

Metropolitan Transportation  
Authority Retiree Welfare  
Benefits Plan  
(“Other Postemployment  
Benefits Plan” or “OPEB Plan”)

Financial Statements as of and for the  
Year Ended December 31, 2014  
Supplemental Schedules, and  
Independent Auditors' Report

# **METROPOLITAN TRANSPORTATION AUTHORITY OTHER POST EMPLOYMENT BENEFITS PLAN**

## **TABLE OF CONTENTS**

---

	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3-12
FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014:	
Statement of Plan Net Position	13
Statement of Changes in Plan Net Position	14
Notes to Financial Statements	15-29
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED):	
Schedule of Funding Progress	31
Schedule of Employer Contributions	32

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Managers of the  
Metropolitan Transportation Authority Retiree Welfare Benefits Plan

### **Report on the Financial Statements**

We have audited the accompanying statement of plan net position of the Metropolitan Transportation Authority Retiree Welfare Benefits Plan (the "Plan") as of December 31, 2014, and the related statement of changes in plan net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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.

### **Auditors' 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 audits 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 auditors' 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 Plan'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 Plan'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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan net position as of December 31, 2014, and the respective changes in Plan net position for the year 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 on pages 3 through 12, the Schedule of Funding Progress on page 31, and the Schedule of Employer Contributions on page 32 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 who 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 audit 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.

*Deloitte & Touche LLP*

January 25, 2016

# METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2014

---

The purpose of the Metropolitan Transportation Authority ("MTA") Retiree Welfare Benefits Plan ("Other Postemployment Benefits Plan" or "OPEB Plan" or the "Plan") and the related Trust Fund is to provide a vehicle for the MTA organization to set aside funds to assist it in providing health and other welfare benefits to eligible retirees and their beneficiaries. The Plan and the Trust Agreement are exempt from federal income taxation under Section 115(1) of the Code. The MTA is not required by law or contractual agreement to provide funding for the Plan, other than the "pay-as-you-go" cost of providing current benefits to current eligible retirees, spouses and dependents ("Pay-Go").

This management's discussion and analysis of the Plan's financial performance provides an overview of the Plan's financial activities for the year ended December 31, 2014. It is meant to assist the reader in understanding the Plan's financial statements by providing an overall review of the financial activities during the year and the effects of significant changes. This discussion and analysis may contain opinions, assumptions, or conclusions by the MTA's management that should not be considered a replacement for, and is intended to be read in conjunction with, the Plan's financial statements which begin on page 13.

### Overview of Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the financial statements. The basic financial statements are:

- **The Statement of Plan Net Position** — presents the financial position of the Plan at year end. It provides information about the nature and amounts of resources with present service capacity that the Plan presently controls (assets), consumption of net assets by the Plan that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Plan has little or no discretion to avoid (liabilities), and acquisition of net assets by the Plan that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- **The Statement of Changes in Plan Net Position** — present the results of activities during the year. All changes affecting the assets and liabilities of the Plan are reflected on an accrual basis when the activity occurred regardless of the timing of the related cash flows. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation/(depreciation) in fair value of investments.
- **The Notes to Financial Statements** — provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the Plan's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.
- **Required Supplementary Information** as required by the Governmental Accounting Standards Board ("GASB") is presented after the management discussion and analysis, the statement of Plan net position, the statement of changes in Plan net position and the notes to the combined financial statements.

The accompanying financial statements of the Plan are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

### **Financial Highlights**

Plan net position is held in trust for the payment of future benefits to members and beneficiaries. The assets of the Plan exceeded its liabilities by \$303.2 million and \$299.7 million as of December 31, 2014 and 2013, respectively. The increase in 2014 is primarily a result of net appreciation in investments values, which was a result of the reallocation of cash held at the end of 2013 to different investment classes during 2014.

### **Plan Net Position**

**December 31, 2014 and 2013**

**(Dollars in thousands)**

	2014	2013
ASSETS		
Cash	\$ 102,320	\$ 199,513
Commitment to purchase	7,500	-
Investments, at fair value	193,367	100,231
Receivables and other assets	<u>2</u>	<u>2</u>
TOTAL ASSETS	<u>303,189</u>	<u>299,746</u>
PLAN NET POSITION HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS	<u>\$ 303,189</u>	<u>\$ 299,746</u>

**Changes in Plan Net Position**  
**For the Years Ended December 31, 2014 and 2013**  
**(Dollars in thousands)**

	2014	2013
ADDITIONS		
Net realized and unrealized gains or (loses)	\$ 3,950	\$ (409)
Less:		
Investment expenses	507	97
Net investment income/(loss)	3,443	(506)
Add:		
Employer contributions	483,700	505,500
Total additions	487,143	504,994
DEDUCTIONS		
Benefit payments	483,700	455,500
Total deductions	483,700	455,500
Net increase in Plan net position	3,443	49,494
PLAN NET POSITION HELD IN TRUST FOR OTHER POSTEMPLOYEMENT BENEFITS		
Beginning of year	299,746	250,252
End of year	\$ 303,189	\$ 299,746

The Plan's net position held in trust increased by \$3.4 million and \$49.5 million during 2014 and 2013, respectively. In 2014, the Plan's net appreciation on fair value of investments increased by \$3.9 million which was offset by investment fees of \$0.5 million. In 2013, the increase was primarily due to additional current employer contributions into the Plan in the amount of \$50 million, partially offset by net depreciation on fair value of investments held, investment fees and unrealized gains in the amount of \$0.5 million.

**Investments** — The table below summarizes the Plan’s investment allocations.

<b>December 31, 2014</b> <b>(Dollars in thousands)</b>	<b>Fair Value</b>	<b>Allocation</b>
<b>Type of Investments</b>		
Mutual funds	\$ 96,728	50.02 %
Commingled funds	70,237	36.32
Limited partnership	26,402	13.66
	<u>\$ 193,367</u>	<u>100.00 %</u>

<b>December 31, 2013</b> <b>(Dollars in thousands)</b>	<b>Fair Value</b>	<b>Allocation</b>
<b>Type of Investments</b>		
Mutual funds	\$ 45,978	45.87 %
Commingled funds	36,914	36.83
Limited partnership	17,339	17.30
	<u>\$ 100,231</u>	<u>100.00 %</u>

### **Overview of Actuarial Information**

GASB 43 requires employers with more than 200 employees or beneficiaries receiving benefits to perform periodic actuarial valuations at least biennially to determine annual accounting costs and liabilities.

The following is a summary of information from the January 1, 2012, the most recent OPEB actuarial valuation for the Plan (\$ in millions):

	<b><u>2012</u></b>
Actuarial value of assets	\$ 246
Actuarial accrued liability	(20,188)
Unfunded actuarial accrued liability	<u>\$ (19,942)</u>

### **Actuarial Value of Assets**

The actuarial value of assets (which is equal to the Plan’s net position) as of January 1, 2012, the date of the most recent OPEB actuarial valuation, was \$246.0 million.

### **Actuarial Accrued Liability**

The actuarial accrued liability (“AAL”) as of January 1, 2012, the date of the most recent OPEB actuarial valuation, was \$20.2 billion determined under the Entry Age (“EA”) Normal Actuarial Cost Method.

### **Unfunded AAL**

The increase in the Unfunded AAL of \$2.2 billion from \$17.7 billion as of the January 1, 2010 actuarial valuation to \$19.9 billion as of the January 1, 2012 actuarial valuation was the result of changes in actuarial



assumptions, primarily a decrease in the discount rate from 4.0% at January 1, 2010 to 3.75% at January 1, 2012. The MTA determines the amount of its annual employer contributions on the annual Pay-Go, adjusted by prepayments and trust asset usages, which are determined through its normal budgetary process.

## **Economic Factors**

### **Market Overview 2014**

Calendar year 2014 saw U.S. equities and bonds performed better than most analysts predicted in their 2014 investment outlook. The job market outperformed, consumer and business confidence improved and corporations aggressively put cash to work after years of staying on the side-lines. As a result, 2014 proved to be a good year for U.S. stocks, to this end, the S&P 500 returned 13.7% for the year, and the Russell 2000 gained 4.9%. These advances came amid a slump in the rest of the world with the Morgan Stanley Capital International Europe, Australia and Far East (“MSCI EAFE”) Index falling 3.5% in December 2014. The drop was fueled by a 4.3% decline in European shares with investors even shrugging off intensifying expectations of additional monetary policy accommodation by the European Central Bank (“ECB”). Domestic fixed income indices, although mixed in December, ended the year on a strong note with the Barclays Aggregate Index up 6.0% for 2014. Domestic fixed income indices were bolstered through the year by narrowing Treasury yields, despite the market’s anticipation of rates rising. The yield on the 10-year Treasury fell to 2.11% in December from 2.16% a month earlier. In contrast, the World Government Bond Index (“WGBI Index”) declined by 0.7%, partially affected by currency depreciation in international markets. By contrast, emerging market equities returned -2.2% for 2014 after a very difficult year. The pattern of returns across asset classes over the year, and especially in the fourth quarter, drove home the impact that divergent global growth and by extension divergent monetary policy has had on asset markets.

The fourth quarter of 2014 was, in many regards, a perfect microcosm of the issues that had built in global markets over the course of the year. Three factors are notable, and persistent: i) the slow but inexorable U.S. economic recovery; ii) the contrasting sluggishness of the rest of the world economy, large parts of which remain heavily reliant on stimulus; and iii) the excess capacity that exists in parts of the global economy and is currently most visible in commodity markets. Both of the periods of market disruption in early October and early December last year were likely influenced by these factors as markets re-priced their impact.

Despite the pockets of market volatility during the fourth quarter, the Chicago Board Options Exchange Market Volatility Index (“VIX”) averaged just 16 over the quarter, which was 2.5 points above the average of the prior three quarters, but still well below crisis levels. Indeed, the price action in key asset classes in the fourth quarter showed an extension of the full year trends. Global equities added 290 basis points (“bps”), global bonds added 340bps, and global credit added 160bps; meanwhile commodities, already down 7.5% at the end of the third quarter, fell a further 27.7% as oil slumped below \$60/bbl.

The anatomies of the market shakeouts that occurred in October and December are worth noting. First, the relative speed with which equity markets, specifically U.S. equities regained their footing, reinforces the view that the underlying economy is gradually improving. Secondly, the failure of high yield credit markets to rebound strongly with equities may be explained in part by the impact of weaker oil prices on the U.S. mid and small cap energy sector, but is also likely to be a function of liquidity fears. Little wonder then that markets directly affected by liquidity stimulus notably Japan, rebounded very sharply from their lows, while markets where liquidity is scarce (high yield, emerging market debt) struggled to recover. Finally, the extreme moves in bond markets were only partly to do with capitulations of short positions. The weakness in commodity markets is very likely to precipitate a marked drop in global inflation. This global disinflationary impulse, together with ongoing demand for duration from central banks, is clearly holding yields down.

In retrospect, 2014 was a year of many themes that never materialized. With the 10-year Treasury at 3.03% at the end of 2013, markets were poised for lower returns amid expectations that a continued rise in rates, in conjunction with the tapering monetary policy, would negatively affect fixed income securities; instead, bond markets posted robust returns and rode rates all the way down to pre-taper levels. Furthermore, a rally in equities lasting nearly five years and a Gross Domestic Product (“GDP”) contraction in the first quarter of 2014 were reason enough to express caution around US markets. That said, successive quarters of stronger-than-expected growth quickly eased these fears and allowed U.S. equities to continue their winning streak. In June, oil prices rose to over \$110 per barrel amid conflict in Ukraine and the Middle East, only to fall by more than half by year end. Even the Federal Reserve Bank’s planned winding down of its bond purchases mostly went off without a hitch when the very idea of tapering caused havoc in markets only a year earlier.

As with any investment, there exists the possibility of a risk of loss. Those risks include the risk of changes in economic and market conditions, the concentration of investments within a portfolio, and the volatility of securities or the assets underlying the investment. With alternative investments, investors may be required to hold the investment for a certain time period before they can sell and there can be conditions when fund managers are not required to make distributions. Also, in the case of certain alternative investments, management and their investment advisors use assumptions and judgments to determine the estimated fair value for these investments as they are not always readily marketable. The actual results, ultimately realized, could differ from these estimates. Additionally, each of the above discussed factors could affect the ultimate fair value realized from an investment. The fair value that management has determined for financial statement presentation purposes may not be indicative of the amounts ultimately realized upon a sale of a security.

### **Market Overview and Investment Outlook 2015**

Despite low returns across all major markets and asset classes, 2015 was an eventful year. Market performance was framed by an ever complicated macro environment. Europe was the focus in the first half of the year, as renewed concern about sovereign debt weighed on the common currency. Such concern ultimately led Switzerland to abandon its currency peg to the Euro. Greece continued to make headlines with its contested austerity program, posing an existential threat to the European common currency. In the second half, eyes turned toward a weakening Chinese economy, resulting in commodity markets continuing their steep decline and volatility rising across the equity and fixed income markets. Emerging markets, particularly those centered on commodities where demand is tied to Chinese growth, experienced sharp declines for the year.

Weak global growth and low inflation set the stage for divergent central bank monetary policies in developed markets. The year ended with the U.S. Federal Reserve raising interest rates for the first time in nearly 10 years. The European Central Bank and Bank of Japan took a different path, as they continued their quantitative easing programs in an effort to boost inflation and lagging growth in their economies. Perhaps the story for the year was what played out in China, emerging markets, and the commodity markets. As China’s ability to generate the growth expected by the markets became more suspect, the impact was felt across commodity markets. Oil ended the year below \$40/barrel, well off its price of just 18 months ago of approximately \$120/barrel. Similarly, copper, iron ore, nickel and other industrial metals all are touching lows not seen in recent years. Emerging markets, many of which are tied to China’s growth by supplying it with the raw materials necessary to fuel the economic engine, sold off as investors pulled their risk capital from the markets. Within this context, there were few places to invest to generate meaningful positive returns, while other areas experienced performance not seen since the Great Financial Crisis.

### ***Macro Themes***

- Weak global growth continuing into 2017
- Central Bank policy divergence, U.S. tightening while Europe and Japan eases

- China weakening; turmoil in emerging markets and commodities
- Volatile currency markets and sovereign debt stress

The macro picture was framed by tepid global growth in 2015, with the likelihood that sub-optimal economic performance would continue into 2016 and 2017. Developed markets look to remain weak, with GDP growth not breaking through the 3% level in the U.S., Europe, or Japan in 2016 or 2017 according to both the IMF and World Bank. Inflation remains non-existent across the developed markets while currency depreciation in emerging markets have led to spikes in inflation. The U.S. is in an environment where interest rates will likely rise over the next two years; Europe and Japan are in a decidedly different place. Weak demand and low inflation in Europe and Japan have led to further central bank intervention and easing. In emerging markets, central banks have moved to increase interest rates in order to tame both inflation and capital outflows. Ultimately, U.S. interest rate increases will continue to result in a strengthening U.S. Dollar, potentially impacting the U.S. manufacturing and exporting sectors and likely restraining the Fed from increasing rates too quickly. Costs of a rising dollar and interest rates may be partially offset by cheaper natural resources and energy costs.

Europe continues to be impacted by high levels of public debt and low economic growth. Like many emerging markets, much of Europe's exports are tied to Chinese demand and growth. Lower growth in China will continue to place pressures on Europe, in particular Germany. Debt levels have not yet moderated post-financial crisis and flare-ups in the periphery, such as in Greece, Portugal, Italy, and Spain, are likely to continue as growth remains challenged and reforms and austerity lose support. Banks will continue their deleveraging cycle as new rules on risk capital are implemented. In Japan, where banks are in better health; high public debt, low growth, a weakening regional economic picture, and aging demographics will challenge the government in delivering their growth and inflation targets.

Emerging markets have seen their economic performance deteriorate over the past few years, coinciding with both a weaker global growth picture, sovereign debt concerns in developed markets, and a collapse in energy and mineral prices. The main emerging markets, as defined as the "BRICs" all face their own challenges. Brazil faces high inflation, high interest rates, low growth and a government beset by allegation of corruption. China, in attempting to shift from being manufacturing- oriented to a consumer-based economy, faces significant pressures to meet its growth target of 7% per year. Russia faces a deteriorating financial condition as lower energy prices and economic sanctions take their toll. Finally, India seems to continually disappoint in liberalizing its economy and implementing the structural reforms necessary to unleash its potential. No longer can an argument be made that emerging markets have de-coupled from the developed world.

## **United States**

Markets in the U.S. were challenged for the year, but were among the best performers in 2015. Unlike other regions, the U.S. appears to be on relatively sound footing, with unemployment continuing to decline and the remaining hangovers from the 2008 financial crisis continuing to dissipate. The better economic picture provided the Federal Reserve enough leeway to raise interest rates in December for the first time in nearly ten years. The 25 basis point move is largely symbolic, as the frequency and velocity of future interest rate hikes will be determined by continued improvement in the economy.

## ***Equity***

- Worst year for U.S. Equities since 2008
- Valuations neither cheap nor expensive
- Risk Aversion – Large Cap outperformed small & mid cap. Growth outperformed Value
- Energy and Materials lagged the broader markets significantly
- Health Care and Consumer Sectors relatively strong
- Equity markets set for another low-return year

Large cap stocks were barely positive, with the S&P 500 and Russell 1000 posting returns of +1.4% and +0.9%, respectively. Small Cap and Mid Cap indices underperformed large cap. Small Cap, as measured by the Russell 2000 Index, returned -4.4%. The Russell Mid Cap Index performed better, at -2.4%, but still posting its first negative year since 2008. Digging deeper, there was significant performance dispersion across the sectors. Energy and materials performed remarkably poorly. Large cap energy stocks fell by 21.1% for the year while mid cap energy stocks fell by over 33%. Consumer areas performed reasonably well. Consumer Discretionary (+10.1%), Health Care (+6.9%) and Staples (+6.6%) were the leading performers in the S&P 500. With the potential for a new interest rate regime in the U.S., active management may finally start to deliver against passive investment options. Dispersion amongst sectors and stocks, as well as increased volatility from a cloudy global macro picture, should provide active managers an adequate environment to deliver value in relation to their fees.

### ***Fixed Income***

Unlike recent years where fixed income could be counted on to deliver performance in a weak year for equities, bonds disappointed across all asset classes. Treasuries returned 0.84% for the year, with long-dated bonds outperforming shorter-dated bonds. Importantly, Treasuries were among the best performing areas of the bond markets for 2015. And perhaps more significantly, most investors have been both underweight Treasuries and positioned toward the front end of the yield curve, in anticipation of rising interest rates. This shorter-duration strategy hurt investors in 2015 as the 7-10 Year Index outperformed the 1-3 Year Index by 100 bps for the year. The underweight to Treasuries further eroded performance for many investors in their bond portfolios.

- Intermediate Treasuries returned less than 2%
- Investment Grade Credit posted negative returns, driven by BBB-rated
- High Yield markets sold off in second half
- Declining liquidity in corporate bonds due to capital rules on dealer balance sheets
- Fixed income likely to continue to disappoint as interest rates creep higher

Volatility entered the fixed income markets significantly in the back half of the year. High Yield, which had seen strong inflows in recent years, sold off as investors became nervous of rising interest rates, illiquidity, and the impact from the decline in energy prices. Energy issuers comprise roughly 15% of the high yield market and are under significant pressure due to the decline in oil prices. High profile fund closures and liquidations in the fourth quarter added to the volatility in the high yield market. Investment grade was not immune to the volatility either as risk aversion was evident in the corporate bond markets. Lower-rated investment grade, defined as “BBB” by S&P, posted a -1.5% return for the year, underperforming “A” rated bond by nearly 200 bps. Investment in fixed income will remain challenging in 2016. Potential interest rate increases should continue to dampen returns for Treasuries and risk-aversion in investment grade and high-yield will likely lead to further volatility. Nimbleness and patient deployment of capital in fixed income could offer opportunities to take advantage of periods of market stress. As we have likely entered the later stages of the credit cycle, prudent allocation of risk to the credit sectors will become ever more important.

### ***International Developed***

- Weak year in Developed Markets (\$U.S. returns)
- Eurozone, United Kingdom, Australia, Canada all posting negative returns
- Japan, Italy, and Scandinavia only major markets positive for the year
- Equity valuations in developed markets appear relatively cheaper than the U.S.
- Low returns in fixed income in 2015 and expected through 2016

Europe muddled through 2015, never quite able to shake-off a steady procession of crises or concerns, whether the headlines were Greece, sovereign debt levels, weak growth, the viability of the Euro, or the influx

of migrants. In \$U.S., all major developed markets posted negative performance in 2015. Banks in Europe continue their deleveraging programs, selling off non-core holdings and impaired assets. Opportunities in Europe will continue to exist in taking advantage of the deleveraging cycle, although the space has become crowded with ever increasing amounts of capital seeking returns. Unlike the U.S., equity valuations appear a little more attractive in Europe and there may be a likelihood that investors will shift their focus from U.S. to European Equities. In Asia, most developed markets continue to experience very weak performance in \$U.S. terms, with the one exception being Japan. Japan, which has embarked on aggressive policies to pull the country from two decades of stagnation, returned +9.6% in 2015. Whether the strong relative performance continues is an open question, particularly in light of the developments in China and whether the Yen can continue to depreciate against other currencies.

Fixed income markets in Europe and Japan are largely centered on government bonds, with corporate and asset-backed issuance making up a fraction of the overall markets. European Treasuries returned 1.7% in 2015, and with the latest round of quantitative measures employed by the European Central Bank, returns are likely to be similar in 2016.

### **Emerging Markets**

- Terrible year in Emerging Markets (U.S.\$ returns)
- Weighed by capital outflows and commodity sell-off
- Major markets of Indonesia, Brazil, South Africa, Turkey, Malaysia, Thailand at least 20% lower
- Only Hungary and Russia posted positive returns
- Local Currency Bonds significantly down; hard currency bonds modestly positive
- No end in sight for volatility and macro risks remain elevated

Emerging markets posted performance not seen since the financial crisis. The broad emerging markets index declined 14.9% for the year. Only two markets tracked by MSCI, Hungary and Russia, posted positive performance for the year, although Russia was largely a result of performance in the non-energy and basic materials sectors. China, which made significant news through the fall and into winter with the deterioration of its economy and clumsy financial controls implemented to arrest a steep decline in its equity markets, performed better than the broader emerging markets index, falling 7.8% for the year. The worst performance in emerging markets came from Latin America. The Emerging Markets (“EM”) Latin America index fell by 31.0% in 2015, with the worst performance coming from the commodity-heavy economies of Brazil (-41.4%), Peru (-31.7%), and Columbia (-41.8%).

More troubling may be the performance of the bond markets of emerging markets. In local currency terms, most emerging markets fixed income indices posted positive performance in 2-5% range. In terms of U.S. dollars, the declines in local currency bonds have been staggering. Brazil (-30.1%), South Africa (-28.2%), and Turkey (-20.9%) highlight the impact of currency on performance. Hard currency bonds, generally issued in \$U.S., performed better in 2015, due to the strength of the dollar. The strong performance does not mask the risk due to currency mismatches in the hard currency market and the perennial risk of devaluation, default, and repudiation. Declining currencies, commodity price volatility, high debt levels, and high inflation will likely provide little respite in 2016 for emerging markets.

### **Commodities**

- One of the worst years on record for commodities
- Slowing China growth, weak global demand, over supply interrelated factors
- Little expectation for a recovery in commodity prices in the near term

Commodities posted amongst the worst performance of any asset class in 2015. The Dow Jones Commodity Index fell by over 25% in 2015, with the energy components leading the downward spiral in prices. Only

Cocoa and Cattle provided any positive returns in the index. The Brent Crude Index fell by 45.7% in 2015; Heating Oil fell by 41.4% and Natural Gas fell by 39.1%. While potentially a benefit to consumers, the collapse in energy prices has negative effects near (U.S. shale producers) and far (emerging markets sovereign debt and currencies). Industrial metals were also not immune to the sell-off. As China demand for industrial metals has declined, prices for industrial metals declined by 25% in 2015. The volatility in prices, as well as the impairment on company financials, has led to a significant amount of capital raised in the private equity space in seeking to take advantage of the environment. With little reason to believe that a recovery is near, performance will likely broadly disappoint.

### **Contact Information**

This financial report is designed to provide a general overview of the Metropolitan Transportation Authority Other Postemployment Benefits Plan's finances. Questions concerning any data provided in this report or requests for additional information should be directed to the Comptroller, Metropolitan Transportation Authority, 2 Broadway, 16<sup>th</sup> Floor, New York, NY 10004.

\* \* \* \* \*

# **METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN**

## **STATEMENT OF PLAN NET POSITION**

**AS OF DECEMBER 31, 2014**

**(In thousands)**

---

	<b>2014</b>
ASSETS:	
Cash and cash equivalents	\$ 102,320
Commitment to purchase	7,500
Investments — at fair value	193,367
Accrued interest receivable	<u>2</u>
Total assets	<u>303,189</u>
PLAN NET POSITION HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS	<u>\$ 303,189</u>

See notes to financial statements.

# METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

## STATEMENT OF CHANGES IN PLAN NET POSITION FOR THE YEAR ENDED DECEMBER 31, 2014

(In thousands)

---

	2014
ADDITIONS:	
Net realized and unrealized gains or (losses)	\$ 3,950
Less:	
Investment expenses	<u>507</u>
Net investment income (loss)	<u>3,443</u>
Add:	
Employer contributions	<u>483,700</u>
Total additions	<u>487,143</u>
DEDUCTIONS:	
Benefit Payments	<u>483,700</u>
Total deductions	<u>483,700</u>
Net increase in Plan net position	3,443
PLAN NET POSITION HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS:	
Beginning of year	<u>299,746</u>
End of year	<u>\$ 303,189</u>

See notes to financial statements.



# METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

---

### 1. BACKGROUND AND ORGANIZATION

The Metropolitan Transportation Authority (“MTA”) Retiree Welfare Benefits Plan (“Other Postemployment Benefits Plan” or “OPEB Plan” or the (“Plan”) and the related Trust Fund was established effective January 1, 2009 for the exclusive benefit of The MTA Group’s retired employees and their eligible spouses and dependents, to fund some of the OPEB costs provided in accordance with The MTA’s various collective bargaining agreements and The New York State Administrative Code. The MTA Group comprises the following agencies and former agencies:

- MTA New York City Transit
- MTA Long Island Rail Road
- MTA Metro-North Railroad
- MTA Bridges and Tunnels
- MTA Headquarters (“MTAHQ”)
- MTA Long Island Bus
- MTA Staten Island Railway
- MTA Bus Company
- MTA Capital Construction

The Trust is tax exempt in accordance with Section 115 of the Internal Revenue Code. The Plan is classified as a single employer plan for Governmental Accounting Standards Board (“GASB”) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 43”) purposes.

The MTA is not required by law or contractual agreement to provide funding for the Plan, other than the “pay-as-you-go” amount necessary to provide the current benefits to current eligible retirees, spouses and dependents (Pay-Go).

GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* prescribes uniform financial reporting standards for other postemployment benefits (“OPEB”) plans of all state and local governments. OPEB refers to postemployment benefits other than pension benefits and includes postemployment healthcare benefits which are covered under The MTA OPEB plan.

GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* (“GASB 45”) requires state and local government’s financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that

approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and to what extent progress is being made in funding the plan.

The MTA has implemented GASB 45. This Statement establishes the standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and to what extent progress is being made in funding the plan.

During 2012, MTA funded \$250 million into the Trust. In addition, \$50 million was funded during 2013. There were no funding to the OPEB Trust by the MTA during 2014. Under GASB 45, the discount rate is based on the assets in a trust, the assets of the employer or a blend of the two based on the anticipated funding levels of the employer. For the 2012 valuation, the discount rate reflects a blend of Trust assets and employer assets. The assumed return on Trust assets is 6.5% whereas the assumed return on employer assets is 3.5% resulting in a discount rate under GASB 45 of 3.75%, which is slightly lower than the discount rate of 4% used in the prior valuation. This decrease is primarily due to the decrease in Treasury yields and thus, returns on employer assets since the prior valuation.

## **2. PLAN DESCRIPTION, ELIGIBILITY AND MEMBERSHIP INFORMATION**

The benefits provided by the MTA Group include medical, pharmacy, dental, vision, and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursements and welfare fund contributions. The different types of benefits provided vary by agency and according to relevant collective bargaining agreements. Benefits are provided upon retirement. "Retirement" is defined by the applicable pension plan. Certain agencies provide benefits to certain former employees if separated from service within 5 years of attaining retirement eligibility. Employees of the MTA Group are members of the following pension plans: the MTA Defined Benefit Pension Plan ("MTADBPP"), the MTA Long Island Rail Road Plan for Additional Pensions, the Metro-North Cash Balance Plan, the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") Pension Plan, New York City Employees' Retirement System ("NYCERS") and New York State and Local Employees' Retirement System ("NYSLERS").

The MTA Group participates in the New York State Health Insurance Program ("NYSHIP"), and provides medical and prescription drug benefits, including Medicare Part B reimbursements, to many of its employees and retirees. NYSHIP offers a Preferred Provider Organization ("PPO") plan and several Health Maintenance Organization ("HMO") plans. However, represented MTA New York City Transit employees, other MTA New York City Transit former employees who retired prior to January 1, 1996 or January 1, 2001, and MTA Bus Company retirees do not participate in NYSHIP. These benefits are provided through a self-insured health plan, a fully insured health plan or an HMO.

The MTA is a participating employer in NYSHIP. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Service, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

GASB 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed with a valuation date of January 1, 2012. The total number of plan participants as of January 1, 2012 receiving retirement benefits was 47 thousand.

**Plan Eligibility** — Generally, to qualify for benefits under the Plan, a retired employee of the MTA must:

- have at least 10 years of credited service as a member of the City of New York or New York State retirement systems, or have at least 5 years of credited service if he or she became an employee on or before December 27, 2001 (if retirement is due to accidental disability, the service requirement for retirement does not apply); and
- have retired and be receiving a pension from the MTADBPP, City of New York or State of New York retirement systems (unless within 5 years of commencing retirement for certain members); provided, however, that if he or she is a retired member of the MTADBPP (covering MTA Metro-North Railroad, MTA Long Island Rail Road, MTA Staten Island Railway, MTA Police, MTA Bus Company, and certain former MTA Long Island Bus employees), such retiree may be eligible depending on represented or non-represented status, and if represented, pursuant to the relevant collective bargaining agreement.

#### Surviving Spouse and Other Dependents

- Dependent coverage is terminated when a retiree dies, except in the following situations:
  - (i) Lifetime coverage is provided to the surviving spouses or domestic partners and coverage to age 26 for children of uniformed members of the Police Department whose death was sustained while in performance of duty.
  - (ii) Effective November 13, 2001, surviving spouses of retired uniformed members of the Police Department may elect to continue coverage by paying 102% of the stated premium.

**Plan Membership** — As permitted under GASB 43, the Plan has elected to use January 1, 2012, as the date of the OPEB actuarial valuation. The Plan's combined membership consisted of the following at January 1, 2012, the date of the most recent OPEB actuarial valuation:

	<b>January 1, 2012</b>
Actives	65,730
Inactives	-
Deferreds	276
Retirees	46,686
	<hr/>
Total number of participating employees	<u>112,692</u>

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — The Plan's financial statements are prepared on the accrual basis of accounting under which deductions are recorded when the liability is incurred and revenues are recognized in the accounting period in which they are earned. Employer contributions are recognized when paid in

accordance with the terms of the Plan. Additions to the Plan consist of employer contributions and net investment income. Investment purchases and sales are recorded as of trade date.

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America, as prescribed by Government Accounting Standards Board (“GASB”).

#### **Recent Accounting Pronouncements —**

The Plan has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. Statement No. 70 also requires, a government guarantor to consider qualitative factors when determining if a payment on its guarantee is *more likely than not* to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The Plan has determined that GASB Statement No. 70 had no impact on its financial position and results of operations.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under this Statement, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The provisions in GASB Statement No. 72 are effective for periods beginning after June 15, 2015.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The scope of Statement No. 74 includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria: 1) Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable. 2) OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms. 3) OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016.

The Plan has not completed the process of evaluating the impact of Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

The Plan has not completed the process of evaluating the impact of Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool’s participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool’s participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, except for certain provisions

on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

**Investments** — The Plan’s investments are those which are held in the Trust. Investments are reported on the statement of plan net position at fair value based on quoted market prices or amortized costs. Investment income, including changes in the fair value of investments, is reported in changes in plan net position during the reporting period.

**Benefit Payments** — The Plan Sponsor makes direct payments of insurance premiums for healthcare benefits to OPEB Plan members or beneficiaries. Payments made directly to the insurers by the Plan Sponsor which bypass the trust are treated as additions and deductions from the Plan’s net position.

#### **4. CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash and Cash Equivalents balance as of December 31, 2014 represents securities in the Plan’s portfolio, held in the Trust, that mature within three months. The Plan held \$102,320,000 in money market funds as of December 31, 2014.

**Investment Objective** — The Plan’s investments are those which are held in the Trust. The investment objective of the funds is to achieve consistent positive real returns and to maximize long-term total return within prudent levels of risk through a combination of income and capital appreciation.

**Investment Guidelines** — The Committee of the MTA Retiree Welfare Benefits Plan is in the process of creating investment guidelines with the Plan’s investment advisor (“NEPC”) that will address and execute investment management agreements with professional investment management firms to manage the assets of the Plan.

**Credit Risk** — At December 31, 2014 the following credit quality rating has been assigned by a nationally recognized rating organization:

Quality Rating	2014	
	Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 7,693,047	6.07 %
AA	(3,085,579)	(2.43)
AA-	16,736,246	13.20
A	3,243,344	2.56
A-	10,270,392	8.10
BAA	20,160,411	15.91
BBB	8,813,679	6.95
BB	1,082,786	0.86
B	1,885,629	1.49
CCC	562,656	0.44
Not Rated	<u>31,885,576</u>	<u>25.15</u>
Credit risk debt securities	99,248,187	78.30
U.S. Government bonds	<u>27,513,249</u>	<u>21.70</u>
Total fixed income securities	126,761,436	<u>100.00 %</u>
Other securities not rated — equity, international funds and foreign corporate bonds	<u>66,606,117</u>	
Total investments	<u>\$ 193,367,553</u>	

**Interest Rate Risk Exceptions** — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The greater the duration of a bond or portfolio of bonds, the greater its price volatility will be in response to a change in interest rate risk and vice versa. Duration is an indicator of bond price's sensitivity to 100 basis point change in interest rates.

Investment Fund	2014	
	Fair Value	Duration
Allianz Structured Alpha	\$ 7,832,010	0.25
Bridgewater Alpha Pure Markets Fund	11,541,815	(2.05)
Bridgewater All Weather Fund	26,402,145	9.37
Pimco All Asset Fund	20,160,411	2.77
Pimco Total Return Fund	16,736,246	4.87
Pimco Unconstrained Bond Fund	10,270,392	(0.06)
Wellington Diversified Inflation Hedge Fund	8,592,287	5.71
Wellington Opportunistic Investment Fund	<u>15,857,417</u>	4.66
	117,392,723	
Portfolio modified duration		4.13
Investments with no duration reported	<u>75,974,830</u>	
Total investments	<u>\$ 193,367,553</u>	

**Custodial Credit Risk** — For investments, custodial credit risk is the risk that in the event of the failure of the Trustee Bank, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured and are not registered in the name of the Trust.

The Plan manages custodial credit risk by limiting its investments to highly rated institutions and requiring high quality collateral be held by the Trustee Bank in the name of the Trust.

**Concentration of Credit Risk** — The Plan places no limit on the amount the Trust may invest in any one issuer of a single issue. Individual investments held by the Plan that represents 5.0% or more of the Plan's net assets available for benefits at December 31, 2014 is as follows:

Issuer	2014	
	of Total Investments	of Total Investments
Artisan Global Opportunities Fund	9 %	26,668,954
Dreyfus Global Stock Fund	8	22,892,026
Bridgewater All Weather Fund	8	26,402,145
PIMCO All Asset Fund	7	20,160,411
PIMCO Total Return Fund	6	16,736,246
Wellington Trust	5	15,857,417



**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. Each investment manager, through the purchase of units in a commingled investment trust fund or international equity mutual fund establishes investments in international equities. In addition, the Plan has investments in foreign stocks and/or bonds denominated in foreign currencies. The Plan's foreign currency exposures as of December 31, 2014 is as follows (amounts in U.S. dollars, in thousands):

<b>Foreign Currency Holdings in US \$</b>	<b>December 31, 2014</b>
Australian Dollar	\$ 4,245,106
Brazilian Cruzeiro Real	4,484,382
Canadian Dollar	1,417,372
Chilean Peso	(61,662)
Columbian Peso	846,575
Chinese Yuan Renminbi	684,416
Czech Republic Koruna	50,401
Danish Krone	528,623
Euro	12,441,800
Great Britain Pound Sterling	9,518,105
Hong Kong Dollar	2,150,511
Hungarian Forint	543,293
Indian Rupee	1,622,468
Indonesia Rupiah	1,403,915
Israeli Shekel	528,871
Japanese Yen	(1,554,444)
Malaysian Ringgit	1,276,683
Mauritian Rupee	41,229
Mexican New Peso	3,293,036
Moroccan Dirham	2,016
New Zealand Dollar	(79,711)
Nigerian Naira	84,626
Norwegian Krone	149,676
Peruvian Nuevo Sol	185,101
Philippine Peso	107,874
Polish Zloty	1,361,707
Romanian Leu	301,758
Russian Federation Rouble	1,453,384
Singapore Dollar	699,649
South African Rand	1,367,411
South Korean Won	(1,300,222)
Swedish Krona	1,477,282
Swiss Franc	879,672
Taiwanese New Dollar	1,241,140
Thai Baht	771,637
Turkish Lira	1,206,481
UAE Dirham	6,195
Uruguayan Peso	42,165
Venezuelan Bolivar	(16,736)
<b>Total</b>	<b>\$ 53,401,785</b>

## 5. FUNDED STATUS AND FUNDING PROGRESS — OPEB PLAN

The funded status of the Plan as of the most recent OPEB actuarial valuation date is as follows (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
January 1, 2012	\$ 246,009	\$ 20,187,800	\$ 19,941,791	1.2 %	\$ 4,360,578	457.3 %

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the Plan by employers in comparison to the annual required contribution (“ARC”), an amount that is actuarially determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover costs under the actuarial assumptions and methods utilized for each year.

Projections of benefits for financial reporting purposes are based on the substantive OPEB plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The MTA may not be obligated to provide the same types or levels of benefits to retirees in the future.

**Annual OPEB Cost (“AOC”) and Net OPEB Obligation** — The MTA’s annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. Currently, the MTA expenses the actual benefits paid during a year. The cumulative difference between the annual OPEB cost (new method) and the benefits paid during a year (old method) will result in a net OPEB obligation (the “Net OPEB Obligation”), included on the statement of net position. The annual OPEB cost is equal to the annual required contribution (the “ARC”) less adjustments if a Net OPEB Obligation exists and plus the interest on Net OPEB Obligations. The ARC is equal to the normal cost plus an amortization of the unfunded liability.

The MTA's annual OPEB cost, the percentage of annual OPEB cost contributed to, and the net OPEB obligation for the year ended December 31, 2014 is as follows:

<b>Year Ended</b>	<b>Annual OPEB Cost</b>	<b>% of Annual Cost Contributed</b>	<b>Net OPEB Obligation</b>
<b>(In Thousands)</b>			
December 31, 2014	\$ 2,522,880	19.2%	\$ 12,066,311

**Actuarial Cost, Amortization Methods and Assumptions** — For determining the ARC, the MTA has chosen to use Frozen Initial Liability (the “FIL Cost Method”) cost method, one of the cost methods in accordance with the parameters of GASB 45. The initial liability is amortized over a 22-year closed period. As of the last valuation date the remaining amortization period is 15 years.

In order to recognize the liability over an employee's career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the “Accrued Liability” or “Past Service Liability”), the part that is being earned this year (the “Normal Cost”), and the part that will be earned in future years (the “Future Service Liability”). Under the FIL Cost Method, an initial past service liability is determined based on the Entry Age Normal (“EAN”) Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

The Frozen Unfunded Accrued Liability is determined each year as the Frozen Unfunded Accrued Liability for the prior year, increased with interest, reduced by the end-of-year amortization payment and increased or decreased by any new bases established for the current year.

The difference between the Actuarial Present Value of Benefits and the Frozen Unfunded Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

The Annual Required Contribution (“ARC”) is equal to the sum of the Normal Cost and the amortization for the Frozen Unfunded Accrued Liability with appropriate interest adjustments. Any difference between the ARC and actual plan contributions from the prior year are considered an actuarial gain/loss and thus, are included in the development of the Normal Cost. This methodology differs from the approach used for the pension plan where the difference between the ARC and actual plan contributions from the prior year, if any, will increase or decrease the Frozen Unfunded Accrued Liability and will be reflected in future amortization payments. A different approach was applied to the OPEB benefits because these benefits are not actuarially funded.

**Valuation Date** — The valuation date is the date that all participant and other pertinent information is collected and liabilities are measured. This date may not be more than 24 months prior to the beginning of the fiscal year. The valuation date for this valuation is January 1, 2012, which is 12 months prior to the beginning of the 2013 fiscal year.

**Inflation Rate** — 2.5% per annum compounded annually.

**Discount Rate** — GASB 45 provides guidance to employers in selecting the discount rate. The discount rate should be based on the estimated long-term investment yield on the investments that are expected to be used to finance the benefits. If there are no plan assets, assets of the employer should be used to derive the discount rate. This would most likely result in a lower discount rate and thus, liabilities significantly higher than if the benefits are prefunded. In recognition of the decrease in short-term investment yields partially offset by the establishment of a trust, the discount rate for this valuation has been lowered from 4.0% to 3.75%.

**Healthcare Reform** — The results of this valuation reflect our understanding of the impact in future health costs due to the Affordable Care Act (“ACA”) passed into law in March 2010. An excise tax for high cost health coverage or “Cadillac” health plans was included in ACA. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted. Also included in ACA are various fees (including, but not limited to, the Patient-Centered Outcomes Research Institute fee, Transitional Reinsurance Program fee, and the Health Insurer fee) associated with the initiation of health exchanges in 2014.

The OPEB-specific actuarial assumptions used in the most recent biennial valuation are as follows:

Valuation date	January 1, 2012
Actuarial cost method	Frozen Initial Liability
Discount rate	3.75%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen Initial Liability
Amortization period	15 years
Period closed or open	Closed

\* In general, all coverages are paid for by the MTA. However, for MTAHQ members retired prior to 1997, pay a portion of the premium, depending on the year they retired.

Actuarial valuation involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**Per Capita Claim Costs** — Use of a blended premium rate for active employees and retirees under age 65 is a common practice. Health costs generally increase with age, so the blended premium rate is higher than the true underlying cost for actives and the blended premium is lower than the true underlying cost for retirees. For retirees, this difference is called the implicit rate subsidy. Since GASB 45 only requires an actuarial valuation for retirees, it requires the plan sponsor to determine the costs of these benefits by removing the subsidy. However, a plan sponsor may use the premiums without adjustment for age if the employer participates in a community-rated plan, in which the premium rates reflect projected health claims experience of all participating employers, or if the insurer would offer the same premium rate if only non-Medicare-eligible retirees were covered.

A 2006 report from the Department of Civil Service of the State of New York regarding recommended actuarial assumptions used for New York State/SUNY’s GASB 45 Valuation sent to all participating employers stated that the Empire Plan of NYSHIP is community-rated for all participating employers. Each MTA Agency participating in NYSHIP is no more than approximately 1%, and in total, the MTA is approximately 3% of the total NYSHIP population. Thus, we believe that the actual experience of the

MTA will have little or no impact on the actual premium and, that it is reasonable to use the premium rates without age adjustments as the per capita claims cost.

The medical and pharmacy benefits provided to TWU Local 100, ATU 1056 and ATU 726 represented NYC Transit members and represented MTA Bus Company members are self-insured as well as some Pre-NYSHIP NYC Transit members. For these benefits we developed per capita claims cost assumptions that vary by age, gender and benefit type. The per capita costs assumptions reflect medical and pharmacy claims information for 2013.

**Medicare Part D Premiums** — GASB has issued a Technical Bulletin stating that the value of expected Retiree Drug Subsidy (“RDS”) payments to be received by an entity cannot be used to reduce the Actuarial Accrued Liability of OPEB benefits nor the Annual Required Contribution (“ARC”). Furthermore, actual contributions made (equal to the amount of claims paid in a year if the plan is not funded) will not be reduced by the amount of any subsidy payments received. Accordingly, the 2012 valuation excludes any RDS payments expected to be received by the MTA and its agencies.

**Health Care Cost Trend** — The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 12.2 utilizing the baseline assumptions included in the model, except real GDP of 1.8% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors potential excise taxes due to healthcare reform, and other healthcare reform provisions, separately for NYSHIP and non-NYSHIP benefits. These assumptions are combined with long-term assumptions for dental and vision benefits (4%) plus Medicare Part B reimbursements (5%). The NYSHIP trend reflects actual increases in premiums through 2014. The NYSHIP trend is used for six agencies plus the non-represented employees of MTA Bus. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements. For NYC Transit, this trend is weighted by liability with the non-NYSHIP trend assumption. The non-NYSHIP trend is applied directly for represented employees of MTA Bus. Note, due to the Excise Tax, the non-NYSHIP trends for MTA Bus and NYC Transit differ. The following lists the NYSHIP and non-NYSHIP trend assumptions along with the resulting trends assumed for NYC Transit.

#### Health Care Cost Trend Rates

Fiscal Year	NYSHIP	Non-NYSHIP		Transit	
		< 65	>=65	< 65	>=65
2012	0.0 *	7.6	7.3	4.8	4.6
2013	1.7	7.4	6.6	5.4	4.8
2014	5.0	6.2	6.2	5.8	5.8
2015	5.5	5.8	5.8	5.7	5.7
2016	5.8	5.5	5.5	5.6	5.6
2017	5.9	14.6	5.5	12.5	5.6
2022	5.9	6.4	5.5	6.2	5.6
2027	6.8	6.2	5.4	6.4	5.6
2032	6.5	6.0	5.6	6.2	5.9
2037	6.1	5.7	5.3	5.8	5.7
2042	5.7	5.4	5.9	5.5	5.8
2047	5.5	5.3	5.7	5.4	5.6
2052	5.4	5.2	5.5	5.3	5.5

\* Trend not applicable as actual 2013 premiums were valued

**Participation** — The table below summarizes the census data provided by each Agency utilized in the preparation of the actuarial valuation. The table shows the number of active and retired employees by Agency and provides a breakdown of the coverage elected and benefits offered to current retirees.

**OPEB Participation By Agency as at January 1, 2012**

	MTA New York City Transit	MTA Long Island Rail Road	MTA Metro- North Rail Road	MTA Bridges & Tunnels	MTAHQ	MTA Long Island Bus *	MTA Staten Island Railway	MTA Bus Company	Total
<u>Active Members</u>									
Number	46,333	6,406	5,987	1,589	1,715	-	255	3,445	65,730
Average Age	49.3	44.1	46.2	45.6	45.2	-	46.1	46.5	48.2
Average Service	14.9	11.7	15.3	12.6	11.8	-	15	11.7	14.3
<u>Retirees</u>									
Single Medical Coverage	11,519	841	432	464	165	138	22	553	14,134
Employee/Spouse Coverage	16,042	2,630	830	633	324	246	40	818	21,563
Employee/Child Coverage	710	102	32	16	12	19	1	31	923
No Medical Coverage	<u>5,809</u>	<u>2,255</u>	<u>1,302</u>	<u>60</u>	<u>3</u>	<u>436</u>	<u>19</u>	<u>182</u>	<u>10,066</u>
Total Number	<u>34,080</u>	<u>5,828</u>	<u>2,596</u>	<u>1,173</u>	<u>504</u>	<u>839</u>	<u>82</u>	<u>1,584</u>	<u>46,686</u>
Average Age of Retiree	70.9	67.3	70.8	66.8	64.3	67.5	64.2	69.1	70.1
Total Number with Dental	5,534	652	313	337	319	54	23	65	7,297
Total Number with Vision	24,606	652	313	337	319	54	23	1,352	27,656
Total No. with Supplement	24,501	1,805	-	827	-	379	27	1,518	29,057
Average Monthly Supplement Amount (Excluding Part B Premium)	\$ 30	\$ 190	\$ -	\$ 195	\$ -	\$ -	\$ 383	\$ 25	\$ 45
Total No. with Life Insurance	5,129	5,418	1,703	334	399	792	82	66	13,923
Average Life Insurance Amount	2,825	18,801	2,782	5,000	5,000	8,561	2,543	5,000	9,486

\* No active members as of January 1, 2012. In addition, there are 276 vestees not included in these counts.

**Coverage Election Rates** — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For Metro-North represented members, 15% are assumed to elect ConnectiCare. For groups that do not participate in NYSHIP, notably NYC Transit and MTA Bus Company members are assumed to elect Empire BCBS or Aetna/ United Healthcare with percentages varying by agency.

**Dependent Coverage** - Spouses are assumed to be the same age as the employee/retiree. 85% of male and 60% of female eligible members are assumed to elect family coverage upon retirement. No children are assumed. Actual family coverage elections for current retirees are used. If a current retiree's only dependent is a child, eligibility is assumed for an additional 7 years of dependent coverage if the member participates in NYSHIP (otherwise, 5 years) from the valuation date was assumed.

**Demographic Assumptions:**

**Mortality** — Preretirement and postretirement health annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee.

**Preretirement** — RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments. No blue-collar adjustments were used for management members of MTAHQ.

*Postretirement Healthy Lives* — 95% of the rates from the RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue-collar or percentage adjustments were used for management members of MTAHQ.

*Postretirement Disabled Lives* — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females.

**Vestee Coverage** — For members that participate in NYSHIP, Vesteers (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Agency upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vesteers are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vesteers based on age at valuation date.

<b>Age at Termination</b>	<b>Percent Electing</b>
< 40	0 %
40–43	5
44	20
45–46	30
47–48	40
49	50
50–51	80
52+	100

## **6. TRUSTEE, CUSTODIAL, AND OTHER PROFESSIONAL SERVICES**

The Plan and the Trust are administered by the MTA, including the day-to-day administration of the health insurance program. JP Morgan Chase, the trustee and custodian of the Trust makes payments to health insurers and to welfare funds for retiree benefits, and reimbursements of retiree Medicare Part B premiums to retirees, as directed by the MTA. The MTA also directs the investment of Trust resources in accordance with advisory from NEPC.

## **7. SUBSEQUENT EVENTS**

As of January 25, 2016, there were no materially significant subsequent events.

\* \* \* \* \*

## **REQUIRED SUPPLEMENTARY INFORMATION**



# METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

## SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

(In thousands)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrual Liability (AAL) {b}	Unfunded Actuarial Accrual Liability (UAAL) {c} = {b} - {a}	Funded Ratio {a} / {b}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c} / {d}
December 31, 2014	January 1, 2012	\$ 246,009	\$ 20,187,800	\$ 19,941,791	1.2 %	\$ 4,360,578	457.3 %
December 31, 2013	January 1, 2012	246,009	20,187,800	19,941,791	1.2	4,360,578	457.3
December 31, 2012	January 1, 2010	-	17,763,604	17,763,604	-	4,600,303	386.1

**METROPOLITAN TRANSPORTATION AUTHORITY  
OTHER POSTEMPLOYMENT BENEFITS PLAN**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)**

**(In thousands)**

---

<b>Fiscal Years Ended</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
December 31, 2014	\$ 3,092,900	14.2 %
December 31, 2013	\$ 2,842,893	17.8 %
December 31, 2012	\$ 2,647,527	25.3 %