Municipal Employees' Annuity and Benefit Fund of Chicago

A Pension Trust Fund of the City of Chicago
Chicago, Illinois

2008

Comprehensive Annual Financial Report
For the Fiscal Year Ended December 31, 2008

MEABF

Municipal Employees'
Annuity and Benefit Fund of Chicago

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Comprehensive Annual Financial Report
For the Fiscal Year Ended December 31, 2008

**Prepared by administrative staff of the
Municipal Employees' Annuity and Benefit Fund of Chicago
221 North LaSalle Street, Suite 500
Chicago, Illinois 60601**

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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, 2007

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

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

President

Executive Director

Certificate of Achievement
for Excellence in Financial Reporting

presented to MEABF Retirement Board

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded MEABF the Certificate of Achievement for Excellence in Financial Reporting for its 2007 Comprehensive Annual Financial Report. This is the nineteenth consecutive year MEABF has earned this prestigious award. To qualify, the report must satisfy both generally accepted accounting principles and applicable legal requirements.

Mr. Stephen Gauthier (center) from the GFOA presented the award to the members of MEABF's Retirement Board.

Left to Right: Joe Malatesta, *Recording Secretary*; John Gibson, *President*; Stephen Gauthier, *GFOA;* Peter Brejnak, *Trustee*; Steve Lux, *Vice-President*. Not shown in the picture - Stephanie D. Neely, *Treasurer*.

2009 Retirement Board

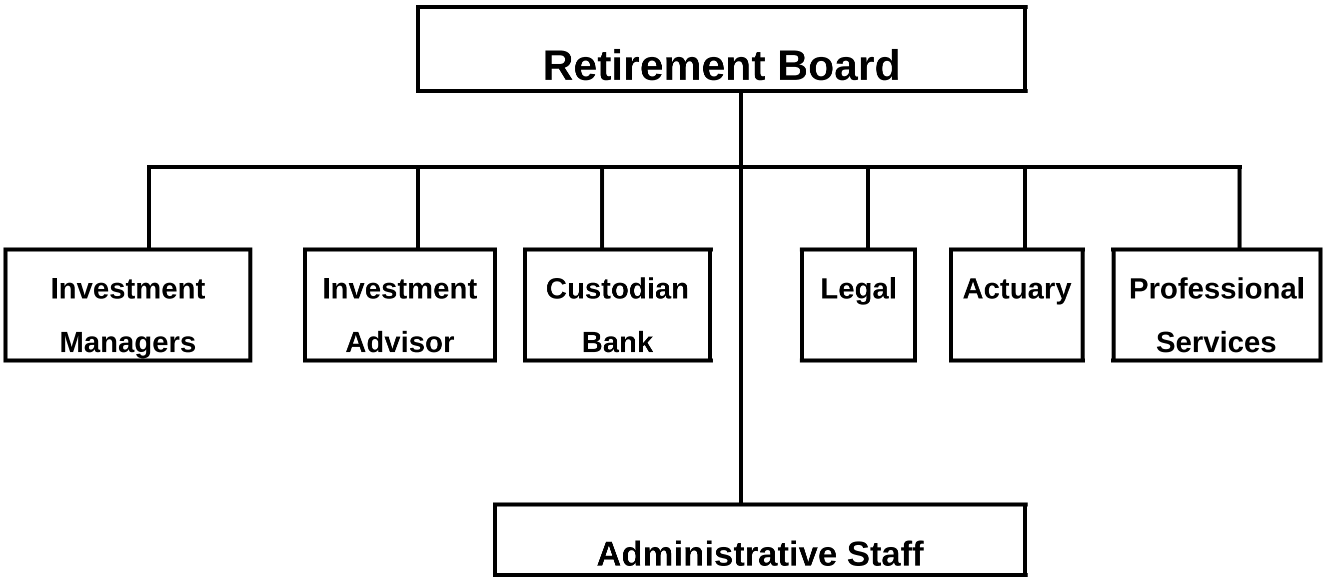
A five-member Retirement Board is the governing body of the Municipal Employees' Annuity and Benefit Fund of Chicago (MEABF). By statute, the Retirement Board shall consist of two serving as ex-officio members, the City Comptroller and the City Treasurer, and three members who are employees and elected by the contributing members.

The Retirement Board is ultimately responsible for the operation, administration and management of all the activities of MEABF. Having oversight of the investment activities, the Retirement Board sets investment policies and objectives, hires investment managers and investment consultants and reviews investment performance. The Retirement Board also approves the MEABF operating budget and approves or denies benefit claims.

The Retirement Board appoints the Executive Director, and retains consultants for investment, actuarial, legal and other provisional services necessary for the transaction of business.

The Retirement Board meets monthly and holds special meetings as needed. As members of the Retirement Board, they receive no compensation.

Organizational Chart



Consultants

Investment Consultant

Brian Wrubel
James R. Wesner
Marquette Associates
Chicago, IL

Legal Advisors

Frederick P. Heiss
William A. Marovitz
Chicago, IL

Auditors

Michael Huels, C.P.A.
Bansley & Kiener, L.L.P.
Chicago, IL

Master Custodian

Rita Curtin
The Northern Trust Company
Chicago, IL

Actuary

Michael R. Kivi, F.S.A.
Amy Williams, A.S.A.
Gabriel Roeder Smith & Company
Chicago, IL

Medical Advisor

Terence Sullivan, M.D.
Chicago, IL

Custodian

Stephanie D. Neely
City Treasurer
Chicago, IL

Investment Managers and Investment Fees - *are listed on pages 51-53*
Brokers used by Investment Managers - *are listed on pages 72-73*

Organizational Chart

Administrative Staff

Terrance R. Stefanski, C.P.A.
Executive Director

Joseph M. Malatesta
Deputy Executive Director

Tess Toledo
Comptroller

- Contributions
- General Ledger
- Retiree Payroll Services
- Information Systems

Jim Mohler
Chief Investment Officer

- Performance Analysis
- Cash Management
- Investment Accounting

Jane Tessaro
Benefits Manager

- Pension Benefits
  - Counseling
  - Applications
  - Health Insurance
- Disability Benefits

Kriket Utz
Director-Support Services

- Document Management
- Telecommunications
- Office Support

Appointed by the Retirement Board, the Executive Director and his staff are responsible for the MEABF day-to-day administration and operation. The administrative staff also implements the investment policies and decisions of the Retirement Board and the MEABF benefit provisions. The administrative staff of fifty (50) fulltime employees serves 32,563 contributing members, 22,730 retirees and surviving beneficiaries and 12,082 inactive members.

Municipal Employees' Annuity and
Benefit Fund of Chicago
221 North LaSalle Street, Suite 500,
Chicago, Illinois 60601
Phone: 312-236-4700 Fax: 312-236-2383
www.meabf.org

Letter of Transmittal

June 1, 2009

Dear President and Members of the Retirement Board:

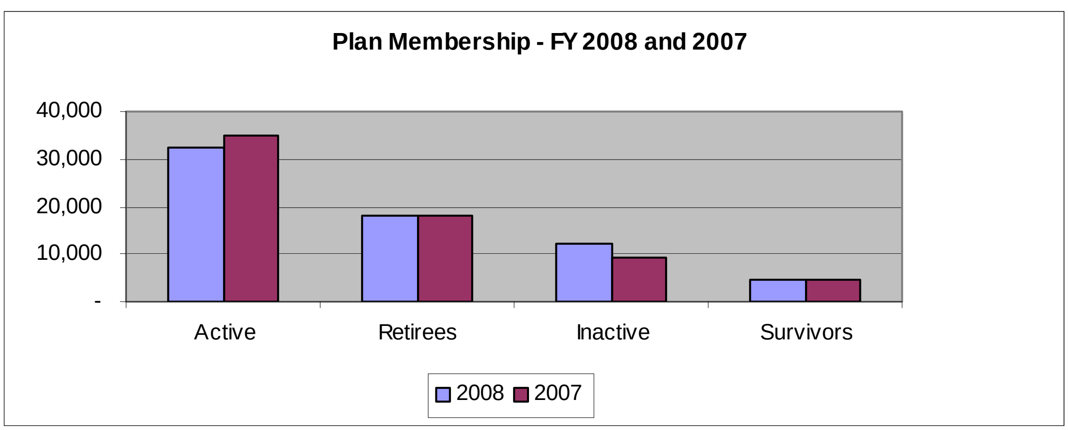
We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Annuity and Benefit Fund of Chicago (MEABF)- Defined Benefit Pension and Post-Employment Healthcare for the calendar year ended December 31, 2008. The responsibility for the contents of this report rests with the management of MEABF. To the best of our knowledge and belief, the information contained in this report is complete, all disclosures necessary to enable the reader to gain an understanding of MEABF activities have been included and the accompanying financial statements, schedules and statistical tables are fairly presented.

This report is available on the web at http://www.meabf.org/publications.php.

MEABF Profile

MEABF is a pension trust fund of the City of Chicago. It is a single employer defined benefit plan that was established in 1921 by the Illinois State legislature. It is a component unit of the City of Chicago and as such, it is included in the City of Chicago's financial statements. MEABF is the largest of four City of Chicago pension trust funds: Police, Fire, Laborers and Municipal. MEABF is administered under the direction of a five-member Retirement Board comprised of two ex-officio members (the City Treasurer and the City Comptroller) and three elected members. The Retirement Board appoints an Executive Director who is responsible for the MEABF daily operations. Note 2 of the Notes to the Financial Statements located in the Financial Section of this report provide a more detailed description of MEABF and its membership.

Membership: Of the active members, approximately 49.5 percent are employed by the City of Chicago and 50.5 percent are with the Chicago Public Schools in non-teaching positions. There were 32,563 active members; 12,082 inactive members; 18,178 employee annuitants (5 of whom have deferred annuities) and 4,552 survivor annuitants.



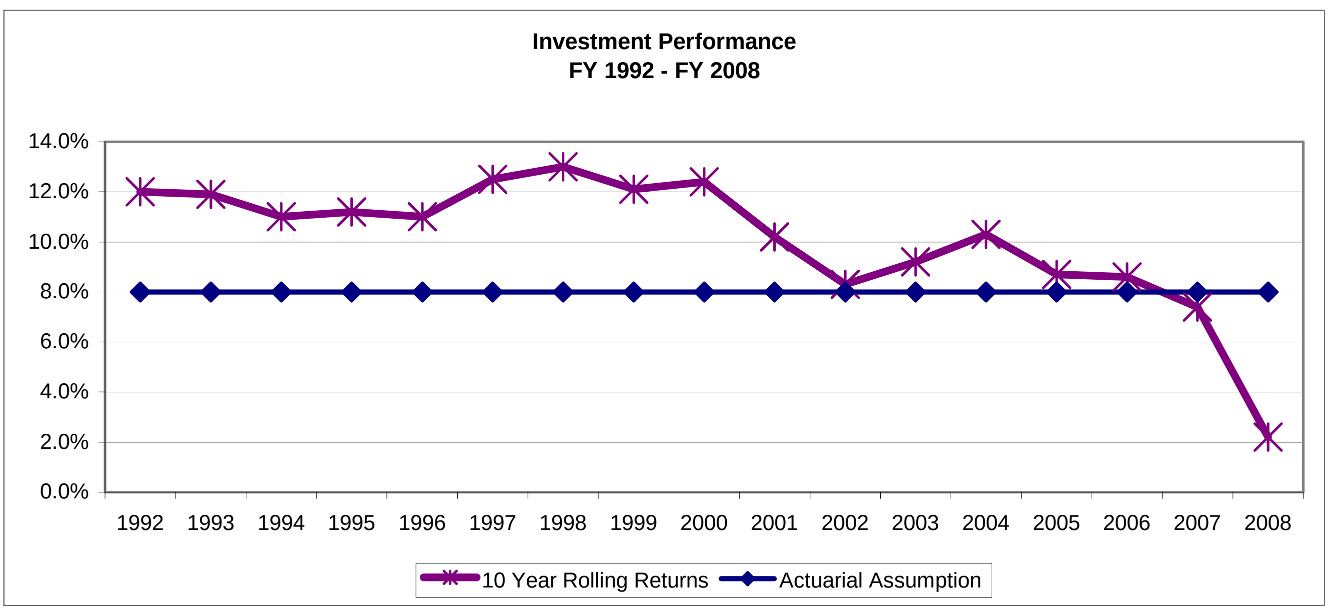
MEABF provides age and service retirement benefits, survivor benefits, post-retirement increases, duty disability benefits and ordinary disability benefits to all members who meet MEABF requirements. MEABF also provides a fixed amount of post-employment healthcare subsidy for its annuitants participating in health care plans sponsored by the City of Chicago or the Board of Education. For a more detailed description and listing of MEABF benefit provisions, please read Note 2 of the Notes to Financial Statements located on pages 32 thru 39.

Investment Activities and Economic Forecasts

The Retirement Board hired a new investment consultant in 2008. As the new consultant analyzed MEABF investment portfolio, an asset/liability study was conducted to assist the Board in setting a target asset allocation mix to diversify the portfolio. The Retirement Board utilizes multiple external investment advisors to invest MEABF assets. Within each investment mandate, mutually agreed upon goals, objectives and guidelines are set to measure performance and safeguard assets. More detail on MEABF's target allocation mix and the Retirement Board's investment goals, objectives and guidelines can be located within the Investment Section of this report.

Year	1 Year Return	3 Year Return	5 Year Return	10 Year Return
2008	-27.9%	-4.3%	0.7%	2.2%
2007	7.8%	9.2%	11.5%	7.4%
2006	12.9%	10.1%	7.7%	8.6%

Year 2008 reflected market declines not seen by investors since the Great Depression. The total return for MEABF in 2008 was –27.9%, significantly below the MEABF actuarial assumption of 8%, and well below returns of 7.8% and 12.9% earned in 2007 and 2006, respectively. The severity of the decline in 2008 also dragged down average annual returns over periods of three, five and ten years. The following graph compares ten-year rolling returns to the actuarial assumed rate of return going back to 1992. As you can see, over the long-term MEABF has historically outperformed the assumed rate of return. It has only been recently, in 2007 and 2008, that the ten-year rolling rate of return has dipped under the 8% assumption. Even with the severity of the current market decline, the Retirement Board will continue to structure the portfolio in accordance with the target allocation mix, which will mitigate downside risk and should position the portfolio to achieve the Board's long-term goals and objectives.



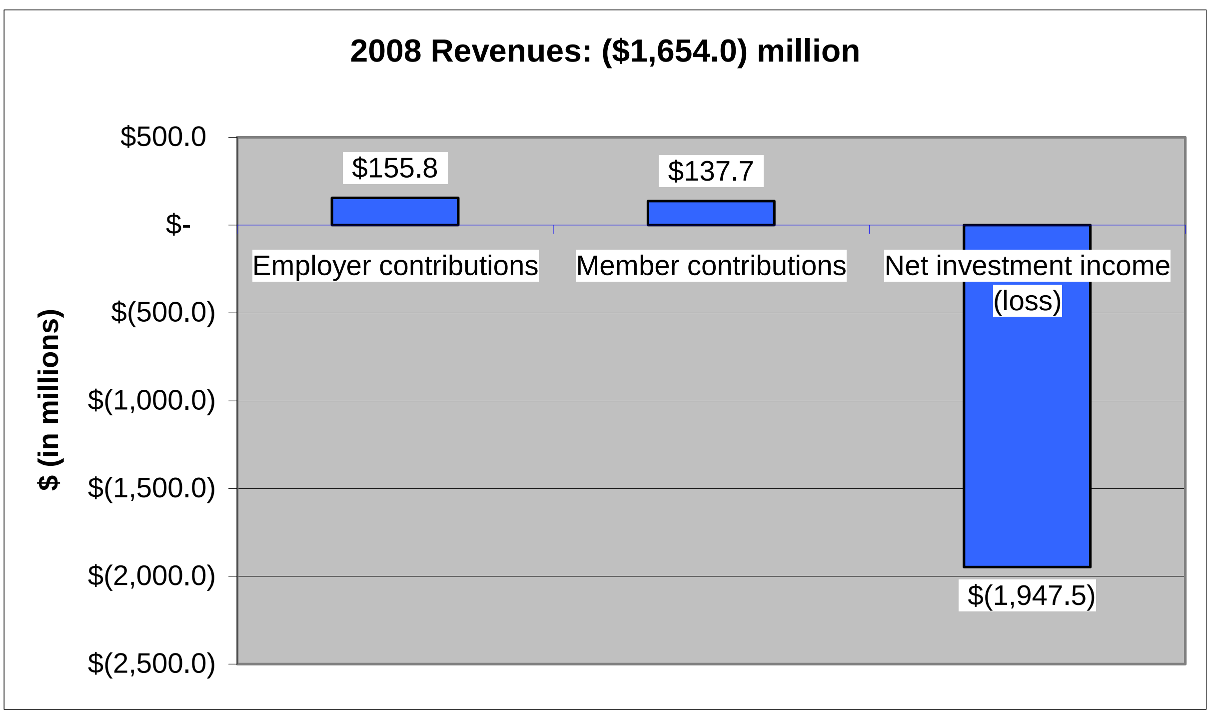
The Board's new target allocation mix increases exposure to real estate, private equity, and international equity. Exposure to traditional domestic equity holdings were reduced, and a new allocation to hedged equity was added to reduce downside risk. Although the percentage target to fixed income will remain the same, the allocation will include new investment mandates like high yield, intermediate, and opportunistic fixed income. The increased diversification within traditional asset classes and more exposure to alternative asset classes shall allow for a higher probability in achieving returns more in line with the MEABF actuarial assumption over time.

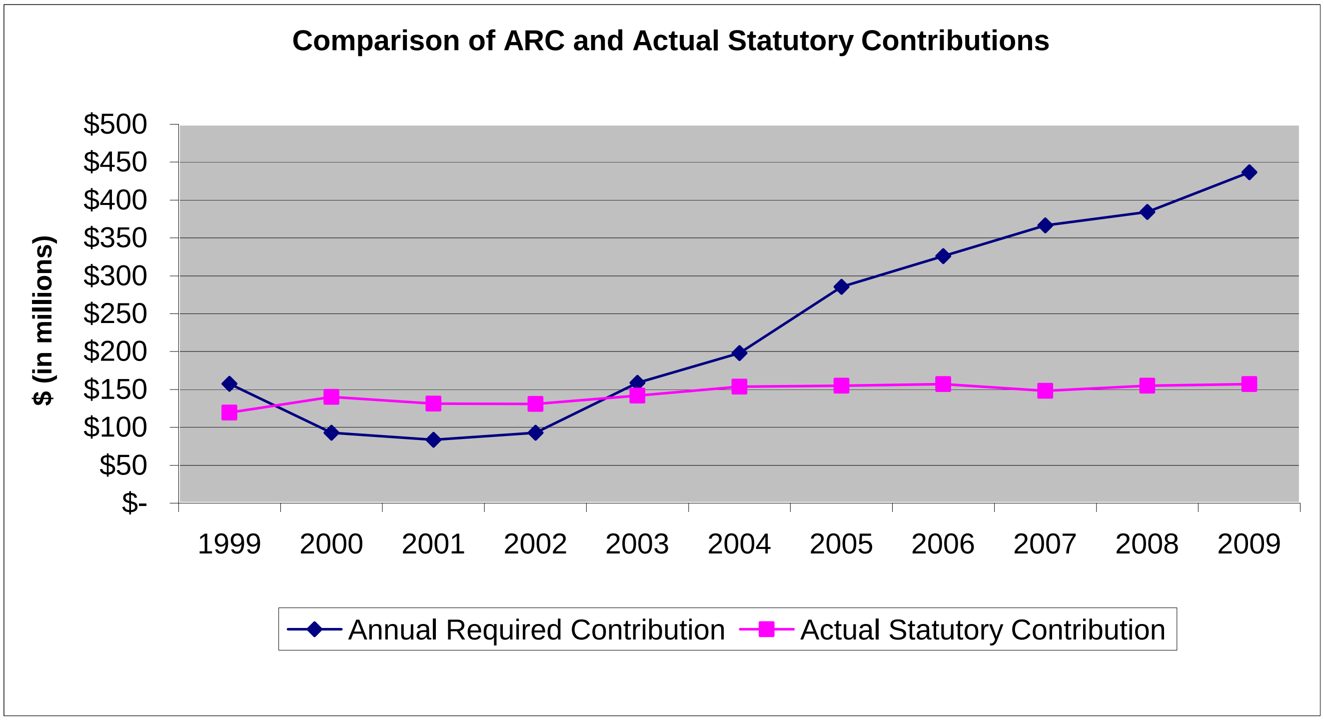
MEABF continues to face large operating shortfalls each year that must be satisfied from MEABF reserves. In 2008, MEABF liquidated approximately $370 million to supplement the disbursement of benefit payments.

The economic outlook for 2009 seems to point at a continued, deep recessionary period for not only the United States, but also globally. There have been no "safe havens" during this time of historic decline. The gridlock in the capital markets triggered governments to supply record levels of stimulus to not only companies, but also industries trying to remain solvent. Going forward, if the markets can find a "bottom" in 2009 and the record levels of stimulus can begin to drive up consumer confidence, a sustained recovery period could ensue and lead to positive growth in 2009.

Actuarial Funding Status

The MEABF funding objective is to meet all benefit obligations with employee and employer contributions, fund reserves, and earnings on those reserves. Employees are required to contribute 8.5% of covered salary. Since 1999, the Illinois Pension Code has set the employer contribution at 1.25 times the employee contributions received two years prior. Benefit obligations not currently funded are the responsibility of the employer. The 2008 MEABF actuarial valuation, on the State reporting basis, shows that an annual employer contribution multiple of 3.33 is needed to adequately finance fund obligations. For the past six years, the statutory employer contributions have been less than the Annual Required Contributions (ARC). Due to statutory constraints, the employer contributed only 40.7% of the ARC for 2008. Employer contributions in 2009 are again expected to be less than the ARC. Similar funding issues exist among all four City pension plans. In 2008, a commission was appointed to study the funding issues.





The Retirement Board engages an independent actuary to perform an actuarial valuation of MEABF on an annual basis pursuant to the provisions of Illinois Statutes. Gabriel Roeder Smith & Company conducted the actuarial valuation as of plan year ending December 31, 2008. Results of their valuation show that based on the actuarial value of assets method, that smoothes gains and losses over five years, MEABF has a funding ratio (actuarial value of assets divided by actuarial liabilities for pension and post-employment healthcare benefits) of 62.9 percent. With an actuarial value of assets of $6.670 billion and an actuarial accrued liability of $10.606 billion at year-end 2008, the unfunded actuarial accrued liability for MEABF was $3.936 billion. The funding ratio based on the market value of assets of $4.740 billion for year-end 2008 was 44.7 percent.

Benefit payments are projected to continue to rise mainly due to benefit enhancements passed by the Illinois legislature over the past fifteen years. While benefits are safe in the near-term currently, MEABF will not have enough assets over the long-term to provide benefits already earned. Addressing the long-term funding shortfall is critical.

In early 2008, Mayor Richard M. Daley appointed a "Commission to Strengthen Chicago's Pension Funds". The pension commission is composed of union and city officials, pension fund representatives and representatives from local businesses and civic organizations. The commission was assigned to study and make specific recommendations to strengthen the financial health of the City's four pension funds. The City is working together with unions on issues such as healthcare, pension reforms and to identify new efficiencies and implement economies that control and contain the rising healthcare and pension costs.

More detailed analysis on the funding status of MEABF is located in the Actuarial Section of this report. Historical information relating to funding progress is presented in the Required Supplementary Information – Schedule of Funding Progress in the Financial Section and the detailed discussion of actuarial valuation results is located in the Actuarial Section of this report.

Major Issues and Initiatives

Investments: The Retirement Board took the following actions in accordance with their investment policy:

- At the end of the first quarter of 2008, the Board negotiated a five-year contract with Marquette Associates, headquartered in Chicago, Illinois, for investment consulting services.
- The Board contracted with Altura Capital, a Latino female-owned firm, for access to its emerging manager database.
- The following investments were consummated by the Retirement Board:
  - Real Estate and Private Equity
    - $50 million to Adams Street Partners, a Chicago-based private equity firm, of which $40 million was committed to Adams Street Direct/Partnership Fund and $10 million was committed to Adams Street Co-Investment Fund.
    - $10 million to Hispania Capital Partners, a Chicago-based, Latino-owned private equity firm for Hispania Capital Partners Fund II, with a focus on growth equity and buyout investments of firms that provide goods and services to the Latino community.
    - $10 million to Muller & Monroe, a Chicago-based, African American-owned private equity firm for its second fund, M2 Private Equity Fund of Funds. Commitment is in addition to $10M allocated to M2 Private Equity Fund of Funds in 2007.
    - $25 million to Levine Leichtman Capital Partners, a female-owned firm, for its structured equity fund, Levine Leichtman Capital Partners IV.
  - Domestic Equity
    - $750 million to RhumbLine Advisors, an African American-owned firm, to manage an S&P 500 Index fund.
  - Hedged Equity
    - $200 million to The Rock Creek Group, a female-owned firm, for its hedged equity fund of funds, The Georgetown Fund. Allocation was made to supplement the Fund's long-only equity position. Contract was finalized in January 2009.
    - $200 million to K2 Advisors for its hedged equity fund of funds, K2 Long Short Fund. Allocation was made to supplement the Fund's long-only equity positions. Contract was finalized in January 2009.
  - International Equity
    - $450 million to Northern Trust Global Investments, a Chicago-based firm, for its MSCI All Country World ex-US Net Return Index.
    - $300 million to Northern Trust Global Investments, a Chicago-based firm, for its MSCI World ex-US Small Cap Net Return Index.
  - Fixed Income
    - $50 million to Harris Investment Management, to manage a new allocation in high yield within the fixed income asset class. In contract discussions.
    - $50 million to MacKay Shields to manage a new allocation in high yield within the fixed income asset class. Contract finalized in February 2009.
    - $50 million to Voyageur Asset Management to manage a new allocation in opportunistic fixed income. In contract discussions.

- ➢ $300 million to LM Capital, a Latino-owned firm, to manage a core fixed income account. Contract finalized January 2009.

- ❑ The following investment accounts were terminated:
  - o Domestic Equity
    - ➢ NTGI S&P 500 Dividend Yield Tilt Index, a passively managed index account. The funds were transitioned to a large cap core index at RhumbLine Advisors.
    - ➢ Attucks Asset Management, an African American-owned firm, S&P 500 index account. The funds were transitioned to the NTGI international equity indices.
    - ➢ UBS Equity, a large cap core account. The funds were transitioned to the NTGI international equity indices.
    - ➢ ClearBridge Advisors, a large cap growth account. The funds were transitioned to the NTGI international equity indices.
    - ➢ Penn Capital, a small/mid cap core account. The funds were transitioned to the NTGI international equity indices.
    - ➢ NorthPointe Capital, a small cap growth account. The funds were transitioned to the NTGI international equity indices.
  - o International Equity
    - ➢ Two accounts with AllianceBernstein, an international equity account and an emerging markets account. The funds were transitioned to the NTGI international equity indices.
    - ➢ MFS Investment Management, an international equity account. The funds were transitioned to the NTGI international equity indices.
  - o Fixed Income
    - ➢ AllianceBernstein, a core plus fixed income account. The assets were transitioned to LM Capital.
    - ➢ Payden & Rygel, a core plus fixed income account. The majority of the proceeds were transitioned to United Investment Managers, an African American-owned firm, in its emerging manager of manager program.

Pension Benefit Administration System:

We continue to strive for excellence in serving our members, by providing accurate and timely information. We are committed to provide benefits for our members in a timely manner when they needed the most. With this in mind, we place a high priority on maintaining and upgrading our pension administration system. The Pension Benefit System (PBS), a project that began during the summer of 2007, is still in progress and projected to be completed in late 2009 or early 2010. The system will incorporate newer technologies in data management that will streamline our processes, preserve data integrity, and safeguard data. The totally integrated pension benefit system will provide the users with better technology solutions in the administration of benefit services in a much more user friendly, timely, and efficient process.

Benefit Overpayment Control Initiative:

To assure that pension benefits are paid to those currently entitled and to identify those no longer entitled, controls to prevent overpayment of retirement benefits are evaluated to ensure that they are operating effectively. In addition, direct deposit of pension payments requires even more diligence in preventing overpayments.

Prevention of overpayments depends on timely reporting of an annuitant’s death. When family members do not report a death, MEABF must rely on other methods of disclosure such as a death-match report service, investigation of returned direct deposit advices or checks, reviews of outstanding checks, and periodic signature verifications.

A signature verification project undertaken in late December 2007 was successfully completed in 2008. Ninety five percent of the annuitants submitted a properly executed verification form after the 1st and 2nd mailing. For those who did not respond, the benefit payments have been suspended until the form is received. This project involved many hours of hard work from staff, who diligently tracked down annuitants who did not respond to the mailings. At year-end, there were 26 out of 22,764 annuitants that staff could not verify signatures.

As a result of this project, staff determined approximately 100 benefit recipients needed to have someone with power of attorney for financial affairs; approximately 25 were granted waiver of guardianship, and a few deaths were disclosed. In instances of deaths, letters of collection were mailed, and recoveries have been generally successful. However, losses are inevitable when benefits are paid via direct deposit and deaths are not reported timely.

In order to get death information sooner, MEABF now sends a monthly file to a death-match service provider (in-lieu of an annual file) and receives reports of death notices weekly (in-lieu of monthly). Verification of pension recipients will be an annual endeavor and the process will be streamlined with the imaging of the annuitant files. Also in 2009, we will begin matching our annuitants to health insurance claims, and reviewing our direct deposit agreement for appropriate changes.

Document-Imaging Initiative:

The Imaging Project that was launched in June 2007 is on schedule. Approximately 71,300 files (1,216,028 archived documents) have been scanned and imaged. All membership records for active members have been converted to electronic files as of year-end 2008. Records of former members who had taken refunds of their contributions since 1996, have been imaged. Refund records prior to 1996 are stored on microfiche and will eventually be converted to imaged documents. The back-file conversion for the employee annuitants and survivor annuitants started in January 2009. Conversion of survivor annuitant records has a target completion of September 2009, and February 2010 for employee annuitant records.

Approximately 200 incoming documents are imaged daily. We are creating no new paper files and original documents are being shipped offsite for eventual shredding. Once imaged, documents are distributed to the appropriate departments for processing. The once formidable task of storing, accessing and preserving paper records has been replaced by a much more effective system that provides quicker access to information and greater security.

Website:

The MEABF website was launched in early 2008 completing Phase I of the project. We encourage our members to visit our website at http://www.meabf.org, to get answers to frequently asked questions, access publications (member handbook, financial reports, newsletters) and download forms such as a refund application, change of address, direct deposit agreement, among others. Members have also been using the website to send inquiries and requests for information. We have been able to reduce our printing costs because most publications are now posted on the website and can be easily downloaded. We see our website as a project in progress, as we continue to look for ways to improve the site to better serve our members. More enhanced web services will be in Phase II that will begin after the Pension Benefit System is completed.

Business Continuity:

Key staff members were assigned to work at the Disaster Recovery (DR) site for familiarization and productivity. Once Virtual Public Network (VPN) connection was opened at the DR site, data access was more instantaneous. Periodic staff assignments will commence early 2009.

Legislative Changes in MEABF Provisions – There were no legislative changes in MEABF provisions in 2008.

Internal Control, Accounting System and Reports

Management maintains appropriate accounting controls to safeguard assets and allow for the preparation of financial statements, supporting schedules and statistical tables.

The financial statements are prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP), and financial statements are also prepared in accordance with financial reporting standards set forth by the Governmental Accounting Standards Board (GASB).

Illinois state statutes mandates an annual audit of MEABF by a certified public accountant. The financial statements presented in this report have been audited by Bansley and Kiener, L.L.P., Certified Public Accountants, and they have issued an unqualified ("clean") opinion for calendar year ended December 31, 2008. The independent auditor's report is located at the front of the Financial Section of this report.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded MEABF a Certificate of Achievement for Excellence in Financial Reporting for its *Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended December 31, 2007. The Certificate of Achievement award is the highest form of recognition in the area of public employee retirement system accounting and financial reporting.

To qualify for the award, a government unit or agency 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. MEABF has received this prestigious award for each of the past nineteen years. We believe this report continues to meet the Certificate of Achievement program requirements and we are submitting it to the GFOA for consideration again this year.

Acknowledgements

This financial report is intended to provide complete and reliable information for making management decisions, determining compliance with applicable law, and evaluating responsible stewardship of MEABF assets held in trust for pension benefits. The report is available on the web at http://www.meabf.org/publications.php.

The preparation of this report is made possible by the dedicated services of the staff in Accounting, Investments, IT, Benefits and Support Services. Our sincere appreciation is extended to our staff members, Adetola Adenaya, Kelly Wietsma, Haeyoung Kim, Kathy Schanding, Maria Alanguilan, Jim Mohler, our consultants, and all those who have assisted in and contributed towards the completion of this report.

We extend our profound gratitude to the entire Retirement Board for their continuing leadership and support. We sincerely thank the entire staff who, on any given day, routinely respond to the needs of our members in a professional, timely and responsive manner. They are instrumental to the successful operations of MEABF.

Respectively submitted,

Terrance R. Stefanski	Teresita T. Toledo
Executive Director	Comptroller

The compilation of this Comprehensive Annual Financial Report is made possible by the dedicated teamwork of MEABF administrative staff under the leadership of the Board of Trustees and the Executive Director.

Left to right: Terrance R. Stefanski, Executive Director; Teresita Toledo, Comptroller; Stephen Gauthier, GFOA Technical Services Director; Adetola Adenaya, Assistant Comptroller; Kelly Wietsma, Investment Analyst; Kathy Schanding, Staff Actuary; Haeyoung Kim, Benefits Process/Projects Coordinator; James Mohler, Chief Investment Officer.

Global Distribution of 2008 Annuity Benefit Payments

State	Annuity Recipients	Annual Benefit Payments *	State	Annuity Recipients	Annual Benefit Payments *
Alabama	73	$ 1,470,542	New Hampshire	3	$ 40,310
Alaska	2	29,839	New Jersey	4	45,522
Arizona	279	6,901,233	New Mexico	22	542,955
Arkansas	77	1,695,363	New York	10	209,718
California	157	3,341,902	North Carolina	46	780,558
Colorado	31	715,752	North Dakota	1	46,267
Connecticut	7	121,851	Ohio	35	691,787
District of Columbia	3	85,604	Oklahoma	15	323,493
Florida	628	16,170,930	Oregon	11	177,035
Georgia	121	2,503,033	Pennsylvania	10	118,149
Hawaii	4	107,877	Rhode Island	2	37,814
Idaho	6	240,279	South Carolina	16	449,324
Illinois [1, 2]	19,634	490,752,305	South Dakota	2	63,283
Indiana	260	5,795,546	Tennessee	92	1,958,492
Iowa	15	329,832	Texas	136	2,811,691
Kansas	7	86,430	Utah	9	242,511
Kentucky	35	746,695	Vermont	1	42,476
Louisiana	38	798,358	Virginia	26	398,823
Maine	3	116,931	Washington	20	351,311
Maryland	15	246,918	West Virginia	3	67,768
Massachusetts	13	342,291	Wisconsin	217	4,772,180
Michigan	154	3,885,687	Wyoming	2	55,079
Minnesota	39	758,740	APO	1	22,907
Mississippi	125	2,662,656	Virgin Islands	1	58,538
Missouri	40	871,890	Puerto Rico	42	773,235
Montana	3	107,396	**Total – U.S.**	**22,696**	**545,536,903**
Nebraska	3	58,958	Outside U.S. [3]	34	655,069
Nevada	197	5,452,647	**Total**	**22,730**	**$546,191,972**

Note:

[1] – Of the 22,730 annuity recipients, 86% or 19,634 annuitants remain Illinois residents and 60% or 13,622 annuity recipients remain Chicago residents. Of the annuity recipients residing in Illinois, 91% or 17,820 annuity recipients remain in Cook county.

[2] – Pension benefit payments totaling $490.8 million went to Illinois residents, representing MEABF's impact on the state's economy. Illinois Cook county residents received $444.4 million in annual benefit payments, 78% of which or $345.7 million went to Chicago residents.

[3] – Of the 34 annuity recipients living outside the U.S., 17 or 50% live in European countries.

**** Annual payments were based on the December 2008 annuity payments multiplied by 12 months.***

County Distribution of 2008 Annuity Benefit Payments in the State of Illinois

County	Annuity Recipients	Annual Benefit Payments *	County	Annuity Recipients	Annual Benefit Payments *
Boone	26	$ 801,021	Marshall	4	91,466
Bureau	4	80,909	Mason	1	43,770
Carroll	3	66,497	Massac	2	66,801
Champaign	15	406,131	McDonough	1	449
Coles	1	51,654	McHenry	198	5,489,171
Cook	**17820**	**444,439,007**	McLean	6	100,687
DeKalb	14	238,850	Montgomery	2	36,151
DuPage	549	12,514,160	Morgan	1	13,708
Edgar	1	3,062	Moultrie	1	9,600
Effingham	1	9,600	Ogle	11	333,334
Fayette	1	9,600	Peoria	4	102,918
Franklin	2	44,558	Perry	1	13,708
Fulton	1	53,716	Piatt	1	13,105
Grundy	20	624,090	Pope	1	9,600
Henry	2	70,651	Pulaski	2	29,772
Iroquois	9	405,965	Putnam	4	93,197
Jackson	3	89,162	Rock Island	4	55,619
Jo Daviess	13	389,154	Saline	4	46,616
Johnson	2	57,495	Sangamon	14	352,829
Kane	129	3,264,786	Shelby	2	68,667
Kankakee	37	974,773	St. Clair	3	49,584
Kendall	18	637,266	Stephenson	8	207,699
Knox	2	23,308	Vermilion	4	120,476
LaSalle	8	229,324	Warren	1	13,708
Lake	212	5,237,363	Wayne	1	43,844
Lee	5	155,285	Whiteside	5	86,277
Livingston	1	35,614	Will	404	11,544,819
Logan	1	57,476	Williamson	10	249,104
Macon	2	35,089	Winnebago	23	354,960
Macoupin	2	23,632	Woodford	1	13,308
Madison	5	56,767			
Marion	1	11,393	Total	**19,634**	**$ 490,752,305**

** Annual payments were based on the December , 2008 annuity payments multiplied by 12 months.*

Financial

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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 Municipal Employees' Annuity & Benefit Fund of Chicago (the Plan), a Component Unit of the City of Chicago, as of December 31, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform 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, 2008 and 2007, 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 made 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 professional 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. 50 *Pension Disclosures* during the year ended December 31, 2008. The Plan adopted Governmental Accounting Standards Board Statement No. 45 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions,* during the year ended December 31, 2007.

Bansley and Kiener, L.L.P.

Certified Public Accountants

April 13, 2009

Management's Discussion and Analysis as of December 31, 2008

This Management Discussion and Analysis (MD&A) of the Municipal Employees' Annuity and Benefit Fund of Chicago (MEABF or the Plan) provides an overview of the financial activities of MEABF for the year ended December 31, 2008. It serves as an introduction to the financial statements which begin on page 26. Readers are encouraged to read it in conjunction with the basic financial statements, notes to financial statements, required supplementary and additional information to better understand the financial condition and performance of MEABF during the year ended December 31, 2008.

Financial Highlights

- MEABF's investment portfolio returned –27.9 percent for 2008 calendar year, significantly below the 8.0 percent actuarial assumed investment rate of return, and compared to a 7.8 percent return in 2007 and 12.9 percent in 2006.

- MEABF net assets held in trust reported in the Statement of Plan Net Assets total $4,739.6 million, a decrease of $2,269.9 million or 32.4 percent from the prior year.

- Total additions as reported in the Statement of Changes in Plan Net Assets indicate a negative $1,654.0 million**,** mainly attributable to the net depreciation in the fair value of investments. Total additions decreased by -$2,419.5 million or –316.1 percent from the prior year.

- Total deductions as reported in the Statement of Changes in Plan Net Assets total $615.9 million, a slight increase of $18.8 million or 3.1 percent from the prior year, due to scheduled benefit increases.

- As of the December 31, 2008 actuarial valuation, MEABF's total Unfunded Actuarial Accrued Liability (UAAL) for both pension plan and post-employment healthcare supplement increased to $3,936.3 million in 2008 from $3,296.2 million in the prior year. The increase in the unfunded actuarial liability is mainly due to large reductions in investment values and shortfalls in contributions relative to the actuarially determined contribution requirement.

- The net annual required contribution (ARC) for pension benefits only under Governmental Accounting Standards Board (GASB) Statement #25 for 2008 was $360.4 million, and the employer contributed 40.7 percent or $146.8 million in 2008. A calculation of a separate ARC for post-employment healthcare supplement is mandated by GASB #43 beginning in fiscal year 2006. The ARC for post-employment healthcare supplement for 2008 was $23.8 million, and the employer contributed 37.8 percent or $9.0 million in 2008.

- On an actuarial value of assets basis, which smoothes gains and losses over a five-year period, the funding ratio for defined pension and post-employment healthcare supplement decreased to 62.9 percent in 2008 from 67.6 percent in 2007 and 67.2 percent in 2006.

Financial Analysis

Table 1 and 2 below provide condensed financial data extracted from the basic financial statements for current fiscal year and the two prior years.

Plan Net Assets ($ in millions)

(As of December 31, 2008, 2007 and 2006)

Table 1

	2008	2007	2006	Increase (Decrease) From 2007 to 2008 $ Change	% Change
Cash, receivables and other assets	$ 234.6	$ 281.0	$ 273.0	$ (46.4)	-16.5%
Investments, at fair value	4,673.5	6,900.0	6,797.0	(2,226.5)	-32.3%
Invested securities lending collateral	543.2	1,037.2	922.8	(494.0)	-47.6%
Total assets	5,451.3	8,218.2	7,992.8	(2,766.9)	-33.7%
Liabilities	711.7	1,208.7	1,151.7	(497.0)	-41.1%
Total plan net assets	$ 4,739.6	$ 7,009.5	$ 6,841.1	$ (2,269.9)	-32.4%

Plan net assets

The net assets held in trust for pension benefits as of December 31, 2008 declined substantially, dropping to $4,739.6 million from $7,009.5 million in 2007 and $6,841.1 in 2006. The decrease of -$2,269.9 million or –32.4 percent was largely due to steep declines in the fair value of investments resulting from the turmoil in the global financial markets and continued shortfalls in contributions relative to the actuarially determined contribution requirement. The value of securities on loan, shown both as assets liabilities at year-end declined to $543.2 million from $1,037.2 million in 2007 and $922.8 million in 2006.

Additions and Deductions to Plan Net Assets ($ in millions)

(Years ended December 31, 2008, 2007 and 2006)

Table 2

	2008	2007	2006	Increase (Decrease) From 2007 to 2008 $ Change	% Change
Additions:					
Employer contributions	$ 155.8	$ 148.1	$ 157.0	$ 7.7	5.2%
Member contributions	137.7	132.5	129.5	5.2	3.9%
Total contributions	293.5	280.6	286.5	12.9	4.6%
Net investment income (loss)	(1,900.1)	483.8	775.0	(2,383.9)	-492.7%
Net security lending income (loss)	(47.4)	1.1	2.9	(48.5)	-4409.1%
Total additions	(1,654.0)	765.5	1,064.4	(2,419.5)	-316.1%
Annuity and disability benefits	573.7	554.0	538.7	19.7	3.6%
Healthcare subsidy for City and BE retirees	9.0	8.5	8.7	0.5	5.9%
Refunds of contributions	25.5	28.0	27.2	(2.5)	-8.9%
Administrative expense	7.7	6.6	5.6	1.1	16.7%
Total deductions	615.9	597.1	580.2	18.8	3.1%
Net increase (decrease)	(2,269.9)	168.4	484.2	(2,438.3)	-1447.9%
Net assets at beginning of year	7,009.5	6,841.1	6,356.9	168.4	2.5%
Ending net assets	$ 4,739.6	$ 7,009.5	$ 6,841.1	$ (2,269.9)	-32.4%

Changes in Plan Net Assets

Employer contributions increased to $155.8 million from $148.1 million in 2007 but was slightly lower than the employer contributions of $157.0 million in 2006. Employer contributions are statutorily set at 1.25 times the employee contribution level in the second prior fiscal year. Primarily attributable to permissive service credit purchases, member contributions slightly increased to $137.7 million from $132.5 million in 2007 and $129.5 million in 2006.

Investments posted –27.9 percent return in 2008 compared to 7.8 percent return in 2007 and 12.9 percent in 2006. Due to the turmoil in the investment market and the global economy, the value of invested assets plunged in 2008 by -$1,900.1 million in 2008 compared with growth of $483.8 million in 2007 and $775.0 million in 2006. Securities lending activities reflected a loss of -$47.4 million in for 2008 compared to a gain of $1.1 million in 2007 and $2.9 million in 2006. The net loss in 2008 reflects the effects of mark to market accounting practiced by the custodian. The underlying assets have not realized a loss and the custodian believes that the will return full principal and interest and time of maturity.

Annuity and disability benefits increased by 3.6% to $573.7million in 2008, from $554.0 million in 2007 and $538.7 million in 2006 primarily due to annual cost of living increases for annuities. The healthcare subsidy for City and Board of Education retirees was increased by $10 a month for each annuitant effective July 1, 2008 increasing the total for 2008 by 5.9 percent to $9.0 million, compared to $8.5 million in 2007 and $8.7 million in 2006. Refunds of contributions decreased to $25.5 million in 2008 from $28.0 million in 2007 and $27.2 million in 2006 due to a decrease in refund applications. Refunds of contributions are expected to rise in early 2009 due to the termination in late December 2008 of about 355 City of Chicago employees.

Administrative expenses increased to $7.7 million from $6.6 million in 2007 and $5.6 million in 2006. The increase is due to the acceleration of depreciation expense on a pension administration system that will be retired from service in 2009, and slight increases in personal services, employee benefits, consulting services and rental expense. Under the terms of the 3rd amendment to the lease agreement, office rental expense increased by about 5%.

Securities Lending

The credit crunch intensified in 2008 triggering significant declines in the valuation of fixed income instruments, specifically in regards to financial sector companies. MEABF's custodian is utilized for securities lending services and is authorized by contract to invest the collateral received on loaned securities in approved commingled short-term investment funds. Some of the holdings within these short-term funds were affected by the credit crunch, reducing valuations. The investments within these funds are "marked to market" on a daily basis, which triggered negative securities lending income during certain months of the year. The master custodian has allowed its clients the ability to carry forward the negative balances and recoup the negative earnings in succeeding months as positive income is generated. The custodian believes that securities lending income should rebound from its negative earnings as holdings affected by the credit crunch come closer to their dates of maturity. As of December 31, 2008, the Plan's carry forward balance was -$47.4 million.

Summary of Investment at December 31 ($ in millions)

	2008	2007	2006	Increase (Decrease) 2007 to 2008 $ Change	% Change
Bonds	$ 1,360.4	$ 1,718.2	$ 1,701.0	$ (357.8)	-20.8%
Domestic Equity	1,814.0	3,554.6	3,588.8	(1,740.6)	-49.0%
International Equity	722.5	900.2	868.0	(177.7)	-19.7%
Real Estate	318.4	330.5	288.0	(12.1)	-3.7%
Private Equity	131.2	120.5	105.7	10.7	8.9%
Short-Term Investments	327.0	276.0	245.5	51.0	18.5%
	$ 4,673.5	$ 6,900.0	$ 6,797.0	$ (2,226.5)	-32.3%

Due to the economic downturn and the withdrawal of funds to pay monthly benefits, the MEABF's investment portfolio decreased by $2,226.5 million in 2008, closing the year at $4,673.5 million compared to $6,900.0 million in 2007 and $6,797.0 million in 2006. The domestic equity portfolio, which decreased by $1,740.6 million in 2008, reflected the largest decrease in value for the year and included $175.0 million in withdrawals to pay benefits. Despite an increased allocation to international equity, the international portfolio decreased by $177.7 million because of the downturn in the global markets. Fixed income decreased by $357.8 million primarily due to the withdrawal of $195.0 million to pay benefits and unrealized market losses. Real estate exposure reduced slightly mainly due to property values beginning to reflect declines. Funds needed to meet monthly cash flow requirements are drawn from allocations in the portfolio that are over the Plan's targets at the time the funds are needed for operations.

Economic Factors and Rates of Return

The U.S. economy officially entered into a recessionary period in December 2007. As the deep downturn continued through 2008, U.S. and global markets were negatively impacted by a deteriorating housing market, growing unemployment, and liquidity concerns in the credit markets. While there was no safe haven for investors in 2008, some markets fared better than others. Fixed income investments, as represented by the Barclays Capital U.S. Aggregate Bond index, produced a positive return in 2008 of 5.2%. The 90-Day Treasury Bill returned 1.6 percent for the year. Most other markets suffered declines. Domestically, the S&P 500 and Russell 2000 returned –37.0 percent and –33.8 percent, respectively. Globally, the MSCI EAFE (Europe, Australasia, and Far East) index and MSCI Emerging Markets index returned –43.1 percent and –53.2 percent, respectively. While real estate produced a return of –6.5 percent for the year, as represented by the NCREIF index, investors in this asset class may have not seen the worst yet. NCREIF returns for 2009 are expected to fall due to property appraisals that should reflect declines in property values. For the last two years, the return on the MEABF's investments failed to meet or exceed the actuarial assumed return of 8.0 percent.

Stock Market Volatility

The economic downturn that reduced the value of MEABF assets in 2008 continued its downward spiral in the first quarter of 2009. For the first two months of 2009, major market indices of domestic and international stocks were down roughly 20%. The Plan, which allocates a portion of the investment portfolio to the equity markets, was down by roughly 9% over the same time period. At the time of distribution of this report, the equity markets had rebounded somewhat, gaining back roughly thirty to fifty percent of the valuation reduction incurred in the first two months of 2009.

Funding Status

The funded status of MEABF is measured by a comparison of MEABF's actuarial liabilities to assets expressed as either unfunded liability or as a ratio of assets to liabilities. Actuarial liabilities represent the present value of future benefit payments to retirees and beneficiaries currently receiving payments and the value of future payments for active employees who will receive benefits in the future, calculated based on actuarial assumptions. MEABF assets can be measured at market value, book value or some variation to smooth the fluctuations that occur from year to year. One method of valuing assets is the Actuarial Value of Assets, a method used by the MEABF's independent actuary in performing their annual valuation of MEABF. This measurement smoothes actuarial gains and losses over a period of time and volatile market conditions are recognized over several years. The amount by which the value of future benefit payments for active and retired lives (actuarial liabilities) exceeds the actuarial values of assets is called the "Unfunded Actuarial Accrued Liability", which can be thought of as the amount of assets that will be needed in future years to provide for all future benefit obligations.

MEABF's independent actuary, Gabriel Roeder Smith & Company, performed an actuarial valuation as of December 31, 2008. Based on this latest actuarial valuation, MEABF's actuarial value of liabilities for defined pension benefits was $10,383.2 million and actuarial value of assets was $6,669.5 million, and unfunded actuarial liability of $3,713.7 million and a funded ratio of 64.2 percent, a decrease from 69.1 percent in 2007 and 68.7 percent in 2006.

Post-employment Healthcare. The Governmental Accounting Standards Board (GASB) issued Statement #43 requiring the Plan to estimate its liability for post-employment health insurance supplement beginning with fiscal year 2006. For 2008, MEABF's estimated liability for future post-employment health insurance supplement for City and Board of Education retirees increased to $222.7 million from $217.9 million in 2007 and $216.2 million in 2006. MEABF does not set aside assets to fund this post-employment health insurance supplement benefits. It is funded on a pay-as-you go basis and this benefit is set to expire in June 30, 2013.

Funding Status (continued)

For both defined pension benefits and post-employment health insurance supplement, the Unfunded Accrued Actuarial Liability (UAAL) increased to $3,936.3 million in 2008, from $3,296.2 million in 2007 and $3,183.2 in 2006, resulting in a decrease in the funding ratio to 62.9 percent in 2008 from 67.6 percent in 2007 and 67.2 percent in 2006. The increase in the UAAL is largely attributable to reductions in the value of investments and a shortfall in contributions relative to the actuarially determined contribution requirement. Based on the actuarial smoothing techniques, the Plan has a -$1,929.9 million unrealized loss yet to recognize over the next four years.

State law sets employer and member contribution rates. Members are required to contribute 8.5 percent of their salary. The employer is required to contribute the remaining amount necessary to finance the Plan's funding requirements. However, the state law constrains the employer contribution to be 1.25 times the employee contributions level in the second prior fiscal year. The most recent actuarial valuation of MEABF on the State reporting basis shows a ratio of 3.33 is needed to adequately finance the Plan.

Request for Information

Additional information is available upon request. Please direct your request to Mr. Terrance R. Stefanski, Executive Director, Municipal Employees' Annuity and Benefit Fund of Chicago, 221 N. LaSalle Street, Suite 500, Chicago, IL 60601.

Statement of Plan Net Assets

As of December 31, 2008

	Pension	Postemployment Healthcare	Total
ASSETS			
Cash and cash equivalents	$ 1,622,524	$ -	$ 1,622,524
Receivables			
Contributions from City of Chicago, net of allowance for $15,514,130	159,465,741	-	159,465,741
Member contributions	8,131,701	-	8,131,701
Interests and dividends	15,804,728	-	15,804,728
Receivables for investments sold	46,807,079	-	46,807,079
Miscellaneous	105,546	-	105,546
Total Receivables	230,314,795	-	230,314,795
Investments, at fair value			
Bonds	1,360,360,660	-	1,360,360,660
Common and preferred stock	2,536,520,980	-	2,536,520,980
Real Estate	318,413,913	-	318,413,913
Other Investments	131,241,134	-	131,241,134
Short-Term Investments	327,011,431	-	327,011,431
Total Investments	4,673,548,118	-	4,673,548,118
Invested securities lending collateral	543,248,530	-	543,248,530
Property and Equipment, net of accumulated depreciation and amortization of $4,050,800	2,636,126	-	2,636,126
Total Assets	5,451,370,093	-	5,451,370,093
LIABILITIES			
Payables for Investments purchased	115,131,467	-	115,131,467
Accounts payable and accrued expenses	5,048,366	-	5,048,366
Securities lending collateral	543,248,530	-	543,248,530
Securities lending earnings shortfall	47,373,895	-	47,373,895
OPEB liability	-	954,080	954,080
Total Liabilities	710,802,258	954,080	711,756,338
Net Assets held in trust for Pension benefits (A schedule of funding progress is presented on page 47)	$ 4,740,567,835	$ (954,080)	$ 4,739,613,755

The accompanying notes are part of the financial statements.

Statement of Plan Net Assets

As of December 31, 2007

	Pension	Postemployment Healthcare	Total
ASSETS			
Cash and cash equivalents	$ 1,604,187	$ -	$ 1,604,187
Receivables			
Contributions from City of Chicago, net of allowance for $14,304,348	160,360,812	-	160,360,812
Employee contributions for early retirement	205	-	205
Member contributions	10,528,434	-	10,528,434
Interests and dividends	17,722,472	-	17,722,472
Receivables for investments sold	87,322,078	-	87,322,078
Miscellaneous	43,768	-	43,768
Total Receivables	275,977,769	-	275,977,769
Investments, at fair value			
Bonds	1,718,198,492	-	1,718,198,492
Common and preferred stock	4,454,812,607	-	4,454,812,607
Real Estate	330,533,414	-	330,533,414
Other Investments	120,482,749	-	120,482,749
Short-Term Investments	275,979,001	-	275,979,001
Total Investments	6,900,006,263	-	6,900,006,263
Invested securities lending collateral	1,037,232,545	-	1,037,232,545
Property and equipment, net of accumulated depreciation and amortization of $2,413,971	3,380,530	-	3,380,530
Total Assets	8,218,201,293	-	8,218,201,293
LIABILITIES			
Payables for Investments purchased	163,051,059	-	163,051,059
Accounts payable and accrued expenses	7,910,156	-	7,910,156
Securities lending collateral	1,037,232,545	-	1,037,232,545
MEAB Staff OPEB liability	-	483,590	483,590
Total Liabilities	1,208,193,760	483,590	1,208,677,350
Net Assets held in trust for Pension benefits (A schedule of funding progress is presented on page 47)	$ 7,010,007,533	$ (483,590)	$ 7,009,523,943

The accompanying notes are part of the financial statements.

Statement of Changes in Plan Net Assets

Year ended December 31, 2008

	Pension	Postemployment Healthcare	Total
ADDITIONS			
Employer contributions	$ 146,803,250	$ 9,029,362	$ 155,832,612
Member contributions	137,748,907	-	137,748,907
Total contributions	284,552,157	9,029,362	293,581,519
Investment Income			
Net appreciation (depreciation) in fair value of investments	(2,051,463,604)	-	(2,051,463,604)
Interest	82,924,822	-	82,924,822
Dividends	81,008,326	-	81,008,326
Income from real estate investments	9,720,357	-	9,720,357
Other income (loss)	7,443	-	7,443
	(1,877,802,656)	-	(1,877,802,656)
Less: Direct investment expenses	22,388,147	-	22,388,147
Net income from investing activities	(1,900,190,803)	-	(1,900,190,803)
Security lending activities			
Securities lending income (loss)	(16,277,657)	-	(16,277,657)
Borrower rebates	(20,280,107)	-	(20,280,107)
Bank fees	(10,827,367)	-	(10,827,367)
Net income from securities lending activities	(47,385,132)	-	(47,385,132)
Total additions	(1,663,023,778)	9,029,362	(1,653,994,416)
DEDUCTIONS			
Benefits			
Annuity benefits	561,947,108	-	561,947,108
Disability benefits	11,687,603	-	11,687,603
Postemployment healthcare subsidy for City & BE	-	9,029,362	9,029,362
Total benefits	573,634,711	9,029,362	582,664,073
Refunds of member contributions	25,501,985	-	25,501,985
Administrative and OPEB expenses	7,279,224	470,490	7,749,714
Total deductions	606,415,920	9,499,852	615,915,772
Net increase (decrease)	(2,269,439,698)	(470,490)	(2,269,910,188)
Net Assets held in trust for Pension benefits			
Beginning of year	7,010,007,533	(483,590)	7,009,523,943
End of year	$ 4,740,567,835	$ (954,080)	$ 4,739,613,755

The accompanying notes are part of the financial statements.

Statement of Changes in Plan Net Assets

Year ended December 31, 2007

	Pension	Postemployment Healthcare	Total
ADDITIONS			
Employer contributions	$ 139,606,140	$ 8,530,910	$ 148,137,050
Member contributions	132,442,200	-	132,442,200
Total contributions	272,048,340	8,530,910	280,579,250
Investment Income			
Net appreciation (depreciation) in fair value of investments	339,013,557.00	-	339,013,557
Interest	79,407,999.00	-	79,407,999
Dividends	82,402,518	-	82,402,518
Income from real estate investments	9,935,868	-	9,935,868
	510,759,942	-	510,759,942
Less: Direct investment expenses	26,880,530	-	26,880,530
Net income from investing activities	483,879,412	-	483,879,412
Security lending activities			
Securities lending income (loss)	55,763,678	-	55,763,678
Borrower rebates	(53,471,114)	-	(53,471,114)
Bank fees	(1,212,382)	-	(1,212,382)
Net income from securities lending activities	1,080,182	-	1,080,182
Total additions	757,007,935	8,530,910	765,538,845
DEDUCTIONS			
Benefits			
Annuity benefits	543,411,793	-	543,411,793
Disability benefits	10,624,807	-	10,624,807
Postemployment healthcare subsidy for City & BE	-	8,530,910	8,530,910
Total benefits	554,036,600	8,530,910	562,567,510
Refunds of member contributions	28,009,512	-	28,009,512
Administrative and OPEB expenses	6,082,154	483,590	6,565,744
Total deductions	588,128,266	9,014,500	597,142,766
Net increase (decrease)	168,879,669	(483,590)	168,396,079
Net Assets held in trust for Pension benefits			
Beginning of year	6,841,127,865	-	6,841,127,865
End of year	$ 7,010,007,534	$ (483,590)	$ 7,009,523,944

The accompanying notes are part of the 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

2. Fiscal dependency on the primary government.

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

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized 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.

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.

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, 2008 and 2007 is as follows:

	2008	2007
Pension administration system	$4,997,988	$4,997,988
Furniture	50,660	55,052
Equipment	31,707	32,615
Computers	572,335	281,811
Leasehold improvements	53,663	135,696
	5,706,353	5,503,162
Less accumulated depreciation and amortization	4,050,800	2,413,971
	1,655,553	3,089,191
Construction in progress	980,573	291,339
Net property and equipment	$2,636,126	$3,380,530

During 2008, the estimated useful life of the Pension Administration System was reduced due to the planned retirement of the system in 2009. This change had the effect of decreasing net assets held in trust for pension benefits as of December 31, 2008 by $717,250.

Construction in progress for the new Pension Benefit System (PBS) is near completion. The new system will be placed in service by the 2nd quarter of 2009 replacing the Pension Administration System that is being retired from service. Estimated cost of the PBS is approximately $1,200,000.

Administrative Expenses

Administrative expenses are budgeted and approved by the Plan's Board of Trustees. Funding for these expenses is included in the employer contributions as mandated in the Illinois State Statutes Chapter 40, Pension Article 5/8-190.

Pension Disclosures

During the year ended December 31, 2008, the Plan adopted Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*. As a result, the Plan has addressed certain pension disclosures.

Note 1 – Summary of Significant Accounting Policies (Continued)

Other Post employment Benefits

During the year ended December 31, 2007, the Plan adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the Plan has addressed the accounting and disclosures related to other postemployment benefits.

Reclassification

Certain reclassifications have been made in the prior year financial statements to conform with current year presentation.

Note 2 – Description of Pension and Health Insurance Plans

Pension Plan

General

Municipal Employees' Annuity and Benefit Fund of Chicago (MEABF, or the Plan) is the administrator of a single employer defined benefit plan that was established in 1921 to provide retirement annuities and disability benefits for covered employees and for survivors and other beneficiaries of such employees. The Plan is administered under Chapter 40, Act 5, Article 8 of the Illinois Compiled Statutes, the Plan. Benefit and contribution provisions are established by the Statutes and may be amended only by the Illinois state legislature. The Retirement Board, comprised of two ex-officio members (the City Comptroller and the City Treasurer) and three elected members, is authorized to carry out the provisions of Chapter 40, Act 5, Article 8 of the Illinois Compiled Statutes. The Retirement Board appoints the executive director, an actuary, an auditor, consultants and employees necessary for the transaction of business. The Retirement Board meets monthly and receives no compensation, but is reimbursed for necessary expenses. The Plan is included in the City of Chicago's financial reports as a component unit.

Membership

Any employee of the City of Chicago or the Board of Education employed under the provisions of the municipal personnel ordinance except for policemen, firemen, teachers, and except those classified by the municipal personnel ordinance as labor service or 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 is also covered by the Plan. The payroll for employees covered by the Plan for the years ended December 31, 2008 and 2007 were $1,543,976,553 and $1,564,458,835, respectively. Plan membership at December 31 is as follows:

	2008	2007
Active employees (includes members currently receiving disability benefits):		
Vested	16,301	16,117
Non-vested	16,262	18,768
	32,563	34,885
Retirees and beneficiaries currently receiving benefits	22,730	22,789
Terminated employees entitled to benefits but not yet receiving them	1,802	1,198
Terminated employees entitled to a refund of contributions	10,280	7,907
Total	67,375	66,779

Note 2 – Description of Pension and Health Insurance Plans (Continued)

Benefit Provisions

Refunds of Employee Contributions

If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest at 3% per annum, subject to certain exceptions. Certain disability pension credits are not refundable.

Employee Pension

Employees age 55 or more with at least 10 years of service are entitled to receive a money purchase annuity with partial City contributions if under age 60 with less than 20 years of service. Employees age 60 or more with at least 10 years of service or 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. An employee with at least 10, 20, or 30 years of service can withdraw and receive a minimum annuity formula at 60, 55, or 50, respectively. The original annuity is limited to 80% of the highest average annual salary, adjusted for annual Internal Revenue Code (IRC) §401(a) (17) and §415 limitations. 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.

Post-Retirement Increase

The monthly annuity is increased annually by 3% 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, or
2) the later of the first anniversary of retirement and age 60.

Surviving Spouse Pension

Upon the death of an employee, the surviving spouse meeting certain eligibility requirements, is entitled to a spouse annuity. There are three basic methods ("money purchase method", "minimum formula annuity method" or the "minimum annuity method") used to determine the amount of spouse's annuity for an ordinary death (not duty-related death). The surviving spouse is entitled to the largest benefit but cannot exceed an amount equal to 50% of the highest salary earned by the employee.

Child Annuity

Annuities are provided for unmarried children of a deceased employee who are under the age of 18, if the child was conceived or born before withdrawal from service. The employee's death must occur while the employee is in service or in receipt of an annuity. The child's annuity is an amount equal to $220 a month when there is a surviving spouse and $250 when there is no surviving spouse, subject to maximum limitations.

Note 2 – Description of Pension and Health Insurance Plans (Continued)

Ordinary Disability

An employee who becomes disabled as the result of any cause other than an accidental injury incurred while in the performance of an act of duty is entitled to an ordinary disability benefit at the amount equal to 50% of the employee's annual salary at the time of disablement. An employee can receive ordinary disability for a period equal to one fourth of his service credits up to a maximum of 5 years.

Duty Disability

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

Funding Policy

The funding objective is to meet all expected future obligations to its participants through its Plan assets and contributions from employee and employer. Member and employer contribution rates are established by state law and may be amended only by the Illinois state legislature.

Member Contributions

Active members are required to contribute to the Plan 8.5% of their salary (6.5% to provide employee annuity, 1.5% to provide a surviving spouse annuity and .5% to provide post-retirement increases in annuity) in accordance with the statutes. The employer deducts or picks up the employee's contributions before federal income tax is withheld and remits the contributions collected to the Plan. Member contributions earn interest at the rate of 3% per annum and are refundable. Employees receiving ordinary or duty disability benefits are credited with 8.5% of salary for pension purposes just as though the employee were working but these credits are not refundable.

Employer Contributions

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. Annual required contribution (ARC) rates are determined using the entry age normal actuarial funding method. The Plan uses the level dollar open method to amortize the unfunded liability over a thirty year period. The actuarial valuation of the Plan shows that a ratio of 3.33 is needed to adequately finance the Plan. The statutory employer contributions have been less than the ARC for the past six years. Contribution rates may be increased only by an amendment by the State legislature to the statues.

Note 2 – Description of Pension and Health Insurance Plans (Continued)

Funding Status and Funding Progress – Pension Plan

The following table shows the funded status and funding progress as of December 31 2008, the most recent actuarial valuation:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b–a)/c)
$6,669,501,770	$10,383,157,695	$3,713,655,925	64.2%	$1,543,976,553	240.5%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Additional information as of the latest actuarial valuations follows:

Valuation Date	December 31, 2008
Actuarial Cost Method	Entry Age Normal
Actuarial Value of Assets	5-year smoothed market
Amortization Method	Level dollar open
Amortization Period	30 years
Actuarial Assumptions:	
Pension Investment Rate of Return	8.0 percent per year
Projected Base Salary Increases	4.5 percent per year
Includes inflation at	3.0 percent per year
Post Retirement Benefit Increases	3.0 percent per year beginning in January of the first payment date following the earlier of 1) the later of the 3rd anniversary of retirement and age 53, or 2) the later of the 1st anniversary of retirement and age 60.

Post-employment Healthcare Subsidy – City of Chicago and Board of Education Retirees

MEAB and the City of Chicago agreed to share in the cost of the Settlement Health Care Plan, a single employer defined benefit plan for city retirees administered by the City of Chicago. This agreement is in effect through June 30, 2013 and does not require an extension or continuation of the health care plan. In accordance with the provisions of Illinois Compiled Statutes (ILCS) Chapter 40, Act 5, Article 8, Section 164.1 and Section 164.2, the Pension Plan is required to subsidize the healthcare costs of its annuitants participating in health care plans sponsored by the City of Chicago or the Board of Education.

Note 2 – Description of Pension and Health Insurance Plans (Continued)

The supplemental benefit payments are remitted monthly to the City of Chicago or the insurance carrier designated by the Board of Education in the following amounts:

1. From July 1, 2003 through June 30, 2008, $85 per month for each such annuitant who is not eligible to receive Medicare benefits and $55 per month for each such annuitant who is eligible to receive Medicare benefits.

2. From July 1, 2008 through June 30, 2013, $95 per month for each such annuitant who is not eligible to receive Medicare benefits and $65 per month for each such annuitant who is eligible to receive Medicare benefits.

The payments described above are funded on a pay-as-you-go basis by the tax levy authorized under Section 8-173.

As of December 31, 2008, there are 9,167 (9,231 as of December 31, 2007) City annuitants enrolled in the City's health care plan and 1,913 (1,913 as of December 31, 2007) Board of Education annuitants enrolled in the Board of Education retiree health care plan receiving this subsidy benefit.

The annual required contribution represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over thirty years. The estimated City contribution represents the expected benefit payments for the health insurance supplement. In 2008 and 2007, the Pension Plan received contributions of $9,029,362 and $8,530,910 and remitted contributions of $9,029,362 and $8,530,910, respectively.

Funding Status and Funding Progress – Post-employment Healthcare Subsidy for City of Chicago and Board of Education Retirees

The following table shows the funded status and funding progress as of December 31, 2008, the most recent actuarial valuation:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
N/A	$222,691,036	$222,691,036	0.0%	$1,543,976,553	14.4%

Note 2 – Description of Pension and Health Insurance Plans (Continued)

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 2008
Actuarial Cost Method	Entry Age Normal
Actuarial Value of Assets	No Assets (Pay-as-you-go)
Amortization Method	Level dollar open
Remaining Amortization Period	30 years
Actuarial Assumptions:	
OPEB Investment Rate of Return	4.5 percent per year
Projected Base Salary Increases	4.5 percent per year
Includes inflation at	3.0 percent per year
Healthcare Cost Trend Rate	0.0 percent (Trend not applicable – Fixed dollar subsidy)

Post employment Healthcare Benefits – MEABF as Employer

Staff members or employees of the Municipal Employees' Annuity and Benefit Fund of Chicago are contributing members of the Plan. When the staff members of the Plan eventually retire, if eligible, pension benefits are provided under the provisions of the Illinois Compiled Statutes (ILCS) Chapter 5, Article 8. Retired staff members of the Plan are not eligible to participate in the City of Chicago group health plan nor the Board of Education group health plan; hence not eligible to receive health insurance subsidy, a post-employment benefit other than pension (OPEB) under the ILCS Chapter 5, Art. 8.

MEABF, as an employer, provides health insurance coverage for its retired staff members, or survivors of former staff members and eligible dependents receiving an annuity under a healthcare plan. The MEABF Staff Retiree Healthcare Plan is separate from the Settlement Health Care Plan administered by the City of Chicago and the group health insurance plan administered by the Board of Education for its retirees.

Funding

Post-employment healthcare benefits are funded on a pay-as-you-go basis. No assets are accumulated to pre-fund the healthcare benefits. MEABF and the annuitant share the total cost of the Staff Retiree Healthcare. For 2008 and 2007, MEABF as employer contributed $96,670 and $53,810 respectively. The healthcare premium rates paid by the retirees are the same rates as those paid by the City of Chicago retirees. Retirees may elect dental and vision coverage on a self-paid basis.

Note 2 – Description of Pension and Health Insurance Plans (Continued)

Annual OPEB Cost and Net OPEB Obligation – MEABF Staff Retiree Healthcare

The OPEB cost for the staff retiree healthcare benefits is calculated based on the annual required contribution of the Plan as employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The components of the Plan's annual OPEB cost for the staff retiree healthcare benefits are shown in the following table:

	2008	2007
Annual OPEB Cost		
Annual Required Contribution (ARC)	$573,808	$537,400
Interest on Net OPEB Obligation	21,762	-
Adjustment to ARC	(28,410)	-
Annual OPEB Cost	567,160	537,400
Employer Contributions	96,670	53,810
Net OPEB Obligations (NOO)		
Net OPEB Obligation at Beginning of Year	483,590	-
Increase in NOO	470,490	483,590
Net OPEB Obligation at End of Year	$954,080	$483,590

The Net OPEB Obligation is the amount recorded in the Plan's Statement of Plan Net Assets as of year-end as the net liability for MEABF Staff Retiree Healthcare OPEB Liability. The employer contributions consist of $56,615 explicit subsidy and $40,055 implicit subsidy and treated as administrative expense of the defined benefit plan. The Annual *OPEB Cost* recorded in the Statement of Changes in Plan Net Assets for 2008 as the MEABF Staff Retiree OPEB expense is net of employer implicit and explicit subsidy. The Annual OPEB Cost is the amount recorded in the Statement of Changes in Plan Net Assets for 2008 as the MEABF Staff Retiree OPEB expense.

The following table shows the MEABF Staff Retiree Healthcare plan's annual OPEB cost and actual employer contributions as a percentage contributed for 2008 and 2007.

Year ended December 31	Annual OPEB Cost	Amount Contributed	Percentage Contributed
2008	$567,160	$96,670	17.0%
2007	$537,400	$53,810	10.0%

Note 2 – Description of Pension and Health Insurance Plans (Continued)

Funding Status and Funding Progress – Post-employment Benefit for MEABF Staff Retiree Healthcare

The following table shows the projected funded status and funding progress as of December 31, 2008 based on the most recent actuarial valuation as of December 31, 2006.

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
N/A	$4,843,612	$4,843,612	0.0%	$2,952,239	164.1%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Funding Status and Funding Progress – Post-employment Benefit for MEABF Staff Retiree Healthcare

For a plan the size of the MEAB Staff Retiree Healthcare plan, GASB allows a valuation report to be used for up to 3 years if there are no significant changes in plan design, premiums/claims, or demographics that would materially change the results. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 2006
Actuarial Cost Method	Entry Age Normal
Actuarial Value of Assets	No Assets (Pay-as-you-go)
Amortization Method	Level dollar open
Remaining Amortization Period	30 years
Actuarial Assumptions:	
Discount Rate	4.5%
Projected Base Salary Increases	4.5%
Wage Inflation	4.5%
Ultimate Healthcare Cost Trend Rate	5.0%

Note 3 – Deposits and Investments

Deposits that are held locally in the Plan's name are held by the Treasurer of the City Chicago, ex-officio Treasurer of the Plan. At December 31, 2008 and 2007, the Plan's book balances of cash are $1,622,524 and $1,604,187, respectively. The actual bank balances at December 31, 2008 and 2007 are $1,622,224 and $1,603,887, 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. The Plan does not have a formal policy relating to custodial risk. As of December 31, 2008 and 2007, $8,741,643 and $4,264,361 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. There were no investments representing 5% or more of the Plan's net assets as of December 31, 2008 and 2007.

	2008	2007
Investments At Fair Value As Determined by Quoted Price		
Bonds	$1,360,360,660	$1,718,198,492
Domestic and international equity	2,536,520,980	4,454,812,607
	3,896,881,640	6,173,011,099
Investments at Fair Value As Determined by Plan Administrator		
Real estate	318,413,913	330,533,414
Private equity	131,241,134	120,482,749
Short-term investments	327,011,431	275,979,001
	776,666,478	726,995,164
Total investments	$4,673,548,118	$6,900,006,263

Note 3 – Deposits and Investments (Continued)

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, 2008 the average term of the loan was 69 days (84 days in 2007). 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, 2008 had a weighted average maturity of 44 days (45 days in 2007). As of December 31, 2008 and 2007, the Plan had loaned to borrowers securities with a fair value of $535,935,976 and $1,040,349,638, respectively. As of December 31, 2008 and 2007, the Plan received from borrower's cash collateral of $543,248,530 and $1,037,232,545, and non-cash collateral of $1,919,771 and $29,791,378, respectively. Securities lending net income (loss) for the years ended December 31, 2008 and 2007 was ($47,385,132) and $1,080,182 respectively. The short-term investment pool in which cash collateral is invested is marked to market on a daily basis, generating a shortfall of $47,373,895 as of December 31, 2008. The custodian believes that the shortfall is temporary and should rebound as holdings affected come closer to their maturity. 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:

	2008	2007
Securities loaned – cash collateral		
Domestic bonds	$210,939,527	$ 315,484,354
Domestic equities	297,933,024	644,598,777
International equities	25,209,748	50,475,129
Total securities loaned – cash collateral	534,082,299	1,010,558,260
Securities loaned – non-cash collateral		
Domestic bonds	69,966	24,107,813
Domestic equities	1,144,645	4,436,530
International equities	639,066	1,247,035
Total securities loaned – non-cash collateral	1,853,677	29,791,378
Total	$535,935,976	$1,040,349,638

Note 3 – Deposits and Investments (Continued)

Foreign Currency Risk

The Plan's exposure to foreign currency risk at December 31, 2008 was as follows:

Currency	Fair Value	Percentage
Australian Dollar	$ 30,973,939	4.55%
Brazilian Real	12,373,437	1.82%
Canadian Dollar	31,651,208	4.65%
Swiss Franc	42,586,603	6.26%
Chilean Peso	1,041,715	.15%
Columbian Peso	86,580	.01%
Czech Koruna	896,086	.13%
Danish Krone	4,597,755	.68%
Egyptian pound	703,997	.10%
Euro	169,515,251	24.90%
British Pound Sterling	100,940,377	14.83%
Hong Kong Dollar	31,638,247	4.65%
Hungarian Forint	253,054	.04%
Indonesian Rupiah	1,610,135	.24%
New Israeli Shekel	1,778,228	.26%
Indian Rupee	9,376,167	1.38%
Japanese Yen	183,771,658	26.99%
South Korean Won	6,903,502	1.01%
Mexican Peso	3,784,142	.56%
Malaysian Ringgit	1,211,500	.18%
Moroccan Dirham	209,685	.03%
New Zealand Dollar	1,166,439	.17%
Norwegian Krone	5,761,278	.83%
Pakistan Rupee	24,990	.00%
Philippine Peso	196,571	.03%
Polish Zloty	663,763	.10%
Swedish Krona	12,861,065	1.89%
Singapore Dollar	9,188,698	1.35%
Thai Baht	673,531	.10%
Turkish Lira	2,382,494	.35%
New Taiwan Dollar	5,269,325	.77%
South African Rand	6,020,403	.88%
United Arab Emirates Dirham	762,200	.11%
Total	$680,874,023	100.00%

All foreign currency-denominated investments are in equities and foreign cash. The Plan does not have a formal policy relating to foreign currency risk.

Note 3 – Deposits and Investments (Continued)

Interest Rate Risk

As of December 31, 2008, the Plan had the following investments and maturities:

Security Type	Total Fair Value	Less than 1 year	1-6 years	6-10 years	10 or more years	Maturity Not Determined
Asset backed	$ 52,705,655	$ -	$ 30,200,160	$ 664,581	$ 21,840,914	$ -
Commercial mortgage backed	105,364,216	-	-	-	105,364,216	-
Corporate bonds	280,896,753	31,122,060	120,699,787	66,963,900	62,111,006	-
Government agencies	104,515,777	-	50,574,382	13,697,337	14,388,960	25,855,098
Government bonds	136,076,225	-	71,216,096	16,655,585	48,204,544	-
Government mortgage backed	353,121,180	-	10,829	4,772,485	295,685,553	52,652, 313
Index linked government bonds	20,022,530	-	8,937,015	11,085,515	-	-
Non-government backed CMO's	30,655,915	-	260,958	1,275,400	29,119,557	-
Other fixed income	277,002,410	610,432	-	-	-	276,391,978
Short term investment funds	297,617,188	-	-	-	-	297,617,188
Total	$1,657,977,849	$31,732,492	$281,899,227	$115,114,803	$576,714,750	$652,516,577

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.

Note 3 – Deposits and Investments (Continued)

Credit Risk

The following table reflects credits ratings of fixed income securities held by the Plan as December 31, 2008: (in thousands)

S&P Credit Rating	Fair 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
TSY	$ 19,699	$ -	$ -	$ -	$ -	$ 15,568	$ -	$ 4,131	$ -	$ -
AGY	382,987	-	-	-	35,565	-	347,422	-	-	-
AAA	356,695	49,354	82,473	11,650	65,572	114,968	194	15,892	16,592	-
AA	8,149	738	-	7,411	-	-	-	-	-	-
AA-	3,539	-	-	3,539	-	-	-	-	-	-
A+	23,675	25	-	23,650	-	-	-	-	-	-
A	70,806	330	-	67,756	1,125	-	-	-	1,595	-
A-	42,195	519	166	41,510	-	-	-	-	-	-
BBB+	41,060	-	-	40,742	318	-	-	-	-	-
BBB	36,989	-	-	32,060	-	264	-	-	4,665	-
BBB-	36,623	-	-	30,208	-	4,276	-	-	2,139	-
BB+	3,886	-	-	3,886	-	-	-	-	-	-
BB	4,034	-	-	2,753	-	-	-	-	1,281	-
BB-	470	-	-	470	-	-	-	-	-	-
B+	2,378	-	-	1,103	-	-	-	-	1,275	-
B	1,648	174	-	1,280	-	-	-	-	194	-
B-	36	-	-	-	-	-	-	-	36	-
CCC+	1,979	-	-	1,979	-	-	-	-	-	-
CCC	167	89	-	78	-	-	-	-	-	-
CC	190	190	-	-	-	-	-	-	-	-
C	78	-	-	78	-	-	-	-	-	-
D	4	-	-	4	-	-	-	-	-	-
NR	323,074	1,287	22,726	10,739	1,936	1,000	5,505	-	2,879	277,002
Total	$ 1,360,361	$ 52,706	$105,365	$ 280,896	$ 104,516	$ 136,076	$ 353,121	$ 20,023	$ 30,656	$277,002

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

The Plan does not have a formal policy regards to aggregate credit quality of fixed income holdings. The Plan utilizes external investment management firms to invest in fixed income securities and credit quality is addressed within the guidelines of the mandate. Unless allowed by the mutually agreed upon guidelines of the mandate, all securities invested in are investment grade. If a holding falls below investment grade, the manager will either sell the security or will inform the Plan of the lower rating and why they believe that it is prudent to continue to hold the security as they believe that the security will return to investment grade.

Note 4 – Net Assets held in trust for pension benefits

Reserves represent the components of the Plan's net assets. Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses. At least once a year, before any transfer is made from these reserves, interest at 3% is credited to these reserves. The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirement and other benefits as they become due. The Plan's major classes of reserves are as follows:

	2008	2007
City Contribution Reserves	$ 1,464,478,847	$ 1,370,338,603
Salary Deduction Reserves	1,464,099,104	1,369,944,352
Prior Services Reserves	5,960,217,402	5,738,016,571
Annuity Payment Reserves	1,715,662,109	1,706,982,093
Optional Reserve Account	1,156,080	1,098,379
Supplementary Payment Reserves	235,189	235,189
	10,605,848,731	10,186,615,187
Unreserved Net Assets	(5,866,234,976)	(3,177,091,244)
Net assets held in trust for pension benefits	$ 4,739,613,755	$ 7,009,523,943

City Contribution Reserves

Amounts contributed by the City for age and service annuity, surviving spouse annuity and supplemental annuity shall be credited to this reserve. When the employee annuity or surviving spouse annuity is granted the amount in this reserve for such annuity will be transferred to the annuity payment fund reserves.

Salary Deduction Reserves

Amounts contributed by the employee or amounts credited for the employee for age and service annuity and surviving spouse annuity shall be credited to this reserve. When the employee annuity or surviving spouse annuity is granted the amount in this reserve for such annuity will be transferred to the annuity payment fund reserves.

Annuity Payment Reserves

Amounts transferred from the City contribution reserves and the salary deduction reserves for annuities which have been granted will be credited to this reserve.

Prior Service Reserves

Amounts contributed by the City for minimum annuities shall be credited to this reserve.

Note 4 – Net Assets held in trust for pension benefits (Continued)

Optional Reserves

Amounts contributed by the aldermen for the alternative plan.

Supplementary Payment Reserves

Amounts contributed by the annuitants and amounts transferred from the investment and interest reserve to provide annual increase for those who retired before the amendment providing post retirement increases and additional employee contributions.

Note 5 – Lease Agreements

Office Lease

The Plan leases its administrative office and storage facilities under a fifteen-year agreement and has been amended to extend the lease through February 29, 2010 with a Plan option to extend to February 28, 2011. The lease may be canceled subject to significant cancellation penalties. The lease currently requires monthly payments of $33,500. Monthly lease payments are subject to an escalation clause for increases in real estate taxes and maintenance expenses.

Disaster Recovery (DR) site

The Plan is party to an agreement participated by four other pension funds (Laborer's, Police, Fire and Cook County) to lease an offsite office and storage facilities under an extended non-cancelable lease agreement in effect through August 31, 2016.

Following is a summary of estimated future lease payments under the Plan's operating lease as of December 31, 2008:

Year Ending December 31,	Amount
2009	$402,759
2010	76,711
2011	10,006
2012	10,309
2013 and thereafter	33,067
Total	$532,852

Note 6- Risk Management

The Plan carries liability insurance coverage provided by private insurance carriers. In order to limit the risk of asset loss from theft, fraud, robbery or burglary, the Plan carries a government crime policy. The Plan also carries fiduciary liability insurance that limits the risk of loss arising from court challenges to fiduciary decisions. There were no reductions in coverage nor have there been any claims in the last three years.

Required Supplementary Information

Schedule Of Funding Progress (Pension)

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)
12/31/08	$6,669,501,770	$10,383,157,695	$3,713,655,925	64.2%	$1,543,976,553	240.5%
12/31/07	$6,890,462,918	$ 9,968,746,844	$3,078,283,926	69.1%	$1,564,458,835	196.8%
12/31/06	$6,509,145,626	$ 9,476,118,446	$2,966,972,820	68.7%	$1,475,877,378	201.0%
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%

Schedule Of Employer Contributions (Pension)

	Employer Contributions	
Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2008	$360,387,176	40.7%
2007	$343,123,106	40.7%
2006	$303,271,824	48.9%
2005	$285,291,350	54.4%
2004	$198,199,001	77.7%
2003	$158,614,805	89.5%

Beginning in 2006, the Annual Required Contribution does not include contributions for health insurance supplement.

Note To Schedules Of Funding Progress And Employer Contributions (Pension)

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

Valuation date	December 31, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar open
Amortization period	30 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Pension Investment rate of return	8.0%
Projected salary increases	4.5%
Includes inflation at	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

OPEB liabilities are excluded beginning in 2006.

OPEB liabilities are discounted at a rate of 4.5% beginning in 2005.

Schedule Of Funding Progress (Post- Employment Healthcare)

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)
12/31/08	$ -	$222,691,036	$222,691,036	00.0%	$1,543,976,553	14.4%
12/31/07	$ -	$217,868,343	$217,868,343	00.0%	$1,564,458,835	13.9%
12/31/06	$ -	$216,201,037	$216,201,037	00.0%	$1,475,877,378	14.7%

Schedule Of Employer Contributions - (Post -Employment Healthcare)

	Employer Contributions	
Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2008	$23,782,660	38.0%
2007	$23,287,106	36.9%
2006	$22,642,162	38.6%

Note To Schedules Of Funding Progress And Employer Contributions (Post -Employment Healthcare)

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

Valuation date	December 31, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar open
Amortization period	30 years
Asset valuation method	No Assets (Pay-as-you-go)
Actuarial assumptions:	
OPEB investment rate of return	4.5%
Projected salary increases	4.5%
Includes inflation at	3.0%
Healthcare Cost Trend Rate	0.0%

Healthcare cost trend not applicable-fixed dollar subsidy

Schedule Of Funding Progress (Post-Employment Healthcare-Staff Retiree Healthcare)

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)
12/31/06	$ -	$4,832,612[1]	$4,832,612	00.0%	$2,952,239	164.1%

Schedule Of Employer Contributions (Post-Employment Healthcare-Staff Retiree Healthcare)

	Employer Contributions	
Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2008	$573,808[1]	17.0%
2007	$537,400	10.0%

[1] Projected for plan year ended December 31, 2008 based on most recent actuarial valuation as of December 31, 2006.

Note To Schedules Of Funding Progress And Employer Contributions (Post-Employment Healthcare-Staff Retiree Healthcare)

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

Valuation date	December 31, 2006
Actuarial cost method	Entry age normal
Asset valuation method	No Assets (Pay-as-you-go)
Amortization method	Level dollar open
Amortization period	30 years
Actuarial assumptions:	
Discount Rate	4.5%
Projected Salary Increases	4.5%
Ultimate Trend	5.0%
Wage inflation	4.5%

Schedule of Administrative and OPEB expenses

	2008	2007
Administrative Salaries	$ 2,774,543	$ 2,742,404
Payroll taxes	32,249	40,568
Employee Benefits	856,359	737,003
Professional Services	466,412	397,419
Data Processing	369,677	365,835
Contractual	15,683	13,570
Office Supplies and Equipment	59,381	95,143
Office Equipment Maintenance	19,402	21,529
Depreciation	1,776,272	811,941
Printing and Publishing	130,540	130,927
Postage	86,674	86,542
Rent and Utilities	377,266	309,088
Miscellaneous	1,806	6,334
Insurance	215,948	219,300
Telephone and Communications	55,284	57,157
Travel	26,441	26,873
Dues and Subscriptions	15,287	20,521
Total Administrative expense	$ 7,279,224	$ 6,082,154
OPEB expense	470,490	483,590
Total Administrative and OPEB expense	$ 7,749,714	$ 6,565,744

Schedule of Professional and Consulting Fees

	2008	2007
Legal Advisors	$ 112,599	$ 117,468
Medical Advisors	46,571	45,214
Consulting Actuary	170,483	161,703
Consulting	102,759	41,034
Auditor	34,000	32,000
Total	$ 466,412	$ 397,419

Schedule of Investment Management Compensation

		2008		2007
Equity Managers				
ABN AMRO	$	-	$	84,795
Ariel Capital		1,033,981		1,450,974
Attucks Asset Management		10,729		17,305
Bear Stearns		-		585,767
Castle Ark		379,913		270,006
Clearbridge Advisors		391,708		652,069
Earnest Partners		369,554		435,269
Great Lakes Advisors		616,854		618,803
Harris Investment Mgmt.		376,201		346,419
Holland Capital		523,629		648,016
Keeley Asset Mgmt.		646,821		807,819
MacKay Shields		424,603		528,929
MEABF Emerging Manager Fund		-		374,658
New Amsterdam Partners		-		131,458
Northern Trust Quantative Adv.		112,013		181,610
NorthPointe Capital		124,833		235,656
Penn Capital		387,181		670,489
Rhumbline Advisors		29,821		-
TCW		355,379		385,531
UBS AM Equity		361,179		570,098
United Investmemt Managers		687,212		136,001
Voyageur Asset Management		264,785		313,942
Wellington Capital		917,614		685,803
William Blair Large Cap		489,391		605,081
William Blair Small/Mid Cap		353,372		434,438
Total Equity	$	8,856,773	$	11,170,936

Schedule of Investment Management Compensation (continued)

	2008	2007
Bond Managers		
Alliance Bernstein	$ 478,055	$ 478,039
NTGI Bond Index	93,848	90,500
Lehman Brothers	280,437	281,580
Payden & Rygel	28,164	171,238
UBS AM Bonds	-	510,370
Total Bond	880,504	1,531,727
International Equity Managers		
Alliance Bernstein Emerging Markets	553,402	806,471
Alliance Bernstein International	434,576	746,776
LSV Asset Management	579,834	751,503
MFS	501,847	773,829
MacKay Shields	535,041	618,613
Walter Scott	815,018	992,645
William Blair	754,270	1,008,154
Total International Equity	4,173,988	5,697,991
Real Estate Managers		
AFL-CIO Building Trust	247,906	241,712
American Realty	203,938	193,294
Capri Capital	690,915	720,622
DV Urban	225,000	225,000
J P Morgan	845,048	802,291
John Buck Company	265,000	316,620
Prudential Asset Mgmt.	622,832	620,055
Shamrock-Hostmark Hotel Fund	75,000	60,938
Tishman Speyer	250,000	375,000
UBS Realty Advisors	187,500	187,500
Walton Street Partners	387,848	447,749
Total Real Estate	$ 4,000,987	$ 4,190,781

Schedule of Investment Management Compensation (continued)

	2008	2007
Private Equity Managers		
Citigroup International PE Fund	$ 225,000	$ -
First Analysis	705,093	816,544
Hispania Partners	175,000	125,000
Hopewell Ventures	112,500	112,500
Invesco	13,271	18,945
Levine Leichtman	366,770	-
MK Capital	100,000	100,000
Mesirow Financial	991,598	978,750
Midwest Mezzanine Fund	536,802	556,591
Muller & Monroe	200,000	100,000
Nogales Investors	425,000	425,000
SB Partners	89,208	89,208
Total Private Equity	3,940,242	3,322,538
Total Investment Management Fees	21,852,494	25,913,973
Other Investment Expenses		
Investment Consultant	204,500	194,500
Master Custodian	167,827	772,057
Negoiation fee: Custody Reduction	148,212	-
Investment Legal Services	6,614	-
Miscellaneous Investment Expense	8,500	-
Total Investment Management Fees	535,653	966,557
Total Investment Expenses	$ 22,388,147	$ 26,880,530

Investments

INVESTMENT REPORT - 2008

June 30, 2009

Board of Trustees and Executive Director
Municipal Employees' Annuity & Benefit Fund of Chicago
221 North LaSalle Street, Suite 500
Chicago, Illinois 60601

First and foremost, thank you for the opportunity to report on the Plan's investment portfolio for 2008. Below please find a summary of key activities that impacted the financial markets in 2008, a brief review of the Plan's return performance for the year, and a reflection on the impact that growing liquidity needs will have on the Plan.

2008 – Market Review

The National Bureau of Economic Research announced in late 2008 that the United States economy had officially entered into a recession in December 2007. Old news to some as home foreclosures, unemployment, and market losses continued to mount through the end of the year. The struggling economy impacted everyone from Wall Street to Main Street. As investment banks like Bear Stearns, Lehman Brothers, and Merrill Lynch either abruptly vanished or were acquired. The surviving few were transformed into bank holding companies, which allowed them access to Federal financing programs, providing much needed liquidity. The change in business model for Goldman Sachs and Morgan Stanley marked the end of an era on Wall Street. On Main Street, businesses struggled and layoffs increased. By year-end, unemployment hit 7.2% and was projected to continue moving upwards. The steep decline in the stock market meant significant reductions in the value of many retirement accounts and personal investment portfolios.

Bank failures were not uncommon. During the savings and loan crisis in the late 1980's, over five hundred banks failed. 2008 was historic not because of the number of failing institutions, but the size of the banks that failed. The Office of Thrift Supervision shut down Washington Mutual, the largest savings and loan institution in the United States, in September 2008 after customers withdrew $16.7 billion, triggering a run on the bank. It was the largest bank failure in U.S. history.

The collapse of Lehman Brothers led a surge of fear and anxiety about the markets, seizing access to credit. As many companies had been reaping significant profits based more on financial engineering than sound business practices, once the easy access to capital went out with the tide, the companies who were swimming without a suit were revealed. As one large financial institution after another became troubled, the federal government determined intervention was needed to prevent the collapse of companies seen as too big to fail. One of these firms was American Insurance Group (AIG), which received an $85 billion loan that would later increase to $183 billion. In the same month, Fannie Mae and Freddie Mac, the two largest government sponsored mortgage institutions, were placed in the conservatorship of a federal agency, the Federal Housing Finance Agency. This action was necessary to provide stability in the housing markets as foreclosures were skyrocketing.

The continued need for government intervention led Congress to enact the Emergency Economic Stabilization Act. The Act created the Troubled Assets Relief Program (TARP), which allows the Department of the Treasury to purchase or insure up to $700 billion of illiquid and difficult-to-value assets providing a market for these securities, and the Term Asset-Backed Securities Loan Facility (TALF), which is designed to increase the availability of credit to households and small businesses by facilitating renewed issuance of asset-backed securities at more normal interest rates. If successful, these programs should help rejuvenate the credit markets and better position financial institutions to provide much needed loans to consumers.

Uncertainty in the markets, a weakening dollar, and inflationary pressures, will usually lead investors towards the safety of hard assets. Commodities, such as gold and oil, both hit record highs in 2008. In the first quarter, gold traded above $1,000 per ounce. The price of oil climbed to a record $147 per barrel in July, pushing the average price for regular gasoline to $4.11 per gallon. Thankfully, the severity of the recession had one silver lining as demand for oil weakened forcing oil producing countries, which are dependent on oil sales for the health of their own economies, to reduce prices significantly. At the end of the year, oil traded at $37 per barrel, down 75% from their mid-year high.

While there was no safe haven in 2008, some markets fared better than others. Fixed income investments, as represented by the Barclays Capital U.S. Aggregate Bond index, produced a positive return in 2008 of 5.2%. The 90-Day Treasury Bill returned 1.6% for the year. Most other markets suffered declines not seen since the Great Depression. Domestically, the S&P 500 and Russell 2000 returned –37.0% and –33.8%, respectively. Internationally, the MSCI EAFE (Europe, Australasia, and Far East) and MSCI Emerging Markets returned –43.1% and –53.2%, respectively.

2008 – Investment Portfolio Changes

In April 2008, the Retirement Board hired Marquette Associates as its new investment consultant. Marquette Associates is a Chicago-based full-service consultant founded in 1986 with approximately 45 key professionals. Under their advisement, an asset/liability study was completed and a new target allocation mix was set. To help outperform and reduce risk, the new allocation included new asset classes like hedged equity and high yield. The Board will continue to transition the portfolio to the new target allocation mix throughout 2009. To review the Plan’s target allocation mix, please refer to the allocation schedule later in this section.

2008 – Plan Investment Performance

At year-end, the portfolio had a 39% allocation to domestic equity, 15% exposure to international equities, a 36% allocation to fixed income and short-term instruments, and a 10% allocation to real estate and private equity. The portfolio generated a –28.2% rate of return for the year, ranking in the 78th percentile compared to other public plans. The Plan’s allocation to fixed income declined, but by considerably less than exposures to the equity markets. Relative returns severely underperformed for fixed income though, as exposure to credit spread instruments above the benchmark triggered large declines in security values. The Plan’s international equity portfolio performed well outpacing the MSCI EAFE Index by 670 basis points. The domestic equity portfolio had the largest value reduction not only to because of the economic downturn, but also from withdrawals totaling $175M to pay monthly benefits, and a reduced allocation based on the Board’s new target allocation mix. Real estate returns were down mainly due to property appraisals beginning to reflect declines. We feel this will continue into 2009.

The Plan's investment policy is designed to maximize long-term returns while minimizing downside risk. The actuarially determined rate of return for the total portfolio is set at 8% as an estimate of the future annual return of a diversified investment portfolio. Market factors will positively or negatively affect rates of return each year. Annualized returns over longer periods tend to smooth the effects of short-term market fluctuations. As such, reviewing an investor’s performance over longer time periods is a better indicator of their ability to meet stated investment objectives.

2008 – Plan's Operating Cash Flow Needs

In aggregate, $370 million, or 8% of the year-end value of the investment portfolio, was drawn in 2008 to assist in the payment of monthly benefits. Withdrawals from the investment portfolio to assist with the payment of monthly retirement benefits will continue to reduce the amount of reserves available to cover future benefits. Withdrawals are made in conjunction with rebalancing the portfolio's asset allocation to the Retirement Board's targeted allocation mix.

The Master Custodian's certification letter for 2008, a summary of the Plan's goals, objectives and guidelines, and select investment schedules follow for your review. I hope you find the information informative. I would also like to thank Kelly Wietsma, Investment Analyst, for her hard work in the preparation of this report.

Respectfully submitted,

James E. Mohler
Chief Investment Officer

Note: Investment returns for the year 2008 and annualized three- year and five-year are net of fees and supplied by Marquette Associates. Investment returns for the years 2004-2007 are gross of fees and supplied by Becker, Burke Associates. The calculations were prepared using a time-weighted rate of return based on the market rate of return.

The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60603
(312) 630-6000

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, 2008 through December 31, 2008.

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
Senior Vice President

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 goals, objectives and guidelines to direct 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 mandate to select, acquire, maintain and dispose of individual investments as agreed per contract.

Description of Investment Goals, Objective and Guidelines

The Board established a three-phased program for implementing the investment goals and objectives 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.

Phases 1 and 2 were implemented in the 1980's and phase 3 has been a continuous process. Asset and liability studies are conducted at the Board's pleasure, usually every three to five years. In early 2008 the Board concluded a search for an investment consultant. The Board and the Plan's staff have worked diligently with the new consultant, Marquette Associates, to review the portfolio structure and incorporate recommendations that the Board believed to be prudent and will assist in achieving their investment 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. Guidelines are set at time of contract and are based on the mandate's goals and objectives.

Diversification

The Plan's assets are diversified in several ways to minimize downside risk. Diversification is accomplished through the proper target allocation mix. The target allocation mix includes publicly traded stocks and bonds and alternatives such as hedged funds, private equity, and real estate. Proper diversification within each asset class is based on establishing complementary investment objectives and management styles.

Performance Review

The annual return of the Plan is compared against the actuarial assumed rate of return of 8%. Returns of asset classes within the portfolio are evaluated against comparable market indices, including the Standard and Poor's 500 Stock Index and the Barclays Capital Aggregate Bond Index. Target performance varies from one investment manager to another, depending upon the guidelines and the mutually agreed upon goals and objectives of the mandate. The return of the total Plan is also compared to a universe of other pension plans with similar structures.

Cash Flow Needs

Cash equivalent positions represent either residual cash of active managers at a specific point in time or operational cash flow reserve requirements to honor operating cash needs for the upcoming month. Monies drawn from investments to assist monthly operating cash flow needs is primarily taken from asset classes that have become over-allocated compared to determined targets.

Investment Managers

As of December 31, 2008

AFL-CIO Building Investment Trust
Washington, D.C.
Real Estate Core Fund

AllianceBernstein
New York, New York
Fixed Income Bond Core +

American Institutional Realty Advisors
Glendale, California
Real Estate Core Fund

Ariel Capital Management
Chicago, Illinois
Domestic Equity Small/Mid Cap Value

Capri Capital Advisors
Chicago, Illinois
Real Estate Partnership & Mezzanine Fund

CastleArk Asset Management
Chicago, Illinois
Domestic Equity Large Cap Growth

Citi Alternative Investments
New York, NY
International Private Equity Direct Partnership

DV Urban Realty
Chicago, Illinois
Real Estate Partnership

Earnest Partners
Atlanta, Georgia
Domestic Equity Mid Cap Core

First Analysis
Chicago, Illinois
Private Equity Direct Partnerships

Harris Investment Management
Chicago, Illinois
Domestic Equity Large Cap Growth

Hispania Capital Partners
Chicago, Illinois
Private Equity Direct Partnerships

Holland Capital Management
Chicago, Illinois
Domestic Equity Large Cap Growth

Hopewell Ventures
Chicago, Illinois
Private Equity Direct Partnership

Invesco
New York, New York
Private Equity Fund of Funds

John Buck Company
Chicago, Illinois
Real Estate Partnerships

JP Morgan Fleming Asset Management
New York, New York
Real Estate Fund

Keeley Asset Management
Chicago, Illinois
Domestic Equity Mid Cap Value

Levine Leichtman
Beverly Hills, CA
Structured Equity Partnership

LSV Asset Management
Chicago, Illinois
International Equity Value

Investment Managers (Continued)

Great Lakes Advisors
Chicago, Illinois
Domestic Equity Large Cap Value

Mesirow Financial
Chicago, Illinois
Private Equity Direct Partnerships
Private Equity Fund of Funds

Midwest Mezzanine Funds
Chicago, Illinois
Private Equity Mezzanine Funds

MK Capital
Chicago, Illinois
Private Equity Direct Partnership

Muller & Monroe Asset Management
Chicago, Illinois
Private Equity Fund of Funds

Neuberger Berman
Chicago, Illinois
Fixed Income Enhanced Bond Index

Nogales Investors Management
Los Angeles, California
Private Equity Direct Partnerships

Northern Trust Global Investment Advisors
Chicago, Illinois
Fixed Income Bond Core
International Equity All-World Ex-US
International Equity Small Cap

Prudential Real Estate Investors
Parsippany, New Jersey
Real Estate Funds

MacKay Shields
New York, New York
Domestic Equity Large Cap Growth
International Equity Growth

Tishman Speyer
New York, New York
Real Estate Partnership

Trust Company of the West
Los Angeles, California
Domestic Equity Small Cap Growth

UBS Global Asset Management
Chicago, Illinois
Fixed Income Bond Core

UBS Realty Advisors
Hartford, Connecticut
Real Estate Partnership

United Investment Managers
Chicago, Illinois
Manager of Managers
Domestic Equity All Cap

Voyageur Asset Management
Minneapolis, Minnesota
Domestic Equity Mid Cap Growth

Walter Scott & Partners
Edinburgh, Scotland
International Equity Growth

Walton Street Capital
Chicago, Illinois
Real Estate Partnerships

Investment Managers (Continued)

RhumbLine Advisors
Boston, Massachusetts
Domestic Equity Large Cap Core

SB Partners
Holland, Michigan
Private Equity Direct Partnership

Shamrock-Hostmark
Burbank, California
Real Estate Partnership

Wellington Management Company
Boston, Massachusetts
Domestic Equity Large Cap Value

William Blair & Company
Chicago, Illinois
Domestic Equity Large Cap Growth
Domestic Equity Small/Mid Cap Growth
Emerging Markets Equity

Performance Returns

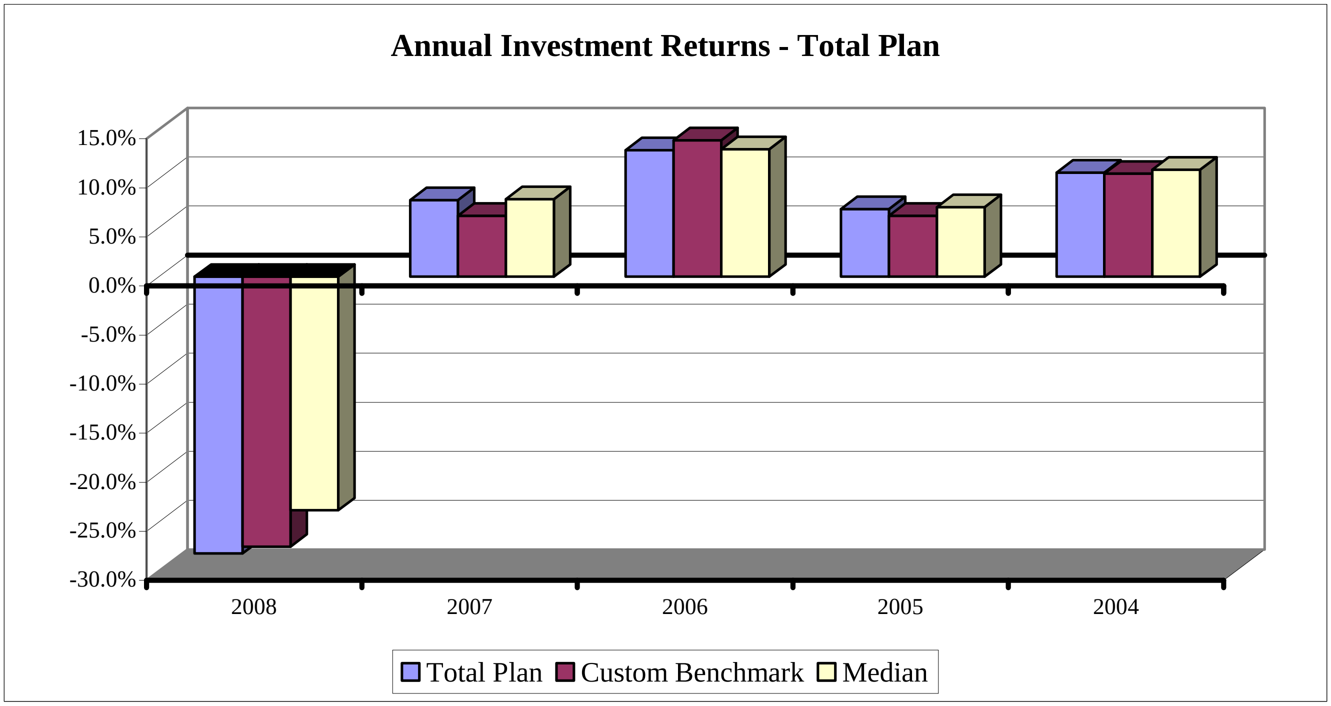
As of December 31, 2008

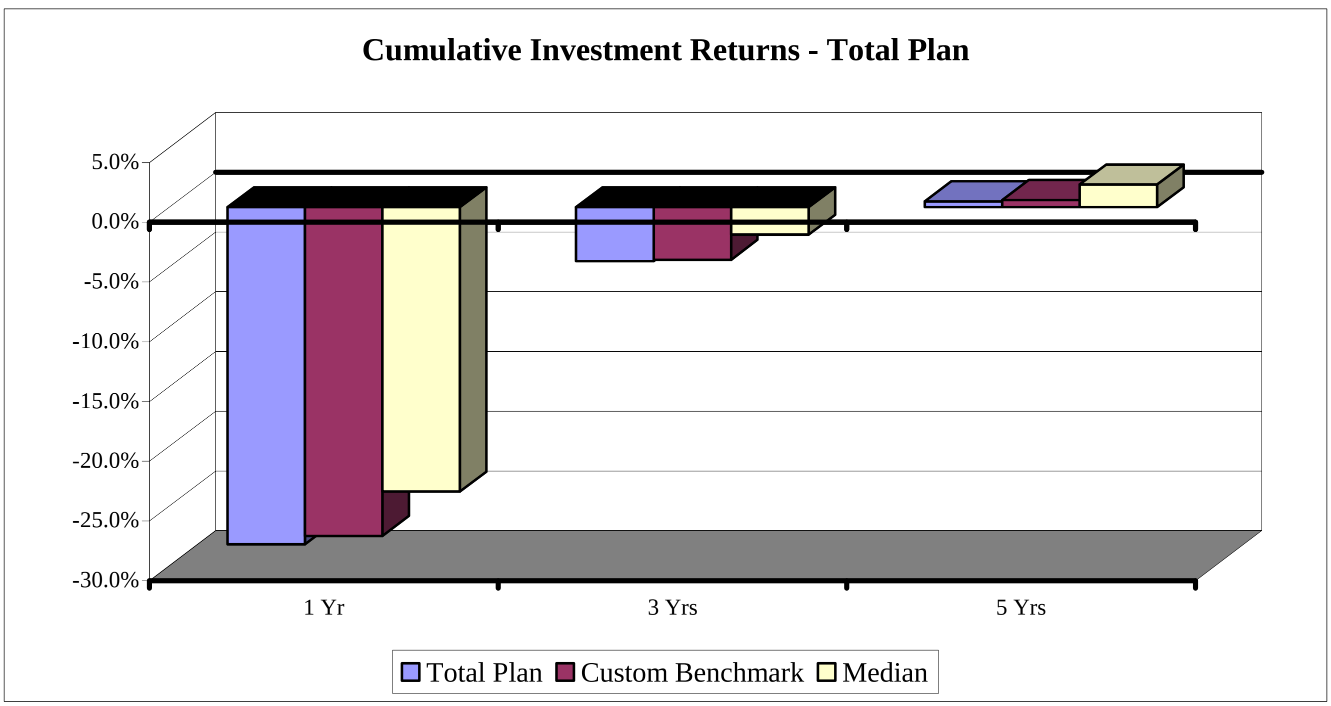
	2008	2007	2006	2005	2004	Annualized 3 Yrs	Annualized 5 Yrs
Total Plan							
The Plan – Gross	-27.9%	7.6%	13.0%	6.9%	10.7%	-4.3%	0.7%
The Plan – Net	-28.2%	7.8%	12.9%	6.9%	10.6%	-4.5%	0.5%
Custom Benchmark*	-27.5%	6.2%	13.9%	6.2%	10.5%	-4.4%	0.6%
Median	-23.8%	7.9%	13.0%	7.1%	10.9%	-2.3%	1.9%
Domestic Equity							
The Plan	-38.7%	5.5%	13.4%	5.9%	13.2%	-10.0%	-2.8%
S&P 500 Stock Index	-37.0%	5.5%	15.8%	4.9%	10.9%	-8.4%	-2.2%
Russell 2000	-33.8%	-1.5%	18.3%	4.6%	18.3%	-8.3%	-0.9%
International Equity							
The Plan	-36.7%	15.1%	31.8%	17.9%	19.5%	-2.1%	5.1%
MSCI EAFE Net	-43.4%	11.2%	26.3%	13.5%	20.2%	-7.3%	1.7%
Fixed Income							
The Plan	-4.5%	5.1%	4.2%	2.1%	4.3%	1.7%	2.4%
Barclays Agg. Bond Index	5.2%	7.0%	4.3%	2.4%	4.3%	5.5%	4.7%
Barclays Government/Credit	5.7%	7.4%	4.1%	1.6%	3.0%	5.6%	4.6%
Real Estate							
The Plan	-9.6%	20.1%	16.5%	23.1%	9.3%	7.0%	11.2%
NCREIF Open End	-6.5%	15.9%	16.3%	19.0%	13.3%	8.1%	11.7%
Private Equity							
The Plan	-5.0%	32.3%	10.2%	18.7%	12.9%	11.9%	13.7%
Venture Economic PE	-21.7%	18.1%	20.9%	22.3%	18.4%	3.8%	10.1%

Investment returns for the year 2008 and annualized 3Y and 5Y are net of fees and supplied by Marquette Associates. Investment returns for the years 2004-2007 are gross of fees and supplied by Becker, Burke Associates. The calculations *were prepared using a time-weighted rate of return based on the market rate of return.*

**The custom benchmark consists of a blend of indices based on the weight of each asset class of the Fund as of 12/31/08.*

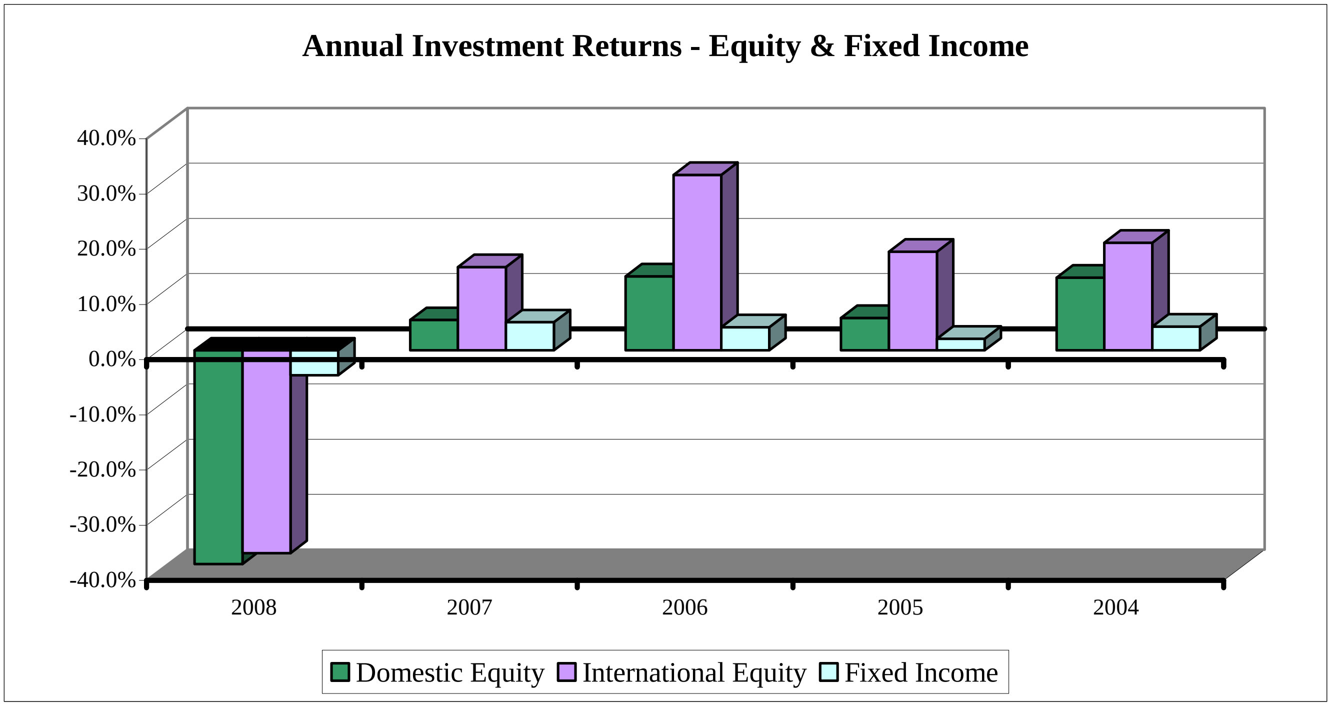
Performance Returns (Continued)

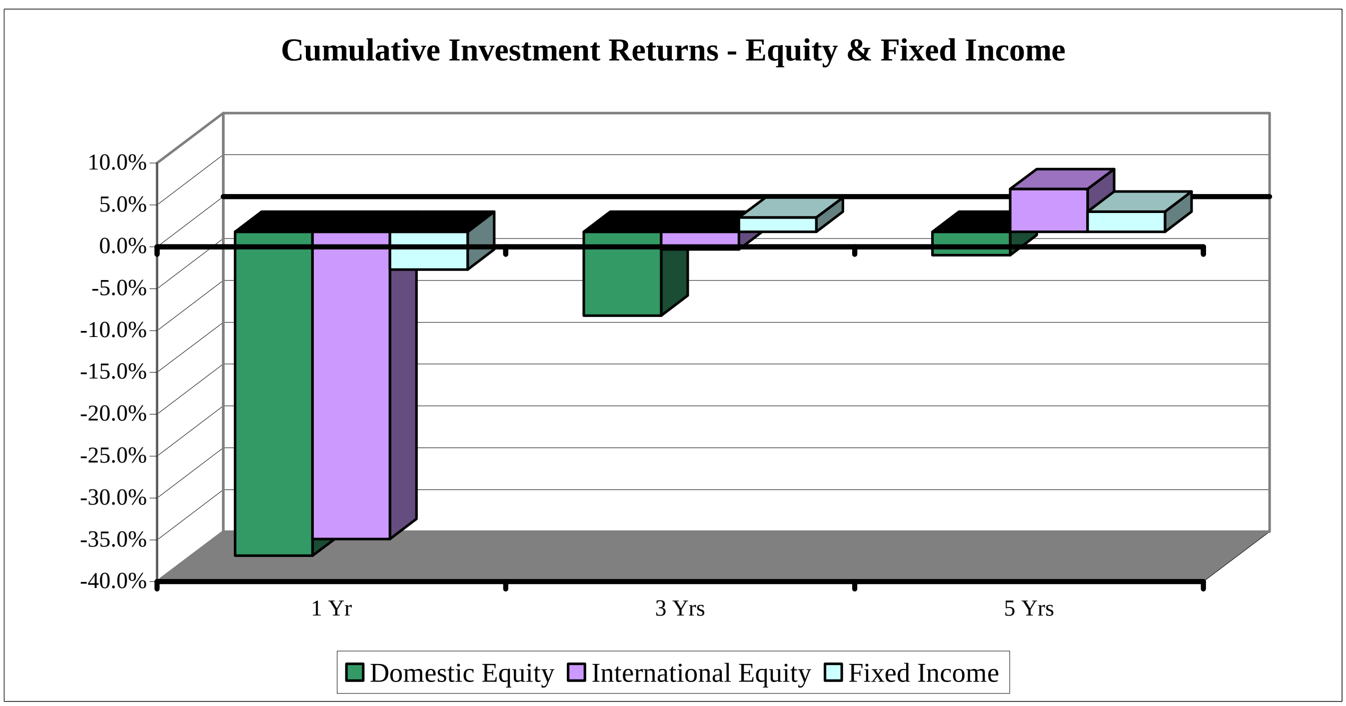




Investment returns for the year 2008 and annualized 3Y and 5Y are net of fees and supplied by Marquette Associates. Investment returns for the years 2004-2007 are gross of fees and supplied by Becker, Burke Associates. The calculations *were prepared using a time-weighted rate of return based on the market rate of return.*

Performance Returns (Continued)





Investment returns for the year 2008 and annualized 3Y and 5Y are net of fees and supplied by Marquette Associates. Investment returns for the years 2004-2007 are gross of fees and supplied by Becker, Burke Associates. The calculations *were prepared using a time-weighted rate of return based on the market rate of return.*

Investments (Fair to Book)

As of December 31, 2008 and December 31, 2007

Category	12/31/2008 Fair Value	%	12/31/2008 Book Value	%	12/31/2007 Fair Value	%	12/31/2007 Book Value	%
Fixed Income	$1,360,360,660	29%	$1,434,531,503	27%	$1,718,198,492	25%	$1,701,693,678	29%
Equities								
Domestic	1,814,011,185	39%	2,192,775,662	41%	3,554,623,991	52%	2,792,285,102	48%
International	722,509,795	15%	965,497,257	18%	900,188,616	13%	659,453,058	11%
Total Equities	2,536,520,980	54%	3,158,272,918	59%	4,454,812,607	65%	3,451,738,159	59%
Real Estate	318,413,913	7%	254,629,833	5%	330,533,414	5%	228,412,085	4%
Private Equity	131,241,134	3%	195,131,012	4%	120,482,749	2%	172,477,012	3%
Cash Equivalents	327,011,431	7%	338,711,871	6%	275,979,001	4%	275,926,179	5%
Total Investments	$4,673,548,118	100%	$5,381,277,138	100%	$6,900,006,263	100%	$5,830,247,113	100%
Net Receivables/ Payables	(15,804,728)		(15,804,728)		(17,722,472)		(17,722,472)	
Total Invested Assets	$4,689,352,846		$5,397,081,866		$6,917,728,735		$5,847,969,585	

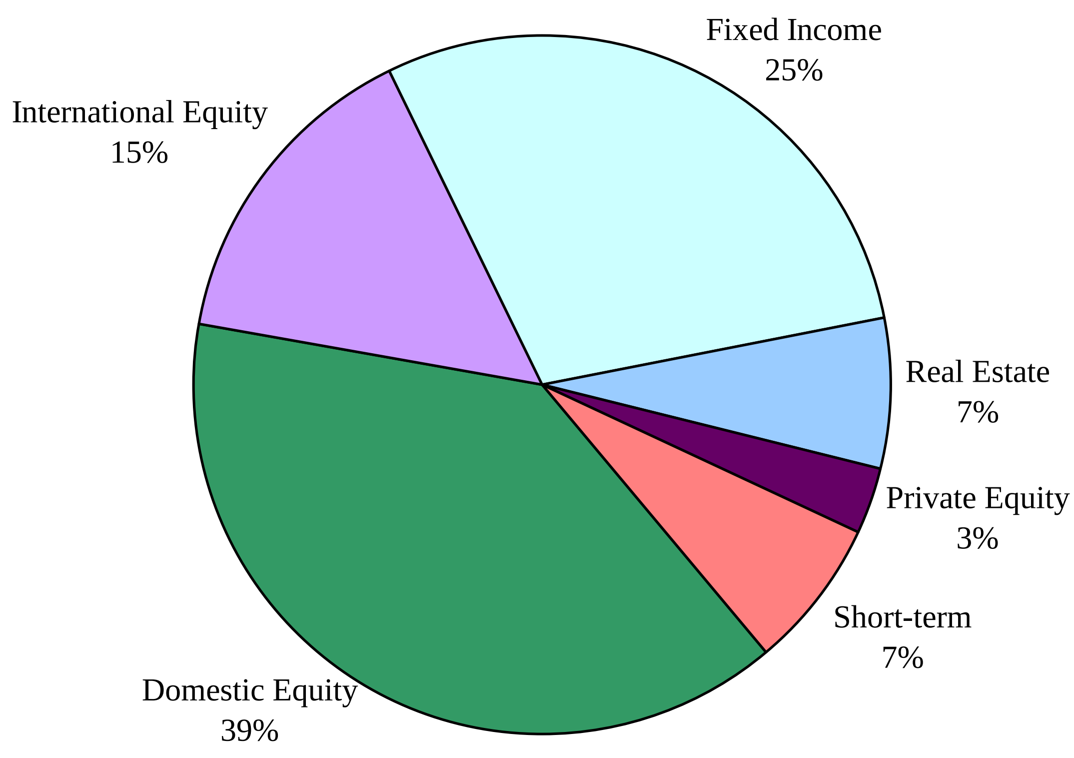
Investment Asset Allocation

As of December 31, 2008

Asset Class	2007 Target	2008 Target*	Actual Allocation
Domestic Equity	55%	25%	39%
International Equity	10%	20%	15%
Hedged Equity	0%	10%	0%
Fixed Income	25%	25%	29%
Real Estate	6%	10%	7%
Private Equity	4%	10%	3%
Short-term	0%	0%	7%
Investment Assets	**100%**	**100%**	**100%**

**Target allocation effective August 2008.*

Actual Allocation as of December 31, 2008

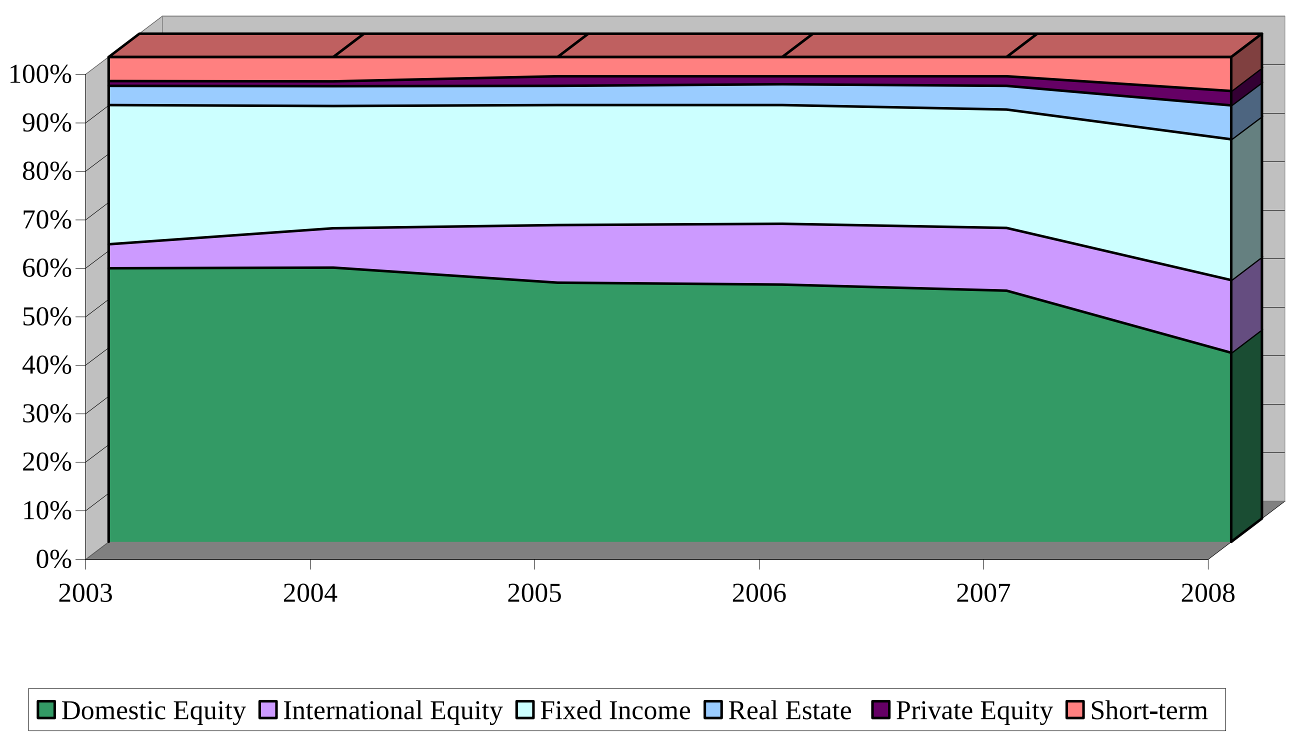


Investment Asset Allocation

Last six years

Asset Class	2003	2004	2005	2006	2007	2008
Domestic Equity	57%	56%	54%	53%	52%	39%
International Equity	5%	8%	12%	13%	13%	15%
Fixed Income	29%	25%	25%	25%	25%	29%
Real Estate	4%	4%	4%	4%	5%	7%
Private Equity	1%	1%	2%	2%	2%	3%
Short-term	5%	5%	4%	4%	4%	7%
Investment Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Allocation Over the Last Six Years



Ten Largest Holdings (Excludes Commingled Funds)

Year Ended December 31, 2008

Domestic Equity

Name of Security	Sector	Shares	Fair Value	Unrealized Gain/Loss	% of Total Equity
Exxon Mobil Corp.	Energy	600,021	$47,899,676	$23,128,639	2.64%
Wal-mart Stores Inc.	Consumer Staples	505,232	28,323,306	6,325,682	1.56%
Microsoft Corp.	Info. Technology	1,283,177	24,944,961	(2,348,863)	1.38%
Chevron Corp.	Energy	326,452	24,147,654	6,462,958	1.33%
AT&T Inc.	Telecommunications	741,952	21,145,632	2,559,265	1.17%
IBM Corp.	Info. Technology	227,561	19,151,534	3,551,122	1.06%
Apple Inc.	Info. Technology	210,527	17,968,479	(2,180,518)	0.99%
Proctor & Gamble	Consumer Staples	289,413	17,891,512	7,465,470	0.99%
Cisco Systems Inc.	Info. Technology	1,066,571	17,385,107	(3,881,175)	0.96%
General Electric Co.	Other	1,068,664	17,312,357	(3,837,210)	0.95%
Total		**6,319,570**	**$236,170,219**	**$37,245,369**	**13.02%**

International Equity

Name of Security	Country	Sector	Shares	Fair Value	Unrealized Gain/Loss	% of Total Equity
Nestle SA	Switzerland	Consumer Staples	237,920	$9,299,076	$216,804	1.29%
Novartis Ag	Switzerland	Health Care	147,442	7,300,412	(812,660)	1.01%
Roche Holdings Ag	Switzerland	Health Care	44,763	6,834,206	(802,499)	0.95%
TESCO	U.K.	Retail	1,160,639	6,007,352	52,494	0.83%
NTT Docomo Inc.	Japan	Telecommunications	2,819	5,485,622	485,035	0.76%
GlaxoSmithKline	U.K.	Health Care	281,265	5,194,374	257,953	0.72%
SNAM Rete Gas	Italy	Energy	869,625	4,786,936	(28,757)	0.66%
BP	U.K.	Energy	628,190	4,750,728	(14,268)	0.66%
Takeda Pharmaceutical	Japan	Health Care	87,400	4,473,646	(889,219)	0.62%
China Mobile	China	Telecommunications	436,000	4,376,764	(913,171)	0.61%
Total			**3,896,063**	**$58,509,115**	**($2,448,287)**	**8.10%**

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

Ten Largest Holdings (Excludes Commingled Funds) (Continued)

Year Ended December 31, 2008

Fixed Income

Name of Security	Sector	Fair Value	Unrealized Gain/Loss	% of Total Fixed Income
FNMA Pool 5.5% Due 4/1/2036	Gov. Mortgage Backed	$17,494,268	$860,550	1.29%
U.S. Treasury Notes 4.25% Due 8/15/2014	Government Bonds	14,137,313	1,390,161	1.04%
FNMA 30 Year 6%	Gov. Mortgage Backed	12,172,359	94,889	0.89%
FNMA Pool 6% Due 9/1/2038	Gov. Mortgage Backed	12,170,329	227,461	0.89%
FNMA Pool 5.5% Due 3/1/2037	Gov. Mortgage Backed	12,125,734	384,498	0.89%
FHLMC Pool 5.5% Due 1/1/2035	Gov. Mortgage Backed	11,952,182	138,882	0.88%
FNMA Pool 6.5% Due 9/1/2036	Gov. Mortgage Backed	11,299,688	186,774	0.83%
U.S. Treasury Notes Index Linked	Government Bonds	11,085,515	(805,973)	0.81%
FNMA Bond 6.25% Due 5/15/2029	Government Agencies	10,636,388	1,436,772	0.78%
FNMA 30 Year 5.5%	Gov. Mortgage Backed	10,065,500	99,563	0.74%
Total		**$123,139,276**	**$4,013,578**	**9.05%**

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

Domestic Equity Brokerage Commissions

As of December 31, 2008

Broker Name	Commissions	(#) Shares	Cost per Share
Lynch Jones & Ryan*	$264,094	5,725,773	$0.05
Cabrera Capital Markets**	233,830	7,303,137	0.03
Gardner Rich & Company**	212,791	5,664,715	0.04
Loop Capital Markets**	164,318	4,949,763	0.03
Goldman Sachs & Company	151,715	3,944,211	0.04
Williams Capital Group*	151,317	6,305,922	0.02
Melvin Securities**	137,077	3,579,409	0.04
MR Beal & Company**	124,501	3,489,553	0.04
Instinet*	122,992	3,144,695	0.04
Jeffries & Company	118,570	2,862,066	0.04
Merrill Lynch	111,249	3,436,241	0.03
Liquidnet	90,242	3,753,501	0.02
Credit Suisse First Boston	71,128	3,210,644	0.02
Citigroup Global Markets Inc.	63,011	1,496,233	0.04
UBS Warburg	61,585	6,207,043	0.01
Investment Technology Group	50,875	2,542,409	0.02
Morgan Stanley & Company	45,440	2,819,070	0.02
JonesTrading Institutional Services	41,682	1,596,752	0.03
Lehman Brothers	38,855	1,332,593	0.03
Bernstein, Sanford C. & Company	38,124	1,182,459	0.03
Weeden & Company	36,994	1,706,454	0.02
JP Morgan Securities	35,540	945,471	0.04
Cheevers & Company**	33,867	871,110	0.04
CAP Institutional Services	32,719	688,876	0.05
Citation Group	31,622	760,398	0.04
Oppenheimer & Company	31,466	649,599	0.05
Robert W. Baird & Company	31,385	794,468	0.04
Morgan Keegen & Company	30,929	639,214	0.05
Bear Stearns	30,860	710,251	0.04
Banc America Securities Montgomery	29,411	1,053,169	0.03
Managers with < $25,000 of Commissions	805,941	18,457,278	0.04
Total Domestic Equity Commissions	$3,424,129	101,822,477	$0.03

Investment managers act as fiduciaries in selecting brokers that provide best execution in trading securities on behalf of MEABF.

**Commission recapture brokerage firm. The Retirement Board has commission recapture arrangements with two firms, where 70% of commission costs are rebated to the Fund.*

***Women/minority-owned brokerage firm. The Retirement Board's brokerage policy encourages investment mangers, as they search for best possible trade execution, to utilize women/minority-owned business enterprises, specifically firms headquartered in the State of Illinois.*

International Equity Brokerage Commissions

As of December 31, 2008

Broker Name	Commissions	(#) Shares
State Street Global Advisors	$305,907	130,767,023
Credit Suisse First Boston	90,857	11,834,093
Merrill Lynch	81,023	10,295,819
JP Morgan Securities	80,200	9,812,621
Citigroup Global Markets	79,283	55,019,336
UBS AG	72,612	14,825,290
Macquarie Bank	66,751	29,596,338
Morgan Stanley & Company	63,959	6,555,155
Goldman Sachs & Company	45,703	3,074,760
Deutsche Bank Securities	41,807	6,545,047
Derivatives	38,991	7,946,447
Instinet*	37,481	5,625,613
Donaldson Lufkin & Jenrette Securities	34,682	2,901,408
HSBC Bank	32,819	2,382,014
Credit Lyonnais	32,323	5,052,700
Pershing LLC	29,524	1,066,340
Ridge Clearing & Outsourcing	29,051	2,710,386
Managers with < $25,000 of Commissions	305,785	23,265,571
Total International Equity Commissions	$1,468,758	329,275,961

**Commission recapture brokerage firm. The Retirement Board has commission recapture arrangements with two firms, where 70% of commission costs are rebated to the Fund.*

For a schedule of investment fees by category*, please refer to the schedule "Investment Management Compensation" on pages 51-53.*

Actuarial

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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April 13, 2009

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, 2008. 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 2009. It includes disclosure information required under Governmental Accounting Standards Board (GASB) Statement No. 25, Statement No. 27, Statement No. 43, and Statement No. 45. 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 and GASB Statement No. 43.

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

- Active Member Valuation Data
- Retirees 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.

- Schedule of Funding Progress
- Schedule of Employer Contributions
- We have also provided the following schedules for the financial sections of the report.

This valuation is based upon:

a) **Data Relative to the Members of the Plan—**Data utilized for active members and persons receiving benefits from the Plan was provided by the Plan's staff. We have tested this data for reasonableness.

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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—**The same actuarial assumptions as last year were used for this valuation. They are set out in the following pages.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of the 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 3.33 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 six years and are again expected to be less than the ARC for 2009. In order for employer contributions to be increased, the State legislature would first need to amend the statute.

The valuation results set forth 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. One or more of the undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the Academy of Actuaries to render the actuarial opinion herein.

Gabriel, Roeder, Smith & Company

Michael R. Kivi, F.S.A., E.A., M.A.A.A.	Dana Woolfrey, A.S.A., M.A.A.A.	Paul Wood
Senior Consultant	Senior Analyst	Senior Analyst

Summary of Actuarial Valuation

		December 31, 2007		December 31, 2008	% Change
ACTUARIAL VALUES					
Termination Values					
Liability	$	7,010,401,993	$	7,237,237,762	**3.24 %**
Assets - Actuarial Value		6,890,462,918		6,669,501,770	**(3.21)%**
Deficiency/(Excess)		119,939,076		567,735,992	**373.35 %**
Funded Ratio		**98.29%**		**92.16%**	**(6.24)%**
Actuarial Values [1]					
Actuarial Liability	$	10,186,615,187	$	10,605,848,731	**4.12 %**
Assets - Actuarial Value		6,890,462,918		6,669,501,770	**(3.21)%**
Unfunded Liability (Surplus)		3,296,152,269		3,936,346,961	**19.42 %**
Funded Ratio		**67.64%**		**62.89%**	**(7.03)%**
Annual Required Contribution (ARC)	$	384,169,836	$	436,475,587	**13.62 %**
Market Values					
Actuarial Liability	$	10,186,615,187	$	10,605,848,731	**4.12 %**
Assets - Market Value		7,009,523,943		4,739,613,755	**(32.38)%**
Unfunded Liability		3,177,091,244		5,866,234,976	**84.64 %**
Funded Ratio		**68.81%**		**44.69%**	**(35.06)%**
Book Values					
Actuarial Liability	$	10,186,615,187	$	10,605,848,731	**4.12 %**
Assets - Book Value		5,939,764,793		5,494,716,736	**(7.49)%**
Unfunded Liability (Surplus)		4,246,850,394		5,111,131,995	**20.35 %**
Funded Ratio		**58.31%**		**51.81%**	**(11.15)%**

[1] *Values include both Pension and OPEB*

Summary of Actuarial Valuation (continued)

	December 31, 2007	December 31, 2008	% Change
Assets			
Market Value - Beginning of Year	$ 6,841,127,865	$ 7,009,523,943	**2.46 %**
Income			
Investment Income	485,926,151	(1,947,575,935)	**(500.80)%**
Employer Contributions	148,137,050	155,832,612	**5.19 %**
Employee Contributions	132,442,200	137,748,907	**4.01 %**
Subtotal	766,505,401	(1,653,994,416)	**(315.78)%**
Outgo (Refunds, Benefits & Expenses)	598,109,323	615,915,772	**2.98 %**
Net Change	168,396,078	(2,269,910,188)	**(1,447.96)%**
Market Value - End of Year	$ 7,009,523,943	$ 4,739,613,755	**(32.38)%**
Book Value - Beginning of Year	$ 5,730,220,266	$ 5,939,764,793	**3.66 %**
Income			
Investment Income	527,074,600	(122,713,804)	**(123.28)%**
Employer Contributions	148,137,050	155,832,612	**5.19 %**
Employee Contributions	132,442,200	137,748,907	**4.01 %**
Subtotal	807,653,850	170,867,715	**(78.84)%**
Outgo (Refunds, Benefits & Expenses)	598,109,323	615,915,772	**2.98 %**
Net Change	209,544,527	(445,048,057)	**(312.39)%**
Book Value - End of Year	$ 5,939,764,793	$ 5,494,716,736	**(7.49)%**
Actuarial Value - Beginning of Year	$ 6,509,145,626	$ 6,890,462,918	**5.86 %**
Income			
Investment Income	698,847,365	101,373,105	**(85.49)%**
Employer Contributions	148,137,050	155,832,612	**5.19 %**
Employee Contributions	132,442,200	137,748,907	**4.01 %**
Subtotal	979,426,615	394,954,624	**(59.67)%**
Outgo (Refunds, Benefits & Expense)	598,109,323	615,915,772	**2.98 %**
Net Change	381,317,292	(220,961,148)	**(157.95)%**
Actuarial Value - End of Year	$ 6,890,462,918	$ 6,669,501,770	**(3.21)%**

Summary of Actuarial Valuation (continued)

	December 31, 2007	December 31, 2008	% Change
Members			
Active[1]	34,885	32,563	**(6.66)%**
Inactive	9,105	12,082	**32.70 %**
Retirees	18,198	18,173	**(0.14)%**
Deferred	3	5	**66.67 %**
Survivors	4,410	4,378	**(0.73)%**
Disabilities	513	458	**(10.72)%**
Children	178	174	**(2.25)%**
Payroll Data			
Valuation Payroll	$ 1,564,458,835	$ 1,543,976,553	**(1.31)%**
Average Salary	44,846	47,415	**5.73 %**

[1]*Active members 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, 2008. The purposes of this valuation are:

1. To develop the minimum actuarially determined contribution for 2009.
2. To develop the annual required contribution (ARC) under GASB #25 and GASB #43.
3. To develop the annual pension cost under GASB #27 and the annual OPEB cost under GASB #45.
4. 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 active lives.

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.

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. 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, 2009, is $413.5 million, which is for pension benefits only. This amount is net of employee contributions of $134.2 million and is based on a 30-year amortization period.

GASB #43 requires the calculation of a separate ARC for Other Postemployment Benefits (OPEB) beginning with the Fund's 2006 fiscal year. The OPEB ARC for the fiscal year ending December 31, 2009, is $23.0 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)

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 requires the use of a 30-year amortization period to determine the pension ARC.

The Unfunded Actuarial Accrued Liability based on the Actuarial Value of Assets increased from $3.296 billion to $3.936 billion during the year, resulting in a change in funding ratio from 67.6 percent to 62.9 percent. The increase in the Unfunded Actuarial Accrued Liability is largely attributable to large investment losses and a shortfall in contributions relative to the actuarially determined contribution requirement. A more thorough examination of these and other factors can be found in the Analysis of Financial Experience and the Reconciliation of Funded Ratio.

Based on the Market Value of Assets, the Unfunded Actuarial Accrued Liability increased from $3.177 billion to $5.866 billion, and the funded ratio decreased from 68.8 percent to 44.7 percent.

Plan Membership

	December 31, 2007	December 31, 2008
Active Members [1]		
Number	34,885	32,563
Vested	16,117	16,301
Non-vested	18,768	16,262
Average Age	46.1	46.7
Average Service	10.8	11.4
Average Annual Salary	$44,846	$47,415
Inactive Members		
Number	9,105	12,082
Average Age	44.7	44.3
Average Service	4.2	4.6
Retirees		
Number	18,198	18,173
Average Age	72.4	72.6
Average Annual Benefit	$27,960	$28,928
Deferreds		
Number	3	5
Average Age	52.9	53.6
Average Annual Benefit	$8,668	$7,949
Surviving Spouses		
Number	4,410	4,378
Average Age	77.2	77.3
Average Annual Benefit	$11,589	$11,867
Children	178	174
Total Members	66,779	67,375

[1]*Active members include disabled employees.*

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

Total members receiving benefits under the Plan decreased 0.3 percent during 2008, from 22,608 to 22,551, while the number of active members decreased 6.7 percent from 34,885 to 32,563. Total expenditures for benefits increased from $563 million in 2007 to $583 million during 2008, or 3.6 percent.

Changes in Provisions of the Plan

There were no changes to the fund provisions in 2008.

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:

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

2. Economic Assumptions - reflect the effect of the economic climate on a retirement system.

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

The same assumptions that were used in the prior valuation as of December 31, 2007, were used.

2008 Experience Analysis

The Fund had an investment loss in 2008 of $2,495 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 $437 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 $7 million. Service credit changes and purchases resulted in an experience loss of $10 million.

There was an additional gain of $25 million from all other factors, including actual retirement, termination, disability, mortality experience, and data changes. This is about 0.2 percent of the December 31, 2008, liability, which is a reasonable variation.

The following tables summarize the experience gains and losses for the year.

Reconciliation of Funded Ratio

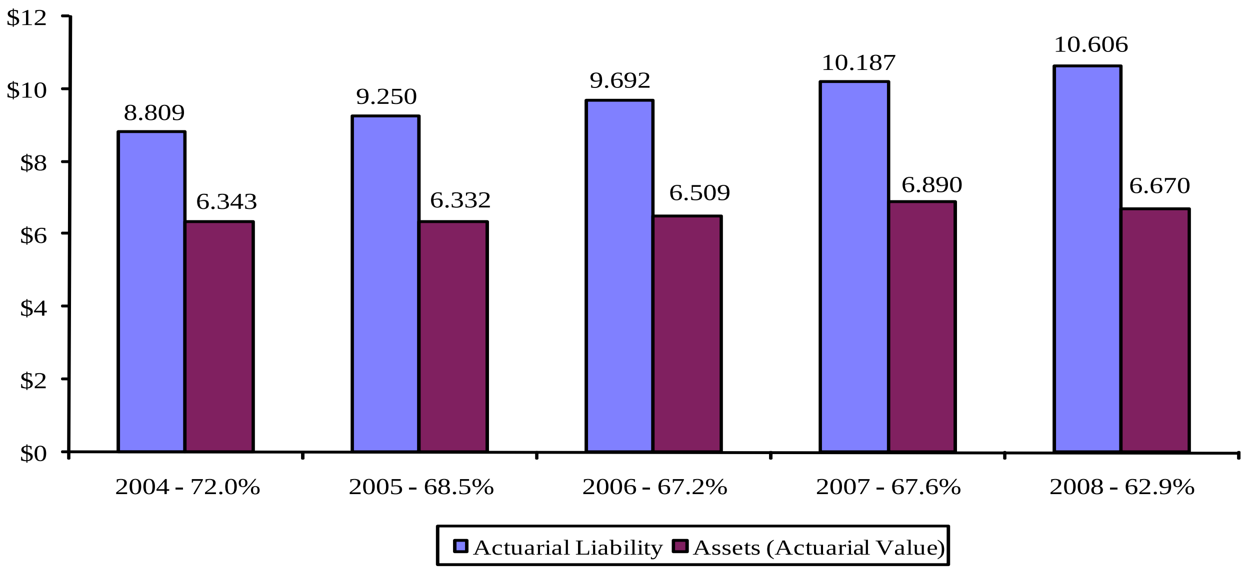
	2008	2007
Funded Ratio Beginning of Year	**67.64%**	**67.16%**
Expected Increase If All Assumptions Realized	1.31%	1.27%
Expected Funded Ratio	**68.95%**	**68.43%**
Gains (Losses) during the Year Attributable to:		
Contributions in Excess (Less Than) of Normal Cost plus Interest	-2.00%	-1.98%
Gain (Loss) on Investment Return	-4.12%	1.89%
Gain (Loss) from Salary Changes	-0.03%	0.05%
Gain (Loss) from Retirement, Termination, & Mortality	0.15%	-0.48%
Gain (Loss) from Data Corrections	0.00%	0.00%
Gain (Loss) from Transfers	0.00%	0.00%
Change in Methodology	0.00%	0.00%
Non-ERI Service Credit Changes and Purchases	-0.06%	-0.27%
Changes in Assumptions	0.00%	0.00%
Plan Amendments	0.00%	0.00%
Total Gain (Losses) During the Year	-6.06%	-0.79%
Funded Ratio End of Year	**62.89%**	**67.64%**

Analysis of Financial Experience

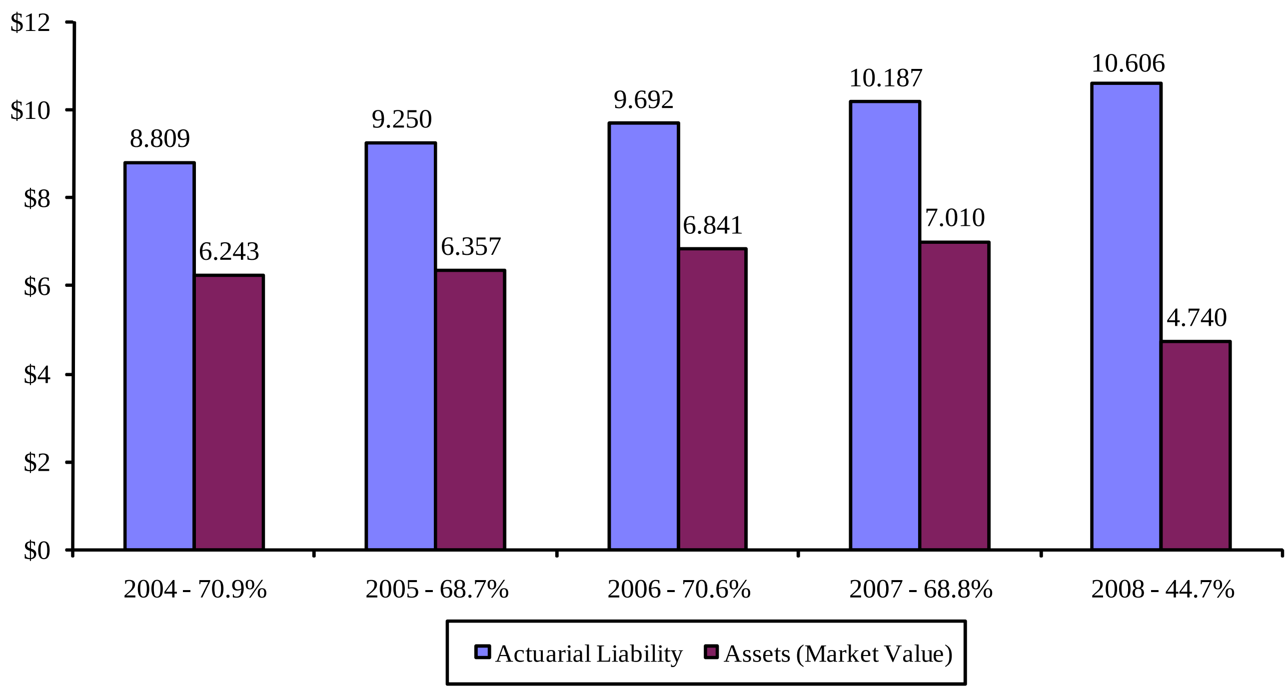
	2008	2007	2006	2005	2004
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) Beginning of Year	$3,296,152,269	$3,183,173,857	$2,917,833,141	$2,465,424,785	$1,604,537,599
(Gains) Losses during the Year Attributable to:					
Contributions less than (in excess of) Normal Cost plus Interest	211,536,054	190,581,204	160,792,128	117,187,386	32,776,482
(Gain) Loss on Investment Return	437,218,599	(190,572,574)	23,783,664	218,674,940	282,820,577
(Gain) Loss from Salary Changes	6,654,805	(7,181,683)	15,270,913	79,469,300	(48,441,973)
(Gain) Loss from Retirement, Termination, & Mortality	(25,452,703)	71,476,178	51,557,086	122,267,607	109,401,939
(Gain) Loss from Data Corrections	-	-	-	-	-
(Gain) Loss from Transfers	-	-	-	-	24,201,945
Change in Methodology	-	-	-	-	-
Non-ERI Service Credit Changes/Purchases	10,237,937	39,675,287	13,936,925	10,339,947	95,475,721
Changes in Assumptions	-	-	-	(95,530,824)	-
Plan Amendments	-	-	-	-	364,652,495
Net Increase (Decrease) in UAAL	640,194,692	112,978,412	265,340,716	452,408,356	860,887,186
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) End of Year	$3,936,346,961	$3,296,152,269	$3,183,173,857	$2,917,833,141	$2,465,424,785

Funding Analysis

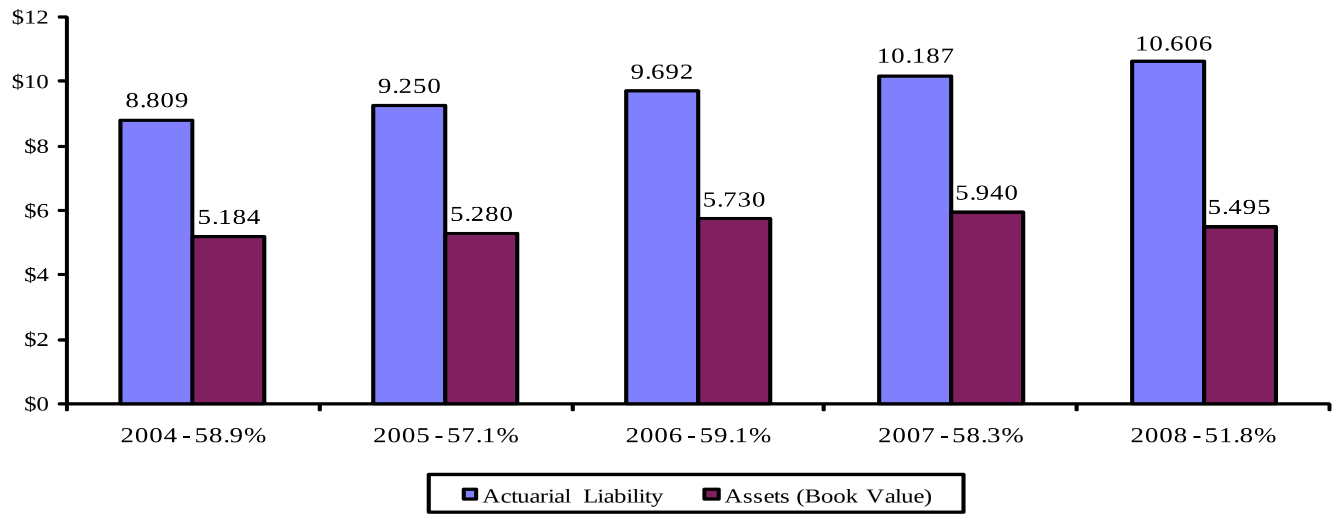
COMPONENTS OF FUNDED RATIO
BASED ON ACTUARIAL VALUE OF ASSETS
($ IN BILLIONS)



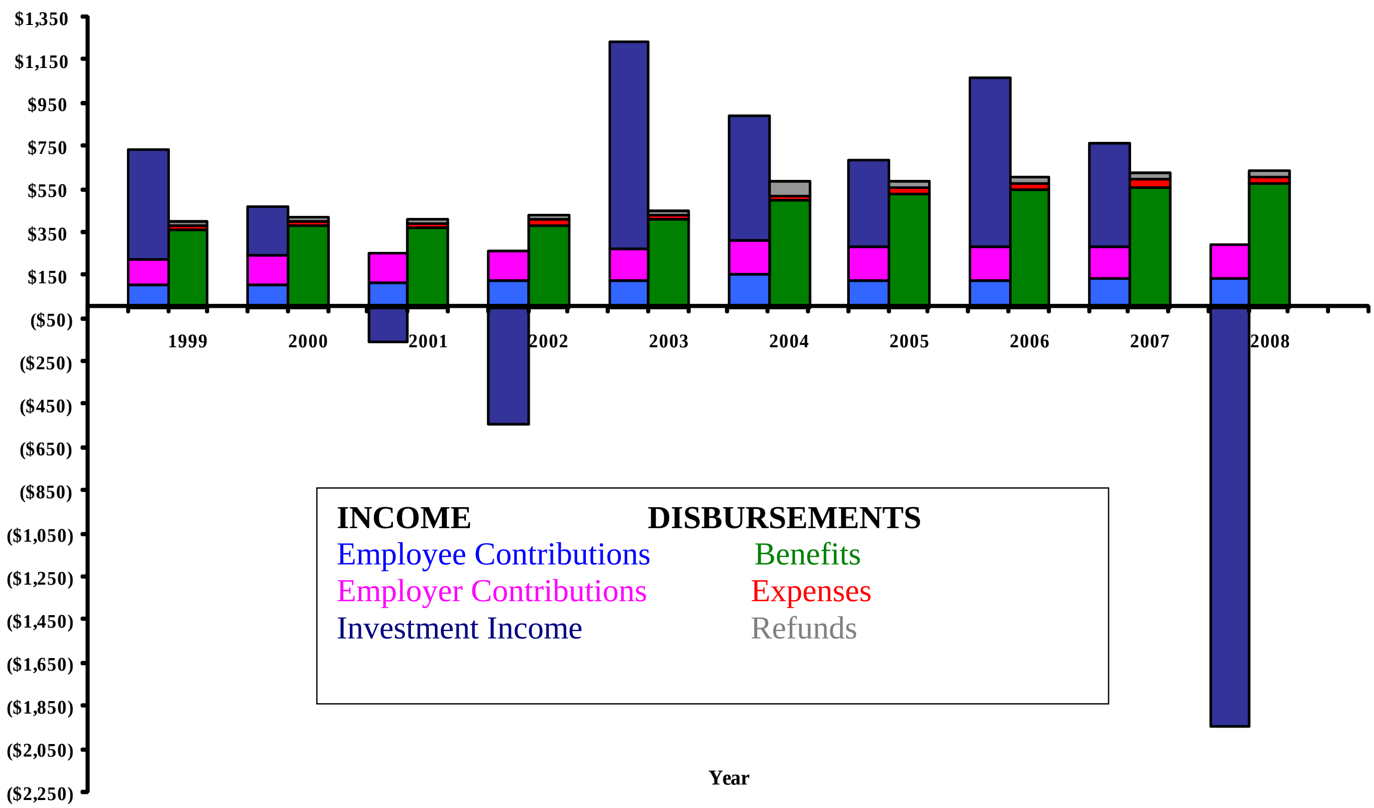
COMPONENTS OF FUNDED RATIO
BASED ON MARKET VALUE
($ IN BILLIONS)



COMPONENTS OF FUNDED RATIO
BASED ON BOOK VALUE ($ IN BILLIONS)



SUMMARY OF INCOME AND DISBURSEMENTS ($ IN MILLIONS)



Conclusion

On a market value basis, the funded ratio has decreased from 68.8 percent in the last valuation to 44.7 percent in this valuation due to lower than expected returns on a Market Value of Assets basis and contribution shortfalls. When measured using the Actuarial Value of Assets, which smoothes gains and losses over a five-year period, the funding ratio decreased from 67.6 percent in 2007 to 62.9 percent in 2008. 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	2009 Normal Cost
(1) Values for Active and Inactive Members		
(a) Retirement	$ 5,650,864,090	$ 146,591,367
(b) Termination - Vested	387,310,859	22,847,558
(c) Termination - Non Vested	82,846,941	25,985,715
(d) Death	126,847,328	6,084,610
(e) Inactive Vested and Non-Vested	311,988,015	-
(f) Health Insurance	224,246,764	9,365,607
(g) Disability	-	11,579,824
(h) Expenses of Administration	-	7,749,714
Total for Actives and Inactives	$ 6,784,103,997	$ 230,204,395
(2) Values for Members in Payment Status	$ 5,701,015,809	$ -
(3) Grand Totals	$ 12,485,119,806	$ 230,204,395
Actuarial Present Value of Future Compensation		$ 13,682,454,984

Summary of Actuarial Values

As of December 2008

Accrued Liabilities for Active and Inactive Participants [1]	$ 4,904,832,922
Reserves For:	
Service Retirement Pension	$ 4,873,753,219
Future Spouses of Current Retirees	398,254,048
Surviving Spouse Pension	340,127,689
Health Insurance Supplement	87,160,812
Children Annuitants	1,720,041
Total Accrued Liabilities	$ 10,605,848,731
Unfunded Actuarial Liabilities	$ 3,936,346,961
Actuarial Net Assets	$ 6,669,501,770

[1] *Accrued liabilities for active participants include retirement liability for members in ordinary or duty disabled status. Liability for disability benefits is recognized as a one-year term cost of 0.75 percent of pay added to the normal cost.*

Statutory Reserves

As of December 2008

	Annuity Payment Fund	Prior Service Fund	Total
Statutory Reserves[1]			
Retirees	$ 1,103,003,738	$ 4,247,330,626	$ 5,350,334,364
Future Surviving Spouses	251,955,580	357,165,161	609,120,741
Spouses	157,846,352	170,823,380	328,669,732
Annual Benefits			
Retirees	$ 134,264,312	$ 391,443,040	$ 525,707,352
Future Surviving Spouses	N/A	N/A	N/A
Spouses	23,334,661	28,619,927	51,954,588

[1] *Statutory Reserves are based on the Combined Annuity Mortality Table with interest at 3% per annum or the American Experience Table of Mortality at 4% per annum*

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)
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%
2006	1,347,789,693	5,438,978,756	2,905,551,034	6,509,145,626	100.00%	94.90%	0.00%
2007	1,437,604,071	5,572,797,922	3,176,213,194	6,890,462,918	100.00%	97.85%	0.00%
2008	1,536,221,953	5,701,015,809	3,368,610,969	6,669,401,770	100.00%	90.04%	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 plan'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 plan 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 plan 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, 2008

(1) **Expected Return on Market Value of Assets for Prior Year**

(a) Market Value of Assets as of 12/31/2007	$ 7,009,523,943
(b) Actual Income and Disbursements in Prior Year Weighted for Timing	

	Item	Amount	Weight for Timing	Weighted Amount
i)	Member Contributions	$ 137,748,907	50.0%	$ 68,874,454
ii)	City Contributions & Misc.	155,832,612	50.0%	77,916,306
iii)	Benefit Payments	(582,664,073)	50.0%	(291,332,037)
iv)	Refunds	(25,501,985)	50.0%	(12,750,993)
v)	Administration	(7,749,714)	50.0%	(3,874,857)
vi)	Total			$(161,167,127)

(c) Market Value of Assets Adj. for Actual Income and Disbursements [(a) + (b)(vi))]	$ 6,848,356,816
(d) Assumed Rate of Return on Plan Assets for the Year	8.00%
(e) Expected Return [(c) * (d)]	$ 547,868,545

(2) **Actual Return on Market Value of Assets for Prior Year**

(a) Market Value of Assets as of 12/31/2007	$ 7,009,523,943
(b) Income (less investment income) for Prior Plan Year	293,581,519
(c) Disbursements Paid in Prior Year	615,915,772
(d) Market Value of Assets as of 12/31/2008	4,739,613,755
(e) Actual Return [(d) + (c) - (b) - (a)]	$ (1,947,575,935)

(3) **Investment Gain/(Loss) for Prior Year**	$ (2,495,444,480)

(4) **Actuarial Value of Assets as of 12/31/2008**

(a) Market Value of Assets as of 12/31/2008	$ 4,739,613,755
(b) Deferred Investment Gains and (Losses) for Last 5 Years	

	Plan Year	Gain/(Loss)	Weight for Timing	Deferred Amount
i)	2004	$ 115,258,014	0.00%	$ -
ii)	2005	(85,582,181)	20.00%	(17,116,436)
iii)	2006	281,954,324	40.00%	112,781,730
iv)	2007	(48,662,875)	60.00%	(29,197,725)
v)	2008	(2,495,444,480)	80.00%	(1,996,355,584)
vi)	Total	$ (2,232,477,480)		$(1,929,888,015)

(c) Actuarial Value of Assets [(a) - (b) (vi)]	$ 6,669,501,770

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
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%
2006	325,913,986	153,184,000	157,062,769	48.19%
2007	366,410,212	146,096,000	148,137,050	40.43%
2008	384,169,836	155,136,000	155,832,612	40.56%

[1]Under Normal Cost plus Level-Dollar Amortization. Amortization period of 30 years beginning in 2007 and 40 years prior to 2007. Negative ARC values are set to Zero, as no contribution is then required
[2]Tax levy after 4.00 percent 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
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%
2006	67.16%	215.68 %	11.16%
2007	67.64%	210.69 %	10.04%
2008	62.89%	254.95 %	9.96%

Actuarial accrued liabilities and contributions include pension and OPEB

Retirees and Beneficiaries Added To and Removed From Payrolls
Last ten years

Year	Added to Payroll No.	Added to Payroll Ann. Benefits[1]	Removed from Payroll No.	Removed from Payroll Ann. Benefits	Payroll End of Year No.	Payroll End of Year Ann. Benefits	Average Annual Benefit	Increase in Average Benefit
Employee Annuitants (Male and Female)								
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[2]	3,133	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%
2006	713	30,424,920	751	15,961,128	18,183	491,452,740	27,028	3.25%
2007	769	34,450,704	754	17,087,448	18,198	508,815,996	27,960	3.45%
2008	743	34,658,424	768	17,767,068	18,173	525,707,352	28,928	3.46%
Surviving Spouse Annuitants (Not Including Compensation)								
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%
2006	265	3,498,720	281	2,904,360	4,451	50,672,592	11,385	1.55%
2007	247	3,464,400	288	3,029,244	4,410	51,107,748	11,589	1.79%
2008	260	3,989,592	292	3,142,752	4,378	51,954,588	11,867	2.40%

[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
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 %
2006	33,429	(0.93)%	1,475,877,378	4.87 %	44,150	5.86 %	4.50 %	0.71 %
2007	34,885	4.36 %	1,564,458,835	6.00 %	44,846	1.58 %	4.50 %	4.73 %
2008	32,563	(6.66)%	1,543,976,553	(1.31)%	47,415	5.73 %	4.50 %	(0.58)%
Average Increase (Decrease) for the Last five years		(1.56)%		2.19 %		3.79 %	4.60 %	2.13 %

Actuarial Methods and Assumptions
As of December 31, 2008

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 spreading the actuarial value of benefits expected to be received by each active participant over the total working lifetime of that participant, from hire to termination, 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., 30 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, sex distinct Tables 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. The 8.00 percent 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
1	7.00%
2	6.75%
3	6.25%
4	5.75%
5	5.25%
6-19	4.75%
20+	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, age 65 and older, 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.

Statistical

The Statistical section of the comprehensive annual financial report contains trend information to help the reader understand how the Plan's financial performance had changed over time.

Source of Data
Data presented in this section of the comprehensive annual financial report is derived from the financial statements; retirement files prepared by the Plan staff and from the actuarial valuation report.

Methodology
Data were imported into Microsoft Excel for calculations and for generating graphs and statistical tables with ten years of data.

Assumptions
Active members are those with reported wages in the last payroll of the calendar year. Retired members and beneficiaries are those who were paid benefits in the last month of calendar year.

Changes in Plan Net Assets
(Last ten years)

	2008	2007	2006	2005	2004
Pension Plan					
Additions:					
Employer contributions	$ 146,803,250	$ 139,606,140	$ 148,332,293	$ 146,190,095	$ 145,229,519
Member contributions	137,748,907	132,442,200	129,466,091	122,542,484	155,884,575
Net investment income	(1,947,575,935)	484,959,594	778,725,950	402,310,621	578,730,089
Total Additions	(1,663,023,778)	757,007,934	1,056,524,334	671,043,200	879,844,183
Deductions:					
Annuities	561,947,108	543,411,793	528,426,078	514,623,174	481,319,408
Disabilities	11,687,603	10,624,807	10,267,132	9,990,510	8,830,525
Refunds	25,501,985	28,009,512	27,194,308	26,737,456	64,272,300
Administrative Expenses	7,279,224	6,082,154	6,397,685	5,545,268	5,470,007
Total Deductions	606,415,920	588,128,266	572,285,203	556,896,408	559,892,240
Net Increase/(Decrease)	(2,269,439,698)	168,879,668	484,239,131	114,146,792	319,951,943
Beginning of year	7,010,007,533	6,841,127,865	6,356,888,734	6,242,741,942	5,922,789,999
End of year	$ 4,740,567,835	$ 7,010,007,533	$ 6,841,127,865	$ 6,356,888,734	$ 6,242,741,942
Post employment Healthcare					
Additions:					
Employer Contributions	$ 9,029,362	$ 8,530,910	$ 8,730,476	8,877,021	8,689,957
Total Additions	9,029,362	8,530,910	8,730,476	8,877,021	8,689,957
Deductions:					
Health Insurance Subsidy:					
Retiree	7,628,736	7,199,189	7,373,775	7,499,145	7,301,575
Spouse	1,389,751	1,318,801	1,343,866	1,367,932	1,376,142
Children	10,875	12,920	12,835	9,944	12,240
Total Health Insurance Subsidy	9,029,362	8,530,910	8,730,476	8,877,021	8,689,957
OPEB Expenses	470,490	483,590	-		-
Total Deductions	9,499,852	9,014,500	8,730,476	8,877,021	8,689,957
Net Decrease	(470,490)	(483,590)	-	-	-
Beginning of year	(483,590)	-	-	-	-
End of year	$ (954,080)	$ (483,590)	$ -	$ -	$ -

Changes in Plan Net Assets (continued)
(Last ten years)

	2003	2002	2001	2000	1999
Pension Plan					
Additions:					
Employer contributions	$ 135,001,282	$ 124,687,759	$ 125,167,581	$ 134,337,010	$ 113,174,381
Member contributions	129,644,188	128,395,307	118,240,723	107,371,034	102,454,040
Net investment income	961,888,872	(538,062,313)	(158,373,573)	217,067,663	515,440,459
Total Additions	1,226,534,342	(284,979,247)	85,034,731	458,775,707	731,068,880
Deductions:					
Annuities	390,834,937	370,006,543	356,548,995	365,432,606	346,886,713
Disabilities	10,879,692	10,586,498	7,919,981	6,945,471	6,629,484
Refunds	25,561,485	22,425,917	21,951,794	24,674,848	21,199,532
Administrative Expenses	4,678,634	4,557,088	4,086,513	3,844,081	3,851,246
Total Deductions	431,954,748	407,576,046	390,507,283	400,897,006	378,566,975
Net Increase/(Decrease)	794,579,594	(692,555,293)	(305,472,552)	57,878,701	352,501,905
Beginning of year	5,128,210,404	5,820,765,697	6,126,238,249	6,068,359,549	5,715,857,644
End of year	$ 5,922,789,998	$ 5,128,210,404	$ 5,820,765,697	$ 6,126,238,250	$ 6,068,359,549
Post employment Healthcare					
Additions:					
Employer Contributions	$ 6,881,611	$ 6,278,622	$ 6,272,253	5,834,910	6,469,805
Total Additions	6,881,611	6,278,622	6,272,253	5,834,910	6,469,805
Deductions:					
Health Insurance Subsidy:					
Retiree	5,606,013	5,109,041	5,103,748	4,765,407	5,319,168
Spouse	1,275,598	1,169,581	1,168,505	1,069,503	1,150,637
Children	-	-	-	-	-
Total Health Insurance Subsidy	6,881,611	6,278,622	6,272,253	5,834,910	6,469,805
OPEB Expenses	-	-	-		
Total Deductions	6,881,611	6,278,622	6,272,253	5,834,910	6,469,805
Net Decrease	-	-	-	-	-
Beginning of year	-	-	-	-	-
End of year	$ -	$ -	$ -	$ -	$ -

Additions By Source – Pension Plan
(Last ten years)

Year	Employer Contributions	Employee Contributions	Investment Income (net of expense)	Total
1999	$ 113,174,381	$ 102,454,040	$ 515,440,459	$ 731,068,880
2000	134,337,010	107,371,034	217,067,663	458,775,707
2001	125,167,581	118,240,723	(158,373,573)	85,034,731
2002	124,687,759	128,395,307	(538,062,313)	(284,979,247)
2003	135,001,282	129,644,188	961,888,872	1,226,534,342
2004	145,229,519	155,884,575	578,730,089	879,844,183
2005	146,190,095	122,542,484	402,310,621	671,043,200
2006	148,332,293	129,466,091	778,725,950	1,056,524,334
2007	139,606,140	132,442,200	484,959,594	757,007,934
2008	146,803,250	137,748,907	(1,947,575,935)	(1,663,023,778)

Additions By Source - Post employment Healthcare
(Last ten years)

Year	Employer Contributions
1999	$ 6,469,805
2000	5,834,910
2001	6,272,253
2002	6,278,622
2003	6,881,611
2004	8,689,957
2005	8,877,021
2006	8,730,476
2007	8,530,910
2008	9,029,362

Deductions By Type – Pension Plan
(Last ten years)

Year	Benefits	Refunds	Administrative Expense	Total
1999	$ 353,516,197	$ 21,199,532	$ 3,851,246	$ 378,566,975
2000	372,378,077	24,674,848	3,844,082	400,897,007
2001	364,468,976	21,951,794	4,086,513	390,507,283
2002	380,593,041	22,425,917	4,557,088	407,576,046
2003	401,714,629	25,561,485	4,678,634	431,954,748
2004	490,149,933	64,272,300	5,470,007	559,892,240
2005	524,613,684	26,737,456	5,545,268	556,896,408
2006	538,693,210	27,194,308	6,397,685	572,285,204
2007	554,036,600	28,009,512	6,082,154	588,128,266
2008	573,634,711	25,501,985	7,279,224	606,415,920

Deductions By Type - Post employment Healthcare*
(Last ten years)

Year	Health Insurance Subsidy	MEAB OPEB expenses	Total
1999	$ 6,469,805	$ -	$ 6,469,805
2000	5,834,910	-	5,834,910
2001	6,272,253	-	6,272,253
2002	6,278,622	-	6,278,622
2003	6,881,611	-	6,881,611
2004	8,689,957	-	8,689,957
2005	8,877,021	-	8,877,021
2006	8,730,476	-	8,730,476
2007	8,530,910	483,590	9,014,500
2008	9,029,362	470,490	9,499,852

*Governmental Accounting Standards Board Statement (GASB) No. 43, Financial Reporting for Post employment Benefit Plans Other Than Pension Plan was adopted in 2006 calendar year and GASB No. 45 Accounting and Financial Reporting by Employers for Post employment benefits Other than Pension was adopted in 2007 calendar year.

Benefits by Type

(Last ten years)

	2008	2007	2006	2005	2004
Pension Plan					
Annuity:					
Employee	$ 509,510,036	$ 491,780,107	$ 477,505,602	$ 464,243,871	$ 431,559,744
Surviving Spouse	51,880,155	51,063,889	50,340,031	49,783,518	49,163,339
Children	556,917	567,797	580,445	595,785	596,325
Total Annuity	561,947,108	543,411,793	528,426,078	514,623,174	481,319,408
Disability:					
Ordinary	8,311,069	7,857,240	7,824,045	8,011,243	7,200,947
Duty	3,376,534	2,767,567	2,443,087	1,979,267	1,629,578
Total Disability	11,687,603	10,624,807	10,267,132	9,990,510	8,830,525
Total Pension Benefits	$ 573,634,711	$ 554,036,600	$ 538,693,210	$ 524,613,684	$ 490,149,933
Post employment Healthcare					
Health Insurance Subsidy:					
Employee	$ 7,628,736	$ 7,199,189	$ 7,373,775	$ 7,499,145	$ 7,301,575
Surviving Spouse	1,389,751	1,318,801	1,343,866	1,367,932	1,376,142
Children	10,875	12,920	12,835	9,944	12,240
Total Healthcare Benefits	$ 9,029,362	$ 8,530,910	$ 8,730,476	$ 8,877,021	$ 8,689,957
Combined Total Benefits	$ 582,664,073	$ 562,567,510	$ 547,423,686	$ 533,490,705	$ 498,839,890

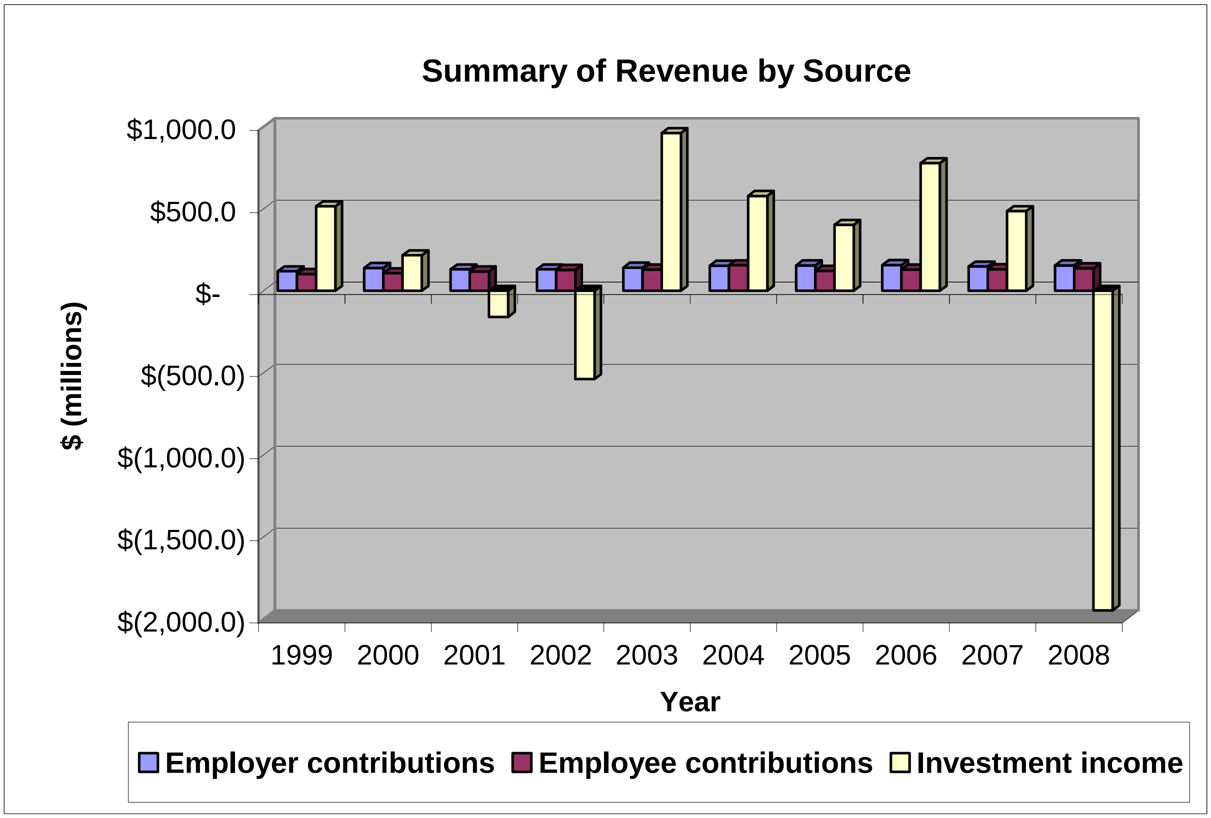
Benefits by Type (continued)
(Last ten years)

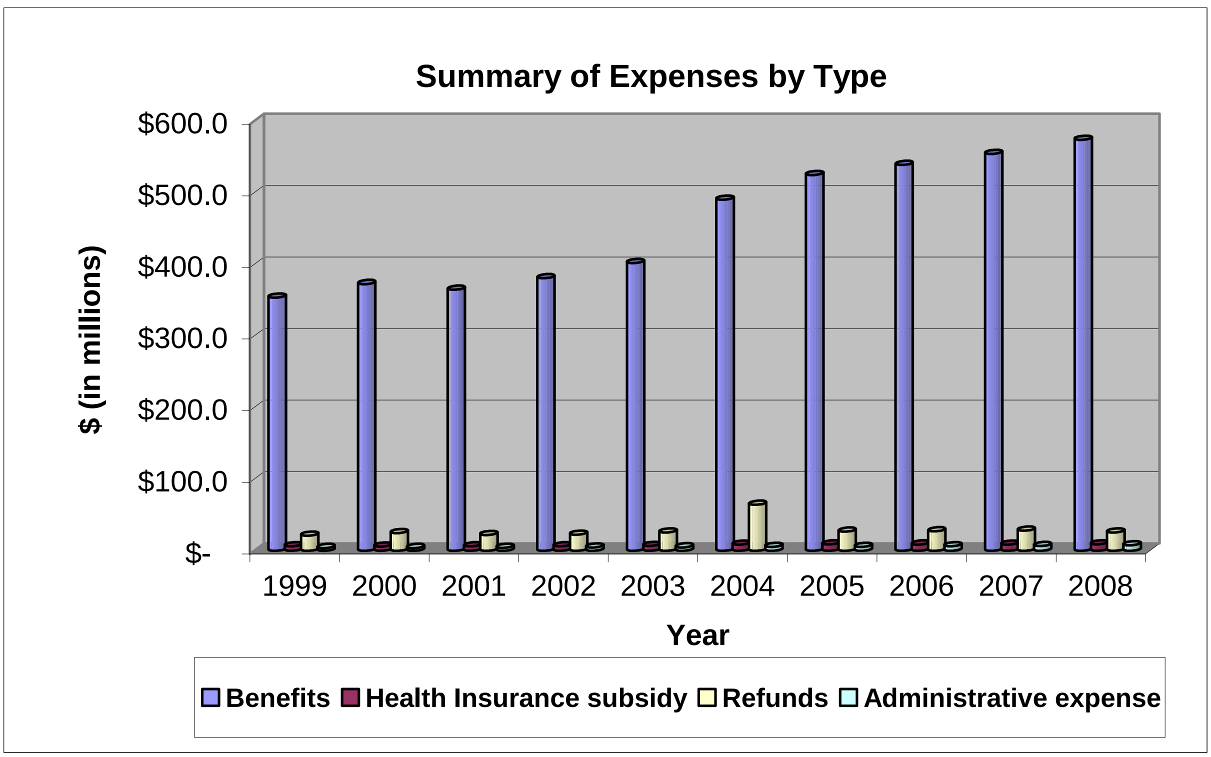
	2003	2002	2001	2000	1999
Pension Plan					
Annuity:					
Employee	$ 341,614,634	$ 321,677,720	$ 308,930,340	$ 316,479,067	$ 300,490,756
Surviving Spouse	48,558,458	47,691,000	47,073,636	48,410,776	45,783,597
Children	661,845	637,823	545,019	542,763	612,360
Total Annuity	390,834,937	370,006,543	356,548,995	365,432,606	346,886,713
Disability:					
Ordinary	8,475,088	8,321,808	5,893,479	5,306,741	5,159,383
Duty	2,404,604	2,264,690	2,026,502	1,638,730	1,470,101
Total Disability	10,879,692	10,586,498	7,919,981	6,945,471	6,629,484
Total Pension Benefits	$ 401,714,629	$ 380,593,041	$ 364,468,976	$ 372,378,077	$ 353,516,197
Post employment Healthcare					
Health Insurance Subsidy:					
Employee	$ 5,606,013	$ 5,109,041	$ 5,103,748	$ 4,765,407	$ 5,319,168
Surviving Spouse	1,275,598	1,169,581	1,168,505	1,069,503	1,150,637
Children	-	-	-	-	-
Total Healthcare Benefits	$ 6,881,611	$ 6,278,622	$ 6,272,253	$ 5,834,910	$ 6,469,805
Combined Total Benefits	$ 408,596,240	$ 386,871,663	$ 370,741,229	$ 378,212,987	$ 359,986,002

Refunds by Type (Last ten years)

Year	Separation	Beneficiaries	Others[1]	Total
1999	$ 20,957,744	N/A	$ 241,788	21,199,532
2000	20,983,768	$ 2,670,519	1,020,561	24,674,848
2001	19,548,445	2,096,763	306,582	21,951,794
2002	19,682,186	1,771,013	972,718	22,425,917
2003	21,848,317	2,884,456	828,712	25,561,485
2004	41,155,595	2,351,692	20,765,013	64,272,300
2005	23,302,733	3,015,029	419,694	26,737,456
2006	24,417,644	2,253,324	523,340	27,194,308
2007	24,156,118	2,649,518	1,203,876	28,009,512
2008	22,271,312	2,380,730	849,943	25,501,985

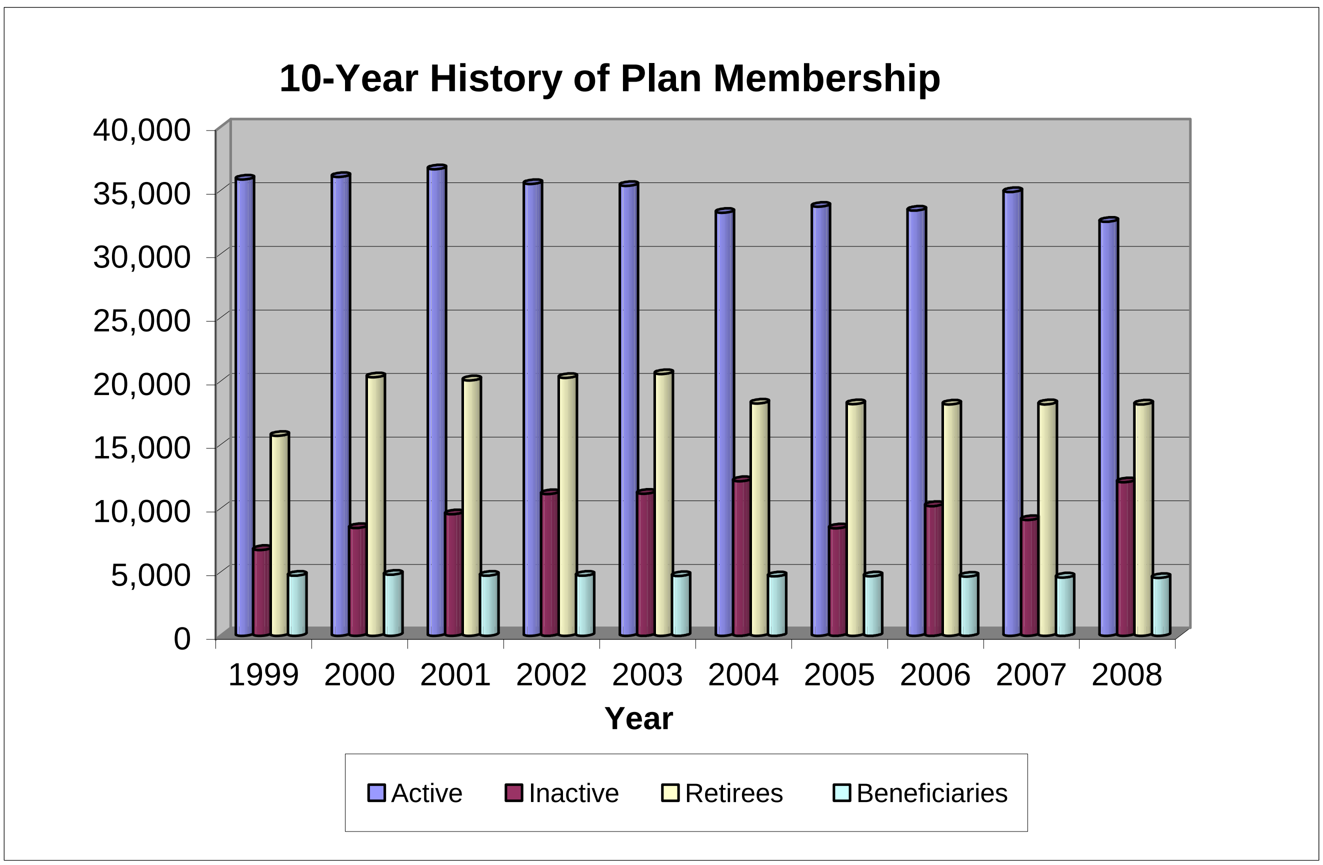
[1]Others include transfer of contributions to other Funds and refunds due to error in deductions
N/A - not available


Summary of Revenue by Source
$1,000.0
$500.0
$-
$(500.0)
$(1,000.0)
$(1,500.0)
$(2,000.0)
$ (millions)
1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Year
Employer contributions
Employee contributions
Investment income


Summary of Expenses by Type
$600.0
$500.0
$400.0
$300.0
$200.0
$100.0
$-
$ (in millions)
1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Year
Benefits
Health Insurance subsidy
Refunds
Administrative expense

10-Year History of Plan Membership

Year	Active	Inactive	Retirees	Beneficiaries	Total
1999	35,868	6,752	15,717	4,727	63,064
2000	36,089	8,469	15,530	4,797	64,885
2001	36,679	9,551	15,365	4,723	66,318
2002	35,522	11,137	15,550	4,729	66,938
2003	35,384	11,159	15,862	4,711	67,116
2004	33,267	12,161	18,260	4,673	68,361
2005	33,743	8,440	18,224	4,671	65,078
2006	33,429	10,200	18,184	4,644	66,457
2007	34,885	9,105	18,201	4,588	66,779
2008	32,563	12,082	18,178	4,552	67,375



Average Pension Benefit Payments to New Retirees (Last ten years)

Retirement Effective Dates		10-14	15-19	20-24	25-30	30+	Total
	Average Monthly Benefit at Retirement	N/A	N/A	N/A	N/A	N/A	$ 1,138
1999	Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	$ 2,340
	Number of New Retirees	N/A	N/A	N/A	N/A	N/A	604
	Average Monthly Benefit at Retirement	N/A	N/A	N/A	N/A	N/A	$ 1,236
2000	Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	$ 2,764
	Number of New Retirees	N/A	N/A	N/A	N/A	N/A	593
	Average Monthly Benefit at Retirement	N/A	N/A	N/A	N/A	N/A	$ 1,506
2001	Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A
	Number of New Retirees	N/A	N/A	N/A	N/A	N/A	557
	Average Monthly Benefit at Retirement	N/A	N/A	N/A	N/A	N/A	$ 2,025
2002	Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	$ 3,406
	Number of New Retirees	N/A	N/A	N/A	N/A	N/A	910
	Average Monthly Benefit at Retirement	$ 921	$ 1,391	$ 1,813	$ 2,550	$ 3,532	$ 2,419
2003	Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	$ 3,406
	Number of New Retirees	135	107	98	133	318	791
	Average Monthly Benefit at Retirement	$ 911	$ 1,631	$ 2,237	$ 2,776	$ 3,767	$ 3,005
2004	Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A
	Number of New Retirees	137	210	473	583	1,408	2,811
	Average Monthly Benefit at Retirement	$ 1,067	$ 1,250	$ 1,578	$ 2,177	$ 3,269	$ 2,394
2005	Average Final Average Salary	$ 2,955	$ 2,799	$ 3,110	$ 3,298	$ 4,095	$ 3,565
	Number of New Retirees	56	54	51	65	219	445
	Average Monthly Benefit at Retirement	$ 1,141	$ 1,286	$ 1,577	$ 2,416	$ 3,610	$ 2,451
2006	Average Final Average Salary	$ 3,471	$ 2,927	$ 3,076	$ 3,716	$ 4,555	$ 3,804
	Number of New Retirees	53	60	95	73	194	475
	Average Monthly Benefit at Retirement	$ 1,198	$ 1,381	$ 2,029	$ 2,658	$ 3,919	$ 2,800
2007	Average Final Average Salary	$ 3,548	$ 3,075	$ 3,796	$ 2,811	$ 4,939	$ 4,242
	Number of New Retirees	54	69	94	70	229	516
	Average Monthly Benefit at Retirement	$ 1,293	$ 1,630	$ 2,031	$ 2,765	$ 4,129	$ 2,847
2008	Average Final Average Salary	$ 3,980	$ 3,565	$ 3,981	$ 4,199	$ 5,285	$ 4,491
	Number of New Retirees	60	65	106	63	206	500

This schedule excludes reciprocal annuities, money purchase annuities and minimum annuities beginning in 2003
N/A - not available

Source of Data: 2008 Actuarial Valuation Report

Current Retirees by Range of Pension Amounts

As of December 31, 2008

Amount of Monthly Benefit	Number of Employee Annuitants	Number of Spouse Annuitants	Number of Child Annuitants	Total Number of Annuitants
Deferred	5	-	-	5
$ 1 - $ 250	351	79	174	604
251 - **500**	337	61	-	398
501 - 750	246	61	-	307
751 - 1,000	1,075	3,038	-	4,113
1,001 - 1,250	3,861	338	-	4,199
1,251 - 1,500	1,104	287	-	1,391
1,501 - 1,750	1,178	192	-	1,370
1,751 - 2,000	1,126	127	-	1,253
2,001 - 2,250	1,090	76	-	1,166
2,251 - 2,500	871	51	-	922
2,501 - 2,750	710	36	-	746
2,751 - 3,000	725	20	-	745
3,001 - 3,250	647	7	-	654
3,251 - 3,500	643	3	-	646
3,501 - 3,750	524	-	-	524
3,751 - 4,000	596	2	-	598
4,001 - 4,250	488	-	-	488
4,251 - 4,500	444	-	-	444
4,501 - 4,750	380	-	-	380
4,751 - 5,000	389	-	-	389
Over $ 5,000	1,388	-	-	1,388
Totals	**18,178**	**4,378**	**174**	**22,730**

Source of Data: 2008 Actuarial Valuation Report

MEABF Staff Retiree Healthcare (OPEB)

Counts		Retiree and Beneficiary Healthcare Coverage Type			
Retirees and Beneficiaries	**Total**	**1 Person**	**2 Person**	**Family**	**Total**
9	9	4	5	0	9

Average Employee Retirement Benefits Payable (last ten years)

Year	Average Annual Benefit	Average Current Age of Retirees	Average Annual Benefit at Retirement Current Year	Average Age at Retirement Current Year	Average Years Service at Retirement Current Year
1999	$ 19,347	72.3	$ 12,625	63.5	N/A
2000	19,789	72.6	13,986	64.5	17.4
2001	20,364	73.0	17,063	63.5	21.4
2002	21,211	73.1	23,407	63.2	22.0
2003	22,176	72.6	25,832	61.9	25.3
2004	25,451	71.0	35,222	59.6	27.9
2005	26,178	71.8	22,753	63.5	24.4
2006	27,028	72.1	23,757	63.1	24.1
2007	27,960	72.4	26,910	63.1	24.6
2008	28,928	72.6	27,750	62.4	24.3

Source: 2008 Actuarial Valuation Report

Retirees and Beneficiaries By Type of Benefit (Last ten years)

	Annuity			Disability		Compensation	Reciprocal	
Year	Employee	Spouse	Child	Ordinary	Duty	Annuitants	Employee	Spouse
1999	13,985	4,115	213	298	152	1	1,732	399
2000	13,744	4,213	189	300	148	1	1,786	395
2001	13,608	4,138	198	309	196	2[1]	1,754	387
2002	13,725	4,132	212	260	129	2[1]	1,821	385
2003	13,909	4,118	210	323	190	2[1]	1,944	383
2004	16,109	4,087	201	294	132	2[1]	2,144	385
2005	16,027	4,094	204	304	158	2[1]	2,194	373
2006	15,926	4,075	193	330	193	2[1]	2,257	376
2007	15,899	4,042	178	304	209	2[1]	2,299	368
2008	15,804	4,018	174	266	192	2[1]	2,369	360

[1] Compensation annuitants also included with spouse annuitants

Source of Data: 2008 Actuarial Valuation Report

Retirees and Beneficiaries By Type of Coverage - Health Insurance Subsidy (Last ten years)

	Covered Annuitants						
	Employee		Spouse			Total Not	Total
Year	Single	Family	Single	Family	Total	Covered	Annuitants
1999	4,930	2,911	1,747	61	9,649	10,582	20,231
2000	5,479	2,895	1,931	60	10,365	9,773	20,138
2001	5,481	2,807	1,921	61	10,270	9,617	19,887
2002	5,501	2,795	1,933	62	10,291	9,772	20,063
2003	5,524	2,757	1,918	46	10,245	10,109	20,354
2004	6,337	3,450	1,901	49	11,737	10,988	22,725
2005	6,326	3,326	1,885	46	11,583	11,105	22,688
2006	6,252	3,218	1,863	47	11,380	11,254	22,634
2007	6,255	3,087	1,807	49	11,198	11,410	22,608
2008	6,283	2,974	1,775	48	11,080	11,471	22,551

Covered Employees by Age & 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	18	29	-	-	-	-	-	-	-	47
20-24	178	538	68	-	-	-	-	-	-	784
25-29	219	1,190	462	86	-	-	-	-	-	1,957
30-34	148	1,105	934	340	42	-	-	-	-	2,569
35-39	166	1,070	1,180	868	360	23	-	-	-	3,667
40-44	151	998	1,203	994	835	358	25	-	-	4,564
45-49	92	956	1,313	1,138	1,056	763	354	20	1	5,693
50-54	70	744	1,090	965	1,108	921	618	146	6	5,668
55-59	47	480	710	719	840	702	334	117	40	3,989
60-64	18	263	410	356	464	420	209	79	46	2,265
65-69	5	90	165	135	176	169	81	49	38	908
70 & Over	1	55	96	58	68	56	47	27	44	452
W/O DOB	-	-	-	-	-	-	-	-	-	-
Total	**1,113**	**7,518**	**7,631**	**5,659**	**4,949**	**3,412**	**1,668**	**438**	**175**	**32,563**

Source of Data: 2008 Actuarial Valuation Report

Number of Covered Employees (Last ten years)

Year	Male Participants	Female Participants	Total Participants
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
2006	13,107	20,322	33,429
2007	13,568	21,317	34,885
2008	12,822	19,741	32,563

Source of Data: 2008 Actuarial Valuation Report