MEABF

Municipal Employees'
Annuity and Benefit Fund of Chicago

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

2010

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2010

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2010

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For the Fiscal Year Ended December 31, 2010

Prepared by Administrative Staff of the
Municipal Employees' Annuity and Benefit Fund of Chicago
321 North Clark Street, Suite 700
Chicago, Illinois 60654

Table of Contents

Introductory Section

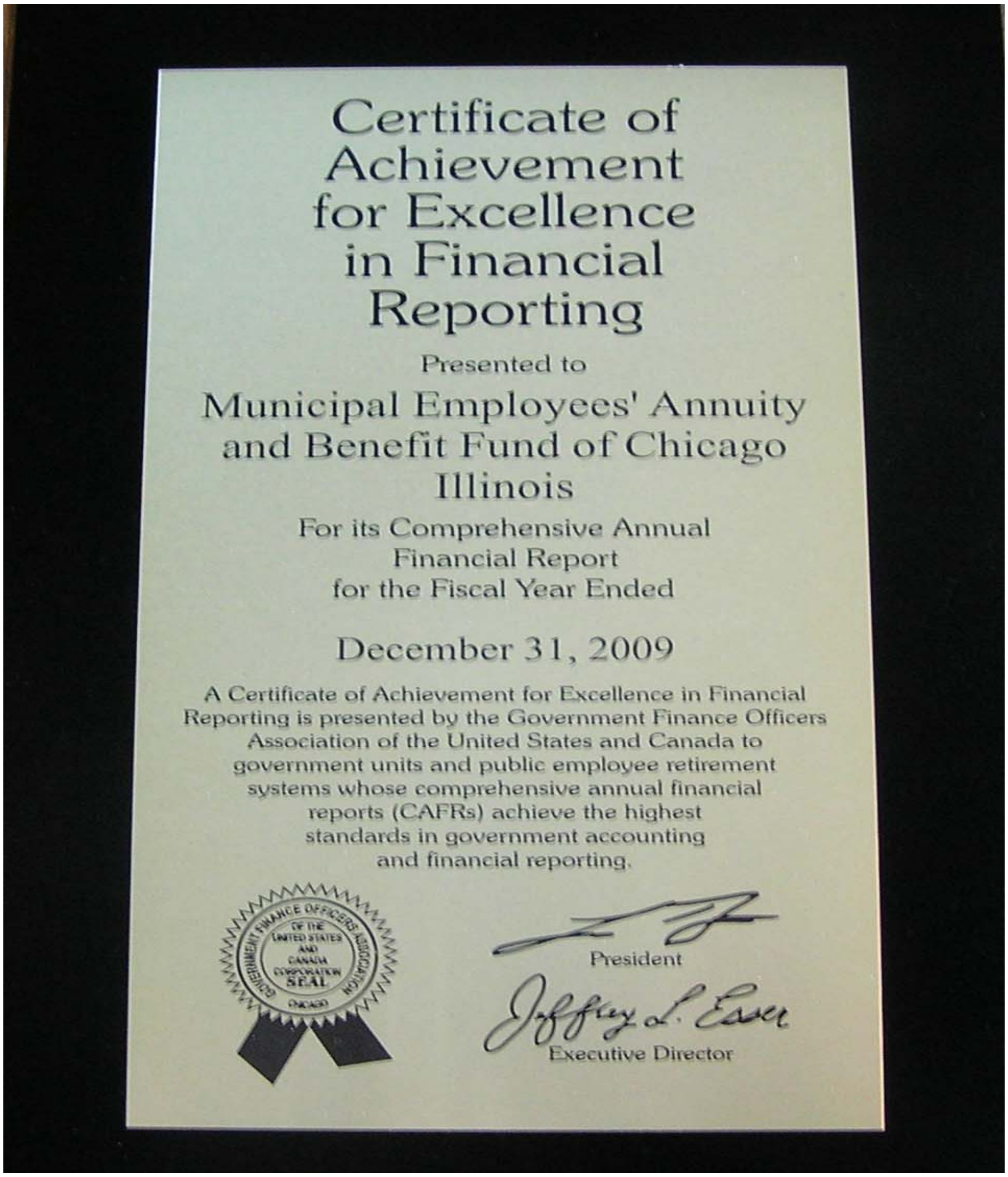
Financial Section

Investment Section

Table of Contents

Actuarial Section

Statistical Section



The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Municipal Employees' Annuity and Benefit Fund of Chicago for its 2009 Comprehensive Annual Financial Report. MEABF has received the award for each of the last twenty-one years.

RETIREMENT BOARD
As of June 16, 2011

Timothy Guest
President
Elected Trustee

Amer Ahmad
Vice-President
Ex-Officio Trustee
(City of Chicago Comptroller)

Stephanie D. Neely
Treasurer
Ex-Officio Trustee
(City of Chicago Treasurer)

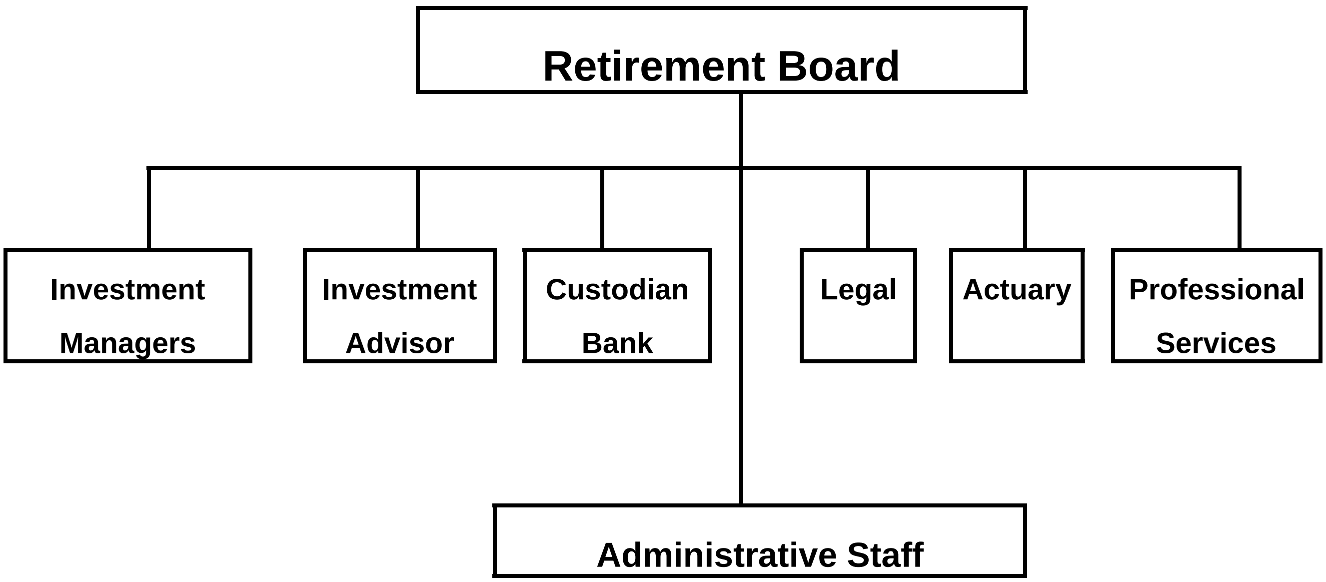
John K. Gibson
Recording Secretary
Elected Trustee

Not Pictured

Martin J. Durkan
Elected Trustee

A five-member Retirement Board is the governing body of the Municipal Employees' Annuity and Benefit Fund of Chicago (MEABF). State law specifies the Retirement Board's composition. Three trustees are Plan members who are elected by the contributing members for a three-year staggered term. Two trustees serve as ex-officio members, the City of Chicago Comptroller and the City of Chicago Treasurer. The Retirement Board elects its officers annually and 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

Alex Rivera, 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 56-58*
Brokers used by Investment Managers - *are listed on pages 69-70*

Organizational Chart As of June 16,2011

RETIREMENT BOARD

Administrative Staff

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

Deputy Executive Director

Tess Toledo
Comptroller

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

Jim Mohler
Chief Investment Officer

- Performance Analysis
- Cash Management
- Investment Accounting

Jane Tessaro
Benefits Manager

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

Appointed by the Retirement Board, the Executive Director and his staff are responsible for the Plan's 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 forty-nine (49) fulltime employees serves 30,726 actively contributing members; 22,960 retirees and surviving beneficiaries; beneficiaries; and 13,866 inactive members.

Municipal Employees' Annuity and Benefit Fund of Chicago

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LETTER OF TRANSMITTAL

June 16, 2011

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

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF" or the "Plan"), a pension trust fund of the City of Chicago, for the fiscal year 2010.

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

Responsibility for the preparation, accuracy, completeness and fairness of the presentation, including all disclosures, rests with MEABF management. It is to the best of our knowledge and belief, that 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.

We have committed the resources necessary to maintain an internal accounting control system designed to safeguard assets and allow preparation of financial statements, supporting schedules and statistical tables that are fairly presented in accordance with generally accepted accounting principles. In addition to internal controls, the independent certified public accounting firm, Bansley and Kiener, L.L.P. Certified Public Accountants have conducted the audit of the Plan's financial statements and issued an unqualified ("clean") opinion of the Plan's financial statements for fiscal year 2010. The independent auditor's report is located at the front of the Financial Section of this report.

PLAN PROFILE

MEABF is a pension trust fund of the City of Chicago. It is a defined benefit single employer plan that was established in 1921 by the Illinois State legislature, which is the governing body that sets benefit levels, and employee and employer contribution levels for financing the Plan. 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 provides age and service retirement benefits, survivor benefits, post-retirement increases, duty and ordinary disability benefits to all eligible members. 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. Employees of MEABF also participate in the Plan. For a more detailed description of the Plan, its membership and the benefit provisions, please read Note 6 of the Notes to Financial Statements located on pages 30 thru 39.

Plan Administration

MEABF is administered under the direction of a Retirement Board responsible for the oversight, management and administration of MEABF. The Retirement Board is comprised of three elected members and two ex-officio members (the City Treasurer and the City Comptroller). The Retirement Board has fiduciary duties to act solely in the best interests of the Plan members. Trustees are afforded training focused on their roles. The Retirement Board sets investment policies and objectives, hires investment managers and investment consultants and reviews investment performance.

The Retirement Board makes the final decisions in granting or denying rights, credits and benefits of members. A member who is denied a benefit or is seeking an adjustment of benefit may request for an administrative hearing before the Retirement Board. Retirement Board decisions can be appealed to the Illinois Circuit Court.

To help carry out governance responsibilities, 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 Executive Director oversees all investments, actuarial, audit and administrative functions. The Executive Director and his staff of 49 are responsible for all the day-to-day operational management tasks.

FUNDING STATUS

The funding objective of MEABF is to be fully funded, i.e., to have sufficient assets to pay current and accrued benefits. Member contributions, employer contributions and investment earnings on these contributions fund the Plan. Annual actuarial valuations measure the progress toward this objective, and determine the adequacy of the contribution rates, whether the current levels will be sufficient to cover the cost of benefits earned by members.

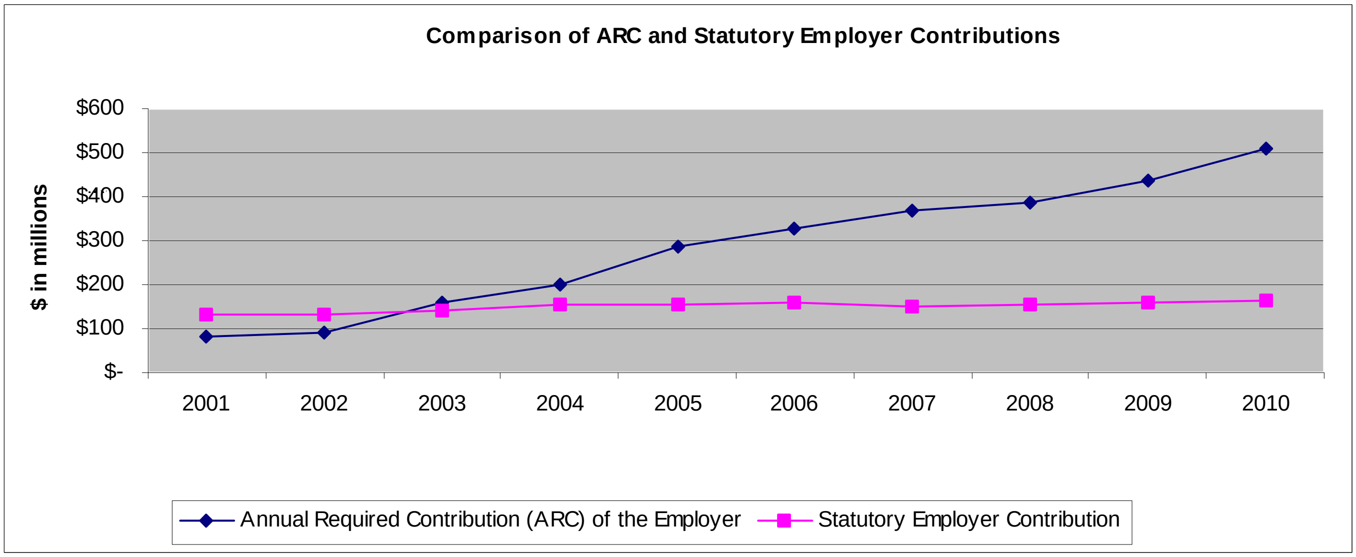
As of the December 31, 2010 actuarial valuation conducted by Gabriel Roeder Smith & Company (Gabriel Roeder), MEABF had $6,003.4 million actuarial value of assets, $12,052.3 million actuarial liabilities for pension and post-employment healthcare subsidy, leaving a $6,048.9 million unfunded actuarial accrued liability. The funded ratio decreased to 49.8 percent in 2010 from 57.0 percent in the prior year. The decrease in the funded ratio was due to recognition of deferred investment losses from 2007 and 2008, insufficient contributions relative to the actuarially determined contribution requirement and changes to actuarial assumptions.

Statutory employer contribution is 1.25 times the employee contribution made in the calendar year two years prior. For the past eight years, the statutory employer contributions have been less than the Annual Required Contribution (ARC). Employer contributions in 2011 are again expected to be less than the ARC.

Full funding of MEABF is the top concern for the Retirement Board, however, any measure designed to improve funding status such as increasing contribution rates or changing any provisions of the Plan can only be addressed by the Illinois State Legislature.

A detailed discussion of funding is provided in the Actuarial Section of this report. Historical information relating to funding progress is presented in the Required Supplementary information – Schedule of Funding Progress in the Financial Section.

The chart below shows that for the past eight years, the statutory employer contributions have been less than the Annual Required Contribution (ARC).



MAJOR INITIATIVES

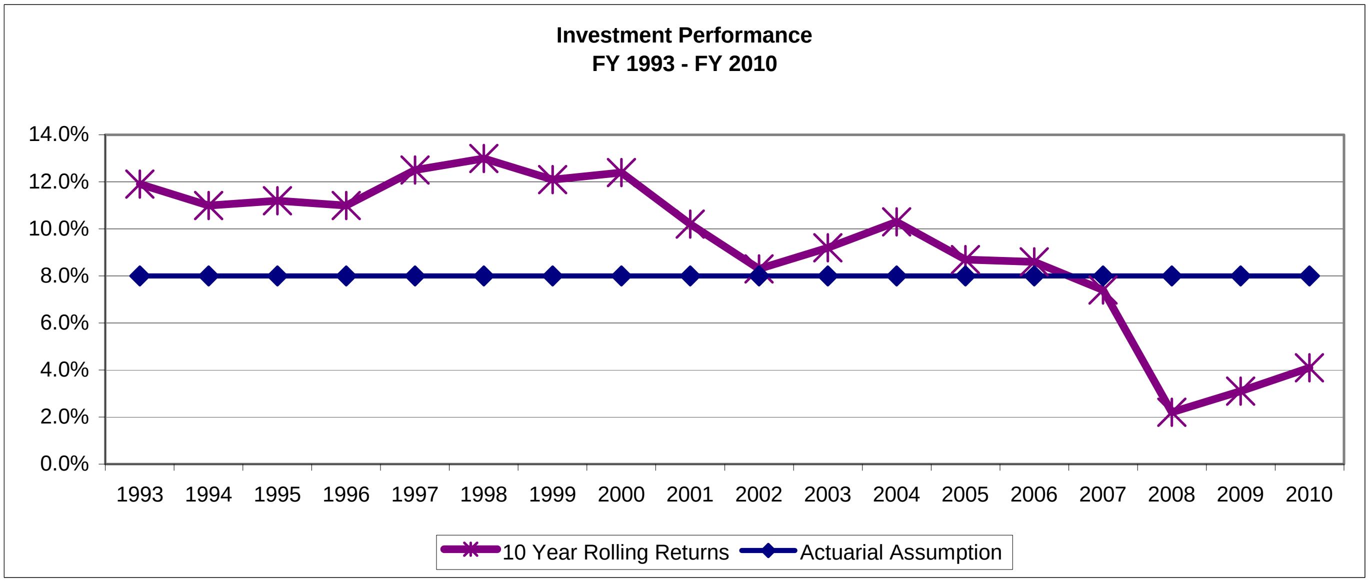
Experience Study

Gabriel Roeder prepared an experience study based on census information provided by MEABF staff for the period from December 31, 2004 through December 31, 2009. The primary purpose of the study was to evaluate actuarial assumptions. Based on the results of the experience study, Gabriel Roeder recommended modifying some of the current actuarial assumptions. For the year ended December 31, 2010, the Board adopted all the changes in the demographic assumptions, economic assumptions and other methods and assumptions recommended by Gabriel Roeder except that the Board kept the eight percent investment rate assumption unchanged pending expected funding policy amendment in the Illinois State Legislature.

Investments

Plan assets are invested according to the prudent investor rule for the sole purpose of providing benefits to our members. Asset class, investment approach and individual investments within each class diversify the Plan's investment portfolio to minimize risk and volatility. Our actuarial projections assume a long-term investment return of 8.0 percent. In some years, returns will be below that rate, and in others, returns will exceed it. For fiscal year 2010, the Plan's investment return exceeded the actuarial assumed investment rate of return. The portfolio's rate of return net of fees was 13.7 percent for fiscal year 2010 versus the benchmark return of 13.3 percent. Equities were the strongest performing asset class in the portfolio.

The graph below compares ten-year rolling returns to the actuarial assumed rate of return going back to 1993. Over the long-term, MEABF has historically outperformed the assumed rate of return. The Retirement Board will continue to structure the portfolio in accordance with the target allocation mix, which should reduce downside risk and best position the portfolio to achieve long-term performance goals and objectives.



The net fair value of the investment portfolio was $5,292.2 million on December 31, 2010, an increase of $249.7 million from the prior fiscal year, net of $375.0 million in assets that had to be liquidated to supplement the payment of benefits. For more information about the Plan's investment policies, asset allocation, and other investment information, please refer to the Investment Section in this report.

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

- Domestic Equity: $200 million was liquidated from domestic equity mandates to move the allocation closer to Board targets.
- International Equity: $50 million was added to international equity value mandate.
- Fixed Income: $200 million was added to core fixed income mandates to move the allocation closer to Board targets.
- Real Estate: $50 million was added to real estate mandates during the year:
- Private Equity: $120 million was approved for vintage 2010 private equity funds

Administration

MEABF continues to improve its processes and stay abreast in technology in order to provide the best customer service to all members.

Pension Benefit System (PBS): Software development and user testing for this integrated data management and benefit administration system, is still in progress. While users test the system, bugs are corrected. Full implementation of all core functionality is anticipated in early 2012. PBS will streamline the administration of benefit services and safeguard data.

Document Imaging Project: Back-file conversion has been completed for all active members, survivor and employee annuitants. Imaging makes member information readily accessible to better service inquiries from participants. Daily incoming mail, member requests, calculations and other participant information are imaged on a daily basis. Historical files on microfiche are scheduled to be converted to electronic images in 2012. Documents currently stored offsite will be reviewed to determine which records will be imaged, and which records can be destroyed in accordance with MEABF document retention policy.

Controlling Pension Overpayments: MEABF makes every effort to identify, prevent and recover any overpayment of a benefit. Pension benefit overpayments occur when MEABF does not receive notification of a death in a timely manner. To help detect unreported deaths of pension recipients, MEABF utilizes a weekly computer matching technique from a vendor specializing in this service, to compare MEABF records of pension recipients to the records of reported deaths maintained by other government agencies such as the Social Security Administration. In addition, MEABF sends periodic pension verification forms to pension recipients to confirm their continuing eligibility. In late spring of 2010, pension verification forms requiring a pension recipient to sign before a notary, were mailed out to approximately 23,000 pension recipients. Benefit payments were suspended after failed attempts were made to contact a number of pension recipients who did not submit the completed form and payments were reinstated retroactively when the certifications were returned. Eighty-five percent of pension recipients have responded promptly without interruption of their benefit payment and as of year-end, 99.99% of pension recipients have returned the required verification form.

Changes in Plan Provisions

Public Acts 96-0889 and 96-1490 were signed into law in 2010 establishing a second tier (Tier II) of benefits to anyone who first contributes to MEABF on or after January 1, 2011 and does not have any previous service credit with a pension system that has reciprocal rights with MEABF. Benefit provisions for members under Tier II include:

- Retirement eligibility at age 67 with 10 years of service; reduced benefits at age 62 with 10 years of service.
- Retirement benefit formula based on final average salary earned during eight consecutive years out of the last ten years of service. No member's salary will exceed a limit that is tied to the Consumer Price Index.
- Annual cost of living increases calculated using either 3 percent or one-half of the Consumer Price Index whichever is less. The increase will not be compounded.
- Survivor benefits for Tier II members at 66.66 percent of the earned retirement benefit at death.

Benefits under Tier II will impact the Plan in future valuations.

Legislative Update on Pension Reform

On May 25, 2011, the Illinois House of Representatives filed Amendment #1 Senate Bill 512, a bill containing a complex pension-restructuring proposal. The amendment to Senate Bill 512 sets up choices that would have to be made by active MEABF members in a proposed three-tier benefit structure. The goal of the bill is to enact pension reforms and address long-term financial issues for both the public employee pension systems and state/local government. Senate Bill 512 has generated much interest and passionate opinion. After much debate, a vote to support or oppose the bill was difficult and the leaders in the Illinois House of Representatives suspended further action until the fall of 2011 at the earliest.

Certificate of Achievement for Excellence in Financial Reporting

The Plan was awarded a Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the year ended December 31, 2009 by the Government Finance Officers Association of the United States and Canada (GFOA). The Plan has received this prestigious award in each of the last twenty-one (21) years.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one-year only. We believe this report conforms to the program requirements and we are submitting it to the GFOA to determine its eligibility for award.

Acknowledgements

After serving the City of Chicago for 36.5 years, Trustee Peter Brejnak retired on June 30, 2010 from his post as Chief Operating Engineer at the Jardine Water Purification Plant. Pete served on the Retirement Board for 13 years. We thank him for his many years of service and his unwaivering support of MEABF members and staff.

We also thank the following MEABF employees, who also retired in 2010, for their many years of service: Judy Pavel (36), Thomas Misek (34.8), Hope Lawson (29.5) and Isabella Weisenritter (32). We wish all of them many years of active and enjoyable retirement.

The compilation of this report reflects the efforts of MEABF staff under the direction of the Retirement Board. This report is available on MEABF Web site at http://www.meabf.org/publications.php.

We extend our profound gratitude to the entire Retirement Board for their leadership and continued support. We express our thanks for the dedication and tireless efforts of the entire MEABF staff, advisors, and other consultants who help ensure the successful operation of MEABF.

Respectively submitted,

Terrance R. Stefanski, CPA
Executive Director

Teresita T. Toledo
Comptroller

Global Distribution of 2010 Annuity Benefit Payments

State	Annuity Recipients	Annual Benefit Payments
AE	1	$24,300
Alabama	75	1,539,252
Alaska	1	21,468
Arizona	254	6,821,808
Arkansas	71	1,661,280
California	135	3,063,588
Colorado	32	738,084
Connecticut	4	33,336
District of Columbia	2	67,452
Florida	589	16,379,244
Georgia	131	2,991,072
Hawaii	4	137,484
Idaho	9	390,540
Illinois	19,937	535,132938
Indiana	268	6,291,816
Iowa	13	304,812
Kansas	8	140,904
Kentucky	39	793,020
Louisiana	33	699,228
Maine	2	39,192
Maryland	16	455,208
Massachusetts	12	363,708
Michigan	146	4,078,440
Minnesota	33	747,312
Mississippi	137	3,080,364
Missouri	38	860,820
Montana	2	99,396
Nebraska	2	29,088
Nevada	201	5,876,352

State	Annuity Recipients	Annual Benefit Payments
New Hampshire	1	$23,364
New Jersey	6	135,612
New Mexico	25	749,712
New York	17	388,980
North Carolina	40	823,260
Ohio	36	732,552
Oklahoma	16	340,764
Oregon	11	195,540
Pennsylvania	12	171,864
Puerto Rico	42	762,492
Rhode Island	1	29,928
South Carolina	21	591,108
South Dakota	3	77,340
Tennessee	93	1,951,536
Texas	143	3,189,756
Utah	9	257,280
Vermont	1	45,060
Virgin Islands	1	62,100
Virginia	26	477,588
Washington	18	408,204
West Virginia	2	60,996
Wisconsin	207	4,767,348
Wyoming	3	73,968.00
Total - U.S	**22,929**	**609,177858**
Outside U.S	28	589,406
Total	**22,957**	**$609,767,264**

Note:

[1] – Of the 22,957 annuity recipients, 87 percent or 19,937 annuitants remain Illinois residents; 79 percent or 18,140 annuitants reside in Illinois Cook County; and 61 percent or 14,021 annuitants reside in the City of Chicago.

[2] – Of the 28 annuity recipients living outside the U.S., 14 or 50 percent live in European countries.

[3] – Annual payments were based on the December 2010 annuity payments multiplied by 12 months.

County Distribution of 2010 Annuity Benefit Payments in Illinois

County	Annuity Recipients		Annual Benefit Payments
ALEXANDER	1	$	9,600
BOONE	21		723,427
BUREAU	6		155,566
CARROLL	2		59,777
CHAMPAIGN	17		454,832
CLAY	1		9,600
COLES	1		54,800
COOK	18,140		487,057,273
DE KALB	21		423,569
DUPAGE	529		12,789,878
EDGAR	1		3,249
EFFINGHAM	1		9,600
FAYETTE			-
FRANKLIN	8		172,838
FULTON	1		56,988
GRUNDY	19		601,799
HENRY	1		9,103
IROQUOIS	8		383,219
JACKSON	5		140,919
JO DAVIESS	17		503,395
JOHNSON	2		60,997
KANE	127		3,348,888
KANKAKEE	38		1,018,020
KENDALL	20		794,157
KNOX	3		38,685
LA SALLE	9		252,942
LAKE	207		5,306,498
LEE	7		238,499
LIVINGSTON	1		12,685
LOGAN	1		465
MACOUPIN	2		25,072

County	Annuity Recipients		Annual Benefit Payments
MADISON	6	$	92,943
MARION	1		11,393
MARSHALL	4		96,452
MASON	2		68,373
MASSAC	1		54,938
MCDONOUGH	1		477
MCHENRY	189		5,641,441
MCLEAN	4		78,539
MONTGOMERY	1		21,867
MORGAN	2		25,141
MOULTRIE	1		9,600
OGLE	10		319,429
PEORIA	5		139,177
PERRY	1		14,543
PULASKI	2		31,586
PUTNAM	4		98,288
ROCK ISLAND	5		79,605
SALINE	4		48,285
SANGAMON	14		367,482
SHELBY	2		72,848
ST. CLAIR	2		30,481
STARK	1		30,801
STEPHENSON	7		157,853
UNION	1		39,261
VERMILION	3		85,962
WAYNE	1		46,514
WHITESIDE	3		42,301
WILL	407		12,160,697
WILLIAMSON	10		269,377
WINNEBAGO	25		467,613
WOODFORD	1		14,119
Total	**19,937**	**$**	**535,132,938**

Financial

BANSLEY AND KIENER, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

O'HARE PLAZA
8745 WEST HIGGINS ROAD SUITE 200
CHICAGO, ILLINOIS 60631
AREA CODE 312 263.2700

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, 2010 and 2009, 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, 2010 and 2009, 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.

Bansley and Kiener, L.L.P.

Certified Public Accountants

April 15, 2011

Management's Discussion and Analysis as of December 31, 2010

This Management Discussion and Analysis (MD&A) of the Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF" or the "Plan") provides a narrative overview and analysis of the financial activities of MEABF for the year ended December 31, 2010. Readers are encouraged to read the MD&A in conjunction with the financial statements to better understand the financial condition and performance of MEABF during the year ended December 31, 2010.

Financial Highlights

- MEABF's investment portfolio returned, net of fees, 13.7 percent for 2010 (benchmark return of 13.3 percent) compared to a 19.4 percent return in 2009 (benchmark return of 18.4 percent) and –28.7 percent return in 2008 (benchmark return of –23.8 percent). Total return for the portfolio in 2010 exceeded the 8.0 percent actuarial assumed investment rate of return.

- Plan net assets held in trust reported in the Statement of Plan Net Assets total $5,435.6 million, an increase of $269.4 million or 5.2 percent from the prior year.

- Total additions as reported in the Statement of Changes in Plan Net Assets total $936.1 million.

- Total deductions as reported in the Statement of Changes in Plan Net Assets total $666.8 million, an increase of $26.1 million.

- As of the December 31, 2010 actuarial valuation, the total Plan's Unfunded Actuarial Accrued Liability (UAAL) for both pension plan and post-employment healthcare subsidy increased to $6.049 billion in 2010 from $4.759 billion in the prior year. The increase in the UAAL is mainly attributable to an increase in the Actuarial Accrued Liability due to implementing updated assumptions that were recommended in the most recent experience study, deferred recognition of investment losses from 2007 and 2008, and continued contribution shortfalls 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 2010 was $483.9 million, and the employer contributed 32.0 percent or $154.8 million in 2010. 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 subsidy for 2010 was $23.0 million, and the employer contributed 41.6 percent or $9.5 million in 2010. State statutes limit employer contributions.

- 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 subsidy decreased to 49.8 percent in 2010 from 57.0 percent in 2009 and 62.9 percent in 2008. The decrease in 2010 is mainly attributable to the same influences noted above for UAAL.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the financial statements that consists of the following components:

The statement of plan net assets reports MEABF's assets at fair value or cost. Liabilities are reported at amounts owed as of the statement date; and the resulting net plan assets (assets less liabilities = net plan assets) at the calendar year end held in trust to pay future benefits to retirees and beneficiaries.
The statement of changes in plan net assets shows the results of financial activities that occurred during the calendar year. It discloses the additions to plan net assets such as contributions and net investment income, and deductions from plan net assets such as benefit payments and administrative expenses. The resulting net increase (or decrease) in plan assets (additions less deductions = net increase (or decrease) in plan assets) reflects the change in the value of plan net assets reported in the statements of plan net assets from the prior year to the current year.

The notes to the financial statements are an integral part of the financial statements and include additional information and schedules to provide a better understanding of the data provided in the financial statements.
The required supplementary information that follows the notes to the financial statements is required by GASB. It includes required schedule of funding progress and schedule of employer contributions as well as related disclosures. These schedules are based on the actuarial valuations and contribute to an understanding of the funding progress over the last six years. Additional supplemental schedules include information regarding administrative expenses, consulting costs and investment management fees incurred by MEABF.

Financial Analysis

Plan Net Assets

Plan net assets as of December 31, 2010 showed a total plan net assets held in trust for pension and healthcare subsidy benefits of $5,435.6 million, compared to $5,166.2 million in 2009 and $4,739.6 million in 2008. Plan net assets increased by $269.4 million or 5.2 percent from 2009 mainly due to the appreciation in the fair value of investments in 2010. The value of securities on loan, shown both as assets and liabilities at year-end, decreased to $638.4 million in 2010 from $660.7 million in 2009 and were $543.2 million in 2008.

Plan Net Assets ($ in millions)
(As of December 31, 2010, 2009 and 2008)

				Increase (Decrease) From 2009 to 2010	
	2010	2009	2008	$ Change	% Change
Cash, receivables and other assets	$ 234.3	$ 241.3	$ 234.6	$ (7.0)	-2.9%
Investments, at fair value	5,292.2	5,042.5	4,673.5	249.7	5.0%
Invested securities lending collateral	638.4	660.7	543.2	(22.3)	-3.4%
Total assets	6,164.9	5,944.5	5,451.3	220.4	3.7%
Liabilities	729.3	778.3	711.7	(49.0)	-6.3%
Total plan net assets	**$5,435.6**	**$5,166.2**	**$4,739.6**	**$ 269.4**	**5.2%**

Summary of Investments as of December 31 ($ in millions)

	FY 2010	FY 2009	FY 2008	Increase/(Decrease) From 2009 to 2010 $ Change	% Change
Bonds	$ 1,261.0	$ 1,140.2	$ 1,360.4	$ 120.1	10.5%
Domestics equity	1,684.7	1,620.2	1,814.0	64.5	4.0%
International equity	1,188.5	1,119.0	722.5	69.5	6.2%
Hedged equity	500.4	474.3	-	26.1	5.5%
Real estate	262.9	212.0	318.4	50.9	24.0%
Private equity	166.7	130.4	131.2	36.3	27.8%
Short-term investments	228.0	346.4	327.0	(118.4)	-34.2%
	$ 5,292.2	**$ 5,042.5**	**$ 4,673.5**	**$ 249.7**	**5.0%**

Due to positive investment performance, MEABF's investment portfolio increased by 249.7 million in 2010, closing the year at $5,292.2 million compared to $5,042.5 million in 2009 and $4,673.5 million in 2008. The growth in assets would have been significantly higher if approximately $375.0 million in portfolio assets were not liquidated to supplement the benefit payments during the year. Per asset class, domestic equity reflected strong returns, increasing by $63.8 million in 2010.

International equity increased by $69.5 million due to strong performance, especially in emerging markets. Early in 2009, MEABF allocated a 10% position to hedged equity, a new asset class, to help reduce downside risk within the portfolio. Fixed income securities increased by $121.5 million due to performance and additional monies added to the asset class to remain consistent with targets. Holdings in real estate increased by $50.9 million due to increases in property appraisals and additional funding during the year.

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

(Years ended December 31, 2010, 2009 and 2008)

	2010	2009	2008	Increase (Decrease) From 2009 to 2010 $ Change	% Change
Additions:					
Employer contributions	$ 164.3	$ 157.7	$ 155.8	$ 6.6	4.2%
Member contributions	133.3	131.0	137.7	2.3	1.8%
Total contributions	297.6	288.7	293.5	8.9	3.1%
Net investment income (loss)	631.3	750.5	(1,900.1)	(119.2)	-15.9%
Net security lending income (loss)	7.3	28.0	(47.4)	(20.8)	-74.3%
Total additions	**936.2**	**1,067.2**	**(1,654.0)**	**(131.1)**	**-12.3%**
Deductions:					
Annuity and disability benefits	620.6	595.1	573.7	25.5	4.3%
Healthcare subsidy for City and BE retirees	9.5	9.7	9.0	(0.2)	-2.1%
Refunds of contributions	29.9	28.1	25.5	1.8	6.4%
Administrative and OPEB expense	6.8	7.7	7.7	(1.0)	-13.0%
Total deductions	**666.8**	**640.6**	**615.9**	**26.1**	**4.1%**
Net increase (decrease)	**269.4**	**426.6**	**(2,269.9)**	**(157.2)**	**-36.8%**
Net assets at beginning of year	5,166.2	4,739.6	7,009.5	426.6	9.0%
Ending net assets	**$5,435.6**	**$5,166.2**	**$4,739.6**	**$ 269.4**	**5.2%**

Additions

Employer contributions increased by $6.6 million in 2010 to $164.3 million from $157.7 million in 2009 and $155.8 million in 2008. Employer contributions are statutorily set at 1.25 times the employee contribution level in the second prior fiscal year.

Active members are required to contribute 8.5% of their salary, which is remitted to MEABF semi-monthly or bi-weekly. Member contributions totaled $133.3 million in 2010, compared to $131.0 million in 2009 and $137.7 million in 2008. The increase is primarily attributable to purchases of permissive service credits totaling $7.4 million in 2010, compared to $4.8 million in 2009. While member contributions from City payroll decreased by $1.9 million due to resignations, layoffs and furloughs, contributions from the Board of Education increased by $1.3 million due to salary increases.

The economy continued to rebound in 2010, and MEABF investment portfolio yielded investment income of $631.3 million, from $750.5 million in 2009 and a -$1,900.1 million loss in 2008. Investment income is presented net of investment fees and is comprised of realized and unrealized investment gains and losses, interest and dividends. Income from interest and dividends slightly decreased to $108.7 million in 2010 as interest rates remained low and quarterly dividends were cut. The investment portfolio is managed by external investment managers whose fees are based on asset performance. Direct investment fees increased to $24.0 million in 2010 from $20.8 million in 2009 and $22.4 million in 2008.

MEABF can earn additional investment income by allowing a provider to lend their securities to borrowers on their behalf. The borrower provides collateral on borrowed securities, which is invested in order to earn interest. Securities lending activities reflected a net gain of $7.2 million in 2010 compared to a gain of $28.1 million in 2009 and a loss of -$47.4 million in 2008.

Deductions

MEABF's assets are primarily used to pay annuity, post employment healthcare subsidies, disability benefits, refunds of contributions to terminated employees and the costs of administering the Plan. Annuity and disability benefits increased by 4.3% to $620.6 million from $595.1 million in 2009 and $573.7 million in 2008 primarily due to annual cost of living increases for annuities, increase in the number of new retirees, and slightly higher disability and survivor benefits. Post-employment healthcare subsidy benefits slightly decreased to $9.5 million in 2010 from $9.7 million in 2009 and $9.0 million in 2008. Refunds of contributions increased to $29.9 million, $1.8 million increase or 6.4 percent from $28.1 million in 2009 and $25.5 million in 2008.

Administrative expenses decreased by $ 1.0 million to $6.7 million in 2010, from $7.7 million in 2009 and $7.7 million in 2008. The decrease is primarily due to higher depreciation in 2009 for an asset that was retired in 2009, the Pension Administration system developed by Watson Wyatt.

Securities Lending

The Plan'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. After a tumultuous credit market in 2008 and into 2009, collateral exposed to severely depressed securities began to dissipate. As of the end of 2010, the Plan's liability based on collateral pool losses were reduced significantly from 2008, $10.7 million compared to $47.4 million. In early 2011, the Retirement Board voted to cap the Plan's utilization of securities lending by incorporating a 20% cap of lendable securities exposed to cash collateral, and a 30% cap of lendable securities exposed to cash and non-cash collateral.

Economic Factors and Rates of Return

After historic market declines in 2008 and the first part of 2009, markets began to turnaround, achieving a strong annual return for 2009. FY 2010 was a year of volatile equity returns, but finished strongly in the fourth quarter, helping provide double-digit returns for most diversified investors. The year was led by small and mid-cap domestic stocks and the international emerging markets, whose indexes achieved returns in the mid twenties and high teens, respectively. Overall, domestic markets outperformed international markets, achieving returns in the high teens compared to high single digits. Fixed income investments, represented by a domestic aggregate index, returned a respectable 6.5% for the year.

Actuary Valuation and Funding Status Information

The funding status of MEABF determines whether Plan Net Assets will be sufficient to meet future obligations. The funding 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. Plan 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 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 additional assets needed to provide for all future benefit obligations.

MEABF 's independent actuary, Gabriel Roeder Smith & Company, performed an actuarial valuation as of December 31, 2010. The latest actuarial valuation shows a $1,290.3 million increase in the Unfunded Accrued Actuarial Liability (UAAL) for the Plan to $6,048.8 million from $4,758.5 million in 2009 and $3,936.3 million in 2008. The funded ratio of the actuarial assets to the actuarial accrued liability decreased to 49.8 percent from 57.0 percent in 2009 and 62.9 percent in 2008.

The decrease in the funded ratio is mainly attributable to an increase in the Actuarial Accrued Liability due to implementing updated assumptions that were recommended in the most recent experience study, including reductions to the net plan assets primarily due to the recognition of deferred investment losses from 2007 and 2008, and a shortfall in contributions relative to the actuarially determined contribution requirement. Future decreases in the funded ratio are expected if contributions continue to fall short of the actual requirements for financing the Plan.

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 MEABF's funding requirements. However, state law mandates 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 shows a multiple of 4.92 current contributions is needed to adequately finance the Plan. We expect the Illinois General Assembly to address funding issues in 2011.

Subsequent Events

The markets have been stable overall during the first quarter of 2011. The Plan has returned approximately 3.5% for the first quarter of 2011.

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, 321 N. Clark Street, Suite 700, Chicago, IL 60654.

Statement of Plan Net Assets

As of December 31, 2010 and 2009

	2010	2009
Cash and cash equivalents	$ 1,627,516	$ 1,626,601
Receivables		
Contributions from the City of Chicago, net of allowance for loss of $17,478,246 in 2010 and $16,653,240 in 2009	180,160,852	163,372,905
Member contributions	8,756,655	9,133,718
Interest and dividends	15,509,213	14,573,930
Receivables for investments sold	26,341,053	50,975,416
Miscellaneous	286,805	200,264
Total receivables	231,054,578	238,256,233
Investments, at fair value		
Bonds	1,261,024,447	1,140,211,398
Hedged equity	500,381,049	474,261,684
Domestic and international equity	2,873,117,430	2,739,253,825
Real estate	262,935,715	211,954,175
Other investments	166,742,727	130,410,012
Short-term investments	227,974,582	346,362,717
Total investments	5,292,175,950	5,042,453,811
Invested securities lending collateral	638,411,775	660,716,314
Property and equipment, net of accumulated depreciation and amortization of $1,387,799 in 2010 and $942,596 in 2009	1,628,050	1,422,398
Total assets	6,164,897,869	5,944,475,357
LIABILITIES		
Payables for investments purchased	71,720,841	90,859,598
Accounts payable and accrued expenses	6,397,006	5,963,238
Securities lending collateral	638,411,775	660,716,314
Securities lending earnings shortfall	10,729,730	19,271,050
OPEB liability	2,045,095	1,440,663
Total liabilities	729,304,447	778,250,863
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 24)	$5,435,593,422	$5,166,224,494

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

Statement of Changes in Plan Net Assets

Year ended December 31, 2010 and 2009

	2010	2009
Additions		
Contributions from the City of Chicago	$ 164,302,005	$ 157,697,608
Member contributions	133,299,542	130,980,605
Total contributions	297,601,547	288,678,213
Investment income		
Net appreciation in fair value of investments	537,395,238	654,949,936
Interest	51,084,149	51,623,726
Dividends	57,590,111	57,397,754
Income from real estate investments	9,254,856	7,301,596
	655,324,354	771,273,012
Less investment expenses	23,998,001	20,798,656
Net income from investing activities	631,326,353	750,474,356
Security lending activities		
Securities lending income	9,537,856	34,638,880
Borrower rebates	(519,647)	468,466
Bank fees	(1,775,571)	(7,019,082)
Net income from securities lending activities	7,242,638	28,088,264
Other income	24,435	-
Total additions	936,194,973	1,067,240,833
Deductions		
Benefits		
Annuity payments	607,540,457	583,436,041
Disability benefits	13,041,253	11,682,652
Contribution of insurance premiums	9,549,685	9,651,118
Total benefits	630,131,395	604,769,811
Refund of member contributions	29,949,703	28,094,365
Administrative and OPEB expenses	6,744,947	7,765,918
Total deductions	666,826,045	640,630,094
Net increase	269,368,928	426,610,739
Net assets held in trust for pension benefits		
Beginning of year	5,166,224,494	4,739,613,755
End of year	$ 5,435,593,422	$ 5,166,224,494

The accompanying notes are an integral 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 hedged equity investments are determined using quoted market prices of underlying funds, when available. If quoted market prices are not available, then fair value is determined by underlying fund managers. 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)

Derivatives

During the year ended December 31, 2010, the Plan adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The objective of this pronouncement is to enhance the usefulness and comparability of derivative information reported in the financial statements.

The implementation of GASB 53 had no impact on the Plan's financial statements for the years ended December 31, 2010 and 2009, as the change in the fair value of derivative instruments were recorded in the accompanying financial statements.

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.

Administrative Expenses

Administrative expenses are budgeted and approved by MEABF'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.

Evaluation of Subsequent Events

Management has evaluated subsequent events through April 15, 2011, the date the financial statements were available to be issued.

Recently Issued Accounting Pronouncements

During the year ended December 31, 2010, the Plan adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets and* GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These pronouncements have no impact on the Plan's net assets.

Note 2 – 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, 2010 and 2009, the Plan's book balances of cash are $1,627,516 and $1,626,601 respectively. The actual bank balances at December 31, 2010 and 2009 are $1,627,116 and $1,626,301 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, 2010 and 2009, $18,470,332 and $9,676,148 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, 2010 and 2009.

	2010	2009
Investments At Fair Value As Determined		
By Quoted Price		
Bonds	$1,261,024,447	$1,140,211,398
Domestic and international equity	2,873,117,430	2,739,253,825
	4,134,141,877	3,879,465,223
Investments at Fair Value As Determined		
By Plan Administrator		
Hedged equity	500,381,049	474,261,684
Real estate	262,935,715	211,954,175
Private equity	166,742,727	130,410,012
Short-term investments	227,974,582	346,362,717
	1,158,034,073	1,162,988,588
Total investments	$5,292,175,950	$5,042,453,811

Note 2 – Deposits and Investments (continued)

Foreign Currency Risk

The Plan's exposure to foreign currency risk at December 31, 2010 was as follows:

Currency	*Market Value*	*Percentage*
Australian Dollar	$ 70,206,659	6.02%
Brazilian Real	34,091,038	2.92%
Canadian Dollar	77,604,823	6.66%
Swiss Franc	62,418,553	5.35%
Chilean Peso	2,903,690	0.25%
Columbian Peso	723,766	0.06%
Czech Koruna	383,162	0.03%
Danish Krone	13,862,938	1.19%
Egyptian Pound	1,426,866	0.12%
Euro	227,532,868	19.51%
British Pound Sterling	174,991,031	15.01%
Hong Kong Dollar	73,988,447	6.35%
Hungarian Forint	346,148	0.03%
Indonesian Rupiah	11,866,381	1.02%
New Israeli Shekel	6,238,207	0.53%
Indian Rupee	25,979,309	2.23%
Japanese Yen	221,668,806	19.01%
South Korean Won	25,865,271	2.22%
Mexican Peso	18,556,736	1.59%
Malaysian Ringgit	8,469,908	0.73%
Moroccan Dirham	192,042	0.02%
New Zealand Dollar	1,852,157	0.16%
Norwegian Krone	12,164,667	1.04%
Philippine Peso	476,908	0.04%
Polish Zloty	1,474,415	0.13%
Swedish Krona	27,898,256	2.39%
Singapore Dollar	17,730,876	1.52%
Thai Baht	5,025,086	0.43%
Turkish Lira	4,701,192	0.40%
New Taiwan Dollar	17,840,946	1.53%
South African Rand	17,579,289	1.51%
Total	$1,166,060,441	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 2– Deposits and Investments (continued)

Interest Rate Risk

As of December 31, 2010, 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	$ 43,905,144	$ -	$ 2,557,106	$ 703,928	$ 40,644,110	$ -
Bank loans	86,925,640	1,012,331	73,356,349	12,556,960	-	-
Collateralized bonds	35,593	-	-	-	35,593	-
Commercial mortgage backed	31,410,224	-	-	-	31,410,224	-
Corporate bonds	414,082,951	5,085,625	202,256,857	164,518,162	42,222,307	-
Corporate convertible bonds	1,136,588	-	895,388	-	241,200	-
Government agencies	123,183,066	2,297,608	103,752,869	15,596,854	1,535,735	-
Government bonds	261,668,099	14,235,899	145,993,507	82,659,593	18,779,100	-
Government mortgage backed	229,738,364	-	346,132	15,569,505	198,516,675	15,306,052
Guaranteed Fixed Income	6,923,280	-	6,923,280	-	-	-
Index linked government bonds	10,747,946	-	-	10,747,946	-	-
Municipal / provincial bonds	24,753,685	-	-	15,973,337	8,780,348	-
Non-government backed CMO's	27,650,456	-	-	-	27,650,456	-
Short term bills and notes	29,998,890	29,998,890	-	-	-	-
Short term investment funds	167,496,052	-	-	-	-	167,496,052
Total	$1,459,655,978	$52,630,353	$536,081,488	$318,326,285	$369,815,748	$182,802,104

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 2 - Deposits and Investments (continued)

Credit Risk

The following table reflects credits ratings of fixed income securities held by the Plan as of December 31, 2010:
(in thousands)

S&P Credit Rating	*Fair Value*	*Asset Backed Securities*	*Bank Loans*	*Collateralized Bonds*	*Comm'l Mortgage Backed*	*Corporate Bonds*	*Corporate Convertible Bonds**	*Gov't Agencies*	*Gov't Bonds*	*Gov't Mortgage Backed*	*Guaranteed Fixed Income*	*Index Linked Gov't Bonds*	*Municipal/ Provincial Bonds*	*Non-Gov't Backed CMO's*
TSY	$ 16,985	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 16,985	$ -	$ -	$ -	$ -	$ -
AGY	234,101	-	-	-	-	-	-	5,243	-	228,858	-	-	-	-
AAA	394,826	2,784	-	-	4,438	-	-	117,690	243,683	121	6,923	10,748	8,026	413
AA+	12,997	6,920	-	-	92	4,718	-	-	-	-	-	-	1,267	-
AA	17,057	7,188	-	-	439	7,082	-	-	-	-	-	-	125	2,223
AA-	30,071	4,505	-	-	527	19,549	-	-	-	-	-	-	5,285	205
A+	14,751	2	-	-	6,034	8,489	-	-	-	-	-	-	226	-
A	80,033	151	-	-	2,843	75,840	-	-	-	-	-	-	-	1,199
A-	54,588	-	-	-	4,955	48,853	-	-	-	-	-	-	780	-
BBB+	70,447	3,301	-	-	3,943	62,648	-	-	-	-	-	-	-	555
BBB	45,949	2,584	-	-	311	43,054	-	-	-	-	-	-	-	-
BBB-	50,683	-	-	-	3,007	47,580	-	-	-	-	-	-	-	96
BB+	15,214	3,833	632	-	-	10,749	-	-	-	-	-	-	-	-
BB	18,012	-	3,053	-	-	14,712	-	-	-	-	-	-	-	247
BB-	17,191	1,034	3,044	-	197	12,916	-	-	-	-	-	-	-	-
B+	26,509	-	5,725	-	-	19,246	-	-	-	-	-	-	-	1,538
B	28,660	152	8,261	-	-	19,136	-	-	-	-	-	-	-	1,111
B-	11,939	313	470	-	46	7,176	500	-	-	-	-	-	-	3,434
CCC+	4,277	-	-	36	-	4,241	-	-	-	-	-	-	-	-
CCC	13,419	5,220	-	-	-	1,366	-	-	-	-	-	-	-	6,833
CCC-	1,007	-	940	-	-	67	-	-	-	-	-	-	-	-
CC	6,614	881	-	-	-	179	-	-	-	-	-	-	-	5,554
D	6,484	5,035	-	-	-	-	-	-	-	-	-	-	-	1,449
NR	90,347	2	64,801	-	4,578	6,482	637	250	1,000	759	-	-	9,045	2,793
Total	$ 1,262,161	$ 43,905	$ 86,926	$ 36	$ 31,410	$ 414,083	$ 1,137	$ 123,183	$ 261,668	$ 229,738	$ 6,923	$ 10,748	$ 24,754	$ 27,650

TSY = Treasury Issue
AGY = Agency Issue
NR = Not Rated
* Included in Domestic and International Equity

The Plan does not have a formal policy in 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 3 – Derivatives

The derivative instruments were recorded at fair value as of December 31, 2010 and 2009. Derivative instruments include forward foreign exchange contracts. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in market prices or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The Plan's investment managers may invest in derivatives if permitted by the guidelines of their mandate. To date, derivative utilization as been limited to securities utilized by certain investment managers investing in foreign markets for the purpose of hedging against fluctuations in the exchange rate.

Forward Foreign Exchange Contracts

A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counter parties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss in remote. Forwards are usually traded over-the-counter. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuation and to facilitate trade settlement of foreign security transactions. Forwards carry market risk resulting from adverse fluctuations in foreign exchange rates. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorable or unfavorable to the contract holder upon termination of the contract. Prior to termination of the contract, the Plan records the unrealized currency translation gain or loss based on the applicable forward exchange rates. The fair value of forward foreign exchange contracts as of December 31 are as follows:

	2010	2009
FX Forwards	$8,695,744	$9,830,384
FX Forward offsets	8,695,744	9,830,384

Realized gains on forward foreign exchange contracts were $318,439 and $2,589,937 in 2010 and 2009, respectively.

Certain alternative investment funds and partnerships may use derivatives hedge against market risk and to enhance investment returns. The Plan's investments in hedged equity funds are stated at fair value and gains or losses are recognized in earnings.

Note 4 – 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, 2010 the average term of the loan was 99 days (87 days in 2009). 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, 2010 had a weighted average maturity of 50 days (67 days in 2009). As of December 31, 2010 and 2009, the Plan had loaned to borrowers securities with a fair value of $626,047,326 and $641,864,077 respectively. As of December 31, 2010 and 2009, the Plan received from borrower's cash collateral of $638,411,775 and $660,716,314 and non-cash collateral of $2,582,467 and $1,114,100 respectively. Securities lending net income for the years ended December 31, 2010 and 2009 was $7,242,638 and $28,088,264 respectively.

Due to market events of 2008 and going into 2009, one of the collateral pools utilized to invest collateral received dropped below par value, causing the Plan to incur a liability. The custodian agreed to carry forward the losses and reduce them with future securities lending earnings. In 2010 the collateral pool was fully liquidated. The liability balance for the losses incurred was $10,729,730 and $19,271,050 as of December 31, 2010 and 2009, respectively. At year end, the Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan.

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

	2010	2009
Securities loaned – cash collateral		
Domestic bonds	$299,141,213	$249,568,701
Domestic equities	305,761,815	348,846,803
International equities	18,648,414	42,399,034
Total securities loaned – cash collateral	623,551,442	640,814,538
Securities loaned – non-cash collateral		
Domestic equities	458,351	39,286
International equities	2,037,533	1,010,253
Total securities loaned – non-cash collateral	2,495,884	1,049,539
Total	$626,047,326	$641,864,077

Note 5 – 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. Major outlays for additions and improvements are capitalized if equal to or greater than $4,000. Maintenance and repairs are charged to expense. A summary of property and equipment at December 31, 2010 and 2009 is as follows:

	2010	2009
Pension benefit system	$1,896,140	$1,379,910
Furniture	43,883	50,660
Equipment	20,792	31,707
Computers	1,050,724	844,497
Leasehold improvements	4,310	58,220
	3,015,849	2,364,994
Less accumulated depreciation and amortization	1,387,799	942,596
Net property and equipment	$1,628,050	$1,422,398

Depreciation and amortization expense was $596,024 and $1,894,805 for 2010 and 2009, respectively.

Note 6 – Pension and Other Post employment Benefit-Related Note Disclosures

A. Pension Plan Description

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. 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.

Note 6 – Pension and Other Post employment Benefit-Related Note Disclosures (continued)

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 those classified by the municipal personnel ordinance as labor service or any person employed by the Municipal Employees' Annuity and Benefit Fund of Chicago (Plan) who is not participating in any other pension fund or retirement system is also covered by the Plan. The payroll for employees covered by the Plan for the years ended December 31, 2010 and 2009 were $1,541,388,065 and $1,551,973,348, respectively.

Plan membership at December 31 is as follows:

	2010	2009
Active employees (includes members currently receiving disability benefits):		
Vested	17,531	17,391
Non-vested	13,195	14,195
	30,726	31,586
Retirees and beneficiaries currently receiving benefits	22,960	22,782
Terminated employees entitled to benefits but not yet receiving them	2,167	1,964
Terminated employees entitled to a refund of contributions	11,699	10,955
Total	67,552	67,287

Pension legislation (Public Act 96-0889) was approved during 2010 and establishes two distinct classes of membership with different retirement eligibility conditions and benefit provisions. For convenience, the Plan uses a tier concept to distinguish these groups, generally:

Tier 1 – Participants that became members before January 1, 2011.
Tier 2 – Participants that first became members on or after January 1, 2011.

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.

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

Employee Pension

Tier 1 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.

Tier 2 employees age 67 or more with at least 10 years of service are entitled to receive an unreduced annuity benefit or a reduced annuity benefit at age 62 with 10 years of service. The annuity is discounted 1/2 percent for each full month the employee is under age 67. Final average salary is calculated using salary from the eight highest consecutive years within the last 10 years of service prior to retirement. Pensionable salary is limited to $106,800 in 2011, increased by the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12 month period ending with the September preceding the November 1, which is the date that the new amount will be calculated and made available to the pension funds.

Post-Retirement Increase

Tier 1: An employee annuitant under Tier 1 is eligible to receive an increase of 3.0 percent of the currently payable annuity (compound). 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 the first anniversary of retirement and age 60

Tier 2: An employee annuitant under Tier 2 that is eligible to receive an increase in annuity benefit, shall receive an annual increase equal to the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12 month period ending with the September preceding the increase. The increase is based on the amount of the originally granted benefit (simple). This increase begins in January of the year of the first payment date following the later of:

1. the attainment of age 67, and
2. the first anniversary of the annuity start date.

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

Surviving Spouse Pension

Tier 1: Upon the death of an employee under Tier 1, 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 the annuity cannot exceed an amount equal to 50% of the highest salary earned by the employee.

Tier 2: The annuity payable to the surviving spouse of an employee under Tier 2 is equal to 66 2/3 of the participant's earned retirement annuity at the date of death without a reduction due to age.

Automatic Increase in Spouse Annuity

The widow or survivor of an employee under Tier 2 shall receive an annual increase equal to the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12 month period ending with the September preceding the date of the increase. This increase is based on the amount of the originally granted survivor's benefit (simple). This annual increase begins on January 1 following the commencement of the widow's or survivor's annuity if the deceased member died while receiving an annuity benefit and on January 1 following the first anniversary of the commencement of the annuity otherwise.

Child Annuity

Under Tier 1 and Tier 2, 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.

Ordinary Disability

Under Tier 1 and Tier 2, 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

Under Tier 1 and Tier 2, 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.

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

Member Contributions

Active members under Tier 1 and Tier 2 are required to contribute to MEABF 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.

While the amount of pensionable salary under upon which member contributions are made under Tier 1 has no limitation, pensionable salary of active employees under Tier 2 is limited to $106,800 in 2011, increased by the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12 month period ending with the September preceding the November 1, which is the date the new amount will be calculated and made available to the pension funds.

Employer Contributions

The City of Chicago is required by state statutes to contribute the remaining amounts necessary to finance the requirements of MEABF. 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. MEABF 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 4.92 is needed to adequately finance MEABF. The statutory employer contributions have been less than the ARC for the past eight years. Contribution rates may be increased only by an amendment by the State legislature to the statues.

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

Funding Status and Funding Progress – Pension Plan

The following table shows the funded status and funding progress as of December 31, 2010, 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)
$6,003,389,605	$11,828,665,658	$5,825,276,053	50.8%	$1,541,388,065	377.9%

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, 2010
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 at the earlier of 1) the later of the 1st of January of the year after retirement and age 60, or *2)* the later of the 1st of January of the year after the second anniversary of retirement and age 53.

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

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

MEABF 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. 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, 2010, there are 9,192 (9,146 as of December 31, 2009) City annuitants enrolled in the City's health care plan and 1,628 (1,761 as of December 31, 2009) 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 2010 and 2009, the Pension Plan received contributions of $9,549,685 and $9,651,118 and remitted contributions of $9,549,685 and $9,651,118 respectively.

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

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, 2010, 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	$223,564,218	$223,564,218	0.0%	$1,541,388,065	14.5%

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 valuation follows:

Valuation Date	December 31, 2010
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)

C. 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.

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

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 2010 and 2009, MEABF, as employer contributed $146,434 and $111,840 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.

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 MEABF's annual OPEB cost for the staff retiree healthcare benefits are shown in the following table:

	2010	2009
Annual OPEB Cost		
Annual Required Contribution (ARC)	$ 770,673	$ 611,526
Interest on Net OPEB Obligation	64,830	42,892
Adjustment to ARC	(84,636)	(55,995)
Annual OPEB Cost	750,867	598,423
Employer Contributions	146,434	111,840
Net OPEB Obligations (NOO)		
Net OPEB Obligation at Beginning of Year	1,440,663	954,080
Increase in NOO	604,432	486,583
Net OPEB Obligation at End of Year	$ 2,045,095	$ 1,440,663

The Net OPEB Obligation is the amount recorded in the MEABF'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 $86,061 explicit subsidy and $60,373 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 2010 as the MEABF Staff Retiree OPEB expense is net of employer implicit and explicit subsidy.

The following table shows the MEABF Staff Retiree Healthcare plan's annual OPEB cost and actual employer contributions as a percentage contributed for the current year and two preceding years.

Year ended December 31	Annual OPEB Cost	Amount Contributed	Percentage Contributed
2010	$750,867[1]	$146,434	19.5%
2009	$598,423	$111,840	18.7%
2008	$567,160	$ 96,670	17.0%

[1] Estimated

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

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

The following table shows funded status and funding progress as of December 31, 2009.

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	$7,101,870	$7,101,870	0.0%	$2,649,696	268.0%

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.

For a plan the size of the MEABF 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, 2009
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 Salary Increases 4.5%
	Ultimate Trend 5.0%
	Wage inflation 4.5%

Disclosure of Information about Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made abut the future.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Note 7 – 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, except for the Supplementary Payment 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:

	2010	2009
City Contribution Reserves	$1,603,969,092	$1,542,687,317
Salary Deduction Reserves	1,603,597,584	1,542,299,902
Prior Services Reserves	7,032,366,449	6,222,280,574
Annuity Payment Reserves	1,810,930,326	1,745,878,782
Optional Reserve Account	1,366,425	1,146,026
	12,052,229,876	11,054,292,601
Unreserved Net Assets	(6,616,636,454)	(5,888,068,107)
Net assets held in trust for pension benefits	$ 5,435,593,422	$ 5,166,224,494

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.

Optional Reserves

Amounts contributed by the aldermen for the alternative plan.

Note 8 – Operating Lease

Office Lease

MEABF leases its administrative office and storage facilities under a fifteen-year agreement that has been amended to extend the lease through February 28, 2011. At the expiration of the current lease, MEABF will be moving to a new office location. The lease currently requires monthly payments of $35,000. Monthly lease payments are subject to an escalation clause for increases in real estate taxes and maintenance expenses.

On September 1, 2010, MEABF signed a fifteen-year, non-cancelable office lease agreement with Hines REIT 321 North Clark Street LLC with a commencement date of March 1, 2011. The lease currently requires monthly payments of $21,800. Monthly lease payments are subject to an escalation clause for increases in real estate taxes and maintenance expenses.

Disaster Recovery (DR) site

MEABF 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 leases as of December 31, 2010:

Year Ending December 31,	Amount
2011	$ 167,321
2012	279,052
2013	287,575
2014	296,138
2015	304,684
2016-2020	1,637,312
2021-2025	1,834,468
Years thereafter	64,104
Total	$4,870,654

Total rent expense was $397,042 and $392,277 for 2010 and 2009, respectively.

Note 9 – Risk Management

MEABF 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 have been no claims in the last five years.

Note 10 – Commitments and Contingencies

Investment Commitments

As of December 31, 2010 approximately $214 million of capital committed to investments in real estate and private equity funds were undrawn. The Plan believes that the capital will be requested within four years. The Plan also has approved commitments of $72.5 million that were under contract negotiations at year-end. The Plan believes that the contracts will be finalized in the first half of 2011.

Irrevocable Letter of Credit Security Deposit

MEABF executed an irrevocable letter of credit in the amount of $300,000 as security deposit in accordance with the terms of the new lease agreement (See Note 8).

Litigation

The Plan is a defendant in a lawsuit arising in the ordinary course of its operations. Although the outcome of this lawsuit is not presently determinable, in the opinion of the Plan's management and legal counsel, the resolution of this matter will not have a material adverse effect on the Plan's financial statements.

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)
12/31/10	$6,003,389,605	$11,828,665,658	$5,825,276,053	50.8%	$1,541,388,065	377.9%
12/31/09	$6,295,788,191	$10,830,119,369	$4,534,331,178	58.1%	$1,551,973,348	292.2%
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%

Schedule of Employer Contributions (Pension)

	Employer Contributions		
Year Ended December 31,	Annual Required Contribution	Amount Contributed	Percentage Contributed
2010	$483,948,339	$154,752,320	32.0%
2009	$413,508,622	$148,046,490	35.8%
2008	$360,387,176	$146,803,250	40.7%
2007	$343,123,106	$139,606,140	40.7%
2006	$303,271,824	$157,062,769	51.8%
2005	$285,291,350	$155,057,116	54.4%

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, 2010
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)
12/31/10	$ -	$223,564,218	$223,564,218	00.0%	$1,541,388,065	14.5%
12/31/09	$ -	$224,173,231	$224,173,231	00.0%	$1,551,973,348	14.4%
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	Amount Contributed	Percentage Contributed
2010	$22,954,501	$9,549,685	41.6%
2009	$22,966,965	$9,651,118	42.0%
2008	$23,782,660	$9,029,362	38.0%
2007	$23,287,106	$8,530,910	36.6%
2006	$22,642,162	$8,730,476	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, 2010
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)
12/31/09	$ -	$7,101,870	$7,101,870	00.0%	$2,649,696	274.0%
12/31/06	$ -	$4,435,400	$4,435,400	00.0%	$2,497,700	177.6%

NOTE: The first Staff Retiree Healthcare OPEB actuarial valuation was performed as of December 31, 2006 and the most recent OPEB actuarial valuation was conducted as of December 31, 2009. Assuming there is no major change in the next three years, the next OPEB actuarial valuation will be as of December 31, 2012.

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

	Employer Contributions		
Year Ended December 31,	Annual Required Contribution	Amount Contributed	Percentage Contributed
2010[1]	$ 770,673[1]	$146,434	19.0%
2009	$611,526	$111,840	18.3%
2008	$573,808	$ 96,670	16.8%
2007	$537,400	$ 53,810	10.0%

[1] Projected for plan year ended December 31, 2010 based on most recent actuarial valuation as of December 31, 2009.

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, 2009
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

	2010	2009
Personal		
Administrative Salaries	$ 2,820,834	$ 2,937,230
Payroll taxes	33,763	36,004
Employee Benefits	942,930	822,201
OPEB expense	664,806	486,583
	4,462,333	4,282,018
Professional Services		
Actuarial valuation	82,509	82,206
Staff actuary	68,218	66,445
Actuarial consulting	38,500	10,000
Legal services	57,192	61,178
Litigation expense	115,806	24,269
Medical	47,968	47,968
Audit	34,000	32,000
Lobbying	16,700	11,133
Payroll services	355,131	368,958
IT consulting	15,016	11,624
Healthcare benefit consulting	-	14,680
Tax consulting	-	1,986
Other consulting	8,486	2,550
	839,526	734,997
Communication		
Printing & Publications	61,675	48,029
Postage	77,844	63,144
Telephone and Communications	56,516	56,065
	196,035	167,238
Occupancy and Utilities		
Office rent	397,042	392,277
Utilities	23,034	22,037
Office maintenance	5,892	3,305
	425,968	417,619
Other operating expense		
Fiduciary and Insurance	125,192	145,576
Office supplies and Equipment	28,382	43,376
Depreciation	596,024	1,894,805
Equipment rental and Maintenance	14,837	17,263
Training and Travel	17,188	21,826
Contractual services	15,378	17,023
Dues and Subscriptions	14,982	14,989
Court reporting	2,699	4,295
Miscellaneous	6,403	4,893
	821,085	2,164,046
Total Administrative and OPEB expense	**$ 6,744,947**	**$ 7,765,918**

Schedule of Professional and Consulting Fees

	2010	2009
Legal Advisors	$ 172,998	$ 85,448
Medical Advisors	47,968	47,968
Consulting Actuary	189,227	158,651
Other Consulting	40,202	41,973
Auditor	34,000	32,000
Payroll Services	355,131	368,958
Total	**$ 839,526**	**$ 734,998**

Schedule of Investment Management Compensation

	2010	2009
Equity Managers		
Ariel Capital	$ 499,841	$ 474,430
Castle Ark	462,896	321,113
Earnest Partners	413,408	315,209
FIS Group	765,993	34,015
Geneva Capital Management	417,679	44,787
Great Lakes Advisors	376,497	390,325
Harris Investment Management	-	119,525
Holland Capital	458,259	441,690
Keely Asset Management	737,544	582,064
Mackay Shields	-	92,725
Rhumbline Advisors Large Cap Core	74,821	72,205
Rhumbline Advisors Mid Cap Core	6,634	4,908
TCW	-	125,272
United Investment Managers	-	599,551
Voyageur Asset Management	-	97,714
Wellington Capital	513,390	655,689
William Blair Large Cap	-	126,479
William Blair Small/Mid Cap	538,180	400,638
Total Equity	$ 5,265,142	$ 4,898,339

Schedule of Investment Management Compensation (continued)

	2010	2009
Bond Managers		
Alliance Bernstein	$ -	$ 10,964
LM Capital	475,930	416,820
Mackay Shields	449,314	263,066
NTGI Bond Index	42,442	71,067
Neuberger Berman	166,768	191,690
RBC Global Asset Management	175,648	61,184
Segall Bryant & Hamill	287,927	180,959
Symphony Asset Management	337,470	123,288
UBS AM Bonds	106,994	62,500
Total Bond	2,042,493	1,381,538
International Equity Managers		
LSV Asset Management	587,613	507,848
Mackay Shields	686,508	582,529
NTGI All Country World Ex-US Index	237,228	144,414
NTGI International Small Cap Index	229,086	134,948
Walter Scott	905,009	758,685
William Blair	1,274,924	944,841
Total International Equity	3,920,368	3,073,265
Hedge Fund of Funds		
K2 Advisors	2,041,151	1,582,404
The Rock Creek Group	1,950,914	1,358,644
Total Hedge Fund of Funds	3,992,065	2,941,048
Real Estate Managers		
AFL-CIO Building Trust	291,793	190,777
American Realty	132,000	148,871
Capri Capital	690,915	687,192
DV Urban	225,000	200,414
JP Morgan	580,000	608,609
John Buck Company	265,000	290,584
Prudential Asset Management	338,200	466,613
Shamrock-hostmark Hotel Fund	75,000	72,500
Tishman Speyer	250,000	211,405
UBS Realty Advisors	63,170	63,170
Walton Street Partners	387,848	414,307
Total Real Estate	$ 3,298,926	$ 3,354,442

Schedule of Investment Management Compensation (continued)

	2010	2009
Private Equity Managers		
Adams Street Partners	$ 550,000	$ 528,984
Carpenter Bancorp Fund	200,000	391,803
Citigroup International PE Fund	225,000	225,000
First Analysis	532,000	532,361
Hispania Partners	325,000	344,388
Hopewell Ventures	112,500	112,500
Invesco	4,943	6,649
Levine Leichtman	496,094	437,500
MK Capital	100,000	100,000
Mesirow Financial	919,695	919,695
Midwest Mezzanine Fund	437,500	242,100
Morgan Stanley Secondary	150,000	-
Muller & Monroe	300,000	300,000
Nogales Investors	263,170	263,170
RCP Advisors	150,000	-
SB Partners	84,500	84,500
Total Private Equity	4,850,402	4,488,650
Total Investment Management Fees	$ 23,369,396	$ 20,137,282
Other Investment Expenses		
Investment Consultant	290,000	362,500
Master Custodian	181,893	134,450
Negotiation fee: Custody Reduction	148,212	148,212
Investment Legal Services	-	7,712
Miscellaneous Investment Expense	8,500	8,500
Total Other Investment Expenses	628,605	661,374
Total Investment Expenses	**$ 23,998,001**	**$ 20,798,656**

Investments

INVESTMENT REPORT - 2010

June 30, 2011

Board of Trustees and Executive Director
Municipal Employees' Annuity & Benefit Fund of Chicago
321 North Clark Street, Suite 700
Chicago, Illinois 60654

It is with great honor and privilege that we report on the status of the Plan's investment portfolio and summarize key market events that affected investors in 2010.

Going into 2010 most investors continued to play catch up from historic losses in 2008. Investors were hoping strong positive returns would continue, providing a v-shaped like recovery. Fiscal challenges globally though worried investors that markets may sputter and begin a negative trajectory. With this uncertainty, some investors began to reevaluate their risk budget. Reducing ones equity exposure would decrease risk, but at the same time stifle recovery if markets remained positive. As a disciplined long-term investor, the Plan follows the principles of asset allocation by allocating Plan assets in accordance with determined targets, eliminating the impulses triggered by market static.

2010 began the year strong, but concerns were growing that certain European Union (EU) members were facing a sovereign debt crisis. The effects of the crisis would not only limit access to affordable capital for these members, but also put into question the solvency of financial institutions holding sizable amounts of their obligations. The first member to signal trouble was Greece. Their troubles would test the strength of the EU, as capital required to protect their solvency would require significant financial support from other EU members. Investors were concerned that Greece may not be an isolated event, and that contagion could spread to other unstable members (Ireland, Portugal, and Spain). This uncertainty led to sizable declines in the international markets as the MSCI EAFE dropped by –13.7% in the second quarter alone. The domestic markets were not left unscathed, as the S&P 500 fell by –11.4%. After four straight quarters of positive returns, this could have been a catalyst for a much larger sell off by investors. Fortunately, investors utilized the pullback as an opportunity to purchase at a discount, which helped produce strong gains for the remainder of the year and converted mid-year losses to double-digit growth at year-end.

EQUITY MARKETS			
	2010	2009	2008
S&P 500	15.1%	26.5%	-37.0%
Russell 2000	26.8%	27.2%	-33.8%
MSCI EAFE	8.2%	32.5%	-43.1%
MSCI Emerging	18.9%	78.5%	-53.2%

Performance for the year was lead by small domestic companies and the emerging markets. As reflected above, the Russell 2000, an index of smaller stocks, produced a return of 26.8%. The MSCI Emerging, an index of companies from emerging markets, separated itself from the developed markets, returning 18.9% for the year.

Investment grade bonds, represented by the Barclay's Aggregate Bond Index, produced a respectable return for the year, 6.5%. Long-term returns for investment grade bonds face headwinds though as prolonged low interest rates and massive monetary easing decisions will eventually lead to inflationary pressures that will dilute long bond returns compared to historical averages. Investors in non-investment grade bonds were rewarded for another year, returning 15.1% in 2010 after 58.2% in 2009.

Real estate, which did not participate in the market upswing in 2009, moved back into positive territory in 2010. With the demise of over-leveraging, speculative development, and property "flipping" practices, core properties, especially in large urban markets, began to see high demand, triggering strong write-ups in appraised values. Economic factors also benefited multi-family properties, leading to significant appreciation across multiple markets.

The Plan's investment portfolio returned 13.7% for 2010, net of fees. The Plan was valued at $5.4 billion at year-end, an increase of $269 million, or 5.2%. This is net of $369 million drawn throughout the year to honor monthly benefit payments. Allocation of assets was 32% domestic equity, 22% international equity, 9% hedged equity, 24% fixed income, 5% real estate, 3% private equity, and the remainder in short-term instruments. The Plan's top ten domestic equity holdings made up 9.6% of its allocation, with the Industrial and Information Technology sectors being the main over-weights. Top ten international holdings were 7.0% of the international exposure with a slight over-weight in Japan. Strong manager selection and an over-weight to small cap stocks and emerging countries helped the Plan's international equity allocation to roughly double the performance of the MSCI EAFE. Fixed income, compared to the Barclay's Aggregate Index, saw alpha generation mainly in corporate bonds. The Plan incurred $24 million in investment management fees during 2010, up 15% from 2009. The increase is mainly due to rebounding equity values and larger utilization of alternative asset strategies.

As we go into 2011, investors seem optimistic that gains can continue. As of this writing, domestic stocks returned 5% to 7% and international stocks returned 2% to 4% for the first quarter. Over the last two years the markets have had only one negative quarter. Four quarters produced double-digit returns, unannualized. Absolute returns for the two years ending March 31, 2011, have been historical.

Index	*2 Year %
S&P 500	73.20%
Russell 2000	104.75%
MSCI EAFE	70.53%
MSCI Emerging	114.51%
BarCap High Yield Bond	80.69%

*Unannualized

Some investors are concerned that this could be a performance bubble. With the carnage of 2008 not removed from memory, these significant gains could lead investors to be very sensitive to short-term events. Time will tell, but regardless of short-term market noise, the Plan will continue to position the portfolio in accordance with target asset allocation to achieve the long-term investment goals and objectives of the Plan.

The Retirement Board supports diversity in the utilization of financial institutions when investing the Plan's investment portfolio. Utilization goals have been established for investment management and brokerage services. For 2010, all goals were met or exceeded.

The purpose of a pre-pay funding structure is for a retirement plan to receive actuarially determined contributions annually and prudently invest them to meet current and future earned benefit obligations. To successfully accomplish this in perpetuity, employee and employer contributions with investment income must be sufficient to pay annual benefits while growing plan assets at an actuarially determined rate. Without the equal strength of these revenue sources, annual funding deficits will accumulate and overwhelm a plan over time.

This report includes the certification letter from the Plan's custodian for 2010, a summary of the Plan's investment goals, objectives, and guidelines, and informative investment schedules for your review. I take this opportunity to recognize the efforts of Nadia Oumata, Investment Analyst, whose hard work made this year's report submission worthy for recognition for excellence from the Government Finance Officers' Association.

We hope you find this report informative.

Respectfully submitted,

Jim Mohler
Chief Investment Officer

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, 2010 through December 31, 2010.

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, 2010

Adams Street Partners
Chicago, Illinois
Private Equity Direct Partnership
Private Equity Fund of Funds

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

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

Carpenter Community Banc Fund
Irvine, California
Private Equity Direct Partnership

CastleArk Asset Management
Chicago, Illinois
Domestic Equity Large Cap Growth

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

DV Urban Realty
Chicago, Illinois
Real Estate Partnership

John Buck Company
Chicago, Illinois
Real Estate Partnerships

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

K2 Advisors
Stamford, Connecticut
Hedged Equity Fund of Funds

Keeley Asset Management
Chicago, Illinois
Domestic Equity Small Cap Value

Levine Leichtman
Beverly Hills, California
Structured Equity Partnership

LM Capital
San Diego, California
Fixed Income Bond Core

LSV Asset Management
Chicago, Illinois
International Equity Value

MacKay Shields
New York, New York
International Equity Growth
Fixed Income High Yield

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

Investment Managers (continued)

As of December 31, 2010

Earnest Partners
Atlanta, Georgia
Domestic Equity Mid Cap Core

First Analysis
Chicago, Illinois
Private Equity Direct Partnerships

Geneva Capital Management
Milwaukee, Wisconsin
Domestic Equity Mid Cap Growth

Great Lakes Advisors
Chicago, Illinois
Domestic Equity Large Cap Value

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

MK Capital
Chicago, Illinois
Private Equity Direct Partnership

Morgan Stanley
West Conshohocken, Pennsylvania
Private Equity Secondary Fund of Funds

Midwest Mezzanine Funds
Chicago, Illinois
Private Equity Mezzanine Funds

FIS Group, Inc.
Philadelphia, Pennsylvania
Manager of Managers
Domestic Equity All Cap

RCP Advisors
Chicago, IL
Private Equity Secondary Fund of Funds

RhumbLine Advisors
Boston, Massachusetts
Domestic Equity Large Cap Core Index
Domestic Equity Mid Cap Growth Index

The Rock Creek Group
Washington, D.C.
Hedged Equity Fund of Funds

SB Partners
Holland, Michigan
Private Equity Direct Partnership

Segall Bryant & Hamill
Chicago, Illinois
Fixed Income Intermediate

Shamrock-Hostmark
Burbank, California
Real Estate Partnership

Symphony Asset Management
San Francisco, California
Fixed Income Senior Bank Loans

Tishman Speyer
New York, New York
Real Estate Partnership

Investment Managers (continued)

As of December 31, 2010

Muller & Monroe Asset Management Chicago, Illinois Private Equity Fund of Funds	**UBS Asset Management** Chicago, IL Fixed Income Bond Core Real Estate Partnership
Neuberger Berman Chicago, Illinois Fixed Income Enhanced Index	**Walter Scott & Partners** Edinburgh, Scotland International Equity Growth
Nogales Investors Management Los Angeles, California Private Equity Direct Partnerships	**Walton Street Capital** Chicago, Illinois Real Estate Partnerships
Northern Trust Global Investment Advisors Chicago, Illinois International Equity All-World Ex-US Index International Equity Small Cap Index	**Wellington Management Company** Boston, Massachusetts Domestic Equity Large Cap Value
Prudential Real Estate Investors Parsippany, New Jersey Real Estate Funds	**William Blair & Company** Chicago, Illinois Domestic Equity Mid Cap Growth Emerging Markets Equity
RBC Global Asset Management Minneapolis, Minnesota Fixed Income Opportunistic	

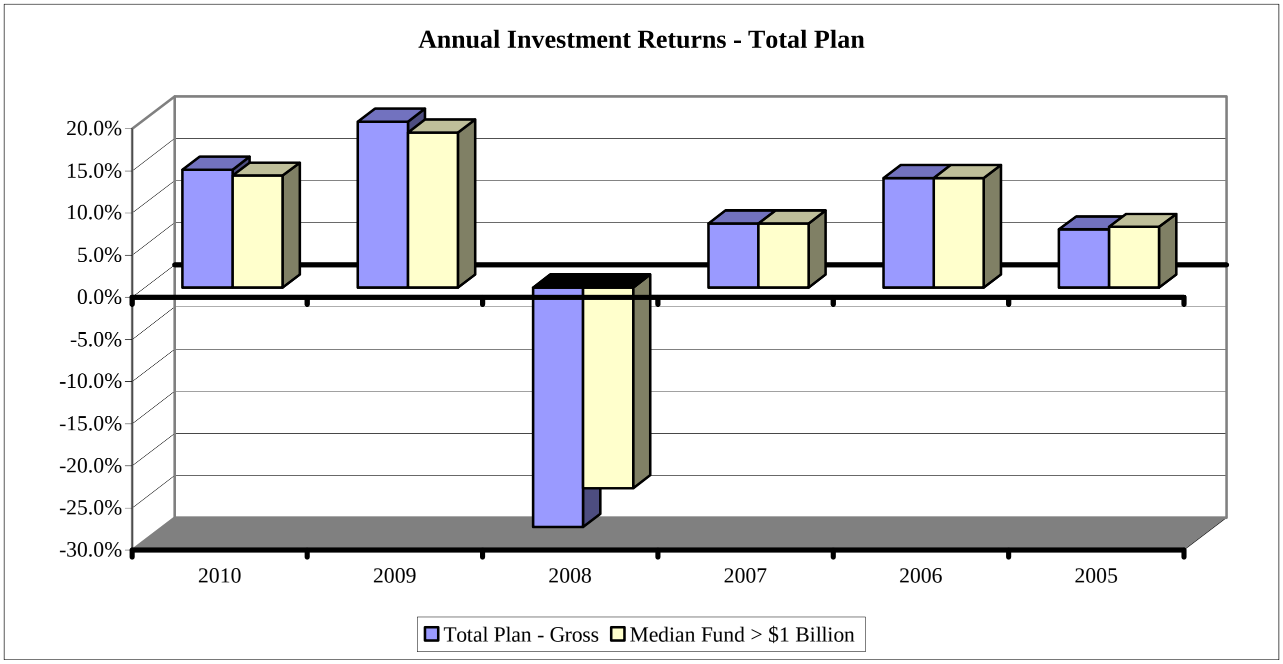
Performance Returns by Asset Class

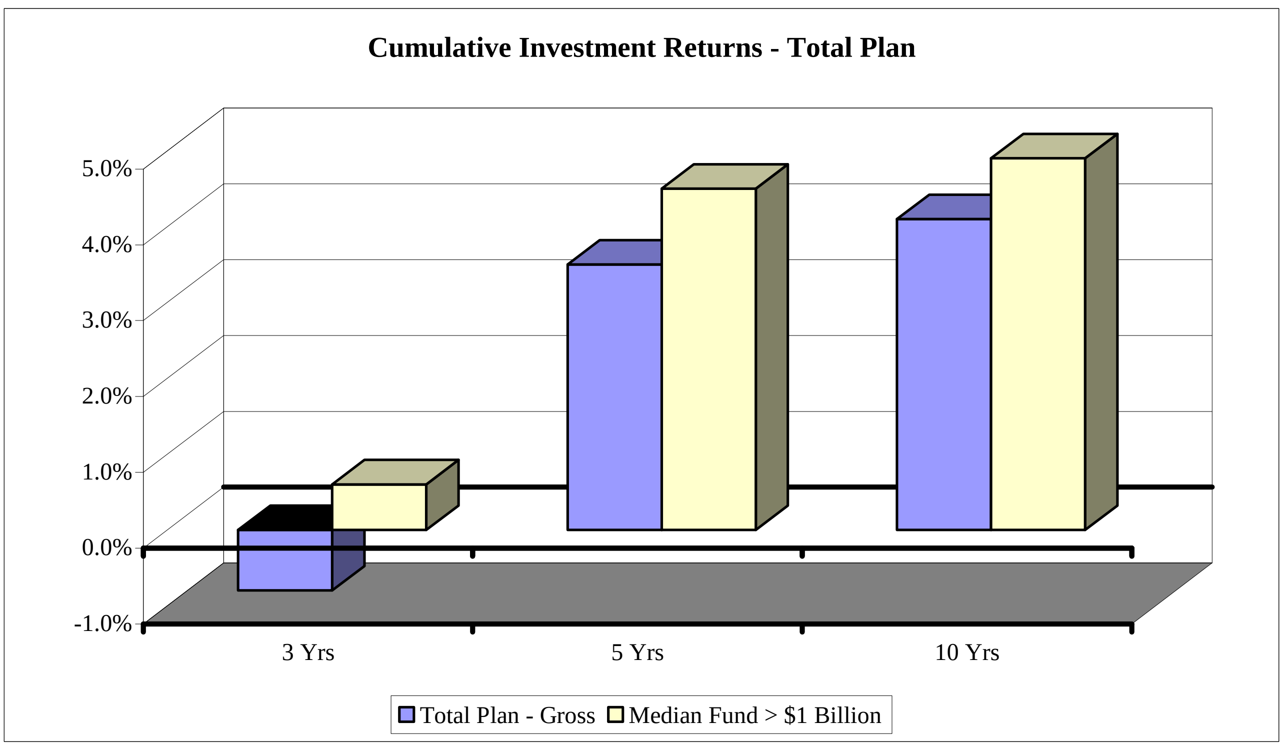
As of December 31, 2010

	2010	2009	2008	2007	2006	2005	1 Yr	Annualized 3 Yrs	5 Yrs	10 Yrs
Total Plan										
The Plan - Gross	14.0%	19.7%	-28.4%	7.6%	13.0%	6.9%	14.4%	-0.8%	3.5%	4.1%
The Plan - Net	13.7%	19.4%	-28.7%	7.3%	12.7%	6.6%	14.2%	-1.0%	3.3%	3.8%
Median	13.3%	18.4%	-23.8%	7.6%	13.0%	7.2%	13.3%	0.6%	4.5%	4.9%
Domestic Equity										
The Plan	20.6%	34.7%	-38.7%	5.3%	12.8%	5.6%	20.6%	-0.2%	3.3%	3.0%
S&P 500	15.1%	26.5%	-37.0%	5.5%	15.8%	4.9%	15.1%	-2.9%	2.3%	1.4%
Russell 2000	26.9%	27.2%	-33.8%	-1.5%	18.3%	4.6%	27.2%	-6.1%	0.5%	3.5%
International Equity										
The Plan	15.4%	42.1%	-36.7%	14.3%	30.0%	17.2%	15.4%	1.2%	9.0%	7.1%
MSCI EAFE	8.2%	32.5%	-43.4%	11.6%	26.9%	14.0%	8.2%	-6.5%	2.9%	3.9%
Fixed Income										
The Plan	8.0%	12.7%	-4.6%	5.2%	4.6%	2.3%	12.4%	5.0%	5.0%	5.3%
Barclays Aggregate Bond	6.5%	5.9%	5.2%	7.0%	4.3%	2.4%	6.5%	5.9%	5.8%	5.8%
Barclays Government/Credit	5.9%	5.2%	5.7%	7.4%	4.1%	1.6%	5.9%	5.4%	5.5%	5.5%
Real Estate										
The Plan	18.8%	-32.1%	-15.1%	15.3%	17.6%	25.3%	18.8%	-11.5%	-1.2%	5.0%
NCREIF	13.1%	-16.9%	-6.5%	15.8%	16.6%	20.1%	13.1%	-4.2%	3.5%	7.4%
Private Equity										
The Plan	24.7%	3.7%	-13.8%	33.2%	10.7%	20.0%	24.7%	3.6%	10.4%	
Venture Economic PE	N/A	12.3%	-19.7%	17.3%	21.1%	23.0%	N/A	N/A	N/A	
Hedge Fund										
The Plan	5.3%	N/A	N/A	N/A	N/A	N/A	5.3%			
HFRX Hedged Equity	8.9%	13.1%	-25.5%	3.2%	9.2%	4.2%	8.9%			

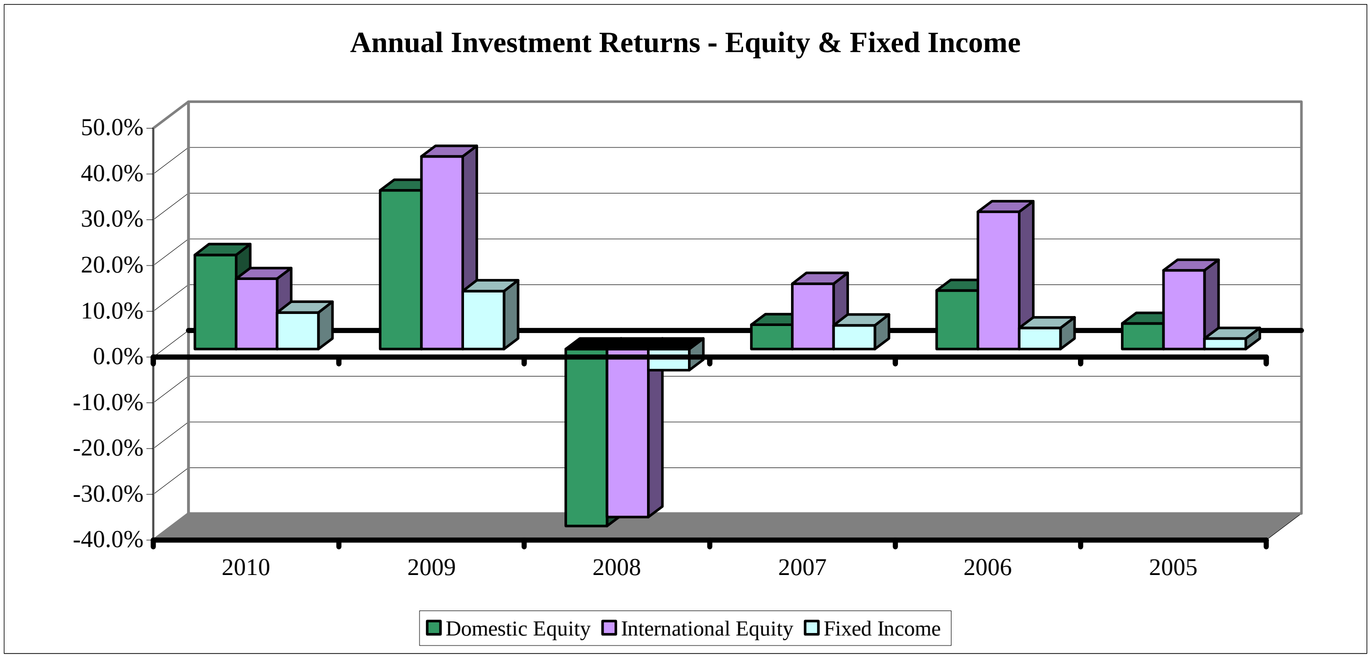
Investment returns from Marquette Associate's MEABF of Chicago 4Q 2010 Quarterly Report.

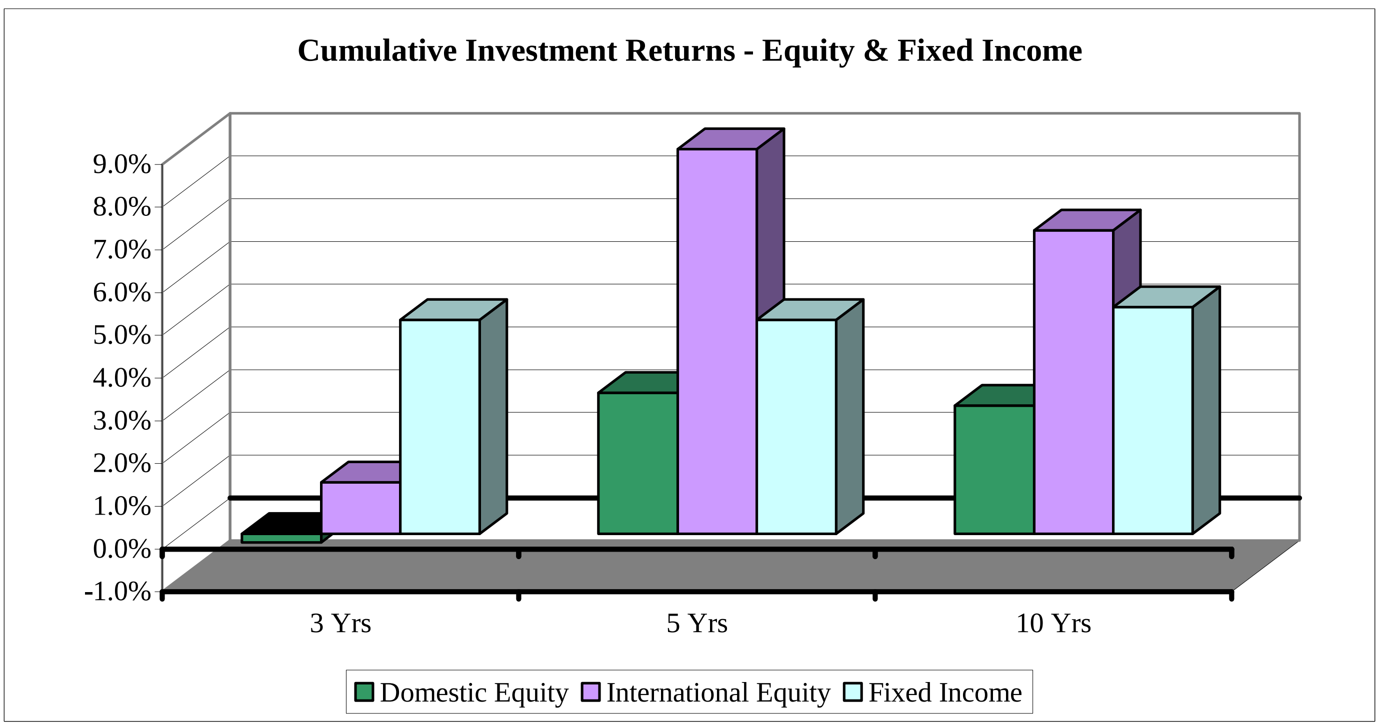
Performance Returns by Asset Class (continued)





Performance Returns by Asset Class (continued)





Investments (Fair to Book)

As of December 31, 2010 and December 31, 2009

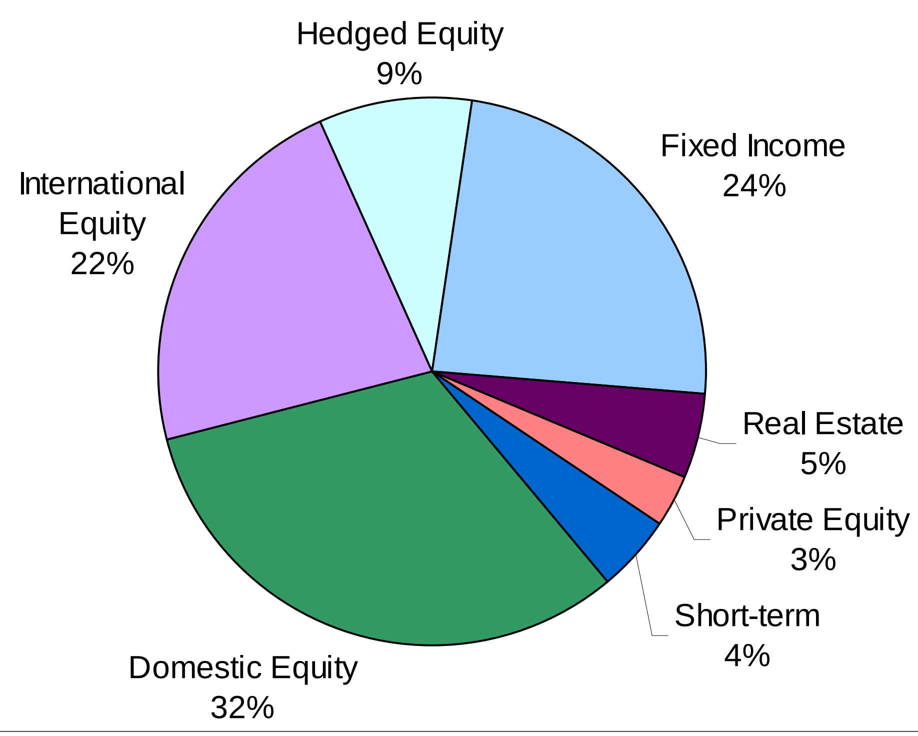
Category	12/31/2010 Fair Value	%	12/31/2010 Book Value	%	12/31/2009 Fair Value	%	12/31/2009 Book Value	%
Fixed Income	$1,261,024,447	24%	$1,222,561,235	26%	$1,140,211,398	23%	$1,110,320,208	23%
Equities								
Domestic	1,684,588,382	32%	1,290,877,926	27%	1,620,248,581	32%	1,422,335,407	29%
International	1,188,529,048	22%	1,042,294,371	22%	1,119,005,244	22%	1,046,239,231	21%
Total Equities	2,873,117,430	54%	2,333,172,297	49%	2,739,253,825	54%	2,468,574,638	51%
Hedged Equity	500,381,049	9%	450,000,000	9%	474,261,684	9%	450,000,000	9%
Real Estate	262,935,715	5%	305,074,631	6%	211,954,175	4%	274,808,091	6%
Private Equity	166,742,727	3%	234,587,147	5%	130,410,012	3%	216,818,220	4%
Cash Equivalents	227,974,582	4%	228,088,797	5%	346,362,717	7%	346,397,670	7%
Total Investments	$5,292,175,950	100%	$4,773,484,108	100%	$5,042,453,811	100%	$4,866,918,827	100%

Investment Asset Allocation

As of December 31, 2010

Asset Class	Target Allocation	Actual Allocation
Domestic Equity	25%	32%
International Equity	20%	22%
Hedged Equity	10%	9%
Fixed Income	25%	24%
Real Estate	10%	5%
Private Equity	10%	3%
Short-term	0%	4%
Investment Assets	**100%**	**100%**

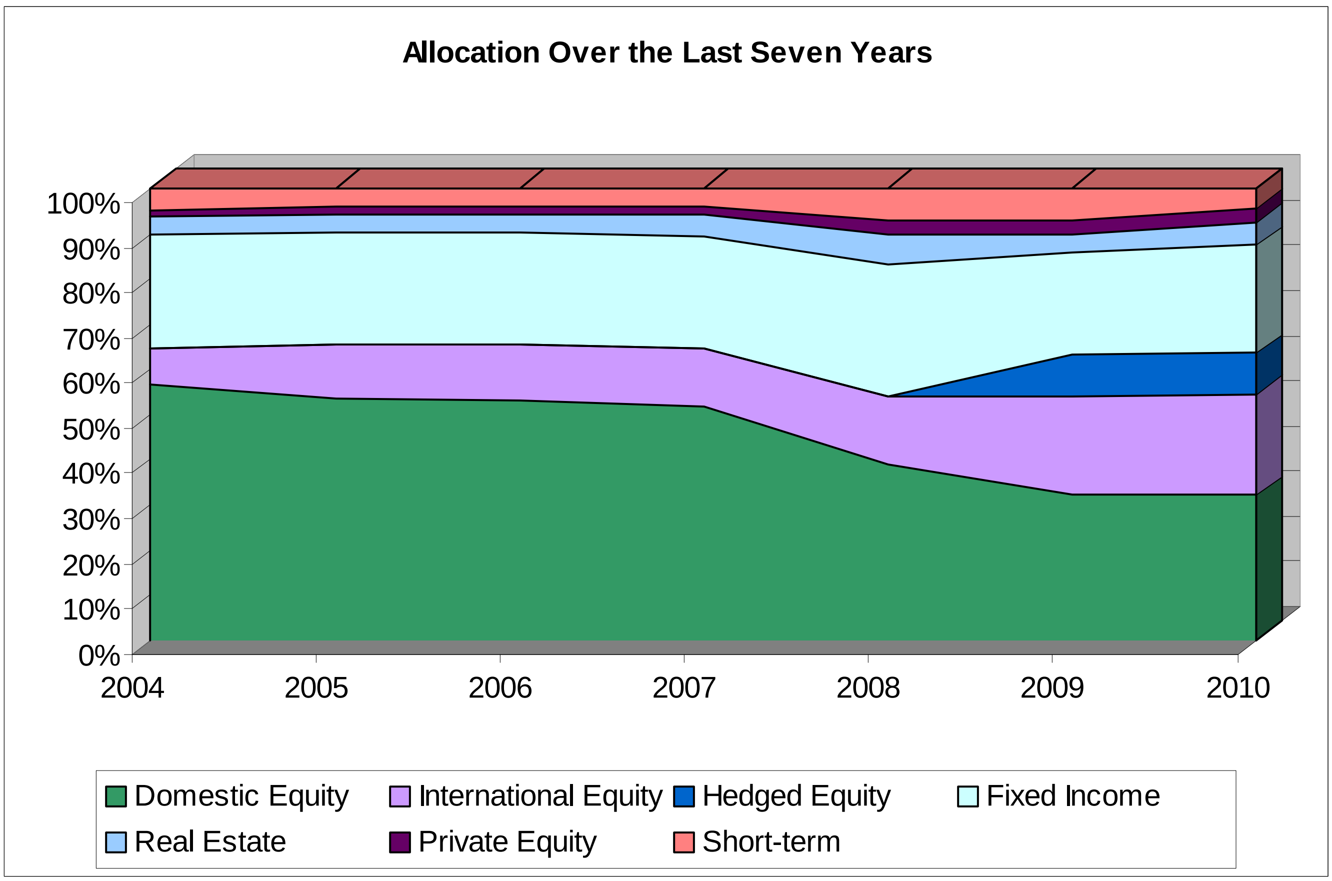
Actual Allocation as of December 31, 2010



Investment Asset Allocation

Last seven years

Asset Class	2004	2005	2006	2007	2008	2009	2010
Domestic Equity	56%	54%	53%	52%	39%	32%	32%
International Equity	8%	12%	13%	13%	15%	22%	22%
Hedged Equity	0%	0%	0%	0%	0%	9%	9%
Fixed Income	25%	25%	25%	25%	29%	23%	24%
Real Estate	4%	4%	4%	5%	7%	4%	5%
Private Equity	1%	2%	2%	2%	3%	3%	3%
Short-term	5%	4%	4%	4%	7%	7%	4%
Investment Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**



Economic Sector Holdings

Year Ended December 31, 2010

(Domestic) Economic Sector Allocation

Sector	Market Value	Percentage of Total	Wilshire 5000 Allocation
Industrials	$284,111,440	16.9%	13.2%
Information Technology	267,541,584	15.9%	16.1%
Consumer Discretionary	303,578,603	18.0%	17.2%
Financials	214,637,761	12.7%	11.9%
Health Care	178,574,372	10.6%	10.6%
Energy	164,527,637	9.8%	10.7%
Consumer Staples	128,649,908	7.6%	10.1%
Materials	70,070,368	4.2%	3.9%
Utilities	43,109,712	2.6%	3.4%
Telecommunication Services	28,872,109	1.7%	2.9%
Miscellaneous	914,888	0.1%	0.0%
Total	**$1,684,588,382**	**100.0%**	**100.0%**

Domestic Equity Portfolio Summary – Top Ten Holdings

Year Ended December 31, 2010

Name of Security	Sector	Shares	Fair Value	Unrealized Gain/Loss	% of U.S. Equity
Exxon Mobil Corp.	Energy	413,226	$30,215,085	$9,782,693	1.8%
Apple Inc.	Info. Technology	77,070	24,859,699	18,070,405	1.5%
Chevron Corp.	Energy	185,165	16,896,306	6,105,924	1.0%
Pepsico Inc.	Consumer Staples	196,889	12,862,758	2,888,716	0.8%
General Electric Co.	Industrials	700,904	12,819,534	(680,861)	0.8%
Microsoft Corp.	Info. Technology	455,713	12,723,507	4,324,722	0.8%
Citrix Systems Inc.	Info. Technology	178,415	12,205,370	6,138,742	0.8%
AT&T Inc.	Telecomm.	413,032	12,134,880	2,088,026	0.7%
IBM Corp.	Info. Technology	82,176	12,060,150	6,697,670	0.7%
Wells Fargo & Co.	Financial Services	382,158	11,843,076	71,180	0.7%
Total		**3,084,748**	**$158,620,367**	**$55,487,218**	**9.6%**

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

International Equity Portfolio Summary

Year Ended December 31, 2010

Country Allocation

Country	Market Value	Percentage of Total	MSCI ACWI ex US Index Allocation
Europe/Africa			
United Kingdom	$170,149,144	14.3%	14.5%
Switzerland	78,680,980	6.6%	5.5%
Germany	55,916,970	4.7%	5.6%
France	58,063,716	4.9%	6.5%
Spain	29,337,542	2.5%	2.2%
Netherlands	23,602,194	2.0%	1.7%
Italy	24,640,594	2.1%	1.8%
Other	110,218,290	9.3%	8.1%
Total Europe/Africa	550,609,430	46.3%	45.8%
Asia/Pacific			
Japan	219,641,241	18.5%	15.0%
Australia	67,719,593	5.7%	6.0%
Hong Kong	24,523,262	2.1%	1.9%
India	25,817,449	2.2%	1.9%
Republic of Korea	25,741,473	2.2%	3.3%
China	50,560,759	4.3%	4.2%
Taiwan	17,556,894	1.5%	2.8%
Singapore	16,813,464	1.4%	1.2%
Other	34,342,580	2.9%	4.3%
Total Asia/Pacific	482,716,715	40.6%	40.5%
Americas			
Canada	80,563,169	6.8%	8.0%
Brazil	47,770,585	4.0%	3.8%
Mexico	20,669,973	1.7%	1.1%
Other	6,199,176	0.5%	0.8%
Total Americas	155,202,903	13.1%	13.7%
Total International Equity	**$1,188,529,048**	**100.0%**	**100.0%**

International Equity Portfolio Summary – Top Ten Holdings

Year Ended December 31, 2010

Name of Security	Country	Sector	Shares	Fair Value	Unrealized Gain/Loss	% of Int'l Equity
Nestle SA	Switzerland	Consumer Staples	226,730	$13,317,742	$5,152,959	1.1%
CNOOC Ltd.	China	Energy	5,078,000	12,045,605	3,875,108	1.0%
TESCO	U.K.	Retail	1,426,159	9,489,679	259,554	0.8%
Roche Holdings Ag	Switzerland	Health Care	61,322	9,013,104	87,817	0.7%
Novartis Ag	Switzerland	Health Care	143,268	8,446,064	1,325,678	0.7%
Nintendo Co	Japan	Info. Technology	26,950	7,918,259	177,701	0.6%
Hyundai Mobis	Korea	Consumer Discretionary	30,507	7,647,583	3,754,112	0.6%
HSBC Holdings	U.K.	Financial Services	628,018	6,401,982	(1,075,043)	0.5%
Man Group ORD	U.K.	Financial Services	1,364,036	6,321,384	1,138,921	0.5%
Covidien	Ireland	Health Care	138,400	6,319,344	819,839	0.5%
Total			**9,123,390**	**$86,920,746**	**$15,516,646**	**7.0%**

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

Fixed Income Portfolio Summary

Year Ended December 31, 2010

(Fixed Income) Asset Allocation

Asset Category	Market Value	Percentage of Total	Barclays Aggregate Index Allocation
Corporate Bonds	$414,082,951	32.8%	18.8%
Government Bonds	261,668,099	20.8%	33.8%
Government Mortgage Backed	229,738,364	18.8%	32.7%
Government Agencies	123,183,066	9.8%	12.0%
Bank Loans	86,925,640	6.9%	0.0%
Asset Backed Securities	43,905,144	3.5%	0.3%
Commercial Mortgage Backed	31,410,224	2.5%	2.5%
Non-Government Backed CMOs	27,650,456	2.2%	0.0%
Municipal/Provincial Bonds	24,753,685	2.0%	0.0%
Other	17,706,819	1.4%	0.0%
Total	**$1,261,024,447**	**100.0%**	**100.0%**

Fixed Income Portfolio Summary – Top Ten Holdings

Year Ended December 31, 2010

Name of Security	Sector	Fair Value	Unrealized Gain/Loss	% of Fixed Income
U.S. Treasury Notes 3.75 % Due 11/15/2018	Government Bonds	$25,102,659	$91,762	2.1%
U.S. Treasury Notes 2.0% Due 11/30/2013	Government Bonds	23,370,354	453,474	1.9%
U.S. Treasury Notes 3.5% Due 5/15/2020	Government Bonds	17,484,118	(364,983)	1.4%
U.S. Treasury Notes 2.375% Due 7/31/2017	Government Bonds	13,875,463	(676,130)	1.1%
U.S. Treasury Notes 0.5% Due 11/30/2012	Government Bonds	12,968,262	(8,685)	1.1%
FHLMC Preassign 1.625% Due 04/15/2013	Government Agencies	12,296,838	184,198	1.0%
U.S. Treasury Notes 4.25% Due 8/15/2014	Government Bonds	12,134,375	342,223	1.0%
Merrill Lynch & Co 5.45% Due 2/05/2013	Corporate Bonds	11,143,899	1,851,658	0.9%
U.S. Treasury Notes 3.625% Due 2/15/2020	Government Bonds	10,917,782	275,948	0.9%
U.S. Treasury Notes 1.75% Due 7/31/2015	Government Bonds	10,067,680	(296,554)	0.8%
Total		**$149,361,429**	**$1,852,911**	**12.2%**

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

Domestic Equity Brokerage Commissions

As of December 31, 2010

Broker Name	Commissions	(#) Shares	Cost per Share
Cabrera Capital Markets**	$129,980	6,636,518	$0.02
Williams Capital Group**	118,134	7,947,911	0.01
Gardner Rich & Company**	91,390	2,384,630	0.04
Loop Capital Markets**	85,991	4,563,753	0.02
Lynch Jones & Ryan*	85,203	1,734,555	0.05
Cheevers & Company**	76,588	2,138,729	0.04
Liquidnet	56,794	1,633,618	0.03
Instinet*	36,918	781,085	0.05
Citigroup Global Markets Inc.	31,381	620,719	0.05
Barclays Capital	31,229	660,523	0.05
Jeffries & Company	30,182	2,595,151	0.01
MR Beal & Company**	28,997	872,576	0.03
Knight Securities	25,147	1,613,771	0.02
Managers with < $25,000 of Commissions	366,927	11,551,395	0.03
Total Domestic Equity Commissions	$1,194,861	45,734,934	$0.03

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

International Equity Brokerage Commissions

As of December 31, 2010

Broker Name		Commissions	(#) Shares
G-Trade Services	$	67,372	15,588,766
Credit Suisse		54,367	38,501,709
Morgan Stanley & Company		41,969	6,876,650
Merrill Lynch		41,838	13,123,827
Goldman Sachs		39,827	38,455,861
Macquarie		39,667	6,604,184
Citigroup		30,473	13,499,540
Gardner Rich & Company**		25,046	634,696
JP Morgan		24,469	8,489,733
Credit Agricole		23,935	5,286,762
Pershing		22,115	2,021,831
Cabrera Capital Markets**		20,880	5,035,819
Managers with < $20,000 of Commissions		284,882	56,164,419
Total International Equity Commissions	$	716,840	210,283,797

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

Investment Fees

As of December 31, 2010

In Thousands

	2010		2009	
Investment Manager Fees	**Fees**	**Basis Points**	**Fees**	**Basis Points**
Fixed Income Managers	$2,043	16	$1,382	12
Domestic Equity Managers	5,265	31	4,898	30
International Equity Managers	3,920	34	3,073	27
Hedged Equity Managers	3,992	82	2,941	62
Real Estate Managers	3,299	100	3,354	n/a
Private Equity Managers	4,850	160	4,489	n/a
	$23,369		$20,137	
Other Investment Fees				
Investment Consultant	$290		$363	
Master Custodian	182		134	
Negotiation Fee: Custody Reduction	148		148	
Investment Legal Services	-		8	
Miscellaneous Expenses	9		9	
	629		661	
Total Investment Fees	$23,998		$20,799	

For a schedule of investment fees by category, please refer to the schedule Investment Management Compensation on pages 47 thru 49.

Actuarial

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April 12, 2011

The Retirement Board of the
Municipal Employees' Annuity and Benefit
Fund of Chicago
321 N. Clark Street
Suite 700
Chicago, Illinois 60654

Subject: Actuarial Valuation and 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, 2010. 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 2011. 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 recommended by the actuary and approved by the Board 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

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.

b) Asset Values - The values of assets of the Plan were provided by the Plan's staff. An actuarial value of assets was used to develop actuarial results for GASB Statement No. 25 and Statement No. 27.

c) Actuarial Method - The actuarial method utilized by the Plan is the Entry Age Normal Actuarial Cost Method. The objective of this method is to recognize the costs of Plan benefits over the entire career of each member as a level of percentage of compensation. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately amortized. All actuarial gains and losses under this method are reflected in the UAAL.

d) Actuarial Assumptions— Updated actuarial assumptions have been adopted beginning with this valuation from the recommendations of the experience study performed for the period from December 31, 2004, through December 31, 2009. The assumptions 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. This valuation of the Plan shows that a ratio of 4.92 is needed to adequately finance the Plan in fiscal year 2011 on an actuarially sound basis. It should be noted that the statutory employer contributions have been less than the Annual Required Contribution (ARC) for the past eight years and are again expected to be less than the ARC for 2011. In order for employer contributions to be increased, the State legislature would first need to amend the statute. Under the current funding policy, if all future assumptions are realized, the funding ratio is projected to deteriorate until assets are depleted within about 15 to 20 years. The current statutory funding policy does not comply with generally accepted actuarial standards for the funding of retirement systems. We recommend that an actuarially sound funding policy be adopted as soon as possible.

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.

Sincerely,

Alex Rivera

Alex Rivera, F.S.A., E.A., M.A.A.A.
Senior Consultant

Amy Williams

Amy Williams, A.S.A., M.A.A.A.
Consultant

Summary of Actuarial Valuation

	December 31, 2009	December 31, 2010	% Change
ACTUARIAL VALUES			
Termination Values			
Liability	$ 7,485,109,283	$ 8,120,970,164	**8.50 %**
Assets - Actuarial Value	6,295,788,191	6,003,389,605	**(4.64)%**
Deficiency/(Excess)	1,189,321,092	2,117,580,559	**78.05 %**
Funded Ratio	**84.11%**	**73.92%**	**(12.11)%**
Actuarial Values			
Actuarial Liability	$ 11,054,292,600	$ 12,052,229,876	**9.03 %**
Assets - Actuarial Value	6,295,788,191	6,003,389,605	**(4.64)%**
Unfunded Liability (Surplus)	4,758,504,409	6,048,840,271	**27.12 %**
Funded Ratio	**56.95%**	**49.81%**	**(12.54)%**
Annual Required Contribution (ARC)	$ 506,902,840	$ 634,559,144	**25.18 %**
Market Values			
Actuarial Liability	$ 11,054,292,600	$ 12,052,229,876	**9.03 %**
Assets - Market Value	5,166,224,494	5,435,593,422	**5.21 %**
Unfunded Liability	5,888,068,106	6,616,636,454	**12.37 %**
Funded Ratio	**46.74%**	**45.10%**	**(3.50)%**
Book Values			
Actuarial Liability	$ 11,054,292,600	$ 12,052,229,876	**9.03 %**
Assets - Book Value	5,009,960,625	4,927,631,310	**(1.64)%**
Unfunded Liability (Surplus)	6,044,331,975	7,124,598,566	**17.87 %**
Funded Ratio	**45.32%**	**40.89%**	**(9.79)%**

Actuarial Liability and Annual Required Contribution include both Pension and OPEB

Summary of Actuarial Valuation (continued)

	December 31, 2009	December 31, 2010	% Change
Assets			
Market Value - Beginning of Year	$ 4,739,613,755	$ 5,166,224,494	**9.00 %**
Income			
Investment Income	778,562,620	638,568,991	**(17.98)%**
Employer Contributions	157,697,608	164,326,439	**4.20 %**
Employee Contributions	130,980,605	133,299,542	**1.77 %**
Subtotal	1,067,240,833	936,194,972	**(12.28)%**
Outgo (Refunds, Benefits & Expenses)	640,630,094	666,826,044	**4.09 %**
Net Change	426,610,739	269,368,928	**(36.86)%**
Market Value - End of Year	$ 5,166,224,494	$ 5,435,593,422	**5.21 %**
Book Value - Beginning of Year	$ 5,494,716,736	$ 5,009,960,625	**(8.82)%**
Income			
Investment Income	(132,804,230)	286,870,748	**316.01 %**
Employer Contributions	157,697,608	164,326,439	**4.20 %**
Employee Contributions	130,980,605	133,299,542	**1.77 %**
Subtotal	155,873,983	584,496,729	**274.98 %**
Outgo (Refunds, Benefits & Expenses)	640,630,094	666,826,044	**4.09 %**
Net Change	(484,756,111)	(82,329,315)	**83.02 %**
Book Value - End of Year	$ 5,009,960,625	$ 4,927,631,310	**(1.64)%**
Actuarial Value - Beginning of Year	$ 6,669,501,770	$ 6,295,788,191	**(5.60)%**
Income			
Investment Income	(21,761,698)	76,801,477	**452.92 %**
Employer Contributions	157,697,608	164,326,439	**4.20 %**
Employee Contributions	130,980,605	133,299,542	**1.77 %**
Subtotal	266,916,515	374,427,458	**40.28 %**
Outgo (Refunds, Benefits & Expense)	640,630,094	666,826,044	**4.09 %**
Net Change	(373,713,579)	(292,398,586)	**21.76 %**
Actuarial Value - End of Year	$ 6,295,788,191	$ 6,003,389,605	**(4.64)%**

Summary of Actuarial Valuation (continued)

	December 31, 2009	December 31, 2010	% Change
Members			
Active[1]	31,586	30,726	**(2.72)%**
Inactive	12,919	13,866	**7.33 %**
Retirees	18,245	18,438	**1.06 %**
Deferred	6	3	**(50.00)%**
Survivors	4,364	4,346	**(0.41)%**
Disabilities	526	550	**4.56 %**
Children	167	173	**3.59 %**
Payroll Data			
Valuation Payroll	$ 1,551,973,348	$ 1,541,388,065	**(0.68)%**
Average Salary	49,135	50,166	**2.10 %**

[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, 2010. The purposes of this valuation are:

1. To develop the minimum actuarially determined contribution for 2011.
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, 2011, is $611.8 million, which is for pension benefits only. This amount is net of employee contributions of $133.9 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, 2011, is $22.8 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 Total ARC for FY 2011 is $634.6 million, which is $473.3 million more than the statutory contribution of $161.3 million. The difference between the ARC and the statutory contributions represents a "net pension obligation" (NPO) (and "net OPEB obligation" (NOO) for OPEB) as defined under GASB. The NPO and NOO are viewed as the accumulated value of contribution variances – where GASB defines contribution variances as the difference between the ARC and the statutory contribution. In lay terms, the NPO and NOO could be viewed as a "past due" on the annual required contributions.

As shown in the actuarial report, the NPO (accumulated missed contributions) has increased from less than $0 as of December 31, 2006, to over $1 billion as of December 31, 2010, and is projected to increase significantly in fiscal year 2011 ($473.3 million) and in the future. A large and growing NPO may raise concerns in the capital markets and impact the cost of debt and borrowing for the City.

The Unfunded Actuarial Accrued Liability based on the Actuarial Value of Assets increased from $4.759 billion to $6.049 billion during the year, resulting in a change in funding ratio from 57.0 percent to 49.8 percent. The increase in the Unfunded Actuarial Accrued Liability is mainly attributable to an increase in the Actuarial Accrued Liability due to implementing updated assumptions that were recommended in the most recent experience study, recognition of deferred investment losses from 2007 and 2008, 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 Reconciliation of Unfunded Actuarial Accrued Liability (gain/loss analysis) and the Reconciliation of Funded Ratio.

Based on the Market Value of Assets, the Unfunded Actuarial Accrued Liability increased from $5.888 billion to $6.617 billion, and the funded ratio decreased from 46.7 percent to 45.1 percent.

Plan Membership

	December 31, 2009	December 31, 2010
Active Members [1]		
Number	31,586	30,726
Vested	17,391	17,531
Non-vested	14,195	13,195
Average Age	47.1	47.3
Average Service	11.9	12.2
Average Annual Salary	$49,135	$50,166
Inactive Members		
Number	12,919	13,866
Average Age	44.5	45.1
Average Service	4.5	4.6
Retirees		
Number	18,245	18,438
Average Age	72.8	72.8
Average Annual Benefit	$29,960	$31,046
Deferred		
Number	6	3
Average Age	53.9	53.6
Average Annual Benefit	$7,180	$4,312
Surviving Spouses		
Number	4,364	4,346
Average Age	77.4	77.4
Average Annual Benefit	$12,118	$12,118
Children	167	173
Total Members	67,287	67,552

[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 increased 0.8 percent during 2010, from 22,776 to 22,957, while the number of active members decreased 2.7 percent from 31,586 to 30,726. Total expenditures for benefits increased from $605 million in 2009 to $630 million during 2010, or 4.1 percent.

Changes in Provisions of the Plan

The following Public Acts were passed in 2010 by the 96th General Assembly that made changes to the Fund Provisions.

P.A. 96-0889 (SB 1946), approved April 14, 2010
P.A. 96-1490 (SB 550), approved December 30, 2010

These changes do not impact the liabilities of the Fund as of the valuation date. These changes impact benefits for members hired after December 31, 2010. The impact to the Fund will materialize in future valuations as the membership includes more members hired after December 31, 2010.

Discussion of Actuarial Assumptions

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

There are two general types of actuarial assumptions:

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

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

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

The actuarial assumptions have been changed since the last report to reflect the results of the experience study performed for the period from December 31, 2004, through December 31, 2009.

Discussion of Actuarial Assumptions (continued)

Following is a summary of the assumptions adopted by the Board as a result of the most recent experience study:

- **Investment return:** Maintain the investment rate assumption of 8.00 percent, net of investment expenses, compounded annually. This reflects an underlying inflation assumption of 3.00 percent. The long-term investment return assumption of 8.00 percent is based on the assumption that that the plan will be adequately funded in the future.
- **Payroll growth assumption:** Increase the general payroll growth assumption to 4.00 percent, which reflects an underlying general or price inflation assumption of 3.00 percent.
- **Salary increase:** Modify the current salary increase assumption to reflect 4.00 percent wage inflation plus a service-based component for merit, longevity and promotion, ranging from 0.50 percent to 4.25 percent based on years of service.
- **Retirement rates:** Use predominantly service-based rates with higher rates at key ages and key years of service, with 100 percent retirement at the earlier of 40 years of service or age 80. The modified rates result in less projected retirements in the near-term and higher projected average age and service at retirement than under the previous assumptions.
- **Turnover rates:** Modify the current service-based rates to produce higher expected turnover than with previously assumed rates.
- **Mortality rates:** Change the mortality rates from the 1994 Group Annuity Mortality table with a two-year set-forward to the RP 2000 Mortality table projected to 2010, for the post-retirement mortality assumption. To reflect the actual experience that active members have lower mortality rates than retirees of the same age, the pre-retirement mortality assumption is based on a multiple of post-retirement mortality. These multiples are 0.85 for males and 0.70 for females to the post-retirement mortality assumption.
- **Disability rates:** Continue to value disability as a term cost only, as a majority of the disabilities were short-term in nature. The term cost is equal to 0.75 percent of payroll in the normal cost to reflect the near-term cash flow for the disability benefits.
- **Cost Method:** Continue to use the entry age normal actuarial cost method.
- **Amortization Method:** Continue to use a 30-year level dollar amortization method to calculate the Annual Required Contribution for Governmental Accounting Standards Board (GASB) accounting purposes.
- **Asset Smoothing Method:** Continue to use the current asset smoothing method. Gains and losses (the difference between the actual investment return and the expected investment return) are smoothed in over a five-year period at a rate of 20 percent per year. There is no asset corridor to limit the amount that the actuarial (smoothed) value of assets can deviate from the market value of assets.
- **Dependent assumptions:** Maintain the current assumption that 85 percent of members have an eligible spouse and males are four years older than their spouses. No dependent assumptions are made for current retirees as actual eligible spouse data is provided.

2010 Experience Analysis

The Fund had an investment gain in 2010 of $240 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 $412 million due to the deferred recognition of prior year investment gains and losses.

Individual salary increases varied among plan participants, but the overall increase was lower than anticipated by the actuarial assumptions, resulting in an experience gain of $61 million. Service credit changes and purchases resulted in an experience loss of $15 million.

Combined City and employee contributions were less than Normal Cost plus interest on the Unfunded Actuarial Accrued Liability, which resulted in an increase in the Unfunded Actuarial Accrued Liability of $321 million. Contributions lower than Normal Cost plus interest have increased the Unfunded Actuarial Accrued Liability for the past nine years.

Updated actuarial assumptions were adopted from the recommendations of the experience study performed for the period from December 31, 2004, through December 31, 2009, and were first reflected beginning with this valuation. These new assumptions increased the Actuarial Accrued Liability and the Unfunded Actuarial Accrued Liability by $577 million.

There was an additional loss of $26 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, 2010, liabilities, which is a reasonable variation.

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

Reconciliation of Funded Ratio

	2009	**2010**
Funded Ratio Beginning of Year	**62.89%**	**56.95%**
Expected Increase If All Assumptions Realized	1.45%	1.65%
Expected Funded Ratio	**64.34%**	**58.60%**
Gains (Losses) during the Year Attributable to:		
Contributions in Excess (Less Than) of Normal Cost plus Interest	-2.39%	-2.79%
Gain (Loss) on Investment Return	-4.91%	-3.58%
Gain (Loss) from Salary Changes	0.01%	0.27%
Gain (Loss) from Retirement, Termination, & Mortality	-0.04%	-0.12%
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%	-0.06%
Changes in Assumptions	0.00%	-2.51%
Plan Amendments	0.00%	0.00%
Total Gain (Losses) During the Year	-7.39%	-8.79%
Funded Ratio End of Year	**56.95%**	**49.81%**

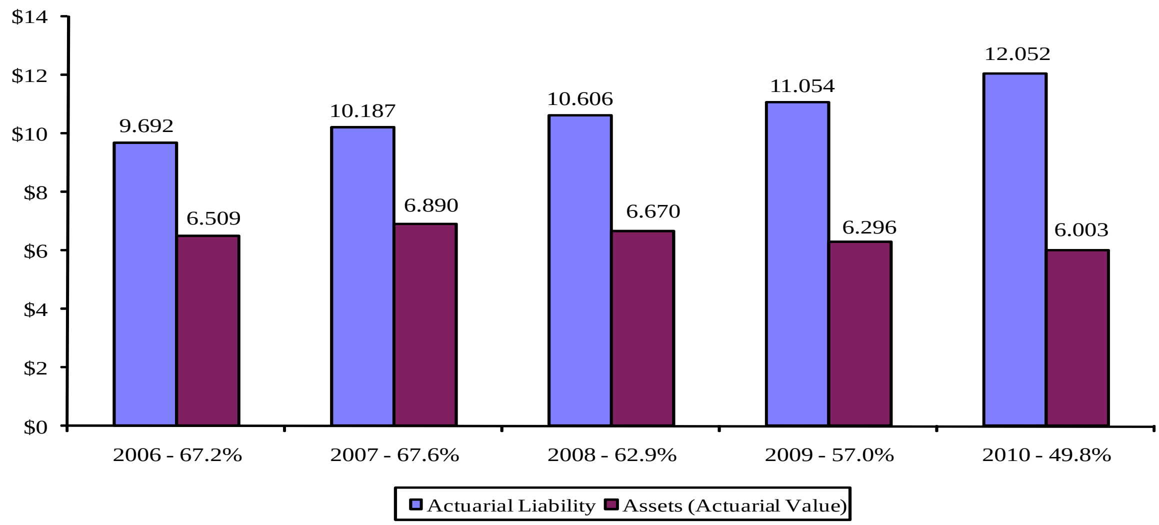
Analysis of Financial Experience

	2006	2007	2008	2009	2010
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)					
Beginning of Year	$2,917,833,141	$3,183,173,857	$3,296,152,269	$3,936,346,961	$4,758,504,409
(Gains) Losses during the Year Attributable to:					
Contributions less than (in excess of) Normal Cost plus Interest	160,792,128	199,581,204	211,536,054	263,525,304	320,818,396
(Gain) Loss on Investment Return	23,783,664	(190,572,574)	437,218,599	541,514,597	412,377,681
(Gain) Loss from Salary Changes	15,270,913	(7,181,683)	6,654,805	(2,224,555)	(60,823,939)
(Gain) Loss from Retirement, Termination, & Mortality	51,557,086	71,476,178	(25,452,703)	7,921,619	26,339,285
(Gain) Loss from Data Corrections	-	-	-	-	-
(Gain) Loss from Transfers	-	-	-	-	-
Change in Methodology	-	-	-	-	-
Non-ERI Service Credit Changes/Purchases	13,936,925	39,675,287	10,237,937	11,420,483	14,796,688
Changes in Assumptions	-	-	-	-	576,827,751
Plan Amendments	-	-	-	-	-
Net Increase (Decrease) in UAAL	265,340,716	112,978,412	640,194,692	822,157,448	1,290,335,862
Unfunded (Over funded) Actuarial Accrued Liability (UAAL) End of Year	$ 3,183,173,857	$3,296,152,269	$3,936,346,961	$4,758,504,409	$6,048,840,271

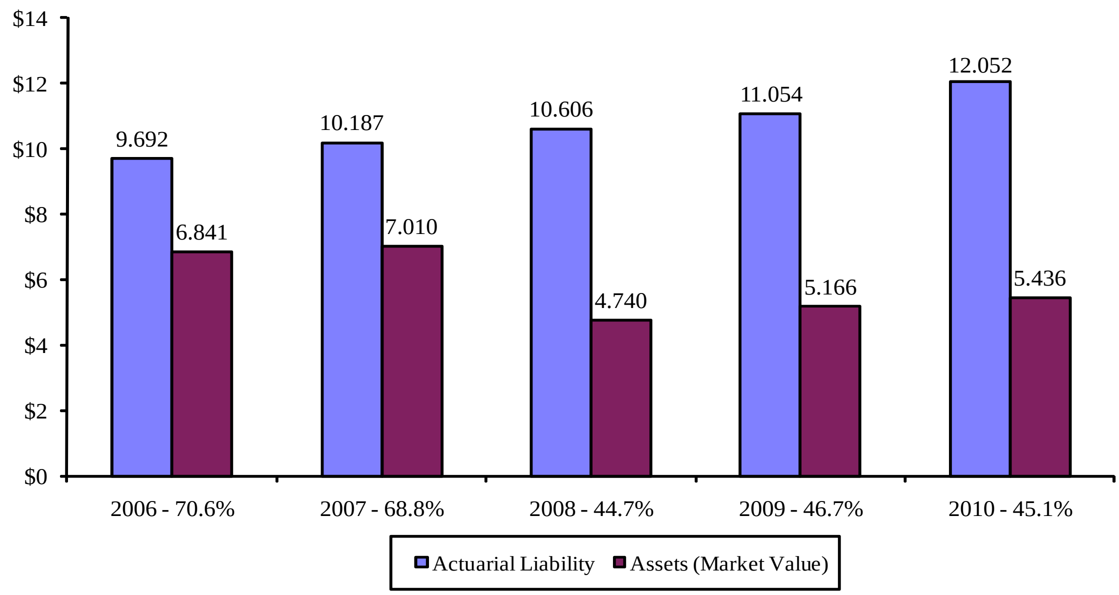
Funding Analysis

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

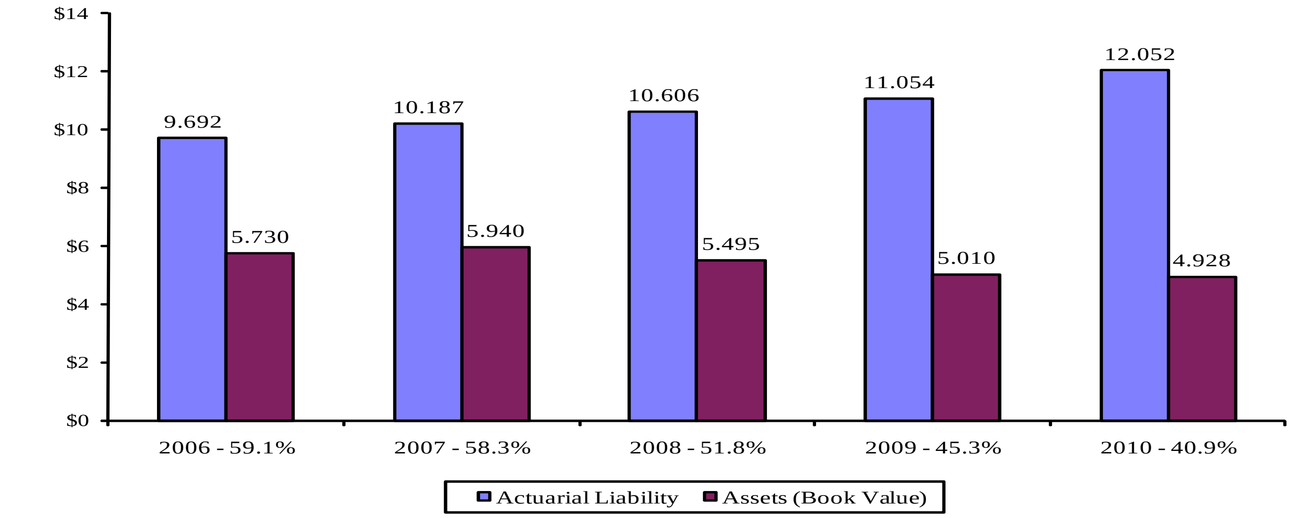
Components of Funded Ratio
BASED ON ACTUARIAL VALUE OF ASSETS
($ IN BILLIONS)



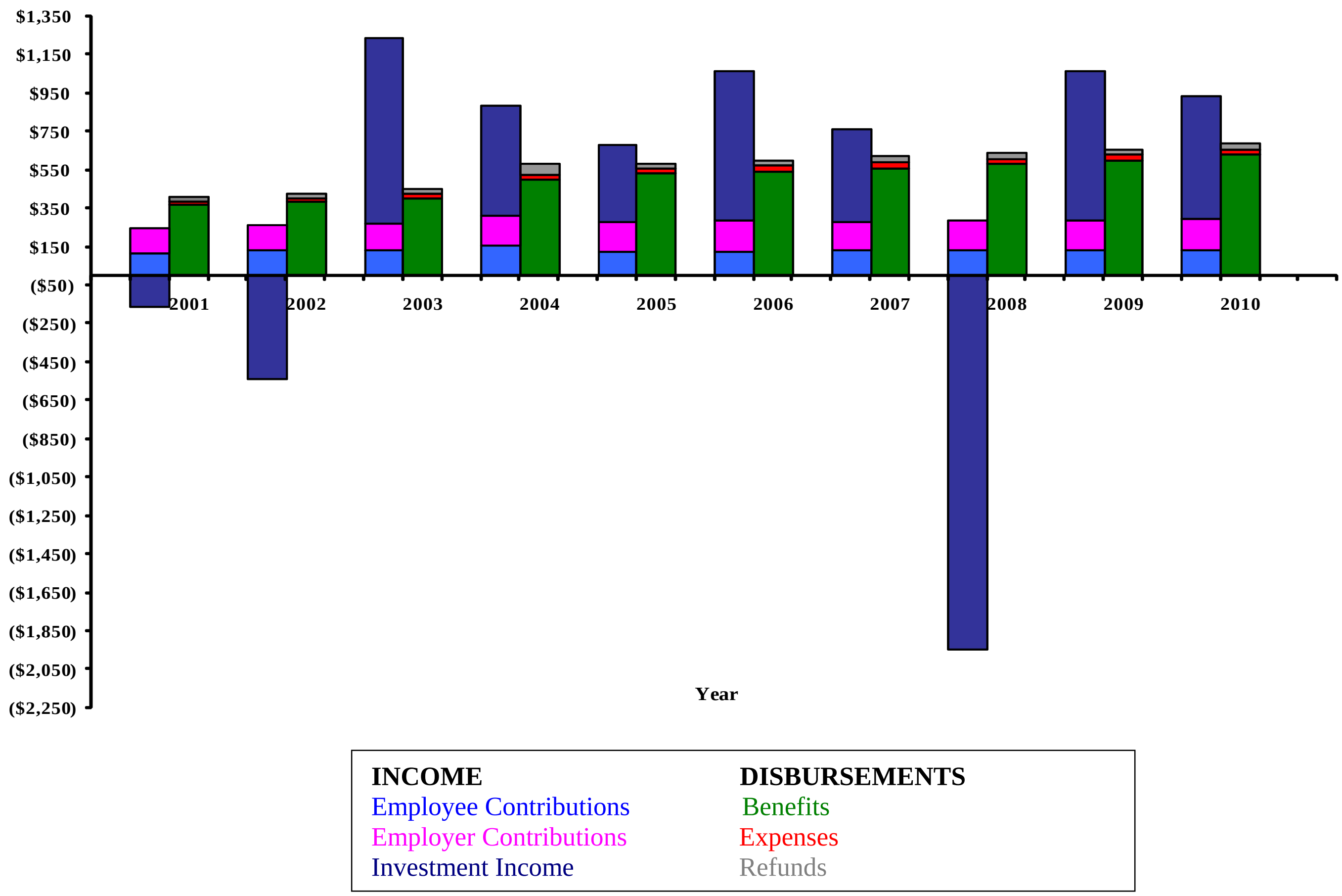
COMPONENTS OF FUNDED RATIO
BASED ON MARKET VALUE
($ IN BILLIONS)



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 46.7 percent in the last valuation to 45.1 percent in this valuation. While returns on a Market Value of Assets basis were higher than expected, the funded ratio did not increase because of continued contribution shortfalls and an increase in the Actuarial Accrued Liability due to implementation of updated actuarial assumptions. The funded ratio using the Actuarial Value of Assets is expected to decrease for the next two years toward the funded ratio using the Market Value of Assets, at which point the significant investment losses from 2007 and 2008 will be fully recognized. When measured using the Actuarial Value of Assets, which smoothes gains and losses over a five-year period, the funding ratio decreased from 57.0 percent in 2009 to 49.8 percent in 2010. Future decreases in the funded ratio are expected to occur as a result of contributions that are insufficient to adequately finance the Plan. Under the current funding policy, if all future assumptions are realized, the funding ratio is projected to deteriorate until assets are depleted within about 15 to 20 years.

The Net Pension Obligation (NPO) has increased from less than $0 as of December 31, 2006, to over $1 billion as of December 31, 2010, and is projected to increase in the future due to contribution shortfalls compared with the Annual Required Contribution (ARC). A large and growing NPO may raise concerns in the capital markets and impact the cost of debt and borrowing for the City.

The current statutory funding policy impacts the ability to achieve higher returns over the long-term because it is projected that assets would need to be liquidated in order to pay benefits. This would result in a change in the asset allocation in the future to more liquid assets with a lower return. We recommend that the funding policy and assumed investment return be reviewed every year. If the funding policy is not strengthened within the next few years, the current investment return assumption may not be supportable.

Summary of Basic Actuarial Values

	APV of Projected Benefits	2011 Normal Cost
(1) Values for Active and Inactive Members		
(a) Retirement	$ 6,521,442,489	$ 167,473,628
(b) Termination - Vested	382,969,421	24,147,864
(c) Termination - Non Vested	65,987,760	23,440,300
(d) Death	90,710,827	4,084,288
(e) Inactive Vested and Non-Vested	404,844,966	-
(f) Health Insurance	225,096,422	9,154,612
(g) Disability	-	11,560,410
(h) Expenses of Administration	-	6,744,947
Total for Actives and Inactive	$ 7,691,051,885	$ 246,606,049
(2) Values for Members in Payment Status	$ 6,438,552,003	$ -
(3) Grand Totals	$ 14,129,603,888	$ 246,606,049
Actuarial Present Value of Future Compensation		$ 13,978,301,727

Actuarial Reserve Liabilities
As of December 31, 2010

Accrued Liabilities for Active and Inactive Participants [1]	$ 5,613,677,873
Reserves For:	
Service Retirement Pension	$ 5,585,626,119
Future Spouses of Current Retirees	396,936,645
Surviving Spouse Pension	366,479,130
Health Insurance Supplement	87,941,769
Children Annuitants	1,568,340
Total Accrued Liabilities	$ 12,052,229,876
Unfunded Actuarial Liabilities	$ 6,048,840,271
Actuarial Net Assets	$ 6,003,389,605

[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 31, 2010

	Annuity Payment Fund	Prior Service Fund	Total
Statutory Reserves[1]			
Retirees	$ 1,186,665,503	$ 4,575,823,524	$ 5,762,489,027
Future Surviving Spouses	271,241,879	375,499,607	646,741,486
Spouse	167,417,279	172,817,465	340,234,744
Annual Benefits			
Retirees	$ 144,309,905	$ 428,116,087	$ 572,425,992
Future Surviving Spouses	N/A	N/A	N/A
Spouse	$ 25,071,541	$ 28,849,211	$ 53,920,752

[1] *As required by State statutes, calculated using the Combined Annuity Mortality Table with interest at 3.00 percent per annum, except for employees and spouses of employees who were participants on or before January 1, 1952, for whom the American Experience Table of Mortality with interest at 4.00 percent per annum is used.*

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)
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	6,669,501,770	100.00%	90.04%	0.00%
2009	1,610,503,053	5,874,606,230	3,569,183,317	6,295,788,191	100.00%	79.75%	0.00%
2010 [1]	1,682,418,161	6,438,552,003	3,931,259,712	6,003,389,605	100.00%	67.11%	0.00%

[1] *Change in actuarial assumptions*

[2] *Change in benefits*

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 an actuarially sound 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, 2010

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

(a) Market Value of Assets as of 12/31/2009 — $ 5,166,224,494

(b) Actual Income and Disbursements in Prior Year Weighted for Timing

	Item		Amount	Weight for Timing	Weighted Amount
i)	Member Contributions	$	133,299,542	50.0%	$ 66,649,771
ii)	City Contributions & Misc.		164,326,439	50.0%	82,163,220
iii)	Benefit Payments		(630,131,394)	50.0%	(315,065,697)
iv)	Refunds		(29,949,703)	50.0%	(14,974,852)
v)	Administration		(6,744,947)	50.0%	(3,372,474)
vi)	Total				$(184,600,032)

(c)	Market Value of Assets Adj. for Actual Income and Disbursements [(a) + (b)(vi))]	$ 4,981,624,462
(d)	Assumed Rate of Return on Plan Assets for the Year	8.00%
(e)	Expected Return [(c) * (d)]	$ 398,529,957

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

(a)	Market Value of Assets as of 12/31/2009	$ 5,166,224,494
(b)	Income (less investment income) for Prior Plan Year	297,625,981
(c)	Disbursements Paid in Prior Year	666,826,044
(d)	Market Value of Assets as of 12/31/2010	5,435,593,422
(e)	Actual Return [(d) + (c) - (b) - (a)]	$ 638,568,991

(3) **Investment Gain/(Loss) for Prior Year** — $ 240,039,034

(4) **Actuarial Value of Assets as of 12/31/2010**

(a) Market Value of Assets as of 12/31/2010 — $ 5,435,593,422

(b) Deferred Investment Gains and (Losses) for Last 5 Years

	Plan Year		Gain/(Loss)	Weight for Timing	Deferred Amount
i)	2006	$	281,954,324	0.00%	$ -
ii)	2007		(48,662,875)	20.00%	(9,732,575)
iii)	2008		(2,495,444,480)	40.00%	(998,177,792)
iv)	2009		413,471,595	60.00%	248,082,957
v)	2010		240,039,034	80.00%	192,031,277
vi)	Total	$	(1,608,642,402)		$ (567,796,183)

(c) Actuarial Value of Assets [(a) - (b) (vi)] — $ 6,003,389,605

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
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%
2009	436,475,587	157,125,216	157,697,608	36.13%
2010	506,902,840	161,934,240	164,302,004	32.41%

[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
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%
2009	56.95%	306.61 %	10.21%
2010	49.81%	392.43 %	10.59%

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)								
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%
2009	840	39,821,463	768	18,900,720	18,245	546,628,095	29,960	3.57%
2010	1,002	46,836,109	815	21,038,211	18,438	572,425,992	31,046	3.62%
Surviving Spouse Annuitants (Not Including Compensation)								
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	260	3,142,752	4,378	51,954,588	11,867	2.40%
2009	266	3,869,064	280	2,939,460	4,364	52,884,192	12,118	2.12%
2010	269	4,329,156	287	3,292,596	4,346	53,920,752	12,407	2.38%

[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
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)%
2009	31,586	(3.00)%	1,551,973,348	0.52 %	49,135	3.63 %	4.50 %	2.54 %
2010	30,726	(2.72)%	1,541,388,065	(0.68)%	50,166	2.10 %	4.50 %	1.23 %
Average Increase (Decrease) for the Last five years		(1.86)%		1.84 %		3.76 %	4.50 %	1.71 %

Actuarial Methods and Assumptions
As of December 31, 2010

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 the actuarial 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

Post-Retirement Mortality: RP2000 Mortality Table, sex distinct, projected to the year 2010. (Adopted 2010)

Pre-Retirement Mortality: Post-Retirement mortality with a multiplier of 0.85 for males and 0.70 for females (Adopted 2010)

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**	**70-79**	**80+**
10-11		0%	12%	30%	30%	15%	45%	100%
12-19		0%	10%	15%	10%	10%	45%	100%
20-24		6%	10%	15%	10%	10%	45%	100%
25-29		12%	12%	20%	20%	20%	45%	100%
30	25%	20%	20%	20%	20%	20%	45%	100%
31-32	20%	20%	20%	20%	20%	20%	45%	100%
33-34	30%	30%	30%	30%	30%	30%	45%	100%
35-39	30%	30%	30%	45%	45%	45%	45%	100%
40+	100%	100%	100%	100%	100%	100%	100%	100%

Rates of retirement adopted 2010.

Rates of Termination:

Service	Rate
0	15.00%
1	15.00%
2	12.00%
3	9.00%
4	8.00%
5	7.00%
6	6.50%
7	5.25%
8	5.00%
9	4.75%
10	4.25%
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	1.80%
22	1.70%
23	1.60%
24	1.50%
25	1.40%
26	1.30%
27	1.20%
28	1.10%
29	1.00%
30	0.90%

Rates of termination adopted 2010.

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	8.25%
2	7.75%
3	7.25%
4-5	6.75%
6	6.50%
7	6.00%
8	5.50%
9	5.25%
10-25	5.00%
26+	4.50%

Adopted 2010.

Payroll Growth: Total payroll is assumed to increase by 4.00% each year. Adopted 2010.

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, 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

This 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 month 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)

	2010	2009	2008	2007	2006
Additions:					
Employer contributions	$ 164,302,005	$ 157,697,608	$ 155,832,612	$ 148,137,050	$ 157,062,769
Member contributions	133,299,542	130,980,605	137,748,907	132,442,200	129,466,091
Net investment income	638,568,991	778,562,620	(1,947,575,935)	485,926,151	778,725,950
Other Income	24,435	-	-	-	-
Total Additions	936,194,973	1,067,240,833	(1,653,994,416)	766,505,401	1,065,254,810
Deductions:					
Annuities	$ 607,540,457	$ 583,436,041	$ 561,947,108	$ 543,411,793	$ 528,426,078
Disabilities	13,041,253	11,682,652	11,687,603	10,624,807	10,267,132
Healthcare Subsidy	9,549,685	9,651,118	9,029,362	8,530,910	8,730,476
Refunds	29,949,703	28,094,365	25,501,985	28,009,512	27,194,308
Administrative Expenses	6,744,947	7,765,918	7,749,714	7,532,301	6,397,685
Total Deductions	666,826,045	640,630,094	615,915,772	598,109,323	581,015,679
Net Increase/(Decrease)	269,368,928	426,610,739	(2,269,910,188)	168,396,078	484,239,131
Beginning of year	5,166,224,494	4,739,613,755	7,009,523,943	6,841,127,865	6,356,888,734
End of year	$5,435,593,422	$5,166,224,494	$4,739,613,755	$7,009,523,943	$6,841,127,865

Changes in Plan Net Assets (continued)

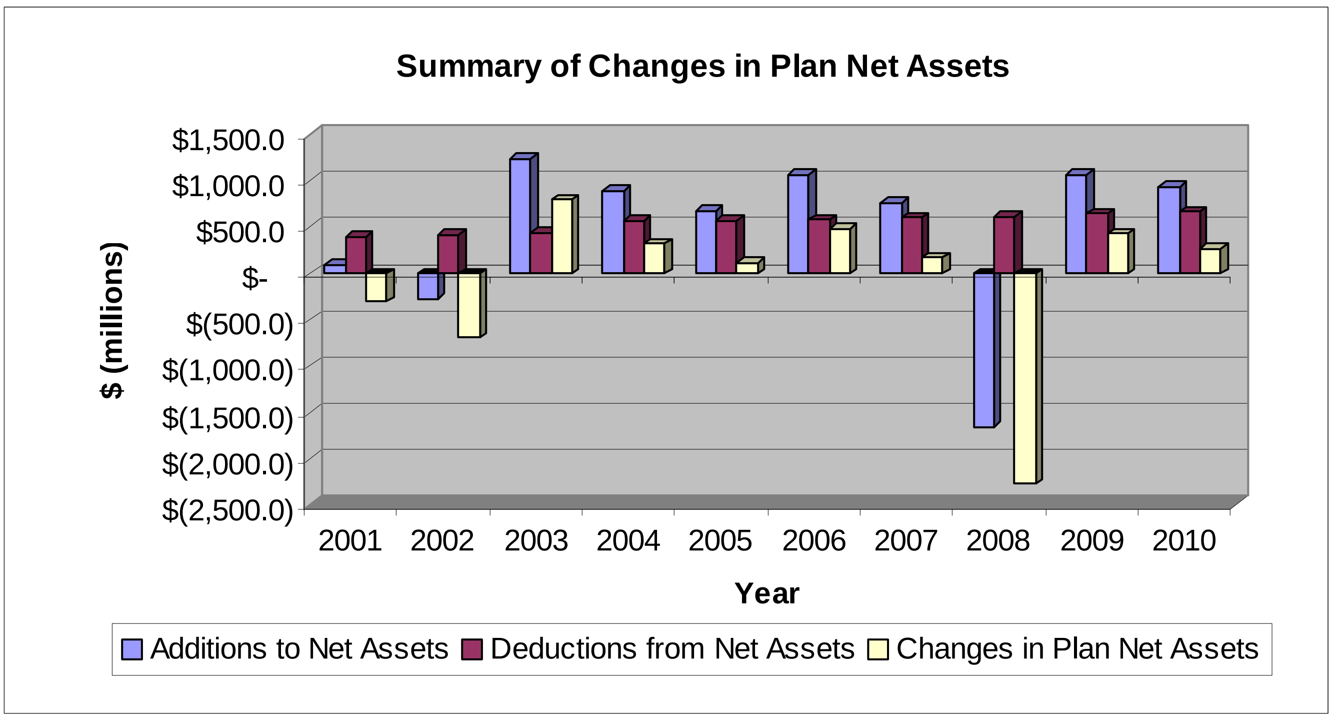
(Last ten years)

	2005	2004	2003	2002	2001
Additions:					
Employer contributions	$ 155,067,116	$ 153,919,476	$ 141,882,893	$ 130,966,381	$ 131,439,834
Member contributions	122,542,484	155,884,575	129,644,188	128,395,307	118,240,723
Net investment income	402,310,621	578,730,089	961,888,872	(538,062,313)	(158,373,573)
Other Income	-	-	-	-	-
Total Additions	679,920,221	888,534,140	1,233,415,953	(278,700,625)	91,306,984
Deductions:					
Annuities	$ 514,623,174	$ 481,319,408	$ 390,834,936	$ 370,006,543	$ 356,548,995
Disabilities	9,990,510	8,830,525	10,879,692	10,586,498	7,919,981
Health Care Subsidy	8,877,021	8,689,957	6,881,611	6,278,622	6,272,253
Refunds	26,737,456	64,272,300	25,561,485	22,425,917	21,951,794
Administrative Expenses	5,545,268	5,470,007	4,678,634	4,557,088	4,086,513
Total Deductions	565,773,429	568,582,197	438,836,358	413,854,668	396,779,536
Net Increase/(Decrease)	114,146,792	319,951,943	794,579,595	(692,555,293)	(305,472,552)
Beginning of year	6,242,741,942	5,922,789,999	5,128,210,404	5,820,765,697	6,126,238,249
End of year	$6,356,888,734	$6,242,741,942	$5,922,789,999	$5,128,210,404	$5,820,765,697

Summary of Changes in Plan Net Assets

(Last ten years)

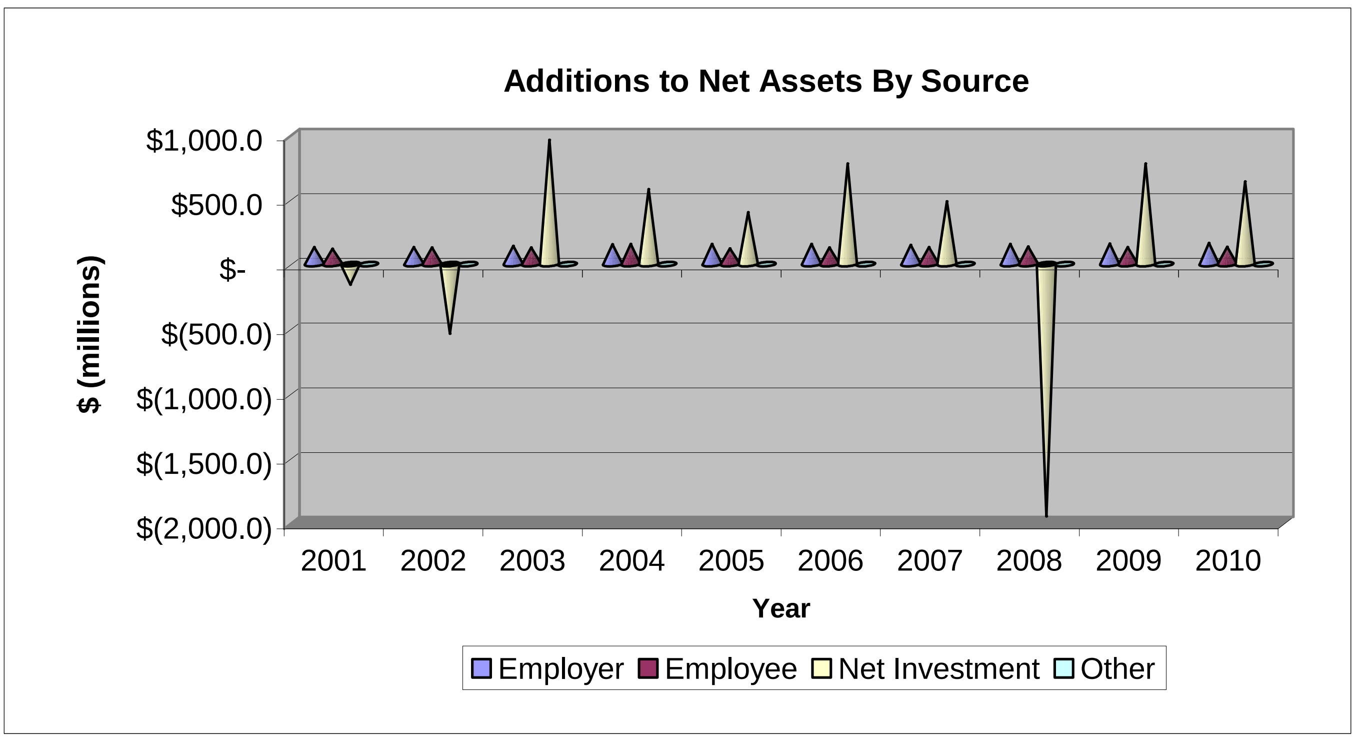
Year	Additions to Net Assets	Deductions from Net assets	Increase (Decrease) in Net Assets
2001	$ 91,306,984	$ 396,779,536	$ (305,472,552)
2002	(278,700,625)	413,854,668	(692,555,293)
2003	1,233,415,953	438,836,358	794,579,595
2004	888,534,140	568,582,197	319,951,943
2005	679,920,221	565,773,429	114,146,792
2006	1,065,254,810	581,015,679	484,239,131
2007	766,505,401	598,109,323	168,396,078
2008	(1,653,994,416)	615,915,772	(2,269,910,188)
2009	1,067,240,833	640,630,094	426,610,739
2010	936,194,973	666,826,045	269,368,928



Additions to Net Assets By Source

(Last ten years)

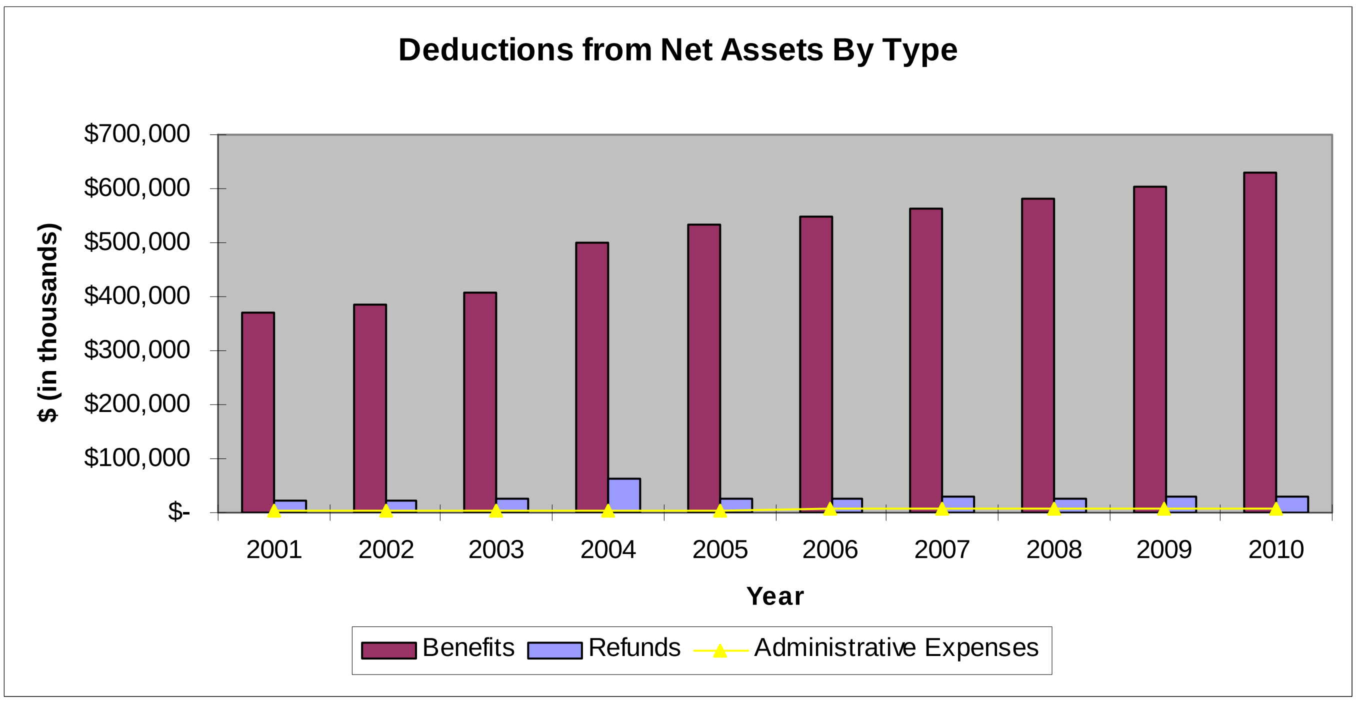
Year	Employer Contributions	Employee Contributions	Investment Income (net of expense)	Other Income	Total
2001	$ 131,439,834	$ 118,240,723	$ (158,373,573)	$ -	$ 91,306,984
2002	130,966,381	128,395,307	(538,062,313)	-	(278,700,625)
2003	141,882,893	129,644,188	961,888,872	-	1,233,415,953
2004	153,919,476	155,884,575	578,730,089	-	888,534,140
2005	155,067,116	122,542,484	402,310,621	-	679,920,221
2006	157,062,769	129,466,091	778,725,950	-	1,065,254,810
2007	148,137,050	132,442,200	485,926,151	-	766,505,401
2008	155,832,612	137,748,907	(1,947,575,935)	-	(1,653,994,416)
2009	157,697,608	130,980,605	778,562,620	-	1,067,240,833
2010	164,302,005	133,299,542	638,568,991	24,435	936,194,973



Deductions from Net Assets By Type

(Last ten years)

Year	Benefits	Refunds	Administrative Expense	Total
2001	$ 370,741,229	$ 21,951,794	$ 4,086,513	$ 396,779,536
2002	386,871,663	22,425,917	4,557,088	413,854,668
2003	408,596,239	25,561,485	4,678,634	438,836,358
2004	498,839,890	64,272,300	5,470,007	568,582,197
2005	533,490,705	26,737,456	5,545,268	565,773,429
2006	547,423,686	27,194,308	6,397,685	581,015,679
2007	562,567,510	28,009,512	7,532,301	598,109,323
2008	582,664,073	25,501,985	7,749,714	615,915,772
2009	604,769,811	28,094,365	7,765,918	640,630,094
2010	630,131,395	29,949,703	6,744,947	666,826,045

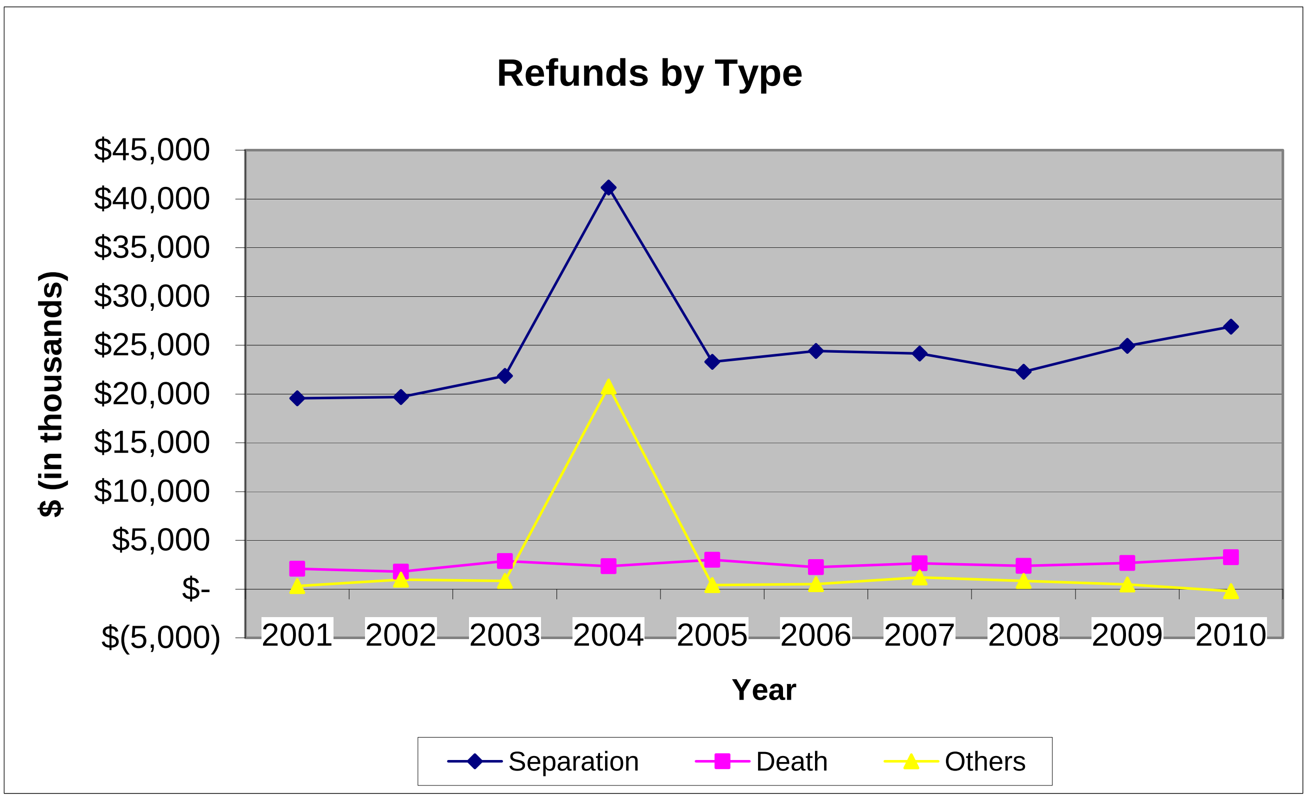


Refunds by Type

(Last ten years)

Year	Separation	Death	Others[1]	Total
2001	19,548,445	2,096,763	306,586	$ 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
2009	24,942,884	2,670,267	481,214	28,094,365
2010	26,888,718	3,269,824	(208,840)	29,949,703

[1]Others include transfer of contributions to other Funds and refunds due to error in deductions



Benefits by Type

Last ten years

	2010	2009	2008	2007	2006
Annuities:					
Employee	$ 553,066,296	$ 530,008,332	$ 509,510,036	$ 491,780,107	$ 477,505,602
Surviving Spouse	53,970,603	52,904,482	51,880,155	51,063,889	50,340,031
Children	503,559	523,227	556,917	567,797	580,445
Total Annuities	607,540,457	583,436,041	561,947,108	543,411,793	528,426,078
Disabilities:					
Ordinary	9,274,262	8,290,644	8,311,069	7,857,240	7,824,045
Duty	3,766,991	3,392,008	3,376,534	2,767,567	2,443,087
Total Disabilities	13,041,253	11,682,652	11,687,603	10,624,807	10,267,132
Postemployment Healthcare Subsidy					
Employee	8,068,820	8,155,184	7,628,736	7,199,189	7,373,775
Surviving Spouse	1,472,885	1,487,337	1,389,751	1,318,801	1,343,866
Children	7,980	8,597	10,875	12,920	12,835
Total Healthcare Subsidy	9,549,685	9,651,118	9,029,362	8,530,910	8,730,476
Total Benefits	$ 630,131,395	$ 604,769,811	$ 582,664,073	$ 562,567,510	$ 547,423,686

Benefits by Type (continued)

(Last ten years)

	2005	2004	2003	2002	2001
Annuities:					
Employee	$ 464,243,871	$ 431,559,744	$ 341,614,633	$ 321,677,720	$ 308,930,340
Surviving Spouse	49,783,518	49,163,339	48,558,458	47,691,000	47,073,636
Children	595,785	596,325	661,845	637,823	545,019
Total Annuities	514,623,174	481,319,408	390,834,936	370,006,543	356,548,995
Disabilities:					
Ordinary	8,011,243	7,200,947	8,475,088	8,321,808	5,893,479
Duty	1,979,267	1,629,578	2,404,604	2,264,690	2,026,502
Total Disabilities	9,990,510	8,830,525	10,879,692	10,586,498	7,919,981
Postemployment Healthcare Subsidy:					
Employee	$ 7,499,145	$ 7,301,575	$ 5,606,013	$ 5,109,041	$ 5,103,748
Surviving Spouse	1,367,932	1,376,142	1,275,598	1,169,581	1,168,505
Children	9,944	12,240	-	-	-
Total Healthcare Subsidy	$ 8,877,021	$ 8,689,957	$ 6,881,611	$ 6,278,622	$ 6,272,253
Total Benefits	$ 533,490,705	$ 498,839,890	$ 408,596,239	$ 386,871,663	$ 370,741,229

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

Retirement Effective Dates		Years of Service					
		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	$ 1,506
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
	Average Monthly Benefit at Retirement	$1,407	$1,790	$2,275	$3,255	$4,082	$ 2,969
2009	Average Final Average Salary	$4,664	$4,148	$4,406	$5,005	$5,209	$ 4,794
	Number of New Retirees	57	75	153	92	231	608
	Average Monthly Benefit at Retirement	$1,334	$1,835	$2,215	$3,208	$4,354	$ 3,129
2010	Average Final Average Salary	$4,418	$4,311	$4,278	$4,945	$5,590	$ 4,933
	Number of New Retirees	60	77	169	132	287	725

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

Source of Data: 2010 Actuarial Valuation Report

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
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
2009	29,960	72.8	29,843	62.9	23.9
2010	31,046	72.8	31,290	62.2	24.3

Source of Data: 2010 Actuarial Valuation Report

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	31	5	-	-	-	-	-	-	-	36
20-24	217	403	53	-	-	-	-	-	-	673
25-29	274	1,014	427	78	-	-	-	-	-	1,793
30-34	197	864	864	433	47	-	-	-	-	2,405
35-39	169	823	855	959	331	31	-	-	-	3,168
40-44	137	731	977	1,108	697	368	11	-	-	4,029
45-49	95	678	977	1,278	919	838	328	22	-	5,135
50-54	85	532	849	1,122	946	1,001	680	167	6	5,388
55-59	41	365	641	826	823	834	508	191	40	4,269
60-64	22	168	395	466	461	515	306	101	55	2,489
65-69	6	57	135	158	149	190	111	44	35	885
70 & Over	1	27	80	65	76	63	62	28	54	456
W/O DOB	-	-	-	-	-	-	-	-	-	-
Total	**1,275**	**5,667**	**6,253**	**6,493**	**4,449**	**3,840**	**2,006**	**553**	**190**	**30,726**

Source of Data: 2010 Actuarial Valuation Report

Current Retirees by Range of Pension Amounts

As of December 31, 2010

Amount of Monthly Benefit	Number of Employee Annuitants	Number of Spouse Annuitants	Number of Child Annuitants	Total Number of Annuitants
Deferred	3	-	-	3
$ 1 - $ 250	341	87	173	601
251 - 500	364	68	-	432
501 - 750	283	74	-	357
751 - 1,000	968	2,820	-	3,788
1,001 - 1,250	3,614	351	-	3,965
1,251 - 1,500	1,006	305	-	1,311
1,501 - 1,750	1,030	207	-	1,237
1,751 - 2,000	1,121	162	-	1,283
2,001 - 2,250	1,083	96	-	1,179
2,251 - 2,500	908	71	-	979
2,501 - 2,750	761	55	-	816
2,751 - 3,000	690	28	-	718
3,001 - 3,250	684	13	-	697
3,251 - 3,500	630	5	-	635
3,501 - 3,750	571	2	-	573
3,751 - 4,000	540	2	-	542
4,001 - 4,250	563	-	-	563
4,251 - 4,500	495	-	-	495
4,501 - 4,750	464	-	-	464
4,751 - 5,000	362	-	-	362
Over $ 5,000	1,960	-	-	1,960
Totals	**18,441**	**4,346**	**173**	**22,960**

Source of Data: 2010 Actuarial Valuation Report

MEABF Staff Retiree Healthcare (OPEB)

Counts		Retiree and Beneficiary Health Coverage Type			
Retirees and Beneficiaries	Total	1 Person	2 Person	Family	Total
13	13	6	6	1	13

History of Retirees and Beneficiaries By Type of Benefit

(Last ten years)

	Annuity			Disability		Compensation	Reciprocal	
Year	Employee	Spouse	Child	Ordinary	Duty	Annuitants	Employee	Spouse
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
2009	15,838	4,008	167	306	220	2[1]	2,407	356
2010	15,961	3,982	173	304	246	2[1]	2,477	364

[1] Compensation annuitants also included with spouse annuitants

Source of Data: 2010 Actuarial Valuation Report

Retirees and Beneficiaries By Type of Coverage - Health Insurance Subsidy

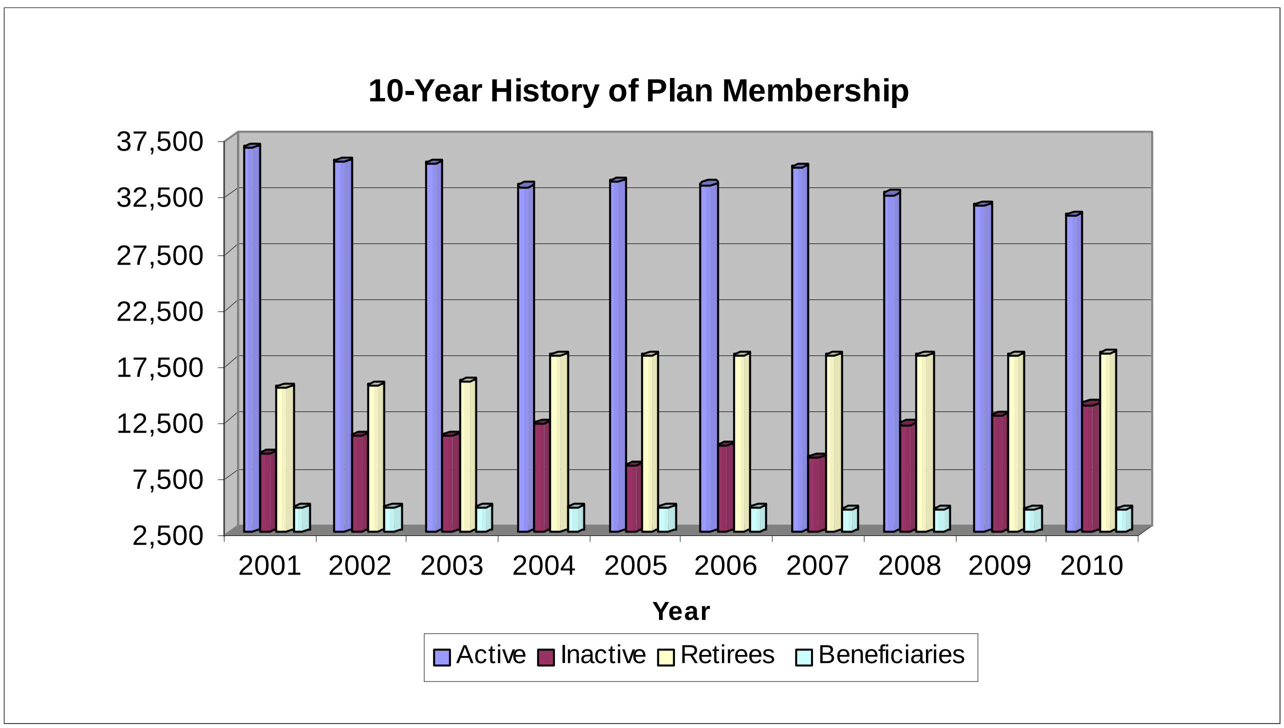
(Last ten years)

	Covered Annuitants						
	Employee		Spouse			Total Not	Total
Year	Single	Family	Single	Family	Total	Covered	Annuitants
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
2009	6,251	2,877	1,738	41	10,907	11,702	22,609
2010	6,225	2,819	1,731	45	10,820	11,964	22,784

10-Year History of Plan Membership

(Last ten years)

Year	Active	Inactive	Retirees	Beneficiaries	Total
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
2009	31,586	12,919	18,251	4,531	67,287
2010	30,726	13,866	18,441	4,519	67,552



10-Year History of Covered Employees

(Last ten years)

Year	Male Participants	Female Participants	Total Participants
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
2009	12,598	18,988	31,586
2010	12,377	18,349	30,726

Source of Data: 2010 Actuarial Valuation Report