

**FIREMEN'S ANNUITY AND BENEFIT FUND
OF CHICAGO
COMPREHENSIVE ANNUAL FINANCIAL REPORT -
A COMPONENT UNIT OF THE CITY OF CHICAGO, ILLINOIS**

FINANCIAL STATEMENTS

DECEMBER 31, 2008

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION

DECEMBER 31, 2008 AND 2007

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REPORT OF INDEPENDENT AUDITORS

**Firemen's Annuity and Benefit
Fund of Chicago**

We have audited the accompanying statements of plan net assets of Firemen's Annuity and Benefit Fund of Chicago (the Plan) as of December 31, 2008 and 2007 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. 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 an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of Firemen's Annuity and Benefit Fund of Chicago at December 31, 2008 and 2007 and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 3f and the Schedule of Funding Progress, the Schedule of Employer Contributions and Notes to the Schedules on pages 27 through 29 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information presented on pages 31 through 33 is presented for purposes of additional analysis and is not a required part of the financial statements of Firemen's Annuity and Benefit Fund of Chicago. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion for, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We also have previously audited, in accordance with generally accepted auditing standards, the financial statements for the years ended December 31, 2006, 2005, 2004 and 2003 (which are not presented herein), and we expressed an unqualified opinion on those financial statements. Our report on additional information related to those financial statements stated that such information presented on page 30 was fairly stated in all material respects in relations to the basic financial statements taken as a whole. The information presented on pages 34 and 35, which is of a nonaccounting nature, has not been subjected to the auditing procedures applied in the audits of the basic financial statements and accordingly, we express no opinion on it.

Legacy Professionals LLP

June 26, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents Management's Discussion and Analysis of the financial position and performance of the Firemen's Annuity and Benefit Fund of Chicago (Plan) for the year ended December 31, 2008. This discussion is presented as a narrative overview of the financial activities and significant changes of the Plan and should be read in conjunction with the Plan's financial statements.

Overview of the Financial Statements

The discussion and analysis which follows is intended to serve as an introduction to the Plan's basic financial reporting, including the following statements:

Statement of Plan Net Assets presents the financial position of the Plan at fiscal year-end. It indicates the assets available for the payment of future benefits and any current liabilities that are owed as of the statement date. Investments are shown at fair value. All assets and liabilities are determined on an accrual basis.

Statement of Changes in Plan Net Assets presents 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 in fair value of investments.

Notes to Financial Statements provide additional information that is essential to achieving a better 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, and subsequent events, in any.

Required Supplementary and Additional Information Schedules provide detailed, historical trend information of assets, liabilities and employer contributions presented after the Notes to the Financial Statements.

The financial statements are prepared in accordance with Government Accounting Standards Board (GASB) Pronouncements.

Financial Highlights

The **net assets** of the Plan decreased by \$555,260,865, a 37.8% decrease during 2008. The decrease in net assets was directly attributable to a decrease in the value of investments due to poor market performance during the year.

The **gross rate of return** of the investment portfolio for 2008 was -36.1% versus 2007's return of 12.2%. The historic decline of the market contributed to 2008's result.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights (continued)

The **actuarial funding** of the Plan for 2008 was 39.77%, contrasted against 2007's funding level of 42.14%. The decrease in the funding level during 2008 was primarily due to the recognition of the current year's loss on investments. This loss was partially offset by the recognition of deferred gains from previous years accrued by the required smoothing method. The loss was also offset by the pay increases from the 2006 contract were less than the actuarial assumption.

Plan Net Assets

A summary of the Plan net assets is provided below:

		Plan Net Assets As of December 31,			
	<u>2008</u>	<u>2007</u>	Increase/(Decrease) in <u>Dollars</u>	<u>Percent</u>	
Receivables	\$ 95,788,768	\$ 91,847,870	\$ 3,940,898	4.3%	
Prepaid expenses	134,760	110,308	24,452	22.2%	
Investments, at fair value	828,317,897	1,386,022,130	(557,704,233)	-40.2%	
Collateral held for securities on loan	<u>127,822,514</u>	<u>232,617,278</u>	<u>(104,794,764)</u>	-45.1%	
Total assets	<u>1,052,063,939</u>	<u>1,710,597,586</u>	<u>(658,533,647)</u>	-38.5%	
Payables	10,048,003	8,526,021	1,521,982	17.9%	
Securities lending collateral	<u>127,822,514</u>	<u>232,617,278</u>	<u>(104,794,764)</u>	-45.1%	
Total liabilities	<u>137,870,517</u>	<u>241,143,299</u>	<u>(103,272,782)</u>	-42.8%	
Plan net assets	<u>\$ 914,193,422</u>	<u>\$ 1,469,454,287</u>	<u>\$ (555,260,865)</u>	-37.8%	

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Plan Net Assets

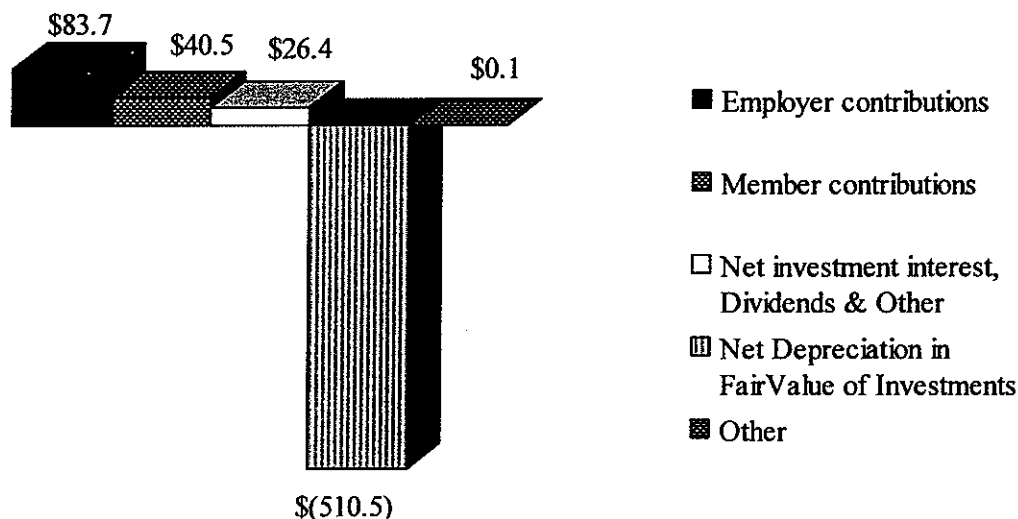
A summary of the changes in Plan net assets, reflecting the changes in resources available to pay benefits to members, retirees and beneficiaries, is provided below:

		Changes in Plan Net Assets For the Years Ended December 31,		Increase/(Decrease) in	
		<u>2008</u>	<u>2007</u>	<u>Dollars</u>	<u>Percent</u>
Additions:					
Employer contributions	\$	83,744,704	\$ 74,270,966	\$ 9,473,738	12.8%
Member contributions		40,479,884	41,120,231	(640,347)	-1.6%
Net investment income (loss)		(485,729,182)	147,608,799	(633,337,981)	-429.1%
Net securities lending income		1,636,044	1,197,410	438,634	36.6%
Other		107,321	161,666	(54,345)	-33.6%
Total additions		<u>(359,761,229)</u>	<u>264,359,072</u>	<u>(624,120,301)</u>	-236.1%
Deductions:					
Benefits		187,496,591	179,350,432	8,146,159	4.5%
Annuitant health care		2,486,950	2,248,156	238,794	10.6%
Refunds of contributions		2,659,788	1,706,383	953,405	55.9%
Administrative expenses		2,856,307	3,084,127	(227,820)	-7.4%
Total deductions		<u>195,499,636</u>	<u>186,389,098</u>	<u>9,110,538</u>	4.9%
Net increase (decrease) in plan net assets	\$	<u>(555,260,865)</u>	\$ <u>77,969,974</u>	\$ <u>(633,230,839)</u>	-812.1%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Additions to Plan Net Assets

Additions (In Millions)



Employer contributions increased \$9,473,738 or 12.8% between 2008's employer contribution of \$83,744,704 and 2007's employer contribution of \$74,270,966. This increase reflects the timing of required City of Chicago employer contributions in 2008 which corresponds to increased member contributions received in 2006 which are attributable to the contract settled and retroactive salaries that were paid out.

Member contributions decreased \$640,347 or 1.6%, from \$41,120,231 in 2007 to \$40,479,884 in 2008.

Net investment income decreased by \$633,337,981 or 429.1% from \$147,608,799 in 2007 to \$(485,729,182) in 2008. The decrease in net investment income is primarily due to the historical decline of the market in 2008.

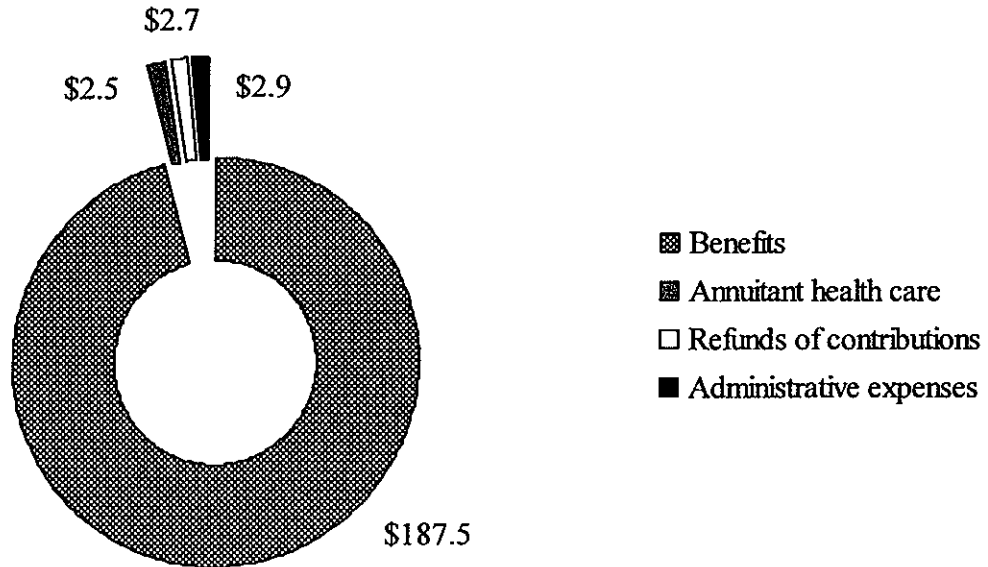
Net securities lending income increased by \$438,634 or 36.6% from \$1,197,410 in 2007 to \$1,636,044 in 2008 due to an increased demand and limited supply during much of 2008.

The Plan's investment custodian failed to live up to its contractual responsibilities relating to the lending of certain securities. During September 2008, Lehman Brothers Inc. was called into default on obligations under the terms of one or more of the Securities Borrowing Agreements. As a result of the default, the Plan recognized a securities lending payable and corresponding unrealized loss in the amount of \$2,087,828.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Deductions to Plan Net Assets

Deductions (In Millions)



Benefit payments to retirees and plan participants increased \$8,146,159 or 4.5% from \$179,350,432 in 2007 to \$187,496,591 in 2008. The increase was due to the automatic annual increase for firemen annuitants, a slight increase in the average number of annuitants and new annuitants coming on the pension roll at a higher rate than those removed. Further, the number of members on disability increased 3.7%.

Annuitant health care expenses increased \$238,794 or 10.6% from \$2,248,156 in 2007 to \$2,486,950 in 2008. The increase was due to a change in the monthly rate effective June 1, 2008 from \$55/\$85 for medicare/non-medicare annuitants to \$65/\$95 for medicare/non-medicare annuitants.

Refunds of contributions increased by \$953,405 or 55.9% from \$1,706,383 in 2007 to \$2,659,788 in 2008 due to an increase in the average refund amount.

Administrative expenses decreased by 227,820 or 7.4% to \$2,856,307 in 2008 from \$3,084,127 in 2007. Decrease is due to budgeted purchase of scanning equipment necessary to implement a long term document back up system was bought in 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Funding Status

The actuarial assets, actuarial liabilities and funding status for the Plan are provided below:

Actuarial Values (in Millions)				Increase/(Decrease) in	
December 31,				<u>Dollars</u>	<u>Percent</u>
	<u>2008</u>	<u>2007</u>			
Actuarial assets	\$ 1,335.7	\$ 1,375.0	\$ (39.3)		-2.9%
Actuarial liabilities	<u>3,358.6</u>	<u>3,263.0</u>	<u>95.6</u>		2.9%
Unfunded actuarial liabilities	<u>\$ 2,022.9</u>	<u>\$ 1,888.0</u>	<u>\$ 134.9</u>		7.1%
Funded ratio	<u>39.77%</u>	<u>42.14%</u>			

Actuarial assets decreased from \$1,375.0 million in 2007 to \$1,335.7 million in 2008 (\$39.3 million; 2.9%) due to large investment losses during 2008, offset by the recognition of deferred gains from prior years due to the required actuarial smoothing of gains and losses from current and prior years.

Actuarial liabilities increased from \$3,263.0 million in 2007 to \$3,358.6 million in 2008 (\$95.6 million; 2.9%) due to actuarially required contributions exceeding the actual contributions received.

The **funded ratio** is one indicator of the financial strength of the Plan, measuring the ratio of net assets available to meet the actuarially determined future liabilities of the Plan. The decrease in the funded ratio from 42.14% in 2007 to 39.77% in 2008 was due primarily to investment losses during 2008 that were offset by deferred gains from prior years as required under actuarial smoothing methods.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Investments

The performance of the Plan's investments, as shown by major asset class, is provided below:

	<u>2008</u>	<u>2007</u>
Equities	-43.0%	13.2%
S&P 500 Benchmark	-37.0%	5.5%
Fixed income	-10.1%	5.0%
Lehman Brothers Aggregate Benchmark	5.2%	7.2%
Total Plan	-36.1%	12.2%

The value of the Plan's investments, including cash and cash equivalents, decreased from \$1,386,022,130 in 2007 to \$828,317,897 in 2008, a decrease of \$557,704,233 or 40.2%.

The value of the Plan's investments, including cash and cash equivalents, decreased from \$1,386,022,130 in 2007 to \$828,317,897 in 2008, a decrease of \$557,704,233 or 40.2%. Negative investment returns across all asset classes contributed to the decrease in value. Total return for the entire investment portfolio in 2008 was -36.1% compared with 12.2% in 2007.

Contact Information

This financial report is designed to provide plan participants, retirees, beneficiaries, the employer and all other interested users with a complete, detailed, easy to understand financial portrait of the Plan at December 31, 2008. Questions, concerns or comments regarding this report or requests for additional information should be addressed to:

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Executive Director
Firemen's Annuity & Benefit Fund of Chicago
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Chicago, IL 60603

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF PLAN NET ASSETS

DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
RECEIVABLES		
Employer - net	\$ 86,243,498	\$ 81,051,388
Investment income	4,151,541	4,059,451
Unsettled trades	2,725,638	2,981,343
Other	<u>2,668,091</u>	<u>3,755,688</u>
Total receivables	<u>95,788,768</u>	<u>91,847,870</u>
PREPAID EXPENSES	<u>134,760</u>	<u>110,308</u>
INVESTMENTS		
Corporate bonds	103,931,947	121,249,460
U.S. and Foreign Government obligations	66,078,997	82,286,635
Equities	549,230,147	1,033,309,346
Cash deposits and short-term investments	37,770,866	54,100,424
Mutual funds	48,415,945	69,593,552
Private equity and venture capital	<u>22,889,995</u>	<u>25,482,713</u>
Total investments	<u>828,317,897</u>	<u>1,386,022,130</u>
COLLATERAL HELD FOR SECURITIES ON LOAN	<u>127,822,514</u>	<u>232,617,278</u>
Total assets	<u>1,052,063,939</u>	<u>1,710,597,586</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Unsettled trades	6,439,895	6,245,041
Accounts payable and accrued expenses	1,075,755	1,885,181
Securities lending collateral	127,822,514	232,617,278
Participant accounts	444,525	395,799
Securities lending payable	<u>2,087,828</u>	<u>-</u>
Total liabilities	<u>137,870,517</u>	<u>241,143,299</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 914,193,422</u>	<u>\$ 1,469,454,287</u>

(A schedule of funding progress
is presented on page 27)

See accompanying notes to financial statements.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF CHANGES IN PLAN NET ASSETS

YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ADDITIONS		
Contributions		
Employer		
Property taxes - net	\$ 61,638,565	\$ 62,344,568
Personal property replacement taxes	20,831,000	10,621,000
Exempt rank funding	<u>1,275,139</u>	<u>1,305,398</u>
Total employer contributions	<u>83,744,704</u>	<u>74,270,966</u>
Plan member		
Annuities	40,331,459	40,969,853
Death benefits	<u>148,425</u>	<u>150,378</u>
Total plan member contributions	<u>40,479,884</u>	<u>41,120,231</u>
Investment income		
Net appreciation (depreciation) in fair value of investments	(510,474,269)	123,711,433
Interest	14,734,028	14,944,732
Dividends	16,679,437	16,362,450
Other	<u>78,584</u>	<u>127,385</u>
	(478,982,220)	155,146,000
Less investment expenses	<u>(6,746,962)</u>	<u>(7,537,201)</u>
Net investment income (loss)	<u>(485,729,182)</u>	<u>147,608,799</u>
Securities lending		
Income	5,920,554	13,929,100
Expenses		
Borrower rebates	(3,762,882)	(12,332,848)
Management fees	<u>(521,628)</u>	<u>(398,842)</u>
Net securities lending income	<u>1,636,044</u>	<u>1,197,410</u>
Gift fund donations	<u>50,201</u>	<u>130,584</u>
Litigation settlements	<u>57,120</u>	<u>31,082</u>
Total additions	<u>(359,761,229)</u>	<u>264,359,072</u>

See accompanying notes to financial statements.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF CHANGES IN PLAN NET ASSETS

YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
DEDUCTIONS		
Benefits		
Age and service benefits		
Employees	\$ 133,611,646	\$ 127,034,299
Spouses	28,607,253	28,362,084
Dependents	908,782	1,024,031
Total age and service benefits	<u>163,127,681</u>	<u>156,420,414</u>
Disability benefits		
Duty	14,074,392	13,594,701
Occupational	8,538,606	8,025,292
Ordinary	193,066	210,215
Total disability benefits	<u>22,806,064</u>	<u>21,830,208</u>
Gift fund payments	725,246	425,854
Death benefits	837,600	673,956
Total benefits	<u>187,496,591</u>	<u>179,350,432</u>
Annuitant health care	2,486,950	2,248,156
Refunds of contributions	2,659,788	1,706,383
Administrative expenses	2,856,307	3,084,127
Total deductions	<u>195,499,636</u>	<u>186,389,098</u>
NET INCREASE (DECREASE)	(555,260,865)	77,969,974
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>1,469,454,287</u>	<u>1,391,484,313</u>
End of year	<u>\$ 914,193,422</u>	<u>\$ 1,469,454,287</u>

See accompanying notes to financial statements.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The accompanying financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer, the City of Chicago, has made a formal commitment to provide the contributions. Plan member contributions are recognized in the period in which the contributions are due. 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. Cash deposits and short-term investments are carried at cost which approximates fair value. Pooled funds are carried at fair value as estimated by the Plan's investment managers. Private equity and venture capital are carried at fair value as estimated by the investment partnership. Foreign securities quoted in foreign currencies are translated into U.S. dollars at year end exchange rates.

Estimates - The preparation of financial statements in conformity with 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 Firemen's Annuity and Benefit Fund of Chicago was established in 1931 and is governed by legislation contained in the Illinois Compiled Statutes (Statutes), particularly Chapter 40, Act 5, Article 6, which specifically and exclusively refers to the Plan. The Plan can be amended only by the Illinois Legislature. 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) employed under the provisions of the Municipal Personnel Ordinance as fire service and for the dependents of such employees. The Plan is considered to be a component unit of the City of Chicago and is included in the City's financial statements as a pension trust fund.

NOTE 2. PLAN DESCRIPTION (CONTINUED)

The Statutes authorize a Board of Trustees of eight members to carry out the provisions of the Article. According to the Article, four members of the Board are ex officio and four are to be elected by the employee members of the Plan. The four ex officio members are the City Treasurer, the City Clerk, the City Comptroller and the Deputy Fire Commissioner. 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 that 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 Insurance, as well as another detailed annual report, the form and content of which are specified by the Department of Insurance.

Any employee of the City of Chicago employed under the provisions of the Municipal Personnel Ordinance as fire service is covered by the Firemen's Annuity and Benefit Fund of Chicago. Covered employees are required to contribute 9.125% of their salary to the Plan. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with statutory interest. The City of Chicago, for its employer's portion, is required by the Statutes to contribute the remaining amounts necessary to finance the requirements of the Plan. 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 year for which annual applicable tax is levied, multiplied by 2.26. The source of funds for the City's contribution has been designated by State Statutes as the City's annual property tax levy. The City of Chicago's payroll for employees covered by the Plan for the years ended December 31, 2008 and 2007 was \$396,181,778 and \$389,124,547 respectively.

The Plan provides retirement benefits as well as death and disability benefits. Employees who reach compulsory age (63) with at least 10 years of service and less than 20 years of service are entitled to receive an annuity of 30% of average salary for the first ten years of service plus an additional 2% for each year in excess of 10 with partial City contributions. This can not exceed 50%.

NOTE 2. PLAN DESCRIPTION (CONTINUED)

At age 50 or more with 10 or more but less than 20 years of service, the employee is entitled to an annuity of the entire sum accumulated for age and service annuity from deductions from salary, plus 1/10 of the sum accumulated from contributions by the City for each completed year of service after the first 10 years.

Employees with at least 20 years of service are entitled to receive a minimum formula annuity upon attainment of age 50, of 50% of final average salary plus an additional amount equal to 2.5% of final average salary for each year of service or fraction thereof in excess of 20 years of service. Final average salary is based on the highest average annual salary for any four consecutive years within the last ten years of service immediately preceding the date of retirement. This annuity shall not exceed 75% of the final average salary. The monthly annuity is increased by 3% of the original annuity at the first of the month following the later of age 55 or the first anniversary of retirement and by 3% each first day of January thereafter, if born before January 1, 1955. There is no limit on the increases. If born after January 1, 1955, the monthly annuity is increased by 1.5% of the original annuity at the first of the month following the later of age 60 or the first anniversary of retirement and 1.5% on each first day of January thereafter, but not to exceed a total increase of 30%.

At December 31, 2008 and 2007, participation consisted of the following:

	<u>2008</u>	<u>2007</u>
Retirees and beneficiaries currently receiving benefits	4,381	4,391
Terminated plan participants entitled to but not yet receiving benefits	71	171
Active plan participants	<u>5,037</u>	<u>4,938</u>
Total participants	<u>9,489</u>	<u>9,500</u>

NOTE 3. INVESTMENT SUMMARY

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 "prudent person" provisions of the Statutes. The following table presents a summarization of the fair value (carrying amount) of the Plan's investments as of December 31, 2008 and 2007.

	<u>2008</u>	<u>2007</u>
<u>Investments</u>		
Corporate bonds:		
Not on securities loan	\$ 92,049,514	\$ 100,584,291
On securities loan	11,882,433	20,665,169
U.S. and Foreign Government obligations:		
Not on securities loan	60,732,196	67,887,547
On securities loan	5,346,801	14,399,088
Equities:		
Not on securities loan	440,786,265	842,373,919
On securities loan	108,443,882	190,935,427
Cash deposits and short-term investments	37,770,866	54,100,424
Equity mutual funds	9,565,974	21,522,095
Fixed income mutual funds	38,849,971	48,071,457
Private equity and venture capital	22,889,995	25,482,713
	<u>828,317,897</u>	<u>1,386,022,130</u>
Collateral held for securities on loan	<u>127,822,514</u>	<u>232,617,278</u>
Total investments and invested securities lending cash collateral	<u>\$ 956,140,411</u>	<u>\$ 1,618,639,408</u>

NOTE 3. INVESTMENT SUMMARY (CONTINUED)

Investment Risk

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the Plan's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. At December 31, 2008 and 2007, the Plan's exposure to such risk was \$464,316 and \$2,174,373 respectively, comprised of foreign currencies held outside the custodial bank.

For investments securities, custodial credit risk is the risk that, in the event of the failure of the counter party, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the Plan's name, and held by the counter party. To minimize custodial risk, the Plan's custodian physically (or through agreement with a sub-custodian) maintains possession of securities owned by the Plan. In addition, the Plan seeks to maintain a fully invested position in accordance with established target asset allocation and minimize cash deposits. At December 31, 2008 and 2007, the Fund had no investments that were uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not held in the Plan's name.

NOTE 3. INVESTMENT SUMMARY (CONTINUED)

Investment Risk (continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. U.S. Government obligations or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The Plan establishes minimum investment rating guidelines for each investment manager based on their area of concentration and level of allowable risk. The following table presents a summarization at December 31, 2008 and 2007 of the credit quality ratings of investments in corporate bonds, foreign government obligations, short-term investments, and fixed income mutual funds as valued by Moody's Investors Service and/or Standard & Poor's:

<u>Type of Investment</u>	<u>Rating</u>	<u>2008</u>	<u>2007</u>
Corporate bonds	Aaa/AAA	\$ 13,213,054	\$ 15,202,010
	Aa/AA	2,923,249	11,721,273
	A/A	24,891,520	10,817,410
	Baa/BBB	25,686,141	34,531,927
	Ba/BB	8,471,238	12,949,487
	B/B	5,917,825	11,037,651
	Caa/CCC	4,411,293	8,636,526
	C/C	131,250	-
	D/D	2,715,381	-
	Not Rated	13,882,429	16,353,176
U.S. Government Guaranteed		1,688,567	-
		<u>103,931,947</u>	<u>121,249,460</u>
Foreign Government obligations	Aaa/AAA	6,598,945	12,542,171
	A/A	996,900	366,951
	Baa/BBB	3,187,427	3,948,835
	Ba/BB	2,555,551	3,350,343
	Not Rated	119,288	874,746
		<u>13,458,111</u>	<u>21,083,046</u>
U.S. Government obligations	Not Rated	<u>52,620,886</u>	<u>61,203,589</u>
Total U.S. and Foreign Government obligations		<u>66,078,997</u>	<u>82,286,635</u>
Cash deposits and short-term investments	Not Rated	<u>37,770,866</u>	<u>54,100,424</u>
Fixed income mutual funds	Not Rated	<u>38,849,971</u>	<u>48,071,457</u>
Total		<u>\$ 246,631,781</u>	<u>\$ 305,707,976</u>

NOTE 3. INVESTMENT SUMMARY (CONTINUED)**Investment Risk (continued)**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. The Plan requires investment managers to display an overall level of interest rate risk that is consistent with the benchmark specified by the Plan. The following table presents a summarization of debt investments at December 31, 2008 and 2007 using the segmented time distribution method:

<u>Type of Investment</u>	<u>Maturity</u>	<u>2008</u>	<u>2007</u>
Corporate bonds	Less than 1 year	\$ 6,197,156	\$ 3,504,949
	1-5 years	25,737,611	27,718,306
	6 - 10 years	23,686,450	25,310,689
	Over 10 years	48,310,730	64,715,516
		<u>103,931,947</u>	<u>121,249,460</u>
U.S. and Foreign Government obligations	Less than 1 year	2,980,821	7,952,920
	1-5 years	9,904,928	17,273,356
	6 - 10 years	6,527,812	5,337,048
	Over 10 years	46,665,436	51,723,311
		<u>66,078,997</u>	<u>82,286,635</u>
Total		<u>\$ 170,010,944</u>	<u>\$ 203,536,095</u>

NOTE 3. INVESTMENT SUMMARY (CONTINUED)**Investment Risk (continued)**

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan requires investment managers to invest in at least ten countries if investing in foreign obligations and/or equities. The Plan's exposure to foreign currency risk at December 31, 2008 and 2007 is as follows:

<u>Type of Investment</u>	Fair Value (USD) <u>2008</u>	Fair Value (USD) <u>2007</u>
Corporate bonds:		
Australian dollar	\$ 565,758	\$ -
Canadian dollar	205,842	273,458
European euro	213,831	-
Indonesian rupiah	954,331	1,122,685
Japanese yen	2,744,269	3,752,532
Malaysian ringgit	-	1,938,693
Mexican peso	215,763	345,729
New Zealand dollar	1,238,079	1,162,820
Republic of Korea won	674,687	904,235
Singapore dollar	1,188,771	1,550,241
South African rand	-	367,511
U.S. dollar	95,930,616	109,831,556
	<u>103,931,947</u>	<u>121,249,460</u>
U.S. and Foreign Government obligations:		
Australian dollar	1,582,263	1,900,416
Brazilian real	2,038,990	2,858,006
Canadian dollar	3,367,821	6,147,959
Colombian peso	516,561	588,714
Icelandic krona	-	890,164
Indonesian rupiah	54,282	-
Japanese yen	-	2,355,520
Mexican peso	2,809,342	3,553,412
New Zealand dollar	996,900	-
Singapore dollar	-	2,421,904
South African rand	-	366,951
U.S. dollar	54,712,838	61,203,589
	<u>66,078,997</u>	<u>82,286,635</u>

NOTE 3. INVESTMENT SUMMARY (CONTINUED)**Investment Risk (continued)**

Foreign Currency Risk (continued)

<u>Type of Investment</u>	Fair Value (USD) <u>2008</u>	Fair Value (USD) <u>2007</u>
Equities:		
Australian dollar	\$ 2,698,133	\$ 6,588,279
Brazilian real	4,265,406	7,966,369
British pound	17,228,600	32,459,920
Canadian dollar	2,680,302	7,026,763
Czech Republic koruny	184,795	658,128
Chilean peso	482,985	853,016
Danish krone	1,073,268	248,262
Egyptian pound	240,306	1,157,192
European euro	28,025,596	53,518,847
Hong Kong dollar	5,283,401	6,642,125
Hungarian forint	468,600	774,308
Indian rupee	1,308,680	-
Indonesian rupiah	339,593	541,411
Israel new shekels	683,079	1,351,570
Japanese yen	25,703,703	43,192,330
Malaysian ringgit	551,418	1,481,859
Mexican peso	1,273,859	3,040,039
New Zealand dollar	317,557	794,332
Norwegian krone	239,760	1,128,254
Pakistan rupees	103,819	286,316
Philippines pesos	105,489	403,198
Polish zlotych	341,534	1,042,845
Republic of Korea won	3,276,976	10,464,690

NOTE 3. INVESTMENT SUMMARY (CONTINUED)**Investment Risk (continued)**

Foreign Currency Risk (continued)

<u>Type of Investment</u>	Fair Value (USD) <u>2008</u>	Fair Value (USD) <u>2007</u>
Equities (continued):		
Singapore dollar	\$ 1,085,109	\$ 2,175,964
South African rand	2,116,072	4,913,902
Swedish krona	337,066	930,004
Swiss franc	5,845,017	9,533,822
Taiwan dollar	2,024,274	7,784,712
Thailand baht	300,933	654,317
Turkish lira	457,417	1,628,125
United Arab Emirates - emirati dirham	-	226,385
U.S. dollar	440,187,400	823,842,062
	<u>549,230,147</u>	<u>1,033,309,346</u>
Total	<u>\$ 719,241,091</u>	<u>\$ 1,236,845,441</u>

During 2008 and 2007, net realized gain (loss) on investments sold, reflecting the difference between the proceeds received and cost value of securities sold, was (\$80,986,818) and \$121,280,621 respectively. These amounts are included in the net appreciation (depreciation) in fair value of investments as reported on the Statement of Changes in Plan Net Assets. The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments. Investments purchased in a previous year and sold in the current year result in their realized gains and losses being reported in the current year and their net appreciation (depreciation) in plan assets being reported in both the current year and the previous year(s).

All of the Plan's financial instruments are consistent with the permissible investments outlined in the State Statutes and any index-linked financial instruments are limited to those indices that replicate the permissible investments outlined in the Statutes.

NOTE 4. FOREIGN SECURITIES

The Plan does not isolate that portion of net appreciation (depreciation) in fair value of investments resulting from changes in the foreign exchange rate on investments from fluctuations arising from changes in the market prices of the securities. Such fluctuations are included with net appreciation (depreciation) in fair value of investments. Net realized gains and losses on foreign currency transactions represent net exchange gains or losses on closed foreign currency contracts, disposition of foreign currencies, and the difference between the amount of investment income and foreign withholding taxes recorded on the Plan's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized gains and losses on foreign currency transactions arise from changes in the value of open foreign currency contracts and assets and liabilities other than investments at the year end, resulting from changes in the exchange rate.

NOTE 5. 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 collateral for the same securities in the future. The Plan's custodian, 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.

The Plan is not restricted as to the type or amount 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 64 days in 2008 and 97 days in 2007; 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 at December 31, 2008 and 2007 of 22 days and 26 days, respectively. Cash collateral may also be invested in term loans in which the investments (term loans) match the term of the securities loans.

As of December 31, 2008 and 2007, the fair value (carrying amount) of loaned securities was \$125,673,117 and \$225,999,684 respectively. As of December 31, 2008 and 2007, the fair value (carrying amount) of collateral received by the Plan was \$127,822,514 and \$232,617,278 respectively. Therefore, as of December 31, 2008 and 2007, the Plan had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Plan.

NOTE 5. SECURITIES LENDING (CONTINUED)

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower. The contract with the lending agent requires it 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.

During 2008, the Plan's investment custodian failed to live up to its contractual responsibilities relating to the lending of certain securities. Lehman Brothers Inc. was called into default on obligations under the terms of one or more of the Securities Borrowing Agreements. The Plan's investment custodian compensated the Plan for any security that was not returned from being on loan in accordance with the contractual obligations. As a result of the default, the Plan recognized an investment loss and corresponding securities lending payable in the amount of \$2,087,828 at December 31, 2008.

During 2007, there were no losses due to default of a borrower or the lending agent.

NOTE 6. DERIVATIVES

The Plan invests in derivative financial instruments as provided by the Plan's Statement of Investment Policy. The Plan uses derivative financial instruments to gain exposure to an asset class, manage portfolio risk or to facilitate international portfolio trading.

A derivative security is a financial contract whose value is based on, or "derived" from, a traditional security, an asset, or a market index. Derivative instruments include options, futures, forward contracts and swaps as part of the Plan's portfolio.

Derivative transactions involve, to varying degrees, credit risk, interest rate 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 the previously agreed upon terms. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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 Plan uses options to reduce the risk of holding an asset. An option is a contract that conveys the right, but not the obligation, to buy (call) or sell (put) an item at an agreed upon price during a certain period of time or on a specific date. As of December 31, 2008 and 2007, the carrying value of the Plan's option holdings were \$448,447 and \$117,369.

NOTE 6. DERIVATIVES (CONTINUED)

Futures contracts are used to provide exposure to an asset class using uninvested cash. These contracts are a legally binding agreement, made on the trading floor of a futures exchange, to buy or sell a commodity or financial instrument sometime in the future. Futures contracts have little credit risk, as organized exchanges are the guarantors. Futures contracts are marked to market and are recorded in the Statement of Plan Net Assets at fair value. At December 31, 2008 and 2007, the Plan had \$100,000 and \$300,000, respectively, of cash as an initial margin deposit for outstanding futures contracts. The Plan's investments at December 31, 2008 and 2007 included the following futures commitments:

	<u>2008</u>	<u>2007</u>
Future Purchase Commitment	\$ 35,003,451	\$ 39,178,963
Future Sales Commitment	\$ 35,003,451	\$ 39,178,963

Forward contracts are used to hedge against fluctuations in foreign currency-denominated assets used primarily in portfolio trade settlements. These contracts are a cash contract in which a seller agrees to deliver a specific cash commodity to a buyer sometime in the future. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions. At December 31, 2008 and 2007, the Plan's investments included the following forward currency contract balances:

	<u>2008</u>	<u>2007</u>
Forward Currency Contract Receivables	\$ 742,769	\$ 351,526
Forward Currency Contract Payable	\$ 762,508	\$ 352,439

Swaps are used by the Plan to hedge certain risks such as interest rate risk, or to speculate on changes in the underlying price of an asset. Traditionally, a swap is the exchange of one security for another to change the maturity, quality, structure of an issue, or because investment objectives have changed. As of December 31, 2008 and 2007, the carrying value of the Plan's swap assets were \$361,537 and \$153,435, respectively, and swap liabilities with an amount of \$1,443,503 and \$516,900, respectively. The Plan also had a liability of \$0 and \$1,093 in swaptions as of December 31, 2008 and 2007, respectively.

All of the Plan's financial instruments are carried at fair value on the Statement of Plan Net Assets included in investments. The gain or loss on financial instruments is recognized and recorded on the Statement of Changes in Plan Net Assets as part of investment income.

NOTE 7. FUNDED STATUS AND FUNDING PROGRESS

As of December 31, 2008, the most recent actuarial valuation date, the Plan was 39.77% funded on an actuarial basis. The actuarial accrued liability for benefits was \$3,358,578,331, and the actuarial value of assets was \$1,335,695,474, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,022,882,857. The covered payroll (annual payroll of active employees covered by the Plan) was \$396,181,778, and the ratio of the UAAL to the covered payroll was 510.59%.

The Schedule of Funding Progress, presented as required supplemental information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of the Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation date	December 31, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	5 year smoothed market value

Actuarial assumptions:

Investment return rate	8.0% per year for pensions and 4.5% per year for the health insurance supplement
Projected salary increases	4.0% per year, plus an additional percentage related to service and promotion
Mortality rates	1983 Group Annuity Mortality Table, sex distinct. 1992 Railroad Retirement Board's Disabled Annuitant's Mortality Table
Termination rates	Based on recent experience of the Plan
Retirement rates	Rates of retirement for each age from 50 to 65 based on recent experience of the Plan. All employees are assumed to retire by age 65

NOTE 8. SUMMARY OF EMPLOYER FUNDING POLICIES

Employer obligations are funded through the City which are currently limited when extended to an amount not to exceed an amount equal to the total 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 2.26.

The actuarial valuations of the Plan as of December 31, 2008 and 2007 indicated a minimum annual projected contribution by the City to maintain the Plan on a minimum valuation basis to be \$208,237,148 and \$194,248,413 for 2008 and 2007, respectively. The minimum annual projected contribution was based on an annual payroll of \$396,181,778 for 5,037 active participants during 2008 and \$389,124,547 for 4,938 active participants during 2007 and was computed as follows:

	<u>2008 Levy</u>		
	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>
Normal cost	\$ 69,161,598	\$ 1,492,199	\$ 70,653,797
40-year level dollar amortization of the unfunded liability	<u>171,900,784</u>	<u>2,878,030</u>	<u>174,778,814</u>
	241,062,382	4,370,229	245,432,611
Less estimated plan member contributions	<u>(37,195,463)</u>	-	<u>(37,195,463)</u>
Annual required contribution to be financed by tax levy	<u>\$ 203,866,919</u>	<u>\$ 4,370,229</u>	<u>\$ 208,237,148</u>
Required tax levy multiple			<u>5.72</u>
	<u>2007 Levy</u>		
	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>
Normal cost	\$ 66,217,607	\$ 1,443,723	\$ 67,661,330
40-year level dollar amortization of the unfunded liability	<u>160,255,572</u>	<u>2,864,129</u>	<u>163,119,701</u>
	226,473,179	4,307,852	230,781,031
Less estimated plan member contributions	<u>(36,532,618)</u>	-	<u>(36,532,618)</u>
Annual required contribution to be financed by tax levy	<u>\$ 189,940,561</u>	<u>\$ 4,307,852</u>	<u>\$ 194,248,413</u>
Required tax levy multiple			<u>5.39</u>

NOTE 8. SUMMARY OF EMPLOYER FUNDING POLICIES (CONTINUED)

According to the Plan's consulting actuary, the Plan needs additional contributions in order to adequately finance the Plan.

NOTE 9. 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.

Net assets held in trust for pension benefits as of December 31 were comprised of the following reserve surplus (deficit) balances:

	<u>2008</u>	<u>2007</u>
Prior Service Annuity Reserve	\$ 1,272,532,962	\$ 1,235,933,213
City Contribution Reserve	664,859,151	626,976,487
Annuity Payment Reserve	623,925,028	615,988,250
Salary Deduction Reserve	549,556,218	518,289,584
Death Benefit Reserve	(10,726,172)	(9,724,732)
Ordinary Disability Reserve	(658,001)	(539,921)
Supplementary Payment Reserve	238,441	432,657
Gift Reserve	3,647,436	3,429,685
Reserve (deficit)	<u>(2,189,181,641)</u>	<u>(1,521,330,936)</u>
Total net assets held in trust for pension benefits	<u>\$ 914,193,422</u>	<u>\$ 1,469,454,287</u>

The Prior Service Annuity Reserve is a reserve account for the accumulation of City contributions to provide for: a) employee and spouse annuities that are based on service performed before the Plan's effective date of July 1, 1931 and b) any excess in minimum annuity formula requirements over the amounts required for age and service annuities, and for spouse annuities.

The City Contribution Reserve 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 maintained for each employee and spouse until the employee retires, at which time the individual account balances are transferred to the Annuity Payment Reserve.

NOTE 9. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

The Salary Deduction Reserve is similarly used to accumulate deductions made from employee salaries for age and service annuities for the employee and spouse. Individual accounts are maintained until the employee retires or withdraws from service before qualifying for an annuity. At retirement, account balances are transferred to the Annuity Payment Reserve. In case an eligible employee elects to take a refund of contributions instead of an annuity, the contribution refund is charged to this reserve. The Annuity Payment Reserve receives the amounts transferred from the individual accounts in the City Contribution Reserve and the Salary Deduction Reserve when an employee retires and qualifies for an annuity. All age and service annuity payments are charged to this reserve.

The Death Benefit Reserve accumulates contributions from employees and the City for ordinary death benefits. All ordinary death benefits paid are charged to this reserve.

The Ordinary Disability Reserve accumulates contributions from employees and the City for ordinary disability benefits. All ordinary disability benefits paid are charged to this reserve.

The Supplementary Payment Reserve accumulates amounts to provide automatic annual postretirement increases to employee annuitants who retired before September 1, 1959 and amounts in excess of the original annuity grant due to increases in the minimum annuity.

The Gift Reserve accumulates donations to be used to provide an extra benefit to widowed spouse annuitants and orphaned child annuitants.

The Reserve surplus (deficit) 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 deficit indicates that additional assets will be needed to provide for future benefits, while a surplus indicates that present assets and future contributions exceed the expected requirements for future pension payments.

During the years ended December 31, 2008 and 2007, the Plan's actuary has determined that an increase (decrease) in actuarial reserves of \$(420,388,544) and \$97,336,417 respectively, is required. The net increase (decrease) in Plan net assets for the years ended December 31, 2008 and 2007 of \$(555,260,865) and \$77,969,974 respectively, has been applied to the increase in actuarial reserves as noted above, which has resulted in an increase in the Plan deficit by \$134,872,321 and \$19,366,443 for the years ended December 31, 2008 and 2007, respectively.

NOTE 9. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

As reported by the actuary, the changes in the Plan (deficit) during the years ended December 31, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Plan (deficit) at the beginning of the year	\$ (1,888,010,536)	\$ (1,868,644,093)
Gains (losses) during the year attributable to:		
Gain from salary changes	31,648,090	22,711,274
Gain (loss) on investment return	(78,270,397)	79,713,180
Employer cost in excess of contributions	(93,321,651)	(100,457,203)
Gain (loss) from demographic assumptions	11,628,074	(8,726,594)
(Loss) from programming changes	(6,483,533)	-
(Loss) from all other sources	<u>(72,904)</u>	<u>(12,607,100)</u>
Net (loss)	<u>(134,872,321)</u>	<u>(19,366,443)</u>
Plan (deficit) at the end of the year	<u>\$ (2,022,882,857)</u>	<u>\$ (1,888,010,536)</u>

The above detail denotes the change in the unfunded liability based on assets valued using a Five Year Smoothed Average Market, a market related actuarial asset value as required by Governmental Accounting Standards Board Statement No. 25. The Plan (deficit) above will not equal the Plan surplus (deficit) denoted on page 21, which is based on assets valued at actual market value.

Some of the more significant actuarial assumptions used in the valuations were:

Mortality:

1983 Group Annuity Mortality Table, sex distinct.

Disabled Mortality:

1992 Railroad Retirement Board's Disabled Annuitant's Mortality Table.

Retirement age assumptions:

Assume all employees, except emergency medical technicians, retire by age 63 (mandatory retirement age as enacted by the City of Chicago in 2000). Emergency medical technicians are assumed to retire by age 65.

Investment rate of return:

8% per year for pensions, which contains a 3.5% inflation assumption and a 4.5% real rate of return assumption. 4.5% per year for the health insurance supplement with the rate effective as of December 31, 2005.

Salary increase:

4% per year, plus an additional percentage related to service and promotion.

NOTE 9. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

Health insurance supplement:

Assume for valuation purposes that the current health insurance supplement will continue for life for all employee annuitants (and their future widows). The amount of the Plan paid health insurance after June 30, 2008 is \$95 per month (\$85 per month prior to June 30, 2008) for each annuitant (employees and widows) not qualified to receive Medicare benefits and \$65 per month (\$55 per month prior to June 30, 2008) if qualified. Assume that all annuitants age 65 and over will be eligible for Medicare and all annuitants less than age 65 will not be eligible for Medicare. Assume future widows of retirees to be eligible for Medicare as well as widow annuitants who are currently receiving a health insurance supplement.

A Schedule of Funding Progress is located in the Required Supplementary Information on page 28. This schedule provides information about progress made in accumulating sufficient assets to pay benefits when due.

NOTE 10. EMPLOYER CONTRIBUTIONS (TAXES) RECEIVABLE - NET

Employer contribution receivable at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Property taxes	\$ 71,461,615	\$ 75,967,934
Personal property replacement taxes	22,106,139	11,926,398
Less allowance for uncollectible accounts	<u>(7,324,256)</u>	<u>(6,842,944)</u>
Total	<u>\$ 86,243,498</u>	<u>\$ 81,051,388</u>

NOTE 11. ANNUITANT HEALTH INSURANCE

The Plan and the City of Chicago share in the cost of providing health care coverage to the annuitants or their surviving spouses who elect to participate in the City of Chicago Annuitant Medical Benefits Program. The Plan, in accordance with State Statutes, subsidizes the cost of monthly group health care premiums up to \$85 per month for non-Medicare recipients and \$55 per month for Medicare recipients. As of June 1, 2008, the cost of monthly group health care premiums increased to \$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. At December 31, 2008 and 2007, the number of annuitants or surviving spouses whose cost to participate in the Program was subsidized totaled 3,179 and 3,155 respectively. The Plan's share of the Program cost subsidy for 2008 and 2007 was \$2,486,950 and \$2,248,156 respectively.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

The Plan, as an employer, contributes premiums for health and dental insurance for three retired employees. The Plan's contribution towards insurance premiums for 2008 and 2007 was \$16,500 and \$15,700 respectively.

NOTE 13. RELATED PARTY TRANSACTIONS

At December 31, 2008 and 2007, the Plan held investments with a total fair value of approximately \$32,590,000 and \$32,510,000 respectively, in its investment managers.

The Plan has allowed the Ende, Menzer, Walsh & Quinn Retirees', Widows' and Children's Assistance Fund (Corporation) to utilize the facilities and equipment to accommodate the once a year distribution to widows and orphans in December at no additional expense to the Plan. This distribution by the Corporation, to the widows and orphans, had been handled by the Plan.

Two of the Firemen's Annuity and Benefit Fund of Chicago directors are also trustees of the Ende, Menzer, Walsh & Quinn Retirees', Widows' and Children's Assistance Fund, and the Executive Director of the Firemen's Annuity and Benefit Fund of Chicago serves as another director of Ende, Menzer, Walsh & Quinn Retirees', Widows' and Children's Assistance Fund.

During the year ended December 31, 2008 and 2007, the Firemen's Annuity and Benefit Fund of Chicago contributed \$693,000 and \$419,500, respectively, to the Ende, Menzer, Walsh & Quinn Retirees', Widows' and Children's Assistance Fund from the balances in the gift reserve account as allowed under the discretionary authority granted by 40ILCS Act 5, Article 6-202 to render financial assistance to qualified widows and children annuitants of the participants of the Firemen's Annuity and Benefit Fund of Chicago.

NOTE 14. LEASE AGREEMENTS

The Plan leases office facilities with lease payments subject to an escalation clause for increases in real estate taxes and maintenance charges. The lease runs through March 2020.

During 2006, the Plan entered into a noncancellable operating lease for office space for disaster recovery at an offsite facility which is subject to an escalation clause for increases in real estate taxes and maintenance charges. The lease runs through September 2016.

Rental expense for 2008 and 2007 was \$189,602 and \$189,801 respectively.

NOTE 14. LEASE AGREEMENTS (CONTINUED)

Future minimum rental payments required under the noncancellable operating leases are as follows:

Year ending December 31,	
2009	\$ 137,162
2010	144,461
2011	149,847
2012	155,279
2013	160,756
2014 through 2018	751,450
2019 through 2020	<u>164,409</u>
Total	<u>\$ 1,663,364</u>

NOTE 15. COMMITMENT

As of December 31, 2008, the Plan had a total capital commitment to nine limited partnership agreements totaling \$48,000,000. As of December 31, 2008, \$26,659,743 has been invested, leaving a commitment of \$21,340,257.

NOTE 16. LITIGATION

The Plan is involved in on-going litigations pertaining to the potential eligibility for and the effective beginning date of higher "duty death widow" benefits to a fixed number of current widow annuitants. If determined adversely to the Plan's position the potential increase to future Fund liabilities, including retro-active payments and future benefit payments to be paid over the lifetime of eligible widows may exceed \$10,000,000. The Plan continues to vigorously defend against these cases and cannot adequately assess the outcome of these matters. Legal counsel is unable to quantify the economic impact to the Plan if these, and all future widows similarly situated, are found to be entitled to the higher "duty death widow" benefits.

REQUIRED SUPPLEMENTARY INFORMATION

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

<u>Year Ended</u> <u>December 31,</u>	<u>Actuarial</u> <u>Value of Assets</u> <u>(a)</u>	<u>Actuarial Accrued</u> <u>Liability (AAL)</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL (UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>(b-a)/(c)</u>
<i>Pension Benefits</i>						
2003 (1)	\$ 1,194,007,767	\$ 2,517,268,107	\$ 1,323,260,340	47.43%	\$ 335,170,501	394.80%
2004	\$ 1,182,578,954	\$ 2,793,524,355	\$ 1,610,945,401	42.33%	\$ 334,423,753	481.71%
2005	\$ 1,203,654,052	\$ 2,882,935,717	\$ 1,679,281,665	41.75%	\$ 341,252,492	492.09%
2006	\$ 1,264,497,434	\$ 3,088,124,064	\$ 1,823,626,630	40.95%	\$ 387,442,074	470.68%
2007	\$ 1,374,960,353	\$ 3,215,874,182	\$ 1,840,913,829	42.76%	\$ 389,124,547	473.09%
2008	\$ 1,335,695,474	\$ 3,311,268,993	\$ 1,975,573,519	40.34%	\$ 396,181,778	498.65%
<i>Health Insurance Supplement</i>						
2005	\$ -	\$ 44,237,156	\$ 44,237,156	0.00%	\$ 341,252,492	12.96%
2006	\$ -	\$ 45,017,463	\$ 45,017,463	0.00%	\$ 387,442,074	11.62%
2007	\$ -	\$ 47,096,707	\$ 47,096,707	0.00%	\$ 389,124,547	12.10%
2008	\$ -	\$ 47,309,338	\$ 47,309,338	0.00%	\$ 396,181,778	11.94%
<i>Total</i>						
2003 (1)	\$ 1,194,007,767	\$ 2,517,268,107	\$ 1,323,260,340	47.43%	\$ 335,170,501	394.80%
2004	\$ 1,182,578,954	\$ 2,793,524,355	\$ 1,610,945,401	42.33%	\$ 334,423,753	481.71%
2005	\$ 1,203,654,052	\$ 2,927,172,873	\$ 1,723,518,821	41.12%	\$ 341,252,492	505.06%
2006	\$ 1,264,497,434	\$ 3,133,141,527	\$ 1,868,644,093	40.36%	\$ 387,442,074	482.30%
2007	\$ 1,374,960,353	\$ 3,262,970,889	\$ 1,888,010,536	42.14%	\$ 389,124,547	485.19%
2008	\$ 1,335,695,474	\$ 3,358,578,331	\$ 2,022,882,857	39.77%	\$ 396,181,778	510.59%

(1) = Change in actuarial assumptions.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u> <u>December 31,</u>	<u>Annual</u> <u>Required</u> <u>Contribution (1)</u> <u>(ARC) (a)</u>	<u>Actual</u> <u>Employer</u> <u>Contribution</u> <u>(b)</u>	<u>Percent of</u> <u>ARC</u> <u>Contributed</u> <u>(b/a)</u>
<i>Pension Benefits</i>			
2003	\$ 111,079,054	\$ 60,234,206	54.23%
2004	\$ 134,762,334	\$ 55,532,454	41.21%
2005	\$ 161,696,388	\$ 90,128,915	55.74%
2006	\$ 160,246,525	\$ 76,763,308	47.90%
2007	\$ 188,201,379	\$ 72,022,810	38.27%
2008	\$ 189,940,561	\$ 81,257,754	42.78%
<i>Health Insurance Supplement</i>			
2005	\$ -	\$ -	0.00%
2006	\$ 4,075,175	\$ 2,208,075	54.18%
2007	\$ 4,176,767	\$ 2,248,156	53.83%
2008	\$ 4,307,852	\$ 2,486,950	57.73%
<i>Total</i>			
2003	\$ 111,079,054	\$ 60,234,206	54.23%
2004	\$ 134,762,334	\$ 55,532,454	41.21%
2005	\$ 161,696,388	\$ 90,128,915	55.74%
2006	\$ 164,321,700	\$ 78,971,383	48.06%
2007	\$ 192,378,146	\$ 74,270,966	38.61%
2008	\$ 194,248,413	\$ 83,744,704	43.11%

(1) Annual Required Contribution (ARC) - This is the actuarially determined amount needed to finance all benefits.

**NOTES TO SCHEDULE OF FUNDING PROGRESS AND
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

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

Valuation date	December 31, 2008
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Amortization period	30 years
Actuarial value of assets	Pension - Five Year Smoothed Market Health Insurance Supplement - No Assets (Pay-As-You-Go)
Actuarial assumptions:	
Investment rate of return	Pension - 8% Health insurance supplement - 4.5%
Projected salary increase	4% per year, plus an additional percentage related to service and promotion
Postretirement increases	1.5% simple interest for 20 years for members born in or after 1955 3% simple interest for life for members born before 1955

ADDITIONAL INFORMATION

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

ADDITIONAL INFORMATION

ADDITIONS BY SOURCE

<u>Year Ended December 31.</u>	<u>Employer Contributions</u>	<u>Employer Contributions as a Percentage of Payroll</u>	<u>Plan Member Contributions</u>	<u>Net Investment and Net Securities Lending Income (Loss) (1)</u>	<u>Other</u>	<u>Total Additions</u>
2003	\$ 60,234,206	17.97%	\$ 42,665,388	\$ 249,995,138	\$ 83,850	\$ 352,978,582
2004	\$ 55,532,454	16.61%	\$ 37,734,425	\$ 139,496,742	\$ 24,322,475 (2)	\$ 257,086,096
2005	\$ 90,128,915	26.41%	\$ 35,696,863	\$ 112,016,356	\$ 456,518	\$ 238,298,652
2006	\$ 78,971,383	20.38%	\$ 44,221,869	\$ 174,406,652	\$ 88,210	\$ 297,688,114
2007	\$ 74,270,966	19.09%	\$ 41,120,231	\$ 148,806,209	\$ 161,666	\$ 264,359,072
2008	\$ 83,744,704	21.14%	\$ 40,479,884	\$ (484,093,138)	\$ 107,321	\$(359,761,229)

(1) Net investment and securities lending income includes net appreciation (depreciation) in fair value of investments, which includes unrealized gains and (losses) on investments held as well as realized gains and (losses) on investments sold.

(2) Includes payment of \$24,201,945 from Municipal Employees' Annuity and Benefit Fund of Chicago.

DEDUCTIONS BY TYPE

<u>Year Ended December 31.</u>	<u>Pension Benefits</u>	<u>Health Insurance</u>	<u>Refunds</u>	<u>Administrative Expenses</u>	<u>Total Deductions</u>
2003	\$ 145,811,829	\$ 2,001,403	\$ 1,360,018	\$ 2,046,754	\$151,220,004
2004	\$ 154,171,122	\$ 2,184,105	\$ 2,017,047	\$ 2,096,598	\$160,468,872
2005	\$ 163,871,251	\$ 2,187,458	\$ 1,469,848	\$ 2,290,371	\$169,818,928
2006	\$ 174,387,363	\$ 2,208,075	\$ 1,619,107	\$ 2,646,739	\$180,861,284
2007	\$ 179,350,432	\$ 2,248,156	\$ 1,706,383	\$ 3,084,127	\$186,389,098
2008	\$ 187,496,591	\$ 2,486,950	\$ 2,659,788	\$ 2,856,307	\$195,499,636

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

SCHEDULES OF ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
PERSONNEL SERVICES		
Office salaries	\$ 1,354,626	\$ 1,257,734
Employee benefits	<u>260,800</u>	<u>280,085</u>
Total personnel services	<u>1,615,426</u>	<u>1,537,819</u>
TRUSTEE AND STAFF EDUCATION/TRAINING	<u>23,935</u>	<u>15,151</u>
PROFESSIONAL SERVICES		
Accounting	7,600	25,338
Actuarial	80,799	82,584
Audit	30,500	29,500
Computer consulting	18,361	17,000
Medical	116,714	129,865
Legal	319,142	356,884
Payroll administration	<u>5,588</u>	<u>6,462</u>
Total professional services	<u>578,704</u>	<u>647,633</u>
MISCELLANEOUS		
Litigation settlement	16,750	106,598
Rent	189,602	189,801
Disaster recovery	21,739	17,144
Insurance and surety bond	172,160	183,795
Utilities	21,563	18,270
Equipment and maintenance	24,763	107,129
Printing and postage	80,602	124,726
Office supplies	27,308	21,586
General and administrative	21,570	20,799
Other	<u>62,185</u>	<u>93,676</u>
Total miscellaneous	<u>638,242</u>	<u>883,524</u>
Total administrative expenses	<u>\$ 2,856,307</u>	<u>\$ 3,084,127</u>

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

SCHEDULES OF INVESTMENT EXPENSES

YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
INVESTMENT MANAGEMENT		
BA Partners (Private Equity)	\$ 201,417	\$ 105,000
Brandes Investment Management	410,471	564,111
Chicago Equity Partners	160,063	192,048
Citigroup Property (Private Equity)	179,681	229,257
Credit Suisse Asset Management	41,900	39,753
Earnest Partners LLC	149,933	146,867
Evergreen	111,768	-
Globeflex Capital	481,220	572,697
Husic Capital Management	348,145	459,422
ICON Advisors	218,559	275,850
Keeley Asset Management	318,050	402,253
Logan Capital Investment	224,283	270,514
Loomis, Sayles & Company	335,618	356,534
LSV Asset Management	383,850	528,884
Marvin Palmer & Associates	318,936	362,474
Mesirow Financial Corp.	179,378	429,487
Mueller & Monroe (Private Equity)	32,325	37,867
Navellier & Associates	83,384	193,267
Neuberger & Berman	823,770	853,490
Northern Trust Quantitative Advisors	-	8,539
Rhumblin	33,459	39,488
The Boston Company	244,726	276,277
Western Asset Management	255,880	264,608
William Blair & Company	<u>293,279</u>	<u>414,118</u>
	5,830,095	7,022,805
CUSTODIAL BANKING		
The Northern Trust Company	641,867	301,896
INVESTMENT EVALUATION		
Mercer Investment Consulting	<u>275,000</u>	<u>212,500</u>
Total investment expenses	<u>\$ 6,746,962</u>	<u>\$ 7,537,201</u>

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

ADDITIONAL INFORMATION

EMPLOYEE/SPOUSE ANNUITIES

<u>Year</u>	<u>Employee</u>		<u>Widow/Widower (Including Parent)</u>	
	<u>Number of Annuitants</u>	<u>Average Annuity</u>	<u>Number of Annuitants</u>	<u>Average Annuity</u>
2003	2,412	\$ 42,131	1,323	\$ 13,220
2004	2,441	\$ 45,675	1,353	\$ 14,263
2005	2,442	\$ 47,917	1,331	\$ 15,388
2006	2,459	\$ 50,171	1,323	\$ 15,966
2007	2,488	\$ 52,446	1,300	\$ 16,365
2008	2,471	\$ 54,492	1,307	\$ 16,598

EMPLOYEE RETIREMENTS

<u>Year</u>	<u>Average Age at Retirement</u>	<u>Average Years of Service</u>	<u>Average Salary</u>	<u>Number of Retirements</u>
2003	60.2	31.7	\$ 71,176	134
2004	60.0	32.1	\$ 82,735	147
2005	59.2	31.4	\$ 81,747	126
2006	57.7	30.1	\$ 85,115	123
2007	58.1	30.0	\$ 89,621	126
2008	57.4	29.6	\$ 88,841	109

AGE AND SERVICE DISTRIBUTION

<u>Year</u>	<u>Number of Actives</u>	<u>Average Salary</u>	<u>Average Age</u>	<u>Average Service</u>
2003	4,909	\$ 68,277	43.5	15.0
2004	4,856	\$ 68,868	44.0	15.2
2005	4,999	\$ 68,264	44.0	15.0
2006	5,078	\$ 76,298	44.4	15.0
2007	4,938	\$ 78,753	45.1	15.6
2008	5,037	\$ 78,654	45.0	15.5

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

ADDITIONAL INFORMATION

PARTICIPANT DATA

	<u>2008</u>	<u>2007</u>
ACTIVE MEMBERS		
Number	<u>5,037</u>	<u>4,938</u>
Annual payroll	<u>\$ 396,181,778</u>	<u>\$ 389,124,547</u>
Average salary	<u>\$ 78,654</u>	<u>\$ 78,753</u>
Average age	<u>45.0</u>	<u>45.1</u>
Average service	<u>15.5</u>	<u>15.6</u>
ANNUITANTS AND BENEFICIARIES		
Retired employees	2,471	2,488
Spouse, parent and widow annuitants	1,415	1,414
Children and dependents	98	105
Duty disabilities	269	266
Occupational disabilities	124	114
Ordinary disabilities	<u>4</u>	<u>4</u>
Total annuitants and beneficiaries	<u>4,381</u>	<u>4,391</u>
TOTAL BENEFITS	<u>\$ 187,496,591</u>	<u>\$ 179,350,432</u>