Municipal Employees' Annuity and Benefit Fund of Chicago

2011

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2011

MEABF
CHICAGO

321 N. LaSalle St., Suite 700
Chicago, IL 60654

www.MEABF.org

Municipal Employees' Annuity and Benefit Fund of Chicago

2011

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2011

MEABF
CHICAGO

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

Table of Contents (continued)

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 2010 Comprehensive Annual Financial Report. MEABF has received the award for each of the last twenty-two years.

RETIREMENT BOARD

As of December 31, 2011

John K. Gibson
President
Elected Trustee

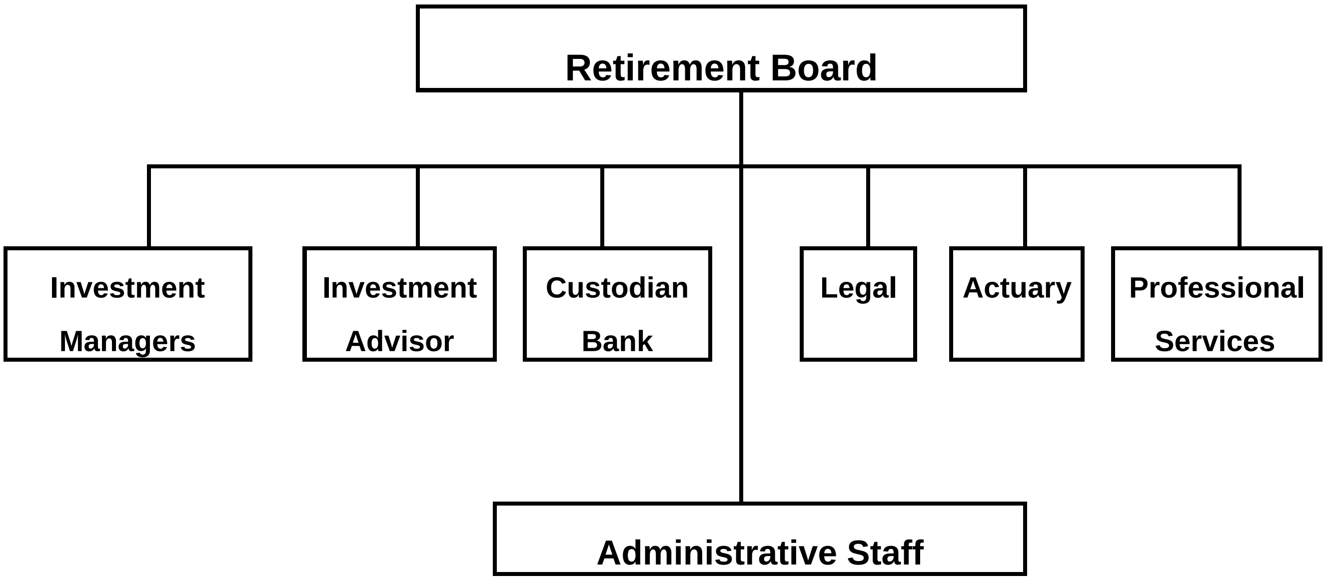
Amer Ahmad
Vice-President
Ex-Officio Trustee
(City of Chicago Comptroller)

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

Martin J. Durkan
Recording Secretary
Elected Trustee

Timothy Guest
Elected Trustee

Organizational Chart



Consultants

Investment Consultant
Brian Wrubel
James R. Wesner
Marquette Associates
Chicago, IL

Legal Advisors
Mary Pat Burns
Burke, Burns & Pinelli, Ltd
Chicago, IL

Auditors
Gerard J. Pater, 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., M.A.A.A.
Lance Weiss, E.A, M.A.A.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 64-66 and 55-57*
Brokers used by Investment Managers - *are listed on pages 77-78*

Organizational Chart

As of January 1, 2012

RETIREMENT BOARD

Administrative Staff

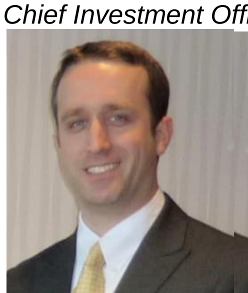
Jim Mohler
Executive Director

Deputy Executive Director

Tess Toledo
Comptroller

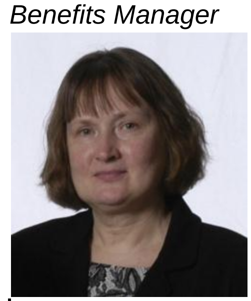
- Contributions
- General Ledger
- Retiree Payroll Services
- Information Systems
- Administrative Services

Michael P. Walsh
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 in accordance with state statutes. The administrative staff of forty-six (46) employees serve 31,976 actively participating members, 23,382 retirees and beneficiaries, and 12,762 inactive members.

Municipal Employees' Annuity and Benefit Fund of Chicago

321 North Clark Street,
Suite 700
Chicago, Illinois 60654
Telephone: 312-236-4700
Fax: 312-527-0192
www.meabf.org

LETTER OF TRANSMITTAL

June 1, 2012

To the Retirement Board of the Municipal Employees' Annuity & Benefit Fund of Chicago

We are pleased to submit to you 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 ended December 31, 2011.

The CAFR provides an overview of the Plan and comprehensive information on the financial operations of the Plan for the fiscal year. Management takes full responsibility for the preparation, accuracy, completeness and fairness of the presentation, including all disclosures, made in this report. To the best of our knowledge and belief, the information contained in this report is complete; all disclosures necessary to enable the reader to gain an understanding of MEABF activities have been included.

Bansley and Kiener, LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the Plan's financial statements for the fiscal year ended December 31, 2011. The independent auditor's report is located at the front of the Financial Section of this report.

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

PLAN PROFILE

MEABF is one of four pension trust funds of the City of Chicago. The Plan is considered a component unit of the City of Chicago and as such, it is included in the City of Chicago's financial statements. 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. In fiscal year 2010, changes to the plan were made when Governor Quinn signed Public Act #96-0889 into law, which established a second tier of benefits for participants that first become members on or after the effective date of January 1, 2011.

The MEABF provides age and service retirement benefits; survivor benefits; post-retirement increases; and 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. Unless revised in state statute, this subsidy will sunset on June 30, 2013. Employees of MEABF also participate in the Plan. As of December 31, 2011, MEABF served a total of 31,976 active members, 23,382 retirees and beneficiaries and 12,762 inactive members. 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 36 thru 45.

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). As of December 31, 2011 the Ex-Officio Board members were the Honorable Stephanie D. Neely, City Treasurer and Amer Ahmad, City Comptroller. The three elected members of the Board were John K. Gibson, Martin J. Durkan and Timothy G. Guest. The Retirement Board members have a fiduciary duty to act solely in the best interests of the Plan members. Responsibilities of the Retirement Board include setting investment policies and objectives, hiring investment consultants and managers and reviewing investment performance. They also are responsible for the timely collection of employee and employer contributions, and granting or denying of benefits to members in accordance with state statute. To assist Board members in carrying out their duties, they are required to complete a certain level of Trustee education annually.

To help administer the responsibilities of the Plan, the Retirement Board appoints the Executive Director to manage the day-to-day operations. They also retain the services of consultants specializing in investment management, actuarial science, law and other provisional services necessary for the transaction of business. As of December 31, 2011, the Plan had a staff of 46 employees serving the needs of over 68,000 members.

FUNDING

Member contributions, employer contributions and investment earnings on these contributions fund the Plan. As mandated by state statute, member contributions are set at 8.5% of covered salary and the employer contributions are limited to 1.25 times the employee contribution level in the second prior calendar year.

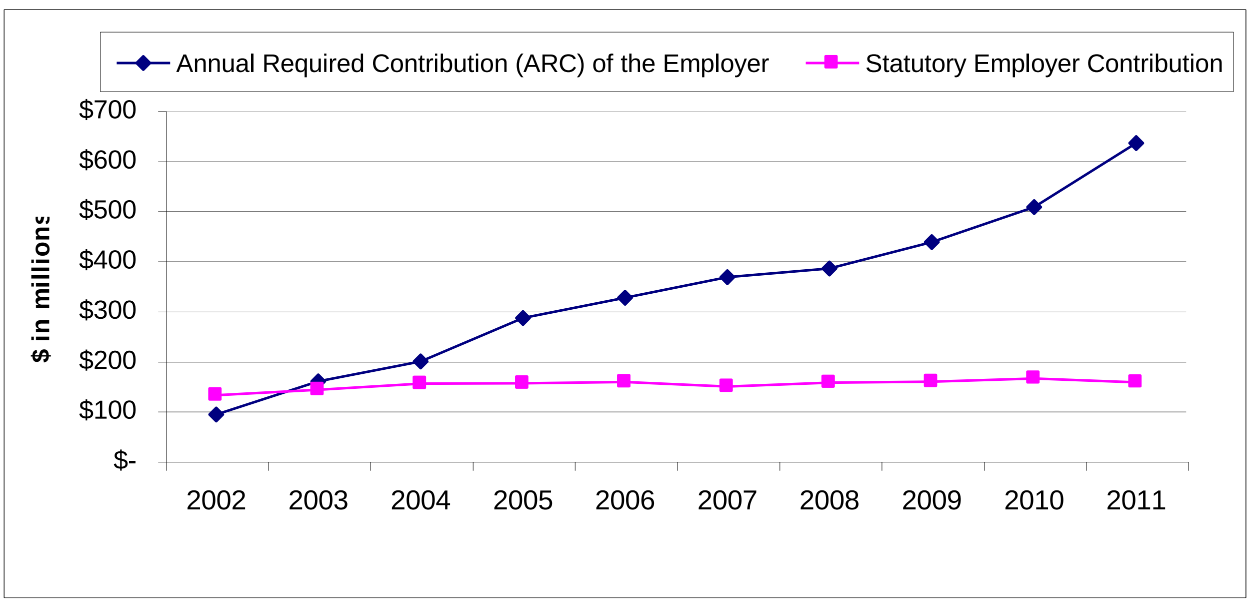
MEABF's financial health is measured by comparing its assets and liabilities. The Plan's funding status is measured using liabilities under the Entry Age Normal funding method and the Actuarial Value of Assets. The ratio of actuarial assets to accrued actuarial liabilities, referred to as the "funding ratio", indicates the percentage of accrued actuarial liabilities that is funded. The difference between actuarial assets and accrued actuarial liabilities denotes the unfunded accrued actuarial liability of the Plan. The funding objective of MEABF is to be fully funded (i.e., to have sufficient assets to pay current and accrued benefits). Annual actuarial valuations measure the progress toward this objective and determine the adequacy of the contribution rates (i.e. whether the current levels will be sufficient to cover the cost of benefits earned by members).

An actuarial valuation of the Plan is conducted annually and an experience review is performed every five years. Actuarial assumptions are based on recommendations made by the actuary and approved by the Retirement Board. The Plan uses actuarial methods and procedures that smooth investment returns over a five-year period, which helps moderate volatility that can occur in the annual actuarial required contribution. The 2011 valuation, conducted by the Plan's actuary, Gabriel Roeder Smith & Company (Gabriel Roeder) reflected actuarial assets of $5,552.3 million versus actuarial liabilities of $12,456.2, leaving an unfunded actuarial accrued liability (UAAL) of $6,903.9 million. The ratio of assets to liabilities was 44.6% at the end of 2011, down over 10%, compared to a funding ratio of 49.8% in the prior year.

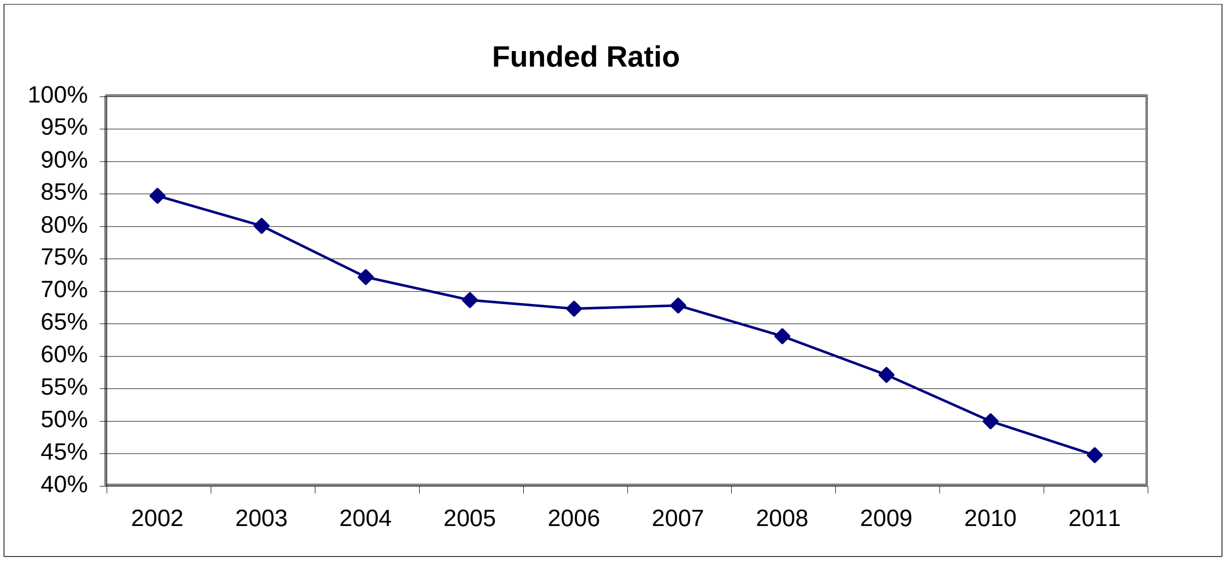
The UAAL had a net increase of $855 million during 2011 mainly due to continued shortfalls in employer contributions relative to the actuarially determined contribution and recognition of deferred investment losses from 2007 and 2008. Fair value of assets for the year was down $383 million, which was directly attributed to the growing need to liquidate invested assets to honor monthly benefit payments. The actuarial value of assets was down $451 million, which was attributed to the continued recognition of large losses in prior years. The ability to achieve the actuarially determined annual rate of return of 8% over time continues to be challenged as a greater amount of invested assets are liquidated annually to pay benefits. In 2011, $415.0 million of invested assets, or 8% of the investment portfolio, was liquidated to pay benefits.

During the year the employer contributed $156.5 million while members contributed $132.6 million. Presently, employer contributions are limited to 1.25 times member contributions received two years prior. The most recent actuarial valuation of the Plan shows that a multiple of 5.37 is needed to adequately finance the Plan for 2012. Statutorily determined employer contributions for 2012 will again be a fraction of what is actuarially required. Once again, we stress the importance of properly funding this Plan annually in accordance with actuarially determined requirements.

The chart below shows that for the past nine years, the statutory employer contributions have been less than the ARC.



The following table shows that the funded status of the Plan has been declining and will continue to deteriorate under the current funding policy.



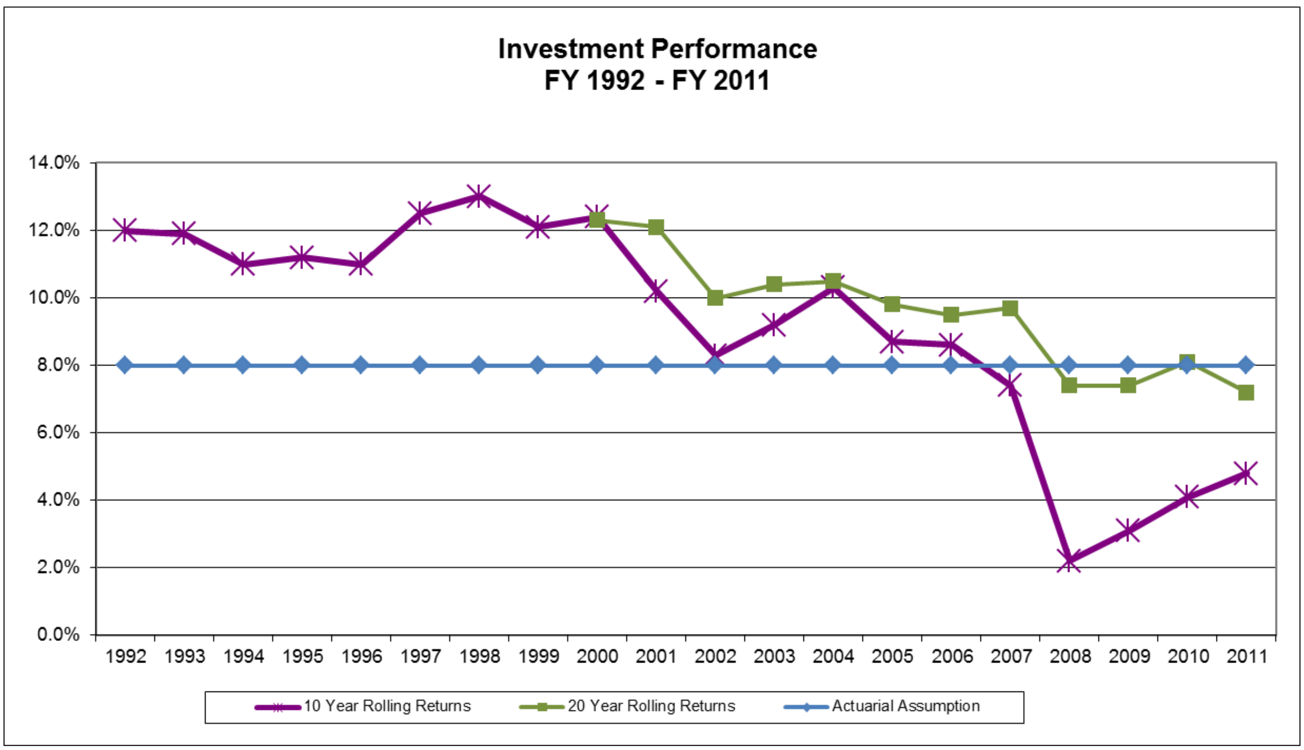
Proper annual funding of MEABF is the top concern for the Retirement Board. The Illinois State Legislature must address ways to improve and strengthen the funding status of the Plan. We strongly encourage all stakeholders to assist in reversing the trends reflected above. A detailed discussion of funding 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.

INVESTMENTS

Employer and employee contributions, in conjunction with investment earnings, are intended to cover the Plan's long-term benefit responsibilities. MEABF manages a large diversified investment portfolio focused on a long-term horizon. The Retirement Board hires an investment consultant who assists with asset allocation decisions, investment policies, investment strategies, and investment manager recommendations. The Retirement Board ultimately makes the final decisions. MEABF's investment staff manages the competitive selection process, negotiates detailed service contracts and monitors investment manager compliance. The investment management firms select individual investments for the Plan's portfolio.

Plan assets are invested in accordance with the prudent investor rule for the sole purpose of providing benefits to Plan members. The Plan's portfolio is diversified globally amongst various asset classes, investment styles, and economic sectors in an effort to achieve optimal long-term return at a pre-determined level of risk. The Plan's actuary assumes a long-term investment return of 8%. In 2011, the Plan's investment portfolio returned, net of fees, 0.0% versus a benchmark return of 1.2%. Going forward, the Plan's ability to meet its return objective over the long term will continue to be challenged as invested assets are liquidated to pay annual benefits. During fiscal year 2011, $415.0 million or approximately 8% of the investment portfolio was liquidated to help pay benefits.

The graph below compares ten- and twenty-year rolling returns to the actuarial assumed rate of return. Over the long-term, MEABF has historically outperformed the assumed rate of return. The effects of the "tech bubble" (2000-2002) and the "Great Recession" (2007-2009) pulled down ten-year rolling returns. Even though it has not returned to the actuarial assumed return level, we are pleased to see a positive trend since 2008. 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 Investment Section contains a summary of the Retirement Board's investment policy, including goals and objectives, and a comprehensive analysis of the Plan's portfolio performance for the fiscal year 2011.

MAJOR INITIATIVES

Investments:

In continuing to move the actual portfolio exposure closer to the target allocation mix, the Retirement Board took the following actions in 2011:

- Domestic equity: One large cap value manager in the portfolio with a mandate totaling approximately $120.0 million was terminated and replace with a top-performing manager previously utilized in the Plan's emerging manager-of-managers program.
- Real estate: $75.0 million in new commitments was divided amongst four existing open-ended real estate mandates.
- Private equity: The Board approved $25.0 million in additional private equity commitments.

Member Services:

MEABF works with the City of Chicago and the Board of Education regarding pre-retirement seminars for the membership regarding recent laws affecting benefits, current benefit provisions, and the benefit application process. Individualized pre-retirement counseling is also available at the Plan's office. The number of pre-retirement counseling appointments has risen over the past few years as baby boomers get closer to retirement age. Plan members are strongly encouraged to request an appointment at least ninety days prior to their determined resignation date.

In 2011, MEABF staff counseled over 3,400 members regarding retirement, calculated and distributed over 3,000 annuity estimates, and received approximately 145,000 phone inquiries. The Plan sent 29,100 statements of pension contributions to active members.

In 2011, 1,422 members began their retirement as 1,127 came off the annuity rolls. Ninety percent of annuity payments are paid via electronic funds transfer, which ensures that the monthly benefit is in their account on the day the benefit is payable. During 2011, MEABF disbursed 277,000 annuity payments, 6,715 disability payments, 1,856 refund payments and issued 23,000 annual statements of annuity benefit.

Of the 23,382 members receiving annual annuity payments, eighty-seven percent or 20,342 remained Illinois residents, with seventy-one percent or 14,379 residing in the City of Chicago. In 2011 approximately $411.1 million in annuity payments were sent to members residing in the City of Chicago. Not only did these members take care of the City of Chicago during their careers, but they also continue to assist the city's economic engine as homeowners and consumers.

Controlling Pension Overpayments:

MEABF makes an effort to ensure that only entitled benefit payments are being made. Overpayment of annuity can occur if MEABF does not receive timely notification of a deceased member. To help detect unreported deaths, MEABF utilizes a third party vendor that does a weekly comparison of our retired membership list against records of other government agencies such as the Social Security Administration. In addition, MEABF sends a bi-annual pension verification form to annuitants to confirm their continued eligibility. It is required that the form be signed, notarized and returned to the Fund office.

MEABF staff has been very vigilant in recovering any overpayment of benefits. In 2011, we projected that approximately $1.2 million was overpaid to members. To date, we have recovered roughly $1.0 million or eighty three percent of those overpayments.

Pension Benefit System (PBS):

Accurate and timely information is vital in delivering excellent service to the members. Having a system that integrates member information in an easily accessible format is the greatest tool for MEABF staff in calculating benefits, satisfying member queries and ultimately paying benefits in a timely fashion. Software development and user testing for this integrated data management and benefit administration system is still in progress. The anticipated completion of core functionality is late 2012.

Legislative Update

Public Act 97-0651 was signed into law by Illinois Governor Pat Quinn on January 5, 2012. The law clarifies when creditable service can be established and the meaning of “final average salary” for leaves of absence without pay during which an eligible participant is employed full-time by a local labor organization. This law may affect the annuity benefit of a few current retirees who had taken leaves of absence to work for a labor organization prior to retirement.

Public Act 97-609 was signed into law by Illinois Governor Pat Quinn on August 26, 2011. The law provides that a retirement annuity is suspended if the annuitant accepts a contractual position with his or her former employer and requires the annuitant to notify certain person about his or her retirement status before accepting an employment contract.

Public Act 97-530 was signed into law by Illinois Governor Pat Quinn on August 23, 2011. The law requires the MEABF to comply with the Federal Hereos Earnings Assistance and Relief Tax Act of 2008.

Public Act 97-504 was signed into law by Illinois Governor Pat Quinn on August 23, 2011. The law requires each elected or appointed member of the Board to successfully complete the electronic training curriculum developed and administered by the Public Access Counselor.

Organizational Change

In December 2011, the Retirement Board appointed Jim Mohler as Executive Director of the Plan following the retirement of Terry Stefanski. Prior to his appointment, Jim was MEABF’s Chief Investment Officer overseeing an investment portfolio of over $5.0 billion in assets. He has been an employee of the Fund for 20 years.

Following Jim’s promotion, the Retirement Board appointed Mike Walsh as Chief Investment Officer. Prior to his appointment, Mike was Deputy City Treasurer for the City of Chicago and worked closely with MEABF as first proxy for the City Treasurer.

The law firm of Burke, Burns & Pinelli, Ltd. was selected as MEABF’s legal advisor with Mary Pat Burns as chief legal counsel to the Retirement Board replacing Fred Heiss.

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, 2010 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 22 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

On November 30, 2011, after serving as MEABF's Comptroller and most recently Executive Director, Terry Stefanski decided to join the Plan's retired members. Over his eighteen years tenure, Terry provided great leadership to MEABF staff and carried out with distinction the Plan's mission of excellent customer service to our members and preserving the fiscal integrity and financial stability of the Plan. Terry guided MEABF through some of the most challenging periods in the Plan's history that included two early retirement incentive programs and two of the nation's deepest recessions. We thank Terry for his leadership and many contributions to the Plan.

We would also like to thank Frederick P. Heiss, for providing 29 years of legal service to MEABF. Fred was of great assistance to multiple Retirement Board members and was an invaluable resource to the Plan staff in their day-to-day responsibilities.

The compilation of this report reflects the efforts of MEABF Administrative 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,

James E. Mohler
Executive Director

Teresita T. Toledo
Comptroller

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

Left to right: Kathy Schanding, Staff Actuary; Teresita Toledo, Comptroller; Adetola Adenaya, Assistant Comptroller; Nadia Oumata, Investment Analyst; and Michael P. Walsh, Chief Investment Officer.

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, 2011 and 2010, 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions on page 3 through 8 and page 31 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of administrative and OPEB 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. The schedules of administrative and OPEB expenses, investment management compensation, and professional and consulting costs are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bansley and Kiener, L.L.P.

Certified Public Accountants

April 16, 2012

Management's Discussion and Analysis

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, 2011. 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, 2011.

Overview of the Financial Statements

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

The Statements of Plan Net Assets reports MEABF's assets at fair value, liabilities 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 Statements 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 from year to year in the value of plan net assets reported in the Statements of Plan Net Assets.

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 the 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 Highlights

- MEABF's investment portfolio returned, net of fees, 0.0 percent in 2011 (benchmark return of 1.2 percent) compared to a 13.7 percent return in 2010 (benchmark return of 13.3 percent) and 19.4 percent return in 2009 (benchmark return of 18.4 percent). Total return for the portfolio in 2011 was significantly below the 8.0 percent actuarial assumed investment rate of return.

- Plan net assets held in trust reported in the Statements of Plan Net Assets total $5,053.2 million, a decrease of $382.4 million or 7.0 percent from the prior year.

- Total additions as reported in the Statements of Changes in Plan Net Assets total $320.7 million, a decrease of $615.5 million or 65.7 percent from the prior year.

- Total deductions as reported in the Statements of Changes in Plan Net Assets total $703.1 million, an increase of $36.3 million or 5.4 percent from the prior year.

- As of the December 31, 2011 actuarial valuation, the total Plan's Unfunded Actuarial Accrued Liability (UAAL) for both pension plan and post-employment healthcare subsidy based on the Actuarial Value of Assets increased to $6,903.9 million in 2011 from $6,048.8 million in 2010, an increase of $855.1 million or 14.1 percent from the prior year. The increase in the UAAL is mainly attributable to the recognition of deferred investment losses from 2007, 2008 and 2011, 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 2011 was $611.8 million, and the employer contributed only 24.0 percent or $147.0 million in 2011. The ARC for post-employment healthcare subsidy for 2011 was $22.8 million, and the employer contributed 41.7 percent or $9.5 million in 2011. 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 44.6 percent in 2011 from 49.8 percent in 2010 and 57.0 percent in 2009. The decrease in 2011 is mainly attributable to the same influences noted above for UAAL.

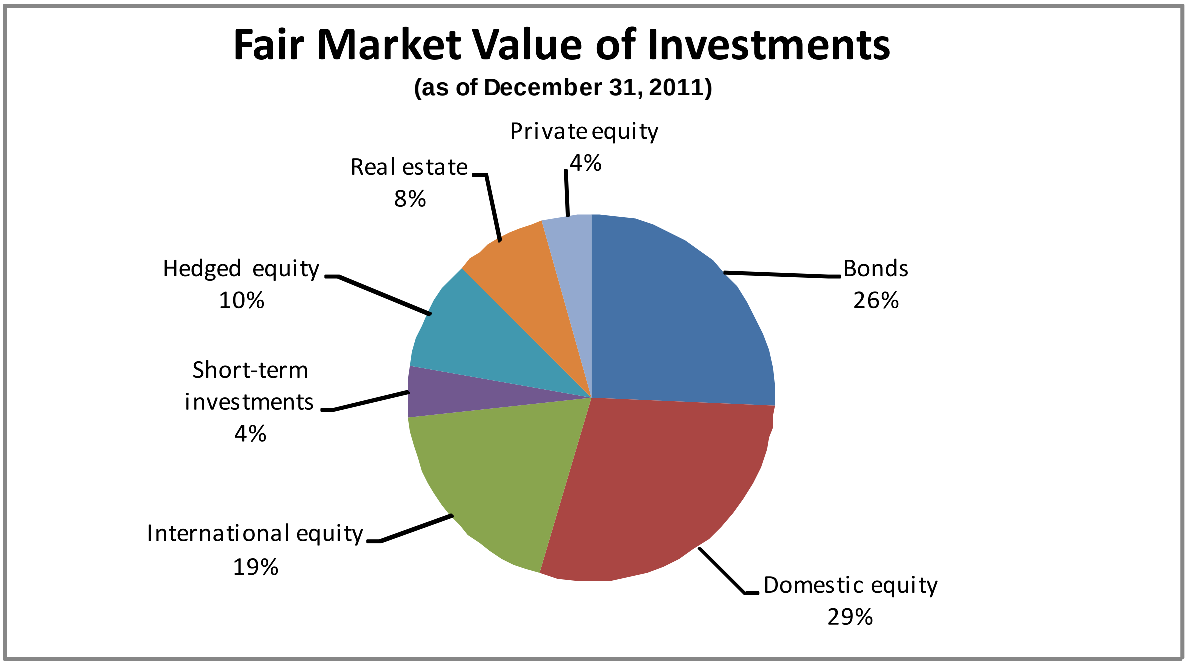
Financial Analysis

Plan Net Assets

Plan net assets as of December 31, 2011 showed a total plan net assets held in trust for pension and healthcare subsidy benefits of $5,053.2 million, compared to $5,435.6 million in 2010 and $5,166.2 million in 2009. Plan net assets decreased by $382.4 million or 7.0 percent from 2010. The decrease was mainly due to the liquidation of invested assets to help pay for benefits and lack of investment returns. The value of cash collateral received in exchange for the securities on loan, shown both as assets and liabilities at year-end, decreased to $593.3 million in 2011 from $638.4 million in 2010 and was $660.7 million in 2009.

Plan Net Assets (in millions)
(as of December 31, 2011, 2010 and 2009)

	2011	**2010**	**2009**	**Increase (Decrease) 2010 to 2011 $ Change**
Cash, receivables and other assets	$ 216.3	$ 234.3	$ 241.3	$ (18.0)
Investments, at fair value	4,938.8	5,292.2	5,042.5	(353.4)
Invested securities lending collateral	593.3	638.4	660.7	(45.1)
Total assets	5,748.4	6,164.9	5,944.5	(416.5)
Liabilities	101.9	90.9	117.6	11.0
Securities lending collateral	593.3	638.4	660.7	(45.1)
Total liabilities	695.2	729.3	778.3	(34.1)
Total plan net assets	**$5,053.2**	**$5,435.6**	**$5,166.2**	**$ (382.4)**



Summary of Investments as of December 31 (in millions)
(as of December 31, 2011, 2010 and 2009)

	2011	2010	2009
Bonds	$ 1,268.8	$ 1,261.0	$ 1,140.2
Domestic equity	1,423.8	1,684.7	1,620.2
International equity	923.5	1,188.5	1,119.0
Hedged equity	483.1	500.4	474.3
Real estate	405.6	262.9	212.0
Private equity	209.9	166.7	130.4
Short-term investments	224.1	228.0	346.4
	$ 4,938.8	**$ 5,292.2**	**$ 5,042.5**

The asset values reflected above fluctuate from year-to-year, both in aggregate and by asset class, based on factors such as investment performance, liquidations within certain asset classes, and rebalancing of assets within the overall portfolio.

In total, the portfolio generated essentially no investment return in 2011. Within individual asset classes, real estate had a strong year generating a 15.9 percent return in 2011, while international equity was the worst performing asset class generating a negative 13.8 percent return. The $353.4 million decline in total investments in 2011, representing a 6.7 percent year-over-year decline in portfolio value, can be attributed to the approximately $415 million in assets that had to be liquidated to assist in paying monthly benefit payments throughout the year. Furthermore, in an effort to maintain the Plan's targeted percentage allocation to each asset class, the portfolio was rebalanced by making additional allocations to real estate in 2011. The additional real estate investments were largely funded by transferring assets out of domestic and international equities.

Additions and Deductions to Plan Net Assets (in millions)

(Years ended December 31, 2011, 2010 and 2009)

	2011	2010	2009	Increase (Decrease) 2010 to 2011 $ Change
Additions:				
Employer contributions	$ 156.5	$ 164.3	$ 157.7	$ (7.8)
Member contributions	132.6	133.3	131.0	(0.7)
Total contributions	289.1	297.6	288.7	(8.5)
Net investment income	29.7	631.3	750.5	(601.6)
Net security lending income	1.9	7.3	28.0	(5.4)
Total additions	**320.7**	**936.2**	**1,067.2**	**(615.5)**
Deductions:				
Annuity benefits	640.1	607.5	583.4	32.6
Disability benefits	14.0	13.1	11.7	0.9
Post-employment healthcare subsidies	9.5	9.5	9.7	-
Refunds of contributions	32.1	29.9	28.1	2.2
Administrative expense	7.4	6.8	7.7	0.6
Total deductions	**703.1**	**666.8**	**640.6**	**36.3**
Net increase (decrease)	(382.4)	269.4	426.6	(651.8)
Net assets at beginning of year	5,435.6	5,166.2	4,739.6	269.4
Ending net assets	**$ 5,053.2**	**$ 5,435.6**	**$ 5,166.2**	**$ (382.4)**

Additions to Plan Net Assets

The primary sources of revenues come from the collection of contributions and net earnings on investments. The revenues consisted of employer and member contributions totaling $289.1 million, net investment income of $29.7 million and securities lending income of $1.9 million.

Employer contributions decreased by $7.8 million in 2011 to $156.5 million from $164.3 million in 2010 and $157.7 million in 2009. 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 $132.6 million in 2011, compared to $133.3 million in 2010 and $131.0 million in 2009. The small decrease is primarily attributable to the decrease in purchases of permissive service credits totaling $5.8 million in 2011, compared to $7.4 million in 2010. Member contributions from City payroll and from the Board of Education barely changed.

Investment income is presented net of investment fees and is comprised of realized and unrealized investment gains and losses, interest and dividends. MEABF's investment portfolio yielded investment income of $29.7 million in 2011, down from $631.3 million in 2010 and $750.5 million in 2009. Investment gains (losses) were ($60.3) million in 2011 compared to $546.7 million in 2010, and $662.3 million in 2009 due to decline in investment assets. Income from interest and dividends increased by $7.1 million to $115.7 million in 2011, from $108.7 million in 2010 and $109.0 million in 2009. The Plan utilizes external investment managers to manage specific investment allocations. Due to increased allocations to real estate and private equity, direct investment fees increased to $25.7 million in 2011 from $24.0 million in 2010 and $20.8 million in 2009.

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 $1.9 million in 2011 compared to a gain of $7.3 million in 2010 and $28.0 million gain in 2009.

Deductions from Plan Net Assets

MEABF's assets are primarily used to pay annuity benefits, post-employment healthcare subsidies, disability benefits, refunds of contributions and the costs of administering the Plan. Annuity benefits increased by 5.4% to $640.1 million from $607.5 in 2010 and $583.4 million in 2009. The increase in annuity benefit payments was primarily due to the compounded annual 3% cost of living adjustment and an increase in the number of retirees and beneficiaries receiving benefits. Disability benefits increased by 7.0% to $14.0 million from $13.1 million in 2010 and $11.7 million in 2009 primarily due to a higher average number of days an employee remain disabled. Administrative expenses increased to $7.4 million in 2011, from $6.8 million in 2010 and $7.7 million in 2009. The increase is primarily due to costs related to litigation and escalating costs of health insurance premiums for staff employees. Detail relating to administrative expenses can be found in the Schedule of Administrative and OPEB Expenses located under Supporting Schedules.

Securities Lending

The Plan's custodian is utilized as its securities lending agent. The custodian is authorized by contract to lend certain securities in the investment portfolio to third parties and invest the collateral received on loaned securities in approved commingled short-term investment funds. Throughout the tumultuous credit market of 2008 and into 2009, collateral declined in value due to exposure to severely depressed securities. With $1.9 million in securities lending income earned in 2011, the Plan's liability based on collateral pool losses was further reduced from the 2008 lows of $47.4 million to $8.9 million as of December 31, 2011. In an effort to further limit risk, the Retirement Board voted in early 2011 to cap the Plan's utilization of securities lending by incorporating a 20% cap on lendable securities exposed to cash collateral, and a 30% cap on lendable securities exposed to both cash and non-cash collateral.

Economic Factors and Rates of Return

The 2011 calendar year was characterized by a multitude of major economic events that had dramatic effects on the world's financial markets. Among them were S&P Ratings Services' downgrade of the United States' debt rating and the tsunami in Japan that caused widespread panic. However, nothing had a more dramatic effect on the financial markets throughout the year than the debt crisis in Europe. These events translated into high levels of volatility throughout the world's financial markets. This volatility was apparent in the U.S. domestic equity market where share values fluctuated dramatically throughout 2011, but ended the year relatively flat. To illustrate, the S&P 500 index, one of the most common benchmarks used to gauge the U.S. equity markets, began the year at 1,257, peaked at 1,364, fell to 1,124 and ended the year flat at 1,257. From an investment perspective, 2011 was disappointing. Coming off of very strong years in 2010 and 2009 where the Plan's investment portfolio generated total net returns of 19.4 percent and 13.7 percent, respectively, the portfolio generated zero total investment return in 2011. However disappointing, the 2011 return was in line with what other well-diversified investors experienced in 2011.

More specifically, the best performing individual asset classes in 2011 were real estate and fixed income which generated returns of 15.9% and 6.7%, respectively. The worst performing asset classes were international equity and hedged equity which generated returns of negative 13.8% and negative 4.8%, respectively.

Actuarial 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, 2011. The latest actuarial valuation shows a $855.1 million increase in the Unfunded Accrued Actuarial Liability (UAAL) for the Plan to $6,903.9 million from $6,048.8 million in 2010 and $4,758.5 million in 2009. The funded ratio of the actuarial assets to the actuarial accrued liability decreased to 44.6 percent from 49.8 percent in 2010 and 57.0 percent in 2009. The decrease in the funded ratio is mainly attributable to an increase in the Actuarial Accrued Liability due to recognition of deferred investment losses from 2007, 2008 and 2011, and a shortfall in contributions relative to the actuarially determined contribution requirement. Future decreases in the funded ratio are expected to occur as a result of contributions that are insufficient to adequately finance 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, the state law constrains the employer contribution to be 1.25 times the employee contributions level in the second prior fiscal year. The most recent actuarial valuation of MEABF on the State reporting basis shows a ratio of 5.37 is needed to adequately finance the Plan in fiscal year 2011. The current statutory funding impacts the ability to grow assets because in order to pay benefits, assets have and will continue to be liquidated.

Currently Known Facts, Decisions, or Conditions

Public Act 97-0651 was signed into law by Illinois Governor Pat Quinn on January 5, 2012 that impacts the plan administered by MEABF. The law clarifies when creditable service can be established and the meaning of "final average salary" for leaves of absence without pay during which an eligible participant is employed full-time by a local labor organization. This law may affect the annuity benefit of a few current retirees who had taken leaves of absence to work for a local labor organization prior to retirement.

The financial markets rallied throughout the first quarter of 2012. Fueled by a stream of good data about the economy, stocks had their best first quarter returns in 14 years. The Plan's portfolio generated an estimated total return of 7.5% in the first quarter of 2012.

Request for Information

Additional information is available upon request. Please direct your request to Mr. James E. Mohler, Executive Director, Municipal Employees' Annuity and Benefit Fund of Chicago, 321 N. Clark Street, Suite 700, Chicago, IL 60654.

STATEMENTS OF PLAN NET ASSETS

DECEMBER 31, 2011 AND 2010

	2011	2010
Cash and cash equivalents	$ 527,877	$ 1,627,516
Receivables		
Contributions from the City of Chicago, net of allowance for loss of $16,424,031 in 2011 and $17,478,246 in 2010	159,646,424	180,160,852
Member contributions	8,855,754	8,756,655
Interest and dividends	15,554,266	15,509,213
Receivables for investments sold	30,431,163	26,341,053
Miscellaneous	305,168	286,805
Total receivables	214,792,775	231,054,578
Investments, at fair value		
Bonds	1,268,830,397	1,261,024,447
Hedged equity	483,125,786	500,381,049
Domestic and international equity	2,347,257,595	2,873,117,430
Real estate	405,561,171	262,935,715
Private equity	209,931,492	166,742,727
Short-term investments	224,090,637	227,974,582
Total investments	4,938,797,078	5,292,175,950
Invested securities lending collateral	593,296,080	638,411,775
Property and equipment, net of accumulated depreciation and amortization of $1,945,671 in 2011 and $1,387,799 in 2010	1,040,642	1,628,050
Total assets	5,748,454,452	6,164,897,869
LIABILITIES		
Payables for investments purchased	83,748,358	71,720,841
Accounts payable and accrued expenses	6,626,263	6,397,006
Securities lending collateral	593,296,080	638,411,775
Securities lending earnings shortfall	8,875,719	10,729,730
OPEB liability	2,659,163	2,045,095
Total liabilities	695,205,583	729,304,447
Net assets held in trust for pension benefits	$ 5,053,248,869	$ 5,435,593,422

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Additions		
Contributions from the City of Chicago	$ 156,525,374	$ 164,302,005
Member contributions	132,596,417	133,299,542
Total contributions	289,121,791	297,601,547
Investment income		
Net appreciation (depreciation) in fair value of investments	(68,464,890)	537,395,238
Interest	53,510,728	51,084,149
Dividends	62,235,840	57,590,111
Income from real estate investments	8,168,851	9,254,856
	55,450,529	655,324,354
Less investment expenses	25,721,614	23,998,001
Net income from investing activities	29,728,915	631,326,353
Security lending activities		
Securities lending income	1,778,340	9,537,856
Borrower rebates	423,654	(519,647)
Bank fees	(347,683)	(1,775,571)
Net income from securities lending activities	1,854,311	7,242,638
Other income	-	24,435
Total additions	320,705,017	936,194,973
Deductions		
Benefits		
Annuity payments	640,090,207	607,540,457
Disability benefits	13,963,941	13,041,253
Post-employment healthcare subsidies	9,516,053	9,549,685
Total benefits	663,570,201	630,131,395
Refund of member contributions	32,104,031	29,949,703
Administrative and OPEB expenses	7,375,338	6,744,947
Total deductions	703,049,570	666,826,045
Net increase (decrease)	(382,344,553)	269,368,928
Net assets held in trust for pension benefits		
Beginning of year	5,435,593,422	5,166,224,494
End of year	$ 5,053,248,869	$ 5,435,593,422

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 (“MEABF”) 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 values 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 year ended December 31, 2010, 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 less than 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 16, 2012, 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, 2011 and 2010, the Plan's book balances of cash are $527,877 and $1,627,516 respectively. The actual bank balances at December 31, 2011 and 2010 are $527,477 and $1,627,116 respectively. All non-investment related bank balances at year end are insured or collateralized at 102% 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, 2011 and 2010, $7,847,152 and $18,470,332 of the Plan's deposits with its custodian Northern Trust were exposed to custodial credit risk.

Certain Plan investments are held by a bank administered trust fund. There were no individual investments representing 5% or more of the Plan's net assets as of December 31, 2011 or 2010.

	2011	2010
Investments At Fair Value As Determined By Quoted Price		
Bonds	$1,268,830,397	$1,261,024,447
Domestic and international equity	2,347,257,595	2,873,117,430
	3,616,087,992	4,134,141,877
Investments at Fair Value As Determined By Plan Administrator		
Hedged equity	483,125,786	500,381,049
Real estate	405,561,171	262,935,715
Private equity	209,931,492	166,742,727
Short-term investments	224,090,637	227,974,582
	1,322,709,086	1,158,034,073
Total investments	$4,938,797,078	$5,292,175,950

Note 2 – Deposits and Investments (continued)

Foreign Currency Risk

The Plan's exposure to foreign currency risk at December 31, 2011 was as follows:

Currency	Market Value	Percentage
Australian Dollar	$ 57,706,218	6.44%
Brazilian Real	25,107,232	2.80%
Canadian Dollar	60,566,500	6.76%
Swiss Franc	43,540,093	4.86%
Chilean Peso	3,443,669	0.38%
Columbian Peso	584,658	0.07%
Czech Koruna	1,628,868	0.18%
Danish Krone	12,628,023	1.41%
Egyptian Pound	177,347	0.02%
Euro	166,474,983	18.58%
British Pound Sterling	144,984,263	16.18%
Hong Kong Dollar	55,905,871	6.24%
Hungarian Forint	223,455	0.02%
Indonesian Rupiah	10,053,594	1.12%
New Israeli Shekel	5,062,125	0.56%
Indian Rupee	18,187,362	2.03%
Japanese Yen	158,560,238	17.70%
South Korean Won	25,723,004	2.87%
Mexican Peso	9,533,349	1.06%
Malaysian Ringgit	4,788,487	0.53%
Moroccan Dirham	150,232	0.02%
New Zealand Dollar	1,546,094	0.17%
Norwegian Krone	6,999,349	0.78%
Peruvian Neuvo Sol	28,844	0.00%
Philippine Peso	832,026	0.09%
Polish Zloty	1,438,371	0.16%
Qatari Rial	2,301,549	0.26%
Swedish Krona	24,243,508	2.71%
Singapore Dollar	10,531,150	1.18%
Thai Baht	4,005,878	0.45%
Turkish Lira	4,504,323	0.50%
New Taiwan Dollar	16,367,464	1.83%
South African Rand	18,227,594	2.04%
Total	$896,055,721	100.00%

All foreign currency-denominated investments are in equities, derivatives 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, 2011, the Plan had the following investments and maturities:

Security Type	Total Fair Value	1 year or less	1-6 years	6-10 years	10 or more years	Maturity Not Determined
Asset backed	$ 31,736,179	$ -	$ 1,866,519	$ 1,660,015	$ 28,209,645	$ -
Bank loans	90,752,482	450,366	56,531,593	33,770,523	-	-
Collateralized bonds	78,855	-	-	-	78,855	-
Commercial mortgage backed	38,658,745	-	-	69,200	38,589,545	-
Corporate bonds	431,238,770	10,536,081	185,823,620	189,100,982	45,778,087	-
Corporate convertible bonds	772,125	160,800	611,325	-	-	-
Government agencies	89,479,097	15,286,011	68,953,010	4,008,089	1,231,987	-
Government bonds	267,550,065	1,008,789	150,259,684	73,066,244	43,215,348	-
Government mortgage backed	265,333,396	-	1,030,239	12,080,441	229,969,245	22,253,471
Guaranteed Fixed Income	5,549,644	5,549,644	-	-	-	-
Index linked government bonds	6,568,800	-	-	6,568,800	-	-
Municipal / provincial bonds	23,444,261	-	5,015,793	16,324,799	2,103,669	-
Non-government backed CMO's	17,667,977	-	-	-	17,667,977	-
Short term bills and notes	27,989,711	27,989,711	-	-	-	-
Short term investment funds	181,269,183	-	-	-	-	181,269,183
Total	$1,478,089,290	$60,981,402	$470,091,783	$336,649,093	$406,844,358	$203,522,654

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, 2011:
(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
US Govt	$ 536,618	$ -	$ -	$ -	$ -	$ -	$ -	$ 185	$267,127	$ 262,737	$ -	$ 6,569	$ -	$ -
AAA	19,506	2,338	-	-	3,658	-	-	849	-	-	-	-	12,524	137
AA	137,502	10,260	-	-	2,669	21,169	-	88,445	-	90	5,550	-	9,214	105
A	167,457	919	-	-	12,072	151,853	-	-	272	-	-	-	1,438	903
BBB	167,632	5,632	942	-	8,680	152,227	-	-	151	-	-	-	-	-
BB	62,545	103	13,109	-	634	48,484	-	-	-	-	-	-	-	215
B	81,068	1,621	26,924	-	1,136	48,978	161	-	-	-	-	-	-	2,248
CCC	14,649	4,410	1,052	79	-	5,454	-	-	-	-	-	-	-	3,654
CC	6,769	870	-	-	-	255	-	-	-	-	-	-	-	5,644
D	8,406	5,582	-	-	-	-	-	-	-	-	-	-	-	2,824
NR	66,678	1	48,725	-	9,810	2,819	611	-	-	2,506	-	-	268	1,938
Total	$1,268,830	$ 31,736	$ 90,752	$ 79	$38,659	$ 431,239	$ 772	$89,479	$267,550	$ 265,333	$ 5,550	$ 6,569	$23,444	$17,668

US Govt = Guaranteed by US Government
NR = Not Rated
* Included in Domestic and International Equity

The Plan does not have a formal policy in regard 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, 2011. Derivative instruments include forward foreign exchange contracts, futures contracts, rights and warrants. 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.

Foreign Currency Forward Contracts

Foreign currency forward contracts are used by certain investment managers to protect against the currency risk in the Plan's international equity portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Foreign currency forward contracts are marked-to-market on a daily basis. The gains or losses resulting from changes in contract values are included in investment income in the Statement of Changes in Plan Net Assets. The Plan experienced a realized loss of $2,546,667 on foreign currency forward contracts in 2011. As of December 31, 2011, the Plan's outstanding foreign currency forward contracts were as follows:

	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Fair Value	Change in Unrealized Gain/Loss
Australian Dollar	$ -	$ (141,317)	$(2,317)	$(15,399)
Canadian Dollar	249,660	(209,392)	268	(6,999)
Swiss Franc	-	(74,480)	(480)	663,815
Euro	749,947	(149,309)	(4,363)	(20,035)
British Pound Sterling	375,209	-	209	100,875
Hong Kong Dollar	239,342	-	342	339
Japanese Yen	609,168	-	7,168	17,081
Norwegian Krone	-	-	-	(10,194)
Swedish Krona	-	-	-	(153,251)
Thai Baht	91,897	-	144	144
US Dollar	1,049,228	(2,310,753)	-	-
South African Rand	-	(487,284)	(9,055)	(9,282)
	$3,364,451	$(3,372,535)	$(8,084)	$567,094

Note 3 – Derivatives (continued)

Futures Contracts

Certain international investment managers utilize equity futures contracts to replicate underlying securities they wish to gain exposure to in the portfolio. A financial futures contract is an agreement to buy or sell a specific amount of something at a specified delivery or maturity date for an agreed-upon price. Futures contracts are traded on organized exchanges, thereby minimizing credit risk. The net change in the futures contract value is settled daily in cash with the exchanges which results in the contract having a fair value of zero at the end of each trading day. The cash or securities to fulfill these obligations are held in the investment portfolio. As the market value of the futures contract varies from the original contract price, a gain or loss is paid to or received from the clearinghouse and recognized in the Statement of Changes in Plan Net Assets. The realized loss on equity futures contracts in 2011 was $1,304,393. As of December 31, 2011, open futures contracts had the following values:

	Notional Value
Total Futures	$10,417,755

Rights and Warrants

Rights and warrants provide investment managers the right, but not the obligation, to purchase or sell a company's stock at a fixed price until a specified expiration date. Rights are normally issued with common stock and expire after two to four weeks. Warrants typically are issued together with a bond or preferred stock and may not expire for several years. The fair value of rights and warrants is reported in the investments in the Statement of Plan Net Assets. The gain or loss from rights and warrants is included in the investment income in the Statement of Changes in Plan Net Assets. As of December 31, 2011, MEABF's investments in rights and warrants were as follows:

	Notional Value	Fair Value	Change in Fair Value
Total Rights and Warrants	107,520.92 shares	$17,161	$(633,738)

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 in exchange 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, and receives cash, securities or letters of credit as collateral. The collateral received cannot be pledged or sold by the Plan unless the borrower defaults. All loans can be terminated on demand by either the Plan or the borrower. At December 31, 2011 the average term of the loans was 117 days (99 days in 2010). Marking to market is performed every business day and the borrower is required to deliver additional collateral when necessary so that the collateral held for all loans to the borrower will at least equal the market value of all borrowed securities. All security loan agreements are initially collateralized at 102% of the market value of loaned securities.

Note 4 – Securities Lending (continued)

Cash collateral is invested in the short-term investment pool, which at December 31, 2011 had a weighted average maturity of 38 days (50 days in 2010). As of December 31, 2011 and 2010, the Plan had loaned to borrowers securities with a fair value of $581,460,653 and $626,047,326 respectively. As of December 31, 2011 and 2010, the Plan received from borrower's cash collateral of $593,296,080 and $638,411,775 and non-cash collateral of $4,102,016 and $2,582,467 respectively. Securities lending net income for the years ended December 31, 2011 and 2010 was $1,854,311 and $7,242,638 respectively.

Due to market events in 2008 and the beginning of 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 $8,875,719 and $10,729,730 as of December 31, 2011 and 2010, 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:

	2011	2010
Securities loaned – cash collateral		
Domestic bonds	$265,119,996	$299,141,213
Domestic equities	235,918,897	305,761,815
International equities	76,480,467	18,648,414
Total securities loaned – cash collateral	577,519,360	623,551,442
Securities loaned – non-cash collateral		
Domestic bonds	65,929	-
Domestic equities	1,181,458	458,351
International equities	2,693,906	2,037,533
Total securities loaned – non-cash collateral	3,941,293	2,495,884
Total	$581,460,653	$626,047,326

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, 2011 and 2010 is as follows:

	2011	2010
Pension benefit system	$1,896,140	$1,896,140
Furniture	43,883	43,883
Equipment	15,842	20,792
Computers	1,026,138	1,050,724
Leasehold improvements	4,310	4,310
	2,986,313	3,015,849
Less accumulated depreciation and amortization	1,945,671	1,387,799
Net property and equipment	$1,040,642	$1,628,050

Depreciation and amortization expense was $587,408 and $596,024 for 2011 and 2010, respectively.

Note 6 – Pension and Other Postemployment 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 Postemployment 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, 2011 and 2010 were $1,605,993,339 and $1,541,388,065, respectively.

Plan membership at December 31 is as follows:

	2011	2010
Active employees (includes members currently receiving disability benefits):		
Vested	17,938	17,531
Non-vested	14,038	13,195
	31,976	30,726
Retirees and beneficiaries currently receiving benefits	23,382*	22,960
Terminated employees entitled to benefits but not yet receiving them	1,679	2,167
Terminated employees entitled to a refund of contributions	11,083	11,699
Total	68,120	67,552

**Beginning in 2011 reversionary annuitants are included in a separate benefit.*

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 or age 53, or
2) the later of the first anniversary of retirement or 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:

a. the attainment of age 67, or
b. 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" and 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 surviving spouse 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 surviving spouse'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, an annuity is provided for any unmarried child of a deceased employee who is 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.

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

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 Plan participants through its Plan assets and contributions from employee and employer. Member and employer contribution rates are established by state law and may be amended only by the Illinois State Legislature.

Member Contributions

Active members 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 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 or 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 1.25 times (current multiple) 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. 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 multiple of 5.37 is needed to adequately finance MEABF. The statutory employer contributions have been less than the ARC for the past nine 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, 2011, the most recent actuarial valuation:

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)
$5,552,291,417	$12,292,930,124	$6,740,638,707	45.20%	$1,605,993,339	419.70%

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, 2011
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.

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.

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

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

> 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, 2011, there are 9,294 (9,192 as of December 31, 2010) City annuitants enrolled in the City's health care plan and 1,516 (1,628 as of December 31, 2010) 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 2011 and 2010, the Pension Plan received contributions of $9,516,053 and $9,549,685 and remitted contributions of $9,516,053 and $9,549,685 respectively.

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

The following table shows the funded status and funding progress as of December 31, 2011, the most recent actuarial valuation:

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)
N/A	$ 163,241,898	$ 163,241,898	0.00%	$1,605,993,339	10.20%

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

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

Valuation Date	December 31, 2011
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.

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 2011 and 2010, MEABF, as employer contributed $174,439 and $146,434 respectively. The healthcare premium rates paid by the retirees are the same rates as those paid by the City of Chicago retirees. Retirees may elect dental and vision coverage on a self-paid basis.

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

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

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

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

	2011	2010
Annual OPEB Cost		
Annual Required Contribution (ARC)	$ 816,278	$ 770,673
Interest on Net OPEB Obligation	90,900	64,830
Adjustment to ARC	(118,671)	(84,636)
Annual OPEB Cost	788,507	750,867
Employer Contributions	174,439	146,434
Net OPEB Obligations (NOO)		
Net OPEB Obligation at Beginning of Year	2,045,095	1,440,663
Increase in NOO	614,068	604,432
Net OPEB Obligation at End of Year	$2,659,163	$2,045,095

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 $122,804 explicit subsidy and $51,635 implicit subsidy and treated as administrative expense of the defined benefit plan. In 2011 and 2010, MEABF contributed 21.4% and 19.0%, respectively, of the annual required OPEB contribution to the plan. The Annual *OPEB Cost* recorded in the Statement of Changes in Plan Net Assets for 2011 as the MEABF Staff Retiree OPEB expense is net of employer implicit and explicit subsidies.

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) (b-a)	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	0.00%	$ 2,649,696	268.0%

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

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

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 about 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:

	2011	2010
City Contribution Reserves	$ 1,644,727,736	$ 1,603,969,092
Salary Deduction Reserves	1,644,356,798	1,603,597,584
Prior Services Reserves	7,257,722,661	7,034,815,738
Annuity Payment Reserves	1,908,256,793	1,808,245,848
Supplementary Payment Reserve	235,189	235,189
Optional Reserve Account	872,845	1,366,425
	12,456,172,022	12,052,229,876
Unreserved Net Assets	(7,402,923,153)	(6,616,636,454)
Net assets held in trust for pension benefits	$ 5,053,248,869	$ 5,435,593,422

City Contribution Reserves

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

Salary Deduction Reserves

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

Annuity Payment Reserves

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

Prior Service Reserves

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

Note 7 – Net Assets Held in Trust for Pension Benefits (continued)

Supplementary Payment Reserves

Amounts contributed by employees retired before 1960 to defray the cost of annual post-retirement increases.

Optional Reserves

Amounts contributed by the aldermen for the alternative plan.

Note 8 – Operating Lease

Office Lease

MEABF moved to a new office location on March 1, 2011 under a fifteen-year, non-cancelable lease agreement with Hines REIT 321 North Clark Street LLC. The lease currently requires monthly payments of $46,258. The Plan received rent abatements for the initial six full months of the term of the lease, and the initial three calendar months of the third, the fourth, the fifth and sixth lease year and the initial two calendar months of the seventh lease year. Monthly lease payments are subject to an escalation clause for increases in real estate taxes and maintenance expenses which have been estimated to be 3% annually.

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, 2011:

Year Ending December 31,	Amount
2012	$ 562,687
2013	439,524
2014	452,590
2015	465,862
2016	481,577
2017-2021	3,311,357
2022-2026	3,212,678
Total	$8,926,275

Total rent expense was $476,620 and $397,042 for 2011 and 2010, 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, 2011 approximately $204.6 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.

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 (UNAUDITED)

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)
12/31/11	$5,552,291,417	$12,292,930,124	$6,740,638,707	45.2%	$1,605,993,339	419.7%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (PENSION)

		Employer Contributions	
Year Ended December 31,	Annual Required Contribution	Amount Contributed	Percentage Contributed
2011	$611,755,567	$147,009,321	24.0%
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%

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, 2011
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, or 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.

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)
12/31/11	$ -	$163,241,898	$163,241,898	00.0%	$1,605,993,339	10.2%
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
2011	$22,803,577	$9,516,053	41.7%
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, 2011
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	268.0%
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
2011	$816,278[1]	$174,439	21.4%
2010	$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 years ended December 31, 2011 and 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

Years ended December 31, 2011 and 2010

	2011	2010
Personnel		
Administrative salaries	$ 3,128,413	$ 2,820,834
Payroll taxes	40,001	33,763
Employee benefits	1,166,125	942,930
OPEB expense	614,068	664,806
	4,948,607	4,462,333
Professional Services		
Actuarial valuation	77,413	82,509
Staff actuary	69,866	68,218
Actuarial consulting	31,057	38,500
Legal services	81,440	57,192
Litigation expense	219,275	115,806
Medical	50,366	47,968
Audit	33,000	34,000
Lobbying	16,700	16,700
Payroll services	358,772	355,131
IT consulting	13,875	15,016
Healthcare benefit consulting	8,701	-
Tax consulting	1,933	-
Other consulting	-	8,486
	962,398	839,526
Communication		
Printing & publications	27,435	61,675
Postage	48,464	77,844
Telephone and communications	60,067	56,516
	135,966	196,035
Occupancy and utilities		
Office rent	476,620	397,042
Utilities	18,815	23,034
Office maintenance	4,526	5,892
	$ 499,961.00	$ 425,968.00

Schedule of Administrative and OPEB Expenses (continued)

Years ended December 31, 2011 and 2010

	2011	2010
Other operating expense		
Fiduciary and insurance	$ 110,926.00	$ 125,192.00
Office supplies and equipment	43,833	28,382
Depreciation	587,408	596,024
Equipment rental and maintenance	11,868	14,837
Training and travel	10,391	17,188
Contractual services	21,790	15,378
Dues and subscriptions	13,547	14,982
Court reporting	5,470	2,699
Miscellaneous	23,173	6,403
	828,406	821,085
Total Administrative and OPEB expense	$ 7,375,338	$ 6,744,947

Schedule of Professional and Consulting Costs

Years ended December 31, 2011 and 2010

	2011	2010
Legal Advisors	$ 300,715	$ 172,998
Medical Advisors	50,366	47,968
Consulting Actuary	178,336	189,227
Other Consulting	41,209	40,202
Auditor	33,000	34,000
Payroll Services	358,772	355,131
Total	$ 962,398	$ 839,526

Schedule of Investment Management Compensation

Years ended December 31, 2011 and 2010

		2011		2010
Equity Managers				
Ariel Capital	$	479,447	$	499,841
Castle Ark		508,856		462,896
Earnest Partners		474,628		413,408
FIS Group		873,575		765,993
Geneva Capital Management		501,861		417,679
Great Lakes Advisors		373,039		376,497
Herndon Capital Management		68,124		-
Holland Capital		505,416		458,259
Keeley Asset Mgmt.		692,787		737,544
Rhumbline Advisors Large Cap Core		57,538		74,821
Rhumbline Advisors Mid Cap Growth		3,774		6,634
Rhumbline Advisors Large-Cap Value		8,922		-
Wellington Capital		205,923		513,390
William Blair Small/Mid Cap		602,555		538,180
Total Equity		5,356,445		5,265,142
Bond Managers				
LM Capital		487,982		475,930
MacKay Shields		492,619		449,314
NTGI Bond Index		-		42,442
Neuberger Berman		184,005		166,768
RBC Global Asset Management		192,521		175,648
Segall Bryant & Hamill		293,528		287,927
Symphony Asset Management		363,963		337,470
UBS AM Bonds		104,825		106,994
Total Bond	$	2,119,443	$	2,042,493

Schedule of Investment Management Compensation (continued)

Years ended December 31, 2011 and 2010

	2011	2010
International Equity Managers		
LSV Asset Management	$ 829,495	$ 587,613
MacKay Shields	437,355	686,508
Madsin Square Investors	74,806	-
NTGI All Country World Ex-US Index	218,574	237,228
NTGI International Small Cap Index	227,336	229,086
Walter Scott	824,234	905,009
William Blair	1,119,799	1,274,924
Total International Equity	3,731,599	3,920,368
Hedge Fund of Funds		
K2 Advisors	2,106,725	2,041,151
The Rock Creek Group	1,732,636	1,950,914
Total Hedge Fund of Funds	3,839,361	3,992,065
Real Estate Managers		
AFL-CIO Building Trust	541,398	291,793
American Realty	305,691	132,000
Capri Capital	613,313	690,915
DV Urban	193,554	225,000
J P Morgan	684,443	580,000
John Buck Company	143,538	265,000
Mesirow Real Estate	612,500	-
Prudential Asset Mgmt.	683,151	338,200
Shamrock-Hostmark Hotel Fund	71,072	75,000
Tishman Speyer	193,759	250,000
UBS Realty Advisors	73,241	63,170
Walton Street Partners	310,693	387,848
Total Real Estate	$ 4,426,353	$ 3,298,926

Schedule of Investment Management Compensation (continued)

Years ended December 31, 2011 and 2010

	2011	2010
Private Equity Managers		
Adams Street Partners	$ 529,000	$ 550,000
Carpenter Bancorp Fund	200,000	200,000
Citigroup International PE Fund	225,000	225,000
First Analysis	317,077	532,000
Hispania Partners	243,635	325,000
Hopewell Ventures	156,524	112,500
Invesco	2,552	4,943
Levine Leichtman	487,553	496,094
MK Capital	100,000	100,000
Mesirow Financial	1,544,339	919,695
Midwest Mezzanine Fund	432,654	437,500
Morgan Stanley Secondary	200,000	150,000
Muller & Monroe	241,065	300,000
Nogales Investors	38,462	263,170
New York Life Investment Management	640,582	-
Parish Capital	72,981	-
RCP Advisors	200,000	150,000
SB Partners	-	84,500
Total Private Equity	5,631,424	4,850,402
Total Investment Management Fees	25,104,625	23,369,396
Other Investment Expenses		
Investment Consultant	290,000	290,000
Master Custodian	169,681	181,893
Negotiation fee: Custody Reduction	148,212	148,212
Investment Legal Services	596	-
Miscellaneous Investment Expense	8,500	8,500
Total Other Investment Expenses	616,989	628,605
Total Investment Expenses	$ 25,721,614	$ 23,998,001

Investment

INVESTMENT REPORT - 2011

June 30, 2012

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 2011.

Going into 2011, many hoped that the positive momentum that built throughout the second half of 2010 would continue well into 2011. Unfortunately, 2011 was plagued by a number of macro events that had widespread effects on the world's financial markets. Among them were the S&P Ratings downgrade of the United States' debt rating and the tsunami in Japan that caused worldwide panic. However, nothing has had a more dramatic and lasting effect on the financial markets than the debt crisis in Europe which continues to play out on a daily basis. In particular, Greece continued to grab headlines throughout the year as the Greek government made attempts to impose certain austerity measures and secure the financial support it would need to address its looming debt situation. These events translated into high levels of volatility throughout the world's financial markets.

Although the market rally we experienced in late 2010 slowed a bit going into 2011, the first half of 2011 started out moderately strong. By mid-year, the Plan's portfolio returns were on pace to beat the Plan's actuarially assumed rate of return of 8% for the year. Unfortunately, that all changed in the third quarter of 2011. Going into August, fears regarding the European debt crisis continued to swell. Many speculated that Greece could not be saved and that if Greece faltered, Italy and Spain would soon follow. Widespread contagion was on the minds of the international investment community. As a result, global equity values began to decline and the Plan's portfolio was not immune to the effects. Domestic equities, as measured by the S&P 500 index, were down 13.9% in the third quarter. International equities, as measured by the MSCI EAFE, were down 19% in the third quarter. Fortunately, the market began to recover again in the fourth quarter, but it was only enough to bring the Plan's investment return back to about even for the year.

EQUITY MARKETS				
	2011	2010	2009	2008
S&P 500	2.1%	15.1%	26.5%	-37.0%
Russell 2000	-4.2%	26.9%	27.2%	-33.8%
MSCI EAFE	-11.7%	8.2%	32.5%	-43.1%
MSCI Emerging	-18.2%	19.2%	79.0%	-53.2%

Significant dispersion existed between asset classes in terms of performance in 2011. Real estate was the best performing asset class for the Plan in 2011 and the Plan made sizable additional mid-year allocations to existing open-ended real estate funds. The Plan's open-ended real estate investments returned 15.9% for the year, while the total real estate portfolio was up 16.6% over the same time period. The returns on the Plan's real estate portfolio outpaced the NCREIF index return of 14.3% by 2.3%. Fixed income was also a positive contributor to Plan performance in 2011. The fixed income portfolio return was 6.7% for the year. Fixed income returns can be largely attributed to appreciation in values resulting from falling interest rates. On the other hand, international equity was the worst performing asset class in 2011. The return on the Plan's international equity allocation was negative 13.7% for the year.

In total, the Plan's investment portfolio returned 0.0% for 2011, net of fees. The Plan's assets were valued at $5.1 billion at year-end, a decrease of $382 million, or 7.0%, from the prior year. The decrease can largely be attributed to the $415 million of investments that had to be liquidated throughout the year to honor monthly benefit payments. At year-end 2011, asset were allocated as follows: 30% to domestic equity, 19% to international equity, 10% to hedged equity, 27% to fixed income, 8% to real estate, 4% to private equity, and the remainder to short-term instruments. The Plan's top ten domestic equity holdings made up 10.6% of the total domestic equity allocation, with the Industrial sector being the main overweight. The top ten international holdings made up 6.3% of the total exposure to international equities. The Plan incurred $25.7 million, or 0.52% of the total portfolio, in investment management fees during 2011, up 7% from 2010. The increase is mainly due to additional allocations made to real estate investments.

As we go into 2012, investors seem cautious. The rally that began in late 2011 carried into the early part of 2012. Fueled by a stream of good data about the economy, U.S. Stocks had their best first quarter returns in over a decade and the S&P 500 returned 24.5% over a two-quarter period ending on March 31, 2012. International equity had also posted sizable returns by the end of the first quarter of 2012. Unfortunately, by early June of 2012, a significant portion of the gains experienced throughout the first quarter of 2012 had been given back. 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. In 2011, the Plan met or exceeded all such goals.

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 combined with investment income must be sufficient to pay annual benefits while growing plan assets at an actuarially determined rate. Without sufficient contributions, annual funding deficits will accumulate and overwhelm a plan over time.

This report includes the certification letter from the Plan's custodian for 2011; a summary of the Plan's investment goals, objectives, and guidelines; and informative investment schedules for your review. Data provided to the Plan by its custodian and its investment consultant form the basis for the information that is presented throughout the Investment Section.

We hope you find this report informative.

Respectfully submitted,

Michael Walsh

Michael Walsh
Chief Investment Officer

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

Northern Trust

To the Board of Trustees and the Executive Director:

The Northern Trust Company as custodian ("Master Custodian") of assets of the Municipal Employees' Annuity and Benefit Fund of Chicago ("Fund") held by it in a custodial account (the "Account") has provided annual Statements of Account for the Account to the Fund which provide a complete and accurate reflection of The Northern Trust Company's record of the investments, receipts, disbursements, purchases and sales of securities and other transactions pertinent to the Account for the period January 1, 2011 through December 31, 2011.

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 March 20, 2008 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: Myra Baldwin
Myra Baldwin
Second 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 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 will vary 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 reserves required to honor operating cash needs for the upcoming month. Monies drawn from investments to assist in meeting monthly operating cash flow needs are primarily taken from asset classes that are overweight relative to determined targets.

Investment Managers

As of December 31, 2011

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

Earnest Partners
Atlanta, Georgia
Domestic Equity Mid Cap Core

First Analysis
Chicago, Illinois
Private Equity Direct Partnerships

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

Geneva Capital Management
Milwaukee, Wisconsin
Domestic Equity Mid Cap Growth

Great Lakes Advisors
Chicago, Illinois
Domestic Equity Large Cap Value

Herndon Capital Management
Atlanta, Georgia
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

Investment Managers (Continued)

Invesco
New York, New York
Private Equity Fund of Funds

John Buck Company
Chicago, Illinois
Real Estate Partnerships

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

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
Fixed Income High Yield

Madison Square Investors
New York, New York
International Equity Growth

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

Midwest Mezzanine Funds
Chicago, Illinois
Private Equity Mezzanine Funds

MK Capital
Chicago, Illinois
Private Equity Direct Partnership

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

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

Neuberger Berman
Chicago, Illinois
Fixed Income Enhanced Index

New York Life Investment Management
New York, New York
Private Equity Mezzanine Funds

Nogales Investors Management
Los Angeles, California
Private Equity Direct Partnerships

Investment Managers (Continued)

Northern Trust Global Investment Advisors
Chicago, Illinois
International Equity All-World Ex-US Index
International Equity Small Cap Index

Parish Capital Advisors
Chapel Hill, North Carolina
Private Equity Fund of Funds

Prudential Real Estate Investors
Parsippany, New Jersey
Real Estate Funds

RBC Global Asset Management
Minneapolis, Minnesota
Fixed Income Opportunistic

RCP Advisors
Chicago, Illinois
Private Equity Secondary Fund of Funds

RhumbLine Advisors
Boston, Massachusetts
Domestic Equity Large Cap Core 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

UBS Asset Management
Chicago, Illinois
Fixed Income Bond Core
Real Estate Partnership

Walter Scott & Partners
Edinburgh, Scotland
International Equity Growth

Walton Street Capital
Chicago, Illinois
Real Estate Partnerships

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

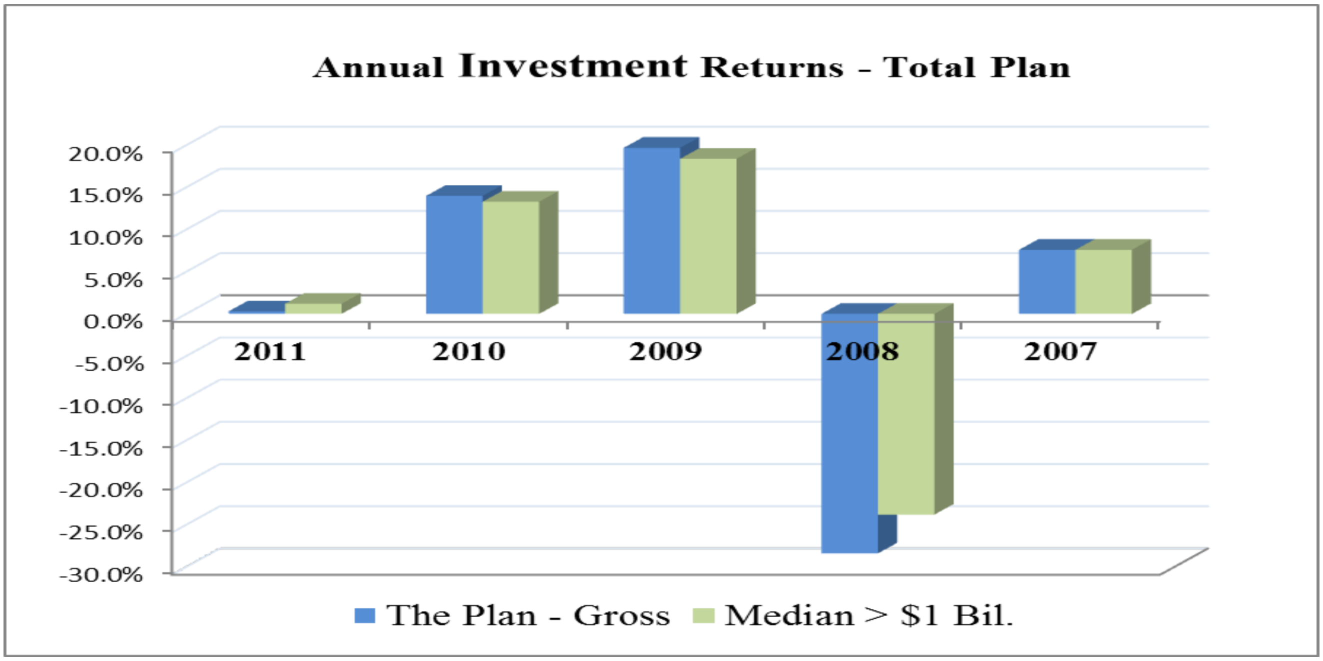
Performance Returns by Asset Class

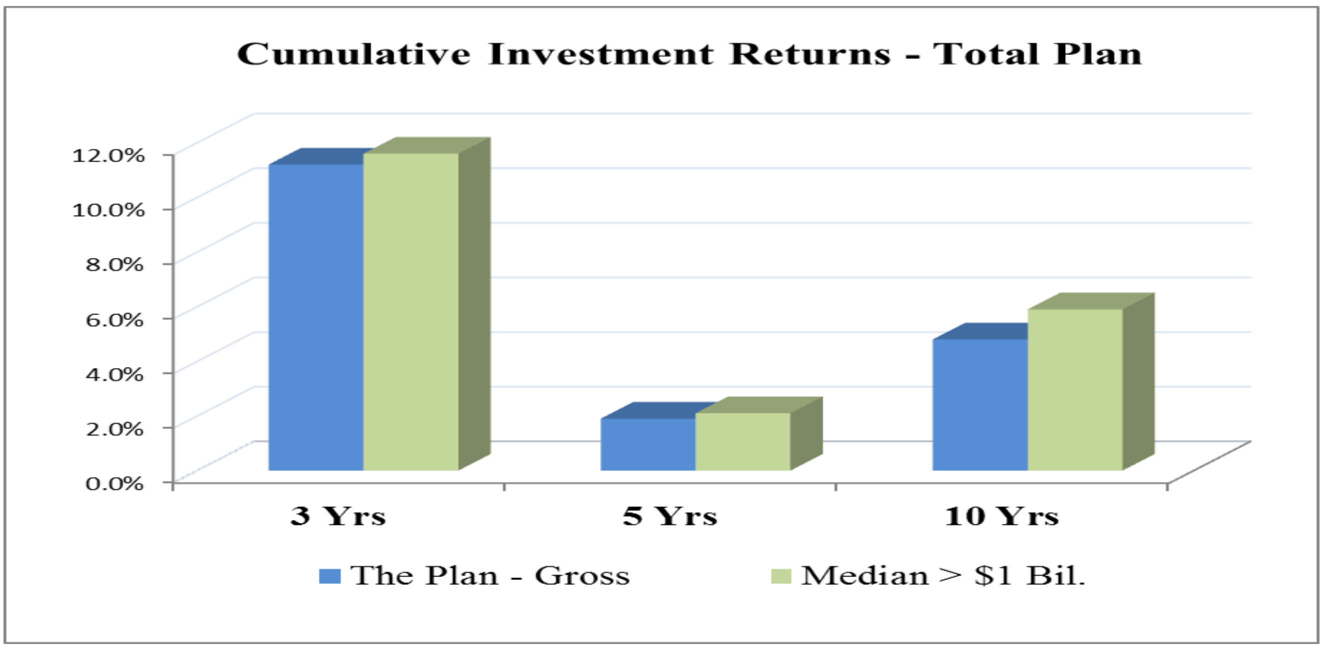
As of December 31, 2011

	2011	2010	2009	2008	2007	Annualized 3 Yrs	5 Yrs	10 Yrs
Total Plan								
The Plan - Gross	0.3%	14.0%	19.7%	-28.4%	7.6%	11.2%	1.9%	4.8%
The Plan - Net	0.0%	13.7%	19.4%	-28.7%	7.3%	10.9%	1.6%	4.5%
Median Fund > $1 Billion	1.2%	13.3%	18.4%	-23.8%	7.6%	11.6%	2.1%	5.9%
Fixed Income								
The Plan	6.7%	8.0%	12.7%	-4.6%	5.2%	8.4%	5.0%	5.0%
Barclays Aggregate Bond	7.8%	6.5%	5.9%	5.2%	7.0%	6.8%	6.5%	5.8%
Barclays Government/Credit	5.8%	5.9%	5.2%	5.7%	7.4%	5.6%	5.9%	5.2%
Domestic Equity								
The Plan	0.4%	20.6%	34.7%	-38.7%	5.3%	17.9%	1.3%	4.1%
S&P 500	2.1%	15.1%	26.5%	-37.0%	5.5%	14.1%	-0.3%	2.9%
Russell 2000	-4.2%	26.9%	27.2%	-33.8%	-1.5%	15.6%	0.2%	5.6%
International Equity								
The Plan	-13.7%	15.4%	42.1%	-36.7%	14.3%	12.1%	0.4%	7.9%
MSCI EAFE ex U.S.	-13.7%	11.2%	41.4%	-45.5%	16.7%	10.7%	-2.9%	6.3%
Real Estate								
The Plan	16.6%	18.8%	-32.1%	-15.1%	15.3%	-1.9%	-1.7%	5.4%
NCREIF Open End	14.3%	13.1%	-16.9%	-6.5%	15.8%	2.4%	3.1%	8.1%
Private Equity								
The Plan	11.2%	26.6%	3.9%	-13.8%	33.2%	13.5%	10.9%	6.1%
Venture Economic PE	9.4%	18.4%	14.9%	-21.0%	17.4%	14.2%	6.7%	9.8%
Hedge Fund								
The Plan	-4.7%	5.3%	N/A	N/A	N/A			
HFRX Hedged Equity	-19.1%	8.9%	13.1%	-25.5%	3.2%			

Investment returns were supplied by Marquette Associates and calculated using the time-weighted rate of return method.
Returns are presented net of fees unless otherwise noted.
Information provided in this report may differ from information provided in prior reports due to the availability of information at the time of print.

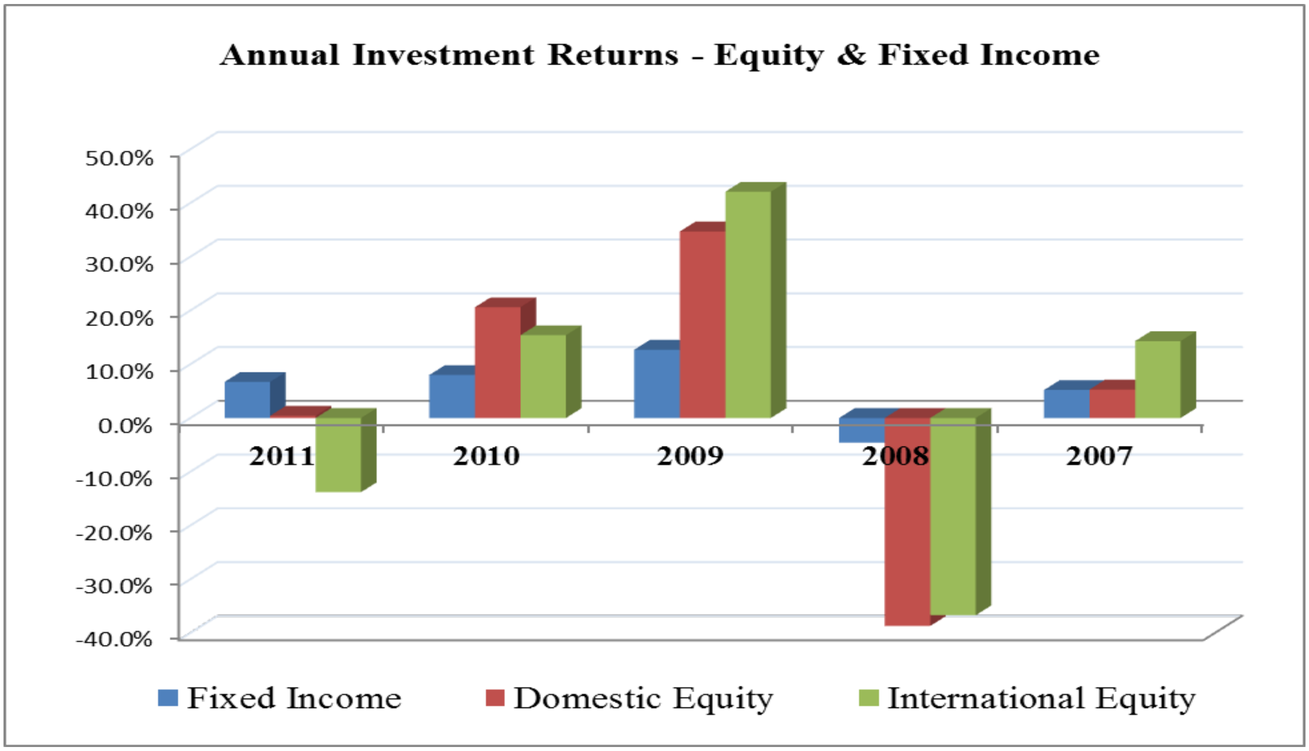
Performance Returns (Continued)

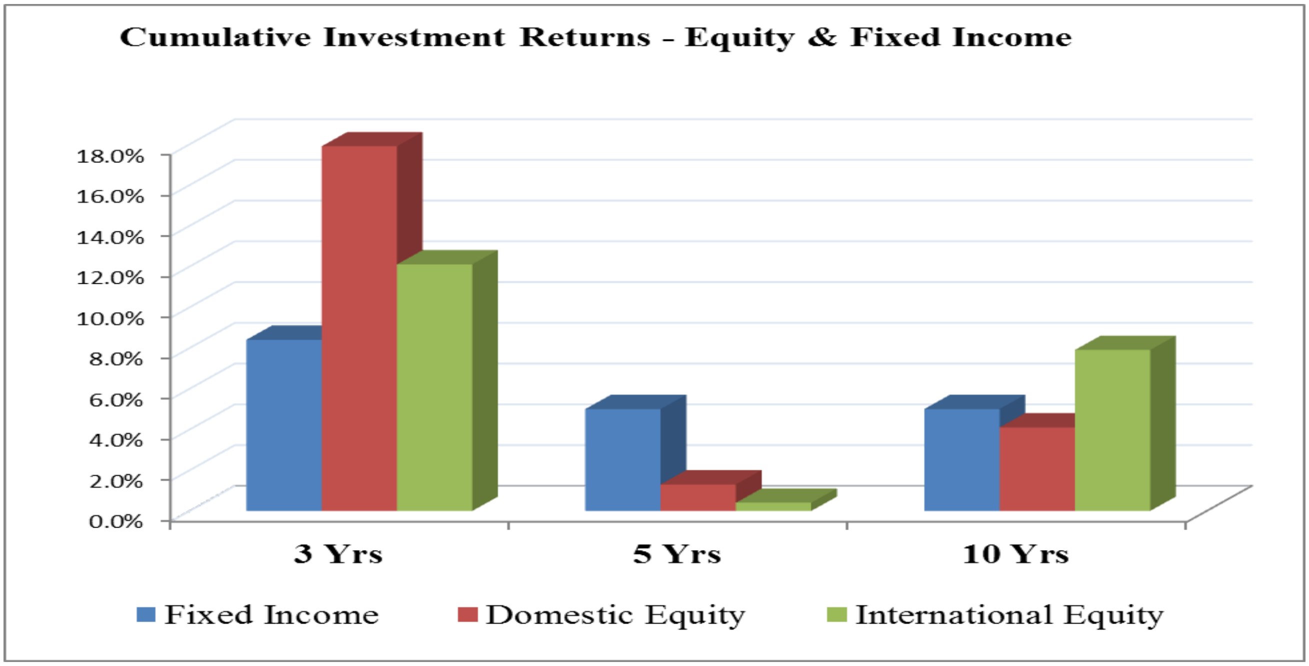




Investment returns were supplied by Marquette Associates and calculated using the time-weighted rate of return method. Returns are presented net of fees unless otherwise noted.
Information provided in this report may differ from information provided in prior reports due to the availability of information at the time of print.

Performance Returns (Continued)





Investment returns were supplied by Marquette Associates and calculated using the time-weighted rate of return method. Returns are presented net of fees unless otherwise noted.
Information provided in this report may differ from information provided in prior reports due to the availability of information at the time of print.

Investments (Fair to Book)

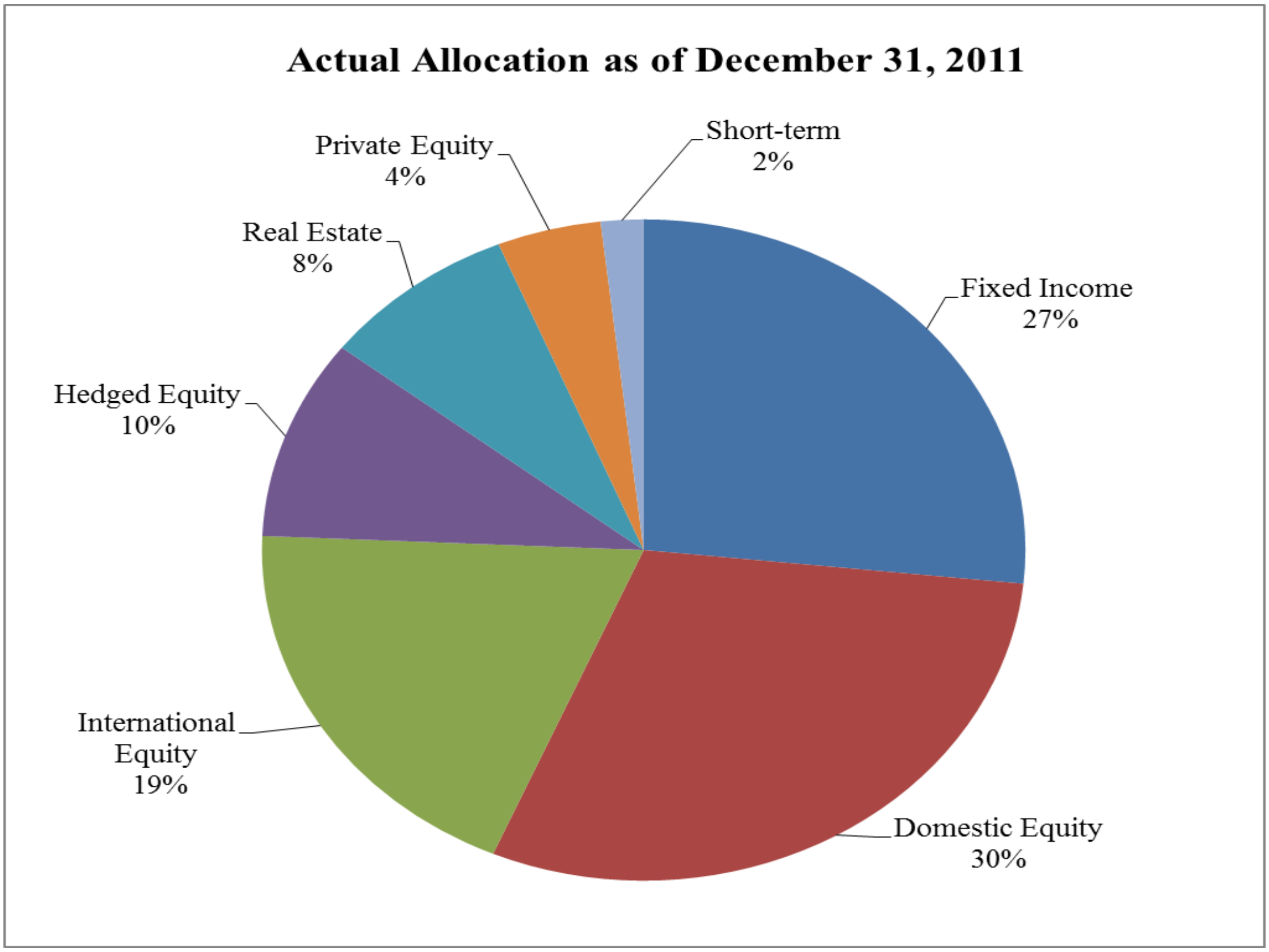
As of December 31, 2011 and December 31, 2010

Category	12/31/2011 Fair Value	%	12/31/2011 Book Value	%	12/31/2010 Fair Value	%	12/31/2010 Book Value	%
Fixed Income	$ 1,268,830,397	26%	$ 1,237,519,753	26%	$1,261,024,447	24%	$1,222,561,235	26%
Equities								
Domestic	1,423,798,841	29%	1,185,502,238	25%	1,684,588,382	32%	1,290,877,926	27%
International	923,458,754	19%	988,475,674	21%	1,188,529,048	22%	1,042,294,371	22%
Total Equities	2,347,257,595	48%	2,173,977,912	46%	2,873,117,430	54%	2,333,172,297	49%
Hedged Equity	483,125,786	10%	450,000,000	9%	500,381,049	9%	450,000,000	9%
Real Estate	405,561,171	8%	401,097,316	8%	262,935,715	5%	305,074,631	6%
Private Equity	209,931,492	4%	264,567,918	6%	166,742,727	3%	234,587,147	5%
Cash Equivalents	224,090,637	5%	224,192,691	5%	227,974,582	4%	228,088,797	5%
Total Investments	4,938,797,078	100 %	4,751,355,590	100%	$5,292,175,950	100%	$4,773,484,108	100%

Investment Asset Allocation

As of December 31, 2011

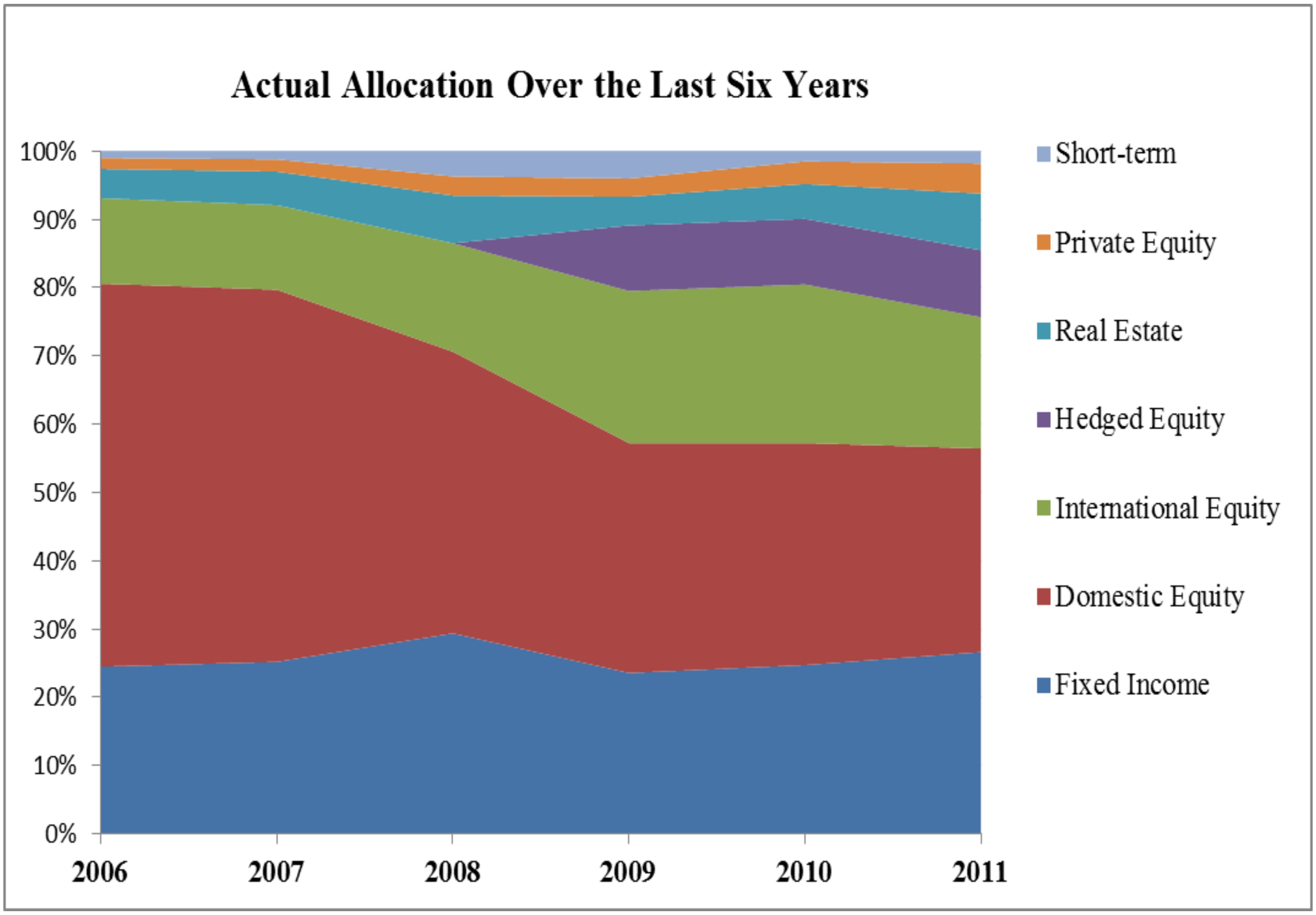
Asset Class	Target Allocation	Actual Allocation
Fixed Income	25%	27%
Domestic Equity	25%	30%
International Equity	20%	19%
Hedged Equity	10%	10%
Real Estate	10%	8%
Private Equity	10%	4%
Short-term	0%	2%
Investment Assets	**100%**	**100%**



Investment Asset Allocation

Last six years

Asset Class	2006	2007	2008	2009	2010	2011
Fixed Income	25%	25%	29%	24%	25%	27%
Domestic Equity	56%	55%	41%	34%	33%	30%
International Equity	13%	12%	16%	22%	23%	19%
Hedged Equity	0%	0%	0%	10%	10%	10%
Real Estate	4%	5%	7%	4%	5%	8%
Private Equity	2%	2%	3%	3%	3%	4%
Short-term	1%	1%	4%	4%	2%	2%
Investment Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**



Domestic Equity Portfolio Summary

Year Ended December 31, 2011

Economic Sector Allocation

Sector	Market Value	Percentage of Total	Dow Jones U.S. Index Allocation
Industrials	$253,937,414	17.8%	12.6%
Technology	195,171,746	13.7%	15.9%
Consumer Goods	191,236,141	13.2%	12.4%
Consumer Services	187,482,536	13.2%	15.8%
Financials	184,733,005	13.0%	11.2%
Oil & Gas	151,375,706	10.6%	11.2%
Health Care	143,760,156	10.1%	10.8%
Basic Materials	49,245,449	3.5%	3.4%
Utilities	43,075,122	3.0%	4.0%
Telecommunications	23,781,567	1.7%	2.7%
Total	**$1,423,798,841**	**100.0%**	**100.0%**

Top 10 Holdings

Name of Security	Sector	Shares	Fair Value	Unrealized Gain/Loss	% of U.S. Equity
Exxon Mobil Corp.	Oil & Gas	328,663	$27,857,476	$10,263,521	2.0%
Apple Inc.	Technology	66,869	27,081,945	18,112,578	1.9%
Chevron Corp.	Oil & Gas	148,902	15,843,173	6,487,649	1.1%
Qualcomm Inc.	Technology	242,862	13,284,551	2,144,910	0.9%
IBM Corp.	Technology	67,588	12,428,081	6,191,985	0.9%
Range Resources Co.	Oil & Gas	188,702	11,688,202	3,047,497	0.8%
Philip Morris	Consumer Goods	143,493	11,261,331	6,621,206	0.8%
American Express Co.	Financials	231,396	10,914,949	2,192,629	0.8%
Microsoft Corp.	Technology	399,755	10,377,640	2,582,668	0.7%
The TJX Companies	Consumer Services	158,366	10,222,525	3,352,566	0.7%
Total		**1,976,596**	**$150,959,873**	**$60,997,210**	**10.6%**

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

International Equity Portfolio Summary

Year Ended December 31, 2011

Country Allocation

Country	Market Value	Percentage of Total	MSCI ACWI ex US Index Allocation
Europe/Africa			
United Kingdom	$138,915,634	15.0%	15.9%
Germany	49,857,712	5.4%	5.4%
France	44,110,875	4.8%	6.2%
Switzerland	42,105,077	4.6%	5.9%
Sweden	23,340,925	2.5%	2.1%
Spain	18,972,725	2.1%	2.2%
South Africa	18,087,530	2.0%	1.8%
Other	83,702,064	9.1%	7.0%
Total Europe/Africa	419,092,542	45.4%	46.5%
Asia/Pacific			
Japan	156,654,335	17.0%	14.7%
Australia	54,710,956	5.9%	5.9%
Korea, Republic of	25,690,936	2.8%	3.5%
Hong Kong	23,656,834	2.6%	1.9%
India	18,095,132	2.0%	1.4%
Taiwan	17,222,895	1.9%	2.5%
Israel	11,012,278	1.2%	0.4%
Other	54,121,377	5.9%	5.3%
Total Asia/Pacific	361,164,743	39.1%	35.6%
Americas			
Canada	58,743,054.35	6.4%	8.4%
Brazil	33,916,914.38	3.7%	3.5%
Bermuda	16,726,143.13	1.8%	0.0%
Cayman Islands	15,413,837.55	1.7%	0.0%
Mexico	10,235,462.62	1.1%	1.1%
Other	8,166,056.67	0.9%	4.9%
Total Americas	143,201,469	15.5%	17.9%
Total	**$923,458,754**	**100.0%**	**100.0%**

International Equity Portfolio Summary (Continued)

Year Ended December 31, 2011

Top 10 Holdings

Name of Security	Country	Sector	Shares	Fair Value	Unrealized Gain/Loss	% of Int'l Equity
Samsung Electronics Co., Ltd.	Korea	Info. Technology	8,176	$7,508,861	$1,454,924	0.8%
CNOOC Ltd.	China	Energy	3,845,800	6,724,431	111,639	0.7%
Novartis AG	Switzerland	Health Care	112,394	6,454,452	846,480	0.7%
Nestle SA	Switzerland	Consumer Staples	110,643	6,389,394	2,291,702	0.7%
Standard Chartered PLC	U.K.	Financials	290,620	6,363,785	(614,404)	0.7%
Roche Holding AG	Switzerland	Health Care	35,386	6,024,437	952,810	0.7%
Daito Trust Construction Co., Ltd	Japan	Financials	59,500	5,103,977	641,773	0.6%
Vodafone Group PLC	U.K.	Telecom. Services	1,680,862	4,673,276	667,933	0.5%
BP P.L.C.	U.K.	Energy	637,951	4,565,580	(1,137,914)	0.5%
Hyundai Mobis	Korea	Consumer Discretionary	17,901	4,537,406	1,818,165	0.5%
Total			**6,799,233**	**$58,345,598**	**$7,033,108**	**6.3%**

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

Fixed Income Portfolio Summary

Year Ended December 31, 2011

Asset Allocation

Asset Category	Market Value	Percentage of Total	Barclays Aggregate Index Allocation
Corporate Bonds	$431,238,770	34.0%	19.9%
Government Bonds	267,550,065	21.1%	35.2%
Government Mortgage Backed Securities	265,333,396	20.9%	31.8%
Bank Loans	90,752,483	7.2%	0.0%
Government Agencies	89,479,097	7.1%	10.8%
Commercial Mortgage-Backed	38,658,746	3.0%	2.0%
Asset Backed Securities	31,736,179	2.5%	0.3%
Municipal/Provincial Bonds	23,444,261	1.8%	0.0%
Non-Government Backed C.M.O.s	17,667,977	1.4%	0.0%
Other	12,969,424	1.0%	0.0%
Total	**$1,268,830,397**	**100.0%**	**100.0%**

Top 10 Holdings

Name of Security	Sector	Fair Value	Unrealized Gain/Loss	% of Fixed Income
U.S. Treasury Notes 2.375 Due 07/31/2017	Government Bonds	$20,828,965	$716,922	1.6%
U.S. Treasury Notes 3.50 Due 05/15/2020	Government Bonds	20,799,069	1,954,636	1.6%
U.S. Treasury Notes 3.75 Due 11/15/2018	Government Bonds	13,843,972	798,851	1.1%
U.S. Treasury Notes 1.75% Due 07/31/2015	Government Bonds	13,255,625	191,352	1.0%
U.S. Treasury Notes 0.125% Due 12/31/2013	Government Bonds	10,264,275	7,235	0.8%
U.S. Treasury Notes 0.25 Due 11/30/2013	Government Bonds	10,001,170	6,580	0.8%
U.S. Treasury Notes 4.25% Due 08/15/2014	Government Bonds	9,858,980	149,273	0.8%
U.S. Treasury Notes 5.25% Due 11/15/2028	Government Bonds	9,375,500	1,495,957	0.7%
U.S. Treasury Notes 0.5 Due 10/15/2013	Government Bonds	8,803,005	137,656	0.7%
U.S. Treasury Notes 3.125% Due 05-15-2021	Government Bonds	8,753,846	304,660	0.7%
Total		**$125,784,407**	**$5,763,121**	**9.9%**

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

Domestic Equity Brokerage Commissions

As of December 31, 2009

Broker Name	Commissions	(#) Shares	Cost per Share
Loop Capital Markets**	$156,058	8,099,887	$0.02
Williams Capital Group**	109,159	8,370,565	0.01
Cabrera Capital Markets**	84,587	3,716,319	0.02
Lynch Jones & Ryan*	82,828	1,789,770	0.05
MR Beal & Company**	78,846	3,108,437	0.03
Gardner Rich & Company**	46,644	1,311,569	0.04
Liquidnet	39,981	1,257,620	0.03
Robert W. Baird & Company Inc.	36,549	957,102	0.04
Citigroup Global Markets Inc.	31,504	645,678	0.05
BNY ESI Securities Co.*	31,384	784,778	0.04
Cheevers & Company**	26,401	818,755	0.03
Melvin Securities**	24,058	788,875	0.03
Instinet*	22,539	584,573	0.04
Managers with < $20,000 of Commissions	$394,257	13,677,561	0.03
Total Domestic Equity Commissions	$1,164,797	45,911,489	$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-owned brokerage firm. The Retirement Board's brokerage policy encourages investment managers, as they search for best possible trade execution, to utilize women/minority-owned business enterprises, specifically firms headquartered in the State of Illinois.*

International Equity Brokerage Commissions

As of December 31, 2011

Broker Name	Commissions	(#) Shares
Pershing LLC - Jersey City	$59,167	9,375,958
Nomura Securities New York	42,973	30,233,082
Deutche Bank Securities Inc.	36,959	4,651,812
JP Morgan Securities Limited London	35,219	10,817,001
G-Trade Services LTD	34,988	6,689,726
State Street Bank & Trust Company	33,306	15,724,741
Instinet Pacific LTD HK	30,939	8,528,733
Chevreux De Virieu Paris	27,701	1,290,929
Morgan Stanley & Co. Inc.	23,699	3,531,549
Chevreux De Virieu	26,383	1,262,549
UBS AG, (London Equities)	20,558	1,361,592
Merrill Lynch Fenner & Smith Inc.	20,032	8,939,296
Managers with < $20,000 of Commissions	402,783	120,086,247
Total International Equity Commissions	$794,707	222,493,215

Investment Fees

As of December 31, 2011

In Thousands

	2011	2010
Investment Management Fees	**Fees**	**Fees**
Fixed Income Managers	$2,119	$2,043
Domestic Equity Managers	5,356	5,265
International Equity Managers	3,732	3,920
Hedged Equity Managers	3,839	3,992
Real Estate Managers	4,426	3,299
Private Equity Managers	5,631	4,850
	$25,105 (1)	$23,369 (2)
Other Investment Fees		
Investment Consultant	$290	$290
Master Custodian	170	182
Negotiation Fee: Custody Reduction	148	148
Investment Legal Services	1	-
Miscellaneous Expenses	9	9
	617	629
Total Investment Fees	$25,722	$23,998

(1) *Total investment management fees for 2011 represent 0.52% of total investments as reported in the Statements of Plan Net assets*

(2) *Total investment management fees for 2010 represent 0.45% of total investments as reported in the Statements of Plan Net assets*

*For a **schedule of investment fees by category**, please refer to the schedule "Investment Management Compensation" in the financial section on pages 55-57.*

Actuarial

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries
20 North Clark Street
Suite 2400
Chicago, IL 60602-5111
312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

April 9, 2012

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, 2011. 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 2012. 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. However, we have not audited the data.

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

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

d) Actuarial Assumptions— The same actuarial assumptions as last year were used for this valuation with the exception of the participation assumption for future retirees receiving the healthcare subsidy from the Fund. 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 5.37 is needed to adequately finance the Plan in fiscal year 2012 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 nine years and are again expected to be less than the ARC for 2012. 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 American Academy of Actuaries to render the actuarial opinion herein.

Gabriel, Roeder, Smith & Company

Sincerely,

Alex Rivera Lance J. Weiss

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

Lance Weiss, E.A., M.A.A.A.
Senior Consultant

Additional Disclosures required by Actuarial Standards of Practice

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

This report should not be relied on for any purpose other than the purpose stated.

The signing actuaries are independent of the plan sponsor.

Summary of Actuarial Valuation

	December 31, 2010	December 31, 2011	% Change
ACTUARIAL VALUES			
Actuarial Values			
Actuarial Liability	$ 12,052,229,876	$ 12,456,172,022	**3.35 %**
Assets - Actuarial Value	6,003,389,605	5,552,291,417	**(7.51)%**
Unfunded Liability (Surplus)	6,048,840,271	6,903,880,605	**14.14 %**
Funded Ratio	**49.81%**	**44.57%**	**(10.51)%**
Annual Required Contribution (ARC)	$ 634,559,144	$ 705,454,416	**11.17 %**
Market Values			
Actuarial Liability	$ 12,052,229,876	$ 12,456,172,022	**3.35 %**
Assets - Market Value	5,435,593,422	5,053,248,869	**(7.03)%**
Unfunded Liability	6,616,636,454	7,402,923,153	**11.88 %**
Funded Ratio	**45.10%**	**40.57%**	**(10.05)%**
Book Values			
Actuarial Liability	$ 12,052,229,876	$ 12,456,172,022	**3.35 %**
Assets - Book Value	4,927,631,310	4,874,683,099	**(1.07)%**
Unfunded Liability (Surplus)	7,124,598,566	7,581,488,923	**6.41 %**
Funded Ratio	**40.89%**	**39.13%**	**(4.28)%**

Actuarial Liability and Annual Required Contribution include both Pension and OPEB

Summary of Actuarial Valuation (continued)

	December 31, 2010	December 31, 2011	% Change
Assets			
Market Value - Beginning of Year	$ 5,166,224,494	$ 5,435,593,422	**5.21 %**
Income			
Investment Income	638,568,991	31,583,226	**(95.05)%**
Employer Contributions	164,326,439	156,525,374	**(4.75)%**
Employee Contributions	133,299,542	132,596,417	**(0.53)%**
Subtotal	936,194,972	320,705,017	**(65.74)%**
Outgo (Refunds, Benefits & Expenses)	666,826,044	703,049,570	**5.43 %**
Net Change	269,368,928	(382,344,553)	**(241.94)%**
Market Value - End of Year	$ 5,435,593,422	$ 5,053,248,869	**(7.03)%**
Book Value - Beginning of Year	$ 5,009,960,625	$ 4,927,631,310	**(1.64)%**
Income			
Investment Income	286,870,748	360,979,568	**25.83 %**
Employer Contributions	164,326,439	156,525,374	**(4.75)%**
Employee Contributions	133,299,542	132,596,417	**(0.53)%**
Subtotal	584,496,729	650,101,359	**11.22 %**
Outgo (Refunds, Benefits & Expenses)	666,826,044	703,049,570	**5.43 %**
Net Change	(82,329,315)	(52,948,211)	**35.69 %**
Book Value - End of Year	$ 4,927,631,310	$ 4,874,683,099	**(1.07)%**
Actuarial Value - Beginning of Year	$ 6,295,788,191	$ 6,003,389,605	**(4.64)%**
Income			
Investment Income	76,801,477	(37,170,409)	**(148.40)%**
Employer Contributions	164,326,439	156,525,374	**(4.75)%**
Employee Contributions	133,299,542	132,596,417	**(0.53)%**
Subtotal	374,427,458	251,951,382	**(32.71)%**
Outgo (Refunds, Benefits & Expense)	666,826,044	703,049,570	**5.43 %**
Net Change	(292,398,586)	(451,098,188)	**(54.28)%**
Actuarial Value - End of Year	$ 6,003,389,605	$ 5,552,291,417	**(7.51)%**

Summary of Actuarial Valuation (continued)

		December 31, 2010		December 31, 2011	% Change
Members					
Active[1]		30,726		31,976	**4.07 %**
Inactive		13,866		12,762	**(7.96)%**
Retirees		18,438		18,813	**2.03 %**
Deferred		3		2	**(33.33)%**
Survivors		4,346		4,274	**(1.66)%**
Reversionary Annuitants[2]				129	**NA**
Disabilities		550		610	**10.91 %**
Children		173		164	**(5.20)%**
Payroll Data					
Valuation Payroll[3]	$	1,541,388,065	$	1,605,993,339	**4.19 %**
Average Salary		50,166		50,225	**0.12 %**

1*Active members include disabled employees.*

2 *Prior to December 31, 2011, Reversionary Annuitants were included with Survivors*

3 *Valuation payroll is based on pensionable pay for Tier 2 members.*

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, 2011. The purposes of this valuation are:

1. To develop the minimum actuarially determined contribution for 2012.
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, 2012, is $690.8 million, which is for pension benefits only. This amount is net of estimated employee contributions of $139.5 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, 2012, is $14.6 million.

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

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

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 2012 is $705.5 million, which is $547.9 million more than the statutory contribution (after the assumed 4 percent loss on the tax levy) of $157.6 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 $1.4 billion as of December 31, 2011, and is projected to increase significantly in fiscal year 2012 ($547.9 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 $6.049 billion to $6.904 billion during the year, resulting in a decrease in the funding ratio from 49.8 percent to 44.6 percent. The increase in the Unfunded Actuarial Accrued Liability is mainly attributable to the recognition of deferred investment losses from 2007, 2008, and 2011, 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 $6.617 billion to $7.403 billion, and the funded ratio decreased from 45.1 percent to 40.6 percent.

Plan Membership

	December 31, 2010	December 31, 2011
Active Members [1]		
Number	30,726	31,976
Vested	17,531	17,938
Non-vested	13,195	14,038
Average Age	47.3	47.1
Average Service	12.2	12.1
Average Annual Salary	$50,166	$50,225
Inactive Members		
Number	13,866	12,762
Average Age	45.1	45.7
Average Service	4.6	4.1
Retirees		
Number	18,438	18,813
Average Age	72.8	72.7
Average Annual Benefit	$31,046	$32,269
Deferred		
Number	3	2
Average Age	53.6	0.5
Average Annual Benefit	$4,312	$6,510
Surviving Spouses		
Number	4,346	4,274
Average Age	77.5	77.6
Average Annual Benefit	$12,407	$12,640
Reversionary Annuitants[2]		
Number		129
Average Age		80.8
Average Annual Benefit		$4,428
Children	173	164
Total Members	67,552	68,120

[1] *Active members include disabled employees.*
[2] *Prior to December 31, 2011, Reversionary Annuitants were included with Survivors.*

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

Total members receiving benefits under the Plan increased 1.8 percent during 2011, from 22,957 to 23,380, while the number of active members increased 4.1 percent from 30,726 to 31,976. Total expenditures for benefits increased from $630 million in 2010 to $664 million during 2011, or 5.4 percent.

Changes in Provisions of the Plan

The following Public Acts were passed in 2011 by the 97th General Assembly that made changes to the Fund Provisions.

P. A. 97-0530 (SB 1672), approved August 23, 2011
P. A. 97-0609 (SB 1831), approved August 26, 2011
P. A. 97-0504 (HB 1670), approved August 23, 2011

These changes do not directly impact the liabilities of the Fund as of the valuation date. A detailed description of the provisions in the Public Acts passed in 2011 can be found in the Historic Information section of this report.

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 participation assumption for future retirees receiving the healthcare subsidy from the Fund was changed from 100 percent to 50 percent based upon the most recent valuation data. The remainders of the actuarial assumptions were first adopted for use with the December 31, 2010, valuation report.

2011 Experience Analysis

The Fund had an investment loss in 2011 of $387 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 $501 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 $107 million. Service credit changes and purchases resulted in an experience loss of $10 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 $450 million. Contributions lower than Normal Cost plus interest have increased the Unfunded Actuarial Accrued Liability each year for the past ten years.

The healthcare subsidy participation assumption change decreased the Unfunded Actuarial Accrued Liability by $59 million.

There was an additional loss of $61 million from all other factors, including actual retirement, termination, disability, mortality experience, and data changes. This is about 0.5 percent of the December 31, 2011, liabilities, which is a reasonable variation.

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

Reconciliation of Funded Ratio

	2010	2011
Funded Ratio Beginning of Year	**56.95%**	**49.81%**
Expected Increase If All Assumptions Realized	1.65%	2.00%
Expected Funded Ratio	**58.60%**	**51.81%**
Gains (Losses) during the Year Attributable to:		
Contributions in Excess (Less Than) of Normal Cost plus Interest	-2.79%	-3.58%
Gain (Loss) on Investment Return	-3.58%	-4.00%
Gain (Loss) from Salary Changes	0.27%	0.39%
Gain (Loss) from Retirement, Termination, & Mortality	-0.12%	-0.22%
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%	-0.04%
Changes in Assumptions	-2.51%	-0.51%
Plan Amendments	0.00%	0.00%
Total Gain (Losses) During the Year	**-8.79%**	**-7.24%**
Funded Ratio End of Year	**49.81%**	**44.57%**

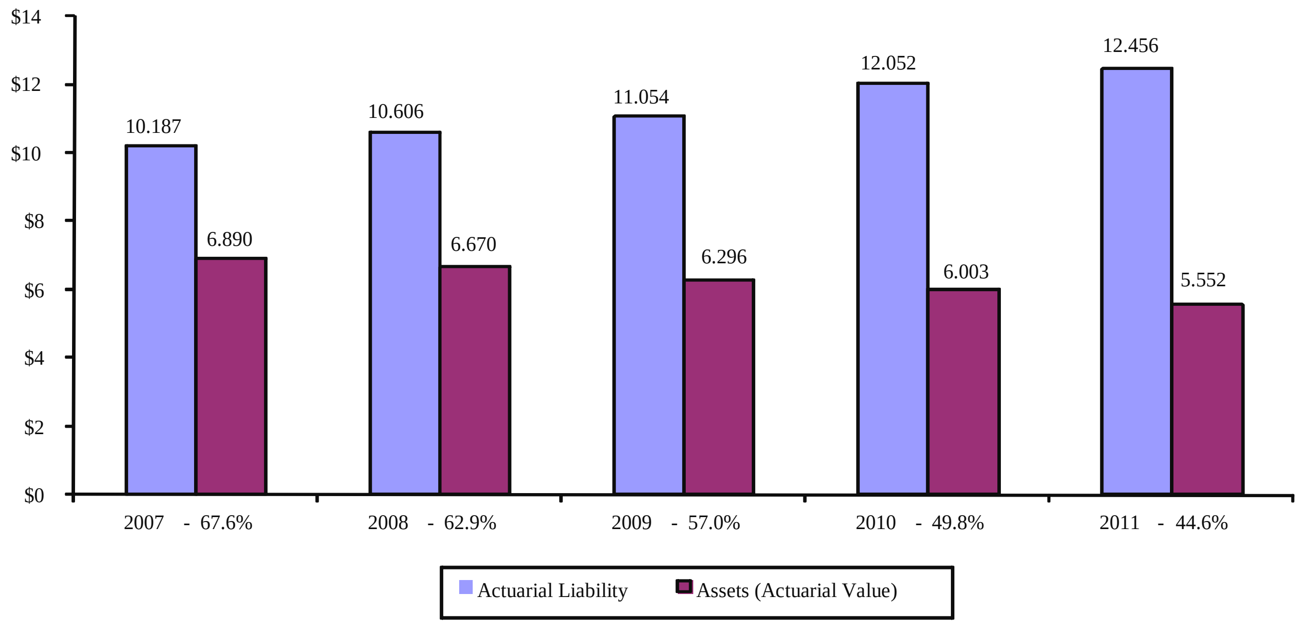
Analysis of Financial Experience

	2007	2008	2009	2010	2011
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) Beginning of Year	$3,183,173,857	$3,296,152,269	$3,936,346,961	$4,758,504,409	$6,048,840,271
(Gains) Losses during the Year Attributable to:					
Contributions less than (in excess of) Normal Cost plus Interest	199,581,204	211,536,054	263,525,304	320,818,396	449,777,576
(Gain) Loss on Investment Return	(190,572,574)	437,218,599	541,514,597	412,377,681	501,202,990
(Gain) Loss from Salary Changes	(7,181,683)	6,654,805	(2,224,555)	(60,823, 939)	(107,481,719)
(Gain) Loss from Retirement, Termination, & Mortality	71,476,178	(25,452,703)	7,921,619	26,339,285	60,500,888
(Gain) Loss from Data Corrections	-	-	-	-	-
(Gain) Loss from Transfers	-	-	-	-	-
Change in Methodology	-	-	-	-	-
Non-ERI Service Credit Changes/Purchases	39,675,287	10,237,937	11,420,483	14,796,688	10,008,932
Changes in Assumptions	-	-	-	576,827,751	(58,968,333)
Plan Amendments	-	-	-	-	-
Net Increase (Decrease) in UAAL	112,978,412	640,194,692	822,157,448	1,290, 335, 862	850,040,334
Unfunded (Over funded) Actuarial Accrued Liability (UAAL) End of Year	$ 3,296,152,269	$3, 936, 346, 961	$4,758,504,409	$6,048,840,271	$6,903,880,605

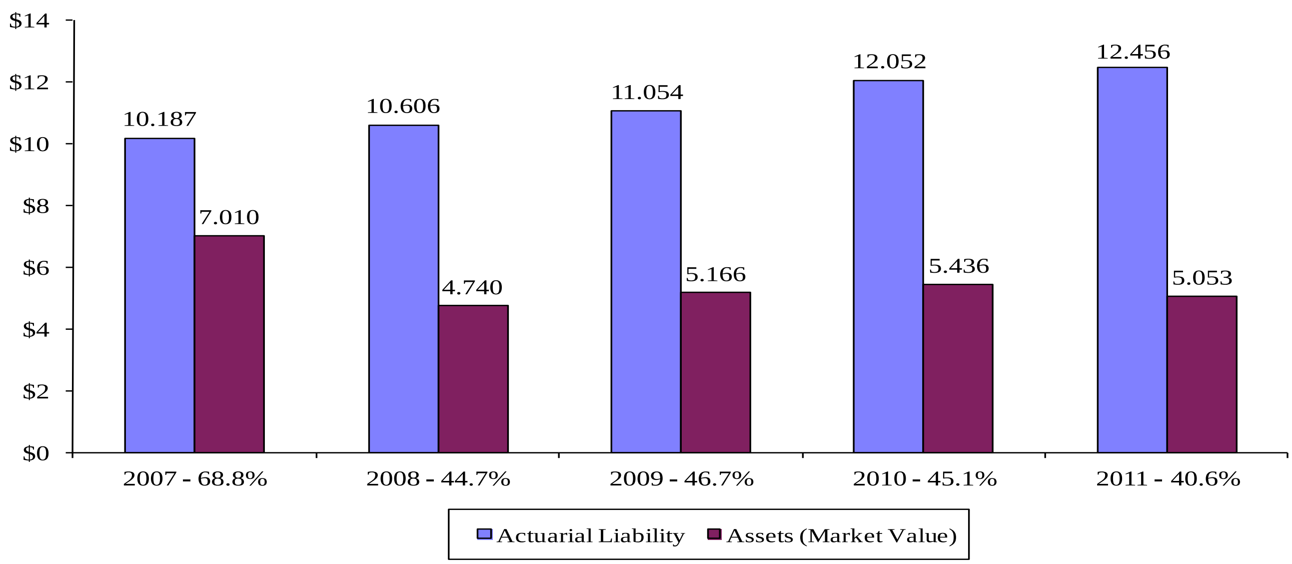
Funding Analysis

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

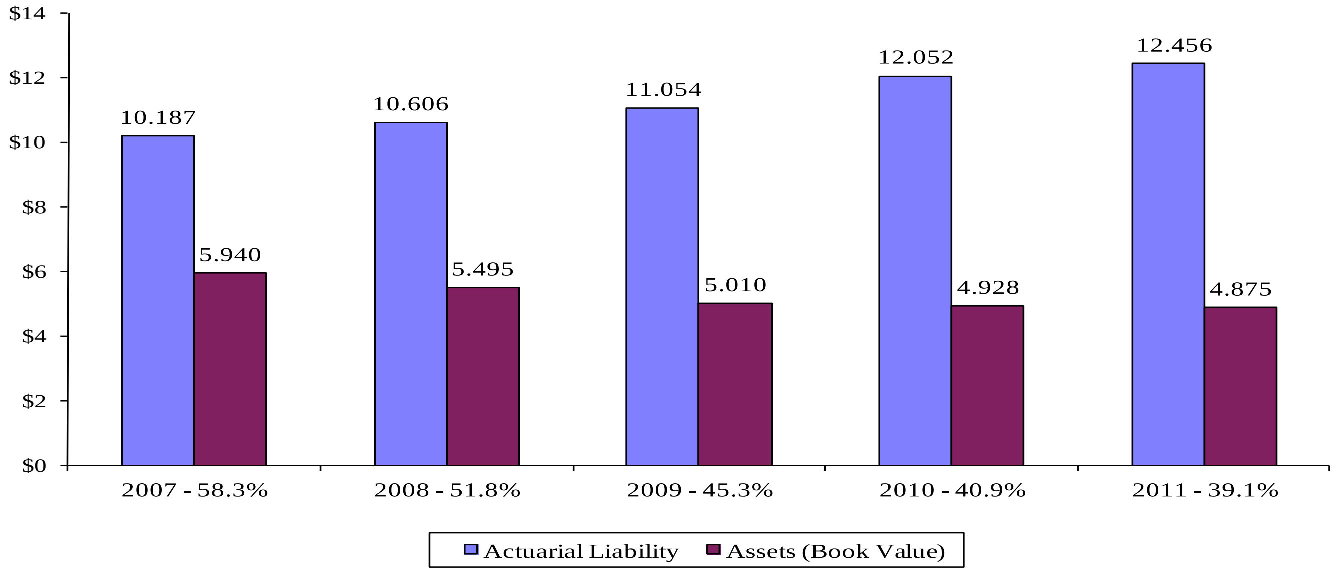
COMPONENTS OF FUNDED RATIO
BASED ON ACTUARIAL VALUE OF ASSETS
($ IN BILLIONS)



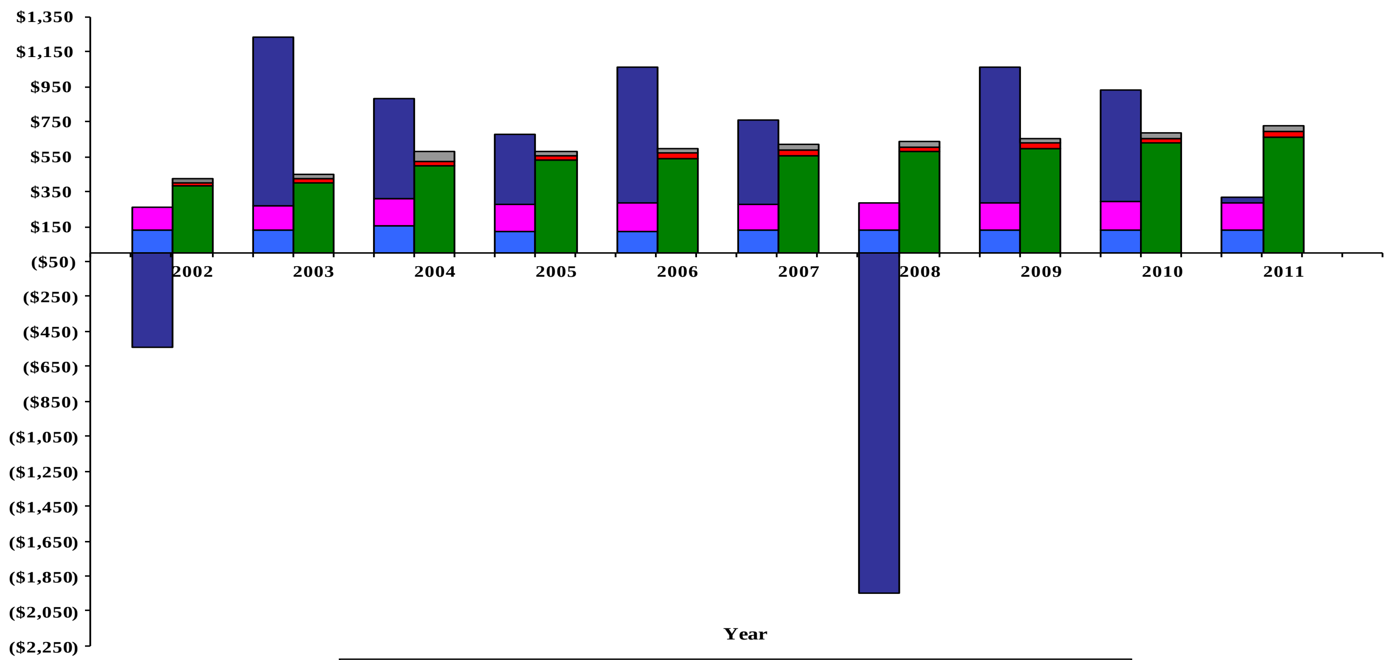
COMPONENTS OF FUNDED RATIO
BASED ON MARKET VALUE
($ IN BILLIONS)



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



SUMMARY OF INCOME AND DISBURSEMENTS
($ IN MILLIONS)



INCOME	DISBURSEMENTS
Employee Contributions	Benefits
Employer Contributions	Expenses
Investment Income	Refunds

Conclusion

On a market value basis, the funded ratio has decreased from 45.1 percent in the last valuation to 40.6 percent in this valuation. This decrease is the result of returns on a Market Value of Assets basis which were lower than expected and continued contribution shortfalls. The funded ratio using the Actuarial Value of Assets is expected to decrease for the next few years toward the funded ratio using the Market Value of Assets, at which point the significant investment losses from 2008 and 2011 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 49.8 percent in 2010 to 44.6 percent in 2011. 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 $1.4 billion as of December 31, 2011, 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 may need to be liquidated in order to pay annual benefits. This could 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 continue to be supportable.

Summary of Basic Actuarial Values

	APV of Projected Benefits	2012 Normal Cost
(1) Values for Active and Inactive Members		
(a) Retirement	$ 6,708,147,992	$ 170,461,199
(b) Termination – Vested	387,039,294	24,876,866
(c) Termination - Non Vested	71,873,358	24,482,498
(d) Death	94,779,245	4,297,660
(e) Inactive Vested and Non-Vested	330,740,507	-
(f) Health Insurance	120,752,611	4,711,272
(g) Disability	-	12,044,950
(h) Expenses of Administration	-	7,375,338
Total for Actives and Inactive	$ 7,713,333,007	$ 248,249,783
(2) Values for Members in Payment Status	$ 6,803,140,300	$ -
(3) Grand Totals	$ 14,516,473,307	$ 248,249,783
Actuarial Present Value of Future Compensation		$ 14,474,484,149

Actuarial Reserve Liabilities
As of December 31, 2011

Accrued Liabilities for Active and Inactive Participants [1]	$ 5,653,031,722
Reserves For:	
Service Retirement Pension	$ 5,925,333,596
Future Spouses of Current Retirees	417,594,245
Surviving Spouse Pension	370,806,273
Health Insurance Supplement	87,970,535
Children Annuitants	1,435,651
Total Accrued Liabilities	$ 12,456,172,022
Unfunded Actuarial Liabilities	$ 6,903,880,605
Actuarial Net Assets	$ 5,552,291,417

[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, 2011

	Annuity Payment Fund	Prior Service Fund	Total
Statutory Reserves[1]			
Retirees	$ 1,271,027,065	$ 4,848,767,891	$ 6,119,794,956
Future Surviving Spouses	289,409,459	391,713,327	681,122,786
Spouse	172,896,042	173,026,031	345,922,073
Annual Benefits			
Retirees	$ 153,588,693	$ 453,488,943	$ 607,077,636
Future Surviving Spouses	N/A	N/A	N/A
Spouse	$ 25,782,887	$ 28,811,1731	$ 54,594,060

[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)
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%
2011 [1]	1,724,683,910	6,803,140,300	3,928,347,812	5,552,291,417	100.00%	56.26%	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, 2011

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

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

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

	Item	Amount	Weight for Timing	Weighted Amount
i)	Member Contributions	$ 132,596,417	50.0%	$ 66,298,209
ii)	City Contributions & Misc.	156,525,374	50.0%	78,262,687
iii)	Benefit Payments	(663,570,201)	50.0%	(331,785,101)
iv)	Refunds	(32,104,031)	50.0%	(16,052,016)
v)	Administration	(7,375,338)	50.0%	(3,687,669)
vi)	Total	$ (413.927,779)		$(206,963,890)

(c) Market Value of Assets Adj. for Actual Income and Disbursements [(a) + (b)(vi))] — $ 5,228,629,532

(d) Assumed Rate of Return on Plan Assets for the Year — 8.00%

(e) Expected Return [(c) * (d)] — $ 418,290,363

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

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

(b) Income (less investment income) for Prior Plan Year — 289,121,791

(c) Disbursements Paid in Prior Year — 703,049,570

(d) Market Value of Assets as of 12/31/2011 — 5,053,248,869

(e) Actual Return [(d) + (c) - (b) - (a)] — $ 31,583,226

(3) **Investment Gain/(Loss) for Prior Year** — $ (386,707,137)

(4) **Actuarial Value of Assets as of 12/31/2011**

(a) Market Value of Assets as of 12/31/2011 — $ 5,053,248,869

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

	Plan Year	Gain/(Loss)	Weight for Timing	Deferred Amount
i)	2007	$ (48,662,875)	0.00%	$ -
ii)	2008	(2,495,444,480)	20.00%	(499,088,896)
iii)	2009	413,471,595	40.00%	165,388,638
iv)	2010	240,039,034	60.00%	144,023,420
v)	2011	(386,707,137)	80.00%	(309,365,710)
vi)	Total	$ (2,277,303,863)		$ (499,042,548)

(c) Actuarial Value of Assets [(a) - (b) (vi)] — $ 5,552,291,417

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
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%
2011	634,559,144	154,844,352	156,525,374	24.67%

[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
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%
2011	44.57%	429.88 %	10.15%

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)								
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	1,008	46,836,109	815	21,038,211	18,438	572,425,992	31,046	3.62%
2011	1,149	55,405,692	774	20,754,048	18,813	607,077,636	32,269	7.71%
Surviving Spouse Annuitants (Not Including Compensation)								
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%
2011	362	4,152,804	305	3,479,496	4,403	54,594,060	12,399	2.32%

[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
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 %
2011	31,976	4.07 %	1,605,993,339	4.19 %	50,225	0.12 %	4.50 %	2.06 %
Average Increase (Decrease) for the Last five years		(0.88)%		1.70 %		2.61 %	4.50 %	1.98 %

Actuarial Methods and Assumptions

As of December 31, 2011

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 – Tier 1 Members:

	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 Retirement – Tier 2 Members:

Age-Based Rates of Retirement	
Age	**Rate**
62	30%
63	34%
64	38%
65	42%
66	46%
67	50%
68	75%
69	90%
70+	100%

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)

	2011	2010	2009	2008	2007
Additions:					
Employer contributions	$ 156,525,374	$ 164,302,005	$ 157,697,608	$ 155,832,612	$ 148,137,050
Member contributions	132,596,417	133,299,542	130,980,605	137,748,907	132,442,200
Net investment income	31,583,226	638,568,991	778,562,620	(1,947,575,935)	485,926,151
Other Income	-	24,435	-	-	-
Total Additions	$ 320,705,017	$ 936,194,973	$1,067,240,833	$(1,653,994,416)	$ 766,505,401
Deductions:					
Annuities	$ 640,090,207	$ 607,540,457	$ 583,436,041	$ 561,947,108	$ 543,411,793
Disabilities	13,963,941	13,041,253	11,682,652	11,687,603	10,624,807
Healthcare Subsidy	9,516,053	9,549,685	9,651,118	9,029,362	8,530,910
Refunds	32,104,031	29,949,703	28,094,365	25,501,985	28,009,512
Administrative Expenses	7,375,338	6,744,947	7,765,918	7,749,714	7,532,301
Total Deductions	$ 703,049,570	$ 666,826,045	$ 640,630,094	$ 615,915,772	$ 598,109,323
Net Increase/(Decrease)	(382,344,553)	269,368,928	426,610,739	(2,269,910,188)	168,396,078
Beginning of year	5,435,593,422	5,166,224,494	4,739,613,755	7,009,523,943	6,841,127,865
End of year	$5,053,248,869	$5,435,593,422	$5,166,224,494	$ 4,739,613,755	$7,009,523,943

Changes in Plan Net Assets (continued)

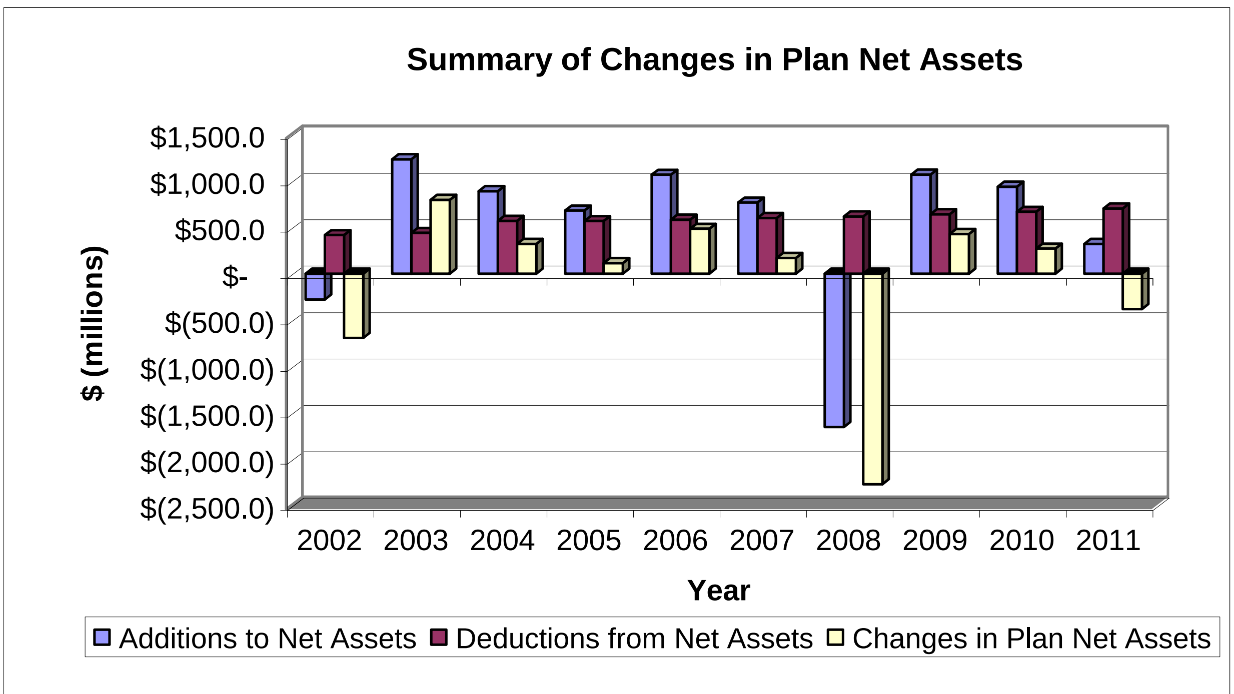
(Last ten years)

	2006	2005	2004	2003	2002
Additions:					
Employer contributions	$ 157,062,769	$ 155,067,116	$ 153,919,476	$ 141,882,893	$ 130,966,381
Member contributions	129,466,091	122,542,484	155,884,575	129,644,188	128,395,307
Net investment income	778,725,950	402,310,621	578,730,089	961,888,872	(538,062,313)
Other Income	-	-	-	-	-
Total Additions	$1,065,254,810	$ 679,920,221	$ 888,534,140	$1,233,415,953	$ (278,700,625)
Deductions:					
Annuities	$ 528,426,078	$ 514,623,174	$ 481,319,408	$ 390,834,936	$ 370,006,543
Disabilities	10,267,132	9,990,510	8,830,525	10,879,692	10,586,498
Health Care Subsidy	8,730,476	8,877,021	8,689,957	6,881,611	6,278,622
Refunds	27,194,308	26,737,456	64,272,300	25,561,485	22,425,917
Administrative Expenses	6,397,685	5,545,268	5,470,007	4,678,634	4,557,088
Total Deductions	$ 581,015,679	$ 565,773,429	$ 568,582,197	$ 438,836,358	$ 413,854,668
Net Increase/(Decrease)	484,239,131	114,146,792	319,951,943	794,579,595	(692,555,293)
Beginning of year	6,356,888,734	6,242,741,942	5,922,789,999	5,128,210,404	5,820,765,697
End of year	$6,841,127,865	$6,356,888,734	$6,242,741,942	$5,922,789,999	$5,128,210,404

Summary of Changes in Plan Net Assets

(Last ten years)

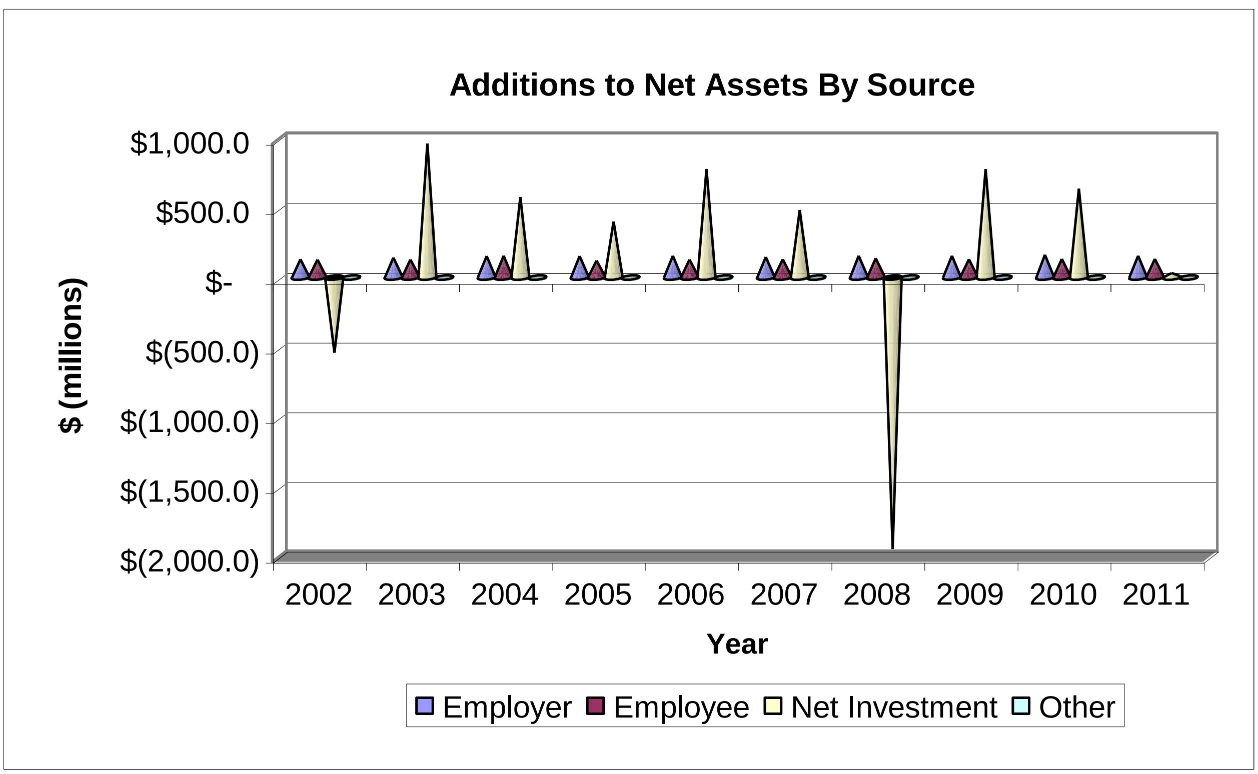
Year	Additions to Net Assets	Deductions from Net assets	Increase (Decrease) in Net Assets
2002	$ (278,700,625)	$ 413,854,668	$ (692,555,293)
2003	1,233,415,953	438,836,358	794,579,595
2004	888,534,140	568,582,197	319,951,943
2005	679,920,221	565,773,429	114,146,792
2006	1,065,254,810	581,015,679	484,239,131
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	426,610,738
2010	936,194,973	666,826,045	269,368,928
2011	320,705,017	703,049,570	(382,344,553)



Additions to Net Assets By Source

(Last ten years)

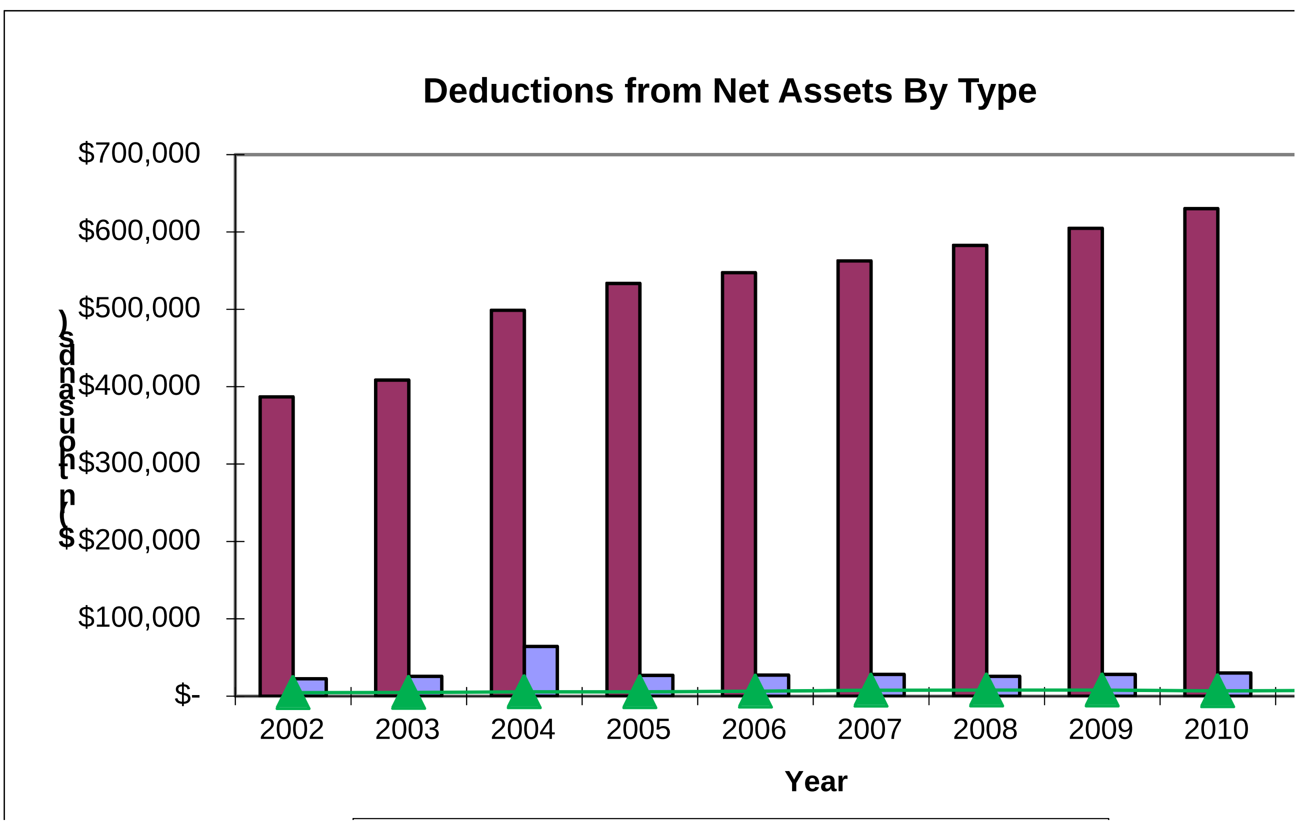
Year	Employer Contributions	Employee Contributions	Investment Income (net of expense)	Other Income	Total
2002	$ 130,966,381	$ 128,395,307	$ (538,062,313)	$ -	$ (278,700,625)
2003	141,882,893	129,644,188	961,888,872	-	1,233,415,953
2004	153,919,476	155,884,575	578,730,089	-	888,534,140
2005	155,067,116	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
2011	156,525,374	132,596,417	31,583,226	-	320,705,017



Deductions from Net Assets By Type

(Last ten years)

Year	Benefits	Refunds	Administrative Expense	Total
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
2011	663,570,201	32,104,031	7,375,338	703,049,570

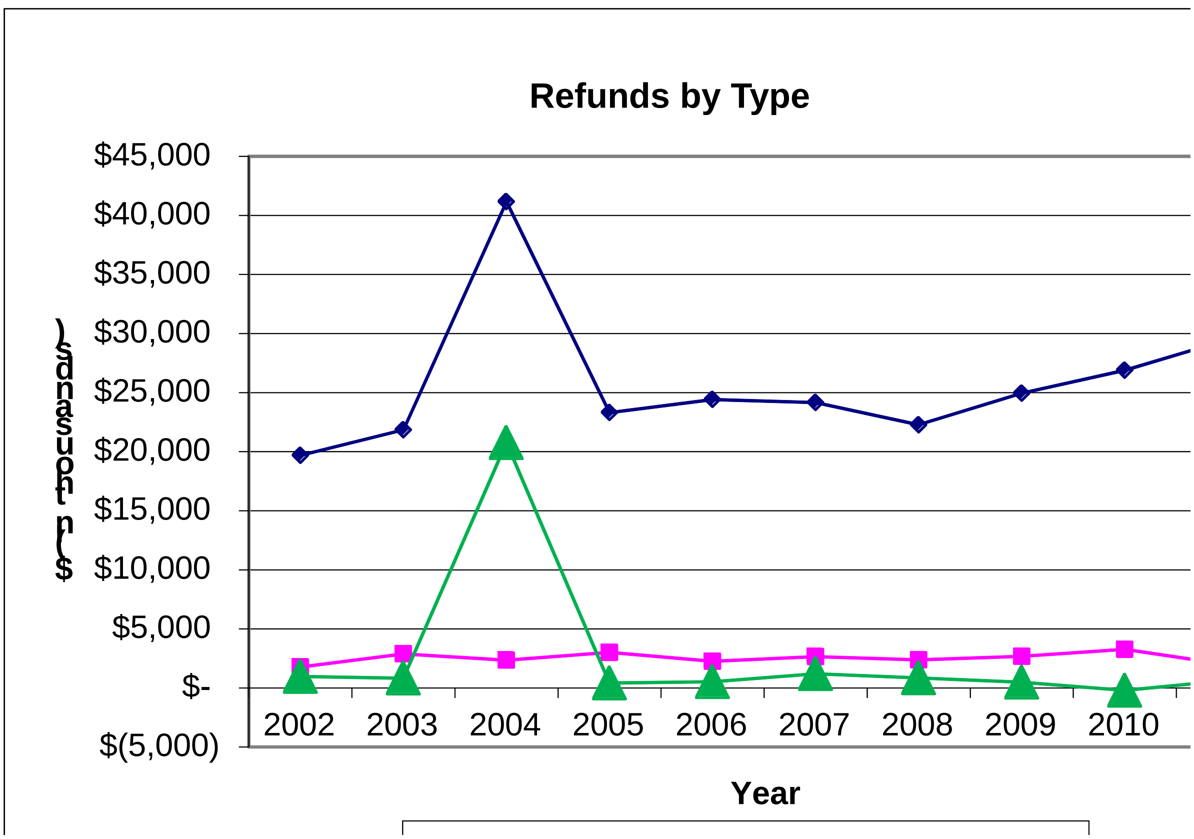


Refunds by Type

(Last ten years)

Year	Separation	Death	Others[1]	Total
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
2011	29,482,493	1,976,182	645,356	32,104,031

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



Benefits by Type

Last ten years

	2011	2010	2009	2008	2007
Annuities:					
Employee	$ 584,973,939	$ 553,066,296	$ 530,008,332	$ 509,510,036	$ 491,780,107
Surviving Spouse	54,600,246	53,970,603	52,904,482	51,880,155	51,063,889
Children	516,022	503,559	523,227	556,917	567,797
Total Annuities	640,090,207	607,540,457	583,436,041	561,947,108	543,411,793
Disabilities:					
Ordinary	9,708,906	9,274,262	8,290,644	8,311,069	7,857,240
Duty	4,255,035	3,766,991	3,392,008	3,376,534	2,767,567
Total Disabilities	13,963,941	13,041,253	11,682,652	11,687,603	10,624,807
Postemployment Healthcare Subsidy					
Employee	8,070,084	8,068,820	8,155,184	7,628,736	7,199,189
Surviving Spouse	1,439,178	1,472,885	1,487,337	1,389,751	1,318,801
Children	6,792	7,980	8,597	10,875	12,920
Total Healthcare Subsidy	9,516,054	9,549,685	9,651,118	9,029,362	8,530,910
Total Benefits	$ 663,570,201	$ 630,131,395	$ 604,769,811	$ 582,664,073	$ 562,567,510

Benefits by Type (continued)

(Last ten years)

	2006	2005	2004	2003	2002
Annuities:					
Employee	$ 477,505,602	$ 464,243,871	$ 431,559,744	$ 341,614,633	$ 321,677,720
Surviving Spouse	50,340,031	49,783,518	49,163,339	48,558,458	47,691,000
Children	580,445	595,785	596,325	661,845	637,823
Total Annuities	528,426,078	514,623,174	481,319,408	390,834,936	370,006,543
Disabilities:					
Ordinary	7,824,045	8,011,243	7,200,947	8,475,088	8,321,808
Duty	2,443,087	1,979,267	1,629,578	2,404,604	2,264,690
Total Disabilities	10,267,132	9,990,510	8,830,525	10,879,692	10,586,498
Postemployment Healthcare Subsidy:					
Employee	$ 7,373,775	$ 7,499,145	$ 7,301,575	$ 5,606,013	$ 5,109,041
Surviving Spouse	1,343,866	1,367,932	1,376,142	1,275,598	1,169,581
Children	12,835	9,944	12,240	-	-
Total Healthcare Subsidy	$ 8,730,476	$ 8,877,021	$ 8,689,957	$ 6,881,611	$ 6,278,622
Total Benefits	$ 547,423,686	$ 533,490,705	$ 498,839,890	$ 408,596,239	$ 386,871,663

History of Average Pension Benefit Payments to New Retirees

(Last ten years)

Retirement Effective Dates		10-14	15-19	20-24	25-30	30 & Over	Total
		Years of Service					
2002	Average Monthly Benefit at Retirement	N/A	N/A	N/A	N/A	N/A	$ 2,025
	Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	$ 3,406
	Number of New Recipients	N/A	N/A	N/A	N/A	N/A	910
2003	Average Monthly Benefit at Retirement	$ 921	$1,391	$1,813	$2,550	$ 3,532	$ 2,419
	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
2004	Average Monthly Benefit at Retirement	$ 911	$1,631	$2,237	$2,776	$ 3,767	$ 3,005
	Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A
	Number of New Recipients	137	210	473	583	1,408	2,811
2005	Average Monthly Benefit at Retirement	$1,067	$1,250	$1,578	$2,177	$ 3,269	$ 2,394
	Average Final Average Salary	$2,955	$2,799	$3,110	$3,298	$ 4,095	$ 3,565
	Number of New Recipients	56	54	51	65	219	445
2006	Average Monthly Benefit at Retirement	$1,141	$1,286	$1,577	$2,416	$ 3,610	$ 2,451
	Average Final Average Salary	$3,471	$2,927	$3,076	$3,716	$ 4,555	$ 3,804
	Number of New Recipients	53	60	95	73	194	475
2007	Average Monthly Benefit at Retirement	$1,198	$1,381	$2,029	$2,658	$ 3,919	$ 2,800
	Average Final Average Salary	$3,548	$3,075	$3,796	$2,811	$ 4,939	$ 4,242
	Number of New Recipients	54	69	94	70	229	516
2008	Average Monthly Benefit at Retirement	$1,293	$1,630	$2,031	$2,765	$ 4,129	$ 2,847
	Average Final Average Salary	$3,980	$3,565	$3,981	$4,199	$ 5,285	$ 4,491
	Number of New Recipients	60	65	106	63	206	500
2009	Average Monthly Benefit at Retirement	$1,407	$1,790	$2,275	$3,255	$ 4,082	$ 2,969
	Average Final Average Salary	$4,664	$4,148	$4,406	$5,005	$ 5,209	$ 4,794
	Number of New Recipients	57	75	153	92	231	608
2010	Average Monthly Benefit at Retirement	$1,334	$1,835	$2,215	$3,208	$ 4,354	$ 3,129
	Average Final Average Salary	$4,418	$4,311	$4,278	$4,945	$ 5,590	$ 4,933
	Number of New Recipients	60	77	169	132	287	725
2011	Average Monthly Benefit at Retirement	$1,350	$1,981	$2,432	$3,459	$ 4,696	$ 3,361
	Average Final Average Salary	$4,261	$4,506	$4,661	$5,265	$ 6,046	$ 5,257
	Number of New Recipients	66	88	193	185	311	843

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

Source of Data: 2011 Actuarial Valuation Report

Average Employee Retirement Benefits Payable

(Last ten years)

Year	Average Annual Benefit	Average Current Age Of Retirees	Average Benefit At Retirement Current Year	Average Age At Retirement Current Year	Average years Service At Retirement Current Year
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
2011	32,269	72.7	34,513	62.1	24.9

Source of Data: 2011 Actuarial Valuation Report

Covered Employees by Age & Years 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	44	11	-	-	-	-	-	-	-	55
20-24	343	467	52	-	-	-	-	-	-	862
25-29	370	1,172	477	56	-	-	-	-	-	2,075
30-34	245	1,026	903	439	52	-	-	-	-	2,665
35-39	186	814	914	903	316	31	-	-	-	3,164
40-44	179	753	930	1,130	716	358	17	-	-	4,083
45-49	127	655	960	1,300	894	804	312	27	-	5,079
50-54	92	503	863	1,229	958	1,009	664	173	7	5,498
55-59	42	359	639	929	825	819	530	238	42	4,423
60-64	22	180	409	517	506	532	320	118	54	2,658
65-69	9	52	126	161	191	178	107	69	29	922
70 & Over	4	32	78	79	76	69	59	42	53	492
W/O DOB	-	-	-	-	-	-	-	-	-	-
Total	**1,663**	**6,024**	**6,351**	**6,743**	**4,534**	**3,800**	**2,009**	**667**	**185**	**31,976**

Source of Data: 2011 Actuarial Valuation Report

Current Retirees by Range of Pension Amounts

As of December 31, 2011

Amount of Monthly Benefit	Number of Employee Annuitants	Number of Spouse Annuitants	Number of Reversionary Annuitants	Number of Child Annuitants	Total Number of Annuitants
Deferred	2	-	-	-	2
$ 1 - $ 250	335	81	39	164	619
251 - 500	393	67	56	-	516
501 - 750	302	77	24	-	403
751 - 1,000	969	2,698	8	-	3,675
1,001 - 1,250	1,680	350	2	-	2,032
1,251 - 1,500	2,724	303	-	-	3,027
1,501 - 1,750	1,007	238	-	-	1,245
1,751 - 2,000	1,118	171	-	-	1,289
2,001 - 2,250	1,036	104	-	-	1,140
2,251 - 2,500	977	79	-	-	1,056
2,501 - 2,750	812	54	-	-	866
2,751 - 3,000	691	28	-	-	719
3,001 - 3,250	663	12	-	-	675
3,251 - 3,500	647	6	-	-	653
3,501 - 3,750	610	3	-	-	613
3,751 - 4,000	551	2	-	-	553
4,001 - 4,250	550	-	-	-	550
4,251 - 4,500	559	-	-	-	559
4,501 - 4,750	472	1	-	-	473
4,751 - 5,000	406	-	-	-	406
Over $5,000	2,311	-	-	-	2,311
Totals	**18,815**	**4,274**	**129**	**164**	**23,382**

Source of Data: 2011 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	7	5	1	13

History of Retirees and Beneficiaries By Type of Benefit

(Last ten years)

	Annuity				Disability		Compensation	Reciprocal	
Year	Employee	Spouse	Child	Reversionary	Ordinary	Duty	Annuitants	Employee	Spouse
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
2011	16,230	3,910	164	129 [2]	346	264	2[1]	2,583	364

[1] *Compensation annuitants also included with spouse annuitants*

[2] *Prior to December 31, 2011, Reversionary Annuitants were included with Survivors*

Source of Data: 2011 Actuarial Valuation Report

Retirees and Beneficiaries By Type of Coverage - Health Insurance Subsidy

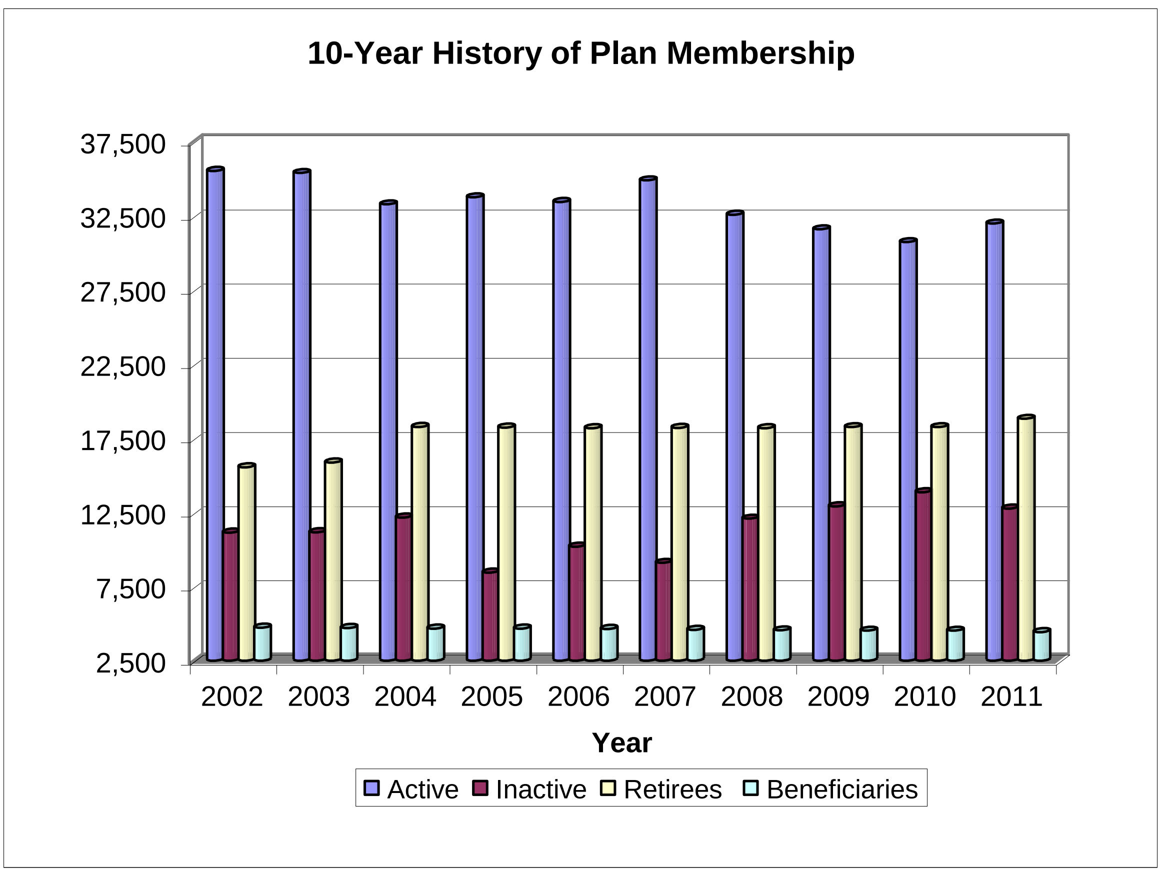
(Last ten years)

	Covered Annuitants						
	Employee		Spouse			Total Not	Total
Year	Single	Family	Single	Family	Total	Covered	Annuitants
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
2011	6,271	2,826	1,690	38	10,825	12,262	23,087

10-Year History of Plan Membership

(Last ten years)

Year	Active	Inactive	Retirees	Beneficiaries	Total
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
2011	31,976	12,762	18,815	4,567	68,120



10-Year History of Covered Employees

(Last ten years)

Year	Male Participants	Female Participants	Total Participants
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
2011	12,828	19,148	31,976

Source of Data: 2011 Actuarial Valuation Report