,684	NA	NA

	2017					
	Fair Value		Unfunded Commitments		Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Investments measured at NAV						
Collective investment fund, fixed	$	-	$	-	Daily	1 to 3 days
Collective investment fund, global fixed		107,745		-	Daily	1 to 3 days
Collective investment fund, U.S. equity		139,717		-	Daily	1 to 3 days
Collective investment fund, non-U.S. equity		242,294		-	Daily	1 to 3 days
Private equity open-end funds		50,000		-	Quarterly	90 days
Real estate open-end funds		197,826		-	Quarterly	90 days
Hedge funds		114,687		-	Quarterly	90 days
Total investments measured at NAV	$	852,269				
Private equity - non-real estate	$	95,789	$	123,517	NA	NA
Limited partnership - infrastructure	$	-	$	43,000	NA	NA
Real estate - closed-end funds	$	50,308	$	12,751	NA	NA

Collective investment fund, fixed. This fund seeks to capture the performance of a wide spectrum of securities representative of the U.S. investment-grade bond market.

Collective investment funds, global fixed. This type includes investments in two funds: the emerging debt collective trust fund and the global bond plus trust fund.

Emerging market debt collective trust fund. This fund invests in a diversified portfolio of debt securities and other permitted investments. 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 outstanding.

Global plus trust fund. This fund will invest in a portfolio of fixed- and floating-rate debt securities and debt obligations of governments or government-related issuers worldwide as well as derivatives. Units of the fund are issued and redeemed at NAV per unit as determined on the valuation date.

NOTE 6 FAIR VALUE OF INVESTMENTS *(continued)*

Collective investment funds, U.S. equity. At December 31, 2018, this type includes investments that match the return of the S&P 500, S&P 600 and Russell 1000 indexes through investment in substantially all of the stock contained in such indexes. At December 31, 2017, this type includes investments that match the return of the S&P 500 Index.

Collective investment funds, non-U.S. equity. This type includes investments in four funds: two emerging markets funds, emerging markets small-cap fund and non-U.S. large cap core.

Emerging markets funds. These funds invests in equity securities of issuers in emerging markets. 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 outstanding.

Emerging markets small-cap fund. This fund invests primarily in equity securities of small to mid-capitalization companies. 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 outstanding.

Non-U.S. large-cap core. This fund seeks to approximate the risk and return characterized by the MSCI ACWI ex-U.S. Index.

Real estate funds. This type of fund consists of 15 core, value-add, and opportunistic real estate funds. Six funds are open-end private and provide liquidity to investors quarterly, subject to each fund's ability to honor investment and redemption requests. The remaining closed-end private real estate funds includes finite-life pooled private market investment vehicles that are typically structured as limited partnerships, where the investors are limited partners (LPs) and the fund sponsor/manager is the general partner (GP). The LPs have limited control and limited liability. The fair value of the investments in these types have been determined using the NAV per share (or its equivalent) of the investments.

Hedge funds. This type of fund consists of equity long/short, event-driven, multi-strategy, distressed debt and hedged equity fund of funds. There were 4 different funds in December 31, 2018 and eight in 2017. The fair value of the investments in these types has been determined using the NAV per share (or its equivalent) of the investments.

Private equity. These investments can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The fair value of investments in certain private equity funds has been determined using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments.

NOTE 7 NET PENSION LIABILITY OF THE EMPLOYER (CTA)

The components of the net pension liability of the CTA at December 2018 and 2017 were as follows (amounts in thousands):

	2018	2017
Total pension liability	$ 3,562,234	$ 3,522,803
Plan fiduciary net position	(1,715,227)	(1,865,901)
CTA net pension liability	$ 1,847,007	$ 1,656,902
Plan fiduciary net position as a percentage of the total pension liability	48.15%	52.97%

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of December 31, 2018 and 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

	2018	2017
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 pension plan investment expense, including inflation)	8.25%	8.25%

For 2018, the SOA Public Mortality General Below Median generational with Improvement Scale MP-2018, with a 13% increase adjustment for females, was used for active members and healthy retirees. The SOA Public Survivor Mortality General Below Median generational with Improvement Scale MP-2018 was used for survivors. The SOA Public Disability Mortality General Below Median generational with Improvement Scale MP-2018 was used for disabled retirees.

For 2017, the mortality rates for active members and retirees and survivors were based on the RP-2000 Blue Collar Table, base year 2000 fully generational based on Scale BB. Mortality rates for Disabled Employees were based on the RP-2000 Disabled Table, base year 2000 fully generational based on Scale BB.

NOTE 7 NET PENSION LIABILITY OF THE EMPLOYER (CTA) *(continued)*

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study covering plan years from January 1, 2013 through December 31, 2017. The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study covering Plan years from January 1, 2008 through December 31, 2012.

The long-term expected rate of return on pension 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 pension plan investment expense and inflation) are developed for each major asset class. These ranges 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 by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension 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

Asset Class	**2018**	**2017**
Fixed income	2.33%	1.31%
Domestic equities	8.77	9.41
International equities	7.77	8.37
Venture capital and partnerships	11.70	12.54
Real estate	4.60	6.91
Hedge funds	3.80	4.66
Infrastructure	5.66	6.72

Discount Rate: The discount rate used to measure the total pension liability was 8.25%. The projection of cash flows used to determine the discount rate assumed that Plan members and employer contributions will continue to follow the current funding policy. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 7 NET PENSION LIABILITY OF THE EMPLOYER (CTA) *(continued)*

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the CTA, calculated using the discount rate of 8.25%, as well as what the CTA's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.25%) or 1 percentage point higher (9.25%) than the current rate (amounts in thousands):

Net Pension Liability	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
December 31, 2018	$2,184,641	$1,847,007	$1,557,002
December 31, 2017	$1,997,031	$1,656,902	$1,365,529

NOTE 8 DERIVATIVES

The Plan's investment managers may enter into derivative transactions as permitted by their guidelines for hedging or risk reduction, but not for speculative purposes. A derivative financial instrument's payoff depends on the value of an underlying security, such as bond or stock prices, a market index, or commodity prices. Derivative financial instruments involve credit risk and market risk in varying degrees. The Plan did not invest in derivative instruments during 2018 and 2017.

NOTE 9 SECURITIES LENDING PROGRAM

On July 10, 1996, the Board of Trustees entered into a securities lending agreement with TNT. The Plan participates in TNT's securities lending program by lending certain securities to borrowers, thereby earning additional income, which is included in net investment income on the statement of changes in fiduciary net position. Loans of securities through TNT are collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies, equal to at least 102% of the current fair value of the loaned U.S. securities and 105% of the current fair value of the loaned non-U.S. securities. There are risks associated with lending securities, with the most significant being the risk that a borrower may fail to return a portfolio security.

Additionally, the Plan would be exposed to the credit risk of the borrower should the market value of the securities loaned exceed the market value of the collateral pledged. At year-end 2018 and 2017, the Plan did not have credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan.

NOTE 9 SECURITIES LENDING PROGRAM *(continued)*

All securities loans can be terminated on demand by either the Plan or the borrower. At December 31, 2018 and 2017, the average term of the loans was 63 and 75 days, respectively. Cash collateral is invested in the lending agent's short-term investment pool, which at year-ended 2018 and 2017 had an interest sensitivity of 27 days. The relationship between the maturities of the investment pool and the Plan's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Plan cannot determine. The Plan cannot pledge or sell collateral securities received unless the borrower defaults.

Loans outstanding as of December 31, 2018 and 2017 were as follows (amounts in thousands):

	2018	2017
Fair value of securities loaned for cash collateral	$ 72,142	$ 119,728
Total fair value of securities loaned	$ 72,142	$ 119,728
Fair value of cash collateral from borrowers	$ 73,566	$ 122,896
Total fair value of collateral from borrowers	$ 73,566	$ 122,896

NOTE 10 UNFUNDED INVESTMENT COMMITMENTS

The Plan had unfunded commitments of approximately $118.10 million at December 31, 2018 and $179.27 million at December 31, 2017 in connection with real estate and private equity investments.

NOTE 11 RISKS AND UNCERTAINTIES

The Plan invests in investment securities that are exposed to various 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 included in the required supplementary information are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these assumptions, it is reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

NOTE 11 RISKS AND UNCERTAINTIES *(continued)*

The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Because actuarial calculations reflect a long-term perspective, actuarially determined amounts are subject to continual revision, as results are compared to past expectations and new estimates made about the future. Examples include assumptions about mortality, investment returns, and 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 12 LEGAL PROCEEDINGS

Matthews v. Chicago Transit Authority, et al., No. 11 CH 15446 (Circuit Court of Cook County, Illinois) (n/k/a Williams v. Retirement Plan for Chicago Transit Authority Employees, et al.). On April 26, 2011, Plaintiffs Jerry Matthews, Jerry Williams, Tommy Sams, Cynthia Boyne and Charles Brown, all employees and retirees of the Chicago Transit Authority, filed suit against the Chicago Transit Authority ("CTA") and against the Retirement Plan for Chicago Transit Authority Employees, the Board of Trustees of the Retirement Plan for Chicago Transit Authority Employees, the Retiree Health Care Trust, and the Board of Trustees of the Retiree Health Care Trust. The claims were brought on behalf of two purported classes: Class I – CTA employees who retired before January 1, 2007; and Class II CTA employees who were currently employed by the CTA or retired after January I, 2007.

Generally, Plaintiffs challenged the reduction of health care benefits for retirees in the 2007 Collective Bargaining Agreement (CBA) governing CTA employees, and the related provisions of 40 ILCS 5/22-10 I B, which require retirees to pay up to 45% of the cost of their health care benefits. In their Complaint, Plaintiffs: (i) alleged that all Defendants violated the pension protection clause in Article XIII, Section 5 of the Illinois Constitution by reducing their health care benefits (Counts I and V); (ii) asserted claims for breach of contract against the CTA and Retirement Plan based on the 2007 CBA entered into between the CTA and the unions (Counts II and VI); (iii) alleged claims for promissory estoppel against the CTA and the Retirement Plan, alleging those Defendants promised Plaintiffs they would receive fully paid retiree health benefits (Count III and VII); (iv) alleged that the Retirement Plan Board and the Health Trust Board breached their fiduciary duties (Counts IV and VIII); and (v) sought a declaratory judgment against all Defendants claiming Plaintiffs have a legal interest in enforcing past and present CBAs (Count IX).

NOTE 12 LEGAL PROCEEDINGS *(continued)*

The Circuit Court dismissed the case against all Defendants, finding: (i) Plaintiffs who were current CTA employees lacked standing to bring any claims because the unions were the "sole and exclusive" bargaining agents for current CTA employees under the relevant collective bargaining agreements; (ii) Plaintiffs failed to state a claim against the CTA because the CTA had no responsibility for retiree health care benefits; (iii) Plaintiffs failed to state a claim against any of the Defendants because Plaintiffs did not have a vested right in the continuation of free health care coverage; and (iv) Plaintiffs failed to state a claim for breach of fiduciary duty.

Plaintiffs appealed, and the Appellate Court affirmed in part and reversed in part. 2014 IL App (1st) 123348 (April 25, 2014). The Appellate Court upheld the Circuit Court's ruling that the current CTA employees lacked standing to pursue the claims, but found that CTA employees who retired prior to the expiration of the prior 2004 CBA (December 31, 2006), had a vested right to receive the retiree health care benefits that were provided in the prior CBA and had stated a claim for breach of that contract. The Appellate Court also held that the retired CTA employees were entitled to pursue their claims for promissory estoppel against the CTA. The breach of fiduciary duty ruling was not addressed in the appeal.

Defendants appealed to the Illinois Supreme Court. On May 5, 2016, the Illinois Supreme Court affirmed the appellate court in part and reversed in part. 2016 IL 117638. The Supreme Court determined that the Class II Plaintiffs, the current employees bringing claims on behalf of those who retired after January 1, 2007, lacked standing to challenge the 2007 CBA and affirmed the dismissal of their claims. The Supreme Court found that the Class I plaintiff, Jerry Williams, who retired prior to the expiration of the 2004 CBA, had standing to challenge the modification to health care benefits pursuant to the 2007 CBA. The Supreme Court also found that the Williams sufficiently stated a cause of action against the Plan and Trust Defendants for breach of contract, for declaratory judgment, and for violation of the pension protection clause because the rights in the 2004 CBA were an enforceable, vested right as to those who retired before the expiration of that agreement. Finally, the Supreme Court held that the retired employees were not entitled to pursue their claim of promissory estoppel against the CTA because they sought to enforce an obligation that went beyond the terms of the 2004 CBA. The Supreme Court remanded the case to the Circuit Court for further proceedings.

The case is back in the Circuit Court. On May 31, 2017, Plaintiffs were granted leave to file a First Amended Complaint, which removed named Plaintiffs whose claims were dismissed, removed the Chicago Transit Authority as a defendant, and largely removed dismissed claims. The First Amended Complaint lists Jerry Williams as the first named Plaintiff, and adds two retiree named Plaintiffs, Stewart Cooke and Larry Whitehead. The case is now captioned Williams et al. v. Retirement Plan for Chicago Transit Authority Employees, et al.

NOTE 12 LEGAL PROCEEDINGS *(continued)*

The Retirement Plan for Chicago Transit Authority Employees and the Board of Trustees of the Retirement Plan for Chicago Transit Authority Employees ("Plan Defendants") filed a motion to dismiss a portion of the First Amended Complaint, specifically the allegations challenging the composition of the Retirement Plan Board, and answered the remaining counts. In response to the Plan Defendants' motion, Plaintiffs moved to voluntarily dismiss their claims and allegations challenging the composition of the Retirement Plan Board and the Retiree Health Care Trust Board from the First Amended Complaint.

The Retiree Health Care Trust and the Board of Trustees of the Retiree Health Care Trust Defendants ("Trust Defendants") also filed a motion to dismiss all counts of the First Amended Complaint for failure to state a claim. On November 20, 2017, the Court granted the Health Care Trust Defendants motion to dismiss the breach of contract claim, and gave Plaintiffs leave to replead. On December 22, 2017, Plaintiffs filed a Second Amended Complaint. The Health Care Trust Defendants again filed a motion to dismiss the breach of contract claim of the Second Amended Complaint. On July 12, 2018, the Court granted the motion, and again gave Plaintiffs leave to rep lead. On August 3, 2018, Plaintiffs filed their Third Amended Complaint. On September 7, 2018, the Health Care Trust Defendants filed a motion to dismiss the breach of contract claim of the Third Amended Complaint. On April 17, 2019, the Court granted that motion in part and denied the motion in part. Granting the Trust Defendants' motion in part, the Court dismissed Plaintiffs' claim that they were entitled to the same health care plan structure as active employees, including lower co-pays and deductibles. Denying the Trust Defendants' motion in part, the Court held that Plaintiffs (i) had sufficiently alleged that the Retiree Health Care Trust was the successor to the health care obligations in the Retirement Plan Agreement; and (ii) had sufficiently alleged a claim for over-65 Medicare Supplement coverage.

On September 7, 2018, the Plan Defendants filed an Answer and Affirmative Defenses to the Third Amended Complaint, and Counterclaims against the Plaintiffs and the Trust Defendants. On September 28, 2018 and October 4, 2018, respectively, Plaintiffs and the Trust Defendants filed motions to dismiss the Plan Defendants' Counterclaims. On December 4, 2018, the Plan Defendants voluntarily dismissed the counterclaim against the Plaintiffs. On March 27, 2019, the Court granted the Trust Defendants motion to dismiss the Plan Defendants' indemnity and unjust enrichment counterclaims, but granted the Plan leave to replead the indemnity counterclaim. On May 1, 2019, the Plan Defendants filed an amended indemnity counterclaim. On May 13, 2019, the Plan Defendants filed a motion for reconsideration of the Court's order dismissing its unjust enrichment counterclaim against the Trust Defendants. On May 21, 2019, the RHCT filed a motion to dismiss the Plan's amended counterclaim for indemnity. The motions are fully briefed and are set for a ruling on October 16, 2019.

NOTE 12 LEGAL PROCEEDINGS *(continued)*

On June 21, 2019, Plaintiffs filed their second amended motion for class certification. The Court set a briefing schedule: Defendants' responses are due on September 12, 2019; Plaintiffs' reply is due on October 10, 2019; the matter is set for clerk status on October 16, 2019.

The Plan is vigorously defending the matter. At this time, we are unable to determine the amount or range of any potential loss in the event of an unfavorable outcome.

NOTE 13 PRIORITIES AT PLAN TERMINATION

While the CTA intends to maintain the Plan permanently, should the Plan terminate, the Plan's fiduciary net position held in trust for pension benefits would be allocated and used generally to provide the following, in the order indicated:

a. Refunds of participant contributions plus interest, less benefits paid.
b. Retirement and disability benefits to participants who have retired or reached age 65 on the date of termination.
c. In the event a balance remains, it will be used to provide for reduced retirement and disability benefits for all other participants.

NOTE 14 TAX STATUS

The IRS issued a letter of determination dated March 8, 2017, stating that the Plan meets the requirements of a governmental plan under Section 414(d) of the Internal Revenue Code (the Code).

The Plan is required to operate in conformity with the Code to maintain this qualification. The Plan's management is not aware of any course of action or series of events that have occurred, which may adversely affect the Plan's tax status.

NOTE 15 OPERATING LEASE

During 2013, the Plan entered into a new lease agreement for office space, which expires on December 31, 2028. Concurrently with the execution of the lease, the Plan has deposited $100,000 in the form of an irrevocable letter of credit. At December 31, 2018, the remaining future rental lease payments are as follows (amounts in thousands):

Year	Amount
2019	$ 85
2020	87
2021	89
2022	91
2023	93
Thereafter	453
	$ 898

Rent and utilities paid by the Plan were $116,561 in 2018 and $111,839 in 2017. The amount of rent paid for 2018 and 2017 represents 75% of the total amount paid by the Plan. The other 25% is reimbursed by the CTA Retiree Health Care Plan based on management’s expense allocation for the shared office space.

NOTE 16 SUBSEQUENT EVENTS

Starting January 1, 2020, covered employees are required to contribute 13.324% of their salary to the Plan and the employer is required to contribute 20.647%, which is net of a credit for debt service on pension obligation bonds.

REQUIRED SUPPLEMENTARY INFORMATION

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

Schedule of Changes in the Employer’s Net Pension Liability and Related Ratios
(Unaudited)

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	$ 54,814,019	$ 50,432,791	$ 50,111,555	$ 51,357,649	$ 49,066,078
Interest	283,756,721	278,183,536	269,898,773	264,578,983	259,592,822
Difference between expected and actual experience	7,455,309	13,679,323	51,517,655	13,082,408	-
Change in assumptions	(24,726,963)				
Benefit payments, including refunds of member contributions	(281,867,646)	(276,485,263)	(266,566,974)	(260,141,627)	(246,037,562)
Net change in total pension liability	39,431,440	65,810,387	104,961,009	68,877,413	62,621,338
Total pension liability - beginning	3,522,802,506	3,456,992,119	3,352,031,110	3,283,153,697	3,220,532,359
Total pension liability - ended	$ 3,562,233,946	$ 3,522,802,506	$ 3,456,992,119	$ 3,352,031,110	$ 3,283,153,697
Plan's fiduciary net position					
Contributions - employer	$ 117,114,749	$ 104,523,053	$ 83,855,066	$ 82,799,918	$ 82,268,465
Contributions - member	78,339,932	70,285,731	59,560,473	58,993,284	58,566,279
Net investment income	(61,342,883)	233,739,435	118,613,412	8,230,003	71,524,132
Benefit payments, including refunds of member contributions	(281,867,646)	(276,485,263)	(266,566,974)	(260,141,627)	(246,037,562)
Administrative expense	(2,917,728)	(2,531,493)	(2,309,231)	(2,577,197)	(3,123,365)
Net change in plan fiduciary net position	(150,673,576)	129,531,463	(6,847,254)	(112,695,619)	(36,802,051)
Plan's fiduciary net position - beginning	1,865,900,641	1,736,369,178	1,743,216,432	1,855,912,051	1,892,714,102
Plan's fiduciary net position - ended	$ 1,715,227,065	$ 1,865,900,641	$ 1,736,369,178	$ 1,743,216,432	$ 1,855,912,051
Net pension liability - ended	$ 1,847,006,881	$ 1,656,901,865	$ 1,720,622,941	$ 1,608,814,678	$ 1,427,241,646
Plan's fiduciary net position as a percentage of the total pension liability	48.15%	52.97%	50.23%	52.00%	56.53%
Covered-employee payroll	$ 623,036,951	$ 595,046,668	$ 575,443,885	$ 573,548,196	$ 564,827,965
Employer's net pension liability as a percentage of covered-employee payroll	296.45%	278.45%	299.01%	280.50%	252.69%

The above information is required beginning in 2014. Information for the next five years will be presented in future years.

See accompanying Independent Auditor’s Report.

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

Schedule of Employer Contributions

(Amounts in thousands)

(Unaudited)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Employer portion of required contribution contribution on a statutory basis*	$ 112,265	$ 106,662	$ 82,001	$ 81,731	$ 80,488	$ 102,800	$ 61,982	$ 55,976	$ 56,474	$ 34,030
Actual employer contributions	117,115	104,523	83,855	82,800	82,268	79,518	62,788	60,318	56,216	41,448
Contribution deficiency (excess)	$ (4,850)	$ 2,139	$ (1,854)	$ (1,069)	$ (1,780)	$ 23,282	$ (806)	$ (4,342)	$ 258	$ (7,418)
Covered-employee payroll	$ 623,037	$ 595,047	$ 575,444	$ 573,548	$ 564,827	$ 550,616	$ 548,515	$ 541,354	$ 528,288	$ 567,173
Contributions as a percentage of covered-employee payroll	18.02%	17.92%	14.25%	14.25%	14.25%	18.67%	11.30%	10.34%	10.69%	6.00%

*Actuarially determined contributions.

See accompanying Independent Auditor's Report.

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Schedule of Investment Returns
(Unaudited)

	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense (%)	(3.58)	13.61	6.54	(0.27)	4.70

The above information is required beginning in 2014. Information for the next five years will be presented in future years.

See accompanying Independent Auditor's Report.

Actuarial Methods and Assumptions

The total pension liability as of December 31, 2018 was determined by rolling forward the total pension liability as of January 1, 2018 to December 31, 2018, using the following actuarial methods and assumptions that were applied to all periods included in the measurement.

Valuation date:	January 1, 2018
Actuarial cost method:	Entry Age Normal – Level Percentage of Pay
Amortization method:	For pension expense, the difference between expected and actual liability experience and changes of assumptions are amortized over the average of the expected remaining service lives of all members. The difference between projected and actual earnings is amortized over a closed period of five years.
Inflation rate:	3.10%
Projected salary increases:	11% for 1 year of service, 12% for 2 years of service, 16% for 3 years of service, 8% for 4 years of service, and 3.5% thereafter.
Investment rate of return:	8.25%
Retirement age:	Normal retirement age is 65
Mortality:	Active members and Healthy pensioners – The SOA Public Mortality General Below Median generational with Improvement Scale MP-2018 with an adjustment for females. Disabled pensioners – The SOA Public Disability Mortality General Below Median generational with Improvement Scale MP-2018. Survivors – The SOA Public Survivor Mortality General Below Median generational with Improvement Scale MP-2018.
Experience study:	The actuarial assumptions used were based on the results of an actuarial experience study covering Plan years from January 1, 2013 through December 31, 2017.

OTHER INFORMATION

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES
Schedule of Investment and Administrative Expenses
For the Years Ended December 31, 2018 and 2017
(Amounts in thousands)

	2018	2017
INVESTMENT EXPENSES		
Investment management fees	$ 5,399	$ 6,188
Investment consultant	325	325
Trustee fees	329	329
Reporting and monitoring	-	7
Total investment expenses	$ 6,053	$ 6,849
ADMINISTRATIVE EXPENSES		
Personal services		
Staff salaries and fringe benefits	$ 1,086	$ 1,023
Professional services		
Actuarial	43	59
Auditing	82	85
Data processing	76	115
Legal	1,073	669
Benefit payments administration	248	262
Disability administration	315	365
	1,837	1,555
Communication		
Stationery and printing	7	9
Telephone	6	5
Postage and messenger	6	12
	19	26
Office and equipment		
Office space	113	108
Utilities	4	3
Equipment	8	9
Equipment rental	11	11
	136	131
Insurance		
Fiduciary and other insurance	87	81
Miscellaneous		
Seminars and travel	29	33
Supplies	16	11
Court reporting	12	16
Seminars for retirees	7	14
Other	4	5
	68	79
Total administrative expenses	$ 3,233	$ 2,895

See accompanying Independent Auditor's Report.