

PensionBenefits, Inc.

Corpus Christi Regional Transportation Authority

Report on Retirement Plans

October 2011

Prepared by:

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October 6, 2011

Regional Transportation Authority
Retirement Committee
5658 Bear Lane
Corpus Christi, Texas 78405

Re: Report on Retirement Plans

Dear Committee Members:

It is with pleasure that we offer our analysis of RTA's retirement plans.

The retirement plans meet RTA's primary objectives:

1. They offer benefits that are comparable or superior to others valued as peers.
2. The long-term contribution levels are within your sustainable range.

This is not to say that there will never be future challenges. The potential downside risks must be managed, particularly the defined benefit pension plan.

We have also included comments from your investment advisor as part of this report. Please see Appendix IV.

We are available to answer any questions that you may have.

Sincerely,

Kien Liew, EA, FCA, MAAA
Consulting Actuary

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Section 1. EXECUTIVE SUMMARY

The key results from this retirement benefits study may be summarized as follows:

1. Benefit Level – as measured by income replacement ratio for an employee retiring with 25 years of service:

Average for three profiles is 86% which is within benefit studies' range of 70% to 90%.

2. Competitiveness – measured using benefit level

As detailed in Section 5, RTA benefit level of 86% is equal to or better than most of its peers.

3. Sustainability – as measured by the cost of providing benefits each year as a percent of compensation:

Year	Percent
2008	8.7%
2009	8.8%
2010	9.1%
2011	9.1%

RTA's normal cost of providing its retirement benefits is sustainable provided the volatility of the defined benefit pension plan is properly managed. The annual contribution is the sum of the normal cost and the amortization payment of the unfunded actuarial accrued liability (UAAL). The challenge is to minimize the volatility of the UAAL. The factors that affect the UAAL volatility are discussed in more detail in Section 3.

4. RTA participation ratio – measured as percent of contributions to employees' retirement benefits

RTA contribution	56%
Employee mandatory contribution	44%

RTA contributes more than 50% of the required contribution and provides vehicles for the employees to save more for retirement on a tax-deferred basis.

5. Keeping the DB Plan current – reviewed by ERISA attorney

David Ralston reviewed the DB Plan document. He concludes that the plan document is up-to-date with current legislation. See Section 7.

PensionBenefits' recommendations:

- Stay with current retirement plan programs.
- Remain outside of Social Security to keep more control with your retirement plans.
- Provide additional contributions in the DC plan when additional funds are available.
- Prioritize risk awareness and develop policy to manage risk exposure. See Sections 3 and 4.
- Adopt a Retirement Policy Statement. A sample is in Appendix I.
- Communicate this information to employees and encourage employees to save to achieve their individual target replacement income.

Section 2. FINDINGS OF RETIREMENT BENEFITS

We will discuss our findings in this section. In addition, we will provide advice if appropriate.

2.1 Retirement benefits level

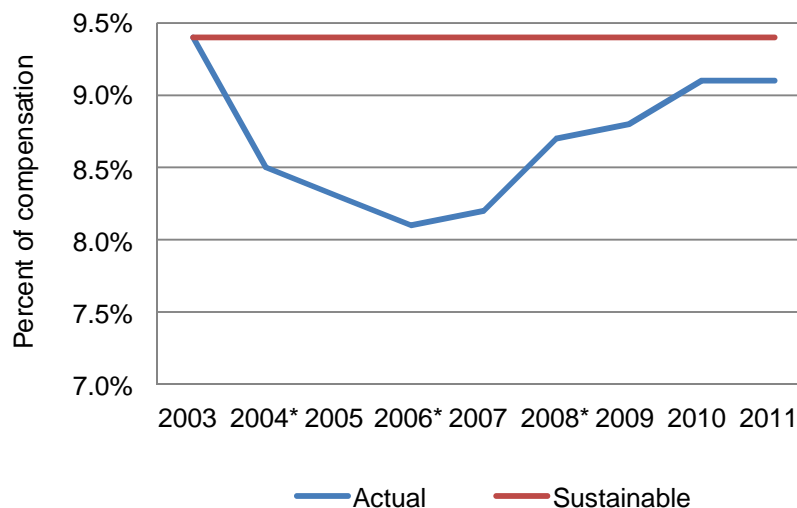
A survey was conducted to compare the benefit levels available under RTA's retirement plans to those available under their peers. Data are shown in Section 5. As compared to its peers, the benefit level available under RTA's retirement plans are equal to or better than most of its peers.

Another measure of benefit levels can be found in studies such as those performed by Aon. These studies have shown that retirees must replace 70% to 90% of their pre-retirement pay with post-retirement benefits. The post-retirement benefits are provided not only by employer contributions, but also by employee savings vehicles. RTA's retirement plans give the employees the opportunity to receive benefits at these levels.

2.2 Sustainability

The RTA staff has expressed that sustainability for the retirement plans is measured as 9.4% of compensation.

In the defined benefit plan, the normal cost is the measure of the cost of the current year's benefit accrual. (Currently, no contributions are made to the defined contribution plan.) The recent history of the normal cost expressed as a percent of compensation is:

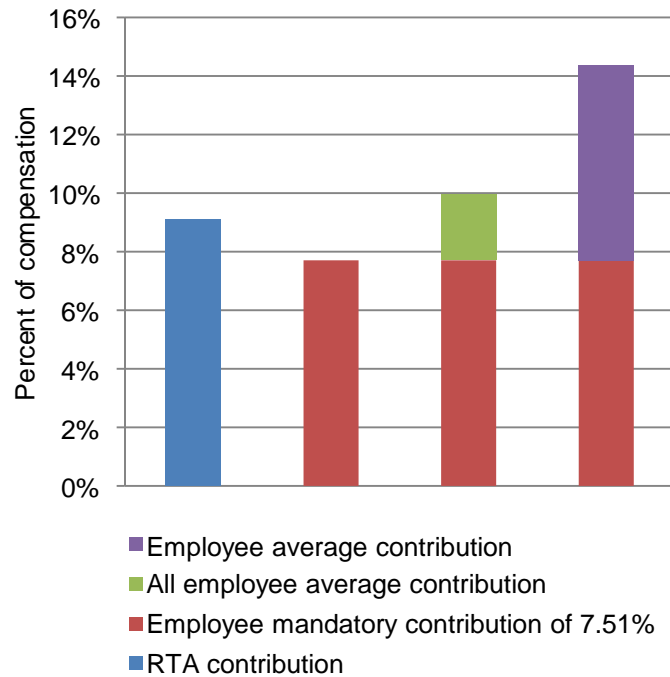


* Years when assumptions changed

The current plan design meets the level of sustainability. Inherent in a defined benefit plan, there is volatility that may require additional contributions.

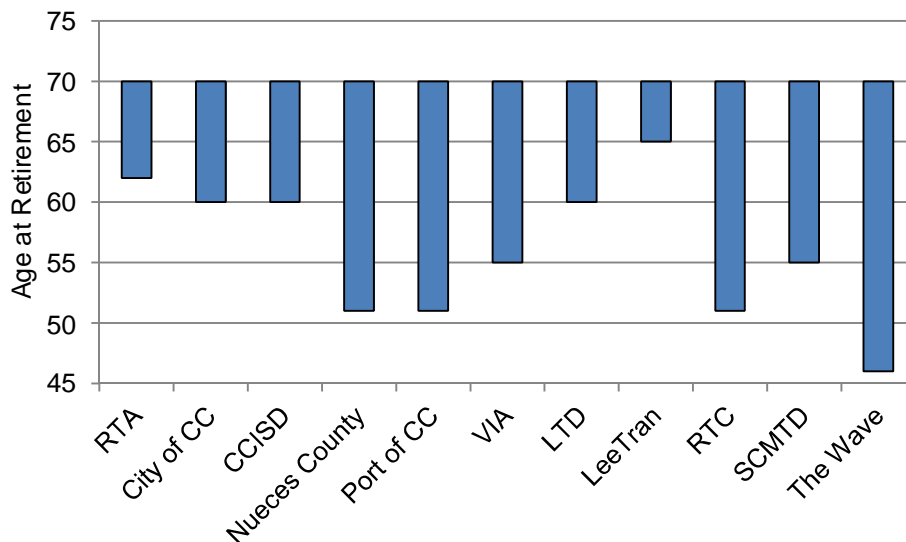
2.3 Retirement contributions

The chart below shows the contributions made by RTA and the employees. The average contribution percent for all employees is 2.25% of compensation which reflects that 71.8% of employees do not make voluntary contributions to the defined contribution plan. Among employees who are making voluntary contributions, the average contribution percent is 6.66% of compensation.



2.4 Retirement age of defined benefit plan

The normal retirement age in RTA’s defined benefit plan was compared to the normal retirement ages of its peers that offer a defined benefit plan. Comparisons are difficult to convey as some have normal retirement ages base on years of service rather than attained age. The following chart shows the ages at which an employee who was hired at age 21 could retire under the peers’ defined benefit retirement plans.

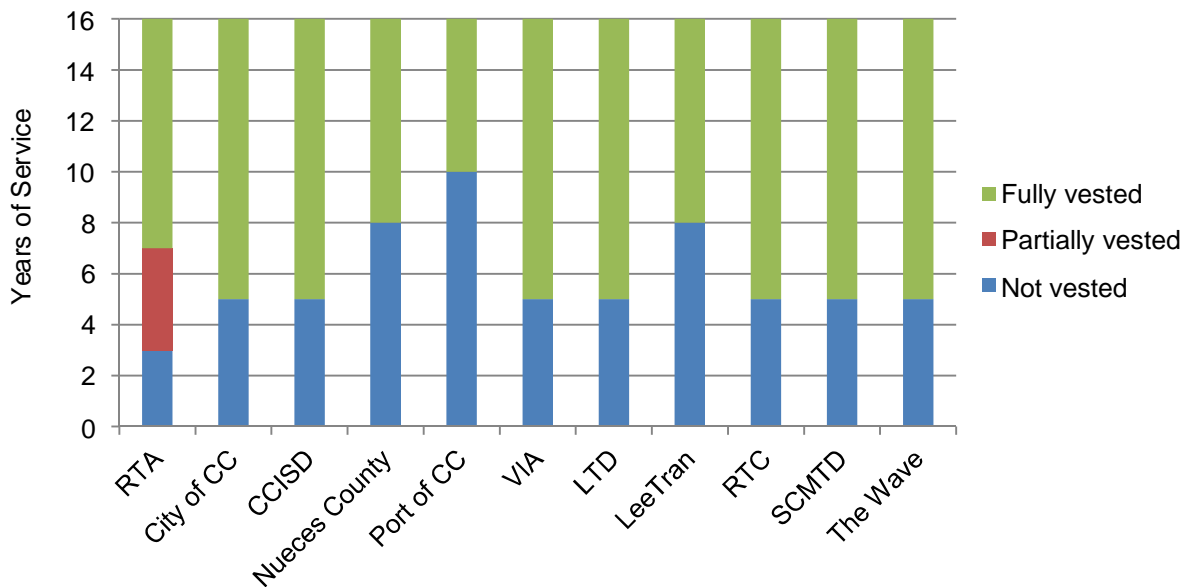


RTA’s normal retirement age is higher than most of its peers. However, the other normal retirement age definitions might not be suitable for RTA. The peers might be reacting to circumstances that RTA does not experience.

Earlier retirement lengthens the period of retirement which translates to higher pension cost to the plan sponsor. A cost study must be conducted before any decision regarding any benefit changes are implemented. The effect on sustainability should be carefully examined.

2.5 Vesting requirements of defined benefit plan

RTA’s defined benefit plan has a graded vesting schedule with full vesting occurring at seven years. This schedule is equivalent to a five-year cliff vesting schedule where employees are 0% vested prior to five years of service and 100% vested after five years. The chart below shows that while there are three peers with longer vesting schedules, most use a five-year cliff vesting schedule.



2.6 Alternate plan solutions

RTA may still desire to increase retirement benefits through the defined benefit plan. The drawback is that this increases RTA’s contribution obligation even if there is an economic downturn. A solution is to look to the defined contribution plan. It has the capacity to accept contributions from RTA. In good economic times, the RTA could elect to make a contribution to each employee through the defined contribution plan. In a downturn, RTA would not be obligated to make a contribution. Thus, RTA can control its level of contribution.

A second alternate solution is to encourage employees to participate in the defined contribution plan by offering an employer match. In order to maintain sustainability, the benefit level in the defined benefit plan would be lowered which would lower the contributions to the plan. The new benefit level and the employer match would be designed to keep RTA’s total contribution at the current level.

Section 3. FINDINGS OF VOLATILITY RISK

Proper identification of the pension risks and development of a policy to manage these risks will ensure long-term sustainability of your pension plan. We will discuss the key risks in this section. For additional information, we have attached our 2010 white paper 'Innovative Ways to Manage Your Pension Risk' in Appendix III.

Three key situations with significant risk potential for defined benefit pension plans occur when:

1. Pension liability is calculated using unrealistic assumptions;
2. Assets are invested with inconsistent investment strategy; and
3. Assets and liability are not connected.

3.1 Pension Liability

Long-term assumptions are used to calculate pension liability because pension liability is derived from promised future payments. Thus, the calculated pension liability depends on the selected assumptions.

The key assumptions are investment return, salary increases, and retirement age. Each assumption should be carefully selected so that the calculated liability provides the best estimate of the plan liability with a margin of safety.

Many public-sector pension plans use 8.0% interest rate assumption. We believe this is too high when average annualized returns are less than 8.0%. We have gradually reduced the interest rate assumption for your pension plan from 8.5% to 7.5% since we started working with you. We will continue to monitor your plan to ensure your pension liability reflects your actual liability.

3.2 Pension Assets

We reviewed the Statement of Investment Policy (SIP) and RTA pension fund portfolio as of December 31, 2010. The portfolio consists of 8 asset classes: 7 equity and 1 fixed income. The portfolio is constructed of mutual funds which track these asset classes.

We want to bring your attention to two items: growth funds are 48% of total assets, and the total equity portfolio exceeds the maximum of 70% allocation as defined in your SIP.

1. Long-term data compiled by Professors Eugene Fama and Kenneth French show growth funds do not perform as well as blended funds or value funds. Please see chart at the end of this section.
2. The total equity allocation is at or above 70% as of December 31, 2007, 2008, 2009, and 2010. With inactives having 42% of the total plan liability, a 70% equity allocation is very high. As part of risk management, we recommend RTA reevaluate this practice when preparing the Retirement Policy Statement. See Section 6 for portfolio holdings as of December 31, 2009 and December 31, 2010.

The trust fund is established to meet the plan's obligation to the participants. Assets are to be accumulated on behalf of each active participant during their working lifetime.

Investing pension assets is different than wealth management. Assets should be invested with the following priority:

1. Preservation of assets using proven long-term investment strategy;
2. Capture market returns without taking unrewarded risks;
3. Minimize expenses.

3.2.1 *Investment Strategy*

Future contributions plus current pension assets and investment earnings must be sufficient to fund benefits for the life of each participant. This is very different from investing individual wealth or company funds where higher risks may be appropriate.

While past performance does not guarantee future results, it is an indicator of stability and long term trends. An investment strategy should be based on investment returns data of at least 20 years. As you can see from the annualized returns of three key US indexes, short-term (less than 20 years) do not represent long term trend. For a more reasonable expectation of returns, you will need to look at historical returns of 20 or more years.

Index	1 Year 2010	5 Years 2006-2010	10 Years 2001-2010	20 Years 1991-2010	50 Years 1961-2010	80 Years 1931-2010
US Total						
Stock Market	17.8%	3.2%	2.6%	9.7%	10.0%	10.1%
S&P 500	15.1	2.3	1.4	9.1	9.8	9.9
US Small cap	29.5	5.9	9.6	12.8	12.4	13.1

Traditional investment managers strive to beat the market by taking advantage of pricing 'mistakes' and attempting to predict the future. Too often this proves to be costly and futile. We will refer to this method as Option 1.

An alternative to your current portfolio is to construct a globally diversified portfolio of low cost index funds to capture market returns. Please see the attached chart developed by Professors Fama and French. Building an equity portfolio of index funds based on these global market returns allows a pension fund to capture the market returns without taking unrewarding risks. Note that small and value companies also consistently provide higher returns with higher risks. We will refer to this method as Option 2.

RTA's current investment strategy falls somewhere in between the two options mentioned above. We consider Option 2 to be more suitable for investing pension funds because it is backed by historical returns data. At present, RTA's investment strategy is more similar to Option 2 than to Option 1. However, we see some areas where improvement could provide the overall portfolio with greater stability of returns.

3.2.2 *Capture Market Returns*

A balanced portfolio should include bond investments. The primary goal of fixed income investment is to reduce volatility of the investment portfolio. Studies have shown short term bonds are more suitable to achieve this objective than long-term bonds. We recommend capturing market returns of fixed income investments through short-term bond index funds.

As evidenced in the chart in Appendix II, growth funds provide less significant returns than value or blended funds while, generally, yielding only marginal benefits in terms of volatility (standard deviation on the chart). For this reason, we consider investment in value or blended funds to be more rewarded risks than similar investment in growth funds.

3.2.3 *Minimizing Expenses*

Your December 31, 2010 portfolio includes three investments that have maximum sales commissions of 4.5% or more, five investment funds that potentially pay 12(b)-1 fee to the broker company. Also, six funds have expense ratio of 1% or more. There are many broad-based index funds that charge less than 1% in expense ratio with no sales commission or 12(b)-1 fee. See Section 6 for fund expenses.

For example, you could invest in Vanguard 500 Index Signal (ticker symbol: VIFSX) fund for the large cap asset class. It charges an expense ratio of 0.07% as compared to 0.88% for your current fund (EIVIX). Both have no sales load and 12(b)-1 fee.

3.3 **Connecting Assets to Liability**

SIP does not connect pension assets to pension liability.

The main goal of a funding policy is to have enough money set aside so that when each participant retires, no significant additional contribution is required for the rest of the retiree lifetime.

Thus investment strategy should reflect the composition of the pension liability. For example, as the liability for inactive participants increases, the investment strategy should reflect a higher allocation of fixed income investments to minimize volatility. One approach is to divide the investment portfolios into two: one to fund the active liability, and the other to fund the inactive liability. Each should have its own investment strategy with its own investment policy statement.

Separate portfolios for the active and retired groups will allow the risk committee to evaluate the volatility of each portfolio according to the different risk levels of each group. You can then better adjust the investments to tailor allocations to each portfolio's risk goals.

We recommend your risk committee evaluate your investment policy statement with your investment advisor.

The changes we recommend above are meant to improve asset growth and to simplify the process of managing your pension liability. We suggest that your risk committee and investment advisor meet to evaluate your SIP and consider applying our recommendations.

Section 4. FINDINGS OF ADMINISTRATION RISK**4.1 Administration manual**

After some turnover, the new Human Resources staff had to discover how benefits were calculated and procedures to follow. An administration manual would help in this regard. It need not be more than an outline with some examples, but it would help existing and new staff members to keep consistent practice and procedures.

4.2 Benefit calculations

Currently, benefit calculations are performed using an Excel worksheet. This is an improvement over manual calculations, but it still has potential for errors. While a dedicated pension calculation software may not be feasible, there may be areas where the Excel worksheet can be improved. Two examples are:

1. Locking the worksheet: The cells in the worksheet would be locked except for the cells that contain the employee data. Locking the cells with the calculations will help prevent inadvertent changes which may not be immediately recognized.
2. Automating conversion factors: The joint and survivor conversion factors depend on whether the participant and spouse's ages differ by more than 10 years or less than 10 years. The choice of these factors could be automated within the Excel program.

The Excel worksheet should be review for other possible enhancements. Of course, even with enhancements, it remains the responsibility of the staff to check and review each benefit calculation.

4.3 Retirement policy statement

A retirement policy statement should be adopted. This statement can reflect many of the results of this report. It can guide future decisions on the plan provisions. A sample is included in the Appendix I.

Section 5. ANALYSIS OF BENEFIT LEVELS

5.1 Procedure

Three employee profiles were developed. For each profile, benefits under the RTA's current plans, Social Security, and the peer group members' plans were calculated and compared.

Since retirement plan benefits could be offered in several different forms, the benefit amounts were normalized to be payable as a 50% Joint and Survivor annuity with no cost-of-living adjustments.

5.1.1 Employee profiles

The employee profiles differed only by salary level.

All profiles are currently age 37 and are projected to retire at age 62 with 25 years of service.

All profiles make contributions of 14.51% of pay towards their retirement benefits. This is based on the amount of mandatory contributions to the current RTA defined contribution plan plus the average contribution rate for those making contributions to the RTA defined contribution plans. For peer group members' plans, the 14.51% is allocated, in order, to Social Security (if applicable), mandatory contributions (if applicable), voluntary contributions (if applicable), and finally to personal savings (if not exhausted by the other categories).

All profiles are assumed to be married to a spouse of the same age.

Profile A represents the 15th percentile of the pay range. Profile A has \$27,000 annual pay.

Profile B represents the 50th percentile of the pay range. Profile B has \$37,000 annual pay.

Profile C represents the 85th percentile of the pay range. Profile C has \$51,000 annual pay.

5.1.2 Peer group members' plans

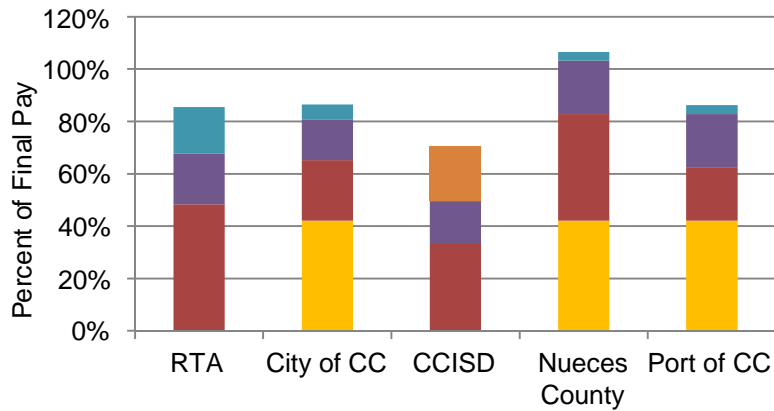
Benefits under the peer group members' plans used the plan provisions for a newly hired employee. When separate plans were offered for union and non-union employees, the non-union provisions were used; otherwise the union plan provisions were used.

5.1.3 Assumptions

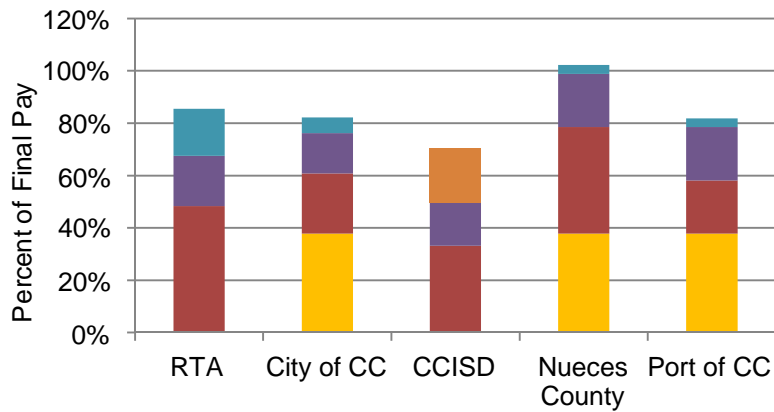
Salary increase	3.5% per annum
National average earnings increase	3.0% per annum
Cost-of-living adjustment	2.5% per annum
Investment return	6.0%
Actuarial benefit conversion	
Mortality rate	RP-2000 male mortality
Interest rate	5.0%

Local Comparables

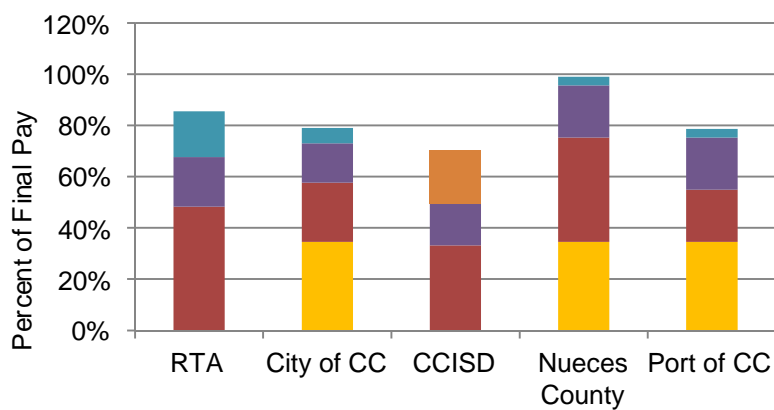
Profile A



Profile B



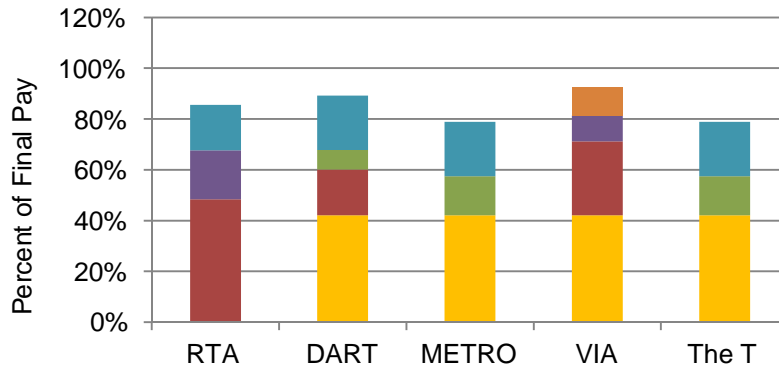
Profile C



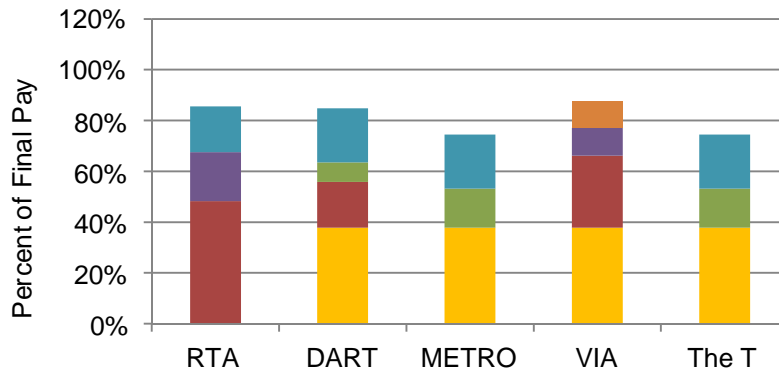
- Employee Savings
- Employee Voluntary Contributions
- Employee Mandatory Contributions
- Employer Defined Contribution Plan
- Employer Defined Benefit Plan
- Social Security

State Transit Agencies

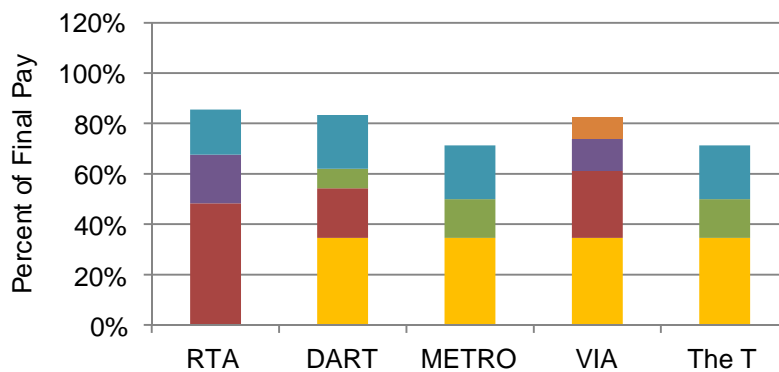
Profile A



Profile B



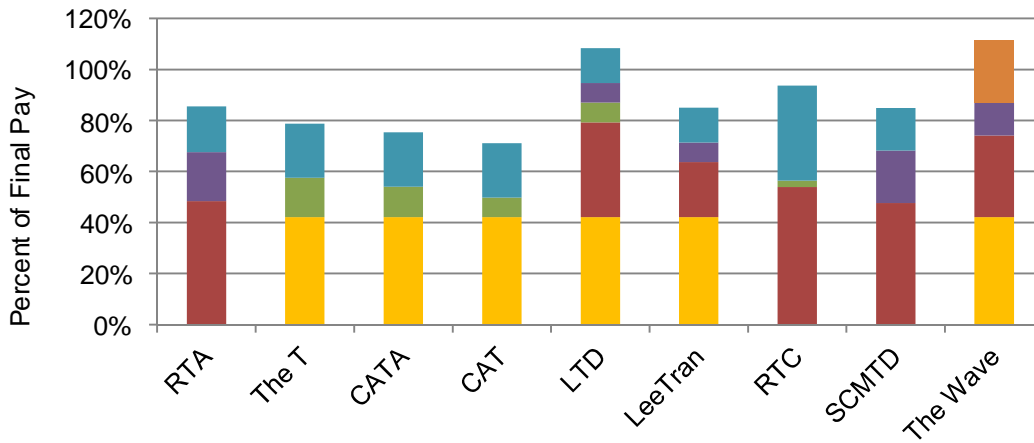
Profile C



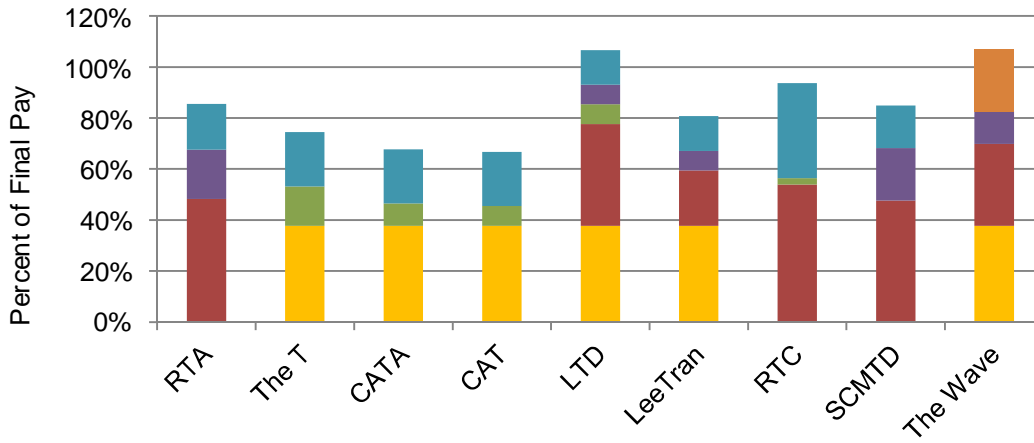
- Employee Savings
- Employee Voluntary Contributions
- Employee Mandatory Contributions
- Employer Defined Contribution Plan
- Employer Defined Benefit Plan
- Social Security

Peer Agencies

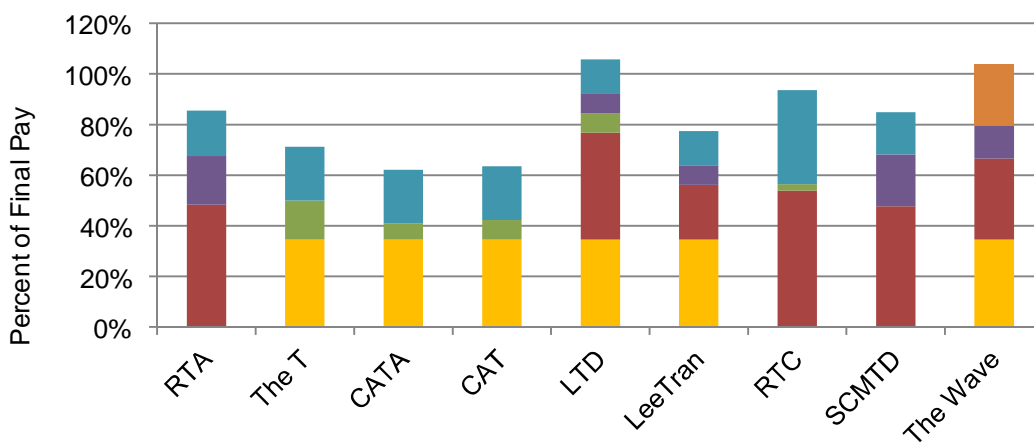
Profile A



Profile B



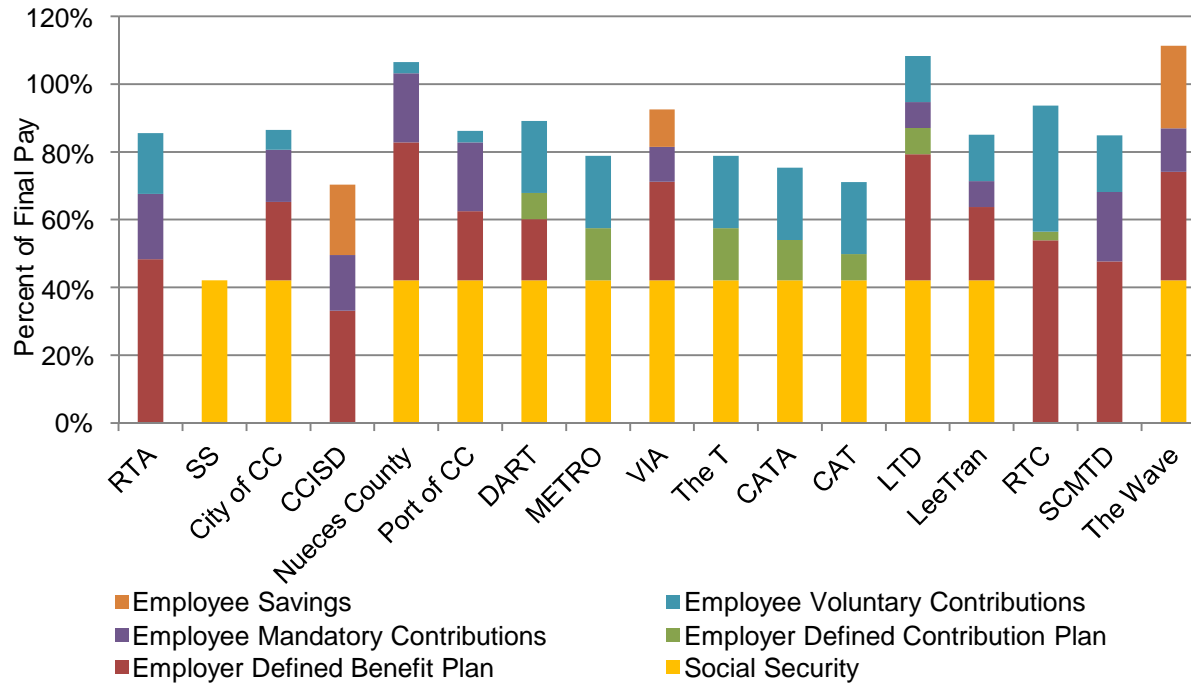
Profile C



- Employee Savings
 - Employee Mandatory Contributions
 - Employer Defined Benefit Plan
- Employee Voluntary Contributions
 - Employer Defined Contribution Plan
 - Social Security

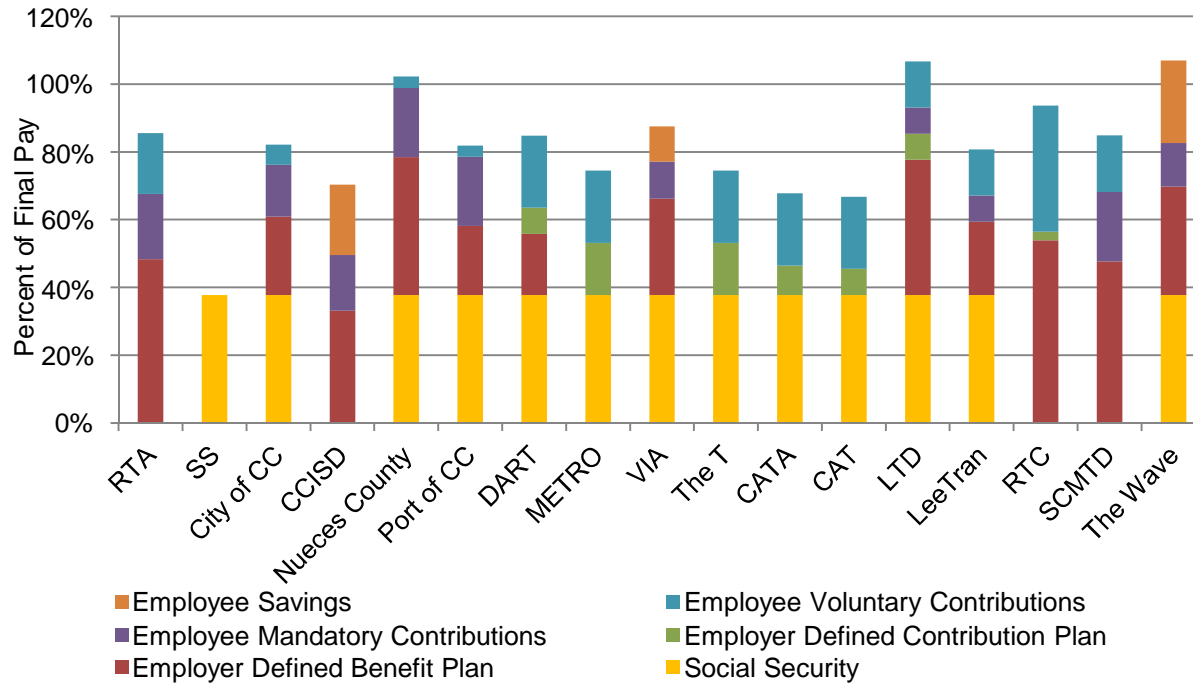
All Peer Group Members

Profile A



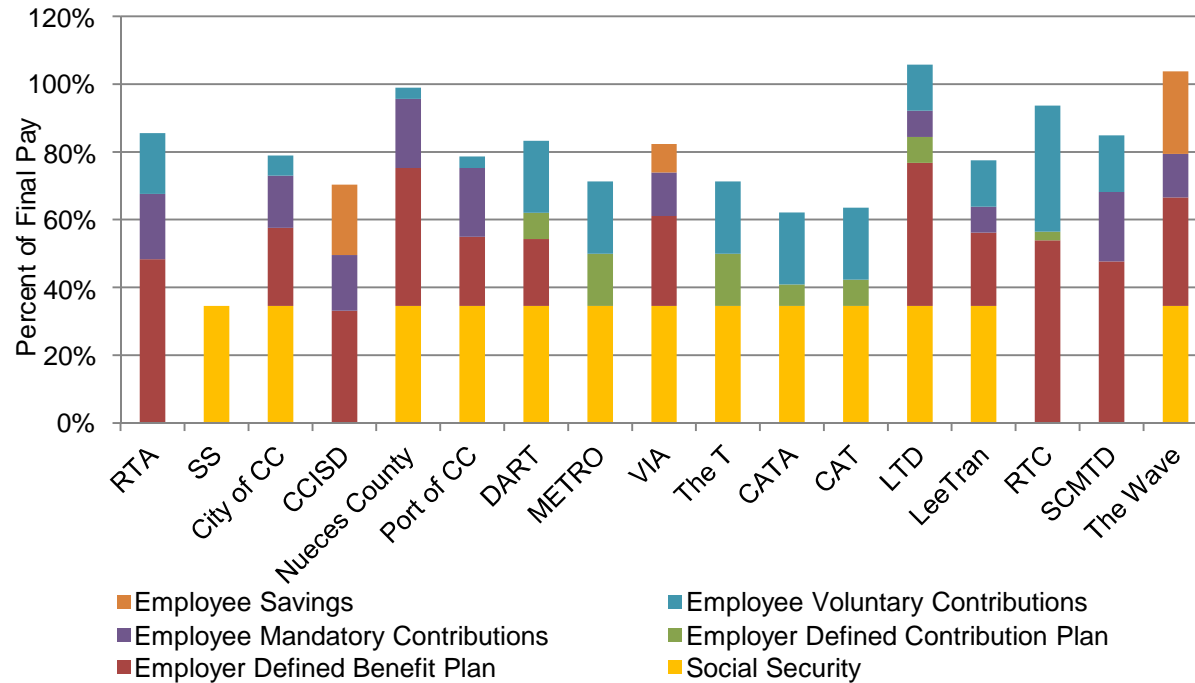
All Peer Group Members

Profile B



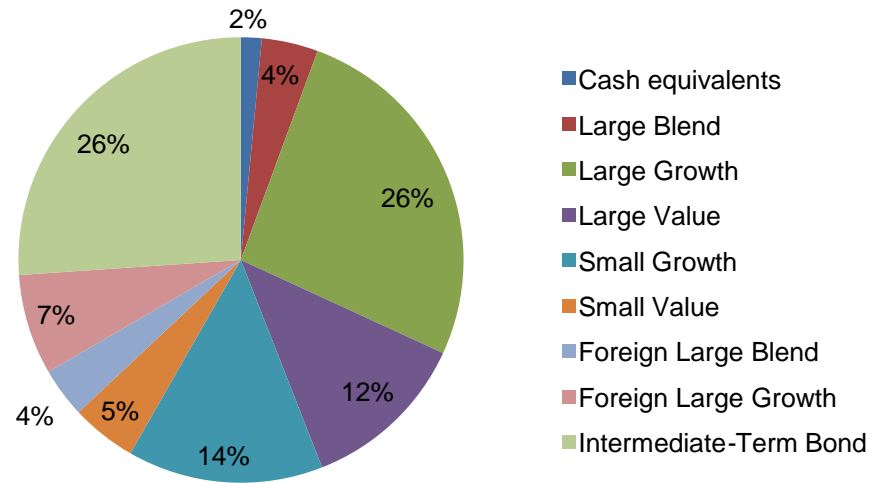
All Peer Group Members

Profile C



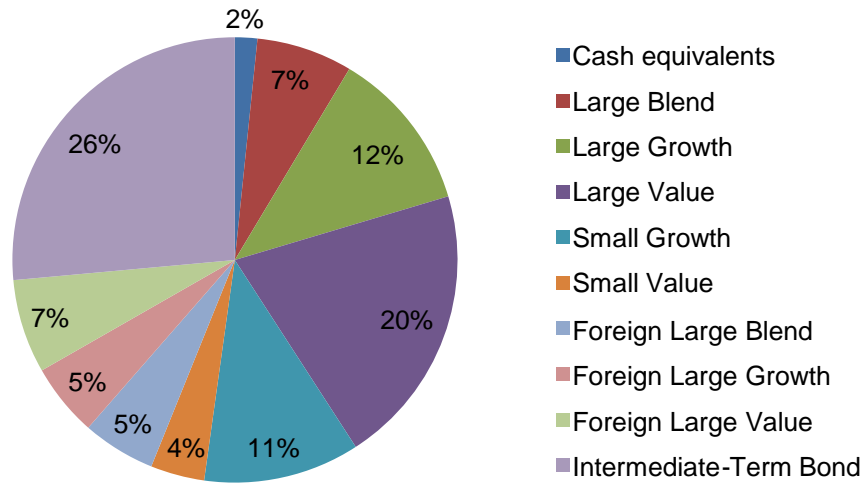
Section 6. ANALYSIS OF PORTFOLIO ALLOCATION**6.1 Trust portfolio at 12/31/2010**

Fund Name	Asset Class	Market Value	Expense Ratio	Sales Load	12(b)-1 Fee
Wells Fargo Advantage Cash Investment Fund	Cash equivalents	\$325,446.89			
Wells Fargo Advantage Intrinsic Value I	Large Blend	881,458.61	0.88%		
MainStay Large Cap Growth I	Large Growth	1,448,541.86	0.85%		
Wells Fargo Advantage Capital Growth Adm	Large Growth	2,825,645.16	0.94%		
Wells Fargo Advantage Growth Adm	Large Growth	1,383,497.87	0.96%		
MFS Value W	Large Value	1,745,916.97	0.83%		
Wells Fargo Advantage Equity Value Adm	Large Value	883,223.56	1.00%		
Invesco Small Cap Growth A	Small Growth	1,023,988.50	1.25%	5.50%	0.25%
JPMorgan Small Cap Equity Sel	Small Growth	2,033,705.19	0.99%		
Goldman Sachs Small Cap Value Inst	Small Value	1,022,090.32	1.08%		
Harbor International Adm	Foreign Large Blend	782,578.79	1.04%		0.25%
Janus Overseas A	Foreign Large Growth	764,549.43	1.07%	5.75%	0.25%
Thornburg International Value A	Foreign Large Growth	802,101.55	1.33%	4.50%	0.25%
Federated Total Return Bond Instl Svc	Intermediate-Term Bond	1,730,183.11	0.65%		
Metropolitan West Total Return Bond M	Intermediate-Term Bond	1,108,686.05	0.63%		0.21%
Wells Fargo Advantage Ttl Return Bond Ad	Intermediate-Term Bond	2,780,074.17	0.70%		
Total		\$21,541,688.03			



6.2 Trust portfolio at 12/31/2009

Fund Name	Asset Class	Market Value	Expense Ratio	Sales Load	12(b)-1 Fee
Wells Fargo Advantage Cash Investment Fund	Cash equivalents	\$287,446.89			
Wells Fargo Advantage Intrinsic Value I	Large Blend	1,249,513.89	0.88%		
MainStay Large Cap Growth I	Large Growth	511,326.48	0.85%		
Wells Fargo Advantage Capital Growth Adm	Large Growth	1,034,867.02	0.94%		
Wells Fargo Advantage Growth Adm	Large Growth	564,634.31	0.96%		
MFS Value W	Large Value	2,426,701.90	0.83%		
Wells Fargo Advantage Equity Value Adm	Large Value	1,243,734.41	1.00%		
Invesco Small Cap Growth A	Small Growth	689,703.44	1.25%	5.50%	0.25%
JPMorgan Small Cap Equity Sel	Small Growth	1,342,512.74	0.99%		
Goldman Sachs Small Cap Value Inst	Small Value	698,336.99	1.08%		
Harbor International Adm	Foreign Large Blend	952,629.89	1.04%		0.25%
Janus Overseas A	Foreign Large Growth	947,111.62	1.07%	5.75%	0.25%
Goldman Sachs Structured Intl Equity I	Foreign Large Value	1,221,792.26	0.85%		
Federated Total Return Bond Instl Svc	Intermediate-Term Bond	1,441,862.34	0.65%		
Metropolitan West Total Return Bond M	Intermediate-Term Bond	903,967.12	0.63%		0.21%
Wells Fargo Advantage Ttl Return Bond Ad	Intermediate-Term Bond	2,389,493.69	0.70%		
Total		\$17,905,634.99			



Section 7. DB PLAN DOCUMENT REVIEW

The letter from David Ralston follows on the following two pages.

DAVID W. RALSTON, P.C.

9696 Skillman Street, Suite 390
Dallas, Texas 75243

From the Office of:
David W. Ralston

Telephone (972) 850-3050
Facsimile (214) 253-0708
dralston@ralston-associates.com

July 21, 2011

Sent via electronic mail to
Mark.cavazos@pensionbenefits.com

Mark Cavazos
Pension Benefits
700 E. Park Boulevard, Suite 108
Plano, TX 75074

Re: RTA Employees Defined Benefit Plan and Trust

Dear Mr. Cavazos:

We have reviewed the RTA Employees Defined Benefit Plan and Trust (the "Plan"), including the Plan's document amended and restated effective January 1, 2010, and executed November 1, 2010, and previous documents for the Plan. Based on a copy of the correspondence dated January 24, 2011, executed by the Chief Executive Officer of the Corpus Christi Regional Transportation Authority (the Plan Sponsor"), the Plan document has been timely submitted for an Application for Determination to fall within the remedial amendment period Cycle E. The Plan is a governmental plan and normally a governmental plan would fall under the remedial amendment period Cycle C. However, a plan sponsor may elect to cause a governmental plan to make a one-time election to have the plan come under remedial amendment period Cycle E for purposes of the EGTRRA amendment and restatement. Pursuant to the correspondence from the Plan Sponsor, it is assumed the Cycle E was selected for this Plan. Based on the presumption the supporting documentation and Internal Revenue Service ("IRS") forms that are indicated in the correspondence were actually submitted along with the correspondence, the Plan's document would be timely submitted and incorporate the appropriate supporting documentation for the Plan document to be amended and restated for EGTRRA.

It appears from the correspondence and based on a review of the previous documentation, that certain other amendments were not timely adopted by the Plan Sponsor to maintain the qualified status of the Plan. However, it also appears from the correspondence that an application under the Voluntary Compliance Program ("VCP") was forwarded to the IRS. We did not have a copy of the VCP application to review, but we will presume this VCP application will incorporate the applicable forms and other information to permit the Plan to correct a failure to timely adopt certain interim amendments for the Plan's document.

We have generally reviewed the Plan's provisions contained within the document executed November 1, 2010, and do not find any provisions that would adversely affect the tax-qualified status of the Plan under the applicable Internal Revenue Code provisions. We will be

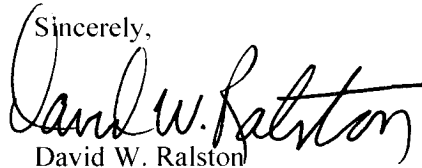
Mark Cavazos

Page 2

glad to address any specific questions as to the appropriateness of certain provisions of the Plan's document in relation to the desired objectives of the Plan Sponsor for the operation of the Plan.

The option by the Plan Sponsor to use Cycle E is a one-time modification of the procedures applicable to the governmental plan. The filing cycle for the governmental plan will continue to be Cycle C. This means the determination letter for the Plan as filed will expire at the end of the next Cycle C or January 31, 2014. Therefore, the Plan Sponsor should make a notation that an appropriate application for determination will be required by that date.

In summary and conclusion, it appears the Plan document satisfies current IRS requirements applicable to this type of Plan. The Plan's document will be subject to any changes required by the IRS as a part of the Application for Determination and to receipt of a favorable determination letter. It will also be subject to the VCP application submitted on behalf of the Plan. We have not reviewed the Summary Plan Description to verify that it incorporates the applicable provisions contained in the Plan document nor have we reviewed any information that would permit us to verify the Plan's document contains provisions that match the actual operation of the Plan.

Sincerely,

David W. Ralston

DWR/sd

Section 8. PEER GROUP MEMBERS

National Program		
Name	Location	Legend
Social Security Administration	Washington, DC	SS

Local Comparables		
Name	Location	Legend
City of Corpus Christi	Corpus Christi, TX	City of CC
Corpus Christi Independent School District	Corpus Christi, TX	CCISD
Nueces County	Corpus Christi, TX	Nueces County
Port of Corpus Christi	Corpus Christi, TX	Port of CC

State Transit Agencies		
Name	Location	Legend
Dallas Area Rapid Transit	Dallas, TX	DART
Metropolitan Transit Authority of Harris County	Houston, TX	METRO
VIA Metropolitan Transit	San Antonio, TX	VIA
Fort Worth Transportation Authority	Fort Worth, TX	The T

Peer Agencies		
Name	Location	Legend
Fort Worth Transportation Authority	Fort Worth, TX	The T
Central Arkansas Transit Authority	Little Rock, AR	CATA
Chatham Area Transit Authority	Savannah, GA	CAT
Lane Transit District	Eugene, OR	LTD
Lee County Transit	Cape Coral, FL	LeeTran
Regional Transportation Commission of Washoe County	Reno, NV	RTC
Santa Cruz Metropolitan Transit District	Santa Cruz, CA	SCMTD
The Wave Transit System	Mobile, AL	The Wave

8.1 Peer Group Members Plan Highlights

Corpus Christi Regional Transit Authority

Employees are not covered by Social Security

Defined contribution plan:

Mandatory employee contributions	7.51% of pay
Voluntary employee contributions	Permitted
Employer matching contributions	None.

457 plan:

Mandatory employee contributions	None.
Voluntary employee contributions	Permitted
Employer matching contributions	None.

Defined benefit plan:

Benefit formula	2% × 36-month average pay × years of service
Normal form of benefit	50% Joint and survivor annuity
Cost-of-living adjustment	None
Normal retirement age	Age 62.
Early retirement age	Age 55 with 10 years of service.
Early retirement reduction	5% per year prior to normal retirement age

Vesting schedule	According to schedule:	
	Years of service	Vested percent
	Under 3	0%
	3	20%
	4	40%
	5	60%
	6	80%
7 or more	100%	

Mandatory employee contributions	None.
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City of Corpus Christi

Employees are covered by Social Security

Defined contribution plan:

Mandatory employee contributions	None
Voluntary employee contributions	Permitted
Employer matching contributions	None.

Defined benefit plan:

Cash balance	Employer contributes 9% of pay; balance grows with investment return with a 5% minimum.
Normal form of benefit	Annuity converted from cash balance
Cost-of-living adjustment	None
Normal retirement age	Age 60 with 5 years of service
Early retirement age	None
Early retirement reduction	None
Vesting schedule	100% upon completion of 5 years of service
Mandatory employee contributions	6% of pay.

Corpus Christi Independent School District

Employees are not covered by Social Security.

No defined contribution plan.

Defined benefit plan:

Benefit formula	2.3% x 60-month average pay x years of service
Normal form of benefit	Single life annuity
Cost-of-living adjustment	None
Normal retirement age	Age 65 with 5 years of service, or age 60 with 5 years of service and age plus service is 80
Early retirement age	Age 55 with 5 years of service, or 30 years of service but not yet age 60, or 5 years of service and age plus service is at least 80 and age is less than 60
Early retirement reduction	Reduction depends on age and service
Vesting schedule	100% upon completion of 5 years of service
Mandatory employee contributions	6.4% of pay

Nueces County

Employees are covered by Social Security

Defined contribution plan:

Mandatory employee contributions	None
Voluntary employee contributions	Permitted
Employer matching contributions	None.

Defined benefit plan:

Cash balance	Balance grows with 7% interest credit. Employer matches balance with interest credit at 200% upon retirement
Normal form of benefit	Annuity converted from cash balance
Cost-of-living adjustment	None.
Normal retirement age	Age 60 with 8 years of service, or any age with 30 years of service
Early retirement age	None.
Early retirement reduction	Not applicable.
Vesting schedule	100% upon completion of 8 years of service
Mandatory employee contributions	7% of pay.

Port of Corpus Christi

Employees are covered by Social Security

Defined contribution plan:

Mandatory employee contributions	None
Voluntary employee contributions	Permitted
Employer matching contributions	None.

Defined benefit plan:

Cash balance	Employer credits 7% of pay. Balance grows with 7% interest credit.
Normal form of benefit	Annuity converted from cash balance
Cost-of-living adjustment	None
Normal retirement age	Age 60 with 10 years of service, or any age with 30 years of service, or age plus service is 80
Early retirement age	Not applicable
Early retirement reduction	Not applicable
Vesting schedule	100% upon completion of 10 years of service
Mandatory employee contributions	7% of pay.

Dallas Area Rapid Transit

Employees are covered by Social Security

Defined contribution plan:

Mandatory employee contributions	None
Voluntary employee contributions	Permitted
Employer matching contributions	50% of voluntary contributions up to 3% of pay.

Defined benefit plan:

Money purchase balance	Employer contributes 7.7% of pay.
Normal form of benefit	Annuity converted from money purchase balance
Cost-of-living adjustment	None.
Normal retirement age	Age 65
Early retirement age	None.
Early retirement reduction	Not applicable.
Vesting schedule	100% upon completion of 5 years of service
Mandatory employee contributions	None.

Metropolitan Transit Authority of Harris County

Employees are covered by Social Security.

Defined contribution plan:

Mandatory employee contributions	None
Voluntary employee contributions	Permitted
Employer fixed contributions	2% of pay
Employer matching contributions	100% of voluntary contributions up to 4% of pay

No defined benefit plan.

VIA Metropolitan Authority

Employees are not covered by Social Security.

No defined contribution plan.

Defined benefit plan:

Benefit formula	(a) 1.75% × 36-month average pay × years of service, or	
	(b) 2.0% × 36-month average pay × years of service, if more than 25 years of service	
Normal form of benefit	Life annuity with 60 payments guaranteed	
Cost-of-living adjustment	None	
Normal retirement age	Age 65, or age 55 with 25 years of service	
Early retirement age	Age 55	
Early retirement reduction	Age	Reduction
	64	0%
	63	0%
	62	0%
	61	2%
	60	4%
	59	6%
	58	9%
	57	12%
	56	16%
	55	20%
Vesting schedule	100% upon completion of 5 years of service	
Mandatory employee contributions	4% of pay up to 1/3 of Social Security wage base plus 7% of pay in excess of 1/3 of Social Security wage base	

Fort Worth Transportation Authority

Employees are covered by Social Security.

Defined contribution plan:

Mandatory employee contributions	None		
Voluntary employee contributions	Permitted		
Employer matching contributions	According to schedule:		
	Employee contribution		Match
	0%		3%
	1%		4%
	2 – 3%		5%
	4% or greater		6%

No defined benefit plan.

Central Arkansas Transit Authority

Employees are covered by Social Security.

Defined contribution plan:

Mandatory employee contributions	None
Voluntary employee contributions	Permitted
Employer matching contributions	\$73.00 for each pay period that contribution is at least \$12.50. There are 24 pay periods per year.

No defined benefit plan.

Chatham Area Transit Authority

Employees are covered by Social Security.

Defined contribution plan:

Mandatory employee contributions	None
Voluntary employee contributions	Permitted
Employer matching contributions	50% of voluntary contributions up to 6% of pay.

No defined benefit plan.

Lane Transit District

Employees are covered by Social Security.

Defined contribution plan (Plan Part II):

Mandatory employee contributions	3% of pay
Voluntary employee contributions	Permitted
Employer matching contributions	3% of pay

Defined benefit plan (Plan Part I):

Benefit formula	Greater of: (A) 1.67% × 36-month average earnings × years of service, and (B) 3.0% × 36-month average earnings × years of service limited to 25 years – Social Security benefit
Normal form of benefit	Single life annuity
Cost-of-living adjustment	None
Normal retirement age	Age 60
Early retirement age	Age 55 with 5 years of service, or any age with 30 years of service
Early retirement reduction	No reduction if employee has 30 years of service, otherwise 3% per year for the first two years before normal retirement age and 8% for each year thereafter.
Vesting schedule	100% upon completion of 5 years of service or at normal retirement age, if earlier
Mandatory employee contributions	None

Lee County Transit

Employees are covered by Social Security.

No defined contribution plan.

Defined benefit plan:

Benefit formula	1.6% x 60-month average pay x years of service
Normal form of benefit	Single life annuity
Cost-of-living adjustment	None
Normal retirement age	Age 65 with 8 years of service
Early retirement age	Age 45 with 8 years of service.
Early retirement reduction	5% for each year prior to normal retirement age.
Vesting schedule	100% upon completion of 8 years of service
Mandatory employee contributions	3% of pay.

Regional Transportation Commission of Washoe County

Employees are not covered by Social Security

Defined contribution plan:

Mandatory employee contributions	None
Voluntary employee contributions	Permitted
Employer matching contributions	Up to 1% of pay

Defined benefit plan:

Benefit formula	2.5% × 60-month average pay × years of service limited to 30 years
Normal form of benefit	Single life annuity
Cost-of-living adjustment	None
Normal retirement age	Age 65 with 5 years of service, or age 62 with 10 years of service, or any age with 30 years of service
Early retirement age	Any age with 5 years of service.
Early retirement reduction	6% per year prior to normal retirement age.
Vesting schedule	100% upon completion of 5 years of service
Mandatory employee contributions	None.

Santa Cruz Metropolitan Transit District

Employees are not covered by Social Security

Defined contribution plan:

Mandatory employee contributions	None
Voluntary employee contributions	Permitted
Employer matching contributions	None.

Defined benefit plan:

Benefit formula	2.5% × 36-month average pay × years of service limited to 30 years
Normal form of benefit	Single life annuity
Cost-of-living adjustment	CPI limited to 2%
Normal retirement age	Age 55 with 5 years of service
Early retirement age	Age 50 with 5 years of service
Early retirement reduction	Percent multiplier is reduced 0.1% for each year prior to normal retirement age.
Vesting schedule	100% upon completion of 5 years of service
Mandatory employee contributions	8% of pay.

The Wave Transit System

Employees are covered by Social Security

No defined contribution plan.

Defined benefit plan:

Benefit formula	2.0125% × 36-month average pay × years of service
Normal form of benefit	Single life annuity
Cost-of-living adjustment	None
Normal retirement age	Age 60 with 5 years of service, or any age with 25 years of service
Early retirement age	None.
Early retirement reduction	None.
Vesting schedule	100% upon completion of 5 years of service
Mandatory employee contributions	5% of pay.

Appendix I SAMPLE RETIREMENT POLICY STATEMENT**Retirement Policy Statement
For
ABC Corp.****Purpose of the Retirement Policy Statement**

The purpose of this Retirement Policy Statement is to set guidelines to be used by ABC Corp. in designing its retirement plans and their funding.

Elements of the Policy

The Retirement Policy has several elements including:

1. Total compensation – the cost of sponsoring retirement plans is a part of an employee's compensation; the retirement plans must work within ABC Corp.'s overall objectives.
2. Targeted group of employees – characteristics of employees where the total retirement benefits should peak.
3. Benefit level – measured as the replacement ratio of all sources of retirement income to the employee's income at retirement.
4. Employer participation – measured as the ratio of total employer contribution to total contribution necessary to fund the benefit level.
5. Sustainability – measured as the contribution level as a percent of payroll, contributions should not create a drain on corporate income.
6. Funding strategy – contributions are made in proportion to the economic benefit received from employees, reaching full funding upon retirement.
7. Risk management – identifying potential risks associated with each type of retirement plan and developing ways to mitigate those risks.
8. Competitiveness – a comparison to retirement plans sponsored by peer group employers who compete for the same talent pool.
9. Ease of administration – the plans' designs should not create a burden on the staff to administer the plans or process benefits.

While all the elements might not be achievable simultaneously, the retirement plans can be modeled to best fit the Retirement Policy.

Development of the Policy***Targeted group***

The target group of employees are long-term employees, i.e., 25 years of service. The retirement plans work not only as a reward to our long-term employees, but also as an incentive for other employees to continue with us.

Benefit level

Based on independent studies, an individual needs retirement income equal to about 75% of their preretirement earnings to maintain the same standard of living. The retirement income comes from Social Security, employer-sponsored plans and employee savings. Since the behavior of employees and the amount of Social Security can vary with pay level, analysis of

the benefit level are done at a low pay level (15th percentile), average pay level (50th percentile), and high pay level (85th percentile).

Employer participation

ABC Corp. wants to contribute 50% of the total contributions needed by employees to reach their benefit level.

Plan design

Recognizing that Social Security provides approximately 35% of replacement income and that ABC Corp. contributes 50% of the total contributions to Social Security, ABC Corp. wants to establish and maintain a defined benefit plan that provides a monthly benefit equal to 1% of compensation times years of service up to 25 years. The defined benefit plan will provide a long-term employee with 25% of their replacement income.

In order to facilitate employee savings, ABC Corp. provides a defined contribution plan. The plan allows for employees to make contributions on a pre-tax basis. To encourage contributions, ABC Corp. provides a match of a portion of the employee contributions.

The defined contribution plan also has a profit sharing feature. While these funds are set up to be used during retirement, the motivation for this feature is to allow employees to share in company profits and, thus, motivate them to perform in a manner consistent with company objectives.

Funding the defined benefit plan

Subject to minimum and maximum funding requirements, ABC Corp. anticipates contributing 10% of payroll to the defined benefit plan. This level of funding should be sustainable.

Employer participation

The breakdown of the approximate employer participation is:

Low pay level (15th percentile)

Benefit source	Replacement percent	From employee contributions	From employer contributions
Social Security	47.0%	23.5%	23.5%
DB plan	25.0%	0.0%	25.0%
DC plan			
Employee contribution	4.2%	4.2%	
Employer match	1.1%		1.1%
Employer discretionary	7.1%		7.1%
Total	84.4%	27.7%	56.7%

Average pay level (50th percentile)

Benefit source	Replacement percent	From employee contributions	From employer contributions
Social Security	39.9%	20.0%	20.0%
DB plan	25.0%	0.0%	25.0%

DC plan			
Employee contribution	8.5%	8.5%	
Employer match	4.2%		4.2%
Employer discretionary	7.1%		7.1%
Total	84.7%	28.5%	56.3%

High pay level (85th percentile)

Benefit source	Replacement percent	From employee contributions	From employer contributions
Social Security	31.2%	15.6%	15.6%
DB plan	25.0%	0.0%	25.0%
DC plan			
Employee contribution	14.1%	14.1%	
Employer match	4.2%		4.2%
Employer discretionary	7.1%		7.1%
Total	81.6%	29.7%	51.9%

Board of Directors

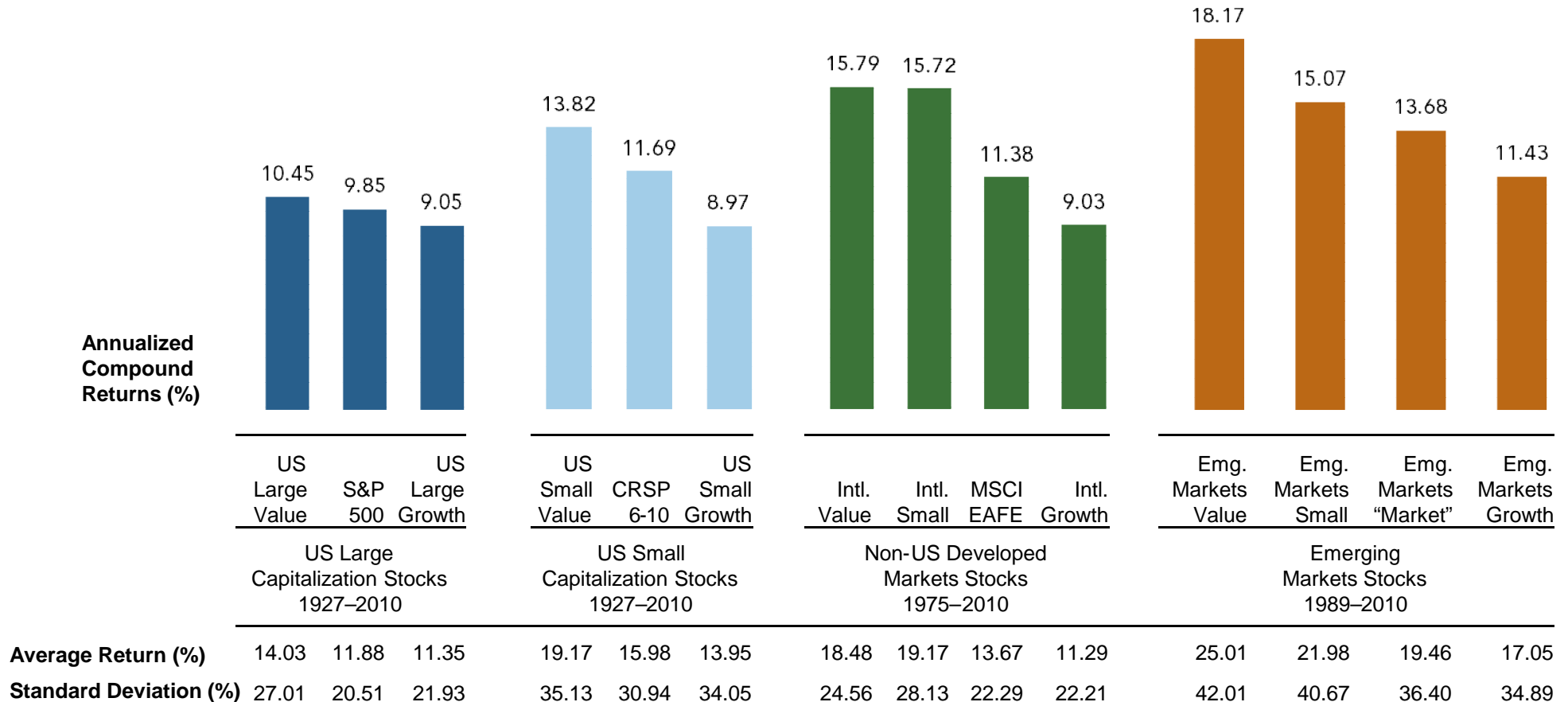
The Board of Directors have signed as evidence of their approval of this Retirement Policy Statement.

Chairperson	Date
Member	Date
Member	Date
Member	Date

Appendix II FAMA/FRENCH CHART OF HISTORICAL RETURNS

Size and Value Effects Are Strong around the World

Annual Index Data



In US dollars. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. US value and growth index data (ex utilities) provided by Fama/French. The S&P data are provided by Standard & Poor's Index Services Group. CRSP data provided by the Center for Research in Security Prices, University of Chicago. International Value data provided by Fama/French from Bloomberg and MSCI securities data. International Small data compiled by Dimensional from Bloomberg, StyleResearch, London Business School, and Nomura Securities data. MSCI EAFE Index is net of foreign withholding taxes on dividends; copyright MSCI 2011, all rights reserved. Emerging markets index data simulated by Fama/French from countries in the IFC Investable Universe; simulations are free-float weighted both within each country and across all countries.

Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Values change frequently and past performance may not be repeated. There is always the risk that an investor may lose money. *Small company risk*: Securities of small firms are often less liquid than those of large companies. As a result, small company stocks may fluctuate relatively more in price. *Emerging markets risk*: Numerous emerging countries have experienced serious, and potentially continuing, economic and political problems. Stock markets in many emerging countries are relatively small, expensive, and risky. Foreigners are often limited in their ability to invest in, and withdraw assets from, these markets. Additional restrictions may be imposed under other conditions. *Foreign securities and currencies risk*: Foreign securities prices may decline or fluctuate because of: (a) economic or political actions of foreign governments, and/or (b) less regulated or liquid securities markets. Investors holding these securities are also exposed to foreign currency risk (the possibility that foreign currency will fluctuate in value against the US dollar).

Appendix III WHITE PAPER – INNOVATIVE WAYS TO MANAGE YOUR PENSION RISK

INNOVATIVE WAYS TO MANAGE YOUR PENSION RISK

Kien Liew, EA, FCA, MAAA
Investment Advisor & Actuary
PensionAssets

Bill Schroeder, EA, FSA, MAAA
Investment Advisor & Actuary
PensionAssets

October 18, 2010
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Introduction

Plan sponsors are searching for innovative ways to manage their pension risk. A properly managed pension plan will protect pension contributions and reduces contribution volatility.

There have been a few articles written recently on how the funding and investment volatility of defined benefit (DB) pension plans have caused headaches for plan sponsors. Most of the articles mentioned the problems (caused by low funded ratio) without identifying potential risk associated with DB plans and offering solutions to manage these risks. In this article, we will identify potential risks and approaches to manage these risks.

There are seven key risks associated with sponsoring a DB pension plan: organization risk, investment risk, funding policy risk, financial reporting risk, plan amendment risk, administration risk and legislative risk.

For organizations that are searching for better approaches to manage their pension risk, we suggest reviewing the following key risk exposures and recommended solutions.

Organization Risk

Currently, many retirement plans are administered by a Retirement Committee which is comprised of a group of trustees. The responsibilities of the trustee include plan administration with the assistance of HR staff, investing the plan assets with the advice of the investment advisor and determining the annual contribution amount with the services of the plan actuary. Once in a while, the trustee may also require the plan actuary to perform studies and make recommendations to the Board/Council prior to amending the plan.

The current Retirement Committee type of setup has two deficiencies:

- Frequently, Risk manager is not involved with the management of the DB plan;
- Generally, there is no representation from top management such as CFO or CEO.

Recommended Solution

Plan sponsors would be better served with a committee specifically responsible for evaluating the risk associated with a DB pension plan. We recommend replacing the Retirement Committee by two new committees:

1. Pension Risk Committee
2. Pension Administration Committee

The Pension Risk Committee should include the Risk Manager, HR Chief, CIO, CFO or CEO. The committee should be supported by a pension actuary, and an investment advisor. This committee is responsible for identifying and managing DB plan risks.

The Pension Administration Committee should include the HR chief and the Benefits Manager. The committee should be supported by the plan actuary and HR staff. The main responsibility of this committee is to make sure the plan is administered in accordance with the plan provisions and government regulations. This committee should also handle any participant complaints.

Note that the HR Chief is in both committees to ensure proper communication between the two committees. Smaller organizations may have one person playing multiple roles.

Investment Risk

Plan sponsors have to deal with year-to-year capital market volatility. The amount of volatility depends on how assets are invested. The Pension Risk Committee should evaluate the potential investment volatility and adjust investment accordingly.

Frequently the Retirement Committee invests their pension assets independent of the pension liability. Investment volatility was considered, but not contribution and funded ratio volatility.

Recommended Solution

Pension contributions are calculated each year to prefund the pension liability for each plan participant. The purpose is to have enough money put aside each year so that when a participant reaches his or her normal retirement age, enough money has been accumulated so that no additional contribution is needed to pay for that retiree's benefits for the rest of his/her life. One of the risk management goals for the retired group is to minimize the requirement for additional contributions for this group.

Unless your plan is well funded (100% or higher), we recommend splitting the investment portfolio into two sub portfolios: one for the inactive participant group (retirees and terminated vested employees), and the other for the active participant group. Note that there is only one physical plan with two subgroups: active and inactive participant groups.

Invest the portfolio for the inactive group with the intention that it should be 100% funded at all time with minimum fluctuations since the purpose of prefunding is to make enough contributions towards the participant's pension liability during his/her working lifetime. Prefunding also makes

economic sense since a retired or terminated participant is no longer economically benefiting the plan sponsor.

We also recommend that the plan actuary calculate the pension liability and funded status for the inactive participant group separately prior to determine the funded status for the whole group. This will help the Risk Committee to monitor the volatility for this portfolio.

The investment portfolio for the inactive participants can be invested differently than the active group if appropriate. For example, if the average age of the active group is young, risk committee may be comfortable with taking a higher risk on this group.

For pension plans with a low funded ratio, it may take many years to reduce the investment volatility. Some of the risk reduction techniques include diversify return generating portfolio, increase fixed income allocation, and annuity buy-outs or buy-ins. Asset/liability studies and a dynamic investment policy statement based on funded ratio may be appropriate in some situations.

While some risk reduction techniques require higher contributions, there are a few that do not require higher contributions. For example, proper diversification of the return generating portfolio will reduce investment risk without requiring higher contribution. For those risk reduction techniques that require higher contributions, it is a balancing act between reducing investment volatility and higher contributions.

Funding Policy Risk

For private sector pension plans, the actuary is required to use segment interest rate as prescribed by PPA to determine the pension liability and funded ratio. Public sector pension plans can continue to select their own interest rate assumption in valuing the pension liability and funded ratio.

The effective interest rate (based on the 2010 segment rates) used to value pension liability is about 6.0% for private sector plans. Many public sector pension plans are using 8.0% interest rate to calculate the pension liability. However, many pension funds have not been able to obtain consistently annual investment returns of 8.0% or higher. When investment return is less than the assumed interest rate, the funded ratio will drop from one year to the next.

Recommended Solution

Volatility is most evident at the ends of the contribution range: the minimum and maximum contributions. A simple approach is to establish a company funding policy sufficiently within the contribution range so that the volatility at the ends has little or infrequent effect. The funding policy could be a percentage of the annual compensation. This type of funding policy makes budgeting more predictable. Another advantage is that, to the extent the funding policy is higher than the minimum, a “reserve” will build up and can be tapped in a future year should budget be tight. Of course, in any given year, the amount contributed must still fall between the minimum and maximum contribution range.

For risk management purposes, we recommend calculating an economic pension liability. The economic pension liability is a pension liability determined in a true economic sense. This liability calculation may be on a different basis from the one used for contribution.

For example, for pension plans intended to be on an ongoing basis, the economic pension liability could be calculated using the AA Corporate Bond rate. For a pension plan intended to be terminated with buy-out annuities, the interest rate should be closer to that used by insurance companies. They typically use the corporate bond rates of the same duration as the pension liability less 60 – 100 basis points.

It may be necessary to use different interest rate assumption for the inactive participant group and the active participant group depending on how risk is defined for your organization.

By knowing the true economic pension liability, the risk committee could better manage the funding policy risk.

Financial Reporting Risk

Most organizations are required to disclose the pension liability, pension assets and unfunded ratio as part of the plan sponsor's overall financial health. High unfunded ratio could negatively impact its credit rating and borrowing costs. For private sector clients it could also affect its shareholders' equity and bottom line.

Recommended Solution

Different plan sponsors view this risk differently based on their organization structure and financial goals. So it is important to evaluate this reporting risk specifically for your organization.

The first step in managing this risk is to analyze how pension numbers affect your organization's financial numbers. The second step is to prioritize the order of risk management relating to financial reporting.

Projecting the pension numbers at the beginning of each year would allow the risk committee to take appropriate actions to minimize this risk.

The Risk Committee should also be proactive in keeping abreast for changes in the financial reporting rules.

Plan Amendment Risk

Some organizations amend their pension plans to provide higher pension benefits using unrealistic assumptions. When assumptions are not realized, it makes the funded ratio worst.

Recommended Solution

Prior to amending a pension plan, the Risk Committee should review two things: the goals of sponsoring the pension plan and all the assumptions used in calculating the pension liability and funded status.

The Pension Risk Committee should evaluate to make sure the amendment will meet the goals of the pension plan. The change in pension liability, funded ratio, and annual contribution should

be calculated based the interest rate as discussed under the Funding Policy Risk section, not the segment rates or the interest rate used in determining the actual contribution. These numbers will be realistic and allow the risk committee to evaluate whether the changes will meet the intended goals and whether they are sustainable.

If the Board/Council has a Compensation subcommittee, any recommended plan changes should be communicated to this subcommittee for evaluation since pension benefits is part of the total compensation package.

Administration Risk

Our experience with clients that have a retirement committee (or the new pension administration committee) generally do a good job in administering their plans. The most common mistakes in this area are inconsistencies in plan interpretations and not going back to fix known errors. While most participants understand that errors can occur, but they would not tolerate if they are not fixed. Not fixing known errors could subject the plan sponsors to lawsuits.

Recommended Solution

As discussed in the organization risk section, we recommend creating a pension administration committee to administer your pension plan. For a small organization, a two-person committee would suffice unless it is a single participant plan. This committee should be supported by an actuary and HR staff.

The Pension Administration Committee should be proactive in requiring HR support staff to report any errors immediately to them, so that they can evaluate and determine appropriate action plan. They should also report to the Risk Committee the exposed risk and how they plan to fix the errors. This committee should also come up with a procedure to minimize future errors. Errors will not disappear until they are fixed. If not fixed, it adds an additional risk to the plan sponsor.

One helpful tool is to have is a written administration manual in addition to the plan documents. The administration manual should cover routine matters such as processing a benefit certification and handling a QDRO. It should include infrequent or special situations. It should document the detailed explanations of plan interpretation. It should be the resource for administering the plan.

An automated pension calculation system can assure that benefits are consistent with the plan provisions. Also, it saves time and minimizes human errors.

A data and benefit audit every 3 or 5 years would ensure your plan is administered correctly. It will be relatively easy to fix if errors were found in the audit.

Legislative Risk

In general, legislative changes have the intention to prevent abuse and to strengthen the retirement system.

Recommended Solution

While it is hard to predict what legislation will pass in the coming years, your actuary and investment advisor should keep you abreast of potential legislative changes so you can anticipate any changes in managing the upcoming risk.

Conclusions

Managing pension risk begins with splitting the Retirement Committee into a Pension Risk Committee and a Pension Administration Committee. This allows the committees to concentrate on the areas that they know best.

The Risk Committee can focus on the pension risk and evaluate what factors could affect this risk. The Risk Committee can then address each risk factor with measures that are appropriate for the organization. The Administration Committee can focus on ensuring the pension plan is administered properly, thus reducing any administration risk.

Another key point is to let your pension actuary and investment advisor know your goals in managing your pension risk, and then have a dialogue with them. You should hire a pension actuary and an investment advisor who understand your goals and can help you achieve them.

A properly managed DB plan can provide meaningful pension benefits for long term employees. This can help plan sponsors attract and retain talent.

Appendix IV RESPONSE FROM YOUR INVESTMENT ADVISOR

October 5, 2011

Susan Vinson
Corpus Christi Regional Transportation Authority
5658 Bear Lane
Corpus Christi, TX 78405

**Re: Pension Benefits, Inc. Report on Corpus Christi RTA Defined Benefit Plan –
Statement of Investment Policy**

Dear Susan,

We have reviewed Pension Benefits, Inc. report to the retirement committee dated September 23, 2011. We understand the findings cited in the report and we clearly have the ability to manage the portfolio within the suggested parameters. Having said that, we believe it is important to review the reasoning associated with various aspects of how the retirement plan is currently managed.

Target Allocation Range - The plan currently employs a target equity allocation of 60% with an acceptable range of 45% to 75%. Wells Fargo makes the equity decision within that range using a tactical asset allocation statistical tool (TAA). Based on current expected returns, we are tactically overweight toward equities (70% target). We rebalance the plan monthly, at mid-month, back to this target. The additional allowable range out to 75% is intended to cover market movement between rebalancing periods which can, and often does, cause the allocation to move above the 70% target. Within the Investment Guidelines it is stated that actual proportions may at times move outside of the target ranges, but that we will then periodically rebalance the portfolio to the intended target range. The tactical asset allocation mechanism can be removed from the process of managing the plan if the desire is to reduce equity exposure and tighten the variation from the long term target allocation.

Overweight to growth funds - Within the equity portion of the plan Wells Fargo has also utilized a tactical equity allocation tool (TEA) to make decisions such as over weighting growth or value based on fundamental and technical indicators. We are currently in an overweight stance toward (1) domestic vs. international, (2) large cap vs. small cap, and (3) growth vs. value. The plan has not always been over weighted towards growth. While we do believe this strategy can provide a positive risk/return tradeoff over time, it does have the potential to add risk. If the intention is to reduce volatility, like the tactical asset allocation discussed above, the tactical equity allocation can be removed.

Index Funds - The plan currently employs active management, but we do have the capability of utilizing index funds as well. In our analysis of active managers we do, of course, attempt to find managers that we expect will outperform their benchmark by an extent that would justify their additional costs. Certainly this will not always be the result. Some combination of index and active management could be employed to reduce cost and variability (positive or negative) versus the benchmark.



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Sales commissions - While some of the funds' prospectuses disclose the potential for sales commissions, in an institutional environment, there are no sales commissions paid on any funds utilized by Wells Fargo. All revenue share generated by the mutual funds is rebated to the plan.

Connecting Assets to Liabilities - Wells Fargo has the capability to manage assets utilizing a liability driven investment solution (LDI). We have a series of Liability Drive Solution Funds (LIDS) that are designed to target various durations. We can then analyze a plan's projected cash flows, calculate the duration of this liability stream, and construct a bond portfolio to closely match that duration. This would likely mean a longer duration as compared to the current bond portfolio, so with interest rates at such historically low levels, most plan sponsors do not wish to extend their duration at this point in time. When the time is deemed right (typically in a higher interest rate environment), the committee could direct Wells Fargo to invest the desired portion of the assets in this manner to reduce the variability of the plan's funded status.

If you have any questions or would like any further information, let me know.

Thank you,

A handwritten signature in black ink that reads "Michael Regina". The signature is written in a cursive, flowing style.

Michael Regina, CFA
Portfolio Strategist
Wells Fargo Institutional Asset Advisors