

**FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO  
(A COMPONENT UNIT OF THE CITY OF CHICAGO, ILLINOIS)**

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**  
FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015 AND 2014

**CONTENTS**

	PAGE
Report of Independent Auditors	1
Management's Discussion and Analysis (Unaudited)	4 - 4e
Basic Financial Statements	
Combining Statements of Pension Plan Fiduciary Net Position and Health Insurance Supplement Plan Net Position	5
Combining Statements of Changes in Pension Plan Fiduciary Net Position and Health Insurance Supplement Plan Net Position	6
Notes to Financial Statements	8
Required Supplementary Information - Pension	
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios	32
Schedule of Employer Contributions	33
Schedule of Investment Returns	34
Required Supplementary Information - Health Insurance Supplement	
Schedule of Funding Progress	35
Schedule of Employer Contributions	36
Notes to Schedule of Funding Progress and Schedule of Employer Contributions	37

**FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**  
FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2015 AND 2014

**CONTENTS**

	PAGE
Supplementary Information	
Schedules of Administrative Expenses	38
Schedules of Investment Expenses	39
Additions by Source	40
Deductions by Type	40

**REPORT OF INDEPENDENT AUDITORS**

To the Board of Trustees of  
Firemen's Annuity and Benefit  
Fund of Chicago

***Report on the Financial Statements***

We have audited the accompanying financial statements of Firemen's Annuity and Benefit Fund of Chicago (the Plan), a component unit of the City of Chicago, Illinois, which comprise the combining statements of pension plan fiduciary net position and health insurance supplement plan net position as of December 31, 2015 and 2014, and the related combining statements of changes in pension plan fiduciary net position and health insurance supplement plan 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 for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 in the first paragraph present fairly, in all material respects, the plan net position of Firemen's Annuity and Benefit Fund of Chicago as of December 31, 2015 and 2014, and the changes in plan net position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 15 to the financial statements, on May 30, 2016, Public Act 99-0506 (the Act) was enacted into law amending sections of the Illinois Pension Code relating to the City of Chicago (the City), Illinois' contributions to the Plan beginning with the Plan's year ended December 31, 2015. The Act specifies the amounts the City is to pay the Plan beginning with the Plan's year ended December 31, 2015 and extends the target date of achieving a 90% funding level from 2040 to 2055. The effects of the Act on the employer contributions, employer contributions receivable, and actuarially determined employer's net pension liability are not reflected in these financial statements. As a result, approximately \$47,000,000 of employer contributions receivable at December 31, 2015 will not be received in 2016. The Plan's actuary has yet to complete an impact study to determine the increase in the employer's net pension liability at December 31, 2015 as a result of Public Act 99-0506.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 4e and the required supplementary information on pages 32 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Matters (continued)***

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the Plan's basic financial statements as a whole. The accompanying supplementary information on pages 38 through 40 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

***Previously Audited Information***

We also have previously audited the basic financial statements for the years ended December 31, 2013, 2012, 2011, and 2010 (which are not presented herein), and we expressed unmodified opinions on those financial statements. In our opinion, the information on page 40 is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

*Legacy Professionals LLP*

Chicago, Illinois

June 22, 2016

# FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2015 AND 2014

This section presents Management's Discussion and Analysis of the financial position and performance of the Firemen's Annuity and Benefit Fund of Chicago (the Plan) as of and for the year ended December 31, 2015 and 2014. This discussion is presented as an overview of the financial activities of the Plan and should be read in conjunction with the Plan's financial statements.

### Overview of the Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The financial statements are prepared on an economic sources focus and accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) pronouncements. The basic components of the financial package are described below:

**Combining Statements of Pension Plan Fiduciary Net Position and Health Insurance Supplement Plan Net Position** provides a snapshot of account balances and net position held in trust for future benefit payments and any liabilities as of the Plan's year end. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Plan is improving or deteriorating.

**Combining Statements of Changes in Pension Plan Fiduciary Net Position and Health Insurance Supplement Plan Net Position** shows the revenues (additions) and expenses (deductions) during the year, where additions less deductions equal net increase (decrease) in net position. The net increase (decrease) in net position reports the change in net position as reported in the combining Statements of Changes in Pension Plan Fiduciary Net Position and Health Insurance Supplement Plan Net Position of the prior year and the current year.

**Notes to the Financial Statements** provides additional information that is essential to achieving a better understanding of the data provided in the basic financial statements.

**Required Supplementary Information** provides schedules and related notes concerning actuarial information, funding progress, employer contributions, and investment returns.

**Supplementary Information** includes schedules of administrative expenses, investment expenses, additions by source, and deductions by type.

## Financial Highlights

### Plan Net Position

The condensed Combining Statements of Pension Plan Fiduciary Net Position and Health Insurance Supplement Plan Net Position reflect the resources available to pay benefits to members. A summary of the Combining Statements of Pension Plan Fiduciary Net Position and Health Insurance Supplement Plan Net Position is as follows:

	Plan Net Position As of December 31,			Current Year Increase/(Decrease) in	
	2015	2014	2013	Dollars	Percent
<b>Assets:</b>					
Receivables	\$ 245,450,243	\$ 116,531,262	\$ 113,622,242	\$ 128,918,981	110.6 %
Prepaid expenses	173,206	137,990	119,151	35,216	25.5 %
Investments, at fair value	802,505,864	922,505,115	1,007,046,152	(119,999,251)	-13.0 %
Collateral held for securities on loan	140,197,357	160,968,881	168,963,442	(20,771,524)	-12.9 %
Total assets	<u>1,188,326,670</u>	<u>1,200,143,248</u>	<u>1,289,750,987</u>	<u>(11,816,578)</u>	-1.0 %
<b>Liabilities:</b>					
Payables	3,028,220	3,165,966	4,082,688	(137,746)	-4.4%
Securities lending collateral	140,197,357	160,968,881	168,963,442	(20,771,524)	-12.9 %
Total liabilities	<u>143,225,577</u>	<u>164,134,847</u>	<u>173,046,130</u>	<u>(20,909,270)</u>	-12.7 %
Plan net position	<u>\$ 1,045,101,093</u>	<u>\$ 1,036,008,401</u>	<u>\$ 1,116,704,857</u>	<u>\$ 9,092,692</u>	0.9 %

Plan net position increased by \$9,092,692 or 0.9% from \$1,036,008,401 at December 31, 2014 to \$1,045,101,093 at December 31, 2015. Comparatively, plan net position decreased by \$80,696,456 or 7.2% from \$1,116,704,857 at December 31, 2013 to \$1,036,008,401 at December 31, 2014.

The increase in plan net position for the year ended December 31, 2015 was primarily due to a significant increase in employer contributions of 117.2% for the year ended December 31, 2015. Overall growth of plan net position was significantly offset by the liquidation of marketable securities to meet monthly benefit obligations.

The decrease in plan net position for the year ended December 31, 2014 was primarily due to employer contributions and investment returns not exceeding benefit payments. Overall reduction of plan net position was significantly impacted by the liquidation of marketable securities to meet monthly benefit obligations.



## Changes in Plan Net Position

The condensed Combining Statements of Changes in Pension Plan Fiduciary Net Position and Health Insurance Supplement Plan Net Position reflects the changes in the resources available to pay benefits to members. A summary of the Combining Statements of Changes in Pension Plan Fiduciary Net Position and Health Insurance Supplement Plan Net Position is as follows:

### Changes in Plan Net Position For the Years Ended December 31,

	<u>2015</u>	<u>2014</u>	<u>2013</u>	Current Year	
				<u>Increase/(Decrease) in Dollars</u>	<u>Percent</u>
<b>Additions:</b>					
Employer contributions	\$ 238,485,820	\$ 109,805,454	\$ 106,219,800	\$ 128,680,366	117.2 %
Plan member contributions	46,552,247	48,056,393	42,520,218	(1,504,146)	-3.1 %
Net investment income (loss)	(873,305)	30,179,163	189,895,723	(31,052,468)	-102.9 %
Net securities lending income	526,419	684,725	637,157	(158,306)	-23.1 %
Other	<u>7,949,589</u>	<u>11,394</u>	<u>(57,079)</u>	<u>7,938,195</u>	N/R
Total additions	<u>292,640,770</u>	<u>188,737,129</u>	<u>339,215,819</u>	<u>103,903,641</u>	55.1 %
<b>Deductions:</b>					
Benefits	274,459,754	261,571,672	247,057,741	12,888,082	4.9 %
Administrative expenses	3,149,549	3,066,946	3,101,827	82,603	2.7 %
Annuitant health care	2,381,458	2,471,055	2,550,785	(89,597)	-3.6%
Litigation settlement	-	2,246	13,291	(2,246)	N/R
Refunds of contributions	<u>3,557,317</u>	<u>2,321,666</u>	<u>2,210,116</u>	<u>1,235,651</u>	53.2 %
Total deductions	<u>283,548,078</u>	<u>269,433,585</u>	<u>254,933,760</u>	<u>14,114,493</u>	5.2 %
Net increase (decrease) in plan net position	<u>\$ 9,092,692</u>	<u>\$ (80,696,456)</u>	<u>\$ 84,282,059</u>	<u>\$ 89,789,148</u>	111.3 %

N/R = Not relevant

### Additions to Plan Net Position

Total additions were \$292,640,770 in 2015, \$188,737,129 in 2014 and \$339,215,819 in 2013.

Employer contributions increased by \$128,680,366 or 117.2% from \$109,805,454 for the year ended December 31, 2014 to \$238,485,820 for the year ended December 31, 2015. Comparatively, employer contributions increased by \$3,585,654 or 3.4% from \$106,219,800 for the year ended December 31, 2013 to \$109,805,454 for the year ended December 31, 2014. During the year ended December 31, 2015, the Plan recognized an increase in employer contributions of approximately 117.2% as a result of the implementation of Public Act 96-1495 that requires the employer to contribute the actuarially determined contribution.

## Additions to Plan Net Position (continued)

Plan member contributions decreased by \$1,504,146 or 3.1% from \$48,056,393 for the year ended December 31, 2014 to \$46,552,247 for the year ended December 31, 2015.

Comparatively, plan member contributions increased by \$5,536,175 or 13.0% from \$42,520,218 for the year ended December 31, 2013 to \$48,056,393 for the year ended December 31, 2014.

Plan member contributions for the year ended December 31, 2015 decreased as a result of approximately \$3.3 million in retroactive member contributions received during the year ended December 31, 2014. There were no retroactive member contributions during the year ended December 31, 2015 or the year ended December 31, 2013.

Net investment income decreased by \$31,052,468 or 102.9% from \$30,179,163 for the year ended December 31, 2014 to (\$873,305) for the year ended December 31, 2015. Comparatively, net investment income decreased by \$159,716,560 or 84.1% from \$189,895,723 for the year ended December 31, 2013 to \$30,179,163 for the year ended December 31, 2014. The 2015 calendar year will be remembered for the long-awaited first Federal Reserve interest rate hike in nine years, as well as a year of disappointing returns across all asset classes, with plunging commodity and oil prices and uncertainty over the pace of China's slowdown. Painfully, no year since 1990 has seen more negative returns across equity, fixed income, and commodity prices. While losses in 2008 were sharper, losses in 2015 were more broad-based. Despite the poor investment results, the U.S. economy remained a relative bright spot in the global economy. The Plan's realized return on investments for the year ended December 31, 2015 was 0.4% versus 3.9% for the year ended December 31, 2014 and 22.0% for the year ended December 31, 2013. Over the previous twenty years, the Plan's annual return is 8.0% which is 0.5% above the actuarial assumed expected rate of return of 7.5%.

### Portfolio Rate of Return For the Years Ended December 31,

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Domestic Equities	1.3%	8.0%	36.2%
S&P 500 Benchmark	1.4%	13.7%	32.4%
International Equities	0.3%	-3.7%	23.2%
MS World Ex US	-2.6%	-3.9%	21.6%
Fixed income	-0.3%	6.7%	1.3%
Barclays Aggregate Benchmark	0.6%	6.0%	-2.0%
Total Plan	0.4%	3.9%	22.0%

## Additions to Plan Net Position (continued)

Other additions increased by \$7,938,195 from \$11,394 for the year ended December 31, 2014 to \$7,949,589 for the year ended December 31, 2015. Comparatively, other additions increased by \$68,473 or 120.0% from (\$57,079) for the year ended December 31, 2013 to \$11,394 for the year ended December 31, 2014. Other additions for the year ended December 31, 2015 include a one time receipt of interest from the Lewis litigation settlement of approximately \$7.9 million.

## Deductions to Plan Net Position

Total deductions were \$283,548,078 in 2015, \$269,433,585 in 2014 and \$254,933,760 in 2013.

Benefits increased by \$12,888,082 or 4.9% from \$261,571,672 for the year ended December 31, 2014 to \$274,459,754 for the year ended December 31, 2015. Comparatively, benefits increased by \$14,513,931 or 5.9% from \$247,057,741 for the year ended December 31, 2013 to \$261,571,672 for the year ended December 31, 2014. In recent times, benefits have increased yearly due to several factors; a contractual free healthcare incentive which has added annuitants above the expected number, cost of living increases, and new annuitants coming on the pension roll at higher rates than the annuitants that are being removed from the pension roll.

Administrative expenses, annuitant health care, litigation settlement and refunds of contributions have all remained at relatively constant amounts over the last three years.

## Actuarial Information

### Pension Benefits

The Plan's funding for pension benefits as of December 31, 2015, 2014 and 2013 is as follows:

	<b>Funding for Pension Benefits For the Years Ended December 31,</b>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total pension liability	\$ 4,826,084,038	\$ 4,512,760,079	\$ 4,278,212,172
Plan fiduciary net position	<u>1,045,101,093</u>	<u>1,036,008,401</u>	<u>1,116,704,857</u>
Employer's net pension liability	<u>\$ 3,780,982,945</u>	<u>\$ 3,476,751,678</u>	<u>\$ 3,161,507,315</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>21.66%</u>	<u>22.96%</u>	<u>26.10%</u>

As discussed in Note 15, the actuarial valuation is based on statutes in effect as of December 31, 2015 and does not consider the impact of Public Act 99-0506 which was passed on May 30, 2016.

## Actuarial Information (continued)

### Postemployment Healthcare Benefits

The Plan's funding for postemployment healthcare benefits as of December 31, 2015, 2014 and 2013 is as follows:

#### Funding for Health Insurance Supplement For the Years Ended December 31,

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Unfunded actuarial accrued liability	<u>\$ 2,398,609</u>	<u>\$ 4,994,927</u>	<u>\$ 7,691,833</u>
Funded ratio	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>

Contributions for postemployment healthcare benefits are made on a "pay-as-you-go" basis resulting in a 0.00% funded ratio. Public Act 98-0043, effective June 29, 2013, terminates the retiree healthcare subsidy paid by the Plan after December 31, 2016.

### 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, 2015. Comments, questions or concerns regarding this report or requests for additional information should be addressed to:

Kenneth Kaczmarz  
Executive Director  
Firemen's Annuity and Benefit Fund of Chicago  
20 S. Clark Street  
Suite 1400  
Chicago, IL 60603

**FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**

**COMBINING STATEMENTS OF PENSION PLAN FIDUCIARY NET POSITION AND HEALTH INSURANCE SUPPLEMENT PLAN NET POSITION**

DECEMBER 31, 2015 AND 2014

	2015			2014		
	Total	Pension	Health Insurance Supplement	Total	Pension	Health Insurance Supplement
<b>ASSETS</b>						
Receivables						
Employer contributions - net	\$ 239,326,404	\$ 239,326,404	\$ -	\$ 110,864,400	\$ 110,864,400	\$ -
Investment income	2,502,243	2,502,243	-	2,625,326	2,625,326	-
Other	2,208,616	2,208,616	-	2,181,197	2,181,197	-
Securities lending	47,550	47,550	-	76,313	76,313	-
Unsettled trades	1,365,430	1,365,430	-	784,026	784,026	-
Total receivables	<u>245,450,243</u>	<u>245,450,243</u>	<u>-</u>	<u>116,531,262</u>	<u>116,531,262</u>	<u>-</u>
Prepaid expenses	<u>173,206</u>	<u>173,206</u>	<u>-</u>	<u>137,990</u>	<u>137,990</u>	<u>-</u>
Investments						
Cash deposits and short-term investments	66,939,944	66,939,944	-	48,055,082	48,055,082	-
Corporate bonds	107,812,011	107,812,011	-	111,583,549	111,583,549	-
Equities	517,424,574	517,424,574	-	634,792,663	634,792,663	-
Pooled funds	27,476,898	27,476,898	-	33,385,429	33,385,429	-
Private equity and venture capital	27,282,995	27,282,995	-	34,370,196	34,370,196	-
U.S. and Foreign Government obligations	55,569,442	55,569,442	-	60,318,196	60,318,196	-
Total investments	<u>802,505,864</u>	<u>802,505,864</u>	<u>-</u>	<u>922,505,115</u>	<u>922,505,115</u>	<u>-</u>
Collateral held for securities on loan	<u>140,197,357</u>	<u>140,197,357</u>	<u>-</u>	<u>160,968,881</u>	<u>160,968,881</u>	<u>-</u>
Total assets	<u>1,188,326,670</u>	<u>1,188,326,670</u>	<u>-</u>	<u>1,200,143,248</u>	<u>1,200,143,248</u>	<u>-</u>
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	1,092,789	1,092,789	-	1,264,845	1,264,845	-
Participant accounts	557,734	557,734	-	557,734	557,734	-
Securities lending collateral	140,197,357	140,197,357	-	160,968,881	160,968,881	-
Securities lending	11,853	11,853	-	19,049	19,049	-
Unsettled trades	1,365,844	1,365,844	-	1,324,338	1,324,338	-
Total liabilities	<u>143,225,577</u>	<u>143,225,577</u>	<u>-</u>	<u>164,134,847</u>	<u>164,134,847</u>	<u>-</u>
<b>NET POSITION</b>						
Net position restricted for pensions	1,045,101,093	1,045,101,093	-	1,036,008,401	1,036,008,401	-
Net position held in trust for health insurance supplement benefits	-	-	-	-	-	-
	<u>\$ 1,045,101,093</u>	<u>\$ 1,045,101,093</u>	<u>\$ -</u>	<u>\$ 1,036,008,401</u>	<u>\$ 1,036,008,401</u>	<u>\$ -</u>

See accompanying notes to financial statements.

## FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

## COMBINING STATEMENTS OF CHANGES IN PENSION PLAN FIDUCIARY NET POSITION AND HEALTH INSURANCE SUPPLEMENT PLAN NET POSITION

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			2014		
	<u>Total</u>	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>	<u>Pension</u>	<u>Health Insurance Supplement</u>
ADDITIONS						
Contributions						
Employer contributions	\$ 238,485,820	\$ 236,104,362	\$ 2,381,458	\$ 109,805,454	\$ 107,334,399	\$ 2,471,055
Plan member						
Annuities	46,409,238	46,409,238	-	47,918,572	47,918,572	-
Death benefits	143,009	143,009	-	137,821	137,821	-
Total plan member contributions	<u>46,552,247</u>	<u>46,552,247</u>	<u>-</u>	<u>48,056,393</u>	<u>48,056,393</u>	<u>-</u>
Investment income (loss)						
Net appreciation (depreciation) in fair value of investments	(15,720,238)	(15,720,238)	-	14,636,970	14,636,970	-
Interest	8,291,214	8,291,214	-	8,301,304	8,301,304	-
Dividends	12,015,670	12,015,670	-	13,229,540	13,229,540	-
	4,586,646	4,586,646	-	36,167,814	36,167,814	-
Less investment expenses	<u>(5,459,951)</u>	<u>(5,459,951)</u>	<u>-</u>	<u>(5,988,651)</u>	<u>(5,988,651)</u>	<u>-</u>
Net investment income (loss)	<u>(873,305)</u>	<u>(873,305)</u>	<u>-</u>	<u>30,179,163</u>	<u>30,179,163</u>	<u>-</u>
Securities lending						
Income	482,937	482,937	-	495,962	495,962	-
Borrower rebates	218,439	218,439	-	391,109	391,109	-
Management fees	<u>(174,957)</u>	<u>(174,957)</u>	<u>-</u>	<u>(202,346)</u>	<u>(202,346)</u>	<u>-</u>
Net securities lending income	<u>526,419</u>	<u>526,419</u>	<u>-</u>	<u>684,725</u>	<u>684,725</u>	<u>-</u>
Gift Fund donations	4,680	4,680	-	4,810	4,810	-
Miscellaneous income	2,461	2,461	-	2,583	2,583	-
Tax levy interest	2,599	2,599	-	4,001	4,001	-
Interest on Lewis settlement	7,939,849	7,939,849	-	-	-	-
Total additions	<u>292,640,770</u>	<u>290,259,312</u>	<u>2,381,458</u>	<u>188,737,129</u>	<u>186,266,074</u>	<u>2,471,055</u>

See accompanying notes to financial statements.

## FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

## COMBINING STATEMENTS OF CHANGES IN PENSION PLAN FIDUCIARY NET POSITION AND HEALTH INSURANCE SUPPLEMENT PLAN NET POSITION

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			2014		
	<u>Total</u>	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>	<u>Pension</u>	<u>Health Insurance Supplement</u>
DEDUCTIONS						
Benefits						
Age and service benefits						
Employees	\$ 214,127,585	\$ 214,127,585	\$ -	\$ 202,899,248	\$ 202,899,248	\$ -
Spouses	33,090,899	33,090,899	-	32,030,118	32,030,118	-
Dependents	1,034,355	1,034,355	-	884,327	884,327	-
Total age and service benefits	<u>248,252,839</u>	<u>248,252,839</u>	<u>-</u>	<u>235,813,693</u>	<u>235,813,693</u>	<u>-</u>
Disability benefits						
Duty	16,515,784	16,515,784	-	15,981,172	15,981,172	-
Occupational	8,404,918	8,404,918	-	8,393,676	8,393,676	-
Ordinary	95,813	95,813	-	81,531	81,531	-
Total disability benefits	<u>25,016,515</u>	<u>25,016,515</u>	<u>-</u>	<u>24,456,379</u>	<u>24,456,379</u>	<u>-</u>
Gift Fund payments	500,000	500,000	-	500,000	500,000	-
Death benefits	690,400	690,400	-	801,600	801,600	-
Total benefits	<u>274,459,754</u>	<u>274,459,754</u>	<u>-</u>	<u>261,571,672</u>	<u>261,571,672</u>	<u>-</u>
Administrative expenses	3,149,549	3,149,549	-	3,066,946	3,066,946	-
Annuitant health care	2,381,458	-	2,381,458	2,471,055	-	2,471,055
Litigation settlement	-	-	-	2,246	2,246	-
Refunds of contributions	3,557,317	3,557,317	-	2,321,666	2,321,666	-
Total deductions	<u>283,548,078</u>	<u>281,166,620</u>	<u>2,381,458</u>	<u>269,433,585</u>	<u>266,962,530</u>	<u>2,471,055</u>
NET INCREASE (DECREASE)	9,092,692	9,092,692	-	(80,696,456)	(80,696,456)	-
NET POSITION						
Beginning of year	<u>1,036,008,401</u>	<u>1,036,008,401</u>	<u>-</u>	<u>1,116,704,857</u>	<u>1,116,704,857</u>	<u>-</u>
End of year	<u>\$ 1,045,101,093</u>	<u>\$ 1,045,101,093</u>	<u>\$ -</u>	<u>\$ 1,036,008,401</u>	<u>\$ 1,036,008,401</u>	<u>\$ -</u>

See accompanying notes to financial statements.

# FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity** - Accounting principles generally accepted in the United States of America define a financial reporting entity as consisting of the primary government and its component units for which the primary government is financially accountable. Financial accountability includes appointing a voting majority of a component unit's governing board, the ability of a primary government to impose its will on the component unit, or a potential for a component unit to provide specific financial benefits to or impose specific financial burdens on the primary government.

Based on the above criteria, the Firemen's Annuity and Benefit Fund of Chicago (the Plan) is considered to be a component unit of the City of Chicago, Illinois (the City) and is included in the City's financial statements as a pension trust fund.

**Method of Accounting** - The financial statements are presented using the accrual basis of accounting. Employer contributions are recognized as income pursuant to legal requirements as specified by the Illinois Compiled Statutes. 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.

**Capital Assets** - The Plan has set a capitalization threshold of \$100,000 for all capital asset types. As of December 31, 2015 and 2014, the Plan does not have any capital assets.

**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.

**Subsequent Events** - Subsequent events have been evaluated through June 22, 2016, which is the date the financial statements were available to be issued.



## **NOTE 2. PLAN DESCRIPTION**

The Plan was established in 1931 and is governed by legislation contained in the Illinois Compiled Statutes (the Statutes), particularly 40 ILCS, Act 5, Article 6 (the Article), 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 established for the purpose of providing retirement and disability benefits for employees of the City of Chicago employed under the provisions of the Municipal Personnel Ordinance as fire service and for the dependents of such employees.

The Statutes authorize a Board of Trustees (the Board) 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 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 prepared by the Plan's administrative staff. 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 40 ILCS 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.

The Plan provides retirement benefits, as well as, death and disability benefits. Employees who reach compulsory retirement age of 63, except for emergency medical technicians, which is age 65, 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 years with partial City contributions to a maximum of 50%.

At age 50 or more with 10 or more but less than 20 years of service, a Tier 1 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. For Tier 2 employees, the annuity is based on an accrual rate of 2.5% reduced by one half of one percent per month for retirement prior to age 55, subject to a maximum of 75%.

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

Employees with at least 20 years of service are entitled to receive a minimum formula annuity upon attainment of age 50 for Tier 1 employees and age 55 for Tier 2 employees, 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. For Tier 1 employees, 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. For Tier 2 employees, the final average salary is based on 96 consecutive months within the last 120 months, capped at \$106,800 indexed annually at the lesser of 3% and 50% of the Consumer Price Index (CPI-U). 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%.

Participants should refer to the applicable State Statutes for more complete information.

Any employee of the City employed under the provisions of the Municipal Personnel Ordinance as fire service is covered by the Plan. At December 31, 2015 and 2014, participation in the Plan consisted of the following:

	<u>2015</u>	<u>2014</u>
Retirees and beneficiaries currently receiving benefits	4,729	4,703
Terminated plan participants entitled to but not yet receiving benefits	76	65
Active plan participants	<u>4,735</u>	<u>4,809</u>
Total participants	<u>9,540</u>	<u>9,577</u>

**NOTE 3. EMPLOYER'S PENSION LIABILITY**

**Net Pension Liability**

The components of the net pension liability of the Plan for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 4,826,084,038	\$ 4,512,760,079
Plan fiduciary net position	<u>1,045,101,093</u>	<u>1,036,008,401</u>
Employer's net pension liability	<u>\$ 3,780,982,945</u>	<u>\$ 3,476,751,678</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>21.66%</u>	<u>22.96%</u>

### NOTE 3. EMPLOYER'S PENSION LIABILITY (CONTINUED)

#### Net Pension Liability

See the Schedule of Changes in the Employer's Net Pension Liability and Related Ratios of the required supplementary information for additional information related to the funded status of the Plan.

The net pension liabilities were determined by actuarial valuations performed as of December 31, 2015 and 2014 using the following actuarial methods and assumptions:

Actuarial valuation date	December 31, 2015 and 2014
Actuarial cost method	Entry-Age Normal
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Inflation	2015 - 2.50%, 2014 - 3.00%, per year
Salary increases	2015 - 3.75%, 2014 - 4.25%, per year, plus additional service based increases
Investment rate of return	2015 - 7.50%, 2014 - 8.00%, per year
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2011, valuation pursuant to an experience study of the period January 1, 2003, through December 31, 2010
Mortality	RP-2000 Combined Health Mortality Table, sex distinct. The mortality table used is a static table and provide an estimated margin of 15 percent for future mortality improvements as of the experience study performed as of December 31, 2011.
Disabled mortality	RP-2000 Combined Health Mortality Table, sex distinct, set forward six years
Pre-retirement mortality	80 percent of the post-retirement rates
Postretirement annuity increases	Tier 1 participants - 1.50% simple interest for 20 years for members born in or after 1955, 3.00% simple interest for life for members born before 1955. Tier 2 participants - the lesser of 3.0% or one half of the increase in the Consumer Price Index

The actuarial assumptions used in the December 31, 2015 and 2014 valuations were based on the results of an actuarial experience study conducted by Gabriel Roeder Smith & Company for the period of January 1, 2003 through December 31, 2010, which was adopted and effective as of December 31, 2011.

**NOTE 3. EMPLOYER'S PENSION LIABILITY (CONTINUED)**

**Discount Rate**

The blended discount rates used to measure the total pension liability at December 31, 2015 and 2014 were 7.16% and 7.60% respectively. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that employer contributions will be made at rates as specified by the Illinois Compiled Statutes. Based on those assumptions, the Plan's fiduciary net position and future contributions are insufficient to make all projected future benefit payments of current plan members. Municipal bond rates of 3.57% and 3.56% at December 31, 2015 and 2014, respectively, and long-term investment rates of return of 7.50% and 8.00% at December 31, 2015 and 2014, respectively, were used in the development of the blended discount rates. The municipal bond rates were from the Federal Reserve statistical release (H.15) and described as Bond Buyer Index, general obligation, 20 years to maturity, mixed quality.

**Discount Rate Sensitivity**

The following is an analysis of the net pension liability's sensitivity to changes in the discount rate at December 31, 2015 and 2014. The following table presents the net pension liability of the employer using the blended discount rate as well as the employer's net pension liability calculated using a discount rate 1 percent lower and 1 percent higher than the current discount rate:

	1% Decrease <u>6.16%</u>	Current Discount Rate <u>7.16%</u>	1% Increase <u>8.16%</u>
Net Pension Liability - December 31, 2015	<u>\$ 4,311,377,843</u>	<u>\$ 3,780,982,945</u>	<u>\$ 3,329,105,704</u>

  

	1% Decrease <u>6.60%</u>	Current Discount Rate <u>7.60%</u>	1% Increase <u>8.60%</u>
Net Pension Liability - December 31, 2014	<u>\$ 3,963,802,628</u>	<u>\$ 3,476,751,678</u>	<u>\$ 3,060,756,725</u>

**Subsequent Event**

As discussed in Note 15, the actuarial valuation is based on statutes in effect as of December 31, 2015 and does not consider the impact of Public Act 99-0506 which was passed on May 30, 2016.

**NOTE 4. SUMMARY OF EMPLOYER FUNDING POLICIES**

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, for its employer portion, is required by the Statutes to contribute the remaining amounts necessary to finance the requirements of the Plan.

For the year ended December 31, 2014, the City's total contribution was 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.

Public Act 96-1495, effective as of January 1, 2011, requires that the City finance the Plan on an actuarial basis starting with the Plan year ended December 31, 2015. The funding policy requires future employer contributions, employee contributions and other income to be sufficient to produce a funding level of 90% by the year ended December 31, 2040.

Subsequent to the year ended December 31, 2015 as described in Note 15, Public Act 99-0506 specified the amounts of contributions to be paid by the City as follows:

<u>Plan year ending</u> <u>December 31,</u>	<u>Required</u> <u>Statutory</u> <u>Contribution</u>
2015	\$ 199,000,000
2016	\$ 208,000,000
2017	\$ 227,000,000
2018	\$ 235,000,000
2019	\$ 245,000,000

Beginning with the Plan year ending December 31, 2020, the City is required to fund the Plan on an actuarial basis sufficient to produce a funding level of 90% by the year ended December 31, 2055.

**NOTE 5. 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. The pension code legislation can be amended only by the Illinois Legislature.

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.

**NOTE 5. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)**

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.

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 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 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 (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.

**NOTE 5. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)**

Net position restricted for pensions as of December 31, 2015 and 2014 were comprised of the following reserve surplus (deficit) balances:

	<u>2015</u>	<u>2014</u>
Prior Service Annuity Reserve	\$ 1,985,027,095	\$ 1,901,579,646
City Contribution Reserve	818,548,960	793,701,286
Annuity Payment Reserve	993,495,418	956,431,718
Salary Deduction Reserve	674,895,147	654,502,027
Death Benefit Reserve (deficit)	(17,741,308)	(16,685,210)
Ordinary Disability Reserve	469,272	394,955
Supplementary Payment Reserve	7,933	44,310
Gift Reserve	9,098,559	7,729,076
Reserve (deficit)	<u>(3,418,699,883)</u>	<u>(3,261,689,407)</u>
Total fiduciary net position for pension benefits	<u>\$ 1,045,101,193</u>	<u>\$ 1,036,008,401</u>

**NOTE 6. INVESTMENTS****Investment Policies**

The Board of Trustees is responsible for establishing reasonable and consistent investment objectives, policies and guidelines governing the investment of Plan assets in accordance with the Illinois Compiled Statutes. 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. 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. During the years ended December 31, 2015 and 2014, there were no significant changes to the investment policies.

**NOTE 6. INVESTMENTS (CONTINUED)****Long-Term Expected Rate of Return**

The Plan's investment policies in accordance with the Illinois Compiled Statutes establish the following target allocation across asset classes:

<u>Asset Class</u>	<u>Target Allocation %</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic fixed income	21.00%	3.00%
Cash deposits & short-term investments	4.00%	2.25%
Domestic large cap equities	24.00%	7.50%
Domestic small cap equities	16.00%	7.85%
International equities	25.00%	7.50%
Private equities	3.00%	8.50%
Real estate	2.00%	6.15%
Alternative investments	2.00%	5.25%
Commodities	<u>3.00%</u>	2.75%
Total	<u>100.00%</u>	

The long-term expected real rate of return on the Plan's investments was determined using an asset allocation study conducted by the Plan's investment management consultant in September 2011 in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major assets class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation estimated at 2.25%. Best estimates or arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2015 are listed in the table above.

**Annual Money-Weighted Rate of Return**

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (0.1)% and 3.4% for the years ended December 31, 2015 and 2014, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.



## NOTE 6. INVESTMENTS (CONTINUED)

### Investment Summary

The following table presents a summarization of the fair value (carrying amount) of the Plan's investments as of December 31, 2015 and 2014. Investments that represent 5% or more of the Plan's net position are separately identified.

<u>Investments</u>	<u>2015</u>	<u>2014</u>
Cash deposits and short-term investments	\$ 66,939,944	\$ 48,055,082
Corporate bonds	107,812,011	111,583,549
Equities	517,424,574	634,792,663
Pooled funds:		
Fixed income	20,800,819	24,438,141
Equities	6,676,079	8,947,288
Private equity and venture capital	27,282,995	34,370,196
U.S. and Foreign Government obligations	<u>55,569,442</u>	<u>60,318,196</u>
Total	<u>\$ 802,505,864</u>	<u>\$ 922,505,115</u>

During 2015 and 2014, net realized gain on investments sold, reflecting the difference between the proceeds received and cost value of securities sold, was \$61,735,451 and \$74,013,652 respectively. These amounts are included in the net appreciation (depreciation) in fair value of investments as reported on the Combining Statements of Changes in Pension Plan Fiduciary Net Position and Health Insurance Supplement Plan Net Position. 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).

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 6. INVESTMENTS (CONTINUED)**

### **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, 2015 and 2014, the Plan's exposure to such risk was \$315,535 and \$1,022,694 respectively, comprised of foreign currencies held outside the custodial bank.

For investment 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 credit 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, 2015 and 2014, the Plan 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.

### **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, 2015 and 2014 of the lowest credit quality rating 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, as applicable.

**NOTE 6. INVESTMENTS (CONTINUED)**

**Credit Risk (continued)**

<u>Type of Investment</u>	<u>Rating</u>	<u>2015</u>	<u>2014</u>
Cash deposits and short-term investments	Not Rated	<u>\$ 66,939,944</u>	<u>\$ 48,055,082</u>
Corporate bonds	Aaa/AAA	\$ 5,184,224	\$ 4,974,083
	Aa/AA	1,910,922	3,009,473
	A/A	14,067,137	13,648,286
	Baa/BBB	41,277,014	36,721,996
	Ba/BB	16,164,774	20,849,408
	B/B	7,672,590	9,274,254
	Caa/CCC	2,710,257	3,726,112
	Ca/CC	747,681	572,181
	C/C	-	349,781
	D/D	355,587	528,180
	Not Rated	8,444,316	8,083,223
U.S. Government Guaranteed		<u>9,277,509</u>	<u>9,846,572</u>
		<u>\$ 107,812,011</u>	<u>\$ 111,583,549</u>
Pooled funds - fixed income	Not Rated	<u>\$ 20,800,819</u>	<u>\$ 24,438,141</u>
U.S. and Foreign Government obligations	Aaa/AAA	\$ 12,149,802	\$ 7,478,347
	Aa/AA	7,515,638	10,332,204
	A/A	3,213,581	5,476,966
	Baa/BBB	1,627,313	2,885,973
	Ba/BB	904,302	580,078
	Caa/CCC	28,381	-
	Not Rated	2,327,782	3,289,842
U.S. Government Guaranteed		<u>27,802,643</u>	<u>30,274,786</u>
		<u>\$ 55,569,442</u>	<u>\$ 60,318,196</u>

**NOTE 6. INVESTMENTS (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, 2015 and 2014 using the segmented time distribution method:

<u>Type of Investment</u>	<u>Maturity</u>	<u>2015</u>	<u>2014</u>
Cash deposits and short-term investments	Less than 1 year	<u>\$ 66,939,944</u>	<u>\$ 48,055,082</u>
Corporate bonds	Less than 1 year	\$ 1,918,487	\$ 1,753,197
	1-5 years	16,614,801	16,030,450
	5-10 years	41,175,720	41,633,921
	Over 10 years	<u>48,103,003</u>	<u>52,165,981</u>
		<u>\$ 107,812,011</u>	<u>\$ 111,583,549</u>
Pooled funds - fixed income	Less than 1 year	\$ -	\$ 2,098,716
	1-5 years	2,092,171	22,339,425
	5-10 years	<u>18,708,648</u>	<u>-</u>
		<u>\$ 20,800,819</u>	<u>\$ 24,438,141</u>
U.S. and Foreign Government obligations	Less than 1 year	\$ 4,160,926	\$ 2,496,829
	1-5 years	12,379,961	14,669,417
	5-10 years	13,353,671	14,419,357
	Over 10 years	<u>25,674,884</u>	<u>28,732,593</u>
		<u>\$ 55,569,442</u>	<u>\$ 60,318,196</u>

**NOTE 6. INVESTMENTS (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, 2015 and 2014 is as follows:

<u>Type of Investment</u>	Fair Value (USD) <u>2015</u>	Fair Value (USD) <u>2014</u>
Corporate bonds:		
Australian dollar	\$ 492,920	\$ 576,849
Brazilian real	213,892	316,116
British pound	-	356,827
European euro	70,565	223,588
Mexican peso	578,370	406,839
U.S. dollar	<u>106,456,264</u>	<u>109,703,330</u>
	<u>\$ 107,812,011</u>	<u>\$ 111,583,549</u>
U.S. and Foreign Government obligations:		
Brazilian real	\$ 429,079	\$ 644,083
Chilean peso	276,367	324,578
Chinese yuan	376,426	-
Colombian peso	443,708	-
European euro	28,381	-
Indian rupee	262,433	-
Mexican peso	2,648,702	3,676,977
New Zealand dollar	-	227,861
Philippines peso	-	986,920
U.S. dollar	<u>51,104,346</u>	<u>54,457,777</u>
	<u>\$ 55,569,442</u>	<u>\$ 60,318,196</u>

**NOTE 6. INVESTMENTS (CONTINUED)**

**Foreign Currency Risk (continued)**

<u>Type of Investment</u>	Fair Value (USD) <u>2015</u>	Fair Value (USD) <u>2014</u>
Equities:		
Australian dollar	\$ 3,168,134	\$ 3,114,290
Brazilian real	3,193,608	4,916,111
British pound	33,251,695	38,614,339
Canadian dollar	4,777,475	8,031,965
Chilean peso	140,437	294,668
Czech koruna	123,242	178,043
Danish krone	1,585,894	1,804,069
Egyptian pound	175,865	249,152
European euro	42,951,628	46,027,686
Hong Kong dollar	13,687,977	14,465,523
Hungarian forint	223,077	112,458
Indian rupee	4,239,988	6,091,334
Indonesian rupiah	1,019,373	1,564,808
Israeli shekel	235,290	531,012
Japanese yen	35,198,932	40,041,013
Malaysian ringgit	1,003,531	1,249,733
Mexican peso	1,579,492	2,029,287
New Zealand dollar	258,393	168,916
Norwegian krone	388,975	1,956,223
Pakistan rupee	379,601	301,674
Philippines peso	178,333	259,255
Polish zlotych	912,231	488,096
Singapore dollar	743,233	580,596
South African rand	2,985,339	3,727,042
South Korean won	8,758,551	8,667,942
Swedish krona	2,954,168	3,740,329
Swiss franc	6,829,314	8,465,150
Taiwan dollar	5,529,458	5,175,212
Thailand baht	2,201,430	1,533,670
Turkish lira	392,740	573,125
United Arab Emirates dirham	-	104,014
U.S. dollar	338,357,170	429,735,928
	<u>\$ 517,424,574</u>	<u>\$ 634,792,663</u>

## NOTE 7. 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 53 days in 2015 and 55 days in 2014; 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, 2015 and 2014 of 47 days and 37 days, respectively. Cash collateral may also be invested in term loans in which the investments (term loans) match the term of the securities loaned.

As of December 31, 2015 and 2014, the fair value (carrying amount) of loaned securities was \$135,778,017 and \$156,276,791 respectively. As of December 31, 2015 and 2014, the fair value (carrying amount) of cash collateral received by the Plan was \$140,197,357 and \$160,968,881 respectively. The cash collateral is included as an asset and a corresponding liability on the statements of plan net position.

Although the Plan's securities lending activities are collateralized as described above, they involve both market and credit risk. In this context, market risk refers to the possibility that the borrower of securities will be unable to collateralize the loan upon a sudden material change in the fair value of the loaned securities. Credit risk refers to the possibility that counterparties involved in the securities lending program may fail to perform in accordance with the terms of their contracts.

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.

There were no losses due to default of a borrower or the lending agent during the years ended December 31, 2015 and 2014.

**NOTE 7. SECURITIES LENDING (CONTINUED)**

A summary of securities loaned at fair value as of December 31:

	<u>2015</u>	<u>2014</u>
Corporate bonds	\$ 8,543,365	\$ 9,449,189
Equities	123,823,761	141,247,084
U.S. and Foreign Government obligations	<u>3,410,891</u>	<u>5,580,518</u>
Total	<u>\$ 135,778,017</u>	<u>\$ 156,276,791</u>

**NOTE 8. 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 or manage portfolio risk. 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, forward contracts, swaps, and futures 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's portfolio includes the following derivative instruments at December 31, 2015 and 2014:

<u>Derivative</u>	<u>2015</u>		<u>2014</u>	
	<u>Notional Value</u>	<u>Fair Value</u>	<u>Notional Value</u>	<u>Fair Value</u>
Options	\$ -	\$ 32,609	\$ -	\$ (4,009)
Futures purchase commitments	(56,181,868)	-	(45,425,400)	-
Futures sales commitments	56,181,868	-	45,425,400	-
Swap assets	6,616,146	28,986	556,188	17,046
Swap liabilities	<u>(792,000)</u>	<u>(29,229)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,824,146</u>	<u>\$ 32,366</u>	<u>\$ 556,188</u>	<u>\$ 13,037</u>



**NOTE 8. DERIVATIVES (CONTINUED)**

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. For the years ended December 31, 2015 and 2014, the options expire approximately one to six months after year end.

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. For the year ended December 31, 2015 the futures contracts mature from one month to 2 years after year end. For the year ended December 31, 2014, the futures contracts mature from one month to 3.5 years after year end.

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. For the year ended December 31, 2015, the swaps have maturity dates ranging from September 2021 through June 2036. For the year ended December 31, 2014, the swaps have maturity dates ranging from June 2019 through June 2036.

The Plan's derivative instruments are reported at fair value in equity investments on the combining statements of pension plan fiduciary net position and health insurance supplement plan net position. The gain or loss on derivative instruments is reported as part of investment income on the combining statements of changes in pension plan fiduciary net position and health insurance supplement plan net position.

**NOTE 9. EMPLOYER CONTRIBUTIONS RECEIVABLE - NET**

Employer contributions receivable at December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Employer contributions	\$ 252,886,411	\$ 120,492,876
Less allowance for uncollectible accounts	<u>(13,560,007)</u>	<u>(9,628,476)</u>
Total	<u>\$ 239,326,404</u>	<u>\$ 110,864,400</u>

As a result of Public Act 99-0506 as discussed in Note 15, approximately \$47,000,000 of employer contributions receivable at December 31, 2015 will not be received in 2016.

## **NOTE 10. HEALTH INSURANCE SUPPLEMENT PLAN**

### **Plan Description**

The City offers group health benefits to annuitants and their eligible dependents through the City of Chicago Annuitant Medical Benefits Program (the Program). The Plan and the City share in the cost of providing health care coverage to the annuitants or their surviving spouses who elect to participate in the Program. The Plan, in accordance with State Statutes, subsidizes the cost of monthly group health care premiums up 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 and the annuitant.

Public Act 98-0043, effective June 28, 2013, terminates the retiree healthcare subsidy paid by the Plan after December 31, 2016.

At December 31, 2015 and 2014, the number of annuitants or surviving spouses whose cost to participate in the Program was subsidized totaled 2,829 and 2,948 respectively.

### **Summary of Significant Accounting Policies**

**Actuarial Cost Method** - Entry age normal

**Actuarial Value of Assets** - No assets (pay-as-you-go)

**Amortization Method** - Level dollar

**Amortization Period** - 3 year closed period commencing December 31, 2013

**Healthcare Investment Rate of Return** - 4.5% per year

**OPEB Investment Rate of Return** - 4.5% per year

**Health Care Cost Trend Rate** - 0.0% (fixed dollar subsidy)

**Projected Salary Increases** - 2015 - 3.75% per year, 2014 - 4.25% per year, plus an additional percentage related to service and promotion

**Method of Accounting** - The Health Insurance Supplement Plan's financial statements have been combined with the Plan's financial statements and are presented using the accrual basis of accounting. The Plan considers the premium subsidy an additional retirement benefit, with no contribution rate or asset allocation associated with it.

**Contributions** - The Plan funds the Health Insurance Supplement Plan on a "pay-as-you-go" basis.

## **NOTE 10. HEALTH INSURANCE SUPPLEMENT PLAN (CONTINUED)**

### **Summary of Significant Accounting Policies (continued)**

**Administrative Costs** - Administrative costs associated with the Health Insurance Supplement Plan are paid by the Plan's employer contributions.

**Actuarial Valuations** - Actuarial valuations of the Plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations of the Plan reflect a long-term perspective and are based on the benefits provided under the terms of the Plan in effect at the time of each valuation and on the historical pattern of sharing of costs between the employer and Plan members to that point.

### **Funded Status and Funding Progress**

As of December 31, 2015, the most recent actuarial valuation date, the Health Insurance Supplement Plan was 0% funded on an actuarial basis. The actuarial accrued liability for benefits was \$2,398,609 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,398,609. The covered payroll (annual payroll of active employees covered by the Plan) was \$465,231,594 and the ratio of the UAAL to the covered payroll was 0.52%.

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents 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.

## **NOTE 11. DEFERRED COMPENSATION PLAN**

The Plan offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. The deferred compensation plan, which is funded through employee contributions, is available to all Plan employees and permits them to defer a portion of their salary until future years. Participation in the deferred compensation plan is optional. The deferred compensation is managed by a third party administrator. The assets of the deferred compensation plan are placed in trust with the third party for the exclusive benefit of the participants and their beneficiaries and are not considered assets of the Plan.

**NOTE 12. RELATED PARTY TRANSACTIONS**

The Plan has allowed the Ende, Menzer, Walsh & Quinn Retirees', Widows' and Children's Assistance Fund (the Corporation) to utilize its 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.

Three of the Plan's Trustees and the Executive Director are also directors of the Ende, Menzer, Walsh & Quinn Retirees', Widows' and Children's Assistance Fund.

During both of the years ended December 31, 2015 and 2014, the Firemen's Annuity and Benefit Fund of Chicago contributed 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 13. COMMITMENTS**

The Plan has a total capital commitment to twelve limited partnerships totaling \$65,500,000. As of December 31, 2015, \$53,527,490 has been invested, leaving a commitment of \$11,972,510.

**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. The Plan also leases 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 2015 and 2014 was \$225,472 and \$225,904 respectively.

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

Year ending December 31,	
2016	\$ 162,798
2017	123,307
2018	127,221
2019	131,136
2020	<u>33,273</u>
Total	<u>\$ 577,735</u>

#### **NOTE 15. SUBSEQUENT EVENT**

Subsequent to year end, Public Act 99-0506 was enacted into law on May 30, 2016. The Act amends sections of the Illinois Pension Code related to the Plan's contributions due from the City by significantly deferring contributions to future years. The deferral of the City's contributions is expected to reduce investment income and the growth of the Plan's assets and ultimately increase the City's contribution requirements in the future as follows:

- The Act reduces contributions due to the Plan at December 31, 2015 and paid during 2016 by approximately \$47,000,000.
- The Act specifically states contributions due to the Plan for the 2016 through 2019 Plan years, which is a reduction in contributions of approximately \$275,000,000 from the previous funding requirements as estimated by the Plan's actuary.
- The Act extends the target date of achieving a funding level of 90% from 2040 to 2055, which will increase the total contributions required to achieve the ultimate targeted funding level of 90% for the 2020 and subsequent Plan years.

The effects of the Act on the employer contributions, employer contributions receivable, and employer's net pension liability are not reflected in these financial statements.

#### **NOTE 16. PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE**

In March 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for fair value measurement and application. The Statement defines fair value, provides guidance for determining fair value measurement for financial reporting purposes and specifies required disclosures related to fair value measurements. Statement No. 72 is effective for the Plan's fiscal year ending December 31, 2016.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Statement No. 73 establishes requirements for pension plans that are not administered through a trust (not covered by Statements 67 and 68). The requirements in Statement No. 73 for reporting pensions generally are the same as Statement 68, however, the lack of a trust that meets specified criteria is reflected in the measurements. Statement No. 73 is effective for the Plan's fiscal year ending December 31, 2016, except for provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for the Plan's fiscal year ending December 31, 2017.

## **NOTE 16. PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE (CONTINUED)**

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement addresses the financial reports of defined benefit Other Postemployment Benefit Plans that are administered through trusts that meet specified criteria. The Statement requires more extensive note disclosures and required supplementary information related to the measurement of the Other Postemployment Benefit liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement No. 74 is effective for the Plan's fiscal year ending December 31, 2017.

In June 2015, GASB issued Statement No. 75, *Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 75 requires governments to report a liability on the financial statements for the other postemployment benefits that they provide. Statement No. 75 also requires more extensive note disclosures and required supplementary information about the other postemployment benefit liabilities. Statement No. 75 is effective for the Plan's fiscal year ending December 31, 2018.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement No. 76 identifies the hierarchy of generally accepted accounting principles (GAAP) which consists of the sources of accounting principles used to prepare financial statements of state and local government entities in conformity with GAAP and the framework for selecting those principles. Statement No. 76 reduces the hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Statement No. 76 is effective for the Plan's fiscal year ending December 31, 2016.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreements including descriptive information, the gross dollar amount of the taxes abated during the period and commitments made by a government as part of the agreement. Statement No. 77 is effective for the Plan's fiscal year ending December 31, 2016.

## NOTE 16. PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE (CONTINUED)

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. Statement No. 78 amends the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, to exclude pensions provided to employees of state and local governmental employers through cost-sharing multiple-employer defined benefit pension plan that are not a state or local governmental pension plan, are used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and have no predominant state or local governmental employer. Statement No. 78 is effective for the Plan's fiscal year ending December 31, 2016.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. Statement No. 79 is effective for the Plan's fiscal year ending December 31, 2016.

In January 2016, GASB issued Statement No. 80, *Blending Requirement for Certain Component Units - an amendment of GASB Statement No. 14*. Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments established in Statement No. 14, *The Financial Reporting Entity*, as amended. Statement No. 80 is effective for the Plan's fiscal year ending December 31, 2017.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. Statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the Plan's fiscal year ending December 31, 2017.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*. Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement No. 82 is effective for the Plan's fiscal year ending December 31, 2017.

The Plan is currently evaluating the impact of adopting the above GASB Statements.

**REQUIRED SUPPLEMENTARY INFORMATION - PENSION**



**FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**

**REQUIRED SUPPLEMENTARY INFORMATION - PENSION**

**SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS**

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 87,203,153	\$ 83,095,601
Interest	338,986,636	329,965,941
Changes of benefit terms	-	-
Difference between expected and actual experience	(7,980,712)	-
Changes of assumptions	176,281,502	88,448,895
Expected benefit payments, including refunds of employee contributions	(278,017,071)	(263,893,338)
Pension plan administrative expense	<u>(3,149,549)</u>	<u>(3,069,192)</u>
Net change in total pension liability	313,323,959	234,547,907
Total pension liability		
Beginning of year	<u>4,512,760,079</u>	<u>4,278,212,172</u>
End of year	<u>\$4,826,084,038</u>	<u>\$4,512,760,079</u>
Plan fiduciary net position		
Contributions - employer	\$ 236,104,362	\$ 107,334,399
Contributions - employee	46,552,247	48,056,393
Net investment income	7,595,562	30,867,889
Expected benefit payments, including refunds of employee contributions	(278,017,071)	(263,893,338)
Administrative expenses	(3,149,549)	(3,069,192)
Other	<u>7,141</u>	<u>7,393</u>
Net change in plan fiduciary net position	9,092,692	(80,696,456)
Plan fiduciary net position		
Beginning of year	<u>1,036,008,401</u>	<u>1,116,704,857</u>
End of year	<u>\$1,045,101,093</u>	<u>\$1,036,008,401</u>
Employer's net pension liability	<u>\$3,780,982,945</u>	<u>\$3,476,751,678</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>21.66%</u>	<u>22.96%</u>
Covered-employee payroll	<u>\$ 465,231,594</u>	<u>\$ 460,189,982</u>
Employer's net pension liability as a percentage of covered-employee payroll	<u>812.71%</u>	<u>755.50%</u>

As discussed in Note 15, the actuarial valuation is based on statutes in effect as of December 31, 2015 and does not consider the impact of Public Act 99-0506 which was passed on May 30, 2016.

**FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**

**REQUIRED SUPPLEMENTARY INFORMATION - PENSION**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**LAST TEN FISCAL YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined contribution	\$ 323,544,987	\$ 304,265,411	\$ 294,877,895	\$ 271,505,718	\$ 250,056,273	\$ 218,388,037	\$ 203,866,919	\$ 189,940,561	\$ 188,201,379	\$ 160,246,525
Contributions in relation to the actuarially determined contribution	<u>(236,104,362)</u>	<u>(107,334,399)</u>	<u>(103,669,015)</u>	<u>(81,521,883)</u>	<u>(82,869,839)</u>	<u>(80,947,311)</u>	<u>(89,211,671)</u>	<u>(81,257,754)</u>	<u>(72,022,810)</u>	<u>(76,763,308)</u>
Contribution deficiency	<u>\$ 87,440,625</u>	<u>\$ 196,931,012</u>	<u>\$ 191,208,880</u>	<u>\$ 189,983,835</u>	<u>\$ 167,186,434</u>	<u>\$ 137,440,726</u>	<u>\$ 114,655,248</u>	<u>\$ 108,682,807</u>	<u>\$ 116,178,569</u>	<u>\$ 83,483,217</u>
Covered employee payroll	<u>\$ 465,231,594</u>	<u>\$ 460,189,982</u>	<u>\$ 416,491,784</u>	<u>\$ 418,964,763</u>	<u>\$ 425,385,354</u>	<u>\$ 400,404,320</u>	<u>\$ 400,912,173</u>	<u>\$ 396,181,778</u>	<u>\$ 389,124,547</u>	<u>\$ 387,442,074</u>
Contributions as a percentage of covered employee payroll	<u>50.75%</u>	<u>23.32%</u>	<u>24.89%</u>	<u>19.46%</u>	<u>19.48%</u>	<u>20.22%</u>	<u>22.25%</u>	<u>20.51%</u>	<u>18.51%</u>	<u>19.81%</u>

**Notes to Schedule**

Valuation Date: December 31, 2015

Methods and assumptions used to

determine contribution rates as of valuation date:

Actuarial cost method	Projected Unit Credit
Amortization method	Prior to 2015, the total City contribution is generated by a tax equal to 2.26 times the contributions by the firemen to the Plan two years prior to the year of the tax levy. Beginning in tax levy year 2015, the statutory contribution are equal to a level percentage of pay contribution determined so that the Plan attains a 90 percent funded ratio by the end of 2040 on an open group basis.
Remaining amortization period	Not applicable
Asset valuation method	5 year smoothed market
Inflation	2.50% per year
Salary increases	Salary increase rates based on age-related productivity and merit rates plus inflation.
Investment rate of return	7.50% per year
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2011 valuation, pursuant to an experience study of the period January 1, 2003 through December 31, 2010.
Mortality	RP-2000 Combined Health Mortality Table, sex distinct for post-retirement mortality. RP-2000 Combined Health Mortality Table, sex distinct, set forward six years for post-retirement mortality and post-disabled mortality. Pre-retirement mortality is 80 percent of the post-retirement rates.
Postretirement annuity increases	A retiree born before January 1, 1955, with at least 20 years of service or receiving a mandatory retirement minimum annuity, receives an increase of 3 percent of the original annuity, starting on the first of the month following the first anniversary of his retirement or the first of the month following attainment of age 55, whichever is later, and shall not be subject to a 30 percent maximum increase. For retirees born after January 1, 1955, automatic increases are 1.5 percent of the original annuity, commencing at age 60, or the first anniversary of retirement, if later, to a maximum of 30 percent. For participants that first became members on or after January 1, 2011, increases are equal to the lesser of 3.00 percent and 50 percent of CPI-U of the original benefit, commencing at age 60.

Other Information: The valuation is based on the statutes in effect as of December 31, 2015 and does not consider the impact of Public Act 99-0506 which was passed on May 30, 2016.

**FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**  
**REQUIRED SUPPLEMENTARY INFORMATION - PENSION**  
**SCHEDULE OF INVESTMENT RETURNS**

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	-0.1%	3.4%

See Report of Independent Auditors.

**REQUIRED SUPPLEMENTARY INFORMATION -  
HEALTH INSURANCE SUPPLEMENT**

**FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**  
**REQUIRED SUPPLEMENTARY INFORMATION - HEALTH INSURANCE SUPPLEMENT**  
**SCHEDULE OF FUNDING PROGRESS**

Year Ended <u>December 31,</u>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
2010	\$ -	\$ 48,221,878	\$ 48,221,878	0.00%	\$ 400,404,320	12.04%
2011	\$ -	\$ 46,980,335	\$ 46,980,335	0.00%	\$ 425,385,354	11.04%
2012	\$ -	\$ 46,205,891	\$ 46,205,891	0.00%	\$ 418,964,763	11.03%
2013 (1)	\$ -	\$ 7,691,833	\$ 7,691,833	0.00%	\$ 416,491,784	1.85%
2014 (1)	\$ -	\$ 4,994,927	\$ 4,994,927	0.00%	\$ 460,189,982	1.09%
2015 (1)	\$ -	\$ 2,398,609	\$ 2,398,609	0.00%	\$ 465,231,594	0.52%

(1) Public Act 98-0043, effective June 28, 2013, terminates the retiree healthcare subsidy paid by the Plan after December 31, 2016.

See accompanying notes to schedule of funding progress and schedule of employer contributions.

**FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**

**REQUIRED SUPPLEMENTARY INFORMATION - HEALTH INSURANCE SUPPLEMENT**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<u>Year Ended December 31,</u>	Annual Required Contribution <u>(ARC) (a)</u>	Actual Employer Contribution <u>(b)</u>	Percent of ARC Contributed <u>(b/a)</u>
2010	\$ 4,427,729	\$ 2,644,290	59.72%
2011	\$ 4,469,292	\$ 2,628,163	58.80%
2012	\$ 4,275,669	\$ 2,622,445	61.33%
2013	\$ 4,213,697	\$ 2,550,785	60.54%
2014	\$ 2,739,506	\$ 2,471,055	90.20%
2015	\$ 2,611,401	\$ 2,381,458	91.19%

See accompanying notes to schedule of funding progress and schedule of employer contributions.

**FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**

**REQUIRED SUPPLEMENTARY INFORMATION - HEALTH INSURANCE SUPPLEMENT**

**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, 2015 and 2014
Actuarial cost method	Entry Age Normal
Actuarial value of assets	No assets (Pay-as-you-go)
Amortization method	Level Dollar
Amortization period	3 year closed period commencing December 31, 2013
Actuarial assumptions	
Healthcare investment rate of return	4.50% per year
OPEB investment rate of return	4.50% per year
Health care cost trend rate	0.00% (fixed dollar subsidy)
Projected salary increases	2015 - 3.75% per year plus an additional percentage related to service and promotion 2014 - 4.25% per year plus an additional percentage related to service and promotion

## **SUPPLEMENTARY INFORMATION**



**FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**

**SUPPLEMENTARY INFORMATION**

**SCHEDULES OF ADMINISTRATIVE EXPENSES**

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>ADMINISTRATIVE EXPENSES</b>		
Disaster recovery	\$ 35,193	\$ 29,001
Employee benefits	426,298	380,879
Equipment and maintenance	36,998	38,015
General and administrative	184,091	168,073
Insurance and surety bond	159,170	156,653
Office salaries	1,473,802	1,574,975
Printing and postage	89,382	53,716
Professional and consulting fees		
Accounting	3,800	4,000
Actuarial	93,940	71,720
Audit	52,000	36,000
Consulting	18,311	18,311
Legal	257,998	202,631
Medical	87,915	103,081
Payroll administration	5,179	3,987
Rent	<u>225,472</u>	<u>225,904</u>
Total administrative expenses	<u>\$ 3,149,549</u>	<u>\$ 3,066,946</u>

# FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

## SUPPLEMENTARY INFORMATION

### SCHEDULES OF INVESTMENT EXPENSES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>INVESTMENT MANAGER EXPENSES</b>		
Adams Street Partners, LLC	\$ 129,880	\$ 190,641
Apollo Global Management, LLC	61,995	78,520
Neuberger Berman - Private Equity	90,012	81,215
Brandes Investment Partners	358,764	386,242
Brown Advisory	221,905	244,287
Chicago Equity Partners, LLC	68,361	76,464
Credit Suisse	13,662	21,894
Earnest Partners, LLC	145,996	153,797
Epoch Investment Partners, Inc.	346,417	365,245
GlobeFlex Capital, L.P.	445,684	480,978
Jackson Square (Formerly Delaware Investments)	258,429	264,686
Keeley Asset Management Corp.	182,110	195,790
Kennedy Capital Management	201,257	223,779
Logan Capital Management, Inc.	170,039	184,704
Loomis, Sayles & Company, L.P.	263,212	280,834
LSV Asset Management	372,040	418,199
Mesirow Financial	73,130	78,970
Metropolitan West Capital Management, LLC	205,395	224,388
Muller & Monroe Asset Management, LLC	6,219	10,716
Neuberger Berman	365,743	395,211
Pomona Management, LLC	169,323	188,213
Rhumblin Advisers	18,765	22,720
The Boston Company Asset Management, LLC	169,466	184,525
Western Asset Management Company	193,898	208,456
William Blair & Company	368,899	393,970
	4,900,601	5,354,444
<b>OTHER TRADING EXPENSES AND INVESTMENT FEES</b>		
Northern Trust	247,599	323,402
<b>INVESTMENT CONSULTING FEES</b>		
Callan Associates, Inc.	254,251	253,305
<b>INVESTMENT CUSTODIAN FEES</b>		
Northern Trust	57,500	57,500
Total investment expenses	\$ 5,459,951	\$ 5,988,651

**FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**

**SUPPLEMENTARY INFORMATION**

**ADDITIONS BY SOURCE**

<u>Year Ended December 31,</u>	<u>Employer Contributions</u>	<u>Plan Member Contributions</u>	<u>Net Investment and Net Securities Lending Income (Loss)</u>	<u>Other</u>	<u>Total Additions</u>
2010	\$ 83,591,601	\$ 41,730,194	\$ 150,834,484	\$ 30,282	\$ 276,186,561
2011	\$ 85,498,002	\$ 51,917,510	\$ (22,450,374)	\$ 33,594	\$ 114,998,732
2012	\$ 84,144,328	\$ 53,272,730	\$ 135,196,492	\$ 3,459,687	\$ 276,073,237
2013	\$ 106,219,800	\$ 42,520,218	\$ 190,532,880	\$ (57,079)	\$ 339,215,819
2014	\$ 109,805,454	\$ 48,056,393	\$ 30,863,888	\$ 11,394	\$ 188,737,129
2015 (1)	\$ 238,485,820	\$ 46,552,247	\$ (346,886)	\$ 7,949,589	\$ 292,640,770

**DEDUCTIONS BY TYPE**

<u>Year Ended December 31,</u>	<u>Benefits</u>	<u>Administrative Expenses</u>	<u>Annuitant Health Care</u>	<u>Other</u>	<u>Total Deductions</u>
2010	\$ 213,159,055	\$ 3,047,179	\$ 2,644,290	\$ 2,901,987	\$ 221,752,511
2011	\$ 218,897,479	\$ 3,212,515	\$ 2,628,163	\$ 2,565,203	\$ 227,303,360
2012	\$ 228,585,731	\$ 3,063,965	\$ 2,622,445	\$ 3,151,847	\$ 237,423,988
2013	\$ 247,057,741	\$ 3,101,827	\$ 2,550,785	\$ 2,223,407	\$ 254,933,760
2014	\$ 261,571,672	\$ 3,066,946	\$ 2,471,055	\$ 2,323,912	\$ 269,433,585
2015	\$ 274,459,754	\$ 3,149,549	\$ 2,381,458	\$ 3,557,317	\$ 283,548,078

(1) As discussed in Note 15, does not include the impact of Public Act 99-0506 which was passed on May 30, 2016.