

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO  
A COMPONENT UNIT OF THE CITY OF CHICAGO**

FINANCIAL STATEMENTS

DECEMBER 31, 2014

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO**

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION

DECEMBER 31, 2014 AND 2013

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of  
Laborers' and Retirement Board Employees'  
Annuity and Benefit Fund of Chicago

We have audited the accompanying financial statements of Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (the Plan), which comprise the statements of fiduciary net position as of December 31, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements.

### Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above, present fairly, in all material respects, the fiduciary net position of Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago at December 31, 2014 and 2013, and the changes in fiduciary net position for the years then ended, in conformity 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 Schedule of Changes in Net Pension Liability and Related Ratios Multiyear, Schedule of the Net Pension Liability Multiyear, Schedule of Contributions Multiyear, Schedule of Investment Returns Multiyear, Schedules of Funding Progress, Schedules of Employer Contributions, and Notes to the Schedules on pages 33 through 43 be presented to supplement the basic financial statements. Such information, although not 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 historic 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago's basic financial statements. The supplementary information such as the Schedules of Invested Assets and Performance Summary - Fair Value Returns are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information on pages 44 and 45 has not been subjected to the auditing procedures applied in the audits of the basic financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

***Previously Audited Information***

We have also previously audited the basic financial statements for the years ended December 31, 2005 through 2012 (which are not presented therein). Our reports on the required supplementary information, pages 33 through 43, and the supplementary information on page 45 stated that we applied limited procedures, which consisted principally of inquiries of management regarding methods of measurements and presentation of the supplementary information, but did not audit the information and expressed no opinion on it.

*Calibre CPA Group, PLLC*

Chicago, Illinois  
April 13, 2015

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO**

**STATEMENTS OF FIDUCIARY NET POSITION**

DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
<b>RECEIVABLES</b>		
Employer	\$ 14,689,166	\$ 14,386,681
Plan member	651,659	1,820,575
Due from broker - net	5,366,415	-
Interest and dividends	1,843,650	2,100,844
Other receivables	2,651	19,008
Total receivables	<u>22,553,541</u>	<u>18,327,108</u>
<b>INVESTMENTS - at fair value</b>		
Cash and short-term investments	49,892,805	38,385,421
Equities	739,791,534	810,420,216
Fixed income	250,010,117	253,277,809
Private equity	42,071,147	50,949,228
Real estate	45,735,296	44,320,319
Hedge funds	102,078,308	125,176,506
Global asset allocation funds	140,740,336	139,099,998
Subtotal	<u>1,370,319,543</u>	<u>1,461,629,497</u>
Forward currency contracts - net	786,734	-
Securities lending cash collateral	65,235,365	180,924,383
Total investments - fair value	<u>1,436,341,642</u>	<u>1,642,553,880</u>
<b>PROPERTY AND EQUIPMENT</b>		
Total assets	<u>1,459,311,692</u>	<u>1,661,389,338</u>
<b>DEFERRED OUTFLOWS</b>		
Accumulated decrease in fair value of hedging derivatives	<u>-</u>	<u>92,340</u>
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>		
<b>LIABILITIES</b>		
Due to broker - net	-	17,640,460
Forward currency contracts -net	-	92,340
Refunds, professional fees payable and other liabilities	3,047,520	3,260,891
OPEB liability	2,149,183	1,890,996
Securities lending cash collateral	65,235,365	180,924,383
Total liabilities	<u>70,432,068</u>	<u>203,809,070</u>
<b>DEFERRED INFLOWS</b>		
Accumulated increase in fair value of hedging derivatives	<u>786,734</u>	<u>-</u>
<b>NET POSITION - RESTRICTED FOR PENSION BENEFITS</b>	<u>\$ 1,388,092,890</u>	<u>\$ 1,457,672,608</u>

See accompanying notes to financial statements.

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO**

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 14,520,515	\$ 14,100,639
Plan Member	<u>16,359,082</u>	<u>16,392,800</u>
Total contributions	<u>30,879,597</u>	<u>30,493,439</u>
Investment income		
Net appreciation in fair value of investments	40,042,434	191,114,881
Interest	5,618,937	6,986,564
Dividends	12,380,534	13,313,992
Private equity income - net	281,305	731,305
Real estate operating income - net	632,251	1,334,896
Hedge funds income - net	1,877,621	1,590,532
Global asset allocation fund income - net	<u>2,402,938</u>	<u>2,012,912</u>
	63,236,020	217,085,082
Less investment expenses	<u>(10,304,870)</u>	<u>(10,365,891)</u>
Investment income - net	<u>52,931,150</u>	<u>206,719,191</u>
Securities lending		
Income	138,031	453,663
Lender (borrower) rebates	405,816	281,205
Management fees	<u>(81,480)</u>	<u>(109,954)</u>
Securities lending income - net	<u>462,367</u>	<u>624,914</u>
Total additions	<u>84,273,114</u>	<u>237,837,544</u>
<b>DEDUCTIONS</b>		
Benefits	147,945,968	144,229,138
Refunds	2,071,694	2,879,207
Administrative and OPEB expenses	<u>3,835,170</u>	<u>4,133,637</u>
Total deductions	<u>153,852,832</u>	<u>151,241,982</u>
<b>NET INCREASE (DECREASE) IN NET POSITION</b>	<b>(69,579,718)</b>	<b>86,595,562</b>
<b>NET POSITION - RESTRICTED FOR PENSION BENEFITS</b>		
Beginning of year	<u>1,457,672,608</u>	<u>1,371,077,046</u>
End of year	<u>\$ 1,388,092,890</u>	<u>\$ 1,457,672,608</u>

See accompanying notes to financial statements.

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO**

**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2014 AND 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago is administered in accordance with Chapter 40, Act 5, Article 11 of the Illinois Compiled Statutes. The costs of administering the Plan are financed by employer contributions in conformance with state statutes.

**Method of Accounting** - The financial statements reflect an accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer, the City of Chicago, has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

**Investments** - Investments are reported at fair value which generally represents reported market value as of the last business day of the year. Quoted market prices, when available, have been used to value investments. For equities, fair value is determined by using the closing price listed on the national securities exchanges as of December 31. Fair value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. Cash and short-term investments are valued at cost which approximates fair value. Global asset allocation funds and alternative investments, which include real estate, private equity investments and hedge funds, are valued using current estimates of fair value from the investment manager. Such valuations consider variables such as cash flow analysis, recent sales prices of investments, comparison of comparable companies' earnings multiples, withdrawal restrictions, annual audits, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from the values that would have been used had a ready market existed. The reported values of real estate and private equity are current values unless that information was unavailable in which case the reported value will lag one quarter behind the date of these financial statements. The difference between the current value and the lag has been evaluated and determined not to be material.

Unsettled trades as of the end of the year are recorded net. At December 31, 2014 and 2013, \$7,657,085 and \$20,516,960, respectively, were due to broker and \$13,023,500 and \$2,876,500, respectively, were due from broker for unsettled trades.

**Property and Equipment** - Property and equipment are carried at cost. Major additions are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed by using the straight line method over an estimated useful life of five years, except for the custom software package development which is depreciated over 10 years.



## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Administrative Expenses** - Administrative expenses are budgeted and approved by the Plan's Board of Trustees. Funding for these expenses is included in the employer contributions as mandated in Chapter 40, Act 5, Article 11 of the Illinois Compiled Statutes.

**Estimates** - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

## **NOTE 2. PLAN DESCRIPTION**

The Plan was established in 1935 and is governed by legislation contained in Illinois Compiled Statutes, particularly Chapter 40, Act 5, Article 11 which specifically and exclusively refers to the Plan. The Plan can be amended only by the Illinois Legislature. On June 9, 2014, legislation (Public Act 98-0641) was approved which amended the Plan. The following plan description reflects these amendments. The Plan is a single-employer defined benefit pension plan with a defined contribution minimum. The Plan was created for the purpose of providing retirement and disability benefits for employees of the City of Chicago (City) who are employed in a title recognized by the city as labor service and for the dependents of such employees.

The Statutes authorize a Board of Trustees of eight members to carry out the provisions of the Article. According to the Article, two members of the Board are ex officio, two are to be elected by the employee members of the Plan, one is to be elected by the retired members of the Plan, one is to be appointed by the local labor union and two are to be appointed by the Department of Human Resources (formerly the Department of Personnel). The two ex officio members are the City Comptroller or someone chosen from the Comptroller's office and the City Treasurer or someone chosen from the Treasurer's office. All members of the Board of Trustees are fiduciaries with respect to the Plan and are statutorily mandated to discharge their duties, as such, solely in the interest of the Plan's participants and beneficiaries.

The Board has the powers and duties required in the Article to collect all contributions due to the Plan, to invest the Plan's reserves, to have an annual audit, to appoint employees, to authorize or suspend payment of any benefit and to have exclusive original jurisdiction in all matters relating to or affecting the Plan. The Board approves its own budget which is prepared by the administrative staff of the Plan. The Board is required annually to submit to the City Council of the City of Chicago a detailed report of the financial affairs and status of the reserves of the Plan. Provisions in other articles of Chapter 40 require the Board to submit its annual audit and actuarial valuation reports to the State of Illinois Department of Financial and Professional Regulation's (IDFPR) Division of Insurance, as well as another detailed annual report, the form and content of which is specified by the IDFPR's Division of Insurance.

**NOTE 2. PLAN DESCRIPTION (CONTINUED)**

Any employee of the City of Chicago or the Board of Education of the City employed under the provisions of the municipal personnel ordinance as labor service or any person employed by a retirement board of any annuity and benefit fund in the City is covered by the Plan. For the years ended December 31, 2014 and 2013, covered employees are required to contribute 8.5% of their salary to the Plan. Legislation (Public Act 98-0641) requires annual increases in the employee annual contribution percentage through 2019. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest. The City of Chicago, for its employer's portion, is required by State Statutes to contribute an amount equal to 8% of each individual employee's salary as well as the remaining amounts necessary to finance the requirements of the Plan. For the years ended December 31, 2014 and 2013, the City's total contribution is limited to an amount not more than the total amount of contributions made by the employees to the Plan in the calendar year two years prior to the current year, multiplied by 1.00. Legislation (Public Act 98-0641) requires annual increases in the multiplier through 2020. At which time, the City will be required to make contributions based upon an actuarial funding schedule. The source of funds for the City's contribution has been designated by State Statutes and is derived from the City's annual property tax levy, or from any source legally available for this purpose, including but not limited to, the proceeds of city borrowings. The Plan is considered by the City to be a component unit of the City of Chicago and is included in the City's financial statements as a pension trust fund.

At December 31, 2014 and 2013, plan members consisted of the following:

	<u>2014</u>	<u>2013</u>
Retirees and beneficiaries currently receiving benefits	3,902	3,954
Inactive plan members entitled to benefits (or a refund of contributions) but not yet receiving them	1,449	1,432
Active plan members (including plan members receiving disability benefits)		
Vested	2,051	2,162
Non-vested	<u>786</u>	<u>682</u>
Total plan members	<u><u>8,188</u></u>	<u><u>8,230</u></u>

The Plan provides retirement benefits as well as death and disability benefits. In 2010, legislation (Public Act 96-0889) was approved which in effect established two distinct classes of membership with different retirement eligibility conditions and benefit provisions. For convenience, the Plan uses a tier concept to distinguish these groups:

Tier 1 – Employees who first became members prior to January 1, 2011

Tier 2 – Employees who first became members on or after January 1, 2011

## **NOTE 2. PLAN DESCRIPTION (CONTINUED)**

### *Retirement Benefits:*

Tier 1: Employees age 55 or more with at least 10 years of service are entitled to receive a money purchase annuity with partial City contributions if under age 60 with less than 20 years of service. Employees age 55 or more with at least 20 years of service or age 50 or more with at least 30 years of service are entitled to receive a minimum formula annuity of 2.4% per year of service, multiplied by the final average salary. Final average salary is calculated using salary from the highest four consecutive years within the last 10 years of service preceding retirement. If the employee retires prior to age 60, the annuity shall be reduced by  $\frac{1}{4}$  of 1% for each month the employee is under age 60, unless the employee is 50 or over with at least 30 year of service or 55 or over with at least 25 years of service. The original annuity is limited to 80% of the highest average annual salary, adjusted for annual Internal Revenue Code (IRS) §401(a)(17) and §415 limitations. There is a 10 year deferred vested benefit payable at age 60. Employees who retire at age 60 or over with at least 10 years of service are entitled to a minimum of \$850 per month.

Tier 2: Employees with at least 10 years of service are entitled to receive an unreduced annuity benefit at age 67 or a reduced annuity benefit at age 62 with at least 10 years of service. The annuity shall be reduced by  $\frac{1}{2}$  percent for each month that the employee is under age 67. Effective June 9, 2014, employees with at least 10 years of service are entitled to receive an unreduced annuity benefit at age 65 or a reduced annuity benefit at age 60 with at least 10 years of service. The annuity shall be reduced by  $\frac{1}{2}$  percent for each month that the employee is under age 65. Final average salary is calculated using salary from the eight highest consecutive years within the last 10 years of service preceding retirement. Pensionable salary is limited to \$110,631 in 2014, increased each year by the lesser of 3% or  $\frac{1}{2}$  of the annual increase in the Consumer Price Index-Urban (CPI-U), but not less than zero.

### *Post Retirement Increases:*

Tier 1: Employee annuitants who retired prior to June 9, 2014 are eligible to receive an increase equal to the lesser of 3% or  $\frac{1}{2}$  of the annual unadjusted percentage increase in the CPI-U (but not less than zero) of the annuitant's last annual annuity amount prior to January 1, 2015 following the earlier of 1) the later of the third anniversary of retirement and age 53 and 2) the later of the first anniversary of retirement and age 60. Employee annuitants who retired on or after June 9, 2014 are eligible to receive an increase equal to the lesser of 3% or  $\frac{1}{2}$  of the annual unadjusted percentage increase in the CPI-U (but not less than zero) of the originally granted annual annuity following the earlier of 1) the later of the fourth anniversary of retirement and age 54 and 2) the later of the second anniversary of retirement and age 61. No annual increases will be paid in the years 2017, 2019 and 2015.

Tier 2: Employee annuitants are eligible to receive an increase based on the original annuity equal to the lesser of 3% or  $\frac{1}{2}$  of the annual unadjusted percentage increase in the CPI-U (but not less than zero) beginning the January of the first payment date following the later of 1) age 65 and 2) the second anniversary of retirement. No annual increases will be paid in the year 2025.

## **NOTE 2. PLAN DESCRIPTION (CONTINUED)**

### *Spousal Annuity:*

Tier 1: The eligible surviving spouse is entitled to a spousal annuity equal to 50% of the pension the member had earned at the date of death.

Tier 2: The surviving spouse is entitled to a spousal annuity equal to 66 2/3% of the pension the member had earned at the date of death.

### *Automatic increase in Spousal Annuity:*

Tier 1: There is no increase in annuity for spousal annuities.

Tier 2: The spousal annuity increase is either ½ the rate of the CPI-U or 3%, whichever is lower, and is applied to the original spousal annuity amount. If the CPI-U decreases or is zero, no increase is paid. The spouse is eligible for an increase on January 1<sup>st</sup> occurring on or after the commencement of the member's annuity or occurring after the first anniversary of the commencement of the spousal annuity.

### *Child's Annuity:*

Under Tier 1 and Tier 2, annuities are provided for unmarried children of a deceased member who are under the age of 18, if the child was born, or *in esse*, or legally adopted. The child's annuity is \$220 a month when there is an eligible surviving spouse or \$250 a month when there is no eligible surviving spouse.

### *Duty Disability:*

Under Tier 1 and Tier 2, an employee who becomes disabled as the result of an injury incurred in the performance of any act of duty, is entitled to receive a duty disability benefit in the amount equal to 75% of annual salary at the time of injury, reduced by any benefits received by the employee under the provisions of the Workers' Compensation Act.

### *Ordinary Disability:*

Under Tier 1 and Tier 2, an employee who becomes disabled as the result of any cause other than an injury incurred in the performance of an act of duty, is entitled to receive an ordinary disability benefit in the amount equal to 50% of annual salary as of the last day worked. An employee can receive ordinary disability for a period equal to ¼ of his service credits up to a maximum of 5 years.

### *Refunds:*

Tier 1: A member may take a refund if he withdraws from service and is under the age of 55 (with any length of service) or withdraws between the ages of 55 and 60 with less than 10 years of service.

Tier 2: A member may take a refund if he withdraws from service before the age of 62 (with any length of service) or withdraws with less than 10 years of service regardless of age.

### **NOTE 3. INVESTMENTS**

#### **Investment Policies**

Investments are governed by Sections 5/1 and 5/11, Chapter 40, of the Illinois Compiled Statutes. The prudent person rule, which establishes a standard of care for all fiduciaries, is an important aspect of the Statutes. The prudent person rule states that fiduciaries must discharge their duties with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. The

Plan is authorized to invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks, shares, debentures, or other obligations or securities as set forth in the State Statutes.

#### **Investment Risk Factors**

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risk and risk associated with changes in interest rates.

### NOTE 3. INVESTMENTS (CONTINUED)

#### Investment Summary

All of the Plan's financial instruments are consistent with the permissible investments outlined in the State Statutes. The following table presents the composition of investments, by investment type, as of December 31, 2014 and 2013. Investments that represent 5% or more of the Plan's net position held in trust are separately identified.

	<u>2014</u>	<u>2013</u>
Cash and short-term investments	\$ 49,892,805	\$ 38,385,421
Equities		
U.S. equities	398,210,561	532,790,096
Foreign equities	258,931,550	248,983,120
Foreign equity funds	<u>82,649,423</u>	<u>28,647,000</u>
Total equities	<u>739,791,534</u>	<u>810,420,216</u>
Fixed income		
U.S. Government obligations and municipal bonds	37,559,218	42,363,328
U.S. corporate bonds	183,051,190	180,972,889
Foreign fixed income	<u>29,399,709</u>	<u>29,941,592</u>
Total fixed income	<u>250,010,117</u>	<u>253,277,809</u>
Private equity	<u>42,071,147</u>	<u>50,949,228</u>
Real estate	<u>45,735,296</u>	<u>44,320,319</u>
Hedge funds	<u>102,078,308</u>	<u>125,176,506</u>
Global asset allocation funds		
Wellington CTF Opportunistic Investment Fund	86,137,716	84,881,657
Other	<u>54,602,620</u>	<u>54,218,341</u>
Total global asset allocation funds	<u>140,740,336</u>	<u>139,099,998</u>
Subtotal	1,370,319,543	1,461,629,497
Forward currency contracts	786,734	(92,340)
Securities lending cash collateral	<u>65,235,365</u>	<u>180,924,383</u>
Total investments at fair value	<u>\$ 1,436,341,642</u>	<u>\$ 1,642,461,540</u>

Short-term investments include commercial paper or notes having maturity of less than 90 days or pooled short-term investment funds managed by the Northern Trust. Under the terms of the investment agreement for these funds, the Northern Trust may invest in a variety of short-term investment securities.

### NOTE 3. INVESTMENTS (CONTINUED)

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Plan's deposits may not be returned to it. The Plan does not have a formal deposit policy for custodial credit risk. As of December 31, 2014 and 2013, the following investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Plan's name.

	<u>2014</u>	<u>2013</u>
Amount exposed to custodial credit-risk		
Investment in foreign currency	\$ <u>2,714,926</u>	\$ <u>992,670</u>

#### Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to pay interest or principal in a timely manner, or that negative perception of the issuer's ability to make payments will cause a decline in the security's price. Some fixed income securities, including obligations of the U.S. Government or those explicitly guaranteed by the U.S. Government, are not considered to have credit risk.

The investment portfolio of the Plan is managed by professional investment management firms. These firms are required to maintain diversified portfolios. The Plan does not have a formal policy on concentration of credit risk. Each investment manager complies with risk management guidelines individually assigned to them as part of their Investment Management Agreement.

A bond's credit quality is a standard used by the investment community to assess the issuer's ability to make interest payments and to ultimately make principal payments. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investor Service (Moody's) or Standard and Poor's (S&P). In the rating agency's opinion, the lower the rating, the greater the chance that the bond issuer will default, or fail to meet its payment obligations. The following table presents the credit risk profile, based on Moody's Investor Service for fixed income securities held by the Plan as of December 31, 2014 and 2013.

### NOTE 3. INVESTMENTS (CONTINUED)

#### Concentration of Credit Risk (continued)

	<u>2014</u>	<u>2013</u>
		<u>Quality Rating</u>
Aaa	\$ 23,857,254	\$ 26,564,549
Aa	4,649,603	4,734,931
A	5,436,106	3,865,431
Baa	26,914,235	23,311,083
Ba	6,226,268	5,129,400
B	6,917,862	2,530,710
Caa	3,360,661	3,295,082
Ca	255,700	980,392
C	-	4
Not rated or unavailable	<u>5,552,607</u>	<u>4,376,932</u>
Total credit risk debt - securities	83,170,296	74,788,514
Explicitly guaranteed by U.S. Government:		
Government mortgage backed securities <sup>1</sup>	1,058,004	1,215,594
Implicitly guaranteed by U.S. Government:		
Government mortgage backed securities <sup>2</sup>	19,376,579	26,581,168
Corporate bond pooled fund - not rated	53,092,108	53,246,481
Global bond pooled fund - not rated	<u>93,313,130</u>	<u>97,446,052</u>
Total fixed income	<u>\$ 250,010,117</u>	<u>\$ 253,277,809</u>

<sup>1</sup> Bonds issued by Government National Mortgage Association explicitly guaranteed by the U.S. government and currently a rating is not provided by the nationally recognized statistical rating organization.

<sup>2</sup> Bonds issued by Federal National Mortgage Association and Federal Home Loan Mortgage Corp implicitly guaranteed by the U.S. government and currently a rating is not provided by the nationally recognized statistical rating organization.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. However, the investment managers have diversified the portfolio to reduce the impact of losses in an individual investment and typically align the portfolio's duration with that of the benchmark.



### NOTE 3. INVESTMENTS (CONTINUED)

#### Interest Rate Risk (continued)

At December 31, 2014, the following table shows the investments by investment type and maturity (expressed in thousands).

Investment Type	Fair Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	10 + Years	Variable
Asset backed securities	\$ 12,123,978	\$ -	\$ 1,037,834	\$ -	\$ 11,086,144	\$ -
Commercial mortgage backed	3,749,885	-	-	-	3,749,885	-
Corporate bonds	28,737,940	295,665	8,242,301	10,571,029	9,628,945	-
Funds - corporate bonds	53,092,108	-	-	-	-	53,092,108
Funds - other fixed income	93,313,130	-	-	-	-	93,313,130
Government agencies	2,250,118	-	1,117,317	303,088	829,713	-
Government bonds	24,889,650	-	3,176,707	9,075,877	12,637,066	-
Gov't mortgage backed	20,362,788	-	278,310	278,628	10,162,596	9,643,254
Gov't issued commercial mortgage backed	-	-	-	-	-	-
Index linked gov't bonds	5,976,515	-	-	-	5,976,515	-
Municipal bonds	1,062,478	-	-	160,406	902,072	-
Non-government backed CMO's	4,143,486	-	603,825	237,274	3,302,387	-
Total fixed income	<u>\$250,010,117</u>	<u>\$ 295,665</u>	<u>\$ 14,764,335</u>	<u>\$ 20,626,302</u>	<u>\$ 58,275,323</u>	<u>\$156,048,492</u>

#### Investment Results

During 2014 and 2013, net realized gains (losses) on investments sold, reflecting the difference between the proceeds received and cost value of securities sold, were \$118,303,689 and \$88,871,626, respectively. These amounts are included in the net appreciation in fair value of investments as reported on the Statement of Changes in Fiduciary Net Position. The calculation of realized gains and losses is independent of the calculation of net appreciation in the fair value of the Plan's investments. Investments purchased in a previous year and sold in the current year results in their realized gains and losses being reported in the current year and their net appreciation in Plan assets being reported in both the current and the previous year(s).

#### Rate of return

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.2%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### NOTE 3. INVESTMENTS (CONTINUED)

#### Foreign Currency Risk

The international portfolio is constructed on the principles of diversification, quality, growth and value. Risk of loss arises from changes in currency exchange rates. While not having a formal investment policy governing foreign currency risk, the Plan does manage its exposure to fair value loss by requiring the international securities managers to maintain diversified portfolios to limit foreign currency and security risk. The Plan's exposure to foreign currency risk as of December 31, 2014 and 2013, is presented in the following table.

	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Australian dollar	\$ 2,100,692	1.0%	\$ 5,652,201	2.7%
Brazilian dollar	5,390,148	2.6	5,166,803	2.5
Canadian dollar	5,651,807	2.7	4,182,098	2.0
Swiss franc	9,633,111	4.6	9,119,219	4.3
Columbian peso	316,223	0.2	591,362	0.3
Danish krone	5,675,834	2.7	3,416,380	1.6
Euro	44,605,065	21.4	42,860,048	20.4
British pound sterling	31,533,529	15.1	37,257,294	17.8
Hong Kong dollar	22,504,510	10.8	24,271,105	11.6
Indonesian rupiah	3,736,248	1.8	1,823,246	0.9
New Israeli shekel	471,179	0.2	-	0.0
Japanese yen	31,105,082	14.9	33,237,072	15.9
South Korean won	6,377,748	3.1	5,603,881	2.7
Mexican peso	2,619,972	1.3	4,003,845	1.9
Malaysian ringgit	2,069,557	1.0	2,822,538	1.3
Norwegian krone	5,936,470	2.8	5,466,023	2.6
New Zealand dollar	(1,318,125)	- 0.6	291,401	0.1
Philippine peso	499,699	0.2	824,374	0.4
Polish zloty	2,874	0.0	-	0.0
Swedish krona	13,642,076	6.5	8,338,821	4.0
Singapore dollar	2,708,753	1.3	3,631,721	1.7
Thai baht	3,075,661	1.5	2,304,527	1.1
Turkish lira	3,010,327	1.4	1,965,843	0.9
South African rand	7,361,368	3.5	6,837,909	3.3
Total	<u>\$208,709,808</u>	<u>100.0%</u>	<u>\$ 209,667,711</u>	<u>100.0%</u>

### NOTE 3. INVESTMENTS (CONTINUED)

#### Derivatives

The Plan's investment managers may enter into derivative transactions as permitted by their guidelines. A derivative financial instrument is an investment whose payoff depends on the value of an underlying, such as bond or stock prices, a market index, or commodity prices. Derivative financial instruments involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. The Plan's managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake.

During the year, the Plan's derivative investments included foreign currency forward contracts and financial futures. Foreign currency forward contracts are used to hedge against the currency risk in the Plan's foreign stock and fixed income security portfolios. Financial futures are used to improve yield, adjust the duration of the fixed income portfolio, or to hedge changes in interest rates.

The following table summarizes the derivatives held within the Plan's investment portfolio as of December 31, 2014 and 2013:

Derivative Type	2014		2013	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Hedging derivative instruments				
Foreign currency contracts purchased	\$ -	\$208,013,989	\$ -	\$250,314,412
Foreign currency contracts sold	-	(207,227,255)	-	(250,406,752)
Total hedging derivative instruments	-	786,734	-	(92,340)
Instrument derivative instruments				
Futures				
Long fixed income	19,601,575	-	4,379,415	-
Short fixed income	(28,959,134)	-	(32,479,835)	-
Long cash equivalents	7,216,443	-	24,537,793	-
Total investment derivative instrument	(2,141,116)	-	(3,562,627)	-
Total	<u>\$ (2,141,116)</u>	<u>\$ 786,734</u>	<u>\$ (3,562,627)</u>	<u>\$ (92,340)</u>

### NOTE 3. INVESTMENTS (CONTINUED)

Foreign currency forward contracts are agreements to buy or sell a specific amount of a specific currency at a specified delivery or maturity date for an agreed upon price. The gain or loss on forward contracts is recognized as deferred inflows/outflows on the Statements of Fiduciary Net Position until the contract is closed or is sold at which time a gain or loss is recognized in the Statements of Changes in Fiduciary Net Position. The counterparties to the foreign currency forward contracts are banks which are rated A or above by rating agencies.

The fair value of forward contracts outstanding at December 31, 2014 and 2013 is as follows:

<u>Currency</u>	<u>2014 Fair Value</u>	<u>2013 Fair Value</u>
Foreign currency exchange purchases:		
Australian dollar	\$ 7,187,815	\$ 7,806,811
Canadian dollar	10,271,973	9,901,013
Swiss franc	9,069,365	19,120,900
Euro	16,366,507	14,435,727
British pound sterling	8,612,574	10,970,715
Japanese yen	6,920,397	9,597,029
Norwegian krone	10,761,318	18,530,671
New Zealand dollar	10,014,510	11,441,409
Swedish krona	8,621,717	9,774,291
Thai baht	-	13,575
United States dollar	120,167,698	138,722,271
South African rand	20,115	-
Total purchases	<u>\$ 208,013,989</u>	<u>\$ 250,314,412</u>
Foreign currency exchange sales:		
Australian dollar	\$ (10,964,895)	\$ (9,699,069)
Canadian dollar	(11,306,623)	(12,292,209)
Swiss franc	(13,888,834)	(22,427,386)
Danish krone	(1,087)	-
Euro	(30,929,295)	(26,900,030)
British pound sterling	(12,410,691)	(13,304,591)
Japanese yen	(6,273,322)	(8,565,545)
Mexican peso	(1,027,480)	-
Norwegian krone	(7,445,247)	(16,974,418)
New Zealand dollar	(15,102,670)	(15,452,105)
Polish zloty	(198,826)	-
Swedish krona	(6,529,045)	(13,127,038)
Singapore dollar	-	-
United States dollar	(90,225,941)	(111,664,361)
South African rand	(923,299)	-
Total sales	<u>\$ (207,227,255)</u>	<u>\$ (250,406,752)</u>

### NOTE 3. INVESTMENTS (CONTINUED)

Financial futures are similar to forward contracts, except futures contracts are standardized and traded on organized exchanges. As the market value of the underlying assets vary from the original contract price, a gain or loss is recognized in the Statements of Changes in Fiduciary Net Position and is settled through the clearinghouse.

Rights and warrants allow the Plan's investment managers to replicate any underlying security they wish to hold (sell) in the portfolio. Rights and warrants provide the holder with the right, but not the obligation, to buy or sell a company's stock at a predetermined price. Rights usually expire after a few weeks and warrants can expire from one to several years. These investments are reported within the equities classification.

The following table summarizes the changes in fair value, which were recognized as income in the Plan's Statements of Changes in Fiduciary Net Position for the year ended December 31, 2014 and 2013:

<u>Derivative Type</u>	2014 Changes in <u>Fair Value</u>	2013 Changes in <u>Fair Value</u>
Foreign currency contracts	\$ 3,517,877	\$ (586,991)
Futures	(921,968)	649,031
Rights/Warrants	<u>613,372</u>	<u>56,712</u>
Total	<u>\$ 3,209,281</u>	<u>\$ 118,752</u>

### NOTE 4. SECURITIES LENDING

State Statutes and the Board of Trustees permit the Plan to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Plan's custodian, Northern Trust, acting as the lending agent, lends securities for collateral in the form of cash, U.S. Government obligations and irrevocable letters of credit equal to 102% of the fair value of domestic securities plus accrued interest and 105% of the fair value of foreign securities plus accrued interest. During the year ended December 31, 2014, the Plan terminated its securities lending agreement with Northern Trust and entered into a securities lending agreement with Deutsche Bank. Deutsche Bank, acting as lending agent, lends securities for collateral in the form of cash, U.S. Government obligations and Non-U.S. sovereign debt securities equal to 102% of the fair value of domestic securities and foreign securities that are denominated in the same currency as the collateral provided plus accrued interest and 105% of the fair value of foreign securities that are not denominated in the same currency as the collateral provided plus accrued interest.

The Plan receives 85% of the net revenue derived from the securities lending activities, and the lending agent receives the remainder of the net revenue.

#### NOTE 4. SECURITIES LENDING (CONTINUED)

The Plan is currently not restricted as to the type of securities it may loan. The Plan does not have the right to sell or pledge securities received as collateral unless the borrower defaults.

The average term of securities loaned was 76 days for 2014 and 83 days for 2013; however, any loan may be terminated on demand by either the Plan or the borrower. Cash collateral may be invested in a short-term investment pool, which had an average weighted maturity of 18 days as of December 31, 2014 and an average weighted maturity of 44 days as of December 31, 2013. Cash collateral may also be invested in term loans, in which the investments (term loans) match the term of the securities loaned. These loans can be terminated on demand by either the lender or the borrower.

At December 31, 2014 and 2013, the Plan had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Plan. At December 31, 2014 and 2013, the fair value of securities loaned was as follows:

	<u>2014</u>	<u>2013</u>
Equities	\$ 61,283,141	\$ 171,317,566
Fixed income	<u>2,200,167</u>	<u>16,220,821</u>
Total	<u>\$ 63,483,308</u>	<u>\$ 187,538,387</u>

At December 31, 2014 and 2013, the securities loaned were collateralized as follows:

	<u>2014</u>	<u>2013</u>
Collateralized by cash	\$ 65,235,365	\$ 180,924,383
Collateralized by other than cash	<u>-</u>	<u>11,364,934</u>
Total	<u>\$ 65,235,365</u>	<u>\$ 192,289,317</u>

During 2014 and 2013, there were no losses due to default of a borrower or the lending agent. The contract with the Plan requires the lending agent to indemnify the Plan if borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Plan for income distributions by the issuers of securities while the securities are on loan.

#### NOTE 5. MORTGAGE BACKED SECURITIES

The Plan invests in mortgage-backed securities, representing interests in pools of mortgage loans, as part of its interest rate risk management strategy. The mortgage-backed securities are not used to leverage investments in fixed income portfolios. The mortgage-backed securities held by the Plan were guaranteed by federally sponsored agencies, such as: Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.

**NOTE 5. MORTGAGE-BACKED SECURITIES (CONTINUED)**

The financial instruments are carried at fair value and are included in investments on the Statement of Fiduciary Net Position. The gain or (loss) on financial instruments is recognized and recorded on the Statement of Changes in Fiduciary Net Position as part of investment income.

**NOTE 6. RELATED PARTY TRANSACTIONS**

At December 31, 2014, the Plan held securities of two of its investment managers and its insurance provider with a fair value of \$2,347,765. At December 31, 2013, the Plan held securities of two of its investment managers, its custodial bank, and its insurance provider with a fair value of \$4,147,182.

**NOTE 7. WHEN-ISSUED TRANSACTIONS**

The Plan may purchase securities on a when-issued basis; that is, obligate itself to purchase securities with delivery and payment to occur at a later date. At the time the Plan enters into a commitment to purchase the security, the transaction is recorded at purchase price which equals value. The value of the security, which may vary with market fluctuations, is not reflected in the value of investments. The value at delivery may be more or less than the purchase price. No interest accrues to the Plan until delivery and payment take place. As of December 31, 2014 and 2013, the Plan contracted to acquire securities on a when-issued basis with total principal amounts of \$8,980,000 and \$17,235,000 and fair values of \$9,643,253 and \$17,618,772, respectively.

**NOTE 8. COMMITTED CASH**

The Plan has entered into investment arrangements for real estate and private equity. As of December 31, 2014 and 2013, the Plan had \$18,733,587 and \$23,490,153, in outstanding capital commitments, respectively.

**NOTE 9. SUMMARY OF EMPLOYER FUNDING POLICIES**

The City shall levy a tax annually which, when added to the amounts deducted from the salaries of the employees or otherwise contributed by them, will be sufficient for the requirements of the Plan. The tax will produce an amount that does not exceed the amount of contributions by the employees to the Plan made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 1.00 for the 2014 tax levy and 1.60 for the 2015 tax levy.

**NOTE 9. SUMMARY OF EMPLOYER FUNDING POLICIES (CONTINUED)**

When the balance of the prior service reserve equals its liabilities (including in addition to all other liabilities, the present value of all annuities, present or prospective, according to applicable mortality tables and rates of interest), the City shall cease to contribute the amounts to provide prior service annuities and other annuities and benefits.

The current actuarial studies of the Plan as of December 31, 2014 (2015 Tax Levy) and as of December 31, 2013 (2014 Tax Levy) indicated that a minimum annual contribution was required by the City to maintain the Plan on a minimum valuation basis. The recommended minimum annual contribution based on an annual payroll of \$202,673,014 for 2,837 active members for the 2015 tax levy and \$200,351,820 for 2,844 active members for the 2014 tax levy is computed as follows:

	2015 <u>Tax Levy</u>	2014 <u>Tax Levy</u>
Normal cost	\$ 35,766,317	\$ 37,764,124
30 year level dollar amortization of unfunded liability (surplus)	61,393,354	83,529,325
Interest adjustment for semimonthly payment	<u>3,672,236</u>	<u>4,591,430</u>
Total minimum contribution	100,831,907	125,884,879
Less estimated plan member contributions	<u>(18,579,434)</u>	<u>(17,346,277)</u>
Annual required contribution (ARC) to be financed by tax levy*	<u>\$ 82,252,473</u>	<u>\$ 108,538,602</u>
Required tax levy multiple for Plan	<u>5.48</u>	<u>7.20</u>

\* Value for 2015 and 2014 ARC includes GASB No. 43 ARC of \$2,401,638 and \$2,519,877, respectively.

**NOTE 10. NET PENSION LIABILITY OF THE PLAN**

The components of the net pension liability of the Plan at December 31, 2014, were as follows:

Total pension liability	\$ 2,162,905,734
Plan fiduciary net position	<u>1,388,092,890</u>
Net pension liability	<u>\$ 774,812,844</u>
Plan fiduciary net position as a percentage of total pension liability	64.18%



**NOTE 10. NET PENSION LIABILITY OF THE PLAN (CONTINUED)**

**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.75 percent per year, plus a service-based increase in the first 15 years
Investment rate of return	7.5 percent, net of investment expense, including inflation

Mortality rates were based on the RP2000 Combined Healthy mortality table, sex distinct, set forward one year for males and setback 2 years for females. No adjustment is made for post-disabled mortality. The mortality table used is a static table and provides an estimated margin of 18 percent for future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period of January 1, 2004 - December 31, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's current asset allocation as of December 31, 2014 are summarized in the following table:

<u>Asset class</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	4.6%
International equity	5.5
Fixed income	1.8
Hedge funds	3.6
Private equity	6.3
GAA	3.9
Real estate	3.4
Cash	0.2

**NOTE 10. NET PENSION LIABILITY OF THE PLAN (CONTINUED)**

**Single Discount Rate**

A Single Discount Rate of 7.24% was used to measure the total pension liability. This Single Discount Rate was based on an expected rate of return on pension plan investments of 7.50% and a municipal bond rate of 3.56% (based on the weekly rate closest to but not later than the measurement date of the “state & local bonds” rate from Federal Reserve statistical release (H.15)). The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between statutory contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2063. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2063, and the municipal bond rate was applied to all benefit payments after that date.

Regarding the sensitivity of the net pension liability to changes in the Single Discount Rate, the following presents the plan’s net pension liability, calculated using a Single Discount Rate of 7.24%, as well as what the plan’s net pension liability would be if it were calculated using a Single Discount Rate that is 1-percentage-point lower or 1-percentage-point higher:

	Sensitivity of Net Pension Liability to the Single Discount Rate Assumption		
	Current Single Discount		
	1% Decrease 6.24%	Rate Assumption 7.24%	1% Increase 8.24%
Plan's net pension liability	\$1,013,951,699	\$774,812,844	\$572,792,104

**NOTE 11. RESERVES FOR ACTUARIAL LIABILITIES**

The reserves for actuarial liabilities are based on an annual valuation submitted by the Plan's consulting actuary. The annual actuarial valuation establishes the reserves required for various statutory liabilities which arise from pension benefit schedules that are part of the current pension code legislation. Market value of net assets held in trust for pension benefits as of December 31, 2014 and 2013, were comprised of the following Plan surplus (deficit) balances:

**NOTE 11. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)**

	<u>2014</u>	<u>2013</u>
Prior Service Fund	\$ 1,163,741,374	\$ 1,607,197,385
City Contribution Fund	251,990,000	246,304,320
Salary Deduction Fund	251,923,933	246,239,629
Annuity Payment Fund and Reserve	443,979,250	436,101,539
Supplementary Payment Service	69,562	69,562
Fund Reserve - (deficit)	<u>(723,611,229)</u>	<u>(1,078,239,827)</u>
Net position - restricted for pension benefits	<u>\$ 1,388,092,890</u>	<u>\$ 1,457,672,608</u>

The Prior Service Fund is a reserve account for the accumulation of City contributions to provide for: 1) employee and spouse annuities that are based on service performed before the Plan's effective date of July 1, 1935, and 2) any excess in minimum annuity formula requirements over the amounts required for age and service annuities and for spouse annuities.

The City Contribution Fund is used to accumulate amounts contributed by the City to provide for annuities based on age and service of each employee and spouse. An individual account is to be kept for each employee and spouse until the employee retires, at which time the individual account balances are transferred to the Annuity Payment Fund.

The Salary Deduction Fund is similarly used to accumulate deductions made from employee salaries for age and service annuities for the employee and spouse. Individual accounts are kept until the employee retires or withdraws from service before qualifying for an annuity. At retirement, account balances are transferred to the Annuity Payment Fund. In case an eligible employee elects to take a refund of contributions instead of an annuity, the contribution refund is charged to this reserve fund.

The Annuity Payment Fund receives the amounts transferred from the individual accounts in the City Contribution Fund and the Salary Deduction Fund when an employee retires and qualifies for an annuity. All age and service annuity payments are charged to this fund.

The Supplementary Payment Reserve was established in 1969 to fund postretirement benefit increases for future and current annuitants who elected to pay into the Plan the amount necessary to receive the postretirement benefits.

The Fund Reserve represents the difference between the actuarially determined present value of all future pension payments and the value of the Plan's present assets plus the present value of future contributions. A surplus indicates that present assets and future contributions exceed the expected requirements for future pension payments, while a deficit indicates that additional assets will be needed to provide for future benefits.

**NOTE 12. EMPLOYER (TAXES) RECEIVABLE (PAYABLE) - NET**

	<u>2014</u>	<u>2013</u>
Employer contributions	\$ 16,194,344	\$ 16,044,445
Less allowance for uncollectible accounts	<u>(1,505,178)</u>	<u>(1,657,764)</u>
Total	<u>\$ 14,689,166</u>	<u>\$ 14,386,681</u>

**NOTE 13. LEASE AGREEMENTS**

The Plan leases its office facilities under a fifteen year non-cancelable agreement in effect through February 28, 2026. The base rent has an abatement provision of 17 months. The Plan is amortizing the abated rent over the period covered by the agreement. Real estate taxes and maintenance charges are additional costs to the base rent and are subject to annual escalation. Rent expense, net of rent abatements, for the years ended December 31, 2014 and 2013 was \$257,411 and \$243,836, respectively. Future minimum rental payments required under non-cancelable leases are as follows:

Year ending December 31,	
2015	\$ 275,422
2016	313,601
2017	382,475
2018	387,464
2019	392,454
2020 through 2026	<u>2,530,041</u>
Total	<u>\$ 4,281,457</u>

**NOTE 14. DISASTER RECOVERY**

The disaster recovery site establishes proactive measures to ensure the continuity of Plan operations during emergencies. Five Chicago pension funds (Laborers', Municipal, Police, Fire, and Cook County) are jointly participating in this project. The goal is to possess the capability to access the Plan's main information technology systems at a remote location within 36 hours of any emergency. Toward that goal, the five funds lease office and storage facilities under an extended non-cancelable agreement in effect through August 31, 2016. Monthly lease payments have been agreed upon for the length of the lease. Disaster recovery expense for the years ended December 31, 2014 and 2013 was \$29,241 and \$28,407, respectively. The Plan's share of future minimum rental payments, required under non-cancelable operating leases, are as follows:

Year ending December 31,	
2015	\$ 12,363
2016	<u>8,441</u>
Total	<u>\$ 20,804</u>

## NOTE 15. INSURANCE COVERAGE

The Plan is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Plan has minimized the risk of loss through private insurance carriers for commercial, business owners, and automobile policies. The deductible for this insurance coverage ranges from \$250 to \$500 per occurrence. There has been no significant reduction of insurance coverage from the prior year. The Plan has not had any insurance claims filed or paid in the past five fiscal years.

The Plan has elected to self-insure against the risk of loss due to a breach in workmen's compensation claims. There have been no claims or settlements in the last five years.

## NOTE 16. PROPERTY AND EQUIPMENT

Property and equipment detail for the years ended December 31, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Office equipment	\$ 347,657	\$ 356,187
Custom software package	<u>6,457,788</u>	<u>6,318,902</u>
	6,805,445	6,675,089
Accumulated depreciation	<u>(6,388,936)</u>	<u>(6,166,739)</u>
Property and equipment - net	<u>\$ 416,509</u>	<u>\$ 508,350</u>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$230,727 and \$680,726, respectively.

## NOTE 17. OTHER POST EMPLOYMENT BENEFIT PLAN - CITY RETIREES

**Plan Description** - The Plan and the City of Chicago agreed to share in the cost of the Settlement Health Care Plan, a single employer defined benefit plan for city retirees administered by the City of Chicago. This agreement is in effect beginning July 1, 2008 and until such time as the city no longer provides a health care plan for such annuitants or December 31, 2016, whichever comes first. This plan provides medical and prescription drug benefits to eligible retirees, spouses, and dependent children.

**Funding Policy** - The Plan's contribution requirement is established by the state legislature and may be amended. From July 1, 2008 through June 30, 2016, the amount of Fund paid health care premiums is \$95 per month for non-Medicare recipients and \$65 per month for Medicare recipients. The remaining cost to participate in the Program is borne by the City of Chicago and the annuitant.

**NOTE 17. OTHER POST EMPLOYMENT BENEFIT PLAN - CITY RETIREES (CONTINUED)**

In this report, the Plan, in accordance with GASB No. 43, *Financial Reporting for Post-employment Benefit Plans other than Pensions*, includes disclosures of a separate annual required contribution (ARC) for Other Postemployment Benefits (OPEB) beginning with the Plan’s 2009 fiscal year. It also requires that the investment return assumption (or “discount rate”) used to value OPEB liabilities be based on the estimated long-term yield on the investments expected to be used to finance the payment of benefits. The OPEB liabilities are considered to be funded on a pay-as-you-go basis. That is, the health insurance supplement is financed with current contributions, and no separate healthcare asset account exists to pay the health insurance supplement.

**Annual Required Contribution** - The Plan’s annual required contribution, employer contribution, and the percentage of annual required contribution contributed to the Plan since Fiscal Year End 2009, are as follows:

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution (ARC)</u>	<u>Employer Contribution</u>	<u>Percentage of ARC Contributed</u>
12/31/2009	\$ 3,681,620	\$ 2,563,040	69.6%
12/31/2010	3,609,337	2,586,866	71.7
12/31/2011	3,542,982	2,579,905	72.8
12/31/2012	3,070,025	2,561,930	83.4
12/31/2013	3,090,718	2,517,588	81.5
12/31/2014	2,519,877	2,359,700	93.6

At December 31, 2014, the number of annuitants or surviving spouses whose cost to participate in the program was subsidized, totaled 2,550; at December 31, 2013, the total was 2,713.

**Funded Status and Funding Progress** - The funded status of the plan as of December 31, 2014, is as follows:

Actuarial accrued liability (AAL)	\$ 4,593,378
Net plan actuarial assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 4,593,378</u>
Funded ratio	0.0%
Covered payroll	\$ 202,673,014
UAAL as a % of covered payroll	2.3%

## **NOTE 17. OTHER POST EMPLOYMENT BENEFIT PLAN - CITY RETIREES (CONTINUED)**

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. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress on page 40, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive 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 actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used in the actuarial valuation was the entry age normal actuarial cost method. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of 0% due to the fact that the OPEB is a fixed dollar subsidy and trend is not applicable. The assumptions include projected salary increases of 3.75% and an inflation rate of 3.0% per year. The actuarial value of assets is zero (no assets) as the OPEB is on a pay-as-you-go basis. For December 31, 2014, the amortization method is level dollar on a three year closed period. For December 31, 2013, the amortization method is level dollar on an open basis and the remaining amortization period was 30 years.

## **NOTE 18. OTHER POST EMPLOYMENT BENEFIT PLAN: LABF AS EMPLOYER**

**Plan Description** - The Plan, as an employer, administers a single-employer postemployment healthcare plan ("Retiree Health Plan"). The Retiree Health Plan provides lifetime health and dental care insurance for eligible retirees and their spouses through the Plan's group health insurance plan, which covers both active and retired members. Currently, 7 retirees are in the plan and 20 active employees could be eligible at retirement.

**Funding Policy** - The contributions requirements of plan members and the Plan are established by the Plan's Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements. For 2014 and 2013, the Plan contributed \$47,114 and \$35,693, respectively, to the Plan. Plan members receiving benefits contributed \$13,184 in 2014 or 22.8% of the total premiums for the year, through their required contributions of between \$95 and \$291 per month based on coverage. In 2013 Plan members contributed \$11,816 or 24.9% of the total premiums for the year through their required contributions of between \$90 and \$281 per month.

**NOTE 18. OTHER POST EMPLOYMENT BENEFIT PLAN: LABF AS EMPLOYER (CONTINUED)**

**Annual OPEB Cost and Net OPEB Obligation** - The Plan's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Plan's annual OPEB cost, the amount actually contributed to the plan, and changes in the Plan's net OPEB obligation to the Retiree Health Plan:

	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 331,298	\$ 287,519
Interest on net OPEB obligation	85,095	68,364
Adjustment to ARC	<u>(111,092)</u>	<u>(89,578)</u>
Annual OPEB expense	305,301	266,305
Contributions made	<u>(47,114)</u>	<u>(35,693)</u>
Increase in net OPEB obligation	258,187	230,612
Net OPEB obligation - beginning of year	<u>1,890,996</u>	<u>1,660,384</u>
Net OPEB obligation - end of year	<u>\$ 2,149,183</u>	<u>\$ 1,890,996</u>

In 2014 and 2013, the Plan contributed 14.2% and 12.4%, respectively, of the annual required OPEB contribution to the plan.

**Actuarial Valuation Information**

Actuarial Valuation Date *	Value of Plan Net Assets (a)	Accrued Liability (AAL) (b)	Actuarial Liability (UAL) (c)	Funding Ratio (a/b)	Covered Annual Payroll (d)	Percentage of Covered Payroll (c/d)
12/31/2012	\$ -	\$ 3,068,024	\$ 3,068,024	\$ -	\$ 1,480,604	207.21%

\* For a plan the size of the LABF as Employer plan, GASB allows a valuation report to be used for up to 3 years if there are not significant changes in plan design, premiums/claims, or demographics that would materially change the results. The next actuarial valuation will be performed as of December 31, 2015 which will be completed in 2016.



## **NOTE 18. OTHER POST EMPLOYMENT BENEFIT PLAN: LABF AS EMPLOYER (CONTINUED)**

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. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer 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 on page 41, presented as required supplementary information following the notes to the financial statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive 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 actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate for medical of 1.64% for first year, then 7.5% per year graded down to 5% per year (ultimate trend in 0.5% increments) and a rate for dental of 4% for first year, then 4.5% per year (ultimate trend in 0.5% increments). The assumption includes projected wage inflation of 3.75% per year. The actuarial value of assets is zero (no assets) as the OPEB is on a pay-as-you-go basis. The amortization method is level dollar on an open basis and the remaining amortization period at December 31, 2012 was 30 years.

## **NOTE 19. CONTINGENCIES**

On October 9, 2012, a civil action was filed in the Circuit Court of Cook County, Illinois, *Carmichael, et al. v. Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, et al.*, Case No. 12 CH 37712, wherein the plaintiffs allege that recent amendments to the Illinois Pension Code violate the U.S. and Illinois Constitution. The defendants include the Plan and the Plan's Board of Trustees, along with two other public employee pension funds and their respective boards.

In the event the pertinent portion of P.A. 97-0651 is held to be unconstitutional by an unappealable final court order, the Plan would be required to pay the annuities in effect prior to the passage of P.A. 97-0651. This outcome would have no material actuarial impact since higher annuities were actually used and it is a relatively small group of affected members. Plaintiffs do not make a prayer for monetary relief, but seek attorney's fees. The LABF is defending this lawsuit. The outcome of the lawsuit is uncertain.

#### **NOTE 19. CONTINGENCIES (CONTINUED)**

On December 29, 2014, a civil action was filed in the Circuit Court of Cook County, Illinois, *Johnson et al. v. Municipal Employees' Annuity and Benefit fund of Chicago and Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago*, Case No. 14 CH 20668, by representatives of two Chicago public pension funds seeking class certification and an injunction stopping the implementation of the pension reforms that are contained in Public Act 98-0641, which are intended to improve the funding status of the Plan. Currently, this lawsuit is stayed. If plaintiffs are successful in enjoining the implementation of P.A. 98-0641, there could be a material actuarial impact on the future funded status of the Plan.

On August 13, 2014, a lawsuit was filed in the Circuit Court of Cook County, Illinois, *Patton et al. v. Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago*, Case No. 14 CH 13188, by two active Plan members who are challenging the decision of the Plan's Board of Trustees in denying those individuals' applications for duty disability benefits. The Plan is vigorously defending this lawsuit.

In July 2013, a group of plaintiffs purporting to represent retirees in four Chicago public pension funds filed a civil action, *Underwood v. City of Chicago et al.*, seeking class certification and an order requiring the City of Chicago and the defendant pension funds to continue subsidizing retiree health insurance premiums past the June 30, 2013 statutory expiration date. The City removed the case to federal court. The City's motion to dismiss was granted, but on appeal, the Seventh Circuit Court of Appeals vacated the district court's order and remanded the case with instructions for the district court to remand the case to the Circuit Court of Cook County. To date, the Plan has not been served, but intends to defend the lawsuit.

Alterra America Insurance Company has filed a declaratory judgment action against the Fund in the United States District Court for the Northern District of Illinois, *Alterra America Ins. Co. v. Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago*, Case No. 14 cv 0139, seeking a declaration that it has no duty to defend the Company in *Underwood v. City of Chicago et al.* This case has been stayed during the *Underwood* appeal. The Plan intends to defend the lawsuit.

#### **NOTE 20. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 13, 2015, which is the date the financial statements were available to be issued. This review and evaluation revealed no other new material event or transactions which would require additional adjustment to or disclosure in the accompanying financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
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**REQUIRED SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2014

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY  
AND RELATED RATIOS MULTIYEAR**

Fiscal year ending December 31,	<u>2014</u>
<b>Total Pension Liability</b>	
Service Cost Including Pension Plan Administrative Expense	\$ 38,523,054
Interest on the Total Pension Liability	174,071,491
Benefit Changes	(324,166,854)
Difference between Expected and Actual Experience	-
Assumption Changes	28,201,429
Benefit Payments	(145,586,268)
Refunds	(2,071,694)
Pension Plan Administrative Expense	<u>(3,835,170)</u>
<b>Net Change in Total Pension Liability</b>	(234,864,012)
<b>Total Pension Liability - Beginning</b>	<u>2,397,769,745</u>
<b>Total Pension Liability - Ending (a)</b>	<u><u>\$ 2,162,905,734</u></u>
 <b>Plan Fiduciary Net Position</b>	
Employer Contributions	\$ 12,160,815
Employee Contributions	16,359,082
Pension Plan Net Investment Income	53,393,517
Benefit Payments	(145,586,268)
Refunds	(2,071,694)
Pension Plan Administrative Expense	(3,835,170)
Other	<u>-</u>
<b>Net Change in Plan Fiduciary Net Position</b>	(69,579,718)
<b>Plan Fiduciary Net Position - Beginning</b>	<u>1,457,672,608</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ 1,388,092,890</u></u>
 <b>Net Pension Liability - Ending (a) - (b)</b>	774,812,844
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	64.18 %
<b>Covered Employee Payroll</b>	\$ 202,673,014
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	382.30 %

*10 fiscal years will be built prospectively.*

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
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**ADDITIONAL NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND  
RELATED RATIOS MULTIYEAR**

Beginning of year total pension liability for fiscal year 2014 uses a Single Discount Rate of 7.37% and the benefit provisions in effect as of the December 31, 2013, funding valuation. The Single Discount Rate of 7.37% was based on a long-term expected rate of return on pension plan investments of 7.50% used in the December 31, 2013, funding valuation and a long-term municipal bond rate as of December 26, 2013, of 4.73%.

End of year total pension liability for fiscal year 2014 uses a Single Discount Rate of 7.24% and the benefit provisions in effect as of the December 31, 2014, funding valuation. The Single Discount Rate of 7.24% was based on a long-term expected rate of return on pension plan investments of 7.50% used in the December 31, 2014, funding valuation and a long-term municipal bond rate as of December 31, 2014, of 3.56%.

The decrease in the total pension liability for fiscal year 2014 due to benefit changes is a result of the change in provisions pursuant to Public Act 98-0641, which was signed into law on June 9, 2014. This change was measured at the end of the year using a Single Discount Rate of 7.37%.

The increase in the total pension liability for fiscal year 2014 due to assumption changes includes the impact of the change in the Single Discount Rate from 7.37% to 7.24% based on the long-term expected rate of return on pension plan investments of 7.50% used in the December 31, 2014, funding valuation and the long-term municipal bond rate of 4.73% as of December 26, 2013, and 3.56% as of December 31, 2014, respectively. This change was measured at the end of the year using the benefit provisions in effect as of the December 31, 2014, funding valuation.

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**SCHEDULE OF THE NET PENSION LIABILITY MULTIYEAR**

<u>FY Ending December 31,</u>	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>	<u>Plan Net Position as a % of Total Pension Liability</u>	<u>Covered Payroll*</u>	<u>Net Pension Liability as a % of Covered Payroll</u>
2014	\$2,162,905,734	\$1,388,092,890	\$774,812,844	64.18%	\$202,673,014	382.30%

*\* Covered payroll shown is the amount in force as of the valuation date and likely differs from actual payroll paid during the fiscal year.*

*10 fiscal years will be built prospectively.*

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
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**SCHEDULE OF CONTRIBUTIONS MULTIYEAR**

Last 10 Fiscal Years

<u>FY Ending December 31,</u>	<u>Actuarially Determined Contribution*</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll**</u>	<u>Actual Contribution as a % of Covered Payroll</u>	<u>Statutory Contribution***</u>	<u>Statutory Contribution Deficiency/(Excess)</u>
2005	\$ 12,774,103	\$ 40,435	\$ 12,733,668	\$182,809,397	0.02%	\$ 18,970,900	\$ 18,930,465
2006	21,142,739	106,270	21,036,469	193,176,272	0.06%	17,193,400	17,087,130
2007	21,725,805	13,256,147	8,469,658	192,847,482	6.87%	13,256,165	18
2008	17,652,023	15,232,804	2,419,219	216,744,211	7.03%	15,543,376	310,572
2009	33,517,429	14,626,771	18,890,658	208,626,493	7.01%	14,982,660	355,889
2010	46,664,704	15,351,944	31,312,760	199,863,410	7.68%	15,652,734	300,790
2011	57,258,593	12,778,697	44,479,896	195,238,332	6.55%	13,055,795	277,098
2012	77,566,394	11,852,905	65,713,489	198,789,741	5.96%	12,336,770	483,865
2013	106,199,410	11,583,051	94,616,359	200,351,820	5.78%	12,098,712	515,661
2014	106,018,725	12,160,815	93,857,910	202,673,014	6.00%	12,714,800	553,985

\* The LABF Statutory Funding does not conform to Actuarial Standards of Practice, therefore, the actuarially determined contribution is equal to the normal cost plus an amount to amortize the unfunded liability using level dollar payments and a 30 year open amortization period.

\*\* Covered payroll shown is the amount in force as of the valuation date and likely differs from actual payroll paid during the fiscal year.

\*\*\* Excludes amounts paid for health insurance supplement beginning in 2006.

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
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**NOTES TO SCHEDULE OF CONTRIBUTIONS**

<b>Valuation date:</b>	December 31, 2014
Notes:	Actuarially determined contribution rates are calculated as of December 31, which is 12 months prior to the end of the fiscal year in which contributions are reported.
<b>Methods and Assumptions Used to Determine Contribution Rates as of the Valuation Date:</b>	
Actuarial Cost Method	Entry Age Normal
Amortization Method	The statutory contributions through payment year 2020 are based on a multiple of member contributions from the second prior year. The statutory contribution multiple is 1.60 in payment year 2016, 1.90 in payment year 2017, 2.20 in payment year 2018, 2.50 in payment year 2019 and 2.80 in payment year 2020. On and after payment year 2021, the employer contribution equals the sum of the net employer normal cost plus a level percent of payroll amortization of the unfunded liability needed to attain a 90 percent funded ratio by 2055 on an open group basis.
Remaining Amortization Period	Not Applicable. An amortization payment is not directly calculated. The amortization payment is the difference between the total statutory contribution and the employer normal cost contribution.
Asset Valuation Method	5 year smoothed market
Inflation	3.00 percent
Salary Increases	Salary increase rates based on age-related productivity and merit rates plus inflation.
Postretirement Benefit Increases	Post retirement benefit increases are equal to the lesser of 3.00 percent or one-half the annual unadjusted percentage increase (but no less than zero) in the consumer price index-u for the 12 months ending with the September preceding each November 1 of the participant's last annual annuity amount prior to January 1, 2015, or if the participant was not yet receiving an annuity on that date, then this calculation is based on the originally granted annual annuity amount. The minimum annual increase to eligible participants with an annual annuity amount at the time of the increase of less than \$22,000, is equal to 1.00 percent of the participant's last annual annuity amount prior to January 1, 2015, or if the participant was not yet receiving an annuity on that date, then 1.00 percent of the originally granted annual annuity amount. Except for participants



**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
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**NOTES TO SCHEDULE OF CONTRIBUTIONS (CONTINUED)**

Postretirement Benefit Increases (continued)

eligible for the minimum annual increase, no annual increases will be paid in years 2017, 2019 and 2025

Investment Rate of Return            7.50 percent as of the December 31, 2014 valuation.

Retirement Age                      Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2012, valuation pursuant to an experience study of the period January 1, 2004, through December 31, 2011.

Mortality                                RP2000 Combined Healthy mortality table, sex distinct, set forward one year for males and setback two years for females. No adjustment is made for post-disabled mortality.

**Other Information:**

Notes                                      Benefit changes as a result of Public Act 98-0641 were recognized in the Total Pension Liability as of December 31, 2014.

**Method and Assumptions Used for Accounting Purposes as of the Valuation Date:**

Actuarial Cost Method:                Entry Age Normal

Discount Rate:                         7.37 percent as of the December 31, 2013 valuation  
7.24 percent as of the December 31, 2014 valuation

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
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**SCHEDULE OF INVESTMENT RETURNS**

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	3.2%

*10 fiscal years will be built prospectively.*

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
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**SCHEDULE OF FUNDING PROGRESS OF OPEB LIABILITIES FOR CITY RETIREES**  
(dollar amounts in thousands)

Actuarial Valuation Date <u>December 31,</u>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Surplus) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/(c)
2009	\$ -	\$ 41,738	\$ 41,738	0.00%	\$ 208,626	20.01%
2010	-	41,361	41,361	0.00	199,863	20.69
2011	-	38,328	38,328	0.00	195,238	19.63
2012	-	38,653	38,653	0.00	198,790	19.44
2013	-	7,074	7,074	0.00	200,352	3.53
2014	-	4,593	4,593	0.00	202,673	2.27

**SCHEDULE OF EMPLOYER CONTRIBUTIONS OF OPEB LIABILITIES FOR CITY RETIREES**  
(dollar amounts in thousands)

Year Ended <u>December 31,</u>	Annual Required Contribution	Percentage of ARC <u>Contributed</u>
2009	\$ 3,682	69.62%
2010	3,609	71.67
2011	3,543	72.82
2012	3,070	83.45
2013	3,091	81.46
2014	2,520	93.64

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
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**SCHEDULE OF FUNDING PROGRESS OF OPEB LIABILITIES FOR LABF AS EMPLOYER**  
(dollar amounts in thousands)

Actuarial Valuation Date <u>December 31,</u>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Surplus) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/(c)
2006	\$ -	\$ 1,875	\$ 1,875	0.00%	\$ 1,221	153.62%
2009	-	3,362	3,362	0.00	1,581	231.58
2012 <sup>1</sup>	-	3,068	3,068	0.00	1,481	207.21

**SCHEDULE OF EMPLOYER CONTRIBUTIONS OF OPEB LIABILITIES FOR LABF AS EMPLOYER**  
(dollar amounts in thousands)

Year Ended <u>December 31,</u>	Annual Required Contribution	Percentage of ARC Contributed
2009	\$ 262	14.42%
2010	380	13.64
2011	405	12.81
2012	432	9.80
2013	288	12.41
2014	331	14.22

<sup>1</sup> The next actuarial valuation will be as of December 31, 2015 and completed in 2016.

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
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**NOTES TO SCHEDULE OF FUNDING PROGRESS  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS  
OF OPEB LIABILITIES**

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

Amortization method	City Retirees - Level Dollar; Closed Employees – Level Dollar; Open
Amortization period	City Retirees – 3 years Employees - 30 Years
Actuarial cost method	Entry Age Normal
Asset valuation method	No Assets (Pay-as-you-go)
Actuarial assumptions:	
OPEB investment rate of return <sup>1</sup>	4.5%
Projected base salary increases <sup>1</sup>	3.75% per year, plus a service based increase in the first fifteen years

<u>Service</u>	<u>Additional Increase</u>	<u>Total Increase</u>
1	6.25%	10.00%
2	4.75	8.50
3	3.75	7.50
4	3.25	7.00
5	2.25	6.00
6	1.25	5.00
7 - 15	0.25	4.00
16 - 30+	0.00	3.75

<sup>1</sup> includes inflation at 3% per year

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
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**NOTES TO SCHEDULE OF FUNDING PROGRESS  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS  
OF OPEB LIABILITIES (CONTINUED)**

Healthcare cost trend rate

City Retirees - 0.0% (Trend not applicable – Fixed dollar subsidy)

Employees: Medical: 1.64% for first year (based on actual premium increase) then 7.5% per year graded down to 5% per year; ultimate trend in 0.5% increments

Dental: 4% for first year (based on actual premium increase) then 4.5 % per year ultimate trend

## **SUPPLEMENTAL INFORMATION**

**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO**

**SCHEDULES OF INVESTED ASSETS  
COST AND FAIR VALUE  
(In Thousands)**

	2014		2013	
	Cost Value	Fair Value	Cost Value	Fair Value
Cash and short-term investments	\$ 49,893	\$ 49,893	\$ 38,385	\$ 38,385
U.S. equities	306,488	398,211	376,795	532,790
Foreign equities	241,343	258,932	197,394	248,983
Foreign equity funds	73,894	82,649	27,000	28,647
U.S. government obligations and municipal bonds	37,300	37,559	43,553	42,363
U.S. corporate bonds	181,951	183,051	180,107	180,973
Foreign fixed income securities	28,772	29,400	30,427	29,942
Private equity	28,856	42,071	42,490	50,949
Real estate	34,933	45,735	37,528	44,320
Hedge funds	83,351	102,078	107,084	125,177
Global Asset Allocation	<u>124,259</u>	<u>140,741</u>	<u>122,388</u>	<u>139,100</u>
Invested assets at cost/fair value	<u>\$1,191,040</u>	<u>\$1,370,320</u>	<u>\$1,203,151</u>	<u>\$1,461,629</u>
	100.0%	100.0%	100.0%	100.0%
	4.2%	3.6%	3.2%	2.6%
	25.7%	29.1%	31.3%	36.5%
	20.3%	18.9%	16.4%	17.0%
	6.2%	6.0%	2.3%	2.0%
	3.1%	2.7%	3.6%	2.9%
	15.3%	13.4%	15.0%	12.4%
	2.4%	2.1%	2.5%	2.0%
	2.4%	3.1%	3.5%	3.5%
	2.9%	3.3%	3.1%	3.0%
	7.0%	7.5%	8.9%	8.6%
	<u>10.5%</u>	<u>10.3%</u>	<u>10.2%</u>	<u>9.5%</u>



**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO**

**PERFORMANCE SUMMARY**

**FAIR VALUE RETURNS**

ANNUALIZED PERCENT FOR PERIODS PRESENTED

	2014	2013	2012	2011	2010	3-Yr.	5-Yr.
Combined Portfolio							
LABF	3.8%	16.4%	14.6%	-0.3%	15.5%	11.5%	9.9%
Cash and short-term investments							
LABF	0.2	0.2	0.2	0.1	0.3	0.2	0.2
91 Day T-Bills	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Fixed income							
LABF	5.0	-2.0	8.6	5.8	9.1	3.7	5.2
BC Aggregate	6.0	-2.0	4.2	7.8	6.5	2.7	4.4
Domestic equities							
LABF	7.4	36.2	17.6	0.6	18.9	19.8	15.5
S&P 500	13.7	32.4	16.0	2.1	15.1		
International developed equities							
LABF	-5.8	19.5	17.1	-9.5	15.2	9.6	6.5
MSCI ACWI ex USA <sup>1</sup>	-3.9	22.8	17.3	-12.1	7.8	9.0	4.4
Emerging markets equities							
LABF	10.2	-1.8	21.2	-10.1	28.2	9.5	8.6
MSCI EMF Net	-2.2	-2.6	18.2	-18.4	18.9	4.0	1.8
Global Asset Allocation <sup>2</sup>							
LABF	1.6	7.3	-	-	-	n/a	n/a
60% MSCI ACWI Net / 40% BC Agg	5.0	12.3				9.5	7.6
Private equity							
LABF	7.2	4.1	3.4	1.5	14.5	8.7	10.8
Cambridge Associates Venture Capital I Qtr Lag	23.6	15.4	7.5	20.9	8.1	15.3	15.0
Real estate							
LABF	8.0	7.7	4.6	8.9	3.9	6.1	6.2
NCREID ODCE	12.5	14.0	10.9	16.0	16.4	12.4	13.9
Hedge funds							
LABF	3.4	11.3	5.0	-3.2	10.0	6.7	5.4
HFRI FOF	3.3	8.7	4.7	-5.6	5.7	5.7	3.3

Performance figures provided by NEPC LLC, except for Cash and Short-Term Investments which was provided by Northern Trust Company. Private Equity and Real Estate returns lag by one quarter.

<sup>1</sup> New benchmark. Years prior to 2014 reflect benchmark of MSCI EAFE Net

<sup>2</sup> Assets class start date was 05/01/12. No annual return until 2013.