Comprehensive Annual Financial Report

For the year ending December 31, 2005

Municipal Employees Annuity and Benefit Fund of Chicago
A Pension Trust Fund of the City of Chicago
Chicago, Illinois

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Municipal Employees' Annuity and Benefit Fund of Chicago
A Pension Trust Fund of the City of Chicago

Comprehensive Annual Financial Report
For the year ended December 31, 2005

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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Telephone: 312-236-4700 Fax: 312-236-2383
Terrance R. Stefanski, Executive Director

LETTER OF TRANSMITTAL

April 10, 2006

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

It is with great pleasure that we present the Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Annuity and Benefit Fund of Chicago (the Plan), a pension trust fund of the City of Chicago, for the year ended December 31, 2005.

State law provides the legal authority for the publication of this report and requires an audit of the Plan's accounts.

Management Responsibility and Internal Control

Management is responsible for the information contained in this report. We have committed the resources necessary to maintain an internal accounting control system designed to safeguard assets and allow preparation of financial statements, supporting schedules and statistical tables that are fairly presented in accordance with generally accepted accounting principles. Controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. To the best of our knowledge and belief, the enclosed financial information is accurate in all material respects and is reported in a manner designed to present fairly the financial status of the Plan and changes therein.

This letter of transmittal is designed to complement Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The MD&A, which immediately follows the Independent Auditor's Report, provide additional narrative introduction, overview and analysis of the basic financial statements.

Independent Audit

Bansley and Kiener, Certified Public Accountants, have conducted the audit of the Plan's financial statements and issued an unqualified ("clean") opinion of the Plan's financial statements for the calendar year December 31, 2005. The independent auditor's report is located at the front of the Financial Section of this report.

Plan Overview

The Plan is a defined benefit, single employer plan that was established in 1922 by virtue of an Act of the State of Illinois Legislature. The purpose of the Plan is to provide disability and retirement benefits to qualified members. The Plan also provides benefits to certain surviving dependents. Additional information regarding the administration and history of the Plan can be found in the Financial Section – Notes to the Financial Statements portion of this report. Summary of principal eligibility and benefit provisions can be found in the Actuarial Section of this report.

On December 31, 2005, there were 65,078 active, inactive and retired members. A breakdown of the Plan's membership is provided in the Statistical Section.

The Plan is considered a component unit (one of four pension trust funds, Police, Fire, Laborers and Municipal) of the City of Chicago, and as such, is included in the City of Chicago' financial statements.

Economic Factors

Investments

Investors with higher allocations in international equities, real estate, and non-traditional asset classes were top performers in 2005. The continued rally of these asset classes in 2005 rewarded investors who had diversified their portfolios over the years to include a material allocation to these classes. International's out-performance has been driven by the globalization of the financial markets, which has been no more apparent than over the last three years. For example, an investor focusing on the domestic equity markets would have returned approximately 500 basis points less than a globally diversified investor over the last three years. The real estate market continued its fast pace and rewarded investors handsomely during the year despite the Federal Reserve steadily raising interest rates. Non-traditional asset classes, such as private equity, outperformed traditional asset classes as investors pumped a significant amount of capital into these areas in 2005, expanding their search for out-performance.

For the *Plan*, these factors contributed in returning 6.9% in 2005 and 12.4% annually over the last three years. A more comprehensive analysis of the *Plan's* portfolio and performance for the year ending December 31, 2005 is located in the Investment Section of this report. The MD&A of the Financial Section also reflects investment performance for the years ending December 31, 2005 and 2004.

Funding

State law mandates that employer and member contributions together should sufficiently provide for the actuarial requirements of the Plan. Member contributions are set by statute at 8.5% of covered salary. Limits for the employer are also set by statute. Presently, employer contributions are 1.25 times applicable member contributions. Investment returns provide additional revenues. Any surplus remaining after payment of benefits, refunds, and administrative expenses, is reserved for future benefit obligations.

The long-term financial stability of a pension fund is indicated by its funded ratio. The greater the level of funding, the larger the ratio of assets to the actuarial accrued liability and the larger the asset base for generating investment returns, all of which give participants a greater assurance that their pension benefits will be met. A pension fund is fully funded when it has enough money in reserve to meet all accrued obligations to participants.

Each year, an independent actuary performs a valuation to determine whether current funding will be sufficient to cover the cost of benefits earned by members.

As a result of an experience study for the period from December 31, 1999 through December 31, 2004, several of the actuarial assumptions were changed for the 2005 valuation. The mortality rates, retirement rates, and turnover rates have been changed. The salary increase assumption has been changed to a service-based table. The valuation methodology has been changed for disability benefits, inactive member benefits and child beneficiaries. In addition, the discount rate for valuing OPEB liabilities (health insurance subsidy) has been decreased from 8.00 % to 4.50% and the determination of marital status for current retirees has been changed from the use of an assumption to full reliance on the status reported in the data. The net effect of these changes is a 0.7% decrease in the actuarial accrued liability.

As of the December 31, 2005 actuarial valuation conducted by Gabriel Roeder Smith, the Plan has a funded ratio of 68.5%, a decrease from 72.0% in the prior year. The report concludes that future decreases in the funded ratio are expected to occur as a result of contributions that are insufficient to adequately finance the Plan. A detailed discussion of funding is provided in the Actuarial Section of this report. Historical information relating to funding progress is presented in the Required Supplementary information – Schedule of Funding Progress.

Initiatives

Administration

The Plan strives to provide timely, thorough and accessible service to its members.

- The staff participated in an on-site training on how to deliver excellent customer service. A team was organized to monitor customer service delivery, identify the strengths and weaknesses as well as any new methods to provide the highest level of service to members.
- A computerized call center is being developed to further enhance customer service. It will serve as a daily log of all member requests. A member's phone call, visit or letter will initiate an entry in the log. The call center will prompt the appropriate department for follow-up and will be used to record the action taken or current status of the request. The call center log will also be interfaced with our membership database.
- Inactives. We continue our efforts to identify and locate former participants entitled to benefits or refunds. We have exchanged data with other city retirement systems. We will also exchange data with reciprocal retirement systems in the state of

Illinois. The Internal Revenue Service letter-forwarding program may also be considered as a way to reach to our former participants.

- Website Project-Phase I: A website developer was contracted to design and develop the Plan's website. Development and implementation of the website project will entail multiple phases. Phase I of the project will include downloadable forms, financial reports, publications, and other important information for members. Interactive menu will be in the next phase of the project.
- The Pension Administration System was completed and placed in service in 2005. We continue to identify areas for enhancements using newer technologies that have become available.
- Imaging Project: Refund files from 1991-2004 have been converted and deceased annuitant files are in process. Back file conversion of participant records for both active and retired members will start in 2006. Also by next year, minutes of board meetings, contracts, and investment reports will be imaged and stored in a repository.
- Business Continuity Planning (BCP). In 2005, the Plan's Board of Trustees approved the process of finding a suitable offsite location for business continuity in the event of a disaster. After evaluating different sites, the four City of Chicago pension funds jointly with the Cook County pension fund have agreed on a specific location. We expect to sign a lease agreement in early 2006. We are in the process of formulating procedures regarding the site's utilization.

Investments

The Retirement Board continued to adjust the Plan's portfolio to meet their target asset allocation and performance objectives. The following adjustments were made to the portfolio during the year:

- Walton Street Real Estate Fund V, a Chicago-based real estate firm focused on value-added and opportunistic investment strategies, received a commitment of $20 million.
- Nogales Investors Fund II, Latino-owned private equity firm evaluating opportunities in strong Latino markets, received a $10 million commitment.
- Frank Russell, an existing fixed income account of $125 million, was transitioned from an intermediate bond mandate to an aggregate bond mandate in order to enhance diversification and performance.
- DV Urban Realty Group, a minority led real estate partnership based in Chicago focusing on urban real estate opportunities in re-emerging Chicago neighborhoods, received a $15 million commitment.
- Emerging markets managers, William Blair and Mondrian Investment Partners, each received a $30 million mandate.
- Tishman Speyer, a real estate partnership focused on Class A office properties in the central business districts of the six largest cities in the U.S., received a $15 million commitment.
- Mesirow Financial, a private equity fund based in Chicago, received a $12.5 million commitment for its Private Equity Fund IX and a $12.5 million commitment to its Fund of Funds III.
- Muller & Monroe, a Chicago-based private equity firm, received a $10 million commitment to its Illinois Fund, which was reallocated from a previous conditional $10 million commitment to its Leadership Fund in 2002.
- International value managers, AllianceBernstein and LSV Asset Management, each received a $65 million mandate.

Legislative changes in Plan Provisions

The following legislative changes in Plan Provisions were approved by the Illinois State legislature as of December 31, 2005.

- SB 23 was approved June 27, 2005 prohibiting the investment or deposit of Plan assets with entities doing business in or with the Sudanese government.
- SB 253 was approved in August 4, 2005 stipulating $ 2.0 billion as maximum assets under management for any firm designated as an emerging investment manager.
- SB 1446 was approved in August 22, 2005. It provides for various changes in provisions and procedures concerning Qualified Illinois Domestic Relations Orders.

- HB 227 was approved August 22, 2005 to provide a benefit to a spouse married to the employee after retirement under certain conditions.

Awards

The Plan was awarded a Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the year ended December 31, 2004 by the Government Finance Officers Association of the United States and Canada (GFOA). The Plan has received this prestigious award in each of the last 16 years.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, that satisfies both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one-year only. We believe this report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this Comprehensive Annual Financial Report reflects the combined efforts of the Plan's actuary, auditor 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 responsible stewardship of plan assets contributed by the members and the employer.

We extend our sincere gratitude to each member of the Board of Trustees, the entire staff, the consultants and the many other people who worked so hard to make the year 2005 a success.

Respectfully submitted,

Terrance R. Stefanski
Executive Director

Teresita T. Toledo
Comptroller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

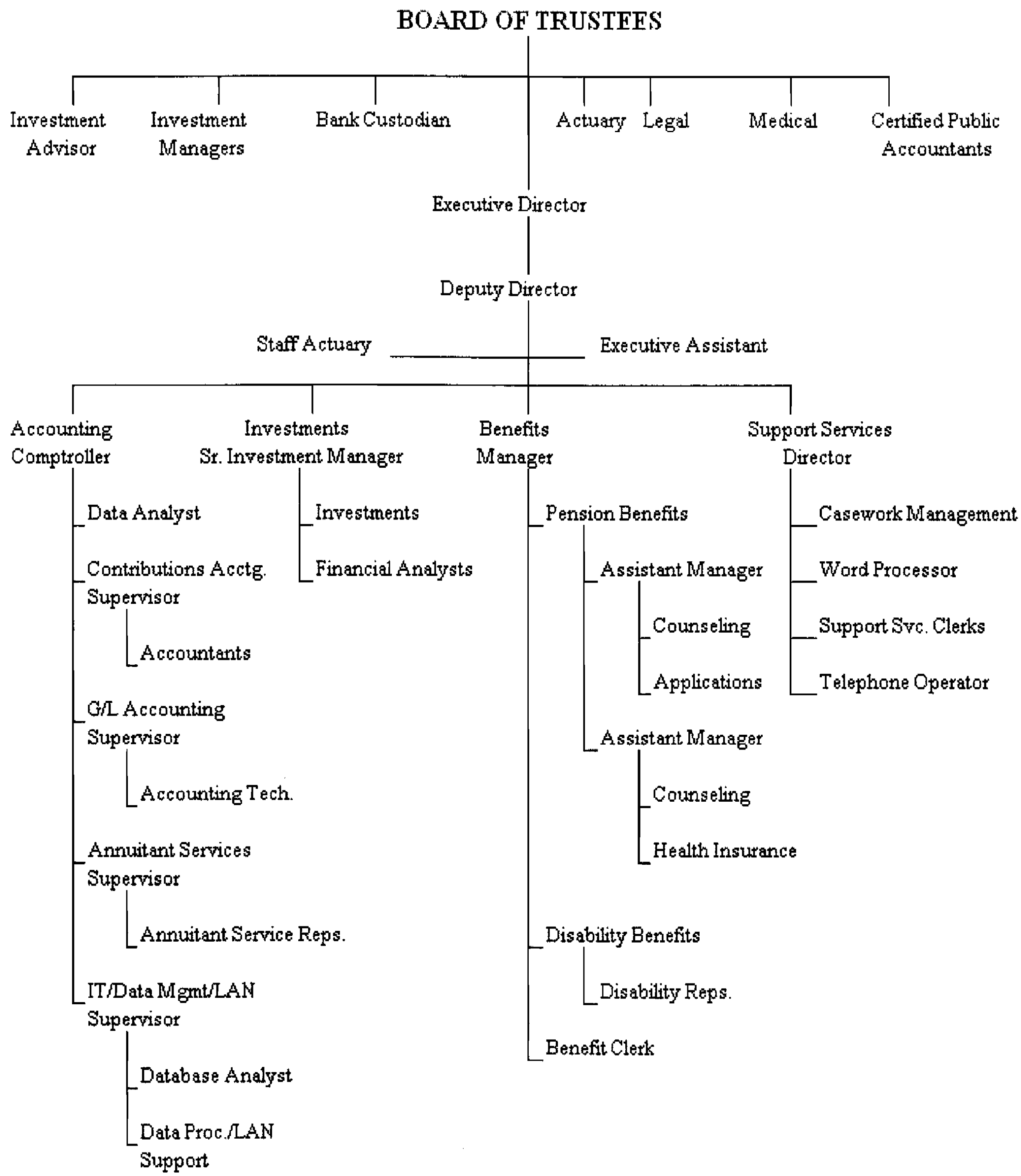
Municipal Employees' Annuity and Benefit Fund of Chicago, Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

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.

President

Executive Director



Advisors – *are listed on page 12*
Investment Managers – *are listed on page 39*

Board of Trustees

(April 10, 2006)

John K. Gibson, *President*
John Gibson has served the Retirement Board since February 1997. He is the Chief Engineer of Senn High School, one of the most ethnically diverse schools in the nation. Mr. Gibson 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 Vice President of Local 143, the Chicago Public School Engineer's Union.

Joseph M. Malatesta, *Vice-President*
Joseph Malatesta has served the Retirement Board since July 1998. Currently, Mr. Malatesta 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. Mr. Malatesta received his Bachelor's Degree from the University of Illinois at Chicago, and his Master's in Business Administration (MBA) from Dominican University.

Peter Brejnak, *Recording Secretary*
Peter Brejnak has served the Retirement Board since November 1997. Mr. Brejnak has been a public servant for over 33 years, most currently with the Department of Water as Chief Operating Engineer at the Jardine Water Purification Plant. Mr. Brejnak 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 Employees' Society of Chicago.

Judith C. Rice, *Treasurer*
Judith C. Rice is Treasurer of the Board, and one of two ex-officio members. Ms. Rice was elected City Treasurer of the City of Chicago on February 25, 2003. She has held that office since her appointment by Mayor Richard M. Daley in November 2000. Immediately preceding her appointment, Ms. Rice served as the first woman Commissioner of the Department of Transportation. She 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. Ms. Rice began her City career in 1989 as an Assistant Corporation Counsel. She received her JD from John Marshall Law School in 1988 and was admitted to the Illinois Bar the same year. Ms. Rice graduated Cum Laude in 1981 from Loyola University with a Bachelor of Arts in Communication.

Steve Lux, *Trustee*
Steve Lux has served the Retirement Board since March 2006. He has recently been named Acting City Comptroller for the City of Chicago. Prior to his current position, Mr. Lux was the Managing Deputy Comptroller - Accounting, responsible for the accounting and financial reporting for the City of Chicago's governmental funds and account groups and the Water and Sewer Enterprise Funds. Mr. Lux has worked in the accounting field for 20 years in both public and governmental accounting. Mr. Lux earned his Bachelor's Degree in Accounting from the University of Illinois in Urbana.

Executive Staff

Terrance R. Stefanski, Executive Director

Gina T. Barette, Executive Assistant

James E. Mohler, Senior Investment Manager

Katherine M. Shanding, Staff Actuary

Jane J. Tessaro, Benefits Manager

Teresita T. Toledo, Comptroller

Kriket Utz, Support Services Director

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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, 2005 and 2004, 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, 2005 and 2004, 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 1, the Plan adopted Governmental Accounting Standards Board Statement No. 40, *Deposits and Investment Risk Disclosures*, during the year ended December 31, 2005.

Bansley and Kiener, L.L.P.
Certified Public Accountants

March 30, 2006

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the Municipal Employees' Annuity and Benefit Fund of Chicago ("Plan") for the year ended December 31, 2005 provides a summary of the Plan's financial position and performance. The MD&A is presented in a narrative overview and should be read in conjunction with the Plan's financial statements, which follow.

Financial Highlights

- Plan net assets increased marginally by $114.1 million (1.8%) to $6,356.9 million in 2005 from $6,242.8 million in 2004.
- The Plan's investment portfolio returned 6.9% for the year compared to 10.6% in the prior year.
- At December 31, 2005, the Plan's funded ratio was 68.5%, a decrease from 72.0% funded ratio in the prior year's actuarial valuation. Annual Required Contribution (ARC) increased 44% to $285.3 million from the prior year. Percentage of ARC contributed decreased to 54.4% in 2005 compared to 77.7% in 2004.
- Total additions to plan net assets (summation of employer and member contributions plus net investment income) dropped by $208.7 million (-23.5%) to $679.9 million in 2005 compared to $888.6 million in 2004 mainly due to decreases in net investment income and member contributions.
- Total deductions from plan net assets (summation of annuity and disability benefit payments, refunds of contributions and administrative expenses) decreased slightly by $2.8 million (-0.5%) as decreases in refunds and transfers of contributions were offset by increases in annuity and disability benefit payments.
- The Pension Administration System database project was completed and placed in service in 2005.

Overview of the Financial Statements

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.

The Plan's financial statements include the statement of plan net assets, statement of changes in plan net assets and notes to the financial statements. The statement of plan net assets includes information about the Plan's assets, liabilities and net assets as of the close of the Plan's calendar year. It provides information about the fair value and composition of the net assets held in trust for pension benefit payments. The liabilities do not include the actuarial value of future benefits. The statement of changes in plan net assets presents the changes to the Plan's net assets for the calendar year. It shows the additions to plan net assets, which includes investment income and appreciation from investments and employer and member contributions. It also shows the deductions for benefits and administrative expenses.

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. Disclosures include a general description of the Plan, benefits, contributions and reserves, accounting policies, implementation of any new accounting pronouncements, how assets values are determined, and any contingencies or commitments.

The required supplementary information that appears after the notes to the financial statements is not a required part of the financial statements but present supplementary information required by GASB. It includes required schedule of funding progress and schedule of employer contributions as well as related disclosures. These schedules are based on the actuarial valuations and contribute to an understanding of the funding progress over the last six years. Additional supplemental schedules include information regarding administrative expenses, consulting costs and investment management fees incurred by the Plan.

Management's Discussion and Analysis (continued)

Plan Net Assets

The following table displays a summary of plan net assets ($ in millions) at December 31, 2005 and 2004:

	2005	2004	Increase/(Decrease) $	Increase/(Decrease) %
Cash and cash equivalents	$ 1.5	$ 1.5	$ -	-%
Receivables from investments sold & accrued earnings	61.8	94.3	-32.5	-34.5
Receivables for contributions & others	167.5	172.3	-4.8	-2.8
Investments, at fair value	6,348.0	6,293.1	54.9	0.9
Invested securities lending collateral	745.3	806.7	-61.4	-7.6
Property and equipment	4.3	4.9	-0.6	-12.2
Total assets	7,328.4	7,372.8	-44.4	-0.6
Payables for investments purchased	219.5	316.7	-97.2	-30.7
Securities lending payable	745.3	806.7	-61.4	-7.6
Accounts payable and accrued expenses	6.7	6.6	.1	1.5
Total liabilities	971.5	1,130.0	-158.5	–1.4
Net assets held in trust for pension benefits	$ 6,356.9	$ 6,242.8	$ 114.1	1.8%

Invested assets increased by $54.9 million (0.9%) to $6,348.0 from $6,293.1 million in 2004. International equity and real estate were the major contributors.

Receivables for contributions decreased by $4.8 million (-2.8%) to $167.5 million in 2005 from $172.3 million in 2004 due to the collection of approximately 60% of the 2004 early retirement receivables.

Receivables from investments sold and accrued earnings decreased by $32.5 million (-34.5%) to $61.8 in 2005 from $94.3 million in 2004. This type of receivable arises from timing differences in the settlement dates of securities that have been sold at year-end. The decrease is due to the volume of trading activity at year-end for 2005 compared to the prior year.

Payables for investments purchased at year-end decreased by $97.2 million (-30.7%) to $219.5 million in 2005 from $316.7 million in 2004. Investments purchased are accounted for on a trade-date basis. This type of payable arises from timing differences in the settlement dates of securities that have been purchased at year-end. The decrease is due to the volume of trading activity at year-end for 2005 compared to the prior year.

The following table displays a summary of invested assets ($ in millions) at December 31, 2005 and 2004:

	2005	2004	Increase (Decrease) $	Increase (Decrease) %
Bonds	$1,594.2	$1,599.5	$ -5.3	-%
Domestic equities	3,408.8	3,748.9	-340.1	-9.1
International equities	735.0	258.3	476.7	184.6
Real Estate	263.2	251.8	11.4	4.5
Other Investments	98.3	90.3	8.0	8.9
Short-term Investments	248.5	344.3	-95.8	-27.8
Total Investments	$6,348.0	$6,293.1	$ 54.9	0.9%

Management's Discussion and Analysis (continued)

Investments grew by $54.9 million (0.9%) in 2005, ending the year at $6,348.0 million from $6,293.1 million in 2004. Even though the portfolio achieved a 6.9% rate of return, asset growth was reduced by the Plan's operating cash flow requirements to pay monthly benefit payments. Approximately $308 million was liquidated from the investment portfolio during the year. Investments were liquidated with the objective of rebalancing asset classes that were over their target allocations at the time cash was needed to pay monthly benefits. During the year, most funds were drawn from domestic equity value managers both large and small-cap, and passive index accounts both domestic equity and bond. International equity allocation increased considerably as the Board increased the Plan's target allocation from 5% to 10%. Other investments, which are primarily made up of investments in private equity, grew as capital was added throughout the year and the value of current holdings continued to rebound.

Changes in Plan Net Assets

The following table displays the summary of changes in the plan net assets (in millions) for years ended December 31, 2005 and 2004:

			Increase (Decrease)	
	2005	**2004**	**$**	**%**
Additions:				
Members' contributions	$122.5	$155.9	$ -33.4	-21.4%
Employers' contributions	155.1	153.9	1.2	0.8
Net investment income	401.2	577.5	-176.3	-30.5
Securities lending income	1.1	1.3	-0.2	-15.4
Total additions	679.9	888.6	-208.7	-23.5
Deductions:				
Annuity benefits & lump sum payments	523.5	490.0	33.5	6.8
Disability benefits	10.0	8.8	1.2	13.6
Refunds of contributions & rollover distributions	26.8	40.1	-13.3	-33.2
Transfer to Firemen's A & B fund of Chicago	-	24.2	-24.2	-100.0
Administrative expenses	5.5	5.5	-	-
Total deductions	565.8	568.6	-2.8	-0.5
Net increase (decrease)	$114.1	$320.0	$-205.9	-64.3%

Additions to Plan Net Assets

- Member contributions decreased by $33.4 million (-21.4%) to close at $122.5 million in 2005 from $155.9 million reported in 2004. The decrease was due to reductions in contributions related to the 2004 early retirement incentive.

- Employer contributions increased by less than 1% from the prior year to $155.1 million in 2005. Employer contributions are calculated using a statutorily set multiplier (currently 1.25) times member contributions collected two years prior.

- Net investment income is presented net of investment fees and is comprised of interest, dividends and both realized and unrealized gains/(losses) from investments during the year. Net investment income of $401.2 million declined by $176.3 million (-30.5%) from the prior year. This decline was directly attributable to lower appreciation on investments.

- Security lending income decreased by 15.4% to $1.1 million in 2005 from $1.3 million in 2004.

Management's Discussion and Analysis (continued)

Deductions from Plan Net Assets

- Annuity benefit payments increased by $33.5 million (6.8%) to $523.5 million in 2005 from $490.0 million in 2004. The increase was attributable to a full year of benefits paid to the retirees who retired under the 2004 early retirement incentive. The increase also included an annual 3% cost of living adjustment to eligible retirees. Benefit payrolls increased by 698 employee annuities, 283 surviving spouse annuities and 28 child annuities. A total of 1,015 benefit recipients were removed from payroll due to death or expiration of term annuities.

- Disability benefits paid in 2005 increased by $1.2 million (13.6%) to $10.0 million from $8.8 million in 2004. The number of disability recipients in 2005 represented a normal year, unlike 2004 where about 138 disability recipients opted to retire under the 2004 early retirement incentive.

- Refunds of contributions in 2005 were normal, despite a decrease of $13.3 million (-33.2%) to $26.8 million in 2005 from $40.1 million in 2004. Refunds of spousal contributions (for members unmarried at retirement) surged in 2004 due to an early retirement incentive offered that year.

- Administrative expenses of $5.5 million in 2005 were consistent with the prior year. The Pension Administration System was placed in service in 2005 increasing depreciation expense. This was offset by decreases in personnel costs due to staff retirement and other administrative expenses attributable to the 2004 early retirement incentive.

Economic Factors and Rates of Return

During 2005, investors were rewarded with positive overall performance, but diversification was paramount as non-traditional asset classes led performance. The Plan's investment portfolio returned 6.9% for the year. The performance for the year was driven by the Plan's allocation to non-traditional asset classes, international, specifically emerging markets, real estate, and private equity. The Plan's 11% exposure to international equities returned 17.6% for the year. Real estate, 4% exposure, and private equity, 2% exposure, returned 23.1% and 18.7%, respectively. Unfortunately, the Plan's largest allocations, domestic equity, 57% exposure, and domestic fixed income, 25% exposure, returned 5.9% and 2.1%, respectively. The domestic fixed income market was hampered by rising interest rates and a weakened dollar. Even with strong corporate profits, domestic equity markets lagged their international peers due to surging energy costs and more expensive capital.

Funding Progress

The actuarial information provided by the Plan's actuary is based upon assumptions about future events, at the time the actuarial valuations were performed; and, therefore, the amounts presented are estimates. The actuarial value of assets marginally decreased by $10.7 million (-0.1%) to $6,332.4 million in 2005 from $6,343.1 million in the prior year. The actuarial value of liabilities increased by $441.7 million (5.0%) to $9,250.2 million in 2005, from $8,808.5 million in the prior year. At December 31, 2005, actuarial asset values currently fund 68.5% of this liability, a decrease from the 72.0% funded ratio in the prior year. There were no major plan amendments in 2005. The changes made in the actuarial assumptions for the 2005 valuation had no major impact.

The decrease in the funded ratio was due to the deferred recognition of negative returns in 2002 and 2001, and a shortfall in contributions relative to the actuarially determined contribution requirement. The Annual Required Contribution (ARC) increased by $87.1 million (44%) to $285.3 million in 2005, the percent of the ARC contributed decreased to 54.4% in 2005 from 77.7% in 2004.

Contact information

This financial report is designed to provide a general overview of the Plan's finances and the accountability of Plan assets. 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.

Statements of Plan Net Assets

ASSETS	December 31 2005	December 31 2004
Cash and cash equivalents	$ 1,521,029	$ 1,497,435
Receivables		
Contributions from the City of Chicago, net of allowance for Loss of $15,153,716 in 2005 and $14,045,478 in 2004	153,795,044	156,255,955
Early Retirement Incentive (ERI) Receivable	3,588,175	8,910,799
Member contributions	10,158,501	7,053,698
Interest and dividends	13,076,965	13,508,210
Receivables for investments sold	48,695,440	80,804,787
Miscellaneous	-	35,701
Total receivables	229,314,125	266,569,150
Investments, at fair value		
Bonds	1,594,234,194	1,599,536,283
Common and preferred stock	4,143,740,975	4,007,207,419
Real estate	263,154,789	251,754,076
Other investments	98,254,483	90,335,602
Short-term investments	248,537,964	344,293,435
Total investments	6,347,922,405	6,293,126,815
Invested securities lending collateral	745,260,574	806,723,308
Property and equipment, net of accumulated depreciation and amortization of $941,806 in 2005 and $399,937 in 2004	4,340,320	4,874,043
Total assets	7,328,358,453	7,372,790,751
LIABILITIES		
Payables for investments purchased	219,457,870	316,729,670
Accounts payable and accrued expenses	6,751,275	6,595,831
Securities lending collateral	745,260,574	806,723,308
Total liabilities	971,469,719	1,130,048,809
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 30)	$6,356,888,734	$ 6,242,741,942

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

Statements of Changes in Plan Net Assets

	Year ended December 31	
	2005	**2004**
Additions		
Contributions from the City of Chicago	$ 155,067,116	$ 153,919,476
Member contributions	122,542,484	155,884,575
Total contributions	277,609,600	309,804,051
Investment income		
Net appreciation in fair value of investments	289,262,092	475,237,829
Interest	59,163,983	52,546,967
Dividends	62,228,956	58,260,812
Income from real estate investments	12,237,309	11,058,021
Other income (loss)	(20,568)	365
	422,871,772	597,103,994
Less investment expenses	21,666,395	19,634,053
Net income from investing activities	401,205,377	577,469,941
Security lending activities		
Securities lending income	23,195,417	8,298,180
Borrower rebates	(21,663,775)	(6,501,203)
Bank fees	(426,398)	(536,829)
Net income from securities lending activities	1,105,244	1,260,148
Total additions	679,920,221	888,534,140
Deductions		
Benefits		
Annuity payments	523,500,195	490,009,365
Disability and death benefits	9,990,510	8,830,525
Total benefits	533,490,705	498,839,890
Refund of member contributions	20,874,496	32,470,285
Rollover distributions	5,862,960	7,600,070
Transfer to Firemen's Fund	-	24,201,945
Administrative and general expenses	5,545,268	5,470,007
Total deductions	565,773,429	568,582,197
Net increase	114,146,792	319,951,943
Net assets held in trust for pension benefits		
Beginning of year	6,242,741,942	5,922,789,999
End of year	$6,356,888,734	$6,242,741,942

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

NOTES TO FINANCIAL STATEMENTS

Note 1 – 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 fiscal dependency on the primary government.

2. 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 in the period when due, pursuant to formal commitments as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Deposit and Investment Disclosures

During the year ended December 31, 2005, the Plan adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures.* As a result, the Plan has addressed certain deposit and investment risk disclosures.

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. Fair values of securities are based primarily on quotations from national security exchanges. Investments in short-term obligations are carried at cost, which approximates fair value. Certain short-term obligations, such as United States Treasury Bills and discount paper, are carried at fair value. Fair values for bonds and stocks are determined by quoted market prices. Fair values of real estate and commingled real estate are based upon annual independent appraisals. Fair value of Private Equity investments are primarily based on the lesser of cost or the general partner determined fair value.

Notes to Financial Statements (continued)

Note 1 – 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.

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, 2005 and 2004 is as follows:

	2005	2004
Pension administration system	$ 4,861,396	$ -
Furniture	82,387	80,530
Equipment	69,251	64,301
Computers	187,059	347,807
Leasehold improvements	82,033	57,121
	5,282,126	549,759
Less accumulated depreciation and amortization	941,806	399,937
	4,340,320	149,822
Construction in progress	-	4,724,221
Net property and equipment	$ 4,340,320	$ 4,874,043

Construction in progress at December 31, 2004 consisted of an installation of a new computer system to be placed in service by May 2005. No additional significant costs were incurred in 2005.

Note 2 – Description of Plan

Any employee of the City of Chicago or the Board of Education employed under the provisions of the municipal personnel ordinance or any person employed by the Municipal Employees' Annuity and Benefit Fund of Chicago (Plan) who is not participating in any other pension fund or retirement system is covered by the 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, 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, 2005 and 2004 were $1,407,323,058 and $1,303,127,528 respectively.

Notes to Financial Statements (continued)

Note 2 – Description of Plan (continued)

Plan membership at December 31 is as follows:

	2005	2004
Active employees (includes members currently receiving disability benefits):		
Vested	15,533	15,030
Non-vested	18,210	18,237
	33,743	33,267
Retirees and beneficiaries currently receiving benefits	22,895	22,933
Terminated (inactive members) employees entitled to benefits or a refund of contributions	8,440	12,161
	65,078	68,361

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 monthly purchase annuity with partial City contributions if under age 60 with less than 20 years of service. Employees age 55 or more with at least 20 years of service or age 50 or more with at least 30 years of service are entitled to receive a minimum formula annuity of 2.4% per year of service 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. There is a 10 year deferred vested benefit payable at age 60. The original annuity is limited to 80% 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 monthly annuity is increased by 3% in January of the year of the first payment date following the later of age 60 or the first anniversary of retirement, and by 3% annually thereafter; except for an employee retiring prior to age 60 the first increase will occur not later than January of the year of the first payment date following the later of (1) the third anniversary of retirement or (2) the attainment of age 53.

Effective January 16, 2004, Public Act 093-0654 established an early retirement incentive program for certain employees of the City of Chicago or the Board of Education whose years of age plus years of service was at least 70. A minimum of 50 years of age and 10 years of Municipal service credit was required. Those employees who elected to retire during the period from January 31, 2004 and February 29, 2004 were able to attain up to five years of additional service credit upon making specified contributions. Employees who had previously earned maximum pension benefits were able to receive a lump sum from the Plan equal to 100% of their salary for the year as of February 29, 2004 or the date of withdrawal, whichever was earlier, in exchange for an actuarially reduced annuity.

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 Plan. 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 Plan 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 3 – Deposits and Investments (continued)

Deposits that are held locally in the Plan's name are held by the Treasurer of the City of Chicago, ex-officio Treasurer of the Plan. At December 31, 2005 and 2004, the Plan's book balances of cash are $1,521,029 and $1,497,435, respectively. The actual bank balances at December 31, 2005 and 2004 are $1,520,229 and $1,496,435, respectively. All non-investment related bank balances at year end are insured or collateralized at 110% of the principal amount.

Custodial credit risk is the risk that, in the event of a financial institution failure, the Plan will not be able to recover deposits or collateral securities that are in possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by deposit insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Plan's name. As of December 31, 2005, $3,616,154 of the Plan's deposits with its custodian Northern Trust was exposed to custodial credit risk.

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.

	2005	2004
Investments At Fair Value As Determined by Quoted Price		
Bonds		
NTGI Aggregate Bond Index Fund	$ -	$ 342,072,202
Other	1,594,234,194	1,257,464,081
Common and preferred stock	4,143,740,975	4,007,207,419
	5,737,975,169	5,606,743,702
Investments at Fair Value As Determined by Plan Administrator		
Real estate	263,154,789	251,754,076
Private equity	98,254,483	90,335,602
Short-term investments	248,537,964	344,293,435
	609,947,236	686,383,113
Total investments	$6,347,922,405	$6,293,126,815

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, 2005 the average term of the loan was 88 days (60 days in 2004). 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, 2005 had a weighted average maturity of 64 days (38 days in 2004). As of December 31, 2005 and 2004, the Plan had loaned to borrowers securities with a fair value of $756,813,744 and $867,036,966, respectively. As of December 31, 2005 and 2004, the Plan received from borrower's cash collateral of $745,260,574 and $806,723,308, and non-cash collateral of $32,257,889 and $78,817,103, respectively.

Notes to Financial Statements (continued)

Notes 3 – Deposits and Investments (continued)

Securities lending net income for the years ended December 31, 2005 and 2004 was $1,105,244 and $1,260,148 respectively. At year end, the Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan.

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

	2005	2004
Securities loaned – cash collateral		
Domestic bonds	$ 256,694,526	$ 441,052,948
Domestic equities	436,081,379	338,352,464
International equities	32,575,870	10,423,647
Total securities loaned – cash collateral	725,351,775	789,829,059
Securities loaned – non-cash collateral		
Domestic bonds	29,541,477	39,627,618
Domestic equities	1,119,136	37,580,289
International equities	801,356	-
Total securities loaned – non-cash collateral	31,461,969	77,207,907
Total	$ 756,813,744	$ 867,036,966

Foreign Currency Risk

The Plan's exposure to foreign currency risk at December 31, 2005 was as follows:

Currency	Fair Value	Percentage
Australian Dollar	$ 4,767,839	1.64%
Brazilian Real	3,605,412	1.24%
Canadian Dollar	2,530,234	.87%
Swiss Franc	20,597,275	7.10%
Chilean Peso	1,199,997	.41%
Danish Krone	1,147,502	.40%
Euro	95,941,374	33.07%
British Pound Sterling	59,932,115	20.66%
Hong Kong Dollar	8,047,521	2.77%
Hungarian Forint	1,475,977	.51%
Indonesian Rupiah	413,079	.14%
New Israeli Shekel	856,094	.30%
Indian Rupee	2,006,894	.69%
Japanese Yen	51,025,526	17.59%
South Korean Won	10,626,383	3.66%
Mexican Peso	3,965,795	1.37%
Malaysian Ringgit	1,503,334	.52%
Norwegian Krone	815,861	.28%
Polish Zloty	320,056	.11%
Swedish Krona	5,579,618	1.92%
Singapore Dollar	3,345,915	1.15%
Thai Baht	492,664	.17%
Turkish Lira	817,211	.28%
New Taiwan Dollar	3,382,562	1.17%
South African Rand	5,713,658	1.98%
Total	$290,109,986	100.00%

All foreign currency-denominated investments are in equities and foreign cash

Notes to Financial Statements (continued)

Note 3 – Deposits and Investments (continued)

Interest Rate Risk

As of December 31, 2005, the Plan had the following investments and maturities

Security Type	*Total Fair Value*	*Less than 1 year*	*1-6 years*	*6-10years*	*10 or more years*	*Maturity not Determined*
Asset backed	$ 83,743,080	$ -	$ 40,056,466	$ 6,408,025	$ 37,278,589	$ -
Commercial mortgage backed	103,033,585	-	1,338,723	853,120	100,841,742	-
Corporate bonds	348,871,413	4,154,012	117,992,956	67,097,428	36,918,055	122,708,962
Government agencies	139,864,522	-	51,605,607	10,462,591	4,282,874	73,513,451
Government bonds	225,152,226	84,199	100,580,564	29,468,440	95,019,023	-
Government mortgage backed	351,937,612	-	59,228	2,652,966	208,479,097	140,746,321
Index linked government bonds	9,149,477	-	-	9,149,477	-	-
Non-government backed CMO's	46,563,590	-	3,547,330	-	43,016,260	-
Other fixed income	285,918,690	-	610,000	-	-	285,308,690
Bank deposits	879,859	879,859	-	-	-	-
Short term investment funds	181,781,788	-	-	-	-	181,781,788
Short term bills and notes	69,496,996	69,496,996	-	-	-	-
Total	$ 1,846,392,839	$ 74,615,066	$ 315,790,874	$ 126,092,047	$ 525,835,640	$ 804,059,212

The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rate risk.

Notes to Financial Statements (continued)

Note 3 – Deposits and Investments (continued)

Credit Risk

The following table presents the Plan's ratings as of December 31, 2005:
(In thousands)

S&P Credit Rating	*Index Market Value*	*Asset Backed Securities*	*Comm'l Mortgage Backed*	*Corporate Bonds*	*Gov't Agencies*	*Gov't Bonds*	*Gov't Mortgage Backed*	*Index Linked Gov't Bonds*	*Non-Gov't Backed CMO's*	*Other Fixed Income*
AAA	$ 467,338	$ 73,949	$ 81,366	$ 8,789	$ 40,312	$208,763	$ -	$9,149	$45,010	-
AA+	334	334	-	-	-	-	-	-	-	-
AA	1,361	-	259	1,102	-	-	-	-	-	-
AA-	14,734	-	-	12,191	1,933	-	-	-	-	610
A+	29,331	734	-	27,597	-	1,000	-	-	-	-
A	49,731	1,507	-	46,679	588	490	-	-	467	-
A-	27,561	2,283	-	25,200	-	-	-	-	78	-
BBB+	44,448	-	-	43,582	-	866	-	-	-	-
BBB	36,418	1,920	-	26,458	-	8,040	-	-	-	-
BBB-	19,855	-	-	19,855	-	-	-	-	-	-
BB+	985	-	-	985	-	-	-	-	-	-
BB	2,166	-	-	2,166	-	-	-	-	-	-
BB-	6,120	-	-	6,120	-	-	-	-	-	-
B+	694	-	-	694	-	-	-	-	-	-
B	2,865	-	-	2,865	-	-	-	-	-	-
B-	965	-	-	965	-	-	-	-	-	-
NR	434,529	3,016	21,409	123,623	-	-	164	-	1,008	285,309
TSY	5,993	-	-	-	-	5,993	-	-	-	-
AGY	448,806	-	-	-	97,032	-	351,774	-	-	-
Total	$1,594,234	$ 83,743	$103,034	$348,871	$139,865	$225,152	$351,938	$9,149	$46,563	$285,919

TSY = Treasury Issue
AGY = Agency Issue
NR = Not Rated

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, 2004. 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, 2004 Book Value	December 31, 2004 Fair Value
Bonds	1	$1,477,935,060	$1,599,536,283
Stocks	1	2,630,155,430	3,503,853,994
Short-term instruments	1	167,749,997	167,929,877
Real estate	N/A	229,310,952	251,754,076
Private equity	N/A	166,440,337	90,335,602
Commingled funds	N/A	562,488,766	679,716,983
		$5,234,080,542	$6,293,126,815

Note 4 – Transfer to Firemen's Annuity and Benefit Fund of Chicago

Legislation was passed in 2004 requiring a one-time transfer of municipality credits earned in this Plan with interest for certain paramedics who were transferred from the Plan to the Firemen's Annuity and Benefit Fund of Chicago in 1983. This one-time transfer amounted to $24,201,945.

Note 5 – Net Assets Held in Trust for Pension Benefits

The Plan has reserved a portion of Plan net assets for future obligations. Employee contributions are distributed to active employee and survivor benefit reserves based on requirements specified in Illinois State Statutes. After meeting current cash requirements for administrative expense and disability benefits, employer contributions and investment income are allocated to all reserves based on actuarially calculated requirements. Amounts are transferred between reserves annually based on actuarially calculated requirements.

	December 31 2005	December 31 2004
Net assets reserved for:		
Retirement and survivor benefits for active employees	$ 3,925,204,356	$ 3,591,475,630
Retirement and survivor benefits for retired employees	5,325,007,461	5,217,025,314
	9,250,211,817	8,808,500,944
Unreserved net assets	(2,893,323,083)	(2,565,759,002)
Net assets held in trust for pension benefits	$ 6,356,888,734	$ 6,242,741,942

Notes to Financial Statements (continued)

Note 6 – Office Lease

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 subject to significant cancellation penalties. The lease currently requires monthly payments of $22,549 ($21,639 in 2004). 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, 2005:

Year Ending December 31,	Amount
2006	$270,588
2007	270,588
2008	45,098
Total	$586,274

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]
12/31/05	$	6,332,378,676	$	9,250,211,817	$ 2,917,833,141	68.5%	$ 1,407,323,058	207.3%
12/31/04		6,343,076,159		8,808,500,944	2,465,424,785	72.0%	1,303,127,528	189.2%
12/31/03		6,384,098,957		7,988,636,556	1,604,537,599	79.9%	1,395,513,060	115.0%
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		6,466,797,543		6,934,176,477	467,378,934	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%

Schedule Of Employer Contributions

		Employer Contributions	
Year ended December 31,		Annual required Contribution	Percentage Contributed
2005	$	285,291,350	54.4%
2004		198,199,001	77.7%
2003		158,614,805	89.5%
2002		92,711,870	141.3%
2001		83,526,133	157.4%
2000		93,016,467	150.7%

Note 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	12/31/2005
Actual 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%
OPEB investment rate of return	4.5%
Projected salary increases	4.5% (5% in 2004)
Inflation	3.0%
Post retirement benefit increases	3.0% per year beginning at the earlier of: 1) the later of the first of January of the year after retirement and age 60 2) the later of the first of January of the year after the second anniversary of retirement and age 53

Schedule of Administrative Expenses

	Years ended December 31	
	2005	2004
Administrative Salaries	$ 1,878,660	$ 2,497,420
Employee Benefits	683,679	745,558
Professional Services:		
Actuarial	156,316	78,960
Medical	43,050	41,340
Auditing	31,500	36,000
Legal	72,292	67,790
Custodial	174,295	127,506
Consulting	133,192	75,381
Investment consultants	180,000	180,000
Data Processing	622,831	725,250
Contractual	103,390	177,267
Office Supplies and Equipment	43,931	55,456
Office Equipment Maintenance	4,138	2,978
Bank service charge	4,617	4,482
Equipment Rental	6,325	8,936
Depreciation	761,137	72,327
Printing and Publishing	126,789	122,705
Postage	85,743	66,902
Rent and Utilities	324,224	287,808
Retirement Board Election Costs	5,378	4,497
Miscellaneous	18,824	10,711
Insurance	4,248	3,525
Business continuity planning	5,891	-
Telephone and Communications	39,708	33,426
Travel	15,720	26,071
Dues and Subscriptions	19,390	17,711
Total Administrative Expenses	$ 5,545,268	$ 5,470,007

Schedule of Professional And Consulting Fees

	Years Ended December 31	
	2005	2004
Legal Advisors	$ 72,292	$ 67,790
Medical Advisors	43,050	41,340
Investment Consultant	180,000	180,000
Consulting Actuary	156,316	78,960
Consulting	133,192	75,381
Auditor	31,500	36,000
Master Custodian	174,295	127,506
Total professional and consulting fees	$ 790,645	$ 606,977

Schedule of Investment Management Compensation

	Years ended December 31	
	2005	2004
Equity Managers		
ABN AMRO	$ 203,766	$ 79,428
Alliance Capital	-	191,995
Ariel Capital	1,937,724	1,826,734
Bear Stearns	875,631	915,790
Castle Ark	138,329	52,315
Great Lakes Advisors	562,881	480,091
Harris Investment Mgmt.	172,074	83,706
Holland Capital	607,321	549,802
Keeley Asset Mgmt.	770,106	642,546
MacKay Shields	473,415	460,884
MEABF Emerging Manager Fund	450,870	406,186
New Amsterdam Partners	133,355	50,347
Northern Trust Quantative Adv.	202,970	204,772
Smith Barney Asset Mgmt.	638,827	620,128
TCW	271,561	255,082
TIMCO	336,095	314,424
UBS AM Equity	539,388	592,855
Wellington Capital	642,478	883,757
William Blair	576,071	506,588
Total Equity	9,532,862	9,117,430
Alliance Capital	447,076	434,765
West AM	-	148,521
NTGI Bond Index	93,095	111,055
Frank Russell Trust	323,107	322,478
Lincoln Capital	268,073	261,508
Payden & Rygel	157,219	139,841
UBS AM Bonds	348,954	338,796
Total Bond	1,637,524	1,756,964
International Equity Managers		
Alliance Bernstein	315,387	-
Frank Russell Trust	1,339,783	1,597,011
LSV Asset Management	316,375	-
MFS	421,457	202,726
MacKay Shields	270,555	19,293
Mondrain	129,930	-
Nicholas Applegate	-	165,350
Oechsle	-	210,053
Walter Scott	584,601	-
William Blair	190,476	-
Total International Equity	3,568,564	2,194,433

Schedule of Investment Management Compensation (continued)

	Years ended December 31	
	2005	**2004**
Real Estate Managers		
AFL-CIO Building Trust	188,981	165,000
American Realty	171,446	-
Capri Capital	1,095,024	1,025,000
J P Morgan	578,892	450,000
John Buck Company	397,500	416,250
Prudential Asset Mgmt.	590,584	475,000
Walton Street Partners	187,500	187,500
Total Real Estate	3,209,927	2,718,750
Venture Capital Managers		
First Analysis	1,140,953	1,275,000
Hispania Partners	125,000	125,000
Hopewell Ventures	119,362	50,000
Invesco	34,610	23,015
MK Capital	100,000	-
Mesirow Financial	1,185,093	1,185,093
Midwest Mezzanine Fund	437,500	437,500
Muller & Monroe	100,000	-
Nogales Investors	250,000	525,868
SB Partners	225,000	225,000
Total Venture Capital	3,717,518	3,846,476
Total	$21,666,395	$19,634,053

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Investments

Municipal Employees' Annuity and Benefit Fund of Chicago
221 North LaSalle Street, Suite 500, Chicago, Illinois 60601
Telephone: 312-236-4700 Fax: 312-236-2383
Terrance R. Stefanski, Executive Director

Investment Section

INVESTMENT REPORT - 2005

June 30, 2006

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

Many events in 2005 helped shape the economic landscape for the year. Key drivers included the Federal Reserve raising interest rates a total of eight times, the catastrophic damages of Hurricane Katrina on the Gulf Coast, which became the most costly disaster in U.S. history, and the global market's insatiable demand for energy, raising commodity prices to all time highs during the year.

Even through these events, the U.S. economy expanded throughout the year.

2005 – Investing in the Financial Markets

During the first quarter, rising energy prices led Exxon Mobil to report its largest quarterly profit ever, the largest for any U.S. publicly traded company. The Federal Reserve continued to focus on curbing inflation, raising short-term interest rates twice during the quarter to 2.75%. Even with rate increases, the economy still managed to expand 3.8% in the first quarter as the housing sector continued its torrid pace. The positive performance in GDP and the housing sector did not carry over to the investment markets, which showed a decline for the quarter.

We welcomed strong economic news in the second quarter, as jobless claims decreased, manufacturing activity increased, and the Dow achieved its biggest one-day increase since 2003. The investment markets were able to maintain a positive return throughout the quarter, with smaller firms leading the way. However, consumer confidence levels were shaken by the Federal Reserve raising interest rates and, among others, Standard & Poor's downgrading the debt instruments of General Motors and Ford to junk status.

On August 29, 2005, Hurricane Katrina pounded the Gulf Coast leading to the worst and most expensive natural disaster in United States history. The effect of the disaster on this part of the country was enormous, but the ramifications were far-reaching as the disaster's impact on the Gulf Coast oil refineries ability to continue normal operations was unknown. Oil spiked to $70 a barrel that week as fears of gas shortages began to spread. At year-end, over one quarter of daily oil production was still shut down. The impact on the domestic markets was apparent as returns in the international markets outpaced their domestic counterpart two-fold during the quarter.

The actions of the Federal Reserve hampered rallies in the domestic markets during the year. The year saw the Federal Funds rate increase eight times, ending at 4.25%, a four and a half year high. Higher interest rates, the effects of Hurricane Katrina, and the supply constraints on energy resources in meeting global demand, made for a tough year in the domestic markets.

2005 – Plan Investment Performance

The Plan returned 6.9% for the year, ranking in the 51st percentile compared to other public plans. Plan performance was driven by the Board's allocation to international equities, real estate, and private equity, which make up only 15% of the Fund's portfolio. Diversification into multiple asset classes allowed the return of the Plan to outperform the returns of exposures to traditional domestic investment instruments only. The Plan's 11% exposure to international equities returned 17.6% for the year. Real Estate, 4% exposure, and private equity, 2% exposure, returned 23.1% and 18.7%, respectively.

The Plan's funding ratio for 2005, represented by the actuarial asset value of assets as a percentage of the actuarial accrued liability, was 68.5%, a decline from 72% last year. The decline was expected due to the recognition of deferred unrealized losses in 2002 and 2001, and the continued discrepancy between statutorily determined contributions received and the actuarially determined contribution requirement.

The Plan's investment policy is designed to maximize returns while minimizing risk over the long-term. The actuarially determined rate of return for the total portfolio is conservatively set at 8% to avoid speculative investing and its inherent risk. Market factors can positively or negatively affect rates of return each year. Annualized returns for periods such as ten years tend to smooth the effects of short-term market fluctuations. As such, reviewing an individual investors performance over a longer time period is a much better indicator of their ability to meet stated investment objectives. The Plan, over ten years, has returned 8.7% annually, outperforming the actuarial rate of return by seventy basis points and ranking in the 45th percentile compared to other public plans.

2005 – Plan's Operating Cash Flow Needs

Withdrawals from the investment portfolio to assist with the payment of monthly retirement benefits continued to grow, reducing the amount of reserves available to invest for future benefit payments. In aggregate, $308 million was drawn during the year to assist in the payment of monthly benefits. Necessary operating draws from the investment portfolio led to Fund assets only growing by 1.8%, compared to the investment portfolio's return of 6.9% for the year. Operating expenditures are withdrawn from the investment portfolio in conjunction with rebalancing the portfolio's asset allocation to the Retirement Board's targeted allocations.

The Master Custodian's certification letter for 2005, a summary of the Plan's investment policy, and select investment schedules follow for your review.

Respectfully submitted,

James E. Mohler
Senior Investment Manager

Note: Investment returns and percentile rankings are supplied by Becker, Burke Associates and the calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.

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, 2005 through December 31, 2005.

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

INVESTMENT MANAGERS *(As of December 31, 2005)*

ABN AMRO Asset Management
AFL/CIO Building Investment Trust
AllianceBernstein
American Institutional Realty Advisors
Ariel Capital
Bear Stearns Asset Management
Capri Capital
CastleArk Asset Management
First Analysis
Frank Russell Trust
Frontenac Corp.
Great Lakes Advisors
Harris Investment Management
Hispania Capital Partners
Holland Capital Management
Hopewell Ventures
Invesco
The John Buck Company
J.P. Morgan Fleming Asset Management
Keeley Asset Management
Lehman Brothers Asset Management
LSV Asset Management
MacKay Shields
Mesirow Financial
MFS International
Midwest Mezzanine Funds
MK Capital
Mondrian Investment Partners
Muller & Monroe
New Amsterdam Partners
Nogales Investors
Northern Trust Global Investment Advisors
Payden & Rygel
Prudential Realty
SB Partners
Smith Barney Asset Management
Tishman Speyer
Travelers Investment Management Company
Trust Company of the West
UBS Global Asset Management
Walter Scott & Partners
Walton Street Capital
Wellington Management Company
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 Plan.

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 Plan:

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

Phase 2 establish objectives and guidelines for managing the Plan'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 Plan liabilities. Phase 3 is ongoing as portfolio performance is compared to Plan objectives and guidelines.

The Retirement Board completed a review of its investment policy and manager structure in 2004. Based on this study the Board set the Plan's asset allocation parameters. Targets within these parameters are used to put the portfolio in an optimal position to achieve the Plan'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 Plan'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 private equity. Diversification within asset classes based on investment objectives and management style is also utilized.

Performance Review

The rate of return of the Plan 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 Plan is also compared to a universe of other pension plans with similar structures.

Cash Flow Needs

Cash equivalents represent operational cash flow reserves for approximately one month operating cash needs. Monies drawn from investments to assist monthly operating cash flow needs is primarily taken from asset classes that have become over funded compared to determined allocation targets.

Investments (Fair to Book)

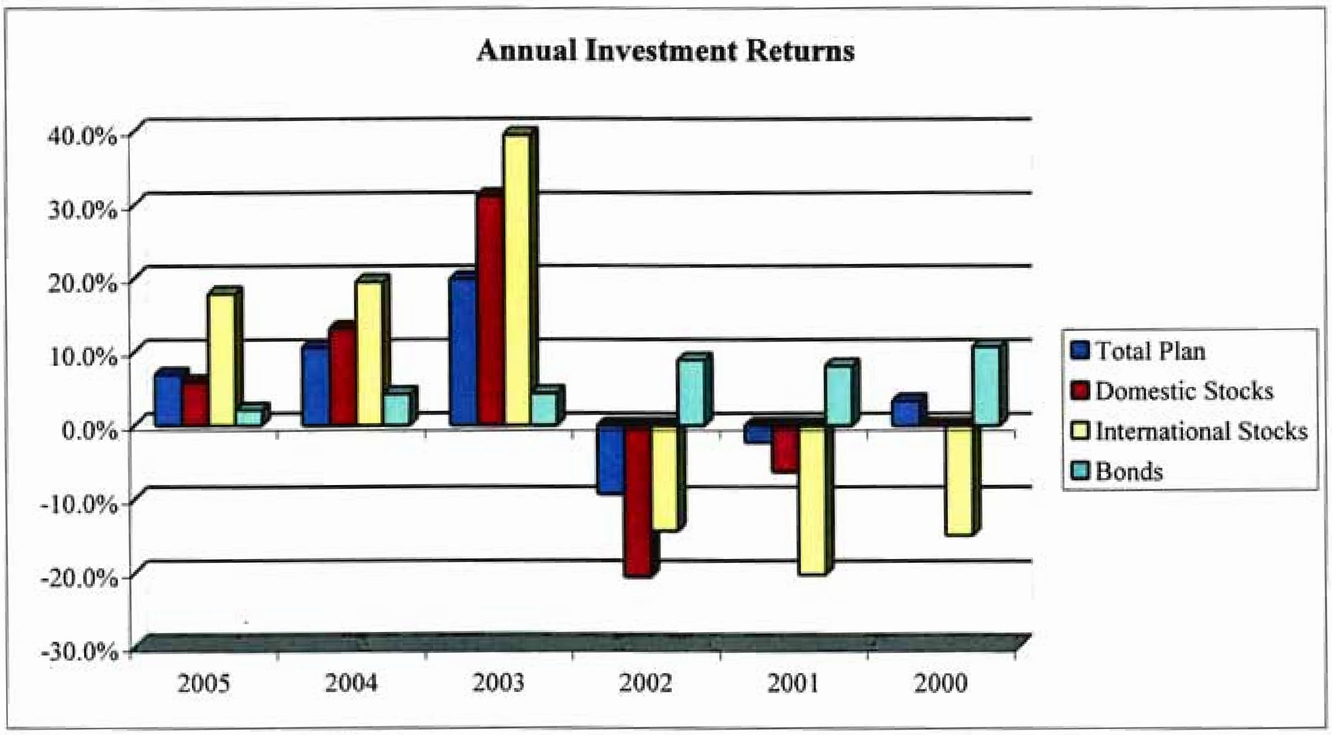
As of December 31, 2005 and December 31, 2004

Category	12/31/05 Fair Value	%	12/31/05 Book Value	%	12/31/04 Fair Value	%	12/31/04 Book Value	%
Bonds	$ 1,594,234,194	25%	$ 1,500,191,098	28%	$ 1,599,536,283	25%	$ 1,477,935,060	28%
Equities								
Domestic	3,408,740,545	54%	2,606,190,693	49%	3,518,459,688	56%	2,655,896,115	51%
International	735,000,431	12%	537,244,625	10%	488,747,731	8%	360,384,524	7%
Total Equities	4,143,740,975	65%	3,143,435,317	60%	4,007,207,419	64%	3,016,280,639	58%
Real Estate	263,154,789	4%	213,284,860	4%	251,754,076	4%	229,310,952	4%
Private Equity	98,254,483	2%	165,785,194	3%	90,335,602	1%	166,440,337	3%
Cash Equivalents	248,537,964	4%	248,274,225	5%	344,293,435	5%	344,113,554	7%
Total Investments	$6,347,922,405	100%	$5,270,970,694	100%	$6,293,126,815	100%	$5,234,080,542	100%

Annual Investment Returns

Last six years

	2005	2004	2003	2002	2001	2000
Total Plans						
The Plan	6.9%	10.6%	19.9%	-9.3%	-2.3%	3.3%
Inflation + 3%	6.4%	5.5%	4.9%	5.4%	4.6%	6.4%
Domestic Stocks						
The Plan	5.9%	13.2%	31.2%	-20.5%	-6.3%	0.0%
S&P 500 Stock Index	4.9%	10.9%	28.7%	-22.1%	-11.9%	-9.1%
International Stocks						
The Plan	17.9%	19.5%	39.5%	-14.3%	-20.2%	-14.9%
MSCI EAFE Net	13.5%	20.2%	38.6%	-15.9%	-21.4%	-14.2%
Bonds						
The Plan	2.1%	4.3%	4.4%	8.9%	8.1%	10.7%
Lehman Aggregate Bond Index	2.4%	4.3%	4.1%	10.3%	8.4%	11.6%

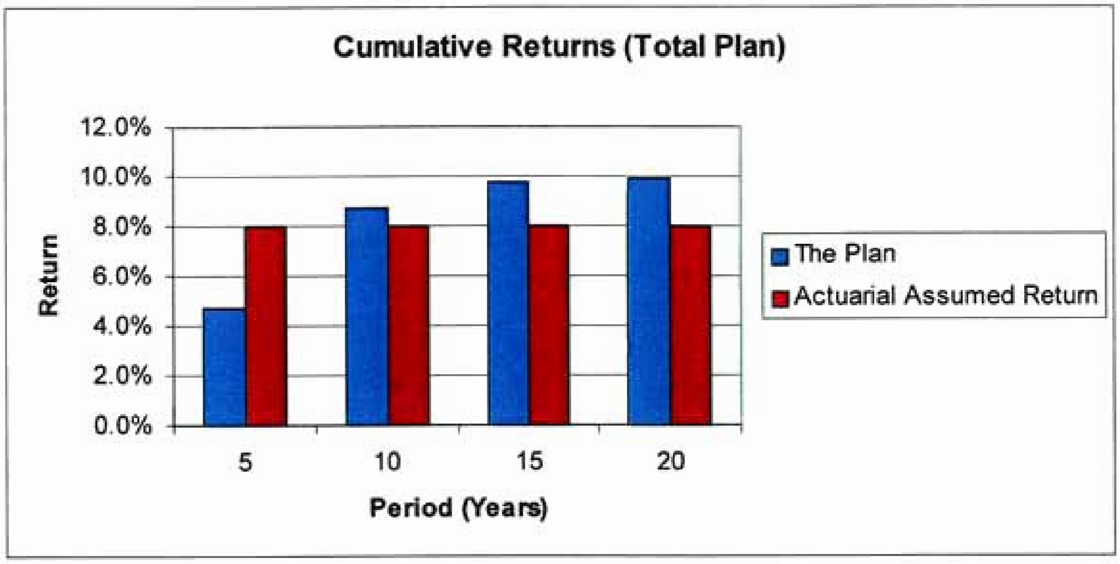


Investment returns are supplied by Becker, Burke Associates and the calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.

Cumulative Annuals – Total Plan

As of December 31, 2005
Last 5, 10, 15, and 20 years

	5 Years	10 Years	15 Years	20 Years
Total Plan	4.7%	8.7%	9.7%	9.9%
Actuarial Assumed Return	8.0%	8.0%	8.0%	8.0%

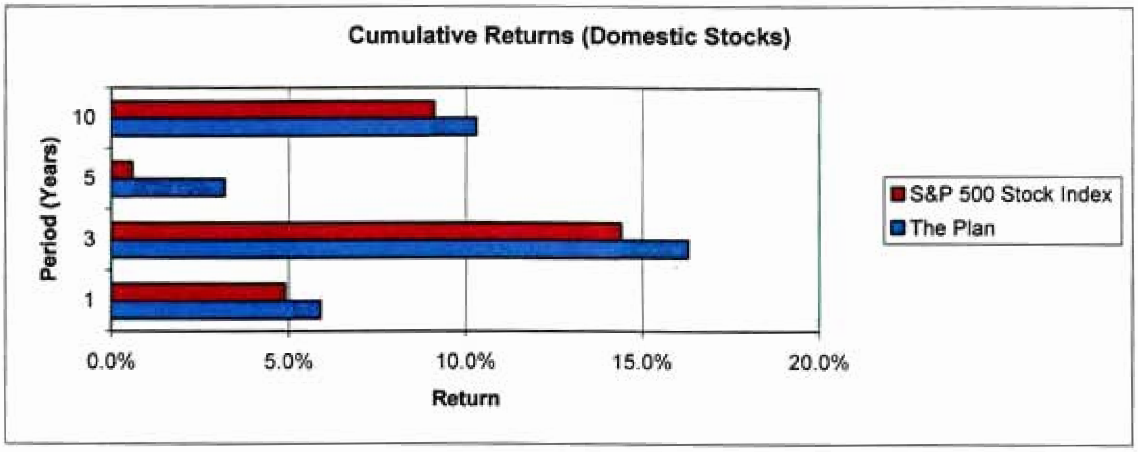


Investment returns are supplied by Becker, Burke Associates and the calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.

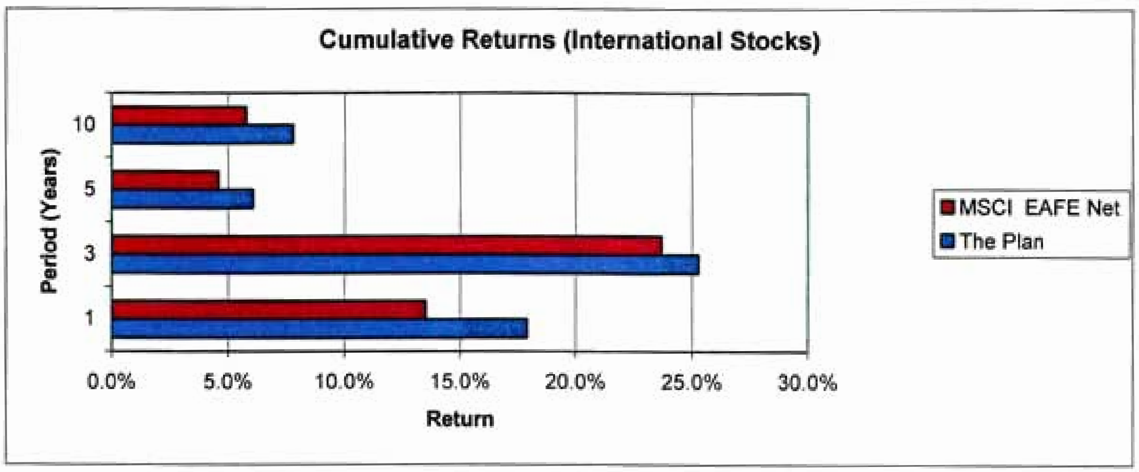
Cumulative Annuals – Domestic and International Stocks

As of December 31, 2005
Last 1, 3, 5, and 10 years

	1 Year	3 Years	5 Years	10 Years
Domestic Stocks				
The Plan	5.9%	16.3%	3.2%	10.3%
S&P 500 Stock Index	4.9%	14.4%	0.6%	9.1%



	1 Year	3 Years	5 Years	10 Years
International Stocks				
The Plan	17.9%	25.3%	6.1%	7.8%
MSCI EAFE Net	13.5%	23.7%	4.6%	5.8%

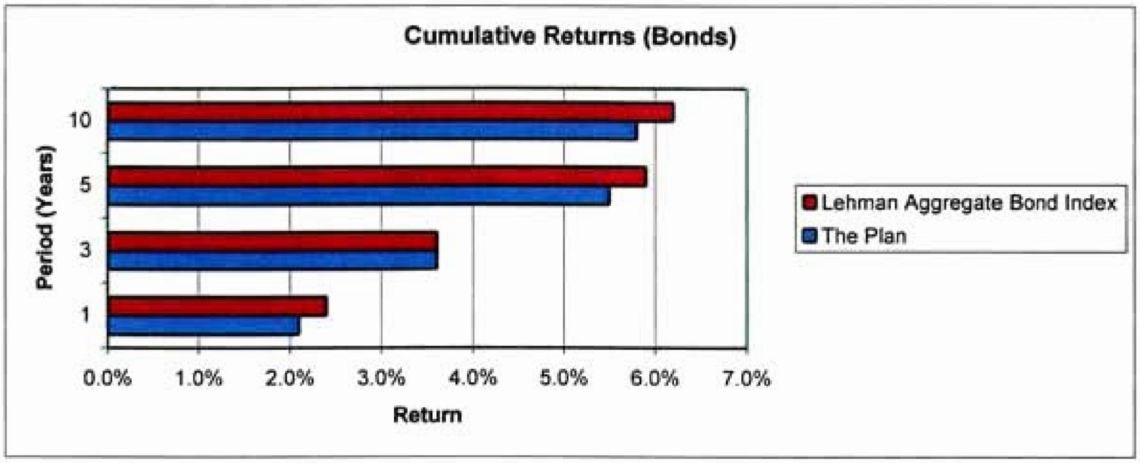


Investment returns are supplied by Becker, Burke Associates and the calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.

Cumulative Annuals – Bonds

As of December 31, 2005
Last 1, 3, 5, and 10 years

	1 Year	3 Years	5 Years	10 Years
Bonds				
The Plan	2.1%	3.6%	5.5%	5.8%
Lehman Aggregate Bond Index	2.4%	3.6%	5.9%	6.2%

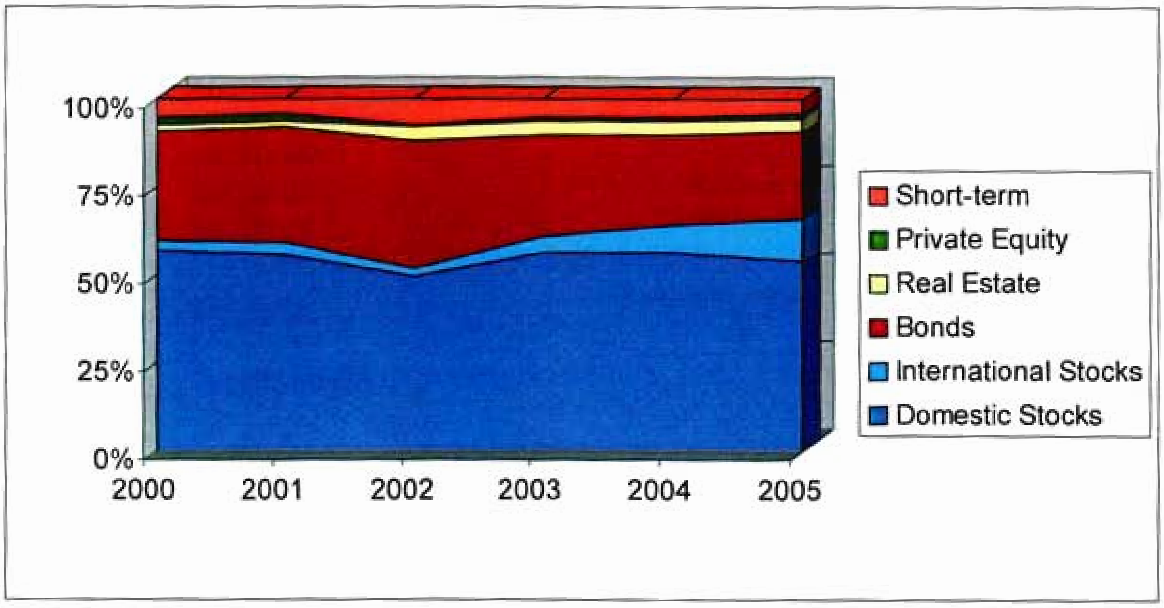


Investment returns are supplied by Becker, Burke Associates and the calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.

Investment Asset Allocation (By Asset Class)

Last six years

	2000	2001	2002	2003	2004	2005
Domestic Stocks	57%	56%	50%	57%	56%	54%
International Stocks	3%	3%	3%	5%	8%	12%
Bonds	31%	33%	36%	29%	25%	25%
Real Estate	2%	2%	4%	4%	4%	4%
Private Equity	2%	2%	1%	1%	1%	2%
Short-term	5%	4%	7%	5%	5%	4%
Investment Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**



Fifteen Largest Investment Holdings

Year Ended December 31, 2005

Type of Investment	Name of Investment	Fair Value	% of Invested Assets
Commingled Bond Fund	NTGI Aggregate Bond Index	$ 285,308,690	4.5%
Commingled Equity Fund	NTGI S&P500 Equity Index Fund	201,760,760	3.2%
Commingled Short-term Fund	NTGI Short-term Investment Funds	181,781,788	2.9%
Commingled Int'l Equity Fund	Frank Russell International Fund	131,086,487	2.1%
Commingled Bond Fund	Frank Russell Multi Manager Bond Fund	122,708,962	1.9%
Commingled Int'l Equity Fund	Walter Scott International Group	73,684,587	1.2%
Common Stock	General Electric Company	64,374,933	1.0%
Real Estate Fund	JP Morgan Strategic Property Fund	62,900,559	1.0%
Common Stock	Citigroup Inc.	53,641,616	0.8%
Common Stock	Microsoft Inc.	50,421,384	0.8%
Common Stock	Exxon Mobil Corp.	48,018,947	0.8%
Common Stock	Johnson & Johnson Co.	42,793,664	0.7%
Bond - Mortgage Backed Security	FNMA 30 Year / 5.5%	38,847,600	0.6%
Commingled Int'l Equity Fund	Frank Russell Cont'l European Equity Fund	38,657,619	0.6%
Common Stock	American International Group	35,659,250	0.6%
	Total	**$ 1,431,646,846**	**22.6%**

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

Investment Brokerage Commissions

As of December 31, 2005

Broker Name	Commissions	(#) Shares	Cost per Share
LYNCH JONES & RYAN	$ 241,197	5,527,377	$ 0.04
LOOP CAPITAL MARKETS/BROADCORT CAPITAL	235,282	6,171,908	0.04
GARDNER RICH & CO.	174,216	4,422,177	0.04
MELVIN SECURITIES	159,860	4,021,219	0.04
MERRILL LYCNH PIERCE FENNER & SMITH	135,660	3,386,145	0.04
BNY ESI SECURITIES CO.	85,524	2,339,765	0.04
LEHMAN BROTHERS INC	80,626	2,039,066	0.04
NATIONAL FINANCIAL SERVICES	65,566	1,922,582	0.03
BEAR, STEARNS, SECURITIES CORP	50,202	1,229,826	0.04
JEFFRIES & COMPANY	49,426	1,179,399	0.04
CITIGROUP GLOBAL MARKETS INC/SMITH BARNEY	46,677	1,027,515	0.04
PRUDENTIAL EQUITY GROUP	44,179	1,034,333	0.04
GOLDMAN SACHS & COMPANY	43,618	1,058,908	0.04
CHEEVERS & COMPANY	42,445	1,062,887	0.04
WEEDEN & CO.	39,869	1,046,936	0.04
LIQUIDNET INC	38,575	1,338,833	0.03
CABRERA CAPITAL MARKETS, INC	37,372	1,009,583	0.04
JACKSON SECURITIES	37,219	1,025,440	0.04
JONES AD	36,125	4,322,009	0.01
BERNSTEIN, SANFORD C & CO.	33,402	773,970	0.04
MORGAN STANLEY & CO INC NEW YORK	31,565	1,043,165	0.03
INSTINET	28,717	822,215	0.03
MESIROW FINANCIAL INC	28,693	714,255	0.04
CREDIT SUISSE FIRST BOSTON CORPORATION	28,341	660,106	0.04
UBS/WARBURG SECURITIES LLC	26,789	663,796	0.04
J.P. MORGAN SECURITIES	26,486	643,036	0.04
FRANK RUSSELL SEC/BROADCORT	25,017	527,905	0.05
MANAGERS WITH < $25,000 OF COMMISSIONS	601,881	16,376,322	0.04
Total Broker Commissions as of 12/31/05	$ 2,474,529	67,390,678	$ 0.04

Domestic Trading

The Retirement Board's brokerage policy encourages investment managers, as they search for best possible trade execution, to utilize women/minority-owned business enterprises, specifically firms registered in the State of Illinois. The Retirement Board also has commission recapture arrangements with two firms, where 70% of commission costs are rebated to the Fund.

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Actuarial

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

20 North Clark Street
Suite 2400
Chicago, IL 60602-5111

312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

April 11, 2006

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**

Board Members:

At your request, we have performed an actuarial valuation for the Municipal Employees' Annuity and Benefit Fund of Chicago ("the Plan") as of December 31, 2005. An actuarial valuation of the Plan is performed annually. The valuation has been performed to measure the funding status of the Plan and determine the actuarially required contribution for 2006. It includes disclosure information required under Governmental Accounting Standards Board (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 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 Plan**—Data for active members was provided by the Plan's staff. Data utilized for persons receiving benefits from the Plan was also provided by the Plan's staff. We have tested this data for reasonableness.
b) **Asset Values**—The values of assets of the Plan were provided by the Plan'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 Plan is the Entry Age Normal Actuarial Cost Method. The objective of this method is to recognize the costs of Plan 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**— Updated actuarial assumptions have been adopted beginning with this valuation from the recommendations of the experience study performed for the period from December 31, 1999, through December 31, 2004.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of the Plan when due. The provision of State Law establishing the Plan 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 Plan on the State reporting basis shows that a ratio of 2.55 is needed to adequately finance the Plan. It should be noted that the statutory employer contributions have been less than the Annual Required Contribution (ARC) for the past three years and are again expected to be less than the ARC for 2006. In order for employer contributions to be increased, the State legislature would first need to amend the statute.

The valuation results set out in this report are based on the data and actuarial techniques described above, and upon the provisions of the Plan 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, F.S.A.
Senior Consultant

Summary of Actuarial Valuation

		December 31, 2004		December 31, 2005	% Change
Actuarial Values					
Termination Values					
Liability	$	6,382,908,951	$	6,577,068,215	**3.04%**
Assets - Actuarial Value		6,343,076,159		6,332,378,676	**(0.17)%**
Deficiency/(Excess)		39,832,792		244,689,539	**514.29%**
Funded Ratio		**99.38%**			**(3.12)%**
GASB #25 Values					
Actuarial Liability	$	8,808,500,944	$	9,250,211,817	**5.01 %**
Assets - Actuarial Value		6,343,076,159		6,332,378,676	**(0.17)%**
Unfunded Liability (Surplus)		2,465,424,785		2,917,833,141	**18.35 %**
Funded Ratio		**72.01%**		**68.46%**	**(4.94)%**
Annual Required Contribution (ARC)	$	285,291,350	$	325,913,986	**14.24 %**
Market Values					
Actuarial Liability	$	8,808,500,944	$	9,250,211,817	**5.01 %**
Assets - Market Value		6,242,741,942		6,356,888,734	**1.83 %**
Unfunded Liability		2,565,759,002		2,893,323,083	**12.77 %**
Funded Ratio		**70.87%**		**68.72%**	**(3.03)%**
Book Values					
Actuarial Liability	$	8,808,500,944	$	9,250,211,817	**5.01 %**
Assets - Book Value		5,183,689,930		5,279,937,024	**1.86 %**
Unfunded Liability (Surplus)		3,624,811,014		3,970,274,793	**9.53 %**
Funded Ratio		**58.85%**		**57.08%**	**(3.01)%**

Summary of Actuarial Valuation (continued)

		December 31, 2004		December 31, 2005	% Change
Assets					
Market Value - Beginning of Year	$	5,922,789,999	$	6,242,741,942	**5.40 %**
Income					
Investment Income		578,730,088		402,310,621	**(30.48)%**
Employer Contributions		153,919,476		155,067,116	**0.75 %**
Employee Contributions		155,884,575		122,542,484	**(21.39) %**
Subtotal		888,534,139		679,920,221	**(23.48)%**
Outgo (Refunds, Benefits & Expenses)		544,380,251		565,773,429	**3.93 %**
Outgo (Transfer to FABF)		24,201,945		-	
Net Change		319,951,943		114,146,792	**(64.32)%**
Market Value - End of Year	$	6,242,741,942	$	6,356,888,734	**1.83 %**
Book Value - Beginning of Year	$	5,065,867,984	$	5,183,689,930	**2.33 %**
Income					
Investment Income		376,600,091		384,410,923	**2.07 %**
Employer Contributions		153,919,476		155,067,116	**0.75 %**
Employee Contributions		155,884,575		122,542,484	**(21.39) %**
Subtotal		686,404,142		662,020,523	**(3.55) %**
Outgo (Refunds, Benefits & Expenses)		544,380,251		565,773,429	**3.93 %**
Outgo (Transfer to FABF)		24,201,945		-	
Net Change		117,821,946		96,247,094	**(18.31) %**
Book Value - End of Year	$	5,183,689,930	$	5,279,937,024	**1.86 %**
Actuarial Value - Beginning of Year	$	6,384,098,957	$	6,343,076,159	**(0.64)%**
Income					
Investment Income		217,755,347		277,466,346	**27.42 %**
Employer Contributions		153,919,476		155,067,116	**0.75 %**
Employee Contributions		155,884,575		122,542,484	**(21.39) %**
Subtotal		527,559,398		555,075,946	**5.22 %**
Outgo (Refunds, Benefits & Expense)		544,380,251		565,773,429	**3.93 %**
Outgo (Transfer to FABF)		24,201,945		-	
Net Change		(41,022,798)		(10,697,483)	**73.92%**
Actuarial Value - End of Year	$	6,343,076,159	$	6,332,378,676	**(0.17)%**

Summary of Actuarial (continued)

		December 31, 2004		December 31, 2005	% Change
Members					
Active[1]		33,267		33,743	**1.43%**
Inactive		12,161		8,440	**(30.60) %**
Retirees		18,253		18,221	**(0.18) %**
Deferred		7		3	**(57.14)%**
Survivors		4,472		4,467	**(0.11)%**
Disabilities		426		462	**8.45%**
Children		201		204	**1.49%**
Payroll Data					
Valuation Payroll	$	1,303,127,528	$	1,407,323,058	**8.00%**
Average Salary		39,172		41,707	**6.47%**

[1]Active participants include disabled employees.

Discussion of Valuation Results

The actuarial report sets forth the results of the actuarial valuation of the Municipal Employees' Annuity and Benefit Fund of Chicago ("the Plan") as of December 31, 2005. The purposes of this valuation are:

- To develop the minimum actuarially determined contribution for 2006.
- To develop the annual required contribution (ARC) under GASB #25 and GASB #43.
- To develop the annual pension cost under GASB #27.
- To review the funding status of the Plan.

The funded status in basic terms is a comparison of the Plan'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. Plan liabilities are dependent on the actuarial assumptions and actuarial cost method. Plan assets can be measured at market value, book value, or some variation to smooth the fluctuations that invariably occur from year to year.

For Plan 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.

Actuarial Obligations of the Plan

The value of all future pension payments, calculated using the actuarial assumptions contained in this report, is the sum of payments to two major groups of beneficiaries - the retired lives and the actives lives.

1. **Retired Lives:**

   For those currently receiving known benefits, i.e., current retirees, widows, widowers, and children, the value is determined based on estimated future longevity with the future benefit payment discounted to present time at the assumed investment earnings rate.

2. **Active Lives:**

   The value of future payments for active employees who will receive benefits in the future is estimated, since the amount of pension is only known at the actual time of retirement. This estimate is made using various assumptions as to future salary increases, probable retirement age, and probability of death, withdrawal, or disablement before retirement.

Actuarial Obligations of the Plan (continued)

For active employees, the goal is to have enough assets on hand at retirement to pay for all future benefits promised. To provide for an orderly accumulation of these required assets, an actuarial funding method is used.

Using the "Entry Age Normal" funding method, assets are allocated as a level amount (expressed as a percentage of salary) over the employee's working lifetime. These allocated costs are called "normal costs" and are sufficient, if set aside each year, to fully fund his or her benefits when and if he or she retires. The actuarial reserve (amount of assets needed now) is then the present value of future benefits less the value of future normal costs to be paid.

The difference between the sum of actuarial reserves for active and retired lives ("the Actuarial Accrued Liability") and the present assets is called the "Unfunded Actuarial Accrued Liability." If assets exceed the liability, there is a surplus. The unfunded liability depends upon the benefits, the characteristics of the covered group of employees and retirees, the actuarial assumptions, and the actuarial funding method. The unfunded liability can be thought of as the amount of assets that will be needed in future years to provide for all future benefits payable when added to the future normal costs determined by the actuarial funding method.

For the pension plan to be in balance (funded ratio of 100 percent), the present value of all benefits payable in the future must equal the sum of present assets plus the present value of all future contributions. If a plan is 100 percent funded, it does not mean that no contributions are ever needed again. It simply means that the plan is where it should be. The assets of the plan are sufficient to provide for future benefits payable based on service to the date of valuation. **Future contributions are still needed** to provide the "normal costs" for service after the date of the valuation in order to have sufficient assets at retirement to provide the future payments of the total projected benefit.

Summary of Results

The annual required contribution (ARC) under GASB #25 for the year ending December 31, 2006, is $303.3 million, which is for pension benefits only. This amount is net of employee contributions of $122.3 million.

GASB #43 requires the calculation of a separate ARC for Other Postemployment Benefits (OPEB) beginning with the Fund's 2006 fiscal year. The ARC for the 2006 fiscal year is determined in this December 31, 2005, actuarial valuation. The OPEB ARC for the fiscal year ending December 31, 2006, is $22.6 million.

Because of the requirements of GASB #43, there are some differences between the calculation of the ARC for pension benefits and the ARC for OPEB. These differences are summarized below.

	Pension ARC	OPEB ARC
Investment Return	8.00 % per year	4.50% per year
Assets	5-year smoothed market	No assets (Pay-as-you-go)
Amortization Period	40 years	30 years

GASB #43 requires that the investment return assumption (or "discount rate") used to value OPEB liabilities be based on the estimated long-term yield on the investments expected to be used to finance the payment of benefits. The investment return assumption of 4.50 percent reflects the fact that OPEB liabilities are considered to be funded on a pay-as-you-go basis. That is, the health insurance supplement is financed with current contributions, and no separate healthcare asset account exists to pay the health insurance supplement.

Beginning with the December 31, 2006, actuarial valuation, GASB #25 will require the use of a 30-year amortization period to determine the pension ARC, which is already required for the OPEB ARC beginning with this valuation.

The Unfunded Actuarial Liability increased from $2.465 billion to $2.918 billion during the year, resulting in a change in funding ratio from 72.0 percent to 68.5 percent. The increase in the Unfunded Actuarial Liability is largely attributable to a loss on the Actuarial Value of Assets and a shortfall in contributions relative to the actuarially determined contribution requirement.

Summary of Results (continued)

A more thorough examination of these and other factors can be found in the Analysis of Financial Experience table on page 60.

Based on the Market Value of Assets, the Unfunded Actuarial Liability increased from $2.566 billion to $2.893 billion, and the funded ratio decreased from 70.9 percent to 68.7 percent.

Plan Membership

	December 31, 2004	December 31, 2005
Active Members		
Number	33,267	33,743
Vested	15,030	15,533
Non-vested	18,237	18,210
Average Age	45.3	45.7
Average Service	10.1	10.4
Average Annual Salary	$39,172	$ 41,707
Inactive Members		
Number	12,161	8,440
Average Age	44.0	44.7
Average Service	3.6	4.8
Retirees		
Number	18,253	18,221
Average Age	71.0	71.8
Average Annual Benefit	$25,451	$ 26,178
Deferred		
Number	7	3
Average Age	53.4	53.1
Average Annual Benefit	$12,003	$ 8,192
Surviving Spouse		
Number	4,472	4,467
Average Age	76.2	76.8
Average Annual Benefit	$11,023	$ 11,211
Children	201	204
Total Members	68,361	65,078

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

Total members receiving benefits under the Plan decreased 0.2 percent during 2005, from 22,725 to 22,688, while the number of active members increased 1.4 percent from 33,267 to 33,743.

Total expenditures for benefits increased from $499 million in 2004 to $533 million during 2005, or 6.8 percent.

Changes in Provisions of the Plan

The following Public Acts were passed in 2005 and made the following changes to the Fund Provisions.

PA 94-0079 was approved June 27, 2005.

Prohibits the investment or deposit from the retirement system or pension fund to certain entities doing business in or with the government of the Republic of the Sudan. Fund managing companies must certify that under Section 1-110.5 of the pension code that they have not loaned to, invested in, or otherwise transferred any of the pension fund assets to a forbidden entity.

PA 94-0471 was approved August 4, 2005.

Provides that, to qualify as an "emerging investment manager", the maximum value of an investment portfolio that a manager manages is $2,000,000,000 (was $400,000,000).

PA 94-0657 was approved August 22, 2005.

Provides for various changes in provisions and procedures concerning Qualified Illinois Domestic Relations Orders. Allows for alternate payee's benefit to be based on a percentage of employee's benefit. Effective July 1, 2006.

PA 94-0612 was approved August 22, 2005.

Provides a benefit to a spouse married to the employee after retirement 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 were chosen in an attempt to model the future long run experience.

There are two general types of actuarial assumptions:

- Demographic Assumptions - reflect the flow of participants into and out of a retirement system, and
- 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.

In previous years, we had maintained many of the assumptions and methods used by the prior actuary, including loads to account for liabilities for future refunds, disabilities, child annuities and reciprocal annuities. As a result of the experience study that was performed for the period from December 31, 1999, through December 31, 2004, new assumptions were developed that more closely match recent plan experience. The recommendations from that study have been adopted and are reflected beginning with this valuation report.

2005 Experience Analysis

The Fund had an investment loss in 2005 of $86 million relative to the 8.00 percent expected rate of return on a market value basis. The loss on an actuarial value basis relative to the 8.00 percent expected rate of return was $219 million due to the deferred recognition of investment gains and losses.

Individual salary increases varied among plan participants, but the overall increase was higher than anticipated by the actuarial assumptions, resulting in an experience loss of $79 million.

The unfunded actuarial accrued liability decreased by $96 million due to changes in assumptions and methodology. This decrease in the unfunded actuarial accrued liability is the net result of:

- A decrease of $50 million as a result of the experience study;
- An increase of $64 million from the change in the OPEB discount rate; and
- A decrease of $110 million from the change in determination of retiree marital status.

2005 Experience Analysis (continued)

There was an additional loss of $122 million from all other factors, including actual retirement, termination, disability, mortality experience, and data changes. This is about 1.3 percent of the December 31, 2005, liabilities, which is a reasonable variation.

Changes in Assumptions

The actuarial assumptions have been changed since the last report to reflect the results of the experience study performed for the period from December 31, 1999, through December 31, 2004.

Following is a summary of the assumption changes:

- Change salary increase assumption, from five percent at all ages, to a service-based table.
- Change retirement rates to better reflect higher rates during the first years of eligibility.
- Change turnover rates from age-and-service-based rates to service-based only.
- Change mortality rates from the 1983 Group Annuity Mortality with a two-year set-forward to the 1994 Group Annuity Mortality with a two-year set-forward.
- Change the valuation methodology for disability benefits to a term cost approach.
- Change the valuation methodology for inactive members.
- Change the valuation methodology for child beneficiaries.

In addition, as noted earlier, the discount rate for valuing OPEB liabilities has been decreased from 8.00 percent to 4.50 percent and the determination of marital status for current retirees has been changed from the use of an assumption to full reliance on the status reported in the data.

The Analysis of Financial Experience table on the following page summarizes the experience gains and losses for the year.

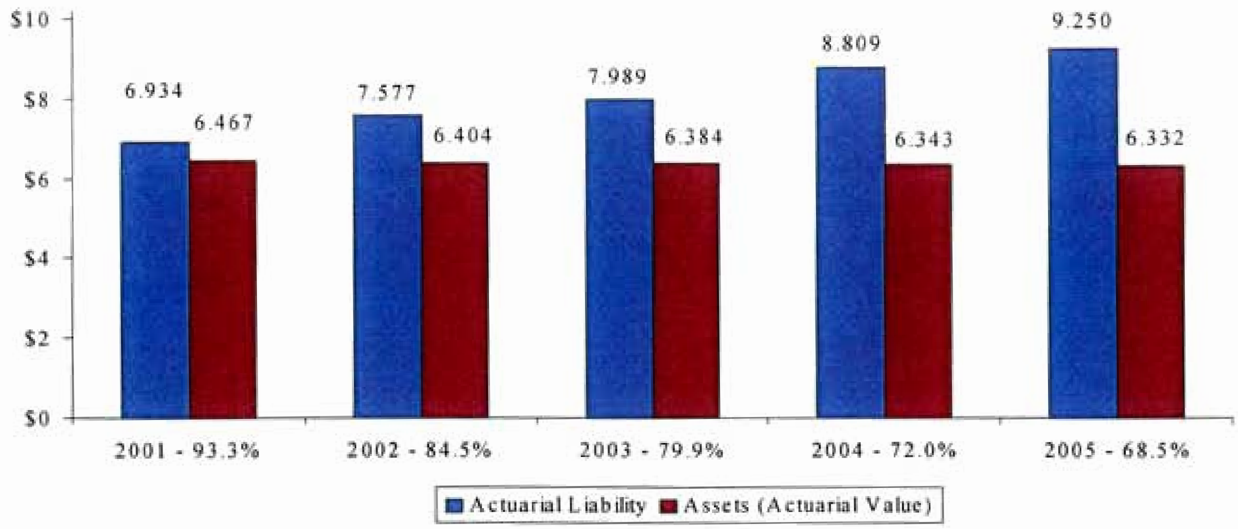
Analysis of Financial Experience

	2005	2004	2003	2002	2001
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL), Beginning of Year	$ 2,465,424,785	$ 1,604,537,599	$ 1,173,117,883	$ 467,378,934	$ 367,203,474
(Gains) Losses During the Year Attributable to:					
Contributions in (excess) deficiency of Normal Cost plus Interest	117,187,386	32,776,482	3,456,024	(50,118,958)	(61,169,938)
(Gain) Loss on Investment Return	218,674,940	282,820,577	358,329,234	419,605,037	182,147,072
(Gain) Loss from Salary Changes	79,469,300	(48,441,973)	(70,999,285)	(8,665,613)	118,932,900
(Gain) Loss from Retirement, Termination & Mortality	122,267,607	109,401,939	109,170,676	49,293,343	(139,734,574)
(Gain) Loss from Transfers	-	24,201,945			
Non-ERI Service Credit Changes and Purchases	10,339,947	95,475,721			
Changes in Assumptions	(95,530,824)				
Plan Amendments	-	364,652,495	31,463,067	295,625,140	
Net Increase (Decrease) in UAAL	452,408,356	860,887,186	431,419,716	705,738,949	100,175,460
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL), End of Year	$ 2,917,833,141	$ 2,465,424,785	$ 1,604,537,599	$ 1,173,117,883	$ 467,378,934

Funding Analysis

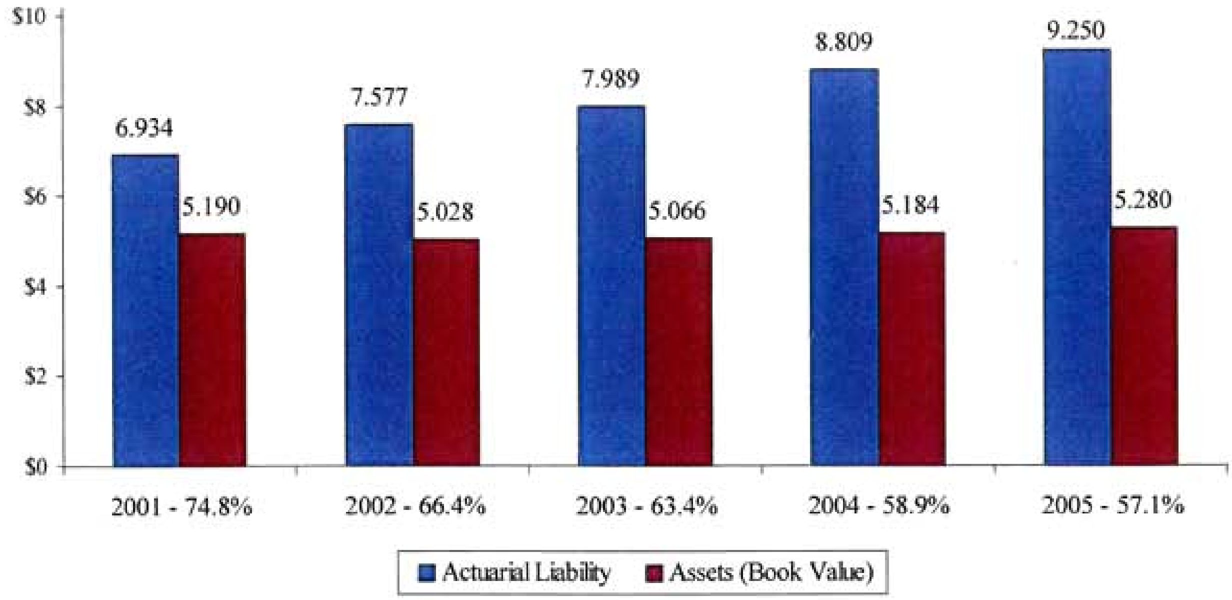
The charts on the following pages summarize the various measures of benefit security (funded ratio) examined in this valuation and highlight the trends of the measures.

Components of Funded Ratio
GASB #25/State Reporting
($ in billions)



Components of Funded Ratio
Based on Market Value
($ in Billions)

Components of Funded Ratio
Based on Book Value
($ in Billions)



Conclusion

On a market value basis, the funded ratio has decreased from 70.9 percent in the last valuation to 68.7 percent in this valuation due to contribution shortfalls and recognition of deferred losses. When measured using the Actuarial Value of Assets, which smoothes gains and losses over a five-year period, the funding ratio decreased from 72.0 percent in 2004 to 68.5 percent in 2005. Future decreases in the funded ratio are expected to occur as a result of contributions that are insufficient to adequately finance the Plan.

Summary of Actuarial Values

		APV of Projected Benefits	2006 Normal Cost
(1) Values for Active and Inactive Members			
(a)	Retirement	$ 4,732,756,649	$ 133,259,778
(b)	Termination - Vested	374,923,581	20,912,605
(c)	Termination - Non Vested	86,713,822	23,668,137
(d)	Death	91,251,322	4,683,334
(e)	Inactive Vested and Non-Vested	212,964,791	-
(f)	Health Insurance	208,453,518	9,834,291
(g)	Disability	-	10,554,923
(h)	Expenses of Administration	-	5,545,268
Total for Actives and Inactives		$ 5,707,063,683	$ 208,458,336
(2) Values for Members in Payment Status		$ 5,325,007,461	$ -
(3) Grand Totals		$ 11,032,071,144	$ 208,458,336
Actuarial Present Value of Future Compensation			$ 13,039,093,368

Actuarial Reserve Liabilities

As of December 31, 2005

Accrued Liabilities for Active and Inactive Participants	$3,925,204,356
Reserves For:	
Service Retirement Pension	$4,530,540,976
Future Spouses of Current Retirees	367,793,931
Surviving Spouse Pension	333,358,649
Health Insurance Supplement	91,482,912
Children Annuitants	1,830,993
Total Accrued Liabilities	$9,250,211,817
Unfunded Actuarial Liabilities	$2,917,833,141
Actuarial Net Assets	$6,332,378,676

Statutory Reserves

As of December 31, 2005

	Annuity Payment Fund	Prior Service Fund	Total
Statutory Reserves			
Retirees	$1,082,225,666	$3,993,612,106	$5,075,837,772
Future Surviving Spouses	$239,877,355	$337,018,097	$576,895,452
Spouses	$146,880,435	$171,827,198	$318,707,633
Annual Benefits			
Retirees	$127,417,125	$349,571,823	$476,988,948
Future Surviving Spouses	N/A	N/A	N/A
Spouses	$21,312,256	$28,765,976	$50,078,232

Actuarial Accrued Liability Prioritized Solvency Test

Valuation Date 12/31	(1) Active and Inactive Member Contribution	(2) Retirees and Beneficiaries	(3) Active and Inactive Members (ER Financed Portion)	Actuarial Value of Assets	Portion (%) of Present Value Covered By Assets (1)	(2)	(3)
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%
2003 [2]	1,285,968,607	3,740,757,718	2,961,910,231	6,384,098,957	100.00%	100.00%	45.83%
2004 [2]	1,165,883,637	5,217,025,314	2,425,591,993	6,343,076,159	100.00%	99.24%	0.00%
2005 [1]	1,252,060,754	5,325,007,461	2,673,143,602	6,332,378,676	100.00%	95.40%	0.00%

[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 and inactive member contributions on deposit; (2) the present value of future benefits to present retired lives; (3) the employer financed portion for present active and inactive members. In a system that has been following the discipline of financing, the obligation for active and inactive 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 and inactive 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.

Development of Actuarial Value of Assets

As of December 31, 2005

(1) **Expected Return on Market Value of Assets for Prior Year**		
(a) Market Value of Assets as of 12/31/2004	$	6,242,741,942
(b) Actual Income and Disbursements in Prior Year Weighted for Timing		

Item		Amount	Weight for Timing		Weighted Amount
i) Member Contributions	$	122,542,484	50.0%	$	61,271,242
ii) City Contributions & Misc.		155,067,116	50.0%		77,533,558
iii) Benefit Payments		(533,490,705)	50.0%		(266,745,353)
iv) Refunds		(26,737,456)	50.0%		(13,368,728)
v) Administration		(5,545,268)	50.0%		(2,772,634)
vi) Total				$	(144,081,915)

(c) Market Value of Assets Adj. for Actual Income and Disbursements [(a) + (b)(vi))]	$	6,098,660,027
(d) Assumed Rate of Return on Plan Assets for the Year		8.00%
(e) Expected Return [(c) * (d)]	$	487,892,802
(2) **Actual Return on Market Value of Assets for Prior Year**		
(a) Market Value of Assets as of 12/31/2004	$	6,242,741,942
(b) Income (less investment income) for Prior Plan Year		277,609,600
(c) Disbursements Paid in Prior Year		565,773,429
(d) Market Value of Assets as of 12/31/2005		6,356,888,734
(e) Actual Return [(d) + (c) - (b) - (a)]	$	402,310,621
(3) **Investment Gain/(Loss) for Prior Year**	$	(85,582,181)
(4) **Actuarial Value of Assets as of 12/31/2005**		
(a) Market Value of Assets as of 12/31/2005	$	6,356,888,734
(b) Deferred Investment Gains and (Losses) for Last 5 Years		

	Plan Year		Gain/(Loss)	Weight for Timing		Deferred Amount
i)	2001	$	(642,588,674)	0.0%	$	-
ii)	2002		(997,543,850)	20.0%		(199,508,770)
iii)	2003		558,324,412	40.0%		223,329,765
iv)	2004		115,258,014	60.0%		69,154,808
v)	2005		(85,582,181)	80.0%		(68,465,745)
vi)	Total	$	(1,052,132,279)		$	(24,510,058)

(c) Actuarial Value of Assets [(a) - (b) (vi)]	$	6,332,378,676

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 percent per year.

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
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%
2003	158,614,805	140,748,480	141,882,893	89.45%
2004	198,199,001	152,510,400	153,919,476	77.66%
2005	285,291,350	153,389,000	155,067,116	54.35%

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.

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
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%
2003	79.91%	114.98%	10.30%
2004	72.01%	189.19%	11.03%
2005	68.46%	207.33%	11.90%

Retirees and Beneficiaries Added To and Removed From Payrolls

Last ten years

Employee Annuitants (Male and Female)

	Added to Payroll [1]		Removed from Payroll		Payroll End of Year		Average Annual	Increase in Average
Year	No.	Ann. Benefits	No.	Ann. Benefits	No.	Ann. Benefits	Benefit	Benefit
1996	708	$ 10,683,679	647	$ 3,644,502	13,448	$ 204,538,699	$ 15,210	3.09%
1997	564	19,294,719	639	8,688,842	13,373	215,144,576	16,088	5.78%
1998	3,135 [2]	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%
2003	1,002	25,806,766	695	3,996,748	15,853	351,551,454	22,176	4.55%
2004	3,133 [2]	127,180,562	733	14,182,304	18,253	464,549,712	25,451	14.77%
2005	698	27,479,544	730	15,040,308	18,221	476,988,948	26,178	2.86%

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
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	1,811,448	4,482	45,271,671	10,101	44.71%
1999	312	3,499,596	280	2,696,948	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	1.95%
2003	284	3,704,694	300	2,966,073	4,501	48,796,907	10,841	1.90%
2004	273	3,456,012	302	2,958,431	4,472	49,294,488	11,023	1.68%
2005	255	3,408,036	260	2,624,292	4,467	50,078,232	11,211	1.70%

[1] Annual benefits added to payroll include post-retirement increase amounts starting in 2004.
[2] Early retirement incentive offered to employees.

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
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	8.81 %	5.00%	0.82 %
2002	35,522	(3.15)%	1,377,909,441	0.21 %	38,790	3.47 %	5.00%	2.50 %
2003	35,384	(0.39)%	1,395,513,060	1.28 %	39,439	1.67 %	5.00%	1.70 %
2004	33,267	(5.98)%	1,303,127,528	(6.62)%	39,172	(0.68)%	5.00%	2.20 %
2005	33,743	1.43%	1,407,323,058	8.00%	41,707	6.47%	4.50%	3.59 %
Average Increase (Decrease) for the Last 5 years		(1.29%)		2.69%		3.95%	4.90%	2.16%

Actuarial Methods and Assumptions

As of December 31, 2005

The assumptions and methods used were selected by the actuary and met the parameters set for disclosure presented in the financial section by GASB Statement No. 25.

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 Normal 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, as a level percentage of pay.

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.

Current Actuarial Assumptions

Demographic Assumptions

Mortality: 1994 Group Annuity Mortality Table set forward two years. Adopted 2005.

Disability: Disability cost valued as a term cost of 0.75 percent of payroll. Adopted 2005.

Rates of Retirement:

	Age and Service-Based Rates of Retirement								
Service	**50 - 54**	**55 - 59**	**60 - 64**	**65**	**66**	**67**	**68**	**69**	**70+**
10			15%	25%	20%	17%	15%	15%	100%
11			13%	23%	18%	15%	13%	13%	100%
12			10%	20%	15%	12%	10%	10%	100%
13			10%	20%	15%	12%	10%	10%	100%
14			10%	20%	15%	12%	10%	10%	100%
15			10%	20%	15%	12%	10%	10%	100%
16			10%	20%	15%	12%	10%	10%	100%
17			10%	20%	15%	12%	10%	10%	100%
18			10%	20%	15%	12%	10%	10%	100%
19			10%	20%	15%	12%	10%	10%	100%
20		10%	10%	20%	15%	12%	10%	10%	100%
21		10%	10%	20%	15%	12%	10%	10%	100%
22		10%	10%	20%	15%	12%	10%	10%	100%
23		10%	10%	20%	15%	12%	10%	10%	100%
24		10%	10%	20%	15%	12%	10%	10%	100%
25		20%	15%	25%	20%	17%	15%	15%	100%
26		16%	16%	26%	21%	18%	16%	16%	100%
27		17%	17%	27%	22%	19%	17%	17%	100%
28		18%	18%	28%	23%	20%	18%	18%	100%
29		19%	19%	29%	24%	21%	19%	19%	100%
30	25%	20%	20%	30%	25%	22%	20%	20%	100%
31	20%	20%	20%	30%	25%	22%	20%	20%	100%
32	20%	20%	20%	30%	25%	22%	20%	20%	100%
33	37%	37%	37%	47%	42%	39%	37%	37%	100%
34	37%	37%	37%	47%	42%	39%	37%	37%	100%
35	30%	30%	30%	40%	35%	32%	30%	30%	100%
36	30%	30%	30%	40%	35%	32%	30%	30%	100%
37	40%	40%	40%	50%	45%	42%	40%	40%	100%
38	60%	60%	60%	70%	65%	62%	60%	60%	100%
39	80%	80%	80%	90%	85%	82%	80%	80%	100%
40	100%	100%	100%	100%	100%	100%	100%	100%	100%

Rates of Retirement: Adopted 2005.

Rates of Termination:

Service	Rate
0	20.00%
1	15.00%
2	10.00%
3	9.00%
4	8.00%
5	7.00%
6	6.50%
7	5.75%
8	4.75%
9	4.50%
10	5.00%
11	4.00%
12	4.00%
13	3.60%
14	3.30%
15	3.00%
16	2.80%
17	2.50%
18	2.30%
19	2.10%
20	1.90%
21	1.70%
22	1.60%
23	1.50%
24	1.30%
25	1.20%
26	1.10%
27	1.00%
28	0.90%
29	0.80%
30	0.00%

Rates of termination adopted 2005.

Economic Assumptions

Investment Return Rate and Discount Rate:

8.00 percent per annum (net of investment expense) for pensions and 4.50 percent per annum for OPEB. This assumption contains a 3.00 percent inflation assumption and a 5.00 percent real rate of return assumption for pension. Pension investment return and discount rate adopted 1999 and OPEB discount rate adopted 2005.

Future Salary Increases:

The following illustrative annual rates of salary increases were used:

Service	Salary Scale
5	5.25%
10	4.75%
15	4.75%
20	4.50%
25	4.50%
30	4.50%

Adopted 2005.

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 percent 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 health insurance supplement in effect as of June 30, 2013, will continue for life for all employee annuitants (and their future surviving spouses). The amount of the Plan paid health insurance from July 1, 2003, until June 30, 2008, is $85.00 per month for each annuitant (employees and surviving spouses) not qualified to receive Medicare benefits, and $55.00 if qualified. Then, the amount of the Plan paid health insurance from July 1, 2008, until June 30, 2013, is $95.00 per month for each annuitant (employees and surviving spouses) not qualified to receive Medicare benefits, and $65.00 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:

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:

4.00 percent overall loss on tax levy is assumed.

Summary of Principal Eligibility and Benefit Provisions

As of December 31, 2005

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; persons employed by the Municipal Employees' Annuity and Benefit Fund of Chicago (*Plan*) who is not participating in any other pension fund or retirement system. 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 Annuity

Maximum is 60 percent 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 1/10th 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 1/10th 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 percent of final average salary.

a. 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 2.40 percent 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 percent for each month the employee is younger than age 60 unless he has at least 25 years of service.

b. 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.

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.

Reversionary Annuity (continued)

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 for a spouse when added to the spouse's annuity cannot exceed 100 percent of the employee's reduced annuity. If the employee resigns after June 30, 1983, the 3.00 percent 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

An employee annuitant is entitled to receive an increase of 3.00 percent of the currently payable annuity. This increase begins in January of the year of the first payment date following the earlier of:

1.) the later of the third anniversary of retirement and age 53, and
2.) the later of the first anniversary of retirement and age 60.

Increases apply only to life annuities.

Elected City Officers' Optional Plan

An alternative plan for elected officials of 3.00 percent of the Final Salary for the first eight years, 4.00 percent for the next four years and 5.00 percent thereafter, subject to the maximum 80 percent, is available. The elected official must contribute an additional 3.00 percent of salary to receive these benefits. This plan also includes 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 Annuity

When an employee retires, the spouses' annuity is fixed, based on employee deductions and City contributions 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 his or her credit.

For 3.00 percent 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 0.25 percent 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.

Spouses' Minimum Annuity Formula (continued)

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 January 1, 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 percent 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 percent 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's Annuity

A child's annuity is provided for an unmarried child of a deceased employee who is 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 percent of final monthly salary.

Duty Death: 70 percent 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 percent 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 percent 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 percent 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 benefits 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 percent 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 percent 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. Length of time on disability is limited to a maximum of 25 percent of the employee's total service or five years, whichever occurs first.

The Plan contributes salary deductions for annuity purposes for the ordinary disability benefit. Such amounts contributed by the Plan 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 *Plan* shall provide payments in the amount of $85 per month for non-Medicare eligible city annuitants (defined in section 164.1 of Article 8 of the Illinois Pension Code as persons receiving an age and service annuity, a widow's annuity, a child's annuity, or a minimum annuity as a direct result of previous employment by the City of Chicago) and $55 per month for Medicare eligible city annuitants from July 1, 2003, through June 30, 2008. Thereafter, the *Plan* shall provide payments in the amount of $95 per month for non-Medicare eligible city annuitants and $65 per month for Medicare eligible city annuitants from July 1, 2008, through June 30, 2013.

The city health care plans referred to above and the *Plan*'s payments to the city for such plans are not and shall not be construed to be pension or retirement benefits for the purposes of Section 5 of Article XIII of the Illinois Constitution of 1970.

Should the Board of Education continue to sponsor a retiree health plan, the *Plan* is authorized to provide payments to the Board of Education, on behalf of each eligible annuitant who chooses to participate in the Board of Education retiree health benefit plan, in the amount of $85 per month for non-Medicare eligible participants and $55 per month for Medicare eligible participants from July 1, 2003, through June 30, 2008. Thereafter, the *Plan* is authorized to provide payments to the Board of Education, on behalf of each eligible annuitant who chooses to participate in the Board of Education retiree health benefit plan, in the amount of $95 per month for non-Medicare eligible participants and $65 per month for Medicare eligible participants from July 1, 2008, through June 30, 2013.

The Board of Education health benefit plan referred to above and the *Plan*'s payments to the Board of Education for such plan are not and shall not be construed to be pension or retirement benefits for the purposes of Section 5 of Article XIII of the Illinois Constitution of 1970.

Refunds

To Employee

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 0.50 percent deducted for annuity increase purposes without interest.

To Estate

Amounts contributed by an employee, excluding the 0.50 percent 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 duty 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 8.50 percent of their salary to the *Plan*. 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 *Plan*. The tax will produce an amount that does not exceed the amount of contributions by the employees to the *Plan* made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 1.25 for the year 1999 and each year thereafter. The total amount of contributions by the employees shall not include contributions for service credit purchases under Section 8-138.4 for purposes of establishing the tax levy amount.

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

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. The W-2 salary is therefore reduced by the amount of contributions. 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 paid contributions in the amount of 7.00 percent of the employee's salary. 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 was designated for income tax purposes to be made by the employer and treated in the same manner as City employee salary deductions. Effective January 16, 2004, the Fund may allow the employee to designate any optional contribution amounts that he has elected to pay to the Fund as employer contributions for income tax purposes. The contributions shall be made by the employer through a reduction in payroll to the employee and the election to have the employer make the optional contributions is irrevocable. For the purposes of benefits, refunds, or financing, these contributions are treated as employee contributions.

Legislative Changes in Plan Provisions
1979 through 2005

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.

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 six months and actuarial statement within nine 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 Plan but did not so elect, may establish credit for such service by making the required contribution.

Legislative Changes in Plan Provisions
1979 through 2005 (continued)

1982 Session *(continued)*

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

SB 22

- Delegation of investment authority restrictions.

HB 380

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

HB 514

- 10.00 percent prudent person investment category.

HB 637

- Allows an active member of the General Assembly to establish credit in this plan for time for which he or she could have elected to participate with interest at 6.00 percent 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.
- 3.00 percent 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 3.00 percent 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).

Legislative Changes in Plan Provisions
1979 through 2005 (continued)

1984 Session

- Illinois Public Employees' Pension Laws Commission abolished.

1985 Session

HB 561

- 1.80, 2.00, 2.20, 2.40 percent 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 0.50 percent to 0.25 percent 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).

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 percent 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 0.50 percent to 0.25 percent 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.

Legislative Changes in Plan Provisions
1979 through 2005 (continued)

1989 Session

SB 95

- Signed August 23, 1989. Changed the amount of plan 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 percent 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 Plan 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.
- percent 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 0.25 percent for each month the spouse or widow is less than 55.
- Retroactive eligibility for 35 years no discounts and spouse and widow annuities computed as half of employee annuity.

Legislative Changes in Plan Provisions
1979 through 2005 (continued)

SB 1951 ***(continued)***

- 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 3.00 percent of salary for the first eight years, 4.00 percent for the next four years and 5.00 percent thereafter, subject to a maximum of 80 percent, is available. The elected official must contribute an additional 3.00 percent 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

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 plan, five in a Reciprocal plan and up to five 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 percent maximum final average salary compared to the present 75 percent.
- Provides for an optional purchase of up to five years of service credit for 4.25 percent 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.

Legislative Changes in Plan Provisions
1979 through 2005 (continued)

HB 114 ***(continued)***

- The Plan 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 percent of the average of the highest three-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.

Legislative Changes in Plan Provisions
1979 through 2005 (continued)

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 plan 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 percent of the annuity that the employee would have received. This annuity will be reduced by 0.25 percent 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 percent of the employee's annuity at death. This annuity will be reduced by 0.25 percent 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 anexcess 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.

- 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.

Legislative Changes in Plan Provisions
1979 through 2005 (continued)

HB 1641 ***(continued)***

- Provides for 80 percent maximum final average salary compared to the present 75 percent.

- Provides for an optional purchase of up to five years of service credit for 4.25 percent 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 3.00 percent 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 percent of the reduced employee annuity.

- Spouses and widows that are eligible for the "50 percent 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 plan for any of the purposes for which the proceeds of the tax levied by the city under this section may be used.

Legislative Changes in Plan Provisions
1979 through 2005 (continued)

HB 3515 ***(continued)***

- 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.

HB 1583

- 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 2.20 percent to 2.40 percent of final average salary and the maximum annuity is changed from 75 percent to 80 percent of final average salary for employees withdrawing from service on or after January 1, 2002.

Legislative Changes in Plan Provisions
1979 through 2005 (continued)

HB 314 ***(continued)***

- The 3.00 percent post-retirement automatic increase will now begin no later than three 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 3.00 percent 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 3.00 percent 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 percent 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 2.40 percent 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.

- For ordinary disability benefits paid on or after January 1, 2001, the ordinary disability benefit is 50 percent of the employee's salary at the date of disability with the amounts ordinarily contributed by the employee for annuity purposes contributed by the Plan. These contributions are not refundable.

- The pension plan subsidy for retiree health insurance was extended through June 30, 2003. For annuitants (older than child annuitants) taking the employer-provided plan, the subsidy is $75 per 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 Plan or who reinstate service in this Plan may elect to participate in this Plan 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 Plan or who reinstate service in this Plan may elect to participate in this Plan 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 Plan 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.

Legislative Changes in Plan Provisions
1979 through 2005 (continued)

SB 5168 ***(continued)***

- 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 Plan 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.

2003 Session

SB 1701

- Effective July 1, 2003.

- The healthcare benefits were extended and increased to $85 per month for non-Medicare eligible participants and $55 per month for Medicare eligible participants for the period from July 1, 2003, through June 30, 2008. Thereafter, the benefits are extended and increased from $85 to $95 and $55 to $65 for the period July 1, 2008, to June 30, 2013.

- The healthcare benefits referred to above are not and shall not be construed to be pension or retirement benefits for the purposes of Section 5 of Article XIII of the Illinois Constitution of 1970.

2004 Session

HB 600

- Effective January 16, 2004.

- Early Retirement Incentive was created for withdrawals from January 31, 2004, to February 29, 2004 (or to May 31, 2004, for those deemed critical employees).

- Requires an election form to be filed before January 31, 2004.

- Requires a member to be a current contributor who has not previously retired under this Article and satisfy one of the following:

  - Active as of October 15, 2003

  - Returned to active from approved leave of absence prior to December 15, 2003

  - Receiving ordinary or duty disability benefits as of October 15, 2003

  - Restored to service by January 31, 2004, after having been involuntarily laid off

- Requires that employees that reenter service forfeit their right to receive benefits and will have their benefits recalculated at the time of retirement excluding the benefits provided under the ERI.

- Requires that the participant is age 50 with ten years of creditable service in this Fund and have 70 combined years of age and service, with service in one or more systems under the Reciprocal Act (excluding service purchased under the ERI).

- Provides for elimination of the age discount for employees younger than age 60.

- Provides for an optional purchase of up to five years of service credit for 4.25 percent of the monthly salary rate in effect October 15, 2003.

- Provides for a 24-month option to pay for ERI service.

- Provides for the exclusion of ERI contributions from the base from which the tax levy is derived.

- Allows Board members to continue until the end of their terms without forfeiting the benefits provided by the early retirement incentive.

Legislative Changes in Plan Provisions
1979 through 2005 (continued)

SB 600 ***(continued)***

- Provides for a lump sum benefit option of 100 percent of salary at retirement and an actuarially reduced monthly annuity for those employees who were eligible for the maximum benefit (excluding purchased service under the ERI)

- Automatic increases in annuities will now take effect in the January of each year in which they are to be provided.

- An employee who previously withdrew contributions from the Fund, may have his rights under the Fund restored after repaying the withdrawn contributions with interest after completing the required amount of service after the date of refund. The required service is:

- 90 days of service under this Fund or

- Two years of service under any participating Fund under the Reciprocal Act.

- Municipality credits earned in this Fund shall be transferred to the Firemen's Annuity and Benefit Fund of Chicago with 11.00 percent interest compounded annually to the date of the transfer for former paramedics who are now covered under the Firemen's Annuity and Benefit Fund.

- Employees may elect to have their optional contributions "picked-up" by the employer, to be treated as employer contributions for tax purposes. The employee election is irrevocable.

- For the eligible spouse of an employee who died in service on or after January 1, 2002, and before August 28, 2002, with at least 10 years of service, the annuity is no less than 50 percent of the minimum formula annuity the employee would have been entitled to based on service and salary to date of death without regard to age eligibility requirements. This minimum formula annuity is equal to 2.40 percent of final average salary for each year of service. The employee and spouse must have been married for ten years.

2005 Session

SB 23

- Approved June 27, 2005.

- Prohibits the investment or deposit from the retirement system or pension fund to certain entities doing business in or with the government of the Republic of the Sudan. Fund managing companies must certify that under Section 1-110.5 of the pension code that they have not loaned to, invested in, or otherwise transferred any of the pension fund assets to a forbidden entity.

SB 253

- Approved August 4, 2005.

- Provides, that to qualify as an "emerging investment manager", the maximum value of an investment portfolio that a manager manages is $2,000,000,000 (was $400,000,000).

SB 1446

- Approved August 22, 2005.

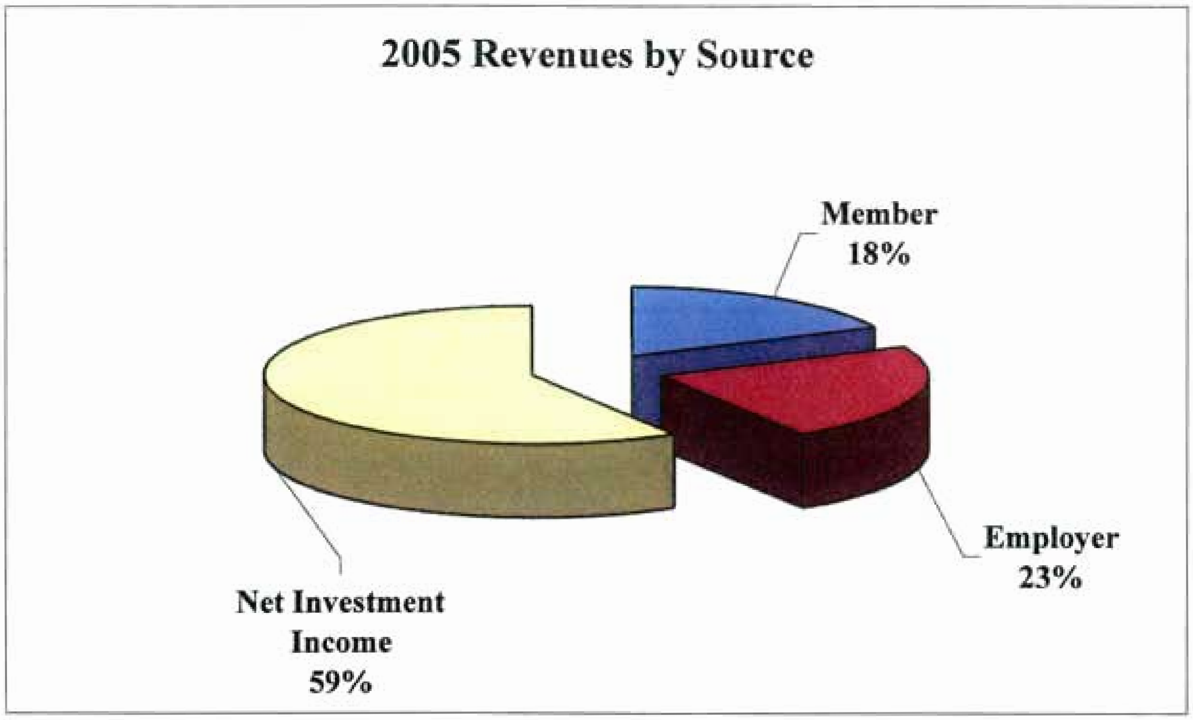
- Provides for various changes in provisions and procedures concerning Qualified Illinois Domestic Relations Orders. Allows for alternate payee's benefit to be based on a percentage of employee's benefit. Effective July 1, 2006.

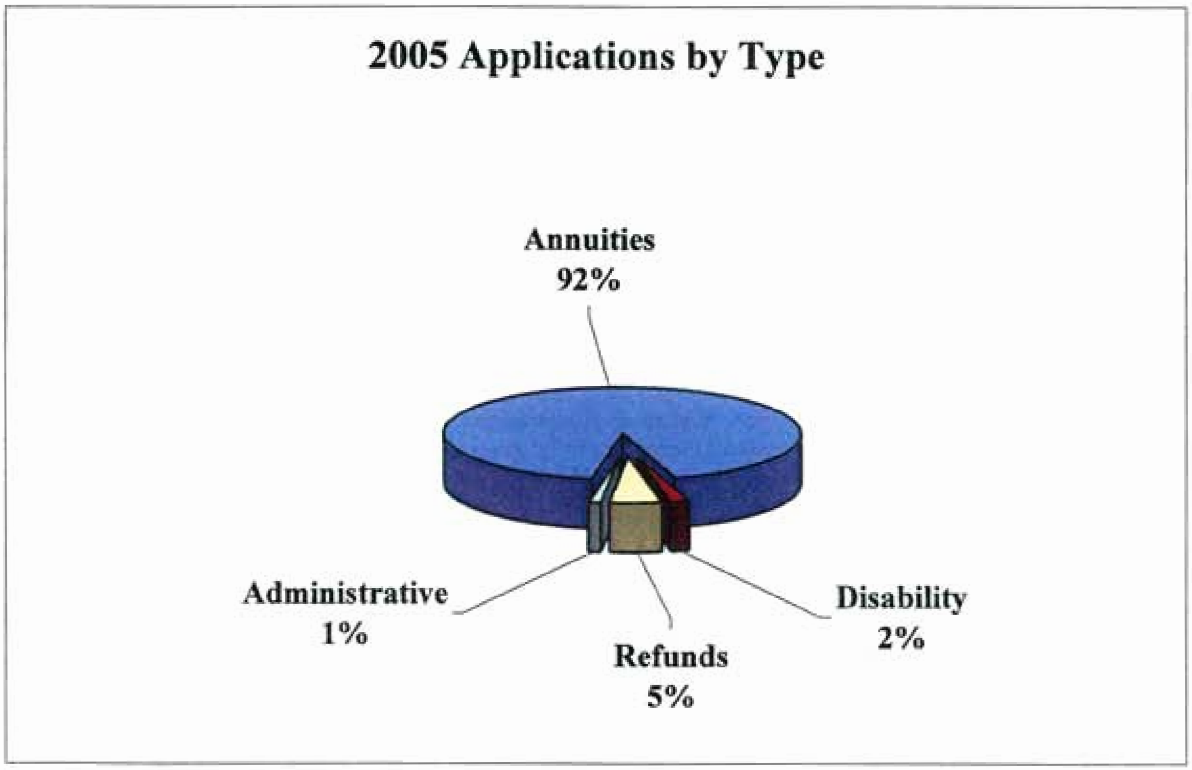
HB 227

- Approved August 22, 2005

- Provides a benefit to a spouse married to the employee after retirement under certain conditions.

Statistical


2005 Revenues by Source
Member
18%
Employer
23%
Net Investment
Income
59%


2005 Applications by Type
Annuities
92%
Administrative
1%
Refunds
5%
Disability
2%

Additions to Plan Net assets

Last ten years

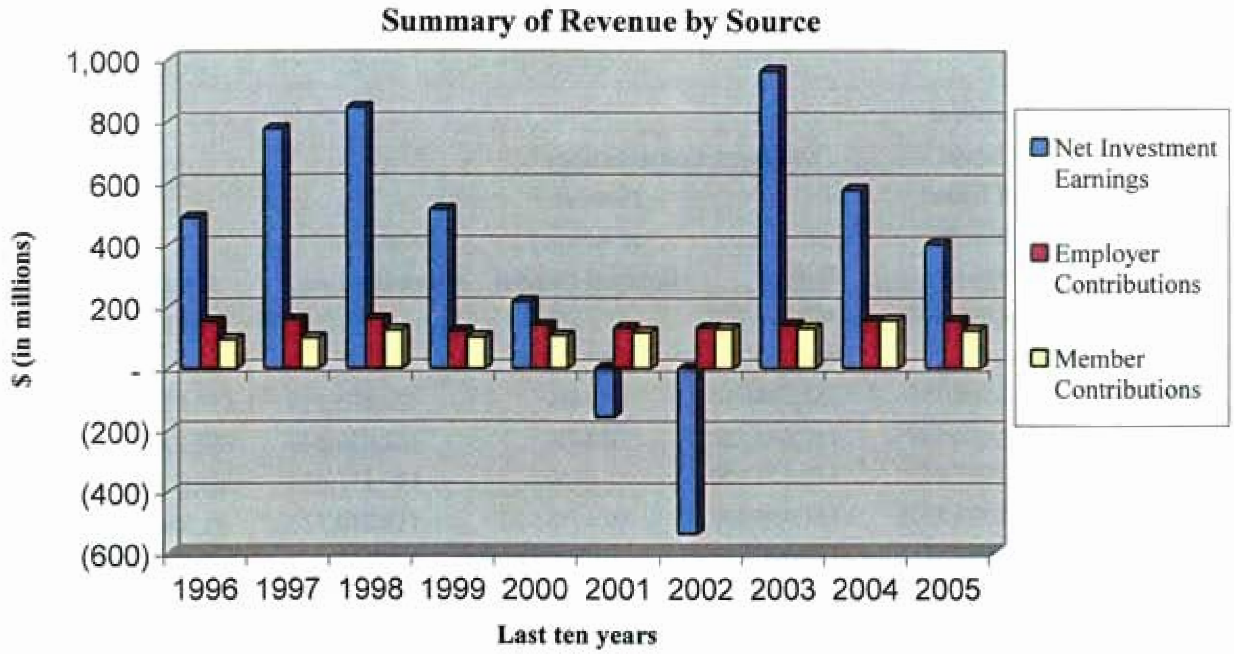
Year	Investment Earnings Net of Direct Investment Expense *	Employer Contributions		Member Contributions	Total
		Dollars	Percent of Annual Covered Payroll		
1996	$ 488,519,305	$ 152,556,327	14.02%	$ 94,995,616	$ 736,071,248
1997	776,452,044	156,832,214	14.57%	98,978,257	1,032,262,515
1998	844,588,751	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)
2003	961,888,872	141,882,893	10.30%	129,644,188	1,233,415,953
2004	578,730,089	153,919,476	11.03%	155,884,575	888,534,140
2005	402,310,621	155,067,116	11.90%	122,542,484	679,920,221

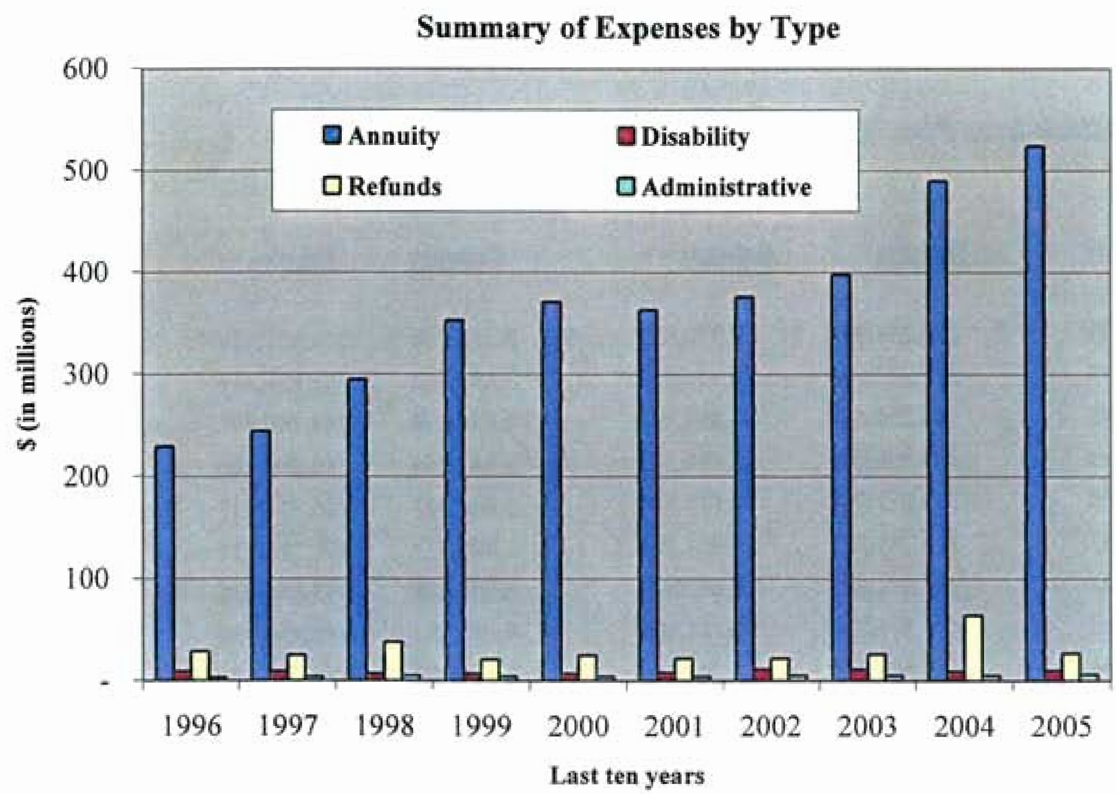
** Note: For years including and subsequent to 1997, net investment income includes realized and unrealized appreciation or depreciation of investments. Preceding years include only realized gain and losses.*

Deductions from Plan Net Assets

Last ten years

Year	Benefits	Refunds	Administrative Expense	Total
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
2003	408,596,239	25,561,485	4,678,634	438,836,358
2004	498,839,890	64,272,300	5,470,007	568,582,197
2005	533,490,705	26,737,456	5,545,268	565,773,429


Summary of Revenue by Source
1,000
800
600
400
200
-
(200)
(400)
(600)
$ (in millions)
Net Investment Earnings
Employer Contributions
Member Contributions
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005
Last ten years


Summary of Expenses by Type
600
500
400
300
200
100
-
$ (in millions)
Annuity
Disability
Refunds
Administrative
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005
Last ten years

Benefit Expenses By Type

Last ten years

	Annuity				Disability			
Year	Employee	Surviving Spouse	Children	Health Subsidy	Ordinary	Duty	Refunds	Total
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
2003	341,614,634	48,558,458	661,845	6,881,611	8,475,088	2,404,604	25,561,485	434,157,724
2004	431,559,744	49,163,339	596,325	8,689,957	7,200,947	1,629,578	64,272,300	563,112,190
2005	464,247,177	49,783,518	595,785	8,877,021	8,011,243	1,979,267	26,737,456	560,231,467

Retirees and Beneficiaries By Type of Benefit

Last ten years

	Annuity			Disability		Compensation	Reciprocal	
Year	Employee	Spouse	Child	Ordinary	Duty	Annuitants	Employee [1]	Spouse
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 [2]	1,754	387
2002	13,725	4,132	212	260	129	2 [2]	1,821	385
2003	13,909	4,118	210	323	190	2 [2]	1,944	383
2004	16,109	4,087	201	294	132	2 [2]	2,144	385
2005	16,027	4,094	204	304	158	2 [2]	2,194	373

1. Excludes deferred annuitants
2. Compensation annuitants also included with spouse annuitants

Source of Data: 2005 Actuarial Report

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
1996	$ 15,210	72.6	$ 15,090	64.2
1997	16,088	72.5	13,651	64.4
1998	18,928	71.5	23,471	62.4
1999	19,347	72.3	12,625	63.5
2000	19,789	72.6	13,986	64.5
2001	20,364	73.0	17,063	63.5
2002	21,211	73.1	23,407	63.2
2003	22,176	72.6	25,832	61.9
2004	25,451	71.0	35,222	59.6
2005	26,178	71.8	22,753	63.5

Source of Data: 2005 Actuarial Report

Schedule Of Funding Progress For GASB # 25

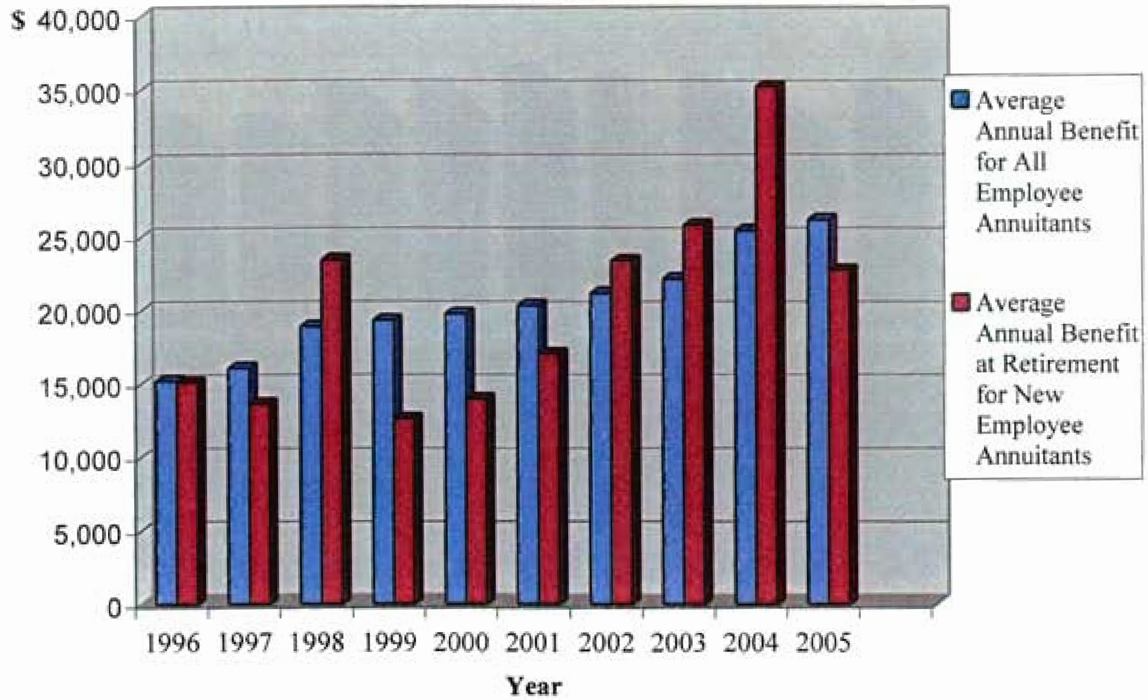
Last ten years

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of covered Payroll [(b-a)/c]
1996	$ 3,907,997,927	$ 4,514,208,388	$ 606,210,461	86.57%	$ 1,076,057,784	56.34%
1997	4,467,100,715	5,259,125,157	792,024,442	84.94%	1,192,286,688	66.43%
1998	5,202,095,202	6,323,965,903	1,121,870,701	82.26%	1,168,639,224	96.00%
1999	6,017,841,114	6,562,299,185	544,458,071	91.70%	1,267,181,658	42.97%
2000	6,297,976,257	6,665,179,731	367,203,474	94.49%	1,243,439,345	29.53%
2001	6,466,797,543	6,934,176,477	467,378,934	93.26%	1,375,048,892	33.99%
2002	6,403,982,494	7,577,100,377	1,173,117,883	84.52%	1,377,909,441	85.14%
2003	6,384,098,957	7,988,636,556	1,604,537,599	79.91%	1,395,513,060	114.98%
2004	6,343,076,159	8,808,500,944	2,465,424,785	72.01%	1,303,127,528	189.19%
2005 [1]	6,332,378,676	9,250,211,817	2,917,833,141	68.46%	1,407,323,058	207.33%

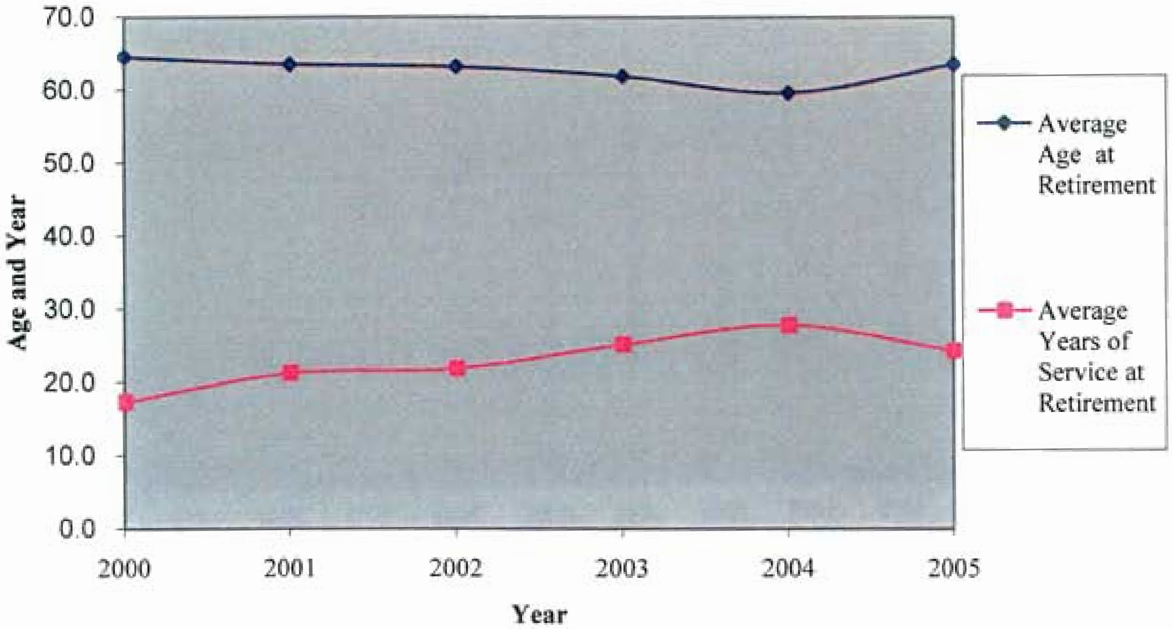
[1]OPEB liabilities are discounted at a rate of 4.5 percent.

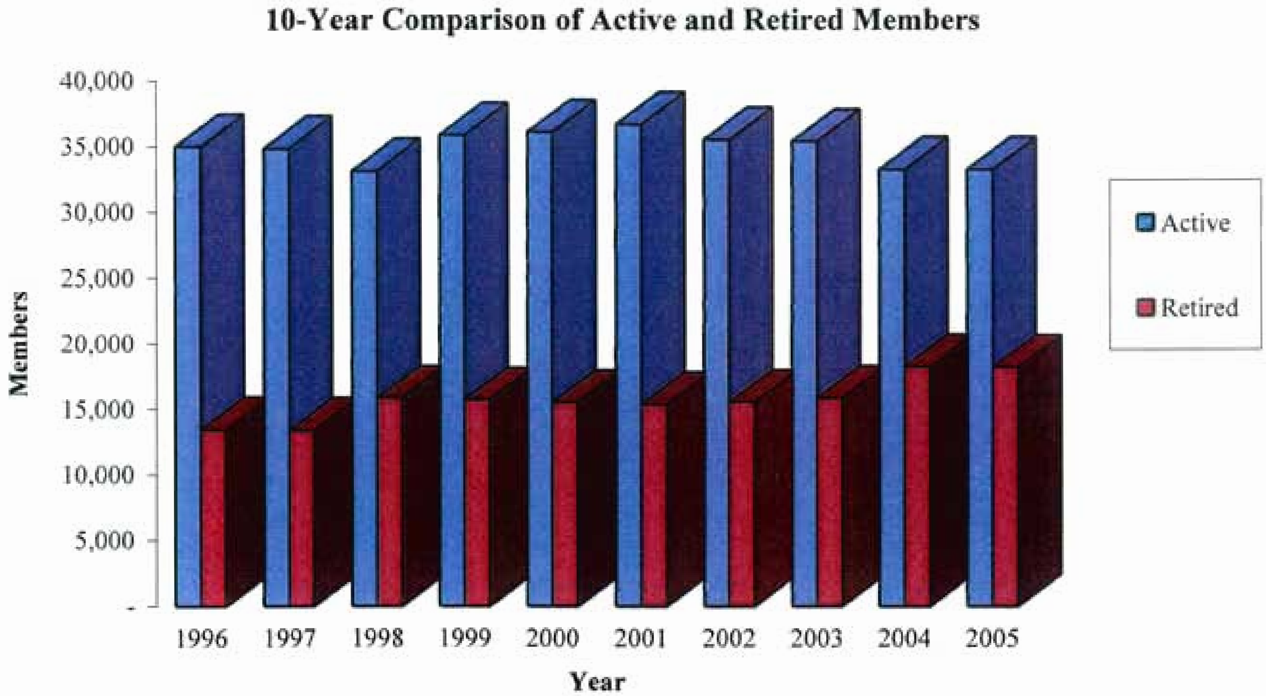
Source of Data: 2005 Actuarial Report

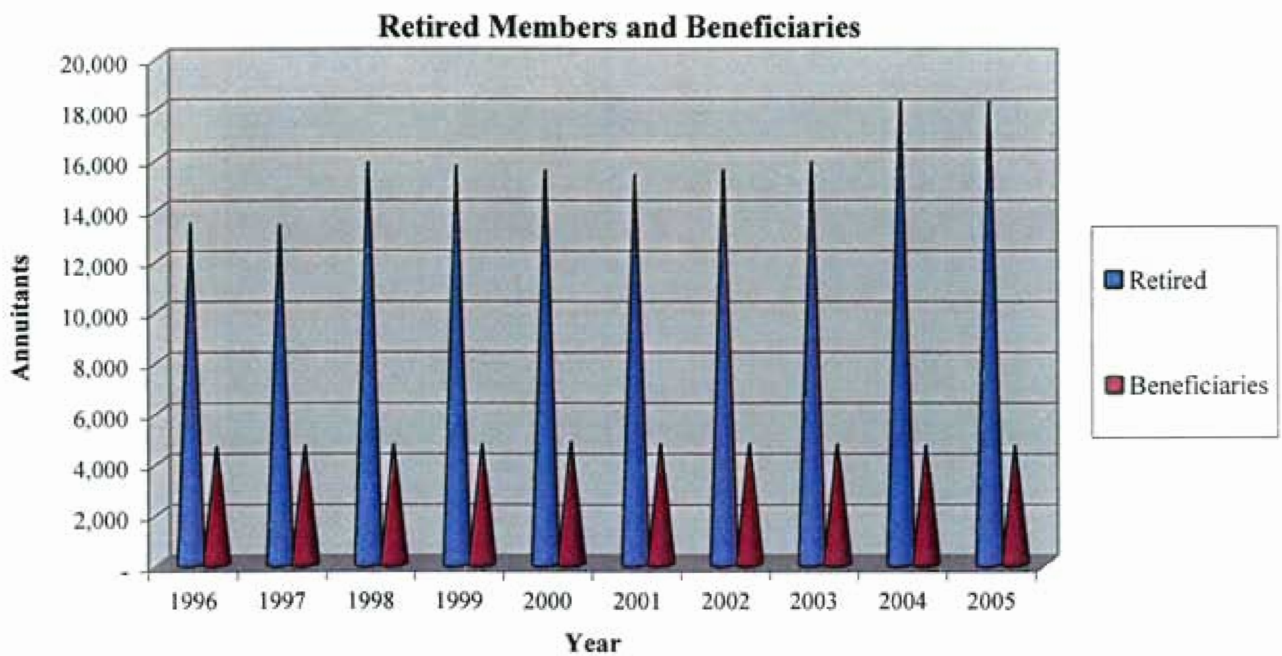
Average Annual Retirement Benefit



Average Age and Years of Service for New Annuitants




10-Year Comparison of Active and Retired Members
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
Members
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Year
Active
Retired


Retired Members and Beneficiaries
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
-
Annuitants
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Year
Retired
Beneficiaries

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
$1	-	$250	345	78	204	627
251	-	500	273	62	-	335
501	-	750	196	40	-	236
751	-	1,000	1,328	3,374	-	4,702
1,001	-	1,250	4,351	303	-	4,654
1,251	-	1,500	1,240	244	-	1,484
1,501	-	1,750	1,350	151	-	1,501
1,751	-	2,000	1,215	95	-	1,310
2,001	-	2,250	957	55	-	1,012
2,251	-	2,500	826	30	-	856
2,501	-	2,750	829	16	-	845
2,751	-	3,000	707	12	-	719
3,001	-	3,250	680	4	-	684
3,251	-	3,500	581	2	-	583
3,501	-	3,750	625	-	-	625
3,751	-	4,000	492	1	-	493
4,001	-	4,250	405	-	-	405
4,251	-	4,500	453	-	-	453
4,501	-	4,750	351	-	-	351
4,751	-	5,000	247	-	-	247
Over		5,000	770	-	-	770
Totals			**18,221**	**4,467**	**204**	**22,892**

Source of Data: 2005 Actuarial Report

Statistics On Employee Annuities Classified By Age as of December 31, 2005

	Male		Female	
Age	No.	Annual Payments	No.	Annual Payments
Under 50	6	$ 31,212	6	$ 31,596
50	8	288,168	7	290,592
51	25	1,312,284	25	989,712
52	102	4,625,520	56	2,381,064
53	132	6,415,812	75	2,885,388
54	126	6,007,836	106	3,837,480
55	140	5,856,300	99	3,572,700
56	174	7,492,524	140	4,487,328
57	162	6,848,712	137	4,310,820

Statistics On Employee Annuities Classified By Age as of December 31, 2005 (continued)

	Male		Female	
Age	No.	Annual Payments	No.	Annual Payments
58	196	$ 8,040,288	188	$ 5,658,900
59	171	7,139,496	213	5,802,432
60	156	6,075,180	208	5,862,492
61	166	6,066,660	244	5,731,908
62	216	8,178,240	310	7,698,012
63	275	9,911,880	323	6,856,596
64	204	6,813,696	342	8,098,548
65	243	7,721,064	353	7,935,336
66	231	7,565,124	388	8,111,736
67	258	8,385,648	442	9,510,876
68	306	9,962,184	440	8,995,380
69	239	7,564,080	414	8,245,020
70	283	9,637,236	445	9,055,848
71	257	7,876,512	419	8,225,976
72	260	8,120,364	351	6,915,228
73	248	7,801,704	343	6,443,088
74	253	8,376,144	337	6,591,180
75	239	7,872,852	389	7,479,360
76	262	8,674,248	388	7,058,412
77	250	8,452,752	358	6,422,184
78	266	8,340,468	348	6,369,072
79	225	6,437,700	288	5,086,764
80	236	7,521,384	297	5,234,796
81	215	6,618,348	275	4,443,624
82	199	5,943,588	257	4,290,384
83	179	5,251,308	242	4,038,972
84	153	4,304,976	222	3,622,032
85 & over	614	14,942,448	1,071	15,944,172
Totals	**7,675**	**$258,473,940**	**10,546**	**$218,515,008**

Source of Data: 2005 Actuarial Report

History Of Annuities

Last ten years

Employee Annuitants

Year End	Number of Annuitants	Total Annuities	Average Annuities
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
2003	15,853	351,551,454	22,176
2004	18,253	464,549,712	25,451
2005	18,221	476,988,948	26,178

Surviving Spouse Annuitants

Year End	Number of Annuitants	Total Annuities	Average Annuities
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
2003	4,501	48,796,907	10,841
2004	4,472	49,294,488	11,023
2005	4,467	50,078,232	11,211

Source of Data: 2005 Actuarial Report

Geographical Distribution of Annuity Benefit Payments

As of December 31, 2005

Number	State	Annual Payments	Number	State	Annual Payments
1	Alaska	$ 14,344	13	Oregon	$ 179,280
74	Alabama	1,304,032	13	Pennsylvania	152,268
72	Arkansas	1,529,074	39	Puerto Rico	656,771
279	Arizona	6,310,254	1	Rhode Island	9,600
193	California	3,663,649	13	South Carolina	381,533
30	Colorado	530,733	3	South Dakota	68,986
3	Connecticut	41,628	87	Tennessee	1,656,291
4	District of Columbia	107,840	119	Texas	2,245,754
681	Florida	15,594,911	7	Utah	154,731
103	Georgia	1,850,599	21	Virginia	281,504
3	Hawaii	40,064	1	Virgin Islands	12,545
15	Iowa	367,550	21	Washington	408,630
4	Idaho	166,178	228	Wisconsin	4,663,380
19,802	Illinois **	449,842,152	4	West Virginia	99,485
240	Indiana	4,761,021	1	Wyoming	21,884
5	Kansas	68,817	22,861	Total - U.S.	$ 514,192,839
37	Kentucky	806,617			
39	Louisiana	707,446	1	Brazil	16,623
15	Massachusetts	320,870	1	Canada	9,600
17	Maryland	267,861	1	China	11,146
1	Maine	25,010	1	Costa Rica	17,682
140	Michigan	3,161,090	1	Germany	12,545
39	Minnesota	744,571	1	Greece	10,821
43	Missouri	834,243	2	India	31,878
97	Mississippi	1,824,623	5	Ireland	69,558
4	Montana	110,472	2	Israel	29,823
48	North Carolina	727,470	3	Italy	82,922
1	North Dakota	42,341	1	Jamaica	12,545
3	Nebraska	34,689	3	Mexico	45,698
3	New Hampshire	48,507	1	Nicaragua	49,264
1	New Jersey	8,419	2	Panama	9,902
21	New Mexico	543,526	4	Philippines	70,926
213	Nevada	5,592,190	1	Poland	15,620
15	New York	197,289	1	United Kingdom	9,600
40	Ohio	691,730	31	Total-Outside U.S.	$ 506,151
18	Oklahoma	317,188			

	Number		Payments	%
Total out-of-state payments	3,090	$	64,855,638	13%
Total payments in Illinois state	19,802	$	449,842,152	87%
Total annuity benefit payments	22,892	$	514,697,790	100%

Geographical Distribution of Annuity Benefit Payments in Illinois

As of December 31, 2005

	County	Annual Payments		County	Annual Payments
2	Adams	$ 32,725	5	Marshall	$ 130,090
20	Boone	551,791	1	Mason	41,258
5	Bureau	84,457	1	McDonough	411
3	Carroll	62,483	151	McHenry	3,734,906
31	Champaign	801,133	6	McLean	81,362
2	Clay	24,485	2	Montgomery	34,401
1	Coles	48,689	1	Morgan	12,545
18,012	Cook **	409,039,059	2	Moultrie	18,922
14	Dekalb	218,564	7	Ogle	193,490
610	DuPage	12,621,236	4	Peopria	111,141
1	Effingham	9,600	1	Perry	12,545
1	Fayette	9,600	1	Piatt	13,105
3	Franklin	82,049	2	Pulaski	27,246
15	Grundy	518,566	5	Putnam	101,227
2	Hamilton	22,145	3	Rock Island	38,411
1	Henry	56,803	4	Saline	44,289
7	Iroquois	267,972	15	Sangamon	313,250
15	JoDavies	436,828	1	Schuyler	9,600
1	Johnson	13,931	3	Shelby	99,773
127	Kane	2,993,338	4	StClair	58,735
36	Kankakee	909,628	10	Stephenson	181,553
13	Kendall	379,436	1	Tazewell	12,781
3	Knox	31,745	3	Vermilion	107,784
247	Lake	5,433,054	2	Warren	41,410
7	LaSalle	160,094	1	Wayne	40,123
6	Lee	176,749	4	Whiteside	63,152
1	Livingston	14,763	337	Will	8,637,298
1	Loan	52,599	12	Williamson	203,776
1	Macon	12,545	18	Winnebago	324,061
5	Madison	53,785	1	Woodford	12,179
1	Marion	21,477			
	Total annuity payments in Illinois		**19,802**		**$ 449,842,152**

** *91% of Illinois annuity recipients reside in Cook County.*

Number of Actively Participating Members

Last ten years

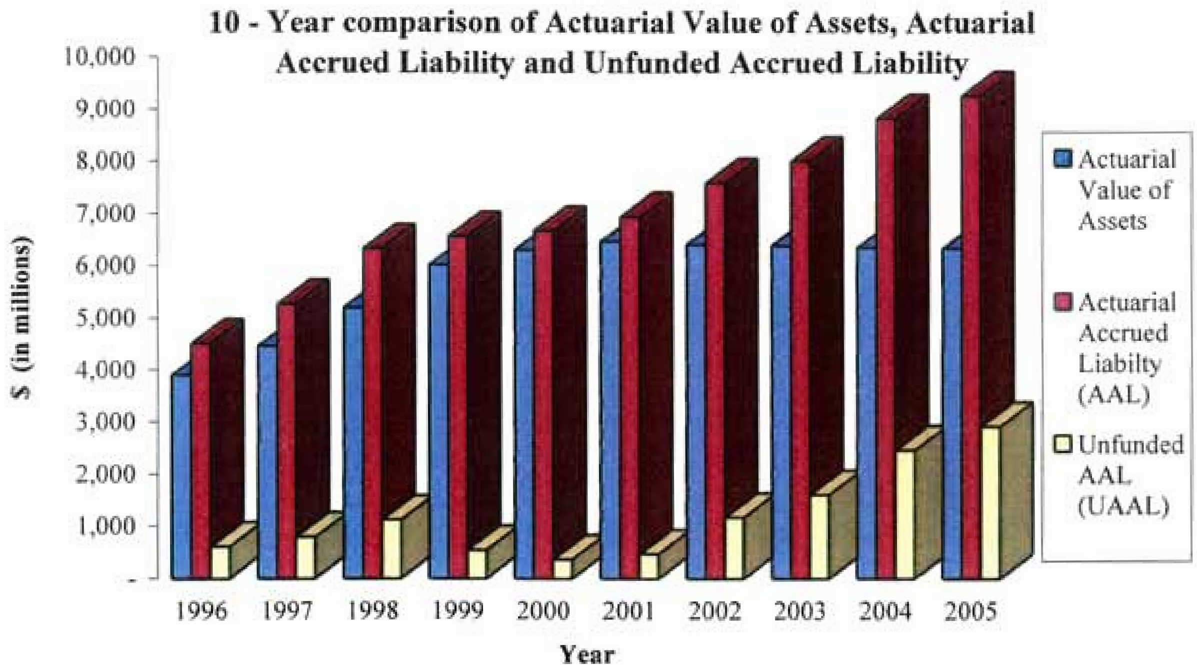
Year	Male Participants	Female Participants	Total Participants
1996	15,087	19,933	35,020
1997	14,798	20,041	34,839
1998	14,207	18,912	33,119
1999	16,533	19,335	35,868
2000	17,806	18,283	36,089
2001	14,928	21,751	36,679
2002	14,037	21,485	35,522
2003	13,976	21,408	35,384
2004	12,756	20,511	33,267
2005	13,039	20,704	33,743

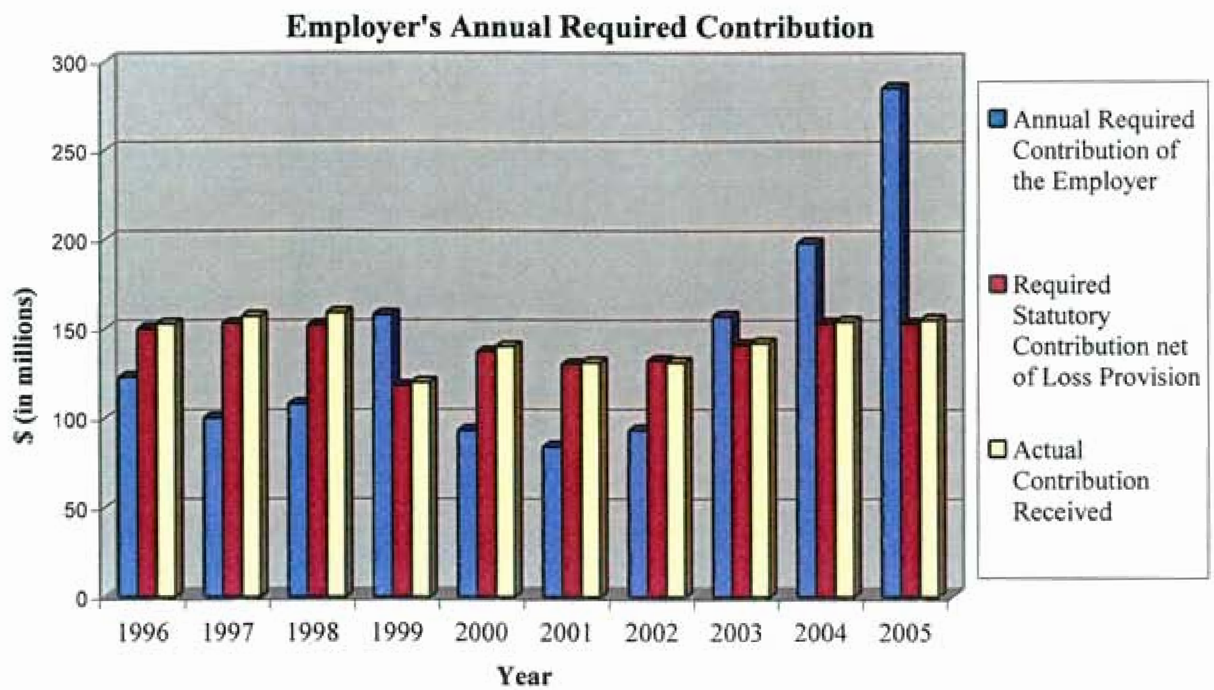
Source of Data: 2005 Actuarial Report

Participating Members by Age and Length of Service

Attained	Completed Years of Service									
Age	Under 1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	Total
Under 20	23	62	-	-	-	-	-	-	-	85
20-24	168	636	123	-	-	-	-	-	-	927
25-29	233	1,241	630	53	-	-	-	-	-	2,157
30-34	204	1,122	1,280	408	33	-	-	-	-	3,047
35-39	217	1,144	1,422	830	415	10	-	-	-	4,038
40-44	164	1,131	1,619	1,113	969	373	18	-	-	5,387
45-49	132	1,067	1,442	1,128	1,166	916	231	20	-	6,102
50-54	96	748	1,043	1,008	1,085	774	307	118	4	5,183
55-59	79	446	692	680	798	551	180	102	61	3,589
60-64	25	219	384	322	455	303	140	71	50	1,969
65-69	8	89	156	148	134	116	61	40	55	807
70 & over	7	66	92	73	47	62	37	21	47	452
w/o DOB	-	-	-	-	-	-	-	-	-	-
Total	**1,356**	**7,971**	**8,883**	**5,763**	**5,102**	**3,105**	**974**	**372**	**217**	**33,743**

Source of Data: 2005 Actuarial Report


10 - Year comparison of Actuarial Value of Assets, Actuarial Accrued Liability and Unfunded Accrued Liability
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
-
$ (in millions)
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Year
Actuarial Value of Assets
Actuarial Accrued Liabilty (AAL)
Unfunded AAL (UAAL)


Employer's Annual Required Contribution
300
250
200
150
100
50
0
$ (in millions)
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Year
Annual Required Contribution of the Employer
Required Statutory Contribution net of Loss Provision
Actual Contribution Received

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