Comprehensive Annual Financial Report

For the year ended December 31, 2002

MEA&B

Municipal Employees' Annuity and Benefit Fund of Chicago
A Component Unit of the City of Chicago
Chicago, Illinois

Municipal Employees' Annuity and Benefit Fund of Chicago
A Component Unit of the City of Chicago

Comprehensive Annual Financial Report
For the year ended December 31, 2002

Prepared by:
Administrative Staff of the
Municipal Employees' Annuity and Benefit Fund of Chicago
221 North LaSalle Street, Suite 500
Chicago, Illinois 60601

Terrance R. Stefanski
Executive Director

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Municipal Employees' Annuity and Benefit Fund of Chicago

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Telephone 312.236.4700 • Fax 312.236.2383

Terrance R. Stefanski, Executive Director

June 27, 2003

The Retirement Board
Municipal Employees' Annuity & Benefit Fund of Chicago
Chicago, Illinois 60601

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Annuity and Benefit Fund of Chicago (the Plan) for the year ended December 31, 2002. The year 2002 marked a milestone – the 80th anniversary of the 1922 Act that created the Fund.

The Plan came into being in the year 1922 by virtue of an Act of the State of Illinois Legislature to provide benefits to qualified employees of the City of Chicago, the Chicago Public Schools and employees of the Retirement Board and the survivors, dependents and other beneficiaries of those employees. The Plan now serves 35,522 active members, 11,137 inactive members and 20,279 annuity recipients. There are 389 active members receiving temporary disability benefits.

Report Contents and Structure

The Plan is considered a component unit of the City of Chicago, and, as such, is included in the City of Chicago's financial statements. The management of the Plan is responsible for the accuracy of the data and the completeness and fairness of the presentation. This report has five sections:

- The Introductory Section contains this letter of transmittal, administrative organization;
- The Financial Section contains the report of the independent public accountants, management's discussion and analysis, the financial statements, notes and certain required supplementary information;
- The Investment Section contains the custodian bank's certification, investment activity and performance, investment results, investment policies and authority, and various investment schedules;
- The Actuarial Section contains the report of the actuary and the results of the most recent actuarial valuation;
- The Statistical Section contains various table containing significant Plan data.

Financial Information

The financial information contained in this document is presented in conformance with reporting requirements of the Governmental Accounting Standards Board (GASB) Statement 25, which covers defined benefit pension plans. The Fund adopted GASB Statement 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Management's Discussion and Analysis, which begins on page 15, immediately follows the report of the independent accountants.

Introduction

Following is a summary of the changes in plan net assets (in millions) available for benefits from 2001 to 2002:

Net Plan Assets	2002	2001	Increase (Decrease) Amount	% Change
Additions	$ (278.7)	$ 91.3	$ (370.0)	(405.3%)
Deductions	413.9	396.8	$ 17.1	4.3%
Change	($692.6)	($305.5)	($387.1)	(126.7%)

The significant decrease in the additions for 2002 is primarily due to the drop in the stock market. The rise in deductions is due to benefit increases enacted during the year and the growth in the number of benefit recipients. For a more detailed analysis, please refer to the Financial Section of this report.

Funding

State law mandates employer and employee contributions together should sufficiently provide for the actuarial requirements of the Fund. Member contributions are set by statute at 8.5% of covered salary. Limits for the employer contributions, which are also set by State statute, can produce shortfalls in the actuarial contribution requirement in a given year. For 2002, the statutorily required employer and member contributions were sufficient to cover the requirement.

The long-term financial stability of a pension fund is indicated by its funded ratio. The better the level of funding the larger the ratio of assets to liabilities, which gives participants a greater assurance that their pension benefits are secure. Although funding levels fell to 84.52% in 2002, the Fund continues to be a well-funded plan. In 2001, the funding level was 93.26%. The decrease is primarily accounted for by benefit increases and to a lesser extent market declines. Please refer to the Actuarial Section for details concerning the actuarial methods and assumptions used in determining funding.

Investments

The Fund's investment policy, when combined with the statutory employer and employee contributions, is designed to promote the long-term financing of the projected funding requirements. While the Fund experienced negative returns on investment in 2002 and 2001, the Fund maintained positive returns of 3.5% and 8.3% annualized over five and ten year periods, respectively. At fair value, the investment mix as of December 31, 2002 was 53% equities, domestic and international, 36% fixed income securities, 7% in cash equivalents, and the remainder in real estate and venture capital investments. The Board utilizes external portfolio managers employing both passive and active strategies.

The Investment Section contains a summary of the Retirement Board's investment policy including goals and objectives, and the Fund's portfolio performance as of the year ending December 31, 2002. The MD&A of the Financial Section also reflects Fund investment performance as of year-end.

Current and Future Developments:

a. *Board of Trustees*

Tariq Malhance was appointed Comptroller of the City of Chicago. With this appointment, he becomes an ex-officio member of the Plan's Board of Trustees.

Peter Brejnak, Training Coordinator for the Dept. of Water, Jardine Water Purification Plant, was sworn in for his third term as Trustee. His three-year term began December 1, 2002.

b. *Systems Developments and Technology Upgrades*

Significant progress was made on the Database Project. In 2002, Phase 2 of this project was concluded. This included calculations for estimates, refunds, annuities, service adjustment payments, retroactive and acting up pay, and Board of Education salaries. In 2003, we will complete Phase 3, disbursement exports, batch updates for legislative changes and cost of living increases, and reports. For the imaging project, basic hardware and software acquisitions were made at year-end and a considerable number of files were prepared for imaging.

c. *Legislative Developments*
The General Assembly passed legislation in 2002 which was signed into law by the Governor and changed several provisions of the Pension Code. The changes are:

- Accrual rates increased to 2.4% per year of service with a maximum of 80% of final average salary.
- Annual 3% cost of living increases will begin no later than 3 years after retirement.
- For the eligible spouse of an employee who dies in service with at least 10 years of service, the annuity would be no less than 50% of the minimum formula annuity. The employee and spouse must have been married for 10 years.
- For children of employees who die in service, there would be no service requirement for eligibility for children's annuity.
- Ordinary disability would be 50% of the employee's salary at the date of disability with the Fund paying the 8.5% pension contribution.

Internal Controls

Management is responsible for maintaining a system of adequate internal accounting controls. These controls are designed to provide reasonable assurance that transactions are executed in accordance with management's authorization and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with generally accepted accounting principles. This internal control system provides reasonable, but not absolute, assurance that these objectives are met.

Independent Audit

The Illinois Pension Code requires an annual audit of the financial statements of the Plan by independent certified public accountants selected by the Board of Trustees. As required, the independent accountant's unqualified opinion accompanies the Fund's 2002 Financial Statement and is included in the Financial Section of this report.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the Municipal Employees' Annuity and Benefit Fund of Chicago for its comprehensive annual financial report for the year ended December 31, 2001. The Certificate of Achievement is a prestigious national award, recognizing excellence in the preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The report must satisfy the requirements of both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one-year only. The Fund has received a Certificate of Achievement for the last thirteen years (1989-2001). We believe this report continues to conform to the Certificate of Achievement program requirements and we are submitting it to the GFOA.

This CAFR was prepared in conformity with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standard Board. Transactions of the Plan are reported on the accrual basis of accounting.

Introduction

Acknowledgements

The compilation of this report reflects the combined efforts of the Fund's Actuary, Certified Public Accountants, and administrative staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information for making management decisions, determining compliance with applicable law, and evaluating the responsible stewardship of Plan's assets contributed by the members and the employer.

On behalf of the Board of Trustees, we thank the staff, the advisors, and the many other people who work so diligently to assure the continued successful operation of the Plan.

Respectfully submitted,

Terrance R. Stefanski
Executive Director

Tess Toledo
Comptroller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Municipal Employees' Annuity and Benefit Fund of Chicago, Illinois

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Board of Trustees

(December 31, 2002)

John K. Gibson, *President* ***Term Expires-November 30, 2003***

John Gibson was appointed to the Pension Board on February 20, 1997. He is the Chief Engineer of Senn High School, one of the most ethnically diverse schools in the nation. John started his career in the Chicago Public Schools in 1969. During this time he also taught engineering courses for sixteen years in the evening division for the Chicago City Colleges. Mr. Gibson is an elected member of the Executive Board of Local 143, the School Engineers Union. John also serves as Treasurer of the Municipal Employes Society of Chicago.

Tariq G. Malhance, *Vice-President*

Tariq Malhance is Vice President of the Board, and one of two ex-officio members. As City Comptroller, Tariq is responsible for managing the City's cash flow, debt, and credit activities, in addition to his responsibilities for the City's accounting, auditing, financial and compliance reporting. Tariq also sits on the Retirement Board of the Chicago Firemen's, Chicago Laborer's and Chicago Policemen's retirement plans. He is a graduate of the University of Karachi, Pakistan, where he earned a Bachelor of Commerce degree. Subsequently, Mr. Malhance earned an undergraduate degree in Finance from Roosevelt University in Chicago, and two graduate degrees, an M.B.A. in Finance from Roosevelt University and an M.A. in Economics from the University of Illinois, Chicago.

Judith C. Rice, *Treasurer*

Judith Rice was appointed by Mayor Richard M. Daley to the position of Treasurer of the City of Chicago in November 2000. Immediately preceding her appointment, Ms. Rice served as the first woman Commissioner of the Department of Transportation. Ms. Rice also served as Commissioner of the Department of Water, again breaking ground as the first woman Commissioner. Prior to that, she was the Managing Deputy Director, then Director of the Department of Revenue. She began her city career in 1989 as an Assistant Corporation Counsel. Ms. Rice received her JD from John Marshall Law School in 1988 and was admitted to the Illinois Bar the same year. She graduated Cum Laude in 1981 from Loyola University with a Bachelor of Arts in Communication.

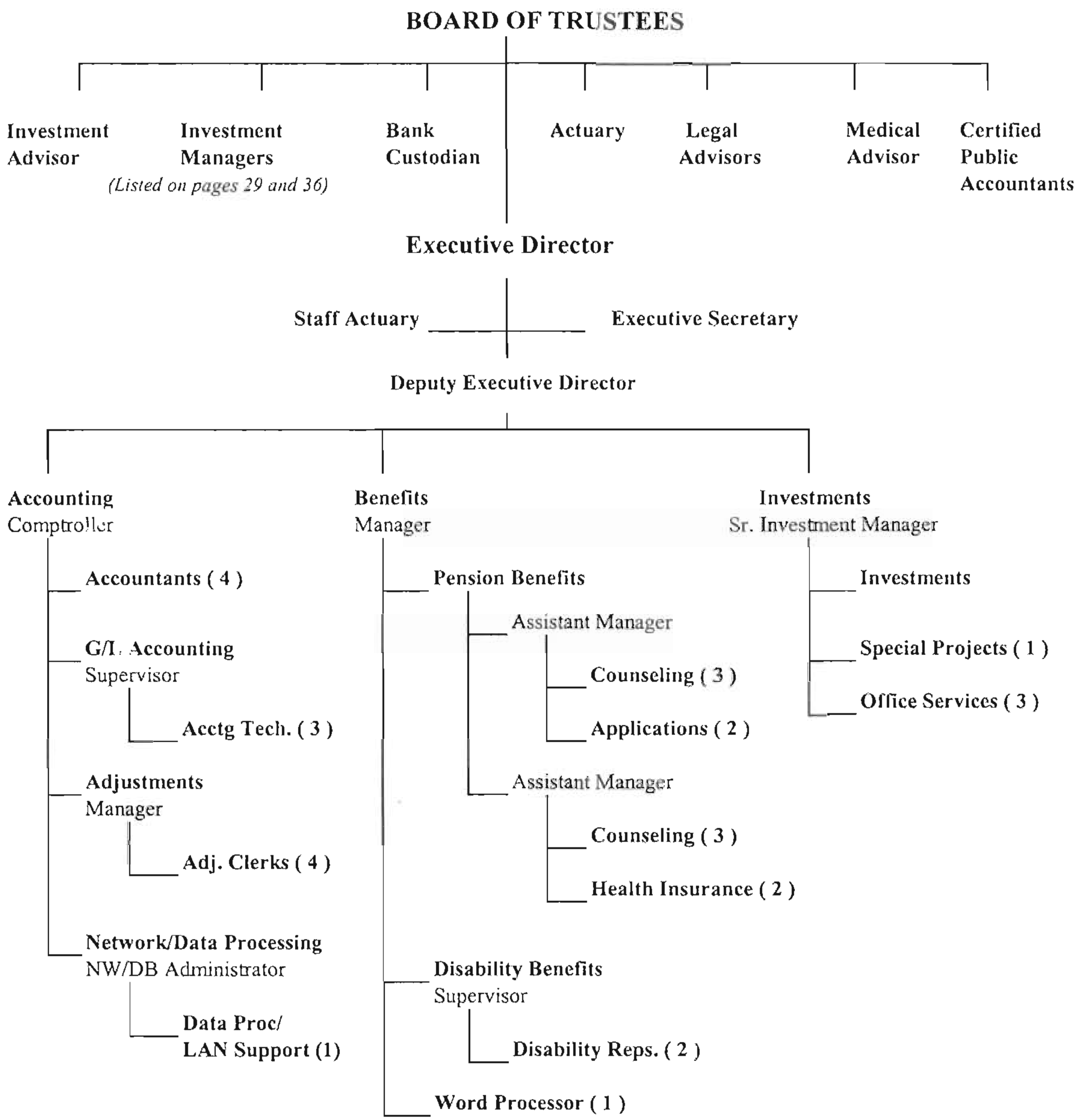
Joseph M. Malatesta, *Recording Secretary* ***Term Expires-November 30, 2004***

Joseph Malatesta was appointed to the Board on July 1, 1998. He was re-elected Trustee in September 2001, for a three year term. Currently, Joe is General Manager of Operations in the Department of Aviation at O'Hare International Airport. His career with the City of Chicago began in 1991 at the City Treasurer's office as a Fund Manager. Joe received his Bachelor's Degree from the University of Illinois at Chicago, and his Master in Business Administration from Dominican University.

Peter Brejnak, *Trustee* ***Term Expires-November 30, 2005***

Peter Brejnak was appointed to the Board in November 1997. Peter has been a public servant for over 31 years, most currently with the Department of Water as Training Coordinator at the Jardine Water Purification Plant. Peter is also a former Non-Commissioned Officer in the United States Marine Corps, and a former Vice Commander of the John P. Hayes American Legion Post. He is also a member of the Board of Directors of the Municipal Employes Society of Chicago.

Organizational Chart



Advisors - *are listed on page 12*

Advisors

LEGAL ADVISORS

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City Treasurer
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Chicago, IL 60602

BANK CUSTODIAN

Ms. Rita Curtin
The Northern Trust Company
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INDEPENDENT AUDITOR'S REPORT

The Retirement Board
Municipal Employees' Annuity & Benefit Fund
of Chicago
Chicago, Illinois

We have audited the statements of plan net assets of the Municipal Employees' Annuity & Benefit Fund of Chicago (the Plan), a Component Unit of the City of Chicago, as of December 31, 2002 and 2001, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Municipal Employees' Annuity & Benefit Fund of Chicago as of December 31, 2002 and 2001, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the schedules of funding progress and employer contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of administrative expenses, investment management compensation, and consulting costs are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 2, the Plan adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* as of January 1, 2002.

Bansley and Kiener, L.L.P.

Certified Public Accountants

March 7, 2003

Management's Discussion and Analysis (Unaudited)

This section presents management's discussion and analysis of the Municipal Employees' Annuity and Benefit Fund of Chicago's ("Plan") financial position and performance for the year ending December 31, 2002. It provides an overall overview of the financial activities and the effects of significant changes. This discussion and analysis is intended to be read in conjunction with the Plan's financial statements.

Overview of the Financial Statements and Accompanying Information

The following discussion and analysis are intended to serve as an introduction to the Plan's basic financial statements. The basic financial statements are described below:

- **The Statements of Plan Net Assets** show a point-in-time snapshot of account balances at year-end. They report the assets held in trust for future pension benefit payments and any current liabilities as of the statement date. The liabilities do not include the actuarial value of future benefits.
- **The Statement of Changes in Plan Net Assets** show the sources and uses of funds during the calendar year, where Additions – Deductions = Net Increase (or Decrease) in Net Assets. This Net Increase (or Decrease) in Net Assets illustrates the change in net assets as reported in the Statements of Plan Net Assets from the prior year to the current year.
- **The Notes to the Financial Statements** are an integral part of the financial statements and include additional information and schedules to provide a better understanding of the data provided in the financial statements. Information in the notes discloses the Plan's organization, accounting policies, benefits and contributions, how assets values are determined, contingencies and commitments.

The financial statements are prepared based on an economic sources focus and accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect ongoing Plan perspective. Therefore, in addition to the two financial statements explained above, this report includes two Required Supplementary Information schedules with historical trend information.

- **The Schedule of Funding Progress** contains actuarial information about the status of the Plan from an ongoing, long-term perspective in the accumulation of sufficient assets to pay future pension and post employment benefits when due. Actuarial Liabilities in excess of Valuation Assets indicate that insufficient assets have been accumulated to fund the future benefits of current members and retirees.
- **The Schedule of Employer Contributions** contains historical trend information regarding the value of total annual contributions employer must pay and the related percentage the employer has contributed to meet its requirement.
- **The Notes to the Required Supplementary Information** provide background information and explanatory detail to aid in understanding the required supplementary schedules.

The Schedule of Administrative Expenses and Schedule of Consulting Costs show the costs of managing the Plan. The Schedule of Investment Management Compensation provides the detail of investment related expenses reported in the Statements of Changes in Plan Net Assets.

Financial Highlights

- The Municipal Employees' Annuity and Benefit Fund of Chicago's net assets decreased by $692.6 million, or 11.9 % in 2002 from $5,820.8 million in 2001. The decrease was mainly from the decline in the fair value of investments due to the negative returns in the financial markets. In addition to the net depreciation of investment values, ($647.1 million in 2002 and $298.7 million in 2001), both years also experienced increases in benefit payments.
- The Plan's rate of return at fair value was -9.3% lower than last year's -2.3%. These negative returns were due primarily to the disappointing financial markets.

Financial

- The funding objective of the Plan is to meet long-term defined pension benefit obligations. As of December 31, 2002, the date of the most recent actuarial valuation, the Plan is actuarially funded at 84.5%. In general, this means that for every dollar of future pension benefits due, the Plan has approximately $0.85 of net assets available for payment. This ratio is less than the 93.3% funded ratio as of December 31, 2001. The funding level may continue to decrease if the fair value of investments experiences additional declines or benefit payments continues to increase significantly.
- Revenues (additions to plan net assets) for calendar year 2002 were a negative $278.7 million, which includes member and employer contributions of $259.4 million and net investment activity, including realized and unrealized losses totaling $539.5 million.
- Expenses (deductions from plan net assets) increased by 4.3% to $413.9 million in 2002 from $396.8 million in 2001. The Plan paid $376.3 million in retirement benefits to 20,279 participants during 2002, compared to $362.8 million paid to 20,088 participants during 2001. Benefit payments increased primarily due to an increase in the accrual rate for new retirees, an increase in the number of retirees and other legislation that was passed increasing retirement benefits and ordinary disability payments.
- Property and equipment expenditures consist primarily of office furniture and equipment, as well as technology upgrades and database systems. In 2002, we concluded Phase 2 of the Database Project. This included calculations for estimates, refunds, annuities, service adjustment payments, retroactive and acting up pay, and Board of Education salaries. In 2003, we will complete Phase 3, disbursement exports, batch updates for legislative changes and cost of living increases, and reports.

Plan Net Assets

A summary of the Plan's Net Assets is presented below:

Plan Net Assets
(in millions)
As of December 31, years as indicated

	2002	**2001**	Change $	Change %
Cash and cash equivalents	$ 1.5	$ 1.5	$ -	
Receivables	154.8	155.3	(0.5)	-0.3%
Brokers - unsettled trades	61.2	53.0	8.2	15.5
Investments, at fair value	5,265.8	5,791.4	(525.6)	-9.1
Invested securities lending collateral	543.4	497.2	46.2	9.3
Property and equipment	4.1	3.1	1.0	32.3
Total assets	6,030.8	6,501.5	(470.7)	
Brokers - unsettled trades	355.1	179.7	175.4	97.6
Securities lending payable	543.4	497.2	46.2	9.3
Accounts payable and accrued expenses	4.1	3.8	0.3	7.9
Total liabilities	902.6	680.7	221.9	
Net Plan Assets	$5,128.2	$5,820.8	$ (692.6)	-11.9%

Declining financial markets produced the second straight year of negative investment returns.

Changes in Plan Net Assets

The following table reflects a comparative summary of various changes in Plan Net Assets.

Changes in Plan Net Assets
(in millions)
As of December 31, years as indicated

			Change	
	2002	**2001**	$	%
Additions:				
Member contributions	$ 128.4	$ 118.2	$ 10.2	8.6%
Employer contributions	131.0	131.4	(0.4)	-0.3
Net investment gains and (losses) and investment income	(539.5)	(160.3)	(379.2)	236.6
Securities lending income	1.5	2.0	(0.5)	-25.0
Total additions	(278.7)	91.3	(370.0)	
Deductions:				
Annuity benefits	376.3	362.8	13.5	3.7
Disability benefits	10.6	7.9	2.7	34.2
Refunds of contributions and rollover distributions	22.4	22.0	0.4	1.8
Administrative expenses	4.6	4.1	0.5	12.2
Total deductions	413.9	396.8	17.1	
Net Decrease	$ (692.6)	$ (305.5)	$ (387.1)	-126.7%

Revenues - Additions to Plan Net Assets

- Member contributions increased by 8.6% to $128.4 million in 2002 from $118.2 million in 2001. The increase in member contributions is attributed to a 233% increase or $7.2 million increase in special service payments compared to year 2001. The *Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)* allowed participants to transfer, without penalty, monies under their 457 or 403B plans into the Plan to purchase eligible service credits. The Plan began accepting such transfers beginning January 1, 2002.
- Employer contributions were consistent with 2001. Employer contributions are calculated using a statutorily set multiplier (currently 1.25) times member contributions collected two years prior.
- Net investment activity showed a loss for the year ended December 31, 2002 totaling $539.5 million, compared to a loss of $160.3 million for the year ended December 31, 2001. As discussed earlier in the Financial Highlights section, the decreases exhibited in investment earnings in both years resulted primarily from the general decline in the fair values of domestic and international equity investments. Investment fees, which are netted from investment income, decreased by 5.5% to $15.8 million in 2002 compared to $16.7 million in 2001.
- The Plan earns additional income by lending investment securities to brokers/dealers. The lending is done on a pooled basis by the custodial bank. The broker/dealers provide collateral to the custodial bank and generally use the borrowed securities to cover short sales and failed trades. In 2002, net securities lending income decreased by 25% to $1.5 million compared to $2.0 million in income in 2001.

Expenses - Deductions from Plan Net Assets

Benefit payments, refunds of contributions to members who terminate employment, and administrative costs comprise the Plan's expenses.

- Retirement annuity payments increased by 3.7% to $376.3 million in 2002 from $362.8 million in 2001. The increase is mainly attributable to the 3% annual compounded cost of living increase and a law enacted in 2002 raising the accrual rate for new retirees to 2.4% per year of service up to a maximum of 80% of final average salary. In 2001, the accrual rate and maximum benefit were 2.2% and 75% respectively.

- Disability payments increased by 34.2% to $10.6 million from $7.9 million in 2001. The increase was mainly due to a law that was passed in 2002 that provided for payment of the 8.5% employee contribution to be made by the Plan instead of the member. The change was retroactive to January 1, 2001.
- Refunds of member contributions including rollover distributions increased slightly by 1.8% to $22.4 million from $22.0 million in 2001.
- Cost to administer the Plan increased by 12.2% to $4.6 million from $4.1 million in 2001. The increase is primarily attributable to a 16.9% increase in personnel services and a 15.1% increase in the cost of employee health insurance coverage. Upon termination, permanent employees of the Plan are eligible to receive compensation for their accrued vacation balances.

Plan Membership

The following table reflects the Plan membership as of the beginning and ending of the calendar years 2002 and 2001.

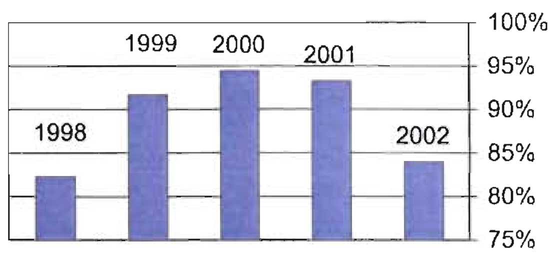
Changes in Plan Membership
As of December 31, years as indicated

	2002	2001	Change	%
Retirees and beneficiaries receiving benefits	20,279	20,088	191	1.0%
Active employees (includes members currently receiving disability benefits):				
Vested	16,347	16,439	(92)	-0.6
Non-vested	19,175	20,240	(1,065)	-5.3
Terminated (inactive members) employees				
Entitled to benefits or a refund of contributions	11,137	9,551	1,586	16.6
Total	66,938	66,318	620	0.9%

Funding Status

The actuarial value of assets for the December 31, 2002 valuation was $6,404 million and the actuarial liability was $7,577 million. The actuarial liability increased by 9.3%, $643 million more in 2002, from $6,934 million in 2001. The assets currently fund 84.5% of this liability, a decrease from the 93.3% funded ratio in 2001. The decrease in the funded ratio resulted from a combination of negative investment returns and increases in benefits. We expect the negative returns to be recovered when the markets rebound.

Schedule of Funding Progress
Funded Ratio
(As of December 31, years as indicated)



Investment Activities

At year-end 2002, the Plan's equity investments (domestic and international) decreased in value by 19.0% to $2,757 million from $3,402 million at year-end 2001. This decrease is primarily attributable to the continued financial market declines in 2002. Even though the Plan's fixed income allocation reflected positive returns for the year, the year-end value declined by $18 million due to capital draw-downs of $160 million to cover benefit payments during the year. The Plan's real estate investments increased in value by 52.0% to $186.2 million in 2002 from $122.2 million in 2001, primarily due to strong performance and an increase in capital committed to this asset class. Investment values in private equity/venture capital declined during the year.

Investment Returns
Periods ending December 31, years as indicated

	2002	2001
Total Fund	-9.3%	-2.3%
Benchmark Portfolio	-7.7%	-2.6%
Median Return	-8.7%	-2.5%
Domestic Equities	-20.5%	-6.3%
Benchmark: S & P 500	-22.1%	-11.9%
Equity Median Return	-21.9%	-10.4%
International Equities	-14.3%	-20.2%
Benchmark: EAFE Index	-15.9%	-21.4%
International Equity Median Return	-14.8%	-17.5%
Fixed Income	8.9%	8.1%
Benchmark: Lehman Aggregate Index	10.3%	8.4%
Fixed Income Median Return	9.6%	8.6%
Real Estate	4.3%	9.5%
Benchmark: NCREIF Property Index	4.9%	7.2%

(1) Median returns are from Universes compiled by Becker, Burke Associates.

Effect of Economic Factors

The financial position of the Plan has declined during the last two years due to the weakness in the financial markets. The table above shows portfolio returns compared to relative benchmarks and median fund returns for 2002 and 2001, which are reflective of the market environment.

Contact information

This financial report is designed to provide the employer, plan participants and others with a general overview of the Plan's finances and show accountability for money it receives. Questions concerning any data provided in this report or requests for additional information should be addressed to Mr. Terrance R. Stefanski, Executive Director, Municipal Employees' Annuity and Benefit Fund of Chicago, 221 N. LaSalle Street, Suite 500, Chicago, IL 60601.

Financial

Statements of Plan Net Assets

	December 31 2002	December 31 2001
Assets		
Cash and cash equivalents	$ 1,482,551	$ 1,468,767
Receivables		
Contributions from the City of Chicago, net of allowance for loss of $13,635,440 in 2002 and $13,606,074 in 2001	131,123,910	130,076,092
Member contributions	8,908,420	5,803,828
Interest and dividends	14,722,668	19,312,008
Brokers - unsettled trades	61,170,647	53,060,411
Miscellaneous	70,202	61,937
Total receivables	215,995,847	208,314,276
Investments, at fair value		
Bonds	1,905,914,880	1,924,055,174
Common and preferred stock	2,756,564,806	3,401,752,054
Real estate	186,189,857	122,232,996
Other investments	66,921,823	88,243,345
Short-term investments	350,178,691	255,073,738
Total investments	5,265,770,057	5,791,357,307
Invested securities lending collateral	543,441,734	497,217,769
Property and equipment, net of accumulated depreciation and amortization of $348,350 in 2002 and $314,267 in 2001	4,053,424	3,125,330
Total assets	6,030,743,613	6,501,483,449
Liabilities		
Brokers - unsettled trades	355,020,296	179,720,662
Accounts payable and accrued expenses	4,071,179	3,779,321
Securities lending collateral	543,441,734	497,217,769
Total liabilities	902,533,209	680,717,752
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 27)	$ 5,128,210,404	$ 5,820,765,697

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Plan Net Assets

	Years Ended December 31 2002	Years Ended December 31 2001
Additions		
Contributions from the City of Chicago	$ 130,966,381	$ 131,439,834
Member contributions	128,395,307	118,240,723
Total contributions	259,361,688	249,680,557
Investment income		
Net depreciation in fair value of investments	(647,140,279)	(298,692,657)
Interest	69,503,046	96,042,640
Dividends	44,378,422	51,627,638
Income from real estate investments	9,394,470	7,385,525
Other	112,742	-
	(523,751,599)	(143,636,854)
Less investment expenses	15,778,745	16,694,784
	(539,530,344)	(160,331,638)
Security lending activities		
Securities lending income	10,290,450	28,293,764
Borrower rebates	(8,193,132)	(25,496,526)
Bank fees	(629,287)	(839,173)
	1,468,031	1,958,065
Total additions	(278,700,625)	91,306,984
Deductions		
Benefits		
Annuity payments	376,285,165	362,821,248
Disability and death benefits	10,586,498	7,919,981
Total benefits	386,871,663	370,741,229
Refund of member contributions	18,336,036	18,085,378
Rollover distributions	4,089,881	3,866,416
Administrative and general expenses	4,557,088	4,086,513
Total deductions	413,854,668	396,779,536
Net decrease	(692,555,293)	(305,472,552)
Net assets held in trust for pension benefits		
Beginning of year	5,820,765,697	6,126,238,249
End of year	$ 5,128,210,404	$ 5,820,765,697

The accompanying notes are an integral part of the financial statements.

Financial

Notes to Financial Statements

Note 1 – Description of Plan

Any employee of the City of Chicago or the Board of Education employed under the provisions of the municipal personnel ordinance who is not participating in any other pension fund or retirement system is covered by the Municipal Employees' Annuity and Benefit Fund of Chicago (Plan) which is a defined benefit single employer pension plan with a defined contribution minimum. Although this is a single employer plan, the defined benefits, as well as the employer and employee contribution levels, are mandated in Illinois State Statutes (Chapter 40, Pensions, and Article 5/8) and may be amended only by the Illinois legislature. The City of Chicago accounts for the plan as a pension trust fund. The payroll for employees covered by the plan for the years ended December 31, 2002 and 2001 were $1,377,909,441 and $1,375,048,892, respectively.

Plan membership at December 31 is as follows:

	2002	2001
Active employees (includes members currently receiving disability benefits):		
Vested	16,347	16,439
Nonvested	19,175	20,240
	35,522	36,679
Retirees and beneficiaries currently receiving benefits	20,279	20,088
Terminated (inactive members) employees entitled to benefits or a refund of contributions	11,137	9,551
	66,938	66,318

The Plan provides retirement benefits as well as death and disability benefits. Employees age 55 or more with at least 10 years of service are entitled to receive a money purchase annuity with partial City contributions if under age 60 with less than 20 years of service. Employees age 55 or more with at least 20 years of service or age 50 or more with at least 30 years of service are entitled to receive a minimum formula annuity of 2.4% (2.2% in 2001) per year of service times the final average salary (highest average annual salary for any 4 consecutive years within the last 10 years of service immediately preceding the date of retirement). If the employee retires prior to age 60, the annuity shall be reduced by ¼ of 1% for each month the employee is under age 60 if the employee has less than 25 years of service. The annuity is not discounted if the employee is age 50 with at least 30 years of service. Beginning January 1, 1999, there is a 10 year deferred vested benefit payable at age 60. The original annuity is limited to 80% (75% in 2001) of the highest average annual salary. Employees withdrawing from service at age 60 or older with at least 10 years of service are entitled to a minimum annuity of $850 per month. The employee's monthly annuity is increased by 3% annually beginning on the earlier of the following: 1) the later of the third anniversary of retirement and age 53, or 2) the later of the first anniversary of retirement and age 60.

Covered employees are required to contribute 8.5% of their salary to the Plan. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest (3% or 4% depending on when an employee became a participant). The City of Chicago is required by state statutes to contribute the remaining amounts necessary to finance the requirements of the Fund. It is required to levy a tax at a rate not more than an amount equal to the total amount of contributions by the employees to the Fund made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 1.25 annually.

Notes to Financial Statements
(Continued)

Note 2 – Summary of Significant Accounting Policies

Reporting Entity

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

(1) Appointment of a voting majority of the component unit's board and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

(2) Fiscal dependency on the primary government.

Based upon the required criteria, the Plan has no component units. The Plan is considered a component unit fund of the City of Chicago and, as such, is included in the City of Chicago's financial statements. Accordingly, these financial statements present only Municipal Employees' Annuity & Benefit Fund of Chicago and are not intended to present fairly the financial position of the City of Chicago and the result of its operations in conformity with generally accepted accounting principles.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as additions in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments

The Plan is authorized to invest in bonds, notes, and other obligations of the U.S. Government; corporate debentures and obligations; insured mortgage notes and loans; common and preferred stocks; stock options; real estate; and other investment vehicles as set forth in the Illinois Compiled Statutes. Income on all investments is recognized on the accrual basis. Gains and losses on sales and exchanges of investments are recognized on the transaction date of such sale or exchange. Dividend income is recognized based on dividends declared.

Investments are reported at fair value. Investments in short-term obligations, principally commercial paper, United States Treasury bills, and bank repurchase agreements, are carried at cost, which approximates fair value. Discount paper is carried at fair value. Fair values for bonds and stocks are determined by quoted market prices. Fair values of real estate, commingled real estate and venture capital investments are based upon annual independent appraisals.

Notes to Financial Statements
(Continued)

Note 2 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and on deposit with the Treasurer of the City of Chicago as well as investments held by the City Treasurer on behalf of the Plan with original maturities of 90 days or less.

Property and Equipment

Property and equipment are stated at cost. Depreciation has been provided using the straight-line methods over periods ranging from 5-8 years. Leasehold improvements are amortized using the straight-line method over the remaining term of the lease. A summary of property and equipment at December 31, 2002 and 2001 is as follows:

	2002	2001
Furniture	$ 94,254	$ 142,661
Equipment	62,406	47,181
Computers	358,851	342,295
Leasehold improvements	52,921	43,166
	568,432	575,303
Less accumulated depreciation and amortization	348,350	314,267
	220,082	261,036
Construction in progress	3,833,342	2,864,294
Net property and equipment	$4,053,424	$3,125,330

Construction in progress consists of an installation of a new computer system at a total estimated cost of $4,300,000, to be completed by June, 2003.

New Financial Reporting Model

Effective January 1, 2002, the Plan implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) and Statement No. 37, *Basic Financial Statements – and Management's Discussion – for State and Local Governments: Omnibus* (GASB No. 37). As a result of GASB No. 34 and GASB No. 37, a Management's Discussion and Analysis (MD&A) section providing analysis of the Plan's overall financial position and results of operations has been included with the Plan's financial statements.

Note 3 – Deposits and Investments

At December 31, 2002 and 2001, the Plan's book balances of cash are $1,482,551 and $1,468,767, respectively. The actual bank balances at December 31, 2002 and 2001 are $1,481,751 and $1,467,967, respectively. The deposits of the Plan are insured or collateralized in the Plan's name or held by the Plan, by its custodian The Northern Trust Company, or by the Treasurer of the City of Chicago in the Plan's name.

Notes to Financial Statements
(Continued)

Note 3 – Deposits and Investments (Continued)

The following table presents a summarization of the book and fair values of the Plan's investments and related categorization of credit risk at December 31, 2002 and 2001. Category 1 includes insured or registered investments held by the Northern Trust Company, as agent of the Plan, in the Plan's name:

Investment	Risk Category	December 31, 2002 Book Value	December 31, 2002 Fair Value	December 31, 2001 Book Value	December 31, 2001 Fair Value
Bonds	1	$1,676,180,424	$1,905,914,880	$1,745,157,577	$1,924,055,174
Stocks	1	2,691,188,566	2,614,386,490	2,785,014,341	3,235,851,164
Short-term investments:					
Commercial paper	1	12,835,999	12,840,160	2,496,404	2,503,142
Other commingled funds	N/A	337,338,531	337,338,531	252,560,657	252,570,596
Real estate	N/A	176,448,456	186,189,857	112,623,545	122,232,996
Venture capital	N/A	136,131,990	66,921,823	128,920,004	88,243,345
International equity commingled	N/A	135,625,009	142,178,316	133,881,216	165,900,890
		$5,165,748,975	$5,265,770,057	$5,160,653,744	$5,791,357,307

Fair values of securities are based primarily on quotations from national security exchanges. Fair values of real estate, commingled real estate, and venture capital investments are based upon independent appraisals.

Note 4 – Investments

Certain Plan investments are held by a bank administered trust fund. Investments that represent 5 percent or more of the Plan's net assets (except those issued or guaranteed by the U.S. Government) are separately identified.

	2002	2001
Investments At Fair Value As Determined by Quoted Price		
Bonds		
BT Pyramid Broad Market Fixed Income Fund	$ 496,997,292	$ 517,256,461
Other	1,408,917,588	1,406,798,713
Common and preferred stock	2,756,564,806	3,401,752,054
	4,662,479,686	5,325,807,228
Investments at Fair Value As Determined by Plan Administrator		
Real estate	186,189,857	122,232,996
Other	66,921,823	88,243,345
Short-term investments	350,178,690	255,073,738
	603,290,371	465,550,079
Total investments	$5,265,770,057	$5,791,357,307

Notes to Financial Statements
(Continued)

Note 5 – Securities Lending

Under the provisions of state statutes, the Plan lends securities (both equity and fixed income) to qualified and Plan approved brokerage firms for collateral that will be returned for the same securities in the future. The Plan's custodian, the Northern Trust Co., manages the securities lending program, which includes the securities of the Plan as well as other lenders, and receives cash, U.S. Treasury securities or letters of credit as collateral. The collateral received cannot be pledged or sold by the Plan unless the borrower defaults. All securities loans can be terminated on demand by either the Plan or the borrower. At December 31, 2002 the average term of the loan was 80 days (21 days in 2001). All security loan agreements are initially collateralized at 102% of the loaned securities. Whenever adjustments are needed to reflect changes in the fair value of the securities loaned, the collateral is adjusted accordingly. Cash collateral is invested in the short-term investment pool, which at December 31, 2002 had a weighted average maturity of 43 days (48 days in 2001). As of December 31, 2002 and 2001, the Plan had loaned to borrowers securities with a fair value of $637,801,921 and $547,870,896, respectively. The following is a summary of securities on loan at fair value (excluding securities loaned versus non-cash collateral) as of December 31:

	2002	2001
Domestic bonds	$ 291,341,628	$ 305,290,000
Domestic equities	230,089,583	163,897,000
International equities	10,446,657	13,228,000
Total	$ 531,877,868	$ 482,415,000

As of December 31, 2002 and 2001, the Plan received from borrower's cash collateral of $543,441,734 and $497,217,769, and non-cash collateral of $108,024,168 and $67,227,280, respectively. Securities lending net income for the years ended December 31, 2002 and 2001 was $1,468,031 and $1,958,065, respectively. At year end, the fund has no credit risk exposure to borrowers because the amounts the fund owes the borrowers exceed the amounts the borrowers owe the fund.

Note 6 – Administrative Costs

Costs of administering the Plan are budgeted and approved by the Plan's Board of Trustees. This is funded by city contribution from revenues derived from taxes in accordance with Chapter 40 Articles 5/8 – 190 of the Illinois State Statutes. Funding is included in the employer contribution as determined by the annual actuarial valuation and appropriated by the City of Chicago. The Plan leases its administrative office and storage facilities under a fifteen-year agreement in effect through February 28, 2008. The lease may be canceled after ten years subject to significant cancellation penalties. The lease currently requires monthly payments of $21,704 ($20,292 in 2001). Monthly lease payments are subject to an escalation clause for increases in real estate taxes and maintenance expenses.
Following is a summary of estimated future lease payments under the Plan's operating lease as of December 31, 2002:

Year Ending December 31,	Amount
2003	$ 260,448
2004	260,448
2005	260,448
2006	260,448
2007	260,448
Thereafter	43,408
Total	$1,345,648

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b–a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b–a)/c)
12/31/02	$6,403,982,494	$7,577,100,377	$1,173,117,883	84.5%	$1,377,909,441	85.1%
12/31/01	$6,466,797,545	$6,934,176,477	$ 467,378,932	93.3%	$1,375,048,892	34.0%
12/31/00	$6,297,976,257	$6,665,179,731	$ 367,203,474	94.5%	$1,243,439,345	29.5%
12/31/99	$6,017,841,114	$6,562,299,185	$ 544,458,071	91.7%	$1,267,181,658	43.0%
12/31/98	$5,202,095,202	$6,323,965,903	$1,121,870,701	82.3%	$1,168,639,224	96.0%
12/31/97	$4,467,100,715	$5,259,125,157	$ 792,024,442	84.9%	$1,192,286,688	66.4%

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2002	$92,711,870	141.3%
2001	$83,526,133	157.4%
2000	$93,016,467	150.7%
1999	$157,514,076	76.0%
1998	$108,174,346	146.6%
1997	$100,278,969	156.4%

Notes to Schedules of Funding Progress and 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	12/31/02
Actuarial cost method	Entry age normal
Amortization method	Level dollar open
Amortization period	40 years
Asset valuation method	5 -year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Inflation	3.0%
Post retirement benefit increase	3.0% per year beginning at the earlier of: 1) the later of the third anniversary of retirement and age 53, or 2) the later of the first anniversary of retirement and age 60

Financial
Supplementary Information

Schedule of Administrative Expenses

	2002	2001
Administrative Salaries	$ 2,060,040	$ 1,762,051
Employee Benefits	552,557	480,124
Professional Services:		
Actuarial	82,587	87,870
Data Processing	485,240	591,031
Medical	38,952	37,800
Auditing	28,500	22,000
Legal	139,827	109,094
Custodial	138,915	116,782
Contractual	86,256	84,797
Consulting	52,905	71,180
Investment advisory	160,000	160,000
Office Supplies and Equipment	56,945	46,622
Office Equipment Maintenance	13,770	13,440
Bank service charge	4,820	4,989
Equipment Rental	24,461	23,064
Depreciation	94,761	105,912
Insurance	-	8,632
Printing and Publishing	115,051	111,550
Postage	68,997	62,257
Rent and Utilities	269,575	256,804
Retirement Board Election Costs	2,692	2,628
Miscellaneous	11,924	8,221
Telephone and Communications	31,385	28,398
Travel	20,757	28,925
Dues and Subscriptions	16,171	16,015
	4,557,088	4,240,186
Administrative Expense Recoveries	-	(153,673)
Total	$ 4,557,088	$ 4,086,513

Schedule of Consulting Costs

	2002	2001
Legal Advisors	$ 139,827	$ 109,094
Medical Advisors	38,952	37,800
Investment Consultant	160,000	160,000
Consulting Actuary	82,587	87,870
Auditor	28,500	22,000
Master Custodian	138,915	116,782
Total	$ 588,781	$ 533,546

Schedule of Investment Management Compensation

	2002	2001
Balanced Managers		
Brinson Partners	$ 200,958	$ 757,135
Equity Managers		
Alliance Capital	1,018,340	1,224,320
Ariel Capital	1,346,766	1,312,236
Bear Stearns	688,469	748,520
Chicago Asset Mgmt.	-	336,163
Deutsche Asset Mgmt.	106,440	132,699
Great Lakes Advisors	344,004	287,637
Holland Capital	29,041	-
Keeley Asset Mgmt.	472,369	440,635
Northern Trust Quantative Adv.	96,833	39,353
Oppenheimer Capital	170,753	797,412
Smith Barney Asset Mgmt.	50,000	-
TCW	210,254	173,852
TIMCO	168,236	136,614
UBS AM Equity	374,070	-
Waddell & Reed	59,828	276,537
Weiss, Peck & Greer	619,646	803,127
Wellington Capital	803,119	748,001
Total Equity	6,558,168	7,457,106
Bond Managers		
Alliance Capital	580,216	614,208
Criterion	296,473	281,831
Deutsche Asset Mgmt.	130,985	128,761
Frank Russell Trust	287,218	294,775
Lincoln Capital	240,578	432,233
Payden & Rygel	127,351	138,249
UBS AM Bonds	231,621	-
Total Bond	1,894,442	1,890,057
International Equity Managers		
Frank Russell Trust	1,302,653	1,500,025
MFS	145,538	153,064
Nicholas Applegate	143,667	173,026
Oechsle	206,499	248,626
Total International Equity	1,798,357	2,074,741
Real Estate Managers		
AFL-CIO Building Trust	108,880	-
Capital Associates Rlty.	623,087	532,561
J P Morgan	281,334	-
John Buck Company	187,500	196,875
Prudential Asset Mgmt.	479,367	461,195
Total Real Estate	1,680,168	1,190,631
Venture Capital Managers		
First Analysis	1,233,588	1,074,969
Frontenac Corp.	120,000	200,000
Invesco	41,706	71,412
Mesirow Financial	1,580,565	1,587,539
Midwest Mezzanine Fund	445,793	166,194
SB Partners	225,000	225,000
Total Venture Capital	3,646,652	3,325,114
Total	$ 15,778,745	$ 16,694,784

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Investments

Investments

June 27, 2003

Board of Trustees and Executive Director
Municipal Employees' Annuity & Benefit Fund of Chicago
221 N. LaSalle Street, Room #500
Chicago, Illinois 60601

"Going into 2002, investors are continuing to hope for a rebound. One ray of hope is that markets have not declined in three consecutive years in over sixty years."

This quote was taken directly from our concluding remarks in last years report concerning the markets of 2001. Guess what? 2002 was a record breaking year as markets declined for a third consecutive year for the first time in sixty years, and to add to the misery, the decline was wide spread and staggering. Large cap, small cap, growth, value; nothing was exempt. The S&P 500 fell by over 20%, declining by approximately 38% over the last three years. The pain was even more severe for smaller companies, where the Nasdaq Composite Index fell by over 30%, a loss in value of over 70% in the last three years. A bear market of historical proportions ravished investor portfolios. When you thought things couldn't get worse, they did. Investors were rocked by corporate scandals. Companies like Enron, Adelphia, Tyco and WorldCom were accused of fraudulent acts and gross misconduct. Investor holdings in these firms, stocks and bonds, became almost worthless in a very short period of time. These were not fly by night companies. These were well established, market leading firms that were investor darlings in the mid and late 90's. These events triggered a whirlwind of investor mistrust that impacted many companies just by association.

What was the play for 2002 then? Investors with larger allocations in fixed income securities were rewarded for their conservatism. Longer maturity treasuries were the top performers, returning over 15% to investors. Where equity markets collapsed, almost all fixed income instruments posted high single to double-digit returns. The high demand for a safe haven helped the fixed income market to prosper. Another investment that produced good returns during the year, for similar reasons, was real estate. The lure of a steady income stream, basically forgotten during the high growth equity craze, became an investor paradise. Investors pumped money into this market, pushing property prices higher and higher.

The domestic equity markets, however, did not suffer alone. International equity markets, once proposed as having a negative correlation with the domestic equity markets, shared in the pain. Countries such as Germany, France and Spain saw some of the most severe declines in value. Private equity investments also suffered. Not only did private equity valuations plummet, but new monies dried up as investors questioned their risk tolerance for this asset class. Also, general partners had a hard time finding appropriate investment opportunities. 2002 saw portions of investor commitments being returned as quality investment opportunities became few and far between.

2002 - Investment Activity

Through the investment policy, the Retirement Board seeks to blend various investment products with differing manager mandates in an attempt to maximize returns within an acceptable level of risk. The financial markets are regularly monitored and their effect on the Fund's portfolio is analyzed. In the short-run, modifications to the portfolio are minimal. We are long-term investors. We make no attempt to time the market by participating in momentum type investing. Portfolio changes are made to rebalance the portfolio to target allocations.

The allocation of assets is based on an asset mix that has the highest probability of accomplishing the investment goals and objectives of the Fund. In following this commitment to diversification, the Retirement Board made the following changes during the year:

1 Oppenheimer Capital, a large-cap value manager, was terminated due to poor performance. Approximately $300 million was transferred to the Northern Trust S&P500 Index account to help rebalance among manager styles.

2 Waddell & Reed, a small-cap growth manager, was terminated due to activities in conflict with account guidelines. Approximately $30 million was split evenly between two of the Fund's other small cap managers with similar mandates.

3 A core real estate search was completed during the year adding $70 million to the asset class. The following managers were hired:

AFL-CIO Building Investment Trust	$15 million
American Realty Advisors	$15 million
JP Morgan Fleming	$40 million

4 A large cap growth search for manager and style diversification and to meet target allocation ranges was initiated and finalized during the year.
The following managers were hired:

Holland Capital Management	$50 million
MacKay Shields	$50 million
Smith Barney Asset Mgmt.	$50 million
William Blair	$50 million

5 A core plus real estate search was completed during the year adding $18 million to the asset class. The following manager was approved:

John Buck Company	$18 million

6 Two passive products managed by Deutsche Asset Management were acquired by Northern Trust Global Investments. The assignment of the contract was approved.

7 Muller & Monroe, a minority-owned private equity fund of funds manager, was notified of a conditional $10 million commitment. Conditions regard total fund size and an acceptable contract.

8 The Investment Brokerage Policy was updated setting guidelines for investment managers to use local minority and women owned firms, subject to best execution.

2002 - Investment Performance

The rate of return for the year was –9.3% ranking the Fund in the 56th percentile compared to other public funds. The overall loss was disappointing, but the reduction in value was curbed by the Fund's commitment to diversification, and the overall conservative investment strategy. The December 31, 2002 funding ratio, represented by the actuarial asset value of assets as a percentage of the actuarial accrued liability, is 84.52%. Funding ratios have declined due to three consecutive years of disappointing market activity. The Fund's domestic equity exposure dropped to 50% of the portfolio compared to 56% in 2001. The overall return of the Fund's domestic equities was a –20.5%, outperforming the S&P 500, which lost –22.1%. The Fund's 36% allocation to bonds anchored the portfolio. The bond allocation returned 8.9%, underperforming the Lehman Aggregate Bond Index, which returned 10.3%. Underperformance was mainly attributable to credit difficulties in certain corporate bond holdings.

Investments

The Fund's investment policy is designed to maximize returns while minimizing risk. The actuarial rate of return for the total portfolio is conservatively set at 8% to avoid speculative investing and its inherent risk. Uncontrollable market factors will positively or negatively affect rates of return each year. Annualized returns for periods such as three and five years tend to eliminate market fluctuations. As such, they are a much better indication of the ability to meet stated investment objectives.

2002 – Operating Cash Flow Needs

For operating cash flow needs, $165 million was drawn from the investment portfolio over the year. Monies to pay benefits were taken from the Fund's bond allocation, which helped to rebalance the portfolio.

"A four-year streak of equity losses happened only once in the 20th century, the Great Depression (1929-1932)" Wall Street Journal (01/02/03). Let's hope 2003 does not tie this record.

I have included for your review the Master Custodian's certification letter for 2002, a summary of the Fund's investment policy and numerous investment schedules reflecting Fund activity for the year. I hope you find them useful and informative.

Sincerely,

James E. Mohler
Senior Investment Manager

Northern Trust

To the Board of Trustees and the Executive Director:

The Northern Trust Company as custodian ("Master Custodian") of assets of the Municipal Employees' Annuity and Benefit Fund of Chicago ("Fund") held by it in a custodial account (the "Account") has provided annual Statements of Account for the Account to the Fund which provide a complete and accurate reflection of The Northern Trust Company's record of the investments, receipts, disbursements, purchases and sales of securities and other transactions pertinent to the Account for the period January 1, 2002 through December 31, 2002.

In addition to the custody of assets in the Account, pursuant to and in accordance with the terms of the Master Custody Agreement among the Board of Trustees of the Fund and The Northern Trust Company dated April 1, 1996 as amended (the "Custody Agreement"), The Northern Trust Company provided and continues to provide the following services as Master Custodian:

1. Receive and hold all amounts paid to the Account by the Board of Trustees.
2. Accept and deliver securities in connection with investment transactions in the Account in accordance with the instructions of appointed Investment Managers.
3. Collect dividends and registered interest payments.
4. Collect matured or called securities and coupons to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.
5. Lend Securities in the Account pursuant to a Securities Lending Agreement entered into by and between the Board of Trustees and The Northern Trust Company.
6. Invest cash balances held from time to time in the individual investment management accounts of the Account in short term-cash equivalent securities.
7. Facilitate the exercising of rights of ownership, including but not limited to, proxy voting, stock subscriptions and conversion rights as directed by the Fund or its appointed investment managers.
8. Hold securities in the Account in the name of the Fund or nominee form or other means as provided in the Custody Agreement.
9. Use the Federal Book Entry Account System for deposit of Treasury securities and clearing corporations as defined in Article 8 of the Illinois Uniform Commercial Code for the deposit of securities.
10. Employ agents to the extent provided in the Custody Agreement.
11. Provide disbursement services.
12. Provide security fail float income to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.

THE NORTHERN TRUST COMPANY

By: Rita M. Curtin

Rita M. Curtin
Vice President

Investments

INVESTMENT MANAGERS *(As of December 31, 2002)*

AFL/CIO Building Investment Trust
Alliance Capital
American Institutional Realty Advisor
Ariel Capital
Bear Stearns Asset Management
Bear Stearns Realty
Capri Capital Associates
Deutsche Asset Management
First Analysis
Frank Russell Trust
Frontenac Corp.
Great Lakes Advisors
Holland Capital Management
Invesco
The John Buck Company
J.P. Morgan Fleming Asset Management
Keeley Asset Management
Lincoln Capital Management
MacKay Shields
Mesirow Financial
MFS International
Midwest Mezzanine Funds
Nicholas Applegate
The Northern Trust Company
Oechsle International
Payden & Rygel
Prudential Realty
SB Partners
SSB/Citi Asset Management
Travelers Investment Management Company
Trust Company of the West
UBS Global Asset Management
Weiss, Peck & Greer
Wellington Capital
WestAm Asset Management
William Blair & Company

Investment Authority and Responsibility

The authority granted to the Retirement Board (the Board) can be found in the Illinois Compiled Statutes, Chapter 40, Act 5, Section 8-201 and 8-201.1. Section 1-113 also defines investments deemed to be prudent. Any fiduciary with investment authority is required to discharge his, or her, duties with respect to a plan with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.

In order to clarify the roles and responsibilities of the Board and the various investment professionals engaged by the Board, the following responsibilities have been designated:

The Board assumes the responsibility for establishing an investment policy to guide the investment activity of the Fund.

The Board engages various managers to make investments in accordance with this policy and applicable statutes. These managers apply their professional judgment in making investment decisions. Managers are given full discretion within their assigned style and strategy to select, acquire, maintain and dispose of individual investments.

Description of Investment Policies, Objective and Guidelines

The Board established a three-phased program for implementing the investment policy of the Fund:

Phase 1 reduce risk and improve diversification through the use of multiple complementary managers,

Phase 2 establish objectives and guidelines for managing the Fund's assets, and

Phase 3 evaluate and refine the structure of managers established in phase 1 and the objectives and guidelines established in phase 2.

Phase 1 was implemented during 1983 through 1985. Continuing formal performance reviews have been held semi-annually since then. Phase 2 was created in 1987 and is reviewed periodically for continued relevancy to Fund liabilities. Phase 3 is ongoing as portfolio performance is compared to Fund objectives and guidelines.

The Retirement Board completed a review of its investment policy and manager structure in 2001. Based on this study the Board set the Fund's asset allocation parameters. Targets within these parameters are used to put the portfolio in an optimal position to achieve the Fund's long-term goals and objectives.

Investment Allocation Guidelines

Under the "Prudent Person Rule" the members of the Retirement Board are required to discharge their duties with respect to a plan, with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.

Diversification

The Fund's assets are diversified in several ways to minimize the risk of loss. Diversification is accomplished through the proper allocation of assets. The main allocation is to publicly traded stocks and bonds. Additional diversification is achieved by an allocation to international stocks and small allocations to real estate and venture capital. Diversification within asset classes based on investment objectives and management style is also utilized.

Investments

Performance Review

The rate of return of the Fund is compared annually against the actuarial assumed rate of return of 8%. The return is also compared with numerous market indices, including the Standard and Poor's 500 Stock Index and the Lehman Brothers Aggregate Bond Index. Target rates of return vary from one investment manager to another, depending upon the account's guidelines and the mutually agreed upon objectives. The return of the total Fund is also compared to a universe of other pension funds with similar structures.

Asset Allocation

As of December 31, 2002 the allocation of Fund assets at fair value compared to the Fund's determined parameters and target.

Vehicle	Range %	Target %	Actual%
U.S. Equities:			
Large	42-48%	45%	40%
Small/Mid	8-12%	10%	10%
Intl. Equities	8-12%	10%	3%
Bonds	24-28%	26%	36%
Real Estate	2-5%	5%	4%
Venture Capital	2-4%	4%	1%
Cash Equivalents	0%	0%	7%

Cash equivalents represent residual cash balances for individual managers and an operational cash flow reserve for approximately two months operating cash needs. Rebalancing is done periodically when needed. Monies drawn from investments to assist operating cash flow needs is mainly taken from vehicles that are over allocated compared to determined allocation ranges.

Investments (Fair to Book)
Periods Ended December 31, 2002 and December 31, 2001

Category	12/31/02 Fair Value	%	12/31/02 Book Value	%	12/31/01 Fair Value	%	12/31/01 Book Value	%
Bonds	$1,905,914,880	36%	$1,676,180,424	32%	$1,924,055,174	33%	$1,745,157,577	34%
Equities								
Domestic	2,614,386,490	50%	2,691,188,566	52%	3,235,851,164	56%	2,785,014,341	54%
International	142,178,316	3%	135,625,009	3%	165,900,890	3%	133,881,216	3%
Total Equities	2,756,564,806	52%	2,826,813,575	55%	3,401,752,054	59%	2,918,895,557	57%
Real Estate	186,189,857	4%	176,448,456	3%	122,232,996	2%	112,623,545	2%
Venture Capital	66,921,823	1%	136,131,990	3%	88,243,345	2%	128,920,004	2%
Cash Equivalents	350,178,691	7%	350,174,530	7%	255,073,738	4%	255,057,061	5%
Total Investments	$5,265,770,057	100%	$5,165,748,975	100%	$5,791,357,307	100%	$5,160,653,744	100%

Investments

Manager by Type & Percentage of Investments
As of December 31, 2002

	Fair Value	%
Bond Managers		
Alliance Capital	$556,165.508	10.6%
Criterion Asset Mgmt.	153,899,683	2.9%
Deutsche Asset Mgmt. Index	496,997,291	9.4%
Frank Russell	126,154,838	2.4%
Lincoln Capital	530,651,051	10.1%
Payden & Rygel	112,698,364	2.1%
UBS Bonds	173,428,151	3.3%
	2,149,994,886	40.8%
Domestic Equity Managers		
Alliance Capital	359,232,921	6.8%
Ariel Capital	390,920,412	7.4%
Bear Stearns	214,670,776	4.1%
Deutsche Asset Mgmt.	420,990,749	8.0%
Great Lakes Advisors	125,162,396	2.4%
Holland Capital	32,767,974	0.6%
Keeley Asset Mgmt.	120,590,967	2.3%
MacKay Shields	49,717,898	0.9%
Northern Trust Index	248,196,214	4.7%
Northern Trust Growth	11,594,646	0.2%
Smith Barney	50,927,412	1.0%
TCW	19,368,238	0.4%
TIMCO	37,986,162	0.7%
UBS Equity	152,314,594	2.9%
Weiss, Peck & Greer	150,677,711	2.9%
Wellington Capital	214,089,038	4.1%
William Blair	30,254,193	0.6%
	2,629,462,300	49.9%
International Equity Managers		
Frank Russell	142.332,295	2.7%
MFS International	23,371,464	0.4%
Nicholas Applegate	15,329,711	0.3%
Oechsle International	20,942,314	0.4%
	201,975,785	3.8%

Manager by Type & Percentage of Investments (Continued)
As of December 31, 2002

	Fair Value	%
Real Estate Managers		
AFL-CIO Building Trust	15,209,819	0.3%
Bear Stearns	182,361	0.0%
Capital Associates Apt. Fund	46,065,823	0.9%
JP Morgan Fleming	41,734,075	0.8%
John Buck Company	12,116,615	0.2%
Prudential	47,412,437	0.9%
Public Pension Fund II	24,410,911	0.5%
	187,132,040	3.6%
Venture Capital Managers		
Capital Fund Partners	2,229,045	0.0%
First Analysis	25,701,646	0.5%
Frontenac Corporation	620,094	0.0%
Invesco	5,533,897	0.1%
Mesirow Financial	15,437,234	0.3%
Mesirow Fund I	12,071,551	0.2%
Midwest Mezzanine Funds	8,755,458	0.2%
SB Partners	1,791,394	0.0%
	72,140,319	1.4%
Short-term Account		
Fund Balance	25,064,728	0.5%
Total Investments	$5,265,770,057	100.0%

Annual Investment Returns

Last six years

	2002	2001	2000	1999	1998	1997	Cumulative Annuals 3 Years	Cumulative Annuals 5 Years
TOTAL FUND								
The Fund	-9.3%	-2.3%	3.3%	9.8%	18.4%	19.9%	-2.9%	3.5%
Inflation + 3%	5.4%	4.6%	6.4%	5.7%	4.6%	6.6%	5.5%	5.3%
DOMESTIC STOCKS								
The Fund	-20.5%	-6.3%	0.0%	11.9%	25.2%	31.4%	-9.4%	0.8%
S & P 500 Stock Index	-22.1%	-11.9%	-9.1%	21.0%	28.6%	33.4%	-14.5%	-0.6%
BONDS								
The Fund	8.9%	8.1%	10.7%	-1.5%	9.0%	9.6%	9.2%	7.0%
Lehman Aggregate Bond Ind	10.3%	8.4%	11.6%	-0.8%	8.7%	9.7%	10.1%	7.5%

Investment returns are supplied by Becker, Burke Associates and are in compliance with AIMR standards.

Asset Allocation (Relative Fair Values)

Last six years

	2002	2001	2000	1999	1998	1997
Domestic Stocks	50%	56%	57%	59%	56%	49%
Bonds	36%	33%	31%	28%	32%	37%
Real Estate	4%	2%	2%	2%	2%	3%
Venture Capital	1%	2%	2%	2%	2%	3%
International Stocks	3%	3%	3%	4%	3%	4%
Short-term	7%	4%	5%	5%	5%	4%
Investment Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Investments

Fifteen Largest Investment Holdings
Year Ended December 31, 2002

Type of Investment	Name of Investment	($) Fair Value	% of Invested Assets
Commingled Bond Fund	BT Pyramid Broad Market Bond Fund	$496,997,291	9.4%
Commingled Short-term Fund	Northern Trust Short-term Investment Funds	348,388,170	6.6%
Commingled Equity Fund	Northern Trust S&P500 Equity Index Fund	248,196,184	4.7%
Commingled Int'l Equity Fund	Frank Russell International Fund	78,111,919	1.5%
Mortgage Back	FNMA 30 Year / 6.0%	65,520,613	1.2%
Commingled Bond Fund	UBS Securitized Mortgage Fund	63,590,350	1.2%
Common Stock	Citigroup Inc.	54,556,042	1.0%
Common Stock	Microsoft Inc.	53,888,047	1.0%
Mortgage Back	FNMA 30 Year / 6.5%	53,806,594	1.0%
Common Stock	Pfizer Inc.	41,837,246	0.8%
Real Estate Fund	JP Morgan Strategic Property Fund	41,734,077	0.8%
Real Estate Fund	Capital Associates Apartment Fund	41,547,513	0.8%
Common Stock	Johnson & Johnson Co.	37,092,985	0.7%
Common Stock	General Electric Company	35,395,330	0.7%
Treasury Note	U.S. Treasury Note 3.25% / 5-31-04	35,174,741	0.7%
	Total	**$1,695,837,103**	**32.2%**

Note: A complete listing of the portfolio holdings are available for review at the Fund office.

Investments

Investment Brokerage Commissions As of December 31, 2002

Broker Name	($) Commissions	(#) Shares	($) Cost per Share
Merrill Lynch Pierce Fenner & Smith	$396,501	8,567,363	$0.046
Lynch Jones & Ryan	354,081	6,853,389	0.052
Investment Technology Group	330,898	19,786,861	0.017
Loop Capital Markets/Broadcort	307,642	6,109,272	0.050
Goldman Sachs & Company	183,493	4,715,799	0.039
Correspondent Services Corp.	179,728	3,599,580	0.050
Credit Suisse First Boston Corp.	165,160	3,126,166	0.053
Smith Barney Inc.	164,183	3,359,579	0.049
Morgan Stanley & Co. Inc. New York	154,823	2,945,372	0.053
Frank Russell Sec/Broadcort	143,353	2,742,500	0.052
Broadcort Capital Corp.	128,569	2,569,300	0.050
Lehman Brothers Inc.	125,678	3,090,710	0.041
Autranet Equity Trades	121,752	2,042,779	0.060
UBS Warburg Dillon Read LLC	120,550	3,055,856	0.039
J.P. Morgan Securities Inc.	118,459	2,338,738	0.051
Bear Stearns Securities Corp.	106,062	2,105,604	0.050
Jefferies & Company	96,818	2,073,122	0.047
Banc/America Secur. Montgomery Div.	86,618	1,704,272	0.051
Weed & Co	77,815	1,729,248	0.045
Deutsche Bank Securities Inc.	74,055	1,762,590	0.042
Prudential Securities Incorp.	67,435	1,355,625	0.050
Bernstein, Sanford C. & Co.	64,752	1,265,427	0.051
Jones & Associates	58,630	1,168,200	0.050
Instinet	45,491	2,590,547	0.018
SG Cowen and Company	39,229	881,205	0.045
CIBC World Markets Corp. New York	34,532	696,400	0.050
Becker Burke Associates Inc.	33,956	566,300	0.060
Bridge Trading Company	33,912	702,916	0.048
Berean Capital Inc II	33,002	660,049	0.050
Frank Russell Inc.	28,021	566,000	0.050
Managers with < $25,000 of Commissions	581,160	13,323,090	0.044
Total Broker Commissions as of 12/31/2002	**$4,456,359**		**$0.047**
Domestic trading			

Broker commissions are accounted for as an additional cost to a security when purchased, and as a reduction to the cash received when sold.

Actuarial

GABRIEL, ROEDER, SMITH & COMPANY
CONSULTANTS & ACTUARIES

20 North Clark Street ● Suite 1100 ● Chicago, IL 60602●312-456-9800 ● Fax 312-456-9801

April 8, 2003

The Retirement Board of the
Municipal Employees' Annuity and Benefit
Fund of Chicago
221 North LaSalle Street, Suite 500
Chicago, Illinois 60601

Subject: **Actuarial Certification**

Gentlemen:

At your request, we have performed an actuarial valuation for the Municipal Employees' Annuity and Benefit Fund of Chicago ("the Fund") as of December 31, 2002. An actuarial valuation of the Fund is performed annually. The valuation has been performed to measure the funding status of the Fund and determine the contribution for 2003. It includes disclosure information required under GASB Statement No. 25 and Statement No. 27. The assumptions and methods used were selected by the actuary and meet the parameters set for the disclosure presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25.

We have provided the supporting schedules for the actuarial section of the comprehensive annual financial report, including:

- Active Member Valuation Data
- Retirements and Beneficiaries Added to and Removed from Rolls
- Solvency (Termination) Test
- Analysis of Financial Experience

We have also provided the following schedules for the financial sections of the report. We relied on information from the prior actuary for years before 1999.

- Schedule of Funding Progress
- Schedule of Employer Contributions

This valuation is based upon:

a) **Data Relative to the Members of the Fund**—Data for active members was provided by the Fund's staff. Data utilized for persons receiving benefits from the Fund was also provided by the Fund's staff. We have tested this data for reasonableness.
b) **Asset Values**—The values of assets of the Fund were provided by the Fund's staff. An actuarial value of assets was used to develop actuarial results for GASB Statement No. 25 and Statement No. 27.
c) **Actuarial Method**—The actuarial method utilized by the Fund is the Entry-Age Actuarial Cost Method. The objective of this method is to recognize the costs of Fund benefits over the entire career of each member as a level of percentage of compensation. Any Unfunded Actuarial Accrued Liability (UAAL), under this method is separately amortized. All actuarial gains and losses under this method are reflected in the UAAL.
d) **Actuarial Assumptions**—The same actuarial assumptions as last year were used for this valuation. They are set out in the following pages.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of the Fund when due. The provision of State Law establishing the Fund constrains employer contributions to be 1.25 times the employee contribution level in the second prior fiscal year. Thus, with an administrative lag, the employer contribution is designed to match the employee contribution in a 1.25:1 relationship. The most recent actuarial valuation of the Fund on the State reporting basis shows that a ratio of 1.35 is needed to adequately finance the Fund.

The valuation results set out in this report are based on the data and actuarial techniques described above, and upon the provisions of the Fund as of the valuation date. Based on these items, we certify these results to be true and correct.

Gabriel, Roeder, Smith and Company

Michael R. Kivi, F.S.A.
Senior Consultant

Alex Rivera, A.S.A.
Senior Consultant

Table 1
Summary Of Actuarial Valuation

		December 31, 2001		December 31, 2002	% Change
Actuarial Values					
Termination Values					
Liability	$	4,434,004,223	$	4,768,588,091	7.55 %
Assets - Actuarial Value		6,466,797,543		6,403,982,494	(0.97)%
Deficiency/(Excess)		(2,032,793,320)		(1,635,394,403)	(19.55)%
Funded Ratio		**145.85%**		**134.30%**	**(7.92)%**
GASB #25 Values					
Actuarial Liability	$	6,934,176,477	$	7,577,100,377	9.27 %
Assets - Actuarial Value		6,466,797,543		6,403,982,494	(0.97)%
Unfunded Liabilty (Surplus)		467,378,934		1,173,117,883	151.00 %
Funded Ratio		**93.26%**		**84.52%**	**(9.37)%**
Annual Required Contribution (ARC)	$	92,711,870	$	158,614,805	**71.08 %**
Market Values					
Actuarial Liability	$	6,934,176,477	$	7,577,100,377	9.27 %
Assets - Market Value		5,820,765,697		5,128,210,403	(11.90)%
Unfunded Liability		1,113,410,780		2,448,889,974	119.94 %
Funded Ratio		**83.94%**		**67.68%**	**(19.37)%**
Book Values					
Actuarial Liability	$	6,934,176,477	$	7,577,100,377	9.27 %
Assets - Book Value		5,190,062,134		5,028,189,321	(3.12)%
Unfunded Liability (Surplus)		1,744,114,343		2,548,911,056	46.14 %
Funded Ratio		**74.85%**		**66.36%**	**(11.34)%**

Summary Of Actuarial Valuation (continued)

	December 31, 2001	December 31, 2002	% Change
Assets			
Market Value - Beginning of Year	$ 6,126,238,249	$ 5,820,765,697	(4.99)%
Income			
Investment Income	(158,373,573)	(538,062,313)	239.74 %
Employer Contributions	131,439,834	130,966,381	(0.36)%
Employee Contributions	118,240,723	128,395,307	8.59 %
Subtotal	91,306,984	(278,700,625)	(405.23)%
Outgo (Refunds, Benefits & Expenses)	396,779,536	413,854,669	4.30 %
Net Change	(305,472,552)	(692,555,294)	126.72 %
Market Value - End of Year	$ 5,820,765,697	$ 5,128,210,403	(11.90)%
Book Value - Beginning of Year	$ 5,101,919,939	$ 5,190,062,134	1.73 %
Income			
Investment Income	235,241,174	(7,379,832)	(103.14)%
Employer Contributions	131,439,834	130,966,381	(0.36)%
Employee Contributions	118,240,723	128,395,307	8.59 %
Subtotal	484,921,731	251,981,856	(48.04)%
Outgo (Refunds, Benefits & Expenses)	396,779,536	413,854,669	4.30 %
Net Change	88,142,195	(161,872,813)	(283.65)%
Book Value - End of Year	$ 5,190,062,134	$ 5,028,189,321	(3.12)%
Actuarial Value - Beginning of Year	$ 6,297,976,257	$ 6,466,797,543	2.68 %
Income			
Investment Income	315,920,265	91,677,932	(70.98)%
Employer Contributions	131,439,834	130,966,381	(0.36)%
Employee Contributions	118,240,723	128,395,307	8.59 %
Subtotal	565,600,822	351,039,620	(37.94)%
Outgo (Refunds, Benefits & Expense)	396,779,536	413,854,669	4.30 %
Net Change	168,821,286	(62,815,049)	(137.21)%
Actuarial Value - End of Year	$ 6,466,797,543	$ 6,403,982,494	(0.97)%

Summary of Actuarial Valuation (continued)

	December 31, 2001	December 31, 2002	% Change
Members			
Active [1]	36,679	35,522	(3.15)%
Inactive	9,551	11,137	16.61 %
Retirees [2]	15,365	15,550	1.20 %
Survivors	4,525	4,517	(0.18)%
Disabilities	505	389	(22.97)%
Children	198	212	7.07 %
Payroll Data			
Valuation Payroll	$ 1,375,048,892	$ 1,377,909,441	0.21 %
Average Salary	37,489	38,790	3.47 %

1. Active members include disabled employees.
2. Retired members included deferred employee annuitants.

Discussion of Valuation Results

The actuarial report sets out the results of the actuarial valuation of the Municipal Employees' Annuity and Benefit Fund of Chicago ("the Fund") as of December 31, 2002. The purposes of the actuarial valuation are:

1. To develop the minimum actuarially determined contribution for 2003.
2. To develop the annual required contribution (ARC) under GASB #25.
3. To develop the annual pension cost under GASB #27.
4. To review the funding status of the Fund.

The funded status in basic terms is a comparison of the Fund's liabilities to assets expressed as either unfunded liability or as a ratio of assets to liabilities. This comparison can be measured in various ways. Fund liabilities are dependent on the actuarial assumptions and actuarial cost method. Fund assets can be measured at market value, book value, or some variation to smooth the fluctuations that invariably occur from year to year.

For Fund and City financial reports, the funding status is measured using liabilities under the Entry Age Normal funding method and the Actuarial Value of Assets. The Actuarial Value of Assets is determined by annually spreading the difference between expected and actual investment earnings over a five-year period.

Summary of Results

The annual required contributions (ARC) under GASB #25 for the year ending December 31, 2003 is $158.6 million. This amount is net of employee contributions of $120.0 million. The ARC last year, for the year ending December 31, 2002, was $92.7 million. The ARC is determined using the Actuarial Value of Assets and a forty-year level dollar amortization of the unfunded actuarial liability.

The Unfunded Actuarial Liability increased from $467 million to $1,173 million during the year, resulting in a change in funding ratio from 93.3% to 84.5%. The increase in the Unfunded Actuarial Liability is largely attributable to a loss on the Actuarial Value of Assets and a change in plan provisions. A more thorough examination of these and other factors can be found in the Analysis of Financial Experience (gain/loss analysis) in Table 4.

Based on the Market Value of Assets, the Unfunded Actuarial Liability increased from $1,113 million to $2,449 million, and the funded ratio decreased from 83.9% to 67.7%.

Actuarial

Plan Membership

The major characteristics of the data on the members of the Fund are summarized as follows:

Table 2
Plan Membership

	December 31, 2001	December 31, 2002
Active Members		
Number	36,679	35,522
Vested	16,439	16,347
Non-vested	20,240	19,175
Average Age	45.4	45.6
Average Service	10.0	10.5
Average Annual salary	$37,489	$38,790
Inactive Members		
Number	9,551	11,137
Average Age	43.7	43.5
Average Service	3.43	3.55
Retirees		
Number	15,365	15,550
Average Age	73.0	73.1
Average Annual Benefit	$20,364	$21,211
Surviving Spouse		
Number	4,525	4,517
Average Age	76.3	76.4
Average Annual Benefit	$10,435	$10,639
Children	198	212
Total Members	66,318	66,938

Total members receiving benefits under the Fund increased 0.9% during 2002 from 19,890 to 20,067. Total expenditures for benefits increased from $371 million in 2001 to $387 million during 2002, or 4.3%.

Changes in Provisions of the Fund

PA 92-0599 and PA 92-0609 were passed in 2002, and made the following changes to the Fund Provisions:

1. The benefit multiplier was changed from 2.2% to 2.4% for new retirees. The benefit maximum was changed to 80% of final average salary from 75%. The spouse annuity uses the same increased multiplier, and the spouse is entitled to 50% of the annuity earned if the participant has more than 10 years of service

2. Timing of the first COLA increase for retirees was changed. For participants retiring prior to age 60, the first increase occurs no later than the later of either of the participant's third anniversary or reaching age 53. Increases apply only to life annuities.

3. The ordinary disability benefit will no longer be reduced for employee contributions, but disabled participants will still be credited with the amount that they would have contributed. The amount credited will not be refunded to employees who terminate and elect a refund.

4. Chicago Housing Authority and the Public Building Commission were added to the eligible employer list. Also included were provisions pertaining to the transfer of prior service with either of the organizations to the Municipal Employees' fund.

5. The age restriction was removed for inclusion of an adopted child and the service restriction was removed for all children's annuities; previously children adopted after age 55 were not included and there was a minimum of four years of service required for children's benefits.

6. Group health benefits were made available through 2003, changed from 2002.

7. Miscellaneous changes were made with respect to the aldermanic plan provisions and with respect to the voluntary transfer of credits and service in the Police Fund under certain conditions.

Discussion of Actuarial Assumptions

Actuarial assumptions are used to project future demographic and economic expectations for purposes of valuing the liabilities of the plan. The assumptions should reflect current patterns. However, their primary orientation is the long-term outlook for each factor affecting the valuation. Thus, while actual experience will fluctuate over the short run, actuarial assumptions are chosen in an attempt to model the future long run experience.

There are two general types of actuarial assumptions:

1. Demographic Assumptions - reflect the flow of participants into and out of a retirement system, and
2. Economic Assumptions - reflect the effect of the economic climate on a retirement system.

Demographic assumptions can be readily studied over recent plan experience. Economic assumptions can be studied against recent experience; however, future experience is more likely to be a result of outside factors than of plan specifics. The most significant demographic assumptions are active turnover, retirement, and post-retirement mortality. The most significant economic assumptions are pay increases, investment return, and inflation. Other actuarial assumptions include disability incidence, active mortality, and percent married.

2002 Experience Analysis

The Fund had an investment loss in 2002 of $998 million relative to the 8% expected rate of return on a market value basis. The loss on an actuarial basis relative to the 8% expected rate of return was $420 million due to the deferred recognition of investment gains and losses.

Individual salary increases varied among plan participants but the overall increase was slightly lower than anticipated by the actuarial assumptions, resulting in an experience gain of $9 million.

There was an additional loss of $49 million from all other factors, including actual retirement, termination, disability, mortality experience, and data changes. This is about 0.7 percent of the December 31, 2002 liabilities, which is a reasonable variation.

Table 4 summarizes the experience gains and losses for the year.

Changes in Assumptions

There have been no changes in actuarial assumptions reflected in this valuation.

Actuarial

Table 3

Summary Of Basic Actuarial Values

	APV of Projected Benefits	2003 Normal Cost
(1) Values for Active Members		
(a) Retirement	$4,741,306,515	$ 128,218,740
(b) Termination	208,601,357	22,425,917
(c) Death	131,555,081	6,141,076
(d) Health Insurance	65,356,985	2,313,038
(e) Disability, Children's Benefit and Reciprocal	454,978,883	13,861,235
(f) Expenses of Administration	0	4,557,088
Total for Actives	$5,601,798,821	$ 177,517,094
(2) Values for Members in Payment Status	3,551,167,505	0
(3) Grand Totals	$9,152,966,326	$ 177,517,094
Actuarial Present Value of Future Compensation		$12,797,629,239

Table 4

Analysis of Financial Experience

	2002	2001	2000	1999	1998
Unfunded Actuarial Accrued Liability (UAAL), Beginning of Year	$467,378,934	$367,203,474	$544,458,071	$1,121,870,701	$792,024,442
(Gains) Losses During the Year Attributable to:					
Contributions in excess of Normal Cost plus Interest	(50,118,958)	(61,169,938)	(116,656,502)	45,300,907	(70,978,306)
(Gain) Loss on Investment Return	419,605,037	182,147,072	102,925,143	(569,034,392)	(455,984,652)
(Gain) Loss from Salary Changes	(8,665,613)	118,932,900	(179,627,774)	30,493,969	(54,094,521)
(Gain) Loss from Retirement, Termination and Mortality	49,293,343	(139,734,574)	16,104,536	47,080,346	146,470,875
(Gain) Loss from Data Corrections					
Differences in Liabilities from Prior Actuary				(422,338,196)	
Change in Methodology				291,084,736	
Change in Assumptions					10,593,807
Plan Amendments	295,625,140				753,839,056
Net Increase (Decrease) in UAAL	705,738,949	100,175,460	(177,254,597)	(577,412,630)	329,846,259
Unfunded Actuarial Accrued Liability (UAAL), End of Year	$1,173,117,883	$467,378,934	$367,203,474	$544,458,071	$1,121,870,701

Table 5

Actuarial Reserve Liabilities
As of December 31, 2002

Accrued Liabilities for Active Participants	$ 3,698,930,282
Reserves For:	
Service Retirement Pension	$ 2,835,367,510
Future Spouses of Current Retirees	350,935,593
Ordinary Disability Benefits	196,510,364
Duty Disability Benefits	52,093,954
Surviving Spouse Pension	322,279,980
Health Insurance Supplement	42,584,422
Children Annuitants	16,247,193
Reciprocal Benefits	62,151,079
Total Accrued Liabilities	$7,577,100,377
Unfunded Actuarial Liabilities	$1,173,117,883
Actuarial Net Assets	$6,403,982,494

Table 6

Statutory Reserves
As of December 31, 2002

	Annuity Payment Fund	Prior Service Fund	Total
Statutory Reserve			
Retirees	$ 719,185,161	$ 2,382,570,051	$ 3,101,755,212
Future Surviving Spouses	$ 159,466,821	$ 208,153,348	$ 367,620,169
Spouses	$ 134,050,343	$ 173,368,114	$ 307,418,457
Annual Benefits			
Retirees	$ 93,182,611	$ 236,558,824	$ 329,741,435
Future Surviving Spouses	N/A	N/A	N/A
Spouses	$ 19,025,842	$ 29,032,444	$ 48,058,286

Statutory reserves are based on the Combined Annuity Mortality Table at 3% interest.

Table 7

Actuarial Accrued Liability Prioritized Solvency Test

Last ten years

Valuation Date 12/31	(1) Active Member Contribution	(2) Retirees and Beneficiaries	(3) Active Members (ER Financed Portion)	Actuarial Value of Assets	Portion (%) of Present Value Covered By Assets (1)	(2)	(3)
1993[2]	$667,556,151	$1,921,282,257	$957,323,830	$3,044,072,035	100.00%	100.00%	47.55%
1994	742,348,747	1,916,914,202	1,065,084,447	3,129,379,505	100.00%	100.00%	44.14%
1995	805,024,007	1,952,562,309	1,125,704,254	3,466,557,418	100.00%	100.00%	62.98%
1996	860,474,026	2,001,416,124	1,117,048,458	3,907,997,927	100.00%	100.00%	93.65%
1997[1,2]	935,038,744	2,251,886,541	2,072,219,872	4,467,100,715	100.00%	100.00%	61.78%
1998[1,2]	865,320,511	3,508,852,569	1,950,542,822	5,202,095,202	100.00%	100.00%	42.45%
1999[1,3]	881,590,795	3,357,380,909	2,323,327,481	6,017,841,114	100.00%	100.00%	76.57%
2000	986,495,384	3,380,841,203	2,297,843,144	6,297,976,257	100.00%	100.00%	84.02%
2001	1,052,749,399	3,381,254,824	2,500,172,254	6,466,797,543	100.00%	100.00%	81.31%
2002[2]	1,217,420,586	3,551,167,505	2,808,512,286	6,403,982,494	100.00%	100.00%	58.23%

1. Change in actuarial assumptions
2. Change in benefits
3. Change in actuary

The prioritized solvency test is another means of checking a system's progress under its funding program, based on the Actuarial Accrued Liability. In this test the plan's present assets (cash and investments) are compared with obligations in order of priority: (1) active member contributions on deposit; (2) the present value of future benefits to present retired lives; (3) the employer financed portion for present active members. In a system that has been following the discipline of financing, the obligation for active member contributions on deposit (present value 1) and the present value of future benefits to present retired lives (present value 2) will be fully covered by present assets (except in rare circumstances). In addition, the Actuarial Accrued Liability for present active members (present value 3) will be partially covered by the remainder of present assets. Generally, if the system has been following a system of amortizing the Unfunded Liability, the funded portion of present value (3) will increase over time.

Table 8

Development Of Actuarial Value Of Assets As Of December 31, 2002

(1) Expected Return on Market Value of Assets for Prior Year	
(a) Market Value of Assets as of 12/31/2001	$5,820,765,697
(b) Actual Income and Disbursements in Prior Year Weighted for Timing	

Item	Amount	Weight for Timing	Weighted Amount
i) Member Contributions	$ 128,395,307	50.0%	$ 64,197,654
ii) City Contributions & Misc.	130,966,381	50.0%	65,483,191
iii) Benefit Payments	(386,871,664)	50.0%	(193,435,832)
iv) Refunds	(22,425,917)	50.0%	(11,212,959)
v) Administration	(4,557,088)	50.0%	(2,278,544)
vi) Total			$ (77,246,490)

(c) Market Value of Assets Adj. for Actual Income and Disbursements [(a) + (b)(vi))]	$5,743,519,207
(d) Assumed Rate of Return on Plan Assets for the Year	8.00%
(e) Expected Return [(c) * (d)]	$ 459,481,537
(2) Actual Return on Market Value of Assets for Prior Year	
(a) Market Value of Assets as of 12/31/2001	$5,820,765,697
(b) Income (less investment income) for Prior Plan Year	259,361,688
(c) Disbursements Paid in Prior Year	413,854,669
(d) Market Value of Assets as of 12/31/2002	5,128,210,403
(e) Actual Return [(d) + (c) - (b) - (a)]	$ (538,062,313)
(3) Investment Gain/(Loss) for Prior Year	$ (997,543,850)
(4) Actuarial Value of Assets as of 12/31/2002	
(a) Market Value of Assets as of 12/31/2002	$5,128,210,403
(b) Deferred Investment Gains and (Losses) for Last 5 Years	

	Plan Year	Gain/(Loss)	Weight for Timing	Deferred Amount
i)	1998	-	0.00%	-
ii)	1999	$ 63,148,044	20.00%	12,629,609
iii)	2000	(262,033,541)	40.00%	$ (104,813,416)
iv)	2001	(642,588,674)	60.00%	(385,553,204)
v)	2002	(997,543,850)	80.00%	(798,035,080)
vi)	Total	$ (1,839,018,021)		$(1,275,772,091)

(c) Actuarial Value of Assets [(a) - (b) (vi)]	$6,403,982,494

The calculated value is determined by adjusting the market value of assets to reflect the investment gains and losses (the difference between the actual investment return and the expected investment return) during each of the last 5 years at the rate of 20% per year.

Table 9

Annual Required Contributions Of Employer And Trend Information

Last ten years

Year	Annual Required Contribution (ARC) of the Employer[1]	Required Statutory Basis[2]	Actual[3]	Percent of ARC Contributed
1993	$114,286,388	$131,552,200	$133,957,499	117.21%
1994	121,536,892	133,637,250	137,076,271	111.16%
1995	127,020,331	155,935,200	159,275,835	125.39%
1996	123,313,173	150,244,150	152,556,327	123.71%
1997	100,278,969	153,004,815	156,832,214	156.40%
1998	108,174,346	152,248,055	158,564,165	146.58%
1999	157,514,076	117,813,120	119,644,186	75.96%
2000	93,016,467	136,727,040	140,171,920	150.70%
2001	83,526,133	130,199,616	131,439,834	157.36%
2002	92,711,870	131,500,800	130,966,381	141.26%

1. Under Normal Cost plus 40 Year Level-Dollar Amortization. Negative ARC values are set to zero, as no contribution is then required
2. Tax levy after 4% loss
3. Net tax levy plus miscellaneous. Includes prior year adjustments for taxes beginning in 1991

Annual Required Contributions Of Employer And Trend Information (continued)

Year	Assets Available for Benefits as a % of Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (Surplus) as a % of Covered Payroll End of Year	Employer Contribution as a % of Covered Payroll Beginning of Year
1993	75.98%	97.16 %	13.18%
1994	74.03%	101.60 %	13.84%
1995	78.67%	86.38 %	14.74%
1996	86.57%	56.34 %	14.02%
1997	84.94%	66.43 %	14.57%
1998	82.26%	96.00 %	13.30%
1999	91.70%	42.97 %	10.24%
2000	94.49%	29.53 %	11.06%
2001	93.26%	33.99 %	10.57%
2002	84.52%	85.14 %	9.52%

Table 10

Active Participating Member Valuation Data

Last ten years

Year End	Members in Service	Percent Increase	Annual Salaries	Percent Increase	Average Salary	Percent Increase	Actuarial Salary Assumption	CPI Chicago
1993	34,489	(2.98)%	$ 990,566,232	(2.55)%	$28,721	0.45 %	6.00%	3.00 %
1994	36,254	5.12 %	$ 1,080,425,256	9.07 %	$29,802	3.76 %	6.00%	2.20 %
1995	35,514	(2.04)%	$ 1,087,913,784	0.69 %	$30,633	2.79 %	6.00%	3.20 %
1996	35,020	(1.39)%	$ 1,076,057,784	(1.09)%	$30,727	0.31 %	6.00%	2.70 %
1997	34,839	(0.52)%	$ 1,192,286,688	10.80 %	$34,223	11.38 %	5.00%	2.70 %
1998	33,119	(4.94)%	$ 1,168,639,224	(1.98)%	$35,286	3.11 %	5.00%	2.01 %
1999	35,868	8.30 %	$ 1,267,181,658	8.43 %	$35,329	0.12 %	5.00%	2.57 %
2000	36,089	0.62 %	$ 1,243,439,345	(1.87)%	$34,455	(2.47)%	5.00%	4.03 %
2001	36,679	1.63 %	$ 1,375,048,892	10.58 %	$37,489	8.80 %	5.00%	0.82 %
2002	35,522	(3.15)%	$ 1,377,909,441	0.21 %	$38,790	3.47 %	5.00%	2.50 %
Average Increase (Decrease) for the Last 5 years		0.49%		3.07%		2.61%		2.39%

Table 11

Retirees And Beneficiaries Added To and Removed From Payrolls

Last ten years

Employee Annuitants (Male or Female)

	Added to Payroll		Removed from Payroll		Payroll End of Year		Average Annual	Increase in Average
Year	No.	Ann. Benefits	No.	Ann. Benefits	No.	Ann. Benefits	Benefit	Benefit
1993	3,043	$59,219,491	711	$4,530,997	13,544	$189,611,382	$14,000	16.34%
1994	567	10,332,338	698	8,079,926	13,413	191,863,794	14,304	2.18%
1995	650	13,551,155	676	7,915,427	13,387	197,499,522	14,753	3.14%
1996	708	10,683,679	647	3,644,502	13,448	204,538,699	15,210	3.09%
1997	564	19,294,719	639	8,688,841	13,373	215,144,576	16,088	5.78%
1998	3,135	94,348,388	670	9,714,702	15,838	299,778,262	18,928	17.65%
1999	640	7,574,818	725	3,278,538	15,717	304,074,542	19,347	2.21%
2000	593	8,293,448	780	5,050,261	15,530	307,317,729	19,789	2.28%
2001	557	9,504,016	725	3,987,228	15,362	312,834,517	20,364	2.91%
2002	910	20,996,020	726	4,089,101	15,546	329,741,436	21,211	4.16%

Surviving Spouse Annuitants (Not Including Compensation)

	Added to Payroll		Removed from Payroll		Payroll End of Year		Average Annual	Increase in Average
Year	No.	Ann. Benefits	No.	Ann. Benefits	No.	Ann. Benefits	Benefit	Benefit
1993	317	$1,955,074	252	$1,049,931	4,244	$19,673,396	$4,636	3.22%
1994	314	2,046,301	273	1,136,691	4,285	20,583,006	4,804	3.62%
1995	305	2,890,172	257	1,139,401	4,333	21,424,167	4,944	2.93%
1996	298	1,898,417	251	1,059,543	4,380	22,263,041	5,083	2.80%
1997	311	9,943,282	254	1,119,717	4,437	31,086,606	7,006	37.84%
1998	325	15,996,513	280	1,811,449	4,482	45,271,671	10,101	44.71%
1999	312	3,499,596	280	2,821,399	4,514	46,074,319	10,207	1.05%
2000	344	3,308,638	250	1,882,218	4,608	47,500,739	10,308	0.99%
2001	277	3,318,509	360	3,598,708	4,525	47,220,540	10,435	1.23%
2002	294	3,671,626	302	2,833,880	4,517	48,058,286	10,639	1.96%

Actuarial Methods and Assumptions
As of December 31, 2002

Actuarial Cost Method

An Actuarial Cost Method is a set of techniques used by the actuary to develop contribution levels under a retirement plan. The principal Actuarial Cost Method used in this valuation is the Entry Age Actuarial Cost Method. Under this Method, a Normal Cost is developed by amortizing the actuarial value of benefits expected to be received by each active participant over the total working lifetime of that participant, from hire to termination.

To the extent that current assets and future Normal Costs do not support participants' expected future benefits, an Unfunded Actuarial Accrued liability ("UAAL") develops. The UAAL is generally amortized over a defined period of time (e.g., 40 years). The total contribution developed under this method is the sum of the Normal Cost and the payment toward the UAAL.

Experience gains (losses) decrease (increase) the UAAL and thus are amortized as part of the UAAL.

Actuarial Assumptions

Demographic Assumptions
Mortality: 1983 Group Annuity Mortality Table set forward two years. Adopted 1997.

Rates of Retirement: Rates varying by age and sex. Adopted 1998.
See table below for sample values.

	Entry Ages *Male*									
Age	**22**	**27**	**32**	**37**	**42**	**47**	**52**	**57**	**62**	**67**
40	0.001	0.002								
50	0.001	0.001	0.001	0.002						
55	0.300	0.300	0.050	0.010	0.002					
60	0.700	0.200	0.100	0.070	0.030	0.020	0.020	0.010		
65	0.700	0.700	0.350	0.400	0.400	0.300	0.250	0.100	0.100	
70	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

	Entry Ages *Female*									
Age	**22**	**27**	**32**	**37**	**42**	**47**	**52**	**57**	**62**	**67**
40	0.002	0.002								
50	0.001	0.001	0.001	0.002						
55	0.300	0.300	0.100	0.020	0.002					
60	0.500	0.250	0.100	0.100	0.050	0.030	0.020	0.050		
65	0.300	0.400	0.350	0.300	0.400	0.250	0.200	0.150	0.080	
70	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Actuarial

Rates of Termination: Rates varying by age and sex. Adopted 1998. See table below for sample values.

Entry Ages *Male*										
Age	22	27	32	37	42	47	52	57	62	67
25	0.210									
30	0.090	0.190								
35	0.030	0.090	0.120							
40	0.013	0.030	0.070	0.070						
45	0.004	0.013	0.036	0.050	0.076					
50		0.004	0.011	0.030	0.054	0.074				
55				0.007	0.008	0.040	0.062			
60						0.003	0.020	0.032		

Entry Ages *Female*										
Age	22	27	32	37	42	47	52	57	62	67
25	0.017									
30	0.120	0.158								
35	0.062	0.120	0.094							
40	0.026	0.056	0.054	0.062						
45	0.007	0.011	0.022	0.050	0.088					
50			0.007	0.030	0.050	0.058				
55				0.007	0.022	0.044	0.064			
60						0.001	0.050	0.042		

Economic Assumptions

Investment Return Rate: 8.00% per annum (net of investment expense). This assumption contains a 3% inflation assumption and a 5% real rate of return assumption. Adopted 1999.

Future Salary Increases: The assumed rate of individual salary increases is 5.0% per year. The salary assumption includes a 3% inflation and 2% merit and longevity assumption. Adopted 1997.

Asset Value: The Actuarial Value of Assets is smoothed by using a five-year phase-in of each year's unexpected investment gains and losses. Adopted 1999.

Other Assumptions

Marital Status: It is assumed that 85% of members have an eligible spouse. The male spouse is assumed four years older than the female spouse. No assumption is made about other dependents. Adopted 1999.

Group Health Insurance: It is assumed for valuation purposes that the current health insurance supplement will continue for life for all employee annuitants (and their future surviving spouses). The amount of the Fund paid health insurance from January 1, 1993 until June 30, 2002 is $75.00 per month for each annuitant (employees and surviving spouses) not qualified to receive Medicare benefits, and $45.00 if qualified. It is assumed that all annuitants age 65 and older will be eligible for Medicare and all annuitants less than age 65 will not be eligible for Medicare. Future surviving spouses of retirees are assumed to be eligible for Medicare, as well as surviving spouse annuitants that are currently receiving a health insurance supplement.

Required Ultimate Multiple: Is based on the actuarial requirements (adjusted for tax levy loss) less expected employee contributions divided by the actual employee contributions made in the second prior year.

Loss in Tax Levy: 4% overall loss on tax levy is assumed.

Reciprocal Loading: Based on a loading of the retirement liability.

Summary of Principal Eligibility and Benefit Provisions As of December 31, 2002

Members

Persons appointed under civil service who are employed by the City and Board of Education of Chicago (other than teachers); temporary and non-career service employees who have a total of at least one year of service and have four consecutive months of service immediately prior to filing written application with the Retirement Board; aldermen and other officials of the City and the Board of Education of Chicago who shall, while in office, file written application with the Retirement Board. Beginning January 1, 1984, temporary and non-career service employees will automatically be members. Aldermen and other officials of the City and the Board of Education of Chicago will still file written application with the Retirement Board. Current and former employees of the Chicago Housing Authority and the Public Building Commission who have service in the Fund or who reinstate service in this Fund, may elect to participate in this Fund with respect to their employment with the Chicago Housing Authority or the Public Building Commission under certain conditions.

Service

For all purposes except minimum annuity and ordinary disability credit, service in four months in any calendar year constitutes one year of service credit.

For minimum annuity, one half-year credit is given for one complete month of service and a full year credit is given for one complete month of service plus service in at least five other months. For Ordinary Disability credit, the exact number of days, months and years is used.

Retirement Annuity

Money Purchase Formula

Maximum is 60% of highest salary. Applies in cases where an employee is age 55 or older and has a minimum of 10 years of service. If employee is age 55 to 60 with service less than 20 years, the annuity is based on all employee deductions plus 1/10 of the City contributions for each year over 10. In the case of withdrawal before age 55 and application after age 55, the annuity is based on employee deductions plus 1/10 of the City contributions for each year over 10, with interest to date of application or age 55, whichever is later. The age factor for age 55 is used.

The annuity is based on all employee deductions and City contributions in cases where the employee is (a) age 55 to 60 with 20 or more years of service; (b) age 60 or older; or (c) resigning at the time of disability credit expiration.

Minimum Annuity Formula

Maximum is 80% of final average salary.

- An employee age 60 or older with at least 10 years of service, or an employee age 55 or older with at least 20 years of service, or an employee age 50 or older with at least 30 years of service, is entitled to an annuity equal to 2.4% for each year of service of the final average salary during the four highest consecutive years within the last 10 years of service prior to retirement. If the employee withdraws from service before age 60 with less than 20 years of service, he can begin to receive an annuity no earlier than age 60. For an employee who is eligible to begin receiving an annuity before age 60, the annuity is discounted 0.25% for each month the employee is younger than age 60 unless he has at least 25 years of service.

- The employee will receive a minimum annuity of $850 per month if the employee withdraws at age 60 or older with at least 10 years of service on or after January 1, 1999.

Reversionary Annuity

An employee may elect to reduce his or her annuity by an amount less than or equal to $400 to provide a reversionary annuity for a spouse, parent, child, brother, or sister, to begin upon the employee's death. The election must be made before retirement and have been in effect one year prior to death. The one-year requirement is waived if the beneficiary is the employee's spouse. The death of the employee before retirement voids this election. The reversionary annuity cannot exceed 100% of the employee's reduced annuity. If the employee resigns after June 30, 1983, the 3% automatic annual increase in the annuity will be computed on the original, not the reduced, annuity; if the beneficiary dies before the employee annuitant, the full annuity is restored for annuities granted after June 30, 1983. The amount of the monthly reversionary annuity is determined by multiplying the amount of the monthly reduction in the employee's annuity by a factor based on the age of the employee and the difference between the ages of the employee and the reversionary annuitant at the starting date of the employee's annuity.

Reciprocal Annuity

Under reciprocal retirement, an employee can receive an annuity based on combined service credits in two or more governmental units in Illinois to whose pension funds he or she has contributed.

Automatic Increase in Annuity

A retired employee receives an annual increase of 3% of the monthly annuity payable at the time of the increase. The first increase occurs at the first payment date following the first anniversary of retirement, or age 60, if later; except that the first increase will not occur later than the last to occur of (1) the third anniversary of retirement, (2) the attainment of age 53, or (3) January 1, 2002. Increases apply only to life annuities.

Elected City Officer's Optional Plan

An alternative plan for elected officials of 3% of the Final Salary for the first 8 years, 4% for the next four years and 5% thereafter, subject to the maximum 80%, is available. The elected official must contribute an additional 3% of salary to receive these benefits. This plan also enclosed alternative widow and disability benefit formulas. This plan became effective upon approval from the IRS on September 17, 1991.

Spouse Annuity

The surviving spouse annuity is the greater of the annuity under the money purchase formula or the minimum annuity formula. Surviving spouses who remarry on or after September 4, 2000 will not have their annuities terminated.

Money Purchase Formula

When an employee retires, the spouse's annuity is fixed, based on employee deductions and City pay credits made for spouses' annuity purposes and a joint life age factor. (If the employee is a female, these are deductions accumulated since October 1974).

If the employee dies in service, the spouse's annuity is based on all sums accumulated to their credit.

For 3% annuities fixed on or after August 1, 1983, the "Combined Annuity Mortality Table" shall continue to be used; however, surviving spouse's single life annuities and reversionary annuities shall be computed using the best factor (the factor producing the highest annuity), without regard to gender.

Spouses' Minimum Annuity Formula

If the employee retires or dies in service and is at least age 55 with 20 or more years of service, or is at least age 50 with 30 or more years of service, the spouse's annuity is equal to half the amount of annuity the employee was entitled to receive at the time of retirement or death in service. This annuity must then be discounted .25% for each month the spouse is under age 55 (or age 50 if the employee had at least 25 years of service) at the time the employee retires or dies in service.

If the employee dies while receiving a retirement annuity, the spouse is eligible for an annuity of one-half of the employee's annuity at death. This annuity is discounted for his/her age under 55 at the time of the employee's death, unless the employee had at least 25 years of service and withdrew from service on or after June 27, 1997, in which case the spouse annuity would be discounted for spouse age under 50 at the time of the employee's death.

If the employee dies in service on or after August 27, 2002, with at least 10 years of service, the spouse is entitled to an annuity of half of the minimum formula annuity earned and accrued to the credit of the employee at the date of death. For the purposes of this benefit, the minimum formula annuity earned and accrued to the credit of the employee is equal to 2.40% for each year of service of the highest average annual salary for any four consecutive years within the last 10 years of service immediately preceding the date of death, up to a maximum of 80% of the highest average annual salary. This annuity is not reduced due to the age of the employee or spouse. The spouse is eligible for this annuity only if the marriage was in effect for 10 full years or more. The spouse will receive a minimum annuity of $800 per month if the employee retires with at least 10 years of service or dies in service with at least five years of service.

Child Annuity

A child's annuity is provided for unmarried children of a deceased employee who are under the age of 18, if the child was born before the withdrawal from service, or legally adopted at least one year before the child's annuity becomes payable. The annuity is $220 per month while the spouse of the deceased employee is alive and $250 per month if the spouse is deceased.

Family Maximum

Non-Duty Death: 60% of final monthly salary.
Duty Death: 70% of final monthly salary.

Disabilities

Duty Disability Benefits

Any employee who becomes disabled as the result of an injury incurred in the performance of any act of duty has a right to receive a duty disability benefit in the amount of 75% of salary at date of injury, plus $10 a month for each unmarried child less than age 18. Child's duty disability benefit is limited to 15% of the employee's salary as of the date of injury. Duty disability benefits begin one day after the later of the last day worked or the last day paid.

If the disability has resulted from any mental disorder, physical defect or disease which existed at the time such injury was sustained, the duty disability benefit shall be 50% of salary at date of injury. Disablement because of heart attacks, strokes, or any disablement due to heart disease shall not be considered the result of an accident suffered in the performance of duty. However, the employee will receive service credit and the City will contribute salary deductions for annuity purposes if the employee is receiving Workers' Compensation.

A duty disability benefit is payable to age 65 if the disability benefits begin before age 60. For an employee who begins disability on or after age 60, disability will continue for five years. A duty disability benefit which continues for more than five years and which starts before the employee's age 60, will be increased by 10% on January 1st of the sixth year.

The City contributes salary deductions for annuity purposes for the duty disability benefit. Such amounts contributed by the City after December 31, 1981, while the employee is receiving duty disability benefits, are not refundable to the employee and will be used for annuity purposes only.

Ordinary Disability Benefits

This benefit is granted for disability incurred other than in performance of an act of duty and is 50% of salary as of the last day worked. The first payment shall be made one month after the disablement occurs provided the employee is not then in receipt of salary. Disability is and limited to a maximum of 25% of the employee's total service or five years, whichever occurs first.

The Fund contributes salary deductions for annuity purposes for the ordinary disability benefit. Such amounts contributed by the Fund after December 31, 2000, while the employee is receiving ordinary disability benefits, are not refundable to the employee and will be used for annuity purposes only.

Group Health Hospital and Surgical Insurance Premiums

The pension fund may provide up to a maximum of $75 per month for non-Medicare eligible annuitants (employees or surviving spouses, without regard to age or years of service) and up to $45 per month for Medicare eligible annuitants until June 30, 2003. The annuitant must be enrolled in the City or Board of Education group health plans.

Refunds

To Employees

An employee who resigns before age 55, or before age 60 with less than 10 years of service is entitled to all salary deductions accumulated with interest to date of resignation, plus the 0.5% deducted for annuity increase purposes without interest.

To Estate

Amounts contributed by an employee, excluding the 0.5% deductions for annuity increase, that have not been paid out as annuity, are refundable to his or her estate, with interest either to the date of retirement or death, if the employee died in service.

Refund in Lieu of Annuity

If the annuity of an employee or spouse is less than $800 a month, the employee or spouse may elect to receive a refund, as above, in lieu of an annuity.

Spouses' Annuity Contributions

If unmarried at the time of retirement, the employee is entitled to a refund, with interest, of contributions made for the spouse's annuity.

Disability Deductions

The employee's pension deductions paid by the city while the employee is receiving disability benefits are no longer refunded to the employee if the duty disability was granted after December 31, 1981, or if the ordinary disability was granted after December 31, 2000. These deductions are now used only for annuity purposes.

Deductions and Contributions

Covered employees are required to contribute 8.5% of their salary to the Fund.

The City shall annually levy a tax which, when added to the amounts deducted from the salaries of the employees, or otherwise contributed by them, will be sufficient for the requirements of the Fund. The tax will produce an amount that does not exceed the amount of contributions by the employees to the Fund made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 1.25 for the year 1999 and each year thereafter.

Tax Shelter of Employee Salary Deductions

Beginning January 1, 1982, the City employee salary deductions were designated for income tax purposes as made by the employer. Gross wages are therefore reduced by the amount of contributions to arrive at Federal reportable wages. For pension purposes gross wages remain unchanged. Income tax will be paid when a refund or annuity is granted. For the purposes of benefits, refunds, or financing, these contributions are treated as employee contributions. Beginning September 20, 1981, the Board of Education employee contributions were paid by the employer.

The 1985 amendments contained a provision whereby the amount of pick-up, if any, is included in the pensionable salary for contributions and benefits. Such provision was retroactive to September 20, 1981. Beginning May 28, 2000, the remainder of contributions due for Board of Education employee salary deductions (7% of salary) was designated for income tax purposes to be made by the employer and treated in the same manner as city employee salary deductions.

Legislative Changes 1979 through 2002

1979 Session

SB 964

- Disability benefit for chronic alcoholism, pregnancy, or childbirth.

HB 1023

- Reciprocal Act: changes proportionate pension credits under the "alternative formula."

HB 2012

- Under IRS Code Section 414(h), employer may pick up the employee contributions for all compensation earned after December 31, 1980, by a reduction in the cash salary or an offset to a future salary increase or by a combination of both.

Actuarial

1980 Session

HB 3635

- Reversed all changes made by HB 2012 and put the pick-up section as a new paragraph; they are treated as employee contributions for all purposes, including refunds and determination of the tax levy.

Spring 1981 Session

SB 21

- Actuarial Reporting Standards.

SB 851

- Authorizes investments in conventional mortgage pass-through securities.

SB 879

- Financial statement required by Department of Insurance within 6 months and actuarial statement within 9 months; $100 penalty per day if late.

HB 212

- Eliminates refund of City contributions made while an employee is receiving duty disability benefits.

HB 213

- $200 refund in lieu of annuity.

HB 215

- Authorizes securities lending.

Spring 1982 Session

SB 1147

- Minimum reporting and actuarial information for 1984.

SB 1180

- Board of Education may incur an obligation to "pick up" employee contributions. These contributions may be paid by a special Pension Contribution Liability Tax. If levied, no payment is required until actual collection of the tax.

SB 1452

- Provides that an active member of the General Assembly who was employed by the City of Chicago by temporary appointment or in an exempt position, and could have elected to participate in the Fund but did not so elect, may establish credit for such service by making the required contribution.

SB 1579

- Expanded fiduciary standards, prohibited transactions, civil action may be brought by Attorney General or by a participant; list of permitted investments moved to general section of the statute.

HB 740

- Pension credit may be established for services rendered for a transportation system operated by a public utility prior to the establishment of the CTA.

HB 2286

- Allows persons who withdrew from service or became eligible for survivors' benefits in 1981 and who receive a monthly annuity between $100 and $200 to elect a refund in lieu of annuity.

Spring 1983 Session

SB22

- Delegation of investment authority restrictions.

HB 380

- Maximum survivor annuity from $400 to $500; 10% increase in duty disability benefit January 1 of the sixth year.

HB 514

- 10% prudent person investment category.

HB 637

- Allows an active member of the General Assembly to establish credit in this fund for time for which he or she could have elected to participate with interest at 6% and to transfer credits to the Park Fund.

HB 1144

- Revises provision allowing a person who withdrew from service or began receiving a widow's annuity in 1981 to elect to receive a refund in lieu of annuity by extending the deadline for election by one year to March 1, 1984, and by raising the amount subject to refund to $250 per month.
- 3% post-retirement annuity increase for those who qualify.
- Mandatory coverage for all employees in temporary positions.
- Reversionary annuity revisions - table of factors.
- Credit for Executive Director of Chicago Land Clearance Commission or Chicago Dwellings Association or for service as administrator of Illinois--Indiana Bi-State Commission--if certain contributions are made before April 1, 1984.

Federal Law and Regulation or Supreme Court Decision

- For an employee under the age of 70 who commences disability on or after attainment of age 60 in service, the ordinary disability benefit payments shall not exceed in the aggregate throughout the employee's service a period equal to 1/4 of the total service rendered prior to the date of the disability but no more than five years or age 70, whichever is earlier. The duty disability payments shall be payable for a period of five years or age 70, whichever occurs first.
- For 3% annuities fixed on or after August 1, 1983, the "Combined Annuity Mortality Table" shall continue to be used; however, widows' single life annuities and reversionary annuities shall be computed using the best factor (the factor producing the highest annuity, not depending upon sex).

1984 Session

- Illinois Public Employees' Pension Laws Commission abolished.

1985 Session

HB 561

- 1.80, 2.00, 2.20, 2.40% benefit accrual rate for those born before January 1, 1936, and retiring after July 18, 1985.
- Reduction in age discount factor (employee and widow) from 0.5% to 0.25% for employees born before January 1, 1936, and retiring after July 18, 1985.
- Health insurance supplement up to $25 per month if the employee is age 65 or older with at least 15 years of service (for each employee annuitant in receipt of annuity and for each employee who retires on annuity in the future).
- Disability provisions extended to age 70 in certain cases.
- Unisex money purchase factors for widows/widowers.
- Membership provisions extended to age 70.
- Board of Education employee contribution "pick up" included in the definition of salary for contribution and benefit purposes (retroactive).

Actuarial

1986 Session

HB 2630

- Beginning for retirement or death in service on or after January 23, 1987, the spouse dollar cap is eliminated.
- Beginning for retirement on or after January 1, 1987, the first annuity increase will begin on the first annuity payment date following the first anniversary of retirement or age 60 if later.

1987 Session

HB 2715

- 1.80, 2.00, 2.20, 2.40% benefit accrual rates for those born on or after January 1, 1936, and retiring on or after January 1, 1988.
- Reduction in an age discount factor (employee and widow) from .5% to .25% for employees born on or after January 1, 1936, and retiring or dying in service on or after January 1, 1988. No discount for employee age less than 60 if employee has at least 35 years of service.
- Minimum employee annuity of $250 and minimum spouse of $200 under certain conditions. Elimination of cap on maximum widow's annuity for spouses of certain retired employees with repayment of any "excess spouse" refund.
- Change amount of children's benefits to $120 or $150, effective January 1, 1988.
- Provides for certain "Good Government" initiatives.

1988 Session

- No legislative changes.

1989 Session

SB 95

- Signed August 23, 1989. Changed the amount of fund paid health insurance "supplement" from January 1, 1988 until December 31, 1992 to $65 per month for each annuitant not qualified to receive Medicare benefits (and $35 if qualified) and from January 1, 1993 until December 31, 1997 the amounts are $75 and $45, respectively. Widows will now be supplemented and employee annuitants will no longer be required to meet the age 65 and 15 years of service requirements. The City will be required to pay 50% of the aggregated cost of health care claims for the retired group under all health care plans offered by the City. A procedure was established for the City to determine, with the help of an independent actuary, the aggregate cost of claims and premiums for each calendar year from 1989 through 1997 for the retired group.

HB 332

- Signed August 23, 1989. Eliminated age-related discriminatory provisions as required by Federal law or regulation. Provided for Age Discrimination changes effective January 1, 1988 to eliminate age 65 requirements for marriage in service and children's benefits, provided contributions after age 65 for spouse benefits, provided employee accumulation annuities be computed after age 70, provided employee and spouse accumulation annuities not be "fixed" at age 65, provided no age 70 restriction on disability benefits, provided for active members over age 65 that their accounts be "unfixed" and accumulate interest until the date of withdrawal, and provided that there be no age 70 membership limitation and removed the permitted "no spouse" refund at age 65.
- Allow for local labor officials on a leave of absence from the Fund to contribute for their service as a local labor official.

1990 Session

SB 136

- Amends Chapter 120, Paragraph 671 of the Revenue Act to provide for a separate listing on the tax bill of the dollar amount of tax due from the person assessed which is allocable to a tax levied under the Illinois Pension Code, or any other tax levied by a municipality or township for public pension or retirement purposes. Effective January 1, 1990.

SB 1951

- Signed January 14, 1991. Beginning for withdrawals on or after January 1, 1991, annuity payments will be made as of the first day of the calendar month during the annuity payment period.
- 2.2% benefit accrual rate for employees retiring on or after July 1. 1990.
- No discount for employee age less than 60 if employee has at least 30 years of service and retires on or after July 1, 1990.
- Minimum employee annuity of $350 and minimum spouse of $300 under certain conditions.
- Spouses and widows of employees retiring or dying in service on or after July 1, 1990 with 20 or more years of service at age 55 or over will be eligible for half of the employee's annuity discounted .25% for each month the spouse or widow is less than 55.
- Retroactive eligibility for 35 years no discount and spouse and widow annuities computed as half of employee annuity.
- Refund in lieu of $300 annuity.
- Disability benefit retroactive one year from application; duty disability deductions in lieu for heart attack or stroke.
- An alternative plan for elected officials of 3% of salary for the first 8 years. 4% for the next 4 years and 5% thereafter, subject to a maximum of 80%, is available. The elected official must contribute an additional 3% of salary to receive these benefits. This plan also includes alternative widow and disability benefit formulas. This plan will become effective upon approval from the IRS.
- Collateral for securities lending expanded.
- Fractional payment for refund repayment and temporary service authorized. Credit established by fractional payment shall be earliest service for which credit may be established.

1991 Session

HB 971

- Signed November 19, 1991. Eligibility for the alternative plan for elected officials was extended to persons who hold office as a City officer on April 30, 1991 until 30 days after the date the plan takes effect, notwithstanding the ending of his term of office prior to that effective date. 1992 Session

Actuarial

SB 1650

- Signed January 25, 1993.
- Transfer provisions for County elected officers and judges.
- Early Retirement Incentive was created for withdrawals from December 31, 1992 to June 30, 1993.
  - Requires a total of 20 years of service (with at least 10 in this fund, 5 in a Reciprocal fund and up to 5 purchased under ERI).
  - Requires age 55 or older.
  - Requires an election form to be filed before June 1, 1993.
  - Retired under this Article.
  - Provides for elimination of the age discount for employees 55-60.
  - Provides for 80% maximum final average salary compared to the present 75%.
  - Provides for an optional purchase of up to five years of service credit for 4.25% of the November 1, 1992 salary.
  - Provides for a 24-month option to pay for ERI service.
  - Provides for a tax levy derived from ERI contributions.

1993 Session

- No legislative changes.

1994 Session

- No legislative changes.

1995 Session

SB 114

- Approved July 14, 1995.
- The amount of earnings that may be taken into account by any retirement system is limited to the maximum dollar limitation specified in Section 401(a)(17) of the Internal Revenue Code, except for persons who became Members before 1996.
- The Fund is authorized to make certain involuntary distributions required by Section 401(a)(9) of the Internal Revenue Code.

SB 424

- Approved July 7, 1995.
- The Pension Laws Commission was created as a legislative support services agency.

1996 Session

SBJPA

- On August 20, 1996 the Small Business Job Protection Act was signed by President Clinton.
- Treatment of governmental plans under Code Section 415:
  - Rule limiting annual benefit to 100% of the average of the highest 3 year compensation no longer applies.
  - Excess benefit plans are permitted to provide Members with benefits in excess of the Code Section 415 limits.
  - Early retirement reduction does not apply to certain survivor and disability benefits.
  - The definition of compensation now includes elective deferrals.
  - Taxation of distributions:
    - $5,000 death benefit exclusion was repealed for deaths after August 20, 1996.
    - Five-year averaging for lump sum distributions was repealed effective January 1, 2000.
    - Annuity payments will be taxed according to a simplified general rule which uses investment and age as of annuity starting date for annuities which start on or after November 19, 1996.

1997 Session

HB 15

- Approved June 27, 1997.
- For withdrawals from service occurring on or after July 1, 1990, an alternate method of calculating salary using the annual equivalent of average salary instead of the salary rate applicable for the greatest part of the year is allowed.
- Annuities effective on or after January 1, 1998 will be payable on the first day of the calendar month.
- The prudent person rule for investing is allowed.
- An eligible employee is allowed to contribute for all periods of temporary service while still in City service, for up to 90 days after withdrawal from City service, or while in reciprocal service.
- The Board is allowed to adopt rules prescribing the manner of repaying refunds and purchasing any optional credit including accepting rollovers for payments.
- The City is allowed to use deposits from any legal source (including borrowing) in lieu of all or part of the tax levy on or after June 27, 1997.

HB 313

- Approved June 27, 1997. For withdrawals from service occurring on or after June 27, 1997, an employee (or surviving spouse) age 50 or over with at least 30 years of service is eligible to receive an annuity based on the minimum annuity formula.
- For withdrawals from service occurring on or after June 27, 1997, an employee under age 60, with at least 25 years of service, is not subject to an age discount.
- The surviving spouse of a retiree dying on or after June 27, 1997, while receiving an annuity is eligible for one-half of the employee's annuity at death, discounted for spouse's age under 55 at the time of employee's death.
- Beginning June 27, 1997, employees already receiving annuity will receive a minimum annuity of $550 for life (reciprocal annuitants must have at least five years of Municipal service). Any future employee annuitant withdrawing from service after attainment of age 60 with 10 or more years of service would qualify for this minimum.
- Beginning June 27, 1997, widow(er)s already receiving annuity will receive a minimum annuity of $500 for life (reciprocal annuitants must have at least five years of Municipal service). For future spouses of retirees, 10 years of service is required. For spouses of employees dying in service in the future, five years of service is required.
- Beginning June 27, 1997, the child's annuity will be increased to $220 per month if the spouse of the deceased employee parent survives or $250 per month if no such spouse survives.
- Coverage in the City group health insurance is extended through June 30, 2002, with some modification in the plans offered. Pension fund supplement remains $45 and $75 for Medicare eligible and non-Medicare eligible annuitants respectively.
- Spouses of employees dying in service after age 50 on or after June 27, 1997 will be eligible to receive 50% of the annuity that the employee would have received. This annuity will be reduced by .25% per month for each month that the spouse is below the age of 55.
- Spouses of employees dying after retirement on or after June 27, 1997 will be eligible to receive 50% of the employee's annuity at death. This annuity will be reduced by .25% per month for each month that the spouse is below the age of 55.

HB 1641

- Approved August 22, 1997.
- Beginning August 22, 1997, for surviving spouses of employees who retired or died in service before January 23, 1987, the previous $300, $400, or $500 maximum spouse annuity limitation is removed. If an excess spouse refund was paid, it must be repaid with interest.
- Service paid under Section 8-230 can be counted for ordinary disability purposes for periods of disability on or after August 22, 1997.

Actuarial

- Early Retirement Incentive was created for withdrawals from December 31, 1997 to June 30, 1998.
  - Requires an election form to be filed before June 1, 1998.
  - Requires a member to be a current contributor on November 1, 1997 and have not previously retired under this Article.
  - Provides for elimination of the age discount for employees age 55 to 60.
  - Provides for 80% maximum final average salary compared to the present 75%.
  - Provides for an optional purchase of up to five years of service credit for 4.25% of the November 1, 1997 salary.
  - Provides for a 24-month option to pay for ERI service.
  - Provides for a tax levy derived from ERI contributions.

1998 Session

HB 3515

- Approved August 14, 1998.
- Beginning January 1, 1999, the automatic increase for employee annuitants changed to 3% compounded for all past, current, and future annuitants regardless of the effective date of the annuity. Term annuities are not eligible for the increase.
- Employees withdrawing after January 1, 1999 will be eligible for the minimum formula upon attainment of age 60 if they have at least 10 years of service.
- Beginning January 1, 1999, employees already receiving an annuity as of August 14, 1998 will receive a minimum annuity of $850 for life (reciprocal annuitants must have at least five years of Municipal service). Any future employee annuitant withdrawing from service after August 14, 1998 after attainment of age 60 with 10 or more years of service would qualify for this minimum.
- Beginning January 1, 1999, widow(er)s already receiving annuity as of August 14, 1998 will receive a minimum of $800 for life (reciprocal annuitants must have at least five years of Municipal service). For future spouses of retirees dying after August 14, 1998, 10 years of service is required. For spouses of employees dying in service after August 14, 1998, five years of service is required.
- The conditions of the reversionary option were changed as follows:
  - The nullification of reversionary payment due to employee dying was reduced to 365 days after written designation was filed with the board and now applies only to parents, children, and siblings (not spouses).
  - Employees may reduce their monthly annuity by as much as $400.
  - The increased annuity for spouse may now be as much as 100% of the reduced employee annuity.
- Spouses and widows that are eligible for the "50% employee amount" will no longer have this amount reduced for under age 55 if the employee dies on or after January 1, 1998 and withdrew from service on or after June 27, 1997, and the employee retired after age 55 with at least 25 years of service or after age 50 with at least 30 years of service. The age discount will only apply if the spouse is under age 50.
- The child of an annuitant who withdraws after January 1, 1998 having attained age 50 with at least 30 years of service is eligible for a child annuity upon the death of the annuitant.
- The required employer multiple has been set at 1.25 for 1999 and beyond.
- Money deposited under 5/8-173(f) may be used by the fund for any of the purposes for which the proceeds of the tax levied by the city under this section may be used.
- An employee or former employee may pay and receive credit for all periods of full-time employment by the Public Building Commission as long as they are not receiving credit for the same service from another retirement system. Employee must pay employee and employer contributions based on the salary received from the Public Building Commission for employment. Repayment must be made before annuity begins.
- Annuitants may authorize a portion of their annuity to be withheld for payment of dues to the labor organization by which they were represented. A minimum of 25 annuitants must choose an organization for it to be included in this plan.

HB 1612

- Effective July 1, 1999, Qualified Illinois Domestic Relations Orders were recognized.

1999 Session

- No Changes

2000 Session

HB 1583

- Approved July 6, 2000.
- An employee or widow whose annuity would amount to less than $800 per month may elect to receive a refund in lieu of annuity. Formerly, only employees and widows whose annuity would be less than $300 per month could choose a refund.
- The reversionary annuity tables have been extended down to age 50 from age 55 to comply with the change in the law allowing retirement at age 50 with 30 years of service.
- The Board is allowed to pay an annuity (if the person qualifies) directly to a Medicare approved, State certified nursing home or to a publicly owned and operated nursing home, hospital, or mental institution. Each person must qualify under the provisions of this amendment.
- Annuities of widows who remarry on or after the date 60 days after the effective date of this amendment would not be terminated upon remarriage.
- For annuities effective before January 1, 1998, all annuity payments will be made on the first day of the calendar month, for the entire month without proration.

2001 Session

EGTRRA

- On June 7, 2001, the Economic Growth and Tax Relief Reconciliation Act of 2001 was signed by President Bush.
- Beginning January 1, 2002, payments for eligible optional service credits may be made with funds rolled over from a 457 deferred compensation plan or a 403(b) tax deferred annuity plan (if allowed by the 457 or 403(b) plan).

2002 Session

SB 314

- Effective July 1, 2002.
- The accrual rate for the minimum formula annuity is changed from 2.2% to 2.4% of final average salary and the maximum annuity is changed from 75% to 80% of final average salary for employees withdrawing from service on or after January 1, 2002.
- The 3% post-retirement automatic increase will now begin no later than 3 years after retirement for an eligible retiree (An eligible retiree is an employee annuitant, not a widow or widower annuitant, originally granted a lifetime annuity). For eligible retirees less than age 60 on the first anniversary of retirement, the 3% increase will begin at the earlier of age 60, and the latest of the following dates:
    - The third anniversary of retirement
    - The attainment of age 53; or
    - January 1, 2002

  For eligible retirees age 60 or older on the first anniversary of retirement, the 3% increase will begin on the first anniversary of retirement.

HB 5168

- Effective June 28, 2002.
- For the eligible spouse of an employee who dies in service on or after August 28, 2002, with at least 10 years of service, the annuity is no less than 50% of the minimum formula annuity the employee would have been entitled to based on service and salary to the date of death without regard to age eligibility requirements. This is equal to 2.4% of final average salary for each year of service. The employee and the spouse must have been married for ten years.
- For children of employees who die in service on or after June 28, 2002, there is no service requirement for eligibility for children's annuity.
- The definition of "child" now includes any child adopted before employee withdraws from service and at least one year prior to the date any benefit for the child accrues. Previously the adoption also had to take place before the employee attained age 55.

Actuarial

- For ordinary disability benefits paid on or after January 1, 2001, the ordinary disability benefit is 50% of the employee's salary at the date of disability with the amounts ordinarily contributed by the employee for annuity purposes contributed by the Fund. These contributions are not refundable.
- The pension fund subsidy for retiree health insurance was extended through June 30, 2003. For annuitants (other than child annuitants) taking the employer-provided plan, the subsidy is $75 month if the annuitant is not eligible for Medicare, and $45 per month if the annuitant is eligible for Medicare.
- Current and former Chicago Housing Authority employees who have service in this Fund or who reinstate service in this Fund may elect to participate in this Fund with respect to their employment with the Chicago Housing Authority under certain conditions. Contributions can be made for past service as well as current service.
- Current and former Public Building Commission employees who have service in this Fund or who reinstate service in this Fund may elect to participate in this Fund with respect to their employment with the Public Building Commission under certain conditions. Contributions can be made for past service as well as current service.
- An employee with 10 years of service in this Fund may establish service credit for up to seven years of full-time employment by the Illinois Housing Development Authority.
- The City Clerk and City Treasurer may elect to establish alternative credits in the Aldermanic Plan.
- Chicago aldermen may receive an annuity at age 55 with 10 years of service or age 60 with eight years of service.
- An alderman in service on June 1, 1995, can make payments for prior service up to 30 days after the effective date, even though he might be out of service or retired.
- A member of the Fund who has service in Police Fund may apply to Police to transfer his credits and service to Municipal under certain conditions. This must be done within 90 days of the effective date. Employee and employer contributions will be transferred.

Statistical

Statistical

Table 12

Revenues by Source

Last ten years

Year	Investment Earnings Net of Direct Investment Expense *	Employer Contributions		Member Contributions	Total
		Dollars	Percent of Annual Covered Payroll		
1993	$243,885,481	$133,957,499	13.18%	$105,286,953	$483,129,933
1994	132,643,737	137,076,271	13.84%	88,015,188	357,735,196
1995	253,328,494	159,275,835	14.74%	92,504,531	505,108,860
1996	488,519,305	152,556,327	14.02%	94,995,616	736,071,248
1997	776,452,044	156,832,214	14.57%	98,978,257	1,032,262,515
1998	844,588,751	158,564,165	13.30%	124,675,114	1,127,828,030
1999	515,440,459	119,644,186	10.24%	102,454,040	737,538,685
2000	217,067,663	140,171,920	11.06%	107,371,034	464,610,617
2001	(158,373,573)	131,439,834	10.57%	118,240,723	91,306,984
2002	(538,062,313)	130,966,381	9.52%	128,395,307	(278,700,625)

* *Note: For years including and subsequent to 1997, net investment income includes realized and unrealized appreciation or depreciation of investments. Preceding years include only realized gains and losses.*

Table 13

Expenses by Type

Last ten years

Year	Benefits	Refunds	Administrative Expense	Total
1993	$194,353,001	$21,508,866	$3,568,145	$219,430,013
1994	224,443,786	15,833,999	3,456,607	243,734,392
1995	229,254,773	23,768,066	3,299,108	256,321,947
1996	238,254,858	29,370,050	3,356,208	270,981,116
1997	252,629,079	25,330,325	3,897,012	281,856,416
1998	302,255,612	37,851,181	4,654,198	344,760,991
1999	359,986,002	21,199,532	3,851,246	385,036,780
2000	378,212,988	24,674,848	3,844,081	406,731,917
2001	370,741,229	21,951,794	4,086,513	396,779,537
2002	386,871,663	22,425,917	4,557,088	413,854,668

Table 14

Benefit Expenses By Type

Last ten years

	Annuity				Disability			
Year	Employee	Surviving Spouse	Children	Health Subsidy	Ordinary	Duty	Refunds	Total
1993	$163,120,714	$19,332,793	$359,490	$5,533,902	$5,561,486	$444,616	$21,508,866	$215,861,867
1994	191,105,128	20,229,141	370,450	5,834,347	5,237,005	1,667,716	15,833,999	240,277,786
1995	194,176,038	20,993,507	342,423	5,704,258	6,276,672	1,761,875	23,768,066	253,022,839
1996	201,517,537	21,926,188	338,937	5,643,538	6,931,793	1,896,865	29,370,050	267,624,908
1997	210,965,124	26,705,328	525,769	5,567,932	7,097,259	1,767,668	25,330,325	277,959,405
1998	256,049,250	31,905,210	653,079	6,185,736	5,844,025	1,618,312	37,851,181	340,106,793
1999	300,490,756	45,783,597	612,360	6,469,805	5,159,383	1,470,101	21,199,532	381,185,534
2000	316,479,067	48,410,776	542,763	5,834,910	5,306,741	1,638,730	24,674,848	402,887,835
2001	308,930,340	47,073,636	545,019	6,272,253	5,893,479	2,026,502	21,951,794	392,693,023
2002	321,673,434	47,691,000	637,823	6,278,622	8,321,808	2,264,690	22,425,917	409,293,293

Table 15

Retirees And Beneficiaries By Type Of Benefit

Last ten years

	Annuity			Disability		Compensation	Reciprocal	
Year	Employee	Spouse	Child	Ordinary	Duty	Annuitants	Employee	Spouse
1993	11,958	3,932	220	381	147	1	1,581	312
1994	11,802	3,963	214	403	175	1	1,611	322
1995	11,776	3,997	217	459	165	1	1,611	336
1996	11,841	4,030	226	460	191	1	1,607	350
1997	11,774	4,083	221	464	166	1	1,599	354
1998	14,070	4,120	228	263	120	1	1,768	362
1999	13,985	4,115	213	298	152	1	1,732	399
2000	13,744	4,213	189	300	148	1	1,786	395
2001	13,608	4,138	198	309	196	2 [1]	1,754	387
2002	15,417	4,132	212	260	129	2 [1]	1,821	385

1. Compensation annuitants also included with spouse annuitants

Source of Data: 2002 Actuarial Report

Table 16
Average Employee Retirement Benefits Payable
Last ten years

Years Ended	Average Annual Benefit	Average Current Age of Retirees	Average Annual Benefit at Retirement Current Year	Average Age at Retirement Current Year	Average Years Service at Retirement Current Year
1993	$14,000	71.7	$19,461	64.4	27.40
1994	14,304	72.1	10,455	65.1	18.90
1995	14,753	72.0	14,071	64.3	21.90
1996	15,210	72.6	15,090	64.2	22.60
1997	16,088	72.5	13,651	64.4	20.30
1998	18,928	71.5	23,471	62.4	27.60
1999	19,347	72.3	12,625	63.5	N/A
2000	19,789	72.6	13,986	64.5	17.40
2001	20,364	73.0	17,063	63.5	21.40
2002	21,211	73.1	23,407	63.2	22.03

Source of Data: 2002 Actuarial Report

Table 17
Distribution of Current Annuitants by Pension Amounts

Amount of Monthly Benefit	Number of Employee Annuitants	Number of Spouse Annuitants	Number of Child Annuitants	Total Number of Annuitants
Deferred	4	-	-	4
$1-$250	323	69	212	604
251 - 500	203	57	-	260
501 - 750	81	27	-	108
751 - 1000	5,224	3,709	-	8,933
1,001 - 1250	1,318	257	-	1,575
1,251 - 1500	1,437	176	-	1,613
1,501 - 1750	1,147	101	-	1,248
1,751 - 2000	903	57	-	960
2,001 - 2250	782	30	-	812
2,251 - 2500	737	14	-	751
2,501 - 2750	572	6	-	578
2,751 - 3000	507	9	-	516
3,001 - 3250	458	4	-	462
3,251 - 3500	440	1	-	441
3,501 - 3750	324	-	-	324
3,751 - 4000	329	-	-	329
Over $4,000	761	-	-	761
Totals	**15,550**	**4,517**	**212**	**20,279**

Source of Data: 2002 Actuarial Report

Table 18

Statistics On Employee Annuities Classified By Age

	Male		Female	
Age	No.	Annual Payments	No.	Annual Payments
Under 50	8	$ 45,188	7	$ 53,793
50	4	133,329	2	80,858
51	9	364,058	7	168,149
52	11	383,079	6	233,134
53	25	991,516	14	381,597
54	21	769,121	20	581,369
55	56	1,821,183	56	1,523,261
56	52	1,786,707	60	1,467,148
57	63	1,854,487	61	1,259,122
58	66	1,839,120	86	1,846,557
59	101	3,294,750	121	2,818,328
60	157	4,964,333	198	3,667,975
61	124	3,656,224	192	4,125,414
62	160	4,411,120	222	4,251,201
63	163	4,810,937	243	4,641,733
64	209	6,082,589	307	6,011,291
65	262	7,736,235	348	6,354,953
66	207	5,811,840	377	6,633,125
67	270	8,052,721	394	6,956,397
68	254	7,013,563	375	6,629,388
69	258	7,114,590	342	5,778,840
70	261	7,299,006	339	5,720,511
71	268	7,709,125	333	5,801,737
72	258	7,397,386	392	6,519,392
73	288	8,277,866	395	6,341,320
74	274	8,212,751	374	5,960,991
75	306	8,480,751	366	5,970,497
76	268	6,931,349	322	4,944,490
77	281	7,985,366	321	5,051,472
78	259	7,090,448	301	4,387,607
79	249	6,653,211	290	4,188,628
80	219	5,597,868	277	4,023,525
81	201	5,195,913	270	3,864,571
82	176	4,089,152	253	3,640,386
83	157	3,742,334	199	2,723,661
84	120	2,595,070	176	2,561,834
85 & over	525	10,457,230	910	11,925,665
Totals	**6,590**	**$180,651,516**	**8,956**	**$149,089,920**

Source of Data: 2002 Actuarial Report

Table 19
History Of Annuities
Last ten years

	Employee Annuitants		
Year End	Number of Annuitants	Total Annuities	Average Annuities
1993	13,544	$ 189,611,382	$ 14,000
1994	13,413	191,863,794	14,304
1995	13,387	197,499,522	14,753
1996	13,448	204,538,699	15,210
1997	13,373	215,144,576	16,088
1998	15,838	299,778,262	18,928
1999	15,717	304,074,542	19,347
2000	15,530	307,317,729	19,789
2001	15,362	312,834,517	20,364
2002	15,546	329,741,436	21,211

	Surviving Spouse Annuities		
Year End	Number of Annuitants	Total Annuities	Average Annuities
1993	4,244	$ 19,673,396	$ 4,636
1994	4,285	20,583,009	4,804
1995	4,333	21,424,168	4,944
1996	4,380	22,263,041	5,083
1997	4,437	31,086,606	7,006
1998	4,482	45,271,671	10,101
1999	4,514	46,074,319	10,207
2000	4,608	47,500,739	10,308
2001	4,525	47,220,540	10,435
2002	4,517	48,058,286	10,639

Source of Data: 2002 Actuarial Report

Table 20

Number of Actively Participating Members

Last ten years

Year	Male Participants	Female Participants	Total Participants
1993	15,245	19,244	34,489
1994	17,016	19,238	36,254
1995	15,297	20,217	35,514
1996	15,087	19,933	35,020
1997	14,798	20,041	34,839
1998	14,207	18,912	33,119
1999	16,533	19,335	35,868
2000	17,806	18,283	36,089
2001	14,928	21,751	36,679
2002	14,037	21,485	35,522

Source of Data: 2002 Actuarial Report

Table 21

Participating Members by Age and Length of Service

	Completed Years of Service									
Attained Age	Under 1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	Total
Under 20	47	119	-	-	-	-	-	-	-	166
20-24	174	753	93	-	-	-	-	-	-	1,020
25-29	193	1,449	469	31	-	-	-	-	-	2,142
30-34	187	1,668	1,098	442	21	-	-	-	-	3,416
35-39	156	1,692	1,249	1,009	393	10	-	-	-	4,509
40-44	136	1,721	1,385	1,252	941	295	8	-	-	5,738
45-49	100	1,312	1.181	1,258	1,085	683	204	26	-	5,849
50-54	77	888	865	1,098	1,037	687	405	170	9	5,236
55-59	58	495	523	724	801	562	293	192	32	3,680
60-64	24	265	378	425	522	305	180	156	56	2,311
65-70	12	120	149	176	180	138	59	96	38	968
Over 70	7	61	69	70	86	76	38	45	33	485
w/o DOB	2	-	-	-	-	-	-	-	-	2
Total	**1,173**	**10,543**	**7,459**	**6,485**	**5,066**	**2,756**	**1,187**	**685**	**168**	**35,522**

Source of Data: 2002 Actuarial Report

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