
History and Founding of the CTA Retiree Health Care Trust

As of April 2009

Legislation passed by the Illinois General Assembly in January 2008 authorized the establishment of the CTA Retiree Health Care Trust (RHCT, or the Trust). The primary responsibility of the CTA RHCT is to provide and administer health care benefits for CTA retirees and their dependents and survivors.

This document provides background information on why and how the Trust was formed and describes how the Trust will work. It also summarizes decisions that have been made, either by the Illinois legislature or the Trustees of the CTA RHCT, that will affect current and future retirement health care benefits for CTA retirees, their dependents, and survivors.

Background

The financial challenges facing the Retirement Plan for Chicago Transit Authority Employees (the Retirement Plan) have been well publicized. At the end of 2006, the CTA Retirement Plan was only 30% funded, which means it could cover only 30% of future expenses, including both pension payments and health care costs. Health care costs were also expected to increase significantly.

Historically, the retiree health care plans offered by the CTA were very generous compared to similar plans offered by other public and private employers. The plans were free for retirees, with a fixed premium rate for dependent coverage regardless of the number of dependents covered. This is very uncommon. When combined with rising health care costs, these plan features meant that the Retirement Plan would have to pay a larger portion of future health care expenses if no changes were made to either the plan design or the payment structure.

Previous Legislative Changes

To address the financial challenges facing the CTA's retirement program, the Illinois legislature passed two laws in 2006 and 2008. These laws are summarized below.

Public Act (PA) 94-839 (June 6, 2006): This Act required the CTA to separate the funding for retiree health care benefits from the funding for pension payments by January 1, 2009.

Public Act (PA) 95-708 (January 18, 2008): This Act amended Section 22-101B of the Illinois Pension Code and Section 3-2.3(a)(7) of the IL State Auditing Act to include the following:

- ◆ The CTA Retiree Health Care Trust (RHCT) must be established as an independent entity to provide health care benefits to CTA retirees, their dependents, and survivors. The Trust must be managed by a Board of Trustees comprised of three union representatives, three representatives appointed by the CTA, and a professional fiduciary appointed by the RTA. The RHCT was expected to assume responsibility for retiree health care benefits some time after January 1, 2009 but not later than July 1, 2009.
- ◆ To be eligible for retiree health care coverage, a CTA employee must be at least 55 years old and have at least 10 continuous years of service if he/she retires after January 18, 2008 (note: the implementation of this change has been, and continues to be, delayed by court order).
- ◆ Once the RHCT assumed financial responsibility for retiree health care (no later than July 1, 2009), the retiree health care benefit program could not offer any plan that includes coinsurance levels higher than 90% coverage for in-network services or 70% coverage for out-of-network services (after a deductible has been paid).

- ◆ The retiree health care benefit program must be reviewed annually to determine if there are sufficient funds to cover its future obligations. If current funds are insufficient, then contribution increases (i.e., increased premiums) and/or benefit decreases (i.e., reduced coverage) must be implemented to eliminate the shortfall within ten years.
- ◆ The total contributions received from participants (i.e., retirees, dependents, and survivors) taken together cannot exceed 45% of total RHCT expenses in the prior plan year.
- ◆ Active employees will be required to contribute at least 3% of their salary to the RHCT effective January 1, 2008.

Establishing the CTA Retiree Health Care Trust

The CTA RHCT was established in May 2008. The Trust was initially funded with approximately \$529 million received from the CTA's issuance of pension obligation bonds. It also receives income from the following sources:

- ◆ **Retiree/dependent/survivor premium contributions.** Historically, retirees only paid medical care premiums for their dependents (approximately 20% of the total cost), and their survivors paid premiums if they continued coverage after a retiree's death. Retirees also paid a portion of the premium cost for dental coverage for themselves and their dependents. Beginning July 1, 2009, the RHCT will begin collecting premium contributions from retirees for their coverage as well.
- ◆ **Payroll deductions from active CTA employees.** Beginning January 1, 2008, all active CTA employees have a percentage (currently 3%) of their gross salary deducted from their paychecks.
- ◆ **Investment returns.** The Trust Fund balance will be invested, and the income from those investments (net of losses and expenses), will be returned to the Fund.

The CTA RHCT will assume full responsibility for the funding, payment and administration of health care benefits for CTA retirees, their dependents, and survivors no later than July 1, 2009.

The Trustees of the CTA RHCT are committed to providing the best possible benefits to CTA retirees and their families while protecting the Fund's assets.