Municipal Employees' Annuity and Benefit Fund of Chicago

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

2012

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2012

MEABF

Municipal Employees'
Annuity and Benefit Fund of Chicago

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

2012

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2012

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

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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 2011 Comprehensive Annual Financial Report. MEABF has received the award for each of the last twenty-three years.

RETIREMENT BOARD As of June 1, 2013

Martin J. Durkan
President
Elected Trustee

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

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

Timothy G. Guest
Recording Secretary
Elected Trustee

Anthony C. Clancy
Elected Trustee

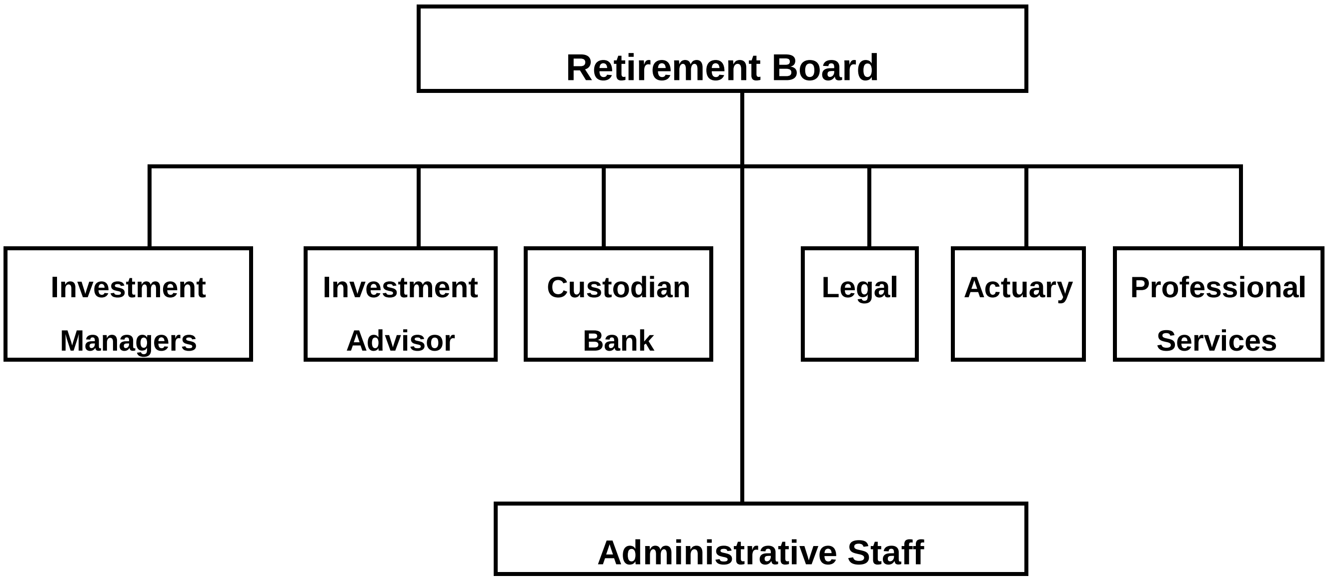
A five-member Retirement Board is the governing body of the Municipal Employees' Annuity and Benefit Fund of Chicago (MEABF). By statute, the Retirement Board shall consist of two ex-officio members, the City Comptroller and the City Treasurer, and three members who are employees and elected by the contributing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

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

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

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

Organizational Chart



Consultants

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

Legal Advisors
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.
Amy Williams, A.S.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 62-64 and 53-55*
Brokers used by Investment Managers - *are listed on pages 75-76*

Organizational Chart As of June 1, 2013

RETIREMENT BOARD

Administrative Staff

Jim Mohler
Executive Director

Deputy Executive Director

Finance and Accounting
Tess Toledo
Comptroller

- Contributions
- General Ledger
- Annuitant Services
- Information Systems
- Administrative Services

Investments
Michael Walsh
Chief Investment Officer

- Performance Analysis
- Cash Management
- Investment Accounting

Benefits
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 day-to-day administration and operation. The administrative staff also implements the investment policies and decisions of the Retirement Board and the benefit provisions of the Plan. The administrative staff of forty-eight (48) employees serves 31,326 actively contributing members; 24,120 retirees and surviving beneficiaries; and 13,465 inactive members.

Municipal Employees' Annuity and

Benefit Fund of Chicago

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Telephone: 312-236-4700 Fax: 312-527-0192
www.meabf.org

Jim Mohler, Executive Director

LETTER OF TRANSMITTAL

June 1, 2013

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) for 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, 2012. The CAFR provides an overview of the Plan and comprehensive information on the financial operations of the Plan for the fiscal year. A full version of the report is posted on our website at meabf.org and printed copies are also readily available.

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, 2012. 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 an additional narrative introduction, and an overview and analysis of the basic financial statements. This transmittal is designed to complement the MD&A and should be read in conjunction with it.

PLAN PROFILE

MEABF is a pension trust fund of the City of Chicago and is administered under Chapter 40, Act 5, Article 8 of the Illinois Compiled Statutes. The Plan is 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, as well as employee and employer contribution levels for financing the Plan. Recent changes to pension law include Public Act 96-0889, enacted in 2010, establishing a second tier of benefits for participants that first become members on or after the effective date of January 1, 2011.

MEABF provides age and service retirement benefits, survivor benefits, post-retirement increases and duty and ordinary disability benefits to eligible members. MEABF also provides, by law, a fixed amount of post-employment healthcare subsidy for its annuitants participating in health care plans sponsored by the City of Chicago or the Board of Education. Employees of MEABF also participate in the Plan. As of December 31, 2012, MEABF served a total of 31,326 active members (27,022 Tier 1 members and 4,304 Tier 2 members); 24,120 retirees and beneficiaries; and 13,465 inactive members. For a more detailed description of the Plan, its membership, eligibility and the benefit provisions, please read Note 6 of the Notes to Financial Statements located on pages 35 through 44.

Plan Administration

MEABF is administered under the direction of a Retirement Board responsible for the oversight, management and administration of the Plan. The Retirement Board is comprised of three elected members and two ex-officio members (the City Treasurer and the City Comptroller). The Ex-Officio Board members are The Honorable Stephanie D. Neely, City Treasurer and Amer Ahmad, City Comptroller. The three members elected to serve on the Board are Martin J. Durkan, Timothy G. Guest and Anthony C. Clancy. The Retirement Board has a fiduciary duty to act solely in the best interests of the Plan members. Trustees are afforded training focused on their roles. The Retirement Board sets investment policies and objectives, hires investment managers and investment consultants and reviews investment performance.

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

To help carry out governance responsibilities, the Retirement Board appoints the Executive Director and retains consultants for investment, actuarial, audit, legal and other provisional services necessary for the transaction of business. The Executive Director oversees all investments, actuarial, audit and administrative functions. The Executive Director and his staff of 48 are responsible for all the day-to-day operational management tasks, serving approximately 69,000 members.

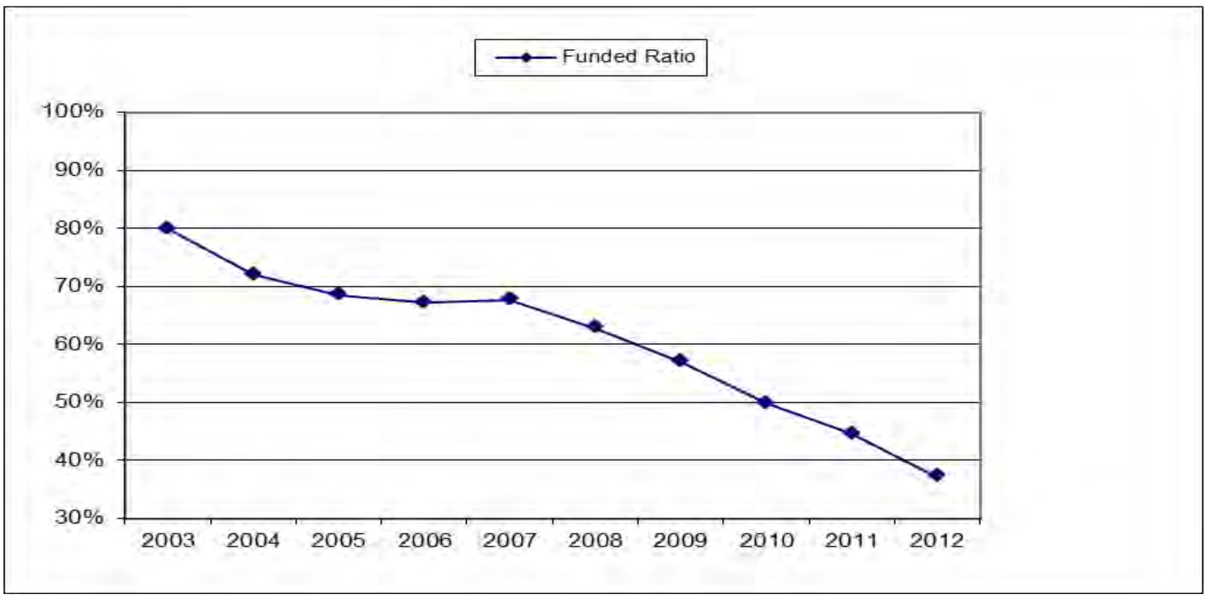
FUNDING

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 Cost 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 comprises 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, determine the adequacy of the contribution rates, and indicate whether the current levels will be sufficient to cover the cost of benefits earned by members. Member contributions, employer contributions and investment earnings fund the Plan. As mandated by state statute, member contributions are set at 8.5% of pensionable salary and the employer contributions are limited to 1.25 times the employee contribution level in the second prior calendar year. Based on the most recent actuarial valuation, a multiple of 6.41 is needed to adequately finance the Plan in 2013 and the statutory contributions have been less than the Annual Required Contribution (ARC) for the past ten years. Liabilities not funded through member contributions are the responsibility of the employer.

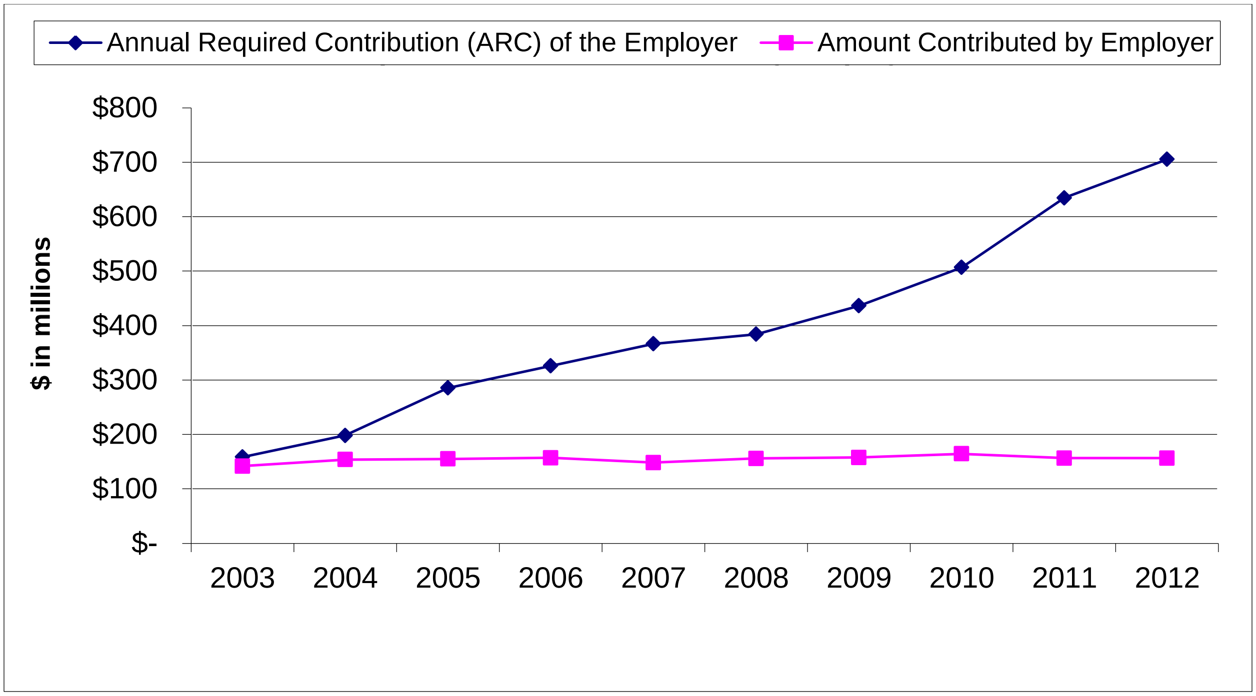
An actuarial valuation of the Plan is conducted annually and an experience review is performed and approved by the Retirement Board every five years. Actuarial assumptions are based on recommendations made by the actuary. The Plan used actuarial methods and procedures that smooth investment returns over a five-year period, which moderates the volatility of annual asset values and the annual actuarial contribution requirements. Beginning with the December 31, 2012 actuarial valuation, the Retirement Board adopted a decrease in the investment return assumption from 8.0% per year to 7.5% per year with the inflationary component of the investment return assumption unchanged at 3.0% per year.

In the actuarial valuation as of December 31, 2012 performed by the Plan's independent actuary, Gabriel Roeder Smith & Company (Gabriel Roeder), actuarial accrued liability, actuarial value of assets and unfunded actuarial accrued liability of MEABF amounted to $13,637.5 million, $5,073.3 million and $8,564.1 million, respectively.

MEABF has a funding ratio of 37.2 percent (actuarial value of assets divided by actuarial liabilities for pension and post-employment healthcare benefits). The following table shows that the funded status of the Plan has been declining and will continue to deteriorate under the current funding policy. It is also projected that Plan assets will be depleted within 10 to 15 years under the current funding policy and assumptions.



During the fiscal year, members contributed $130.3 million. The annual required employer contributions for 2012 was $705.5 million, of which, the employer contributed $158.4 million or 22% of ARC. Presently, employer contributions are limited to 1.25 times applicable member contributions. Statutory contributions are significantly lower than the ARC. The most recent actuarial valuation of the Plan shows that a multiple of 6.41 is needed to adequately finance the Plan in fiscal year 2013 on an actuarially sound basis. The chart below shows that for the past ten years, actual employer contributions have been significantly less than the ARC and are again expected to be less than the ARC in 2013. In order for contributions to be increased, the Illinois State legislature would first need to amend Chapter 40, Act 5, Article 8 of the Illinois Compiled Statutes.



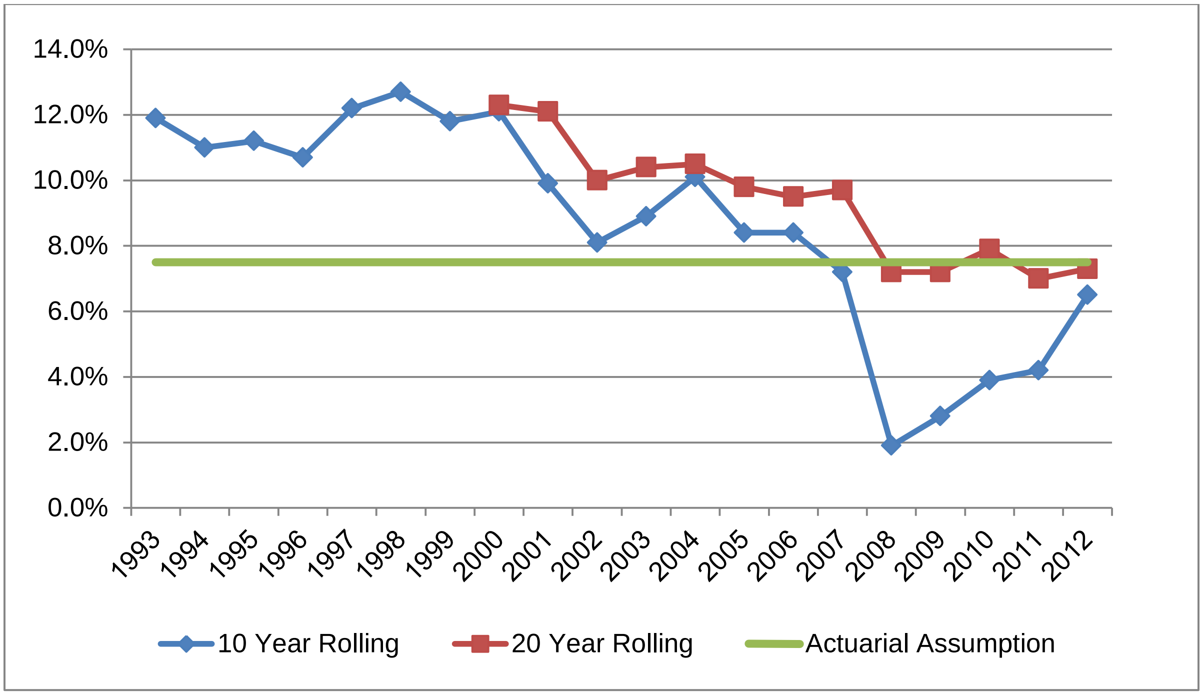
A detailed discussion of funding is provided in the Actuarial Section of this report. Historical information relating to funding progress is presented in the Required Supplementary Information – Schedule of Funding Progress in the Financial Section.

INVESTMENTS

Employer and member contributions, in conjunction with investment earnings, are intended to cover the Plan's long-term benefit responsibilities. MEABF manages a large diversified investment portfolio with a long-term strategy. The Retirement Board hires an investment consulting firm that 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, in accordance with the mutually agreed upon guidelines of their mandate, 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 7.5%. In 2012, the Plan's investment portfolio returned, net-of-fees, 12.9% versus a benchmark return of 11.8%. 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 monthly benefits. During fiscal year 2012, $459.8 million or approximately 9.1% of the investment portfolio was liquidated to assist in meeting benefit payment obligations.

The graph below compares ten- and twenty-year rolling returns to the current actuarially 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 the rolling returns considerably. Even though they have not returned to their pre-crises levels, we are pleased that returns are trending upward in recent years. 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 2012.

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 2012:

- Fixed Income: Approved a $75.0 million rebalancing from the Plan's core fixed income portfolio. $50.0 million was reallocated to an existing high yield mandate and $25.0 million to an existing senior bank loan mandate. Also phased out its opportunistic high-income investment.
- Domestic equity/International equity: The Plan's emerging manager-of-managers program was restructured to include international equity managers.
- Private equity: $65.0 million of the $75.0 million commitment approved by the Board was awarded to two mezzanine debt funds.

Operations:

The following quantifies some of the projects accomplished and program services provided during fiscal year 2012:

Benefit Payment Services

- 286,500 annuity benefit payments to retirees and beneficiaries totaling $681.5 million. Of these, 90% were paid via electronic funds transfer with the remaining 10% by check.
- 24,120 annuitants at year-end 2012, 63% or 15,120 remained Chicago residents; 25% or 5,990 remained Illinois residents outside of Chicago and 12% or 3,010 were out-of-state residents.
- 22,700 annual benefit statements showing new benefit amounts and deductions were mailed to benefit recipients at year-end.
- 1,560 new retirees and 270 spouse/child annuitants added to annuity payroll. The number of new employee retirements in 2012 was 36% higher than the previous year.
- 760 retirees and 330 spouse/child annuitants removed from payroll due to death or termination.
- 10,500 City and Board of Education retirees and beneficiaries enrolled in the employers' health insurance plans received health subsidies totaling $9.5 million.
- 6,780 disability benefit payments to disabled participants totaling $13.6 million
- 27,300 1099Rs issued for tax reporting purposes.
- 21,400 pension verification forms sent to benefit recipients to confirm that the intended recipients were still alive and therefore eligible to receive benefits.

Pension Verification - 2012

Periodically, MEABF sends pension verification forms to pension recipients to confirm whether or not an annuitant is still alive and eligible for benefits. Approximately 99% of the 21,400 pension verification forms sent to pension recipients in 2012 were completed and returned to MEABF. Of the remaining non-responders, benefit payments were held at the Plan while attempting to locate and contact them. Once contact was made and the required paperwork was completed, periodic payments were restored. There were a few identified as having been deceased; some as having taken residence in a nursing home; and a few needing an agent or guardian appointed because of their incapacity to handle their finances.

Member Services

- 55,600 participants with credited contributions; 29,100 printed statements of contributions to active participants.
- 4,480 individualized benefit counseling sessions conducted.
- 2,880 benefit estimates mailed.
- 152,830 phone calls received.
- Quarterly pre-retirement seminars held.

Withdrawals of Contributions

- 1,190 lump sum payments to members not eligible for retirement.
- 1,480 lump sum payments of spousal contributions.
- 110 lump sum payments in lieu of annuity.
- 120 lump sum payments to beneficiaries.

Document management

- 72,420 documents (172,540 pages) indexed and scanned during 2012

Pension Benefit System (PBS)

Software development for the Pension Benefit System (PBS), an integrated data management and benefit administration system, is still in progress. The disability module was completed and placed into service in 2012 while development of the other modules such as refunds, special payments, estimates and annuity calculations modules is still in progress. PBS will streamline the administration of benefit services and help safeguard data.

Fraud Reporting

The Retirement Board adopted the MEABF Fraud Reporting Policy establishing a framework for the reporting of any reasonable suspicion of a false statement or falsified record being submitted to or being permitted by a person associated with MEABF. Administrative staff attended a mandated seminar conducted by MEABF legal counsel regarding this policy on fraud reporting. The training focused on identifying fraud, the reporting process and MEABF's responsibility under the Illinois Public Act 97-0651 to report to the State's Attorney for investigation any reasonable suspicion of any falsified statement or record or any fraudulent claim involving the MEABF.

To instill awareness in the members of the need to provide accurate information when applying for benefits, administrative staff reviewed and modified various documents and other benefit application forms to include language stating MEABF's responsibility of reporting any suspicion of fraud as mandated by Illinois P.A. 97-0651.

Trustee Election

Beginning with the 2012 Trustee Election, a third-party was hired to man the polling place and certify the results of the election.

Lawsuit Regarding Union Leaves under Public Act 097-0651

Early in 2012, annuitants receiving an annuity benefit based on union service were notified of the enactment of Public Act 097-0651 that may affect their annuity benefit. A copy of the law was provided with the notice. Shortly thereafter, a lawsuit was filed in the Circuit Court of Cook County challenging the interpretation of the new law. The Plan is a defendant in this lawsuit. Although the outcome of this lawsuit is not presently determinable, it is the opinion of the Plan's management and legal counsel, that the resolution of this matter will not have a material adverse effect on the Plan's financial statements.

Disability Process

The administrative staff, under the direction of the Retirement Board, initiated an in-depth review of disability benefit claims processing. In 2012, the administrative staff began documenting the step-by-step process review associated with disability claims processing and continue to identify areas needing improvement.

RFP Audit

An audit service search was conducted through an RFP process in 2012. The current external auditor, Bansley and Kiener, L.L.P., was selected to provide professional audit services for the fiscal year ending December 31, 2012 and the subsequent four fiscal years.

Personnel

- MEABF transitioned to a higher deductible health plan and higher co-pay drug plan reducing premium costs to the Plan.
- The Board adopted a modified version of the City of Chicago reformed vacation policy and paid parental leave policy.

City Council Hearings and State of the City Pension Funds

Addressing the long-term funding of the Plan continues to require a heightened level of focus. In October 2012, the City Council Committee on Workforce Development and Audit conducted hearings into the fiscal condition, operations, investment practices, present and future viability of the City of Chicago Pension Funds. The Plan's Executive Director, Chief Investment Officer and actuary, Gabriel Roeder, were asked to testify before the Committee. A presentation regarding the financial status of MEABF was made showing ten years' worth of data for MEABF, which reflects our declining funding ratio and the rapidly increasing shortfall in necessary contributions. The presentation is available on our website at meabf.org.

Legislation Enacted – 2012 Session

Public Act 97-0651
Effective January 5, 2012.
This bill requires any reasonable suspicion of fraud identified by the Plan to be reported to the Illinois State's Attorney for investigation. This bill also changes provisions for members on a Union Leaves of Absence.

Public Act 97-0967
Effective August 16, 2012.
This bill applies if the member retired after the effective date with less than 2 years of service in a participating system under the Reciprocal Act after General Assembly service. This bill requires that if the final average salary in a participating system is used to calculate the annuity, the employer must pay the General Assembly Retirement System for any increased cost of the General Assembly annuity that is attributable to the higher salary under the participating system.

Appendix A contains the provisions of these bills as well as historical legislative changes in Plan provisions.

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, 2011 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 23 years.

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

A Certificate of Achievement is valid for a period of one-year only. We believe this report conforms to the program requirements and we are submitting it to the GFOA to determine its eligibility for award.

ACKNOWLEDGEMENTS

After 38 years with the Chicago Public Schools, most recently as Chief Operating Engineer at Senn High School, John Gibson decided to retire on June 13, 2012. John was a trustee of MEABF for over fifteen years. John was a selfless steward of the Plan over the years and a great mentor to his fellow Board members. We wish to thank John for his leadership and contributions to the Plan, its staff and to its members.

The preparation and compilation of this report would not have been possible without the efficient and dedicated service of the MEABF Administrative Staff under the direction of the Retirement Board. We express our appreciation to all staff members and professional service providers who assisted and contributed to the preparation of this report. This report is available on the web at http://www.meabf.org/publications.php and mailed to those who submit a formal request.

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,

Jim Mohler
Executive Director

Tess Toledo
Comptroller

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 position of Municipal Employees' Annuity & Benefit Fund of Chicago (the Plan), a Component Unit of the City of Chicago, as of December 31, 2012 and 2011, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of Municipal Employees' Annuity & Benefit Fund of Chicago as of December 31, 2012 and 2011, and the changes in its plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions on pages 17 through 23 and pages 48 through 50 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 inquires 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.

Other Information

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 purposes 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Bansley and Kiener, L.L.P.

Certified Public Accountants

April 16, 2013

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, 2012. 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, 2012.

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 Position reports MEABF assets at fair value, liabilities at amounts owed as of the statement date and the resulting net plan position (assets less liabilities = net plan position) at the calendar year end reserved to pay future benefits to retirees and beneficiaries.

The Statements of Changes in Plan Net Position shows the results of financial activities that occurred during the calendar year. It discloses the additions to plan net position, such as contributions and net investment income, and deductions from plan net position such as benefit payments and administrative expenses. The resulting net increase (or decrease) in plan position (additions less deductions = net increase (or decrease) in plan position) reflects the change in plan position reported in the Statements of Plan Net Position.

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. The Schedule of Funding Progress compares the actuarial value of assets to actuarial liabilities, as of actuarial valuation dates over a period of six years, and reports the unfunded actuarial accrued liability (UAAL). The schedule also presents the actuarial funded ratio and the UAAL as a percentage of the covered payroll of all members. The Schedule of Employer Contributions presents the Annual Required Contributions (ARC) as defined by GASB for the employer and compares them to actual employer contributions over a period of six years. The schedule also provides the percentage of the ARC that was actually contributed each year.

Additional supplemental schedules include information regarding administrative expenses, consulting costs and investment management fees incurred by MEABF.

Financial Highlights

- MEABF's total investment portfolio generated a return of 12.6 percent in 2012 on a net-of-fees basis. The net returns in 2011 and 2010 were 0.1 percent and 14.2 percent, respectively. The total portfolio return in 2012 far exceeded the 8.0 percent actuarial investment return assumption.

- Plan net position reported in the Statements of Plan Net Position total $5,182.7 million, an increase of $129.5 million or 2.6 percent from the prior year. The growth in assets would have been significantly higher if approximately $459.8 million in portfolio assets were not liquidated to supplement the disbursement of benefit payments during the year.

- Total additions as reported in the Statements of Changes in Plan Net Position total $877.9 million, an increase of $557.2 million or 173.7 percent from the prior year.

- Total deductions as reported in the Statements of Changes in Plan Net Position total $748.4 million, an increase of $45.3 million or 6.4 percent from the prior year.

- As of the December 31, 2012 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 $8,564.1 million in 2012 from $6,903.9 million in 2011, an increase of $1,660.2 million from the prior year. The increase in the UAAL is mainly attributable to lowering the investment return assumption from 8.0 percent per year to 7.5 percent per year, the recognition of deferred investment losses from 2008 and 2011, and continued contribution shortfalls relative to the actuarially determined contribution requirement.

- 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 37.2 percent in 2012 from 44.6 percent in 2011 and 49.8 percent in 2010. The decrease in 2012 is mainly attributable to the same influences noted above for UAAL.

- The net annual required contribution (ARC) for pension benefits only under Governmental Accounting Standards Board (GASB) Statement #25 for 2012 was $690.8 million, and the employer contributed only 21.5 percent or $148.9 million in 2012. The ARC for post-employment healthcare subsidy for 2012 was $14.6 million, and the employer contributed 65.1 percent or $9.5 million in 2012. State statutes limit employer contributions to 1.25 times employee contributions two years prior.

Financial Analysis

Plan Net Position (in millions)
(As of December 31, 2012, 2011 and 2010)

				Increase (Decrease) From 2011 to 2012	
	FY 2012	**FY 2011**	**FY 2010**	$ Change	% Change
Cash, receivables and other assets	$ 227.1	$ 216.3	$ 234.3	$ 10.8	5.0%
Investments, at fair value	5,057.9	4,938.8	5,292.2	119.1	2.4%
Invested securities lending collateral	540.0	593.3	638.4	(53.3)	-9.0%
Total assets	5,825.0	5,748.4	6,164.9	76.6	1.3%
Liabilities	102.3	101.9	90.9	0.4	0.4%
Securities lending collateral	540.0	593.3	638.4	(53.3)	-9.0%
Total liabilities	642.3	695.2	729.3	(52.9)	-7.6%
Total plan net position	**$ 5,182.7**	**$ 5,053.2**	**$ 5,435.6**	**$129.5**	**2.6%**

Plan net position as of December 31, 2012 showed a total plan net position restricted for pension and healthcare subsidy benefits of $5,182.7 million, compared to $5,053.2 million in 2011. Plan net position increased by $129.5 million or 2.6 percent from 2011 mainly due to the appreciation in the fair value of investments in 2012. The growth in assets would have been significantly higher if approximately $459.8 million in portfolio assets were not liquidated to supplement the disbursement of benefit payments during the year. The value of cash collateral received in exchange for the securities on loan, shown both as assets and liabilities at year-end, decreased to $540.0 million in 2012 from $593.3 million in 2011.

Summary of Investments (in millions)
(As of December 31, 2012, 2011 and 2010)

	FY 2012	FY 2011	FY 2010
Bonds	$ 1,303.8	$ 1,268.8	$ 1,261.0
Domestics equity	1,284.0	1,423.8	1,684.7
International equity	1,083.8	923.5	1,188.5
Hedged equity	525.5	483.1	500.4
Real estate	450.3	405.6	262.9
Private equity	236.8	209.9	166.7
Short-term investments	173.7	224.1	228.0
	$ 5,057.9	**$ 4,938.8**	**$ 5,292.2**

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.

Investment performance had a positive impact on asset values in 2012 both in aggregate and in terms of individual asset classes. In aggregate, the investment portfolio generated a 12.6 percent return in 2012 on a net-of-fees basis. The best-performing individual asset classes were international equities and domestic equities, which returned 18.3 and 16.2 percent, respectively. Even bonds, which were the worst-performing asset class on an absolute return basis, generated a 7.0 percent return in 2012 and had a significantly positive impact on asset values. Having a negative impact on asset values was the need to liquidate investments to pay benefits on a monthly basis. In all, MEABF liquidated $459.8 million of investments to meet the Plan's cash flow needs. All liquidity came from the traditional asset classes—bonds, domestic equity and international equity. Aside from the regular sale of assets to meet the funds cash flow needs, there was no significant portfolio-rebalancing event that impacted individual asset class values in 2012. Also, because of the significant liquidity requirement annually to supplement benefit payments, new investments in real estate and private equity have been limited.

Additions and Deductions to Plan Net Position (in millions)
(Years ended December 31, 2012, 2011 and 2010)

	2012	2011	2010	Increase (Decrease) 2011 to 2012 $ Change
Additions:				
Employer contributions	$ 158.4	$ 156.5	$ 164.3	$ 1.9
Member contributions	130.3	132.6	133.3	(2.3)
Total contributions	288.7	289.1	297.6	(0.4)
Net investment income	586.8	29.7	631.3	557.1
Net securities lending income	2.4	1.9	7.3	0.5
Total additions	**877.9**	**320.7**	**936.2**	**557.2**
Deductions:				
Annuity benefits	681.5	640.1	607.5	41.4
Disability benefits	13.7	14.0	13.1	(0.3)
Healthcare subsidy for City and BE retirees	9.5	9.5	9.5	-
Refunds of contributions	36.9	32.1	29.9	4.8
Administrative and OPEB expense	6.8	7.4	6.8	(0.6)
Total deductions	**748.4**	**703.1**	**666.8**	**45.3**
Net increase (decrease)	129.5	(382.4)	269.4	511.9
Net position at beginning of year	5,053.2	5,435.6	5,166.2	(382.4)
End of year	**$ 5,182.7**	**$ 5,053.2**	**$ 5,435.6**	**$ 129.5**

Additions to Plan Net Position

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 $288.7 million, net investment income of $586.8 million and net securities lending income of $2.4 million.

Employer contributions increased by $1.9 million in 2012 to $158.4 million compared to $156.5 million in 2011. 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 $130.3 million in 2012, compared to $132.6 million in 2011. The decrease is primarily attributable to the reduction in the workforce implemented by the City of Chicago and the Board of Education and decrease in purchases of permissive service credits.

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 $586.8 million in 2012, up from $29.7 million in 2011. The increase is mainly attributable to the investment gains (losses), which were $495.9 million in 2012 compared to ($60.3) million in 2011. The Plan utilizes external investment managers to manage specific investment allocations. Direct investment fees decreased slightly to $25.4 million in 2012 from $25.7 million in 2011.

MEABF can earn additional investment income by allowing a provider to lend its securities to borrowers on its behalf. The borrower provides collateral on borrowed securities, which is invested in order to earn interest. Securities lending activities generated net income of $2.4 million in 2012 compared to net income of $1.9 million in 2011.

Deductions from Plan Net Position

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. Deductions from plan net position totaled $748.4 million in 2012, compared to $703.1 million in 2011.

Annuity benefit payments totaled $681.5 million in 2012 compared to $640.1 million in 2011. The increase of $41.4 million in 2012 from 2011 is primarily due to the compounded annual 3 percent adjustment for eligible annuitants and an increase in the number of retirees and beneficiaries receiving benefits. There were 24,120 participants receiving annuity payments at year-end December 31, 2012 compared to 23,382 at the beginning of the year.

Disability benefits paid in 2012 totaled $13.7 million compared to $14.0 million in 2011. The small decrease in 2012 from 2011 is primarily due to a decrease in the number of participants receiving disability benefits. There were 530 participants on disability at year-end December 31, 2012 compared to 610 at the beginning of the year.

Refunds of contributions totaled $36.9 million in 2012 compared to $32.1 million in 2011. The increase of $4.8 million in 2012 from 2011 is mainly due to the increase in the number of new retirees eligible for refunds of spousal contributions and an increase in the number of participants leaving their employment who had taken lump sum distributions. There were 1,041 new retirees that were granted refund of spousal contributions in 2012 compared to 731 new retirees in 2011. Full refund of contributions totaling $22.1 million were distributed to 1,230 participants in 2012 compared to $19.5 million distributed to 1,107 participants in 2011.

Administrative expenses slightly decreased by $0.6 million in 2012, from $7.4 million in 2011 mainly due to:

- $0.3 million decrease in salaries due to reduction in personnel.
- $0.2 million decrease in the cost of staff employees' group health insurance attributable to higher employee deductibles and co-pay.
- $0.1 million net decrease in other administrative expenses.

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 creating a liability. With $2.4 million in securities lending income earned in 2012, the Plan's liability based on collateral pool losses was further reduced from the 2008 high of $47.4 million to $6.4 million as of December 31, 2012. 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

This past year was an eventful year for markets across the globe. In the U.S., the markets seemed focused on the presidential election and the fiscal and monetary policies that would result based on the outcome. In particular, investors wanted to know what, if any, additional quantitative easing measures the Federal Reserve would take and whether the U.S. would go over the "fiscal cliff". Immediately following President Obama's win, investors, whom it was believed generally favored a Romney presidency, saw the market drop dramatically. The S&P 500 fell by approximately 2.4 percent on the day following the November 6th election and by November 15th was down approximately 5.3 percent since Election Day. Luckily, positive data coming out of the housing sector reversed the short-term trajectory of the market following the election and the equity markets quickly recovered ending the year on solid ground. The S&P 500 was up 16 percent in 2012. Outside the U.S., some progress was made in 2012 in containing the European economic crisis while economic growth in China was better than expected. Despite the economic and political uncertainty that persisted throughout much of 2012, the financial markets generally showed resilience and strength.

MEABF's investment portfolio performed well in 2012. Overall, the Plan's investments generated a net-of-fees return of approximately 12.6 percent for the year. All of the major asset classes generated positive absolute returns as evidenced in the table below and generally performed well relative to their respective benchmarks.

Asset Class	Portfolio Returns (Net of Fees)
Bonds	7.0%
Domestic Equity	16.2%
International Equity	18.3%
Hedged Equity	9.4%
Open-Ended Real Estate	10.7%

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.

The Actuarial Value of Assets, a method used by MEABF's independent actuary in performing their annual valuation of MEABF is smoothed by using a five-year phase-in of each year's unexpected investment gains and losses. This measurement smoothes the effect of volatile market conditions 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, 2012. The latest actuarial valuation shows a $1,660.2 million increase in the Unfunded Accrued Actuarial Liability (UAAL) for the Plan to $8,564.1 million from $6,903.9 million in 2011. The funded ratio of the actuarial assets to the actuarial accrued liability decreased to 37.2 percent from 44.6 percent in 2011.

The decrease in the funded ratio is mainly attributable to lowering the investment return assumption from 8.0 percent per year to 7.5 percent per year, the recognition of deferred investment losses from 2008 and 2011 and continued contribution shortfalls 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 6.41 is needed to adequately finance the Plan in fiscal year 2013. The current statutory funding mechanism 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

The financial markets rallied throughout the beginning of 2013. For the fourth time in as many years, the Plan's portfolio has produced strong first quarter results. The estimated total return was 4.9%, un-annualized.

Request for Information

Additional information is available on our website www.meabf.org or by request. Please direct your request to Mr. Jim Mohler, Executive Director, Municipal Employees' Annuity and Benefit Fund of Chicago, 321 N. Clark Street, Suite 700, Chicago, IL 60654.

Statements Of Plan Net Position

December 31, 2012 and 2011

	2012	2011
Cash and cash equivalents	$ 489,086	$ 527,877
Receivables		
Contributions from the City of Chicago, net of allowance for loss of $17,011,104 in 2012 and $16,424,031 in 2011	162,638,845	159,646,424
Member contributions	8,322,212	8,855,754
Interest and dividends	14,183,655	15,554,266
Receivables for investments sold	40,818,554	30,431,163
Miscellaneous	154,316	305,168
Total receivables	226,117,582	214,792,775
Investments, at fair value		
Fixed income	1,303,764,343	1,268,830,397
Hedged equity	525,532,482	483,125,786
Domestic and international equity	2,367,715,558	2,347,257,595
Real estate	450,296,070	405,561,171
Private equity	236,847,155	209,931,492
Short-term investments	173,704,217	224,090,637
Total investments	5,057,859,825	4,938,797,078
Invested securities lending collateral	539,981,282	593,296,080
Property and equipment, net of accumulated depreciation and amortization of $2,391,804 in 2012 and $1,945,671 in 2011	470,313	1,040,642
Total assets	5,824,918,088	5,748,454,452
LIABILITIES		
Payables for investments purchased	85,647,967	83,748,358
Accounts payable and accrued expenses	6,868,517	6,626,263
Securities lending collateral	539,981,282	593,296,080
Securities lending earnings shortfall	6,436,572	8,875,719
OPEB liability	3,314,091	2,659,163
Total liabilities	642,248,429	695,205,583
Net position restricted for pension benefits	$5,182,669,659	$5,053,248,869

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

Statements Of Changes in Plan Net Position

Years Ended December 31, 2012 and 2011

	2012	2011
Additions		
Contributions from the City of Chicago	$ 158,380,709	$ 156,525,374
Member contributions	130,266,293	132,596,417
Total contributions	288,647,002	289,121,791
Investment income		
Net appreciation (depreciation) in fair value of investments	483,082,569	(68,464,890)
Interest	52,084,718	53,510,728
Dividends	64,197,961	62,235,840
Income from real estate investments	12,767,601	8,168,851
	612,132,849	55,450,529
Less investment expenses	25,373,528	25,721,614
Net income from investing activities	586,759,321	29,728,915
Security lending activities		
Securities lending income	1,382,201	1,778,340
Borrower rebates	1,486,890	423,654
Bank fees	(429,944)	(347,683)
Net income from securities lending activities	2,439,147	1,854,311
Total additions	877,845,470	320,705,017
Deductions		
Benefits		
Annuity payments	681,508,540	640,090,207
Disability benefits	13,643,816	13,963,941
Post-employment healthcare subsidies	9,522,054	9,516,053
Total benefits	704,674,410	663,570,201
Refund of member contributions	36,908,784	32,104,031
Administrative and OPEB expenses	6,841,486	7,375,338
Total deductions	748,424,680	703,049,570
Net increase (decrease)	129,420,790	(382,344,553)
Net position restricted for pension benefits		
Beginning of year	5,053,248,869	5,435,593,422
End of year	$5,182,669,659	$5,053,248,869

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

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

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

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

(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.

Notes to Financial Statements (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and on deposit with the Treasurer of the City of Chicago as well as investments held by the City Treasurer on behalf of the Plan with original maturities of 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, 2013, the date the financial statements were available to be issued.

Recently Issued Accounting Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was established to provide guidance on the reporting of deferred outflows of resources, and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of GASB 63 are effective for financial statement periods beginning after December 15, 2011.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was established to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. The provisions of GASB 65 are effective for financial statement periods beginning after December 15, 2012. GASB Statement No. 67, *Financial Reporting for Pension Plans* was established to improve financial reporting by state and local governmental pension plans through enhanced note disclosures and schedules of required supplementary information. The provisions of GASB 67 are effective for fiscal years beginning after June 15, 2013. GASB No. 68, *Accounting and Financial Reporting for Pensions*, was established to improve the standards for measurement, recognition and display of pension expense, liabilities and assets of employers of the plan. The provisions of GASB 68 are effective for fiscal years beginning after June 15, 2014.

MEABF's management is currently evaluating the effect of all GASB statements referenced above on the Plan's financial statements.

Notes to Financial Statements (continued)

Note 2 – Deposits and Investments

Deposits that are held locally in the Plan's name are held by the Treasurer of the City of Chicago, ex-officio Treasurer of the Plan. At December 31, 2012 and 2011, the Plan's book balances of cash are $489,086 and $527,877, respectively. The actual bank balances at December 31, 2012 and 2011 are $488,686 and $527,477, 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, 2012 and 2011, $9,121,053 and $7,847,152 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, 2012 or 2011.

	2012	2011
Investments At Fair Value As Determined		
By Quoted Price		
Fixed income	$1,303,764,343	$1,268,830,397
Domestic equity	1,283,930,189	1,423,798,841
International equity	1,083,785,369	923,458,754
	3,671,479,901	3,616,087,992
Investments At Fair Value As Determined		
By Plan Administrator		
Hedged equity	525,532,482	483,125,786
Real estate	450,296,070	405,561,171
Private equity	236,847,155	209,931,492
Short-term investments	173,704,217	224,090,637
	1,386,379,924	1,322,709,086
Total investments	$5,057,859,825	$4,938,797,078

Notes to Financial Statements (continued)

Note 2 – Deposits and Investments (continued)

Foreign Currency Risk

The Plan's exposure to foreign currency risk at December 31, 2012 was as follows:

Currency	Market Value	Percentage
Australian Dollar	$ 65,212,297	6.18%
Brazilian Real	21,258,228	2.02%
Canadian Dollar	64,538,479	6.12%
Swiss Franc	48,431,908	4.59%
Chilean Peso	4,195,991	0.40%
Columbian Peso	3,959,600	0.38%
Czech Koruna	1,295,174	0.12%
Danish Krone	15,937,413	1.51%
Egyptian Pound	223,135	0.02%
Euro	210,435,789	19.95%
British Pound Sterling	173,674,311	16.47%
Hong Kong Dollar	81,467,278	7.73%
Hungarian Forint	168,309	0.02%
Indonesian Rupiah	9,544,360	.91%
New Israeli Shekel	5,853,675	0.56%
Indian Rupee	21,223,009	2.01%
Japanese Yen	174,231,094	16.52%
South Korean Won	21,957,829	2.08%
Mexican Peso	11,053,876	1.05%
Malaysian Ringgit	5,698,304	0.54%
Moroccan Dirham	142,680	0.01%
New Zealand Dollar	2,014,773	0.19%
Nigeria Naira	1,040,511	0.10%
Norwegian Krone	10,542,148	1.00%
Peruvian Neuvo Sol	879	0.00%
Philippine Peso	1,270,599	0.12%
Polish Zloty	1,459,021	0.14%
Qatari Rial	2,258,811	0.21%
Swedish Krona	25,224,185	2.39%
Singapore Dollar	15,757,343	1.49%
Thai Baht	11,171,099	1.06%
Turkish Lira	7,291,369	0.69%
New Taiwan Dollar	16,400,687	1.56%
South African Rand	18,593,739	2.04%
United Arab Emirates Dirham	1,038,519	0.10%
Total	$1,054,566,422	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.

Notes to Financial Statements (continued)

Note 2 – Deposits and Investments (continued)

Interest Rate Risk

As of December 31, 2012, 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	$ 3,566,664	$ -	$ 2,434,480	$ -	$ 1,132,184	$ -
Bank loans	127,511,478	1,253,125	82,136,805	44,121,548	-	-
Collateralized bonds	156,907	-	-	-	156,907	-
Commercial mortgage backed	25,710,328	-	-	122,063	25,588,265	-
Corporate bonds	505,759,342	20,472,898	238,700,258	196,724,239	49,861,947	-
Corporate convertible bonds	899,418	808,000	91,418	-	-	-
Government agencies	86,489,548	2,008,606	63,798,840	19,669,867	1,012,235	-
Government bonds	283,371,766	34,046,940	162,817,558	64,599,422	21,907,846	-
Government mortgage backed	231,588,040	1,155	1,622,233	7,794,049	177,297,361	44,873,242
Index linked government bonds	7,721,501	-	-	7,721,501	-	-
Municipal / provincial bonds	22,916,439	-	12,210,188	8,738,772	1,967,479	-
Non-government backed CMO's	8,072,912	-	-	-	8,072,912	-
Short term investment funds	147,628,031	-	-	-	-	147,628,031
Total	$1,451,392,374	$58,590,724	$563,811,780	$349,491,461	$286,997,136	$192,501,273

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

Notes to Financial Statements (Continued)

Note 2- Deposits and Investments (Continued)

The following table reflects credits ratings of fixed income securities held by the Plan as of December 31, 2012:
(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*	*Index Linked Gov't Bonds*	*Municipal/ Provincial Bonds*	*Non-Gov't Backed CMO's*
US Govt	$ 521,773	$ -	$ -	$ -	$ -	$ -	$ -	$ 190	$283,372	$230,489	$7,722	$ -	$ -
AAA	22,783	155	-	-	3,333	5,782	-	599	-	-	-	12,901	13
AA	115,211	91	-	-	3,766	17,642	-	85,701	-	62	-	7,949	-
A	188,291	1	-	-	8,242	177,982	-	-	-	-	-	2,066	-
BBB	154,658	503	6,901	-	7,396	139,789	-	-	-	-	-	-	69
BB	95,991	58	26,152	-	1,305	67,603	-	-	-	-	-	-	873
B	130,998	613	47,603	-	535	82,170	-	-	-	-	-	-	77
CCC	12,714	213	3,409	157	54	8,495	-	-	-	-	-	-	386
CC	478	-	-	-	-	-	-	-	-	-	-	-	478
C	521	-	-	-	-	521	-	-	-	-	-	-	-
D	2,759	-	-	-	-	-	-	-	-	-	-	-	2,759
NR	57,587	1,933	43,446	-	1,079	5,775	899	-	-	1,037	-	-	3,418
Total	$1,303,764	$ 3,567	$127,511	$ 157	$ 25,710	$505,759	$ 899	$ 86,490	$283,372	$231,588	$7,722	$ 22,916	$8,073

US Govt = Guaranteed by US Government
NR = Not Rated

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.

Notes to Financial Statements (continued)

Note 3 – Derivatives

The derivative instruments were recorded at fair value as of December 31, 2012. 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 Position. The Plan experienced a realized loss of $176,874 on foreign currency forward contracts in 2012. As of December 31, 2012, 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	$ 110,164	$ -	$ (1,836)	$ 481
Canadian Dollar	247,007	-	(2,993)	(3,261)
Swiss Franc	-	(72,813)	(813)	(333)
Euro	423,948	(3,671,035)	7,977	12,340
British Pound Sterling	341,503	(3,648,732)	(37,279)	(37,488)
Hong Kong Dollar	338,680	(1,000,310)	(89)	(431)
Japanese Yen	350,175	(302,744)	(8,072)	(15,240)
Singapore Dollar	-	(31,386)	(50)	(50)
Swedish Krona	-	(1,057,129)	(1,938)	(1,938)
Thai Baht	-	(100,252)	(191)	(335)
US Dollar	9,848,368	(1,820,726)	-	-
South African Rand	-	-	-	9,055
	$11,659,845	$(11,705,127)	$(45,284)	$(37,200)

Notes to Financial Statements (continued)

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 Position. The realized gain on equity futures contracts in 2012 was $1,252,727.

As of December 31, 2012, open futures contracts had the following values:

	Notional Value
Total Futures	$8,155,408

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 Position. The gain or loss from rights and warrants is included in the investment income in the Statement of Changes in Plan Net Position. As of December 31, 2012, MEABF's investments in rights and warrants were as follows:

	Notional Value	Fair Value	Change in Fair Value
Total Rights and Warrants	372,356 shares	$65,368	$48,207

Notes to Financial Statements (continued)

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, 2012 the average term of the loans was 80 days (117 days in 2011). 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. U.S. security loan agreements are initially collateralized at 102% of the market value of loaned securities. International securities are initially collateralized at 105% of the market value of loaned securities. Cash collateral is invested in the short-term investment pool, which at December 31, 2012 had a weighted average maturity of 34 days (38 days in 2011). As of December 31, 2012 and 2011, the Plan had loaned to borrowers securities with a fair value of $535,747,729 and $581,460,653, respectively. As of December 31, 2012 and 2011, the Plan received from borrower's cash collateral of $539,981,282 and $593,296,080 and non-cash collateral of $6,961,213 and $4,102,016, respectively. Securities lending net income for the years ended December 31, 2012 and 2011 was $2,439,147 and $1,854,311, respectively.

Due to market events in 2008 and the beginning of 2009, one of the collateral pools utilized to invest collateral 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 $6,436,572 and $8,875,719 as of December 31, 2012 and 2011, 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:

	2012	2011
Securities loaned – cash collateral		
Fixed income		
Domestic corporate fixed income	$ 73,504,655	$ 35,090,640
US Government agencies	36,226,223	29,708,847
US Government bonds	61,122,701	200,320,509
Equity		
Domestic equities	280,497,112	235,918,897
International equities	77,649,882	76,480,467
Total securities loaned – cash collateral	529,000,573	577,519,360
Securities loaned – non-cash collateral		
Fixed income		
Domestic corporate fixed income	-	65,929
US Government bonds	3,955,991	-
Equity		
Domestic equities	310,740	1,181,458
International equities	2,480,425	2,693,906
Total securities loaned – non-cash collateral	6,747,156	3,941,293
Total	$535,747,729	$581,460,653

Notes to Financial Statements (continued)

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, 2012 and 2011 is as follows:

	2012	2011
Pension benefit system	$1,865,193	$1,896,140
Furniture	25,768	43,883
Equipment	15,842	15,842
Computers	951,004	1,026,138
Leasehold improvements	4,310	4,310
	2,862,117	2,986,313
Less accumulated depreciation and amortization	2,391,804	1,945,671
Net property and equipment	$ 470,313	$1,040,642

Depreciation and amortization expense was $531,197 and $587,408 for 2012 and 2011, 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.

Notes to Financial Statements (continued)

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, 2012 and 2011 were $1,590,793,702 and $1,605,993,339, respectively.

Plan membership at December 31 is as follows:

	2012	2011
Active employees (includes members currently receiving disability benefits):		
Vested	17,037	17,938
Non-vested	14,289	14,038
	31,326	31,976
Retirees and beneficiaries currently receiving benefits	24,120*	23,382*
Terminated employees entitled to benefits but not yet receiving them	1,737	1,679
Terminated employees entitled to a refund of contributions	11,728	11,083
Total	68,911	68,120

*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.

Notes to Financial Statements (continued)

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 beginning 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.

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:

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

Notes to Financial Statements (continued)

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.

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.

Notes to Financial Statements (continued)

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

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 pensionable 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 beginning 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 6.41 is needed to adequately finance MEABF. The statutory employer contributions have been less than the ARC for the past ten years. Contribution rates may be increased only by an amendment by the State legislature to the statues.

Notes to Financial Statements (continued)

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, 2012, 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)
$5,073,320,275	$13,475,376,963	$8,402,056,688	37.7%	$1,590,793,702	528.2%

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, 2012
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	7.5 percent per year, December 31, 2012 8.0 percent per year, December 31, 2011
Projected Base Salary Increases	4.5 - 8.25 percent per year, tiered based on years of service
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.

Notes to Financial Statements (continued)

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

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

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

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, 2012, there are 9,435 (9,294 as of December 31, 2011) City annuitants enrolled in the City's health care plan and 1,430 (1,516 as of December 31, 2011) 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 2012 and 2011, the Pension Plan received contributions of $9,522,054 and $9,516,053 and remitted contributions of $9,522,054 and $9,516,053 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, 2012, 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	$162,083,083	$162,083,083	.0%	$1,590,793,702	10.2%

Notes to Financial Statements (continued)

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, 2012
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 -8.25 percent per year, tiered based on years of service
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 2012 and 2011, MEABF, as employer contributed $173,544 and $174,439 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.

Notes to Financial Statements (continued)

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:

	2012	2011
Annual OPEB Cost		
Annual Required Contribution (ARC)	$ 864,676	$ 816,278
Interest on Net OPEB Obligation	118,503	90,900
Adjustment to ARC	(154,707)	(118,671)
Annual OPEB Cost	828,472	788,507
Employer Contributions	173,544	174,439
Increase in NOO	654,928	614,068
Net OPEB Obligations (NOO)		
Net OPEB Obligation at Beginning of Year	2,659,163	2,045,095
Increase in NOO	654,928	614,068
Net OPEB Obligation at End of Year	$3,314,091	$2,659,163

The Net OPEB Obligation is the amount recorded in the MEABF's Statement of Plan net position as of year-end as the net liability for MEABF Staff Retiree Healthcare OPEB Liability. The employer contributions for 2012 consist of $120,194 explicit subsidy and $53,350 implicit subsidy and treated as administrative expense of the defined benefit plan. In 2012 and 2011, MEABF contributed 20.1% and 21.4%, respectively, of the annual required OPEB contribution to the plan. The Annual *OPEB Cost* recorded in the Statement of Changes in Plan net position for 2012 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, per the latest actuarial valuation available.

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	0.0%	$2,649,696	268.0%

Notes to Financial Statements (continued)

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. The latest actuarial valuation included projections through the year ended December 31, 2012. 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.

Notes to Financial Statements (continued)

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:

	2012	2011
City Contribution Reserves	$ 1,643,967,628	$ 1,644,727,736
Salary Deduction Reserves	1,643,584,837	1,644,356,798
Prior Services Reserves	8,353,610,422	7,257,722,661
Annuity Payment Reserves	1,995,365,493	1,908,256,793
Supplementary Payment Reserve	-	235,189
Optional Reserve Account	931,666	872,845
	13,637,460,046	12,456,172,022
Unreserved Net Assets	(8,454,790,387)	(7,402,923,153)
Net assets held in trust for pension benefits	$ 5,182,669,659	$ 5,053,248,869

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.

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.

Notes to Financial Statements (continued)

Note 8 – Operating Leases

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 $46,393. 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, 2012:

Year Ending December 31,	Amount
2013	$ 428,314
2014	454,084
2015	467,356
2016	483,667
2017	541,334
2018-2022	3,509,950
2023-2026	2,472,752
Total	$8,357,457

Total rent expense was $494,632 and $476,620 for 2012 and 2011, 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.

Notes to Financial Statements (continued)

Note 10 – Commitments and Contingencies

Investment Commitments

As of December 31, 2012 approximately $206.4 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 five 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)
12/31/12	$5,073,320,275	$13,475,376,963	$8,402,056,688	37.7%	$1,590,793,702	528.2%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (PENSION)

		Employer Contributions	
Year Ended December 31,	Annual Required Contribution	Amount Contributed	Percentage Contributed
2012	$690,822,553	$148,858,655	21.5%
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%

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, 2012
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	7.5% per year, December 31, 2012 8.0% per year, December 31, 2011
Projected salary increases	4.5 - 8.25% per year, tiered based on years of service
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)
12/31/12	$ -	$162,083,083	$162,083,083	00.0%	$1,590,793,702	10.2%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (POST - EMPLOYMENT HEALTHCARE)

		Employer Contributions	
Year Ended December 31,	Annual Required Contribution	Amount Contributed	Percentage Contributed
2012	$14,631,863	$9,522,054	65.1%
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%

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, 2012
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 - 8.25% per year, tiered based on years of service
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. The actuarial valuation as of December 31, 2009 included projections through the year ended 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
2012	$864,676[1]	$173,544	20.1%
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%

[1] Projected for plan years ended December 31, 2012, 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, 2012 and 2011

	2012	2011
Personnel		
Administrative salaries	$ 2,758,058	$ 3,128,413
Payroll taxes	35,156	40,001
Employee benefits	1,026,201	1,166,125
OPEB expense	654,928	614,068
	4,474,343	4,948,607
Professional Services		
Actuarial valuation	70,074	77,413
Staff actuary	70,810	69,866
Actuarial consulting	7,996	31,057
Legal services	167,093	151,185
Litigation expense	-	155,000
Medical	51,751	50,366
Audit	37,500	33,000
Legislative liaison services	16,700	16,700
Payroll services	369,993	358,772
IT consulting	27,878	13,875
Healthcare benefit consulting	9,693	8,701
Tax consulting	2,699	1,933
Other consulting	8,650	-
	840,837	967,868
Communication		
Printing & publications	39,053	27,435
Postage	111,667	48,464
Telephone and communications	40,449	60,067
	191,169	135,966
Occupancy and utilities		
Office rent	494,632	476,620
Utilities	12,425	18,815
Office maintenance	1,694	4,526
	508,751	499,961
Other operating expense		
Fiduciary and insurance	149,900	110,926
Office supplies and equipment	48,100	43,833
Depreciation	531,197	587,408
Equipment rental and maintenance	10,569	11,868
Training and travel	11,659	10,391
Contractual services	19,623	21,790
Dues and subscriptions	13,499	13,547
Miscellaneous	41,839	23,173
	826,386	822,936
Total Administrative and OPEB expense	$ 6,841,486	$ 7,375,338

Schedule of Professional and Consulting Costs

Years Ended December 31, 2012 and 2011

	2012	2011
Legal Advisors	$ 167,093	$ 306,185
Medical Advisors	51,751	50,366
Consulting Actuary	148,880	178,336
Other Consulting	65,620	41,209
Auditor	37,500	33,000
Payroll Services	369,993	358,772
Total	$ 840,837	$ 967,868

Schedule Of Investment Management Compensation

Years Ended December 31, 2012 and 2011

	2012	2011
Equity Managers		
Ariel Capital	$ 475,385	$ 479,447
Castle Ark	419,140	508,856
Earnest Partners	525,837	474,628
FIS Group	977,414	873,575
Geneva Capital Management	491,522	501,861
Great Lakes Advisors	349,333	373,039
Herndon Capital Management	424,524	68,124
Holland Capital	447,140	505,416
Keeley Asset Mgmt.	707,837	692,787
Rhumbline Advisors Large Cap Core	46,665	57,538
Rhumbline Advisors Mid Cap Growth	-	3,774
Rhumbline Advisors Large-Cap Value	-	8,922
Wellington Capital	-	205,923
William Blair Small/Mid Cap	583,508	602,555
Total Equity	5,448,305	5,356,445
Bond Managers		
LM Capital	453,618	487,982
MacKay Shields	698,635	492,619
Neuberger Berman	181,168	184,005
RBC Global Asset Management	118,138	192,521
Segall Bryant & Hamill	271,923	293,528
Symphony Asset Management	470,254	363,963
UBS AM Bonds	112,283	104,825
Total Bond	2,306,019	2,119,443
International Equity Managers		
LSV Asset Management	834,161	829,495
MacKay Shields	-	437,355
Cornerstone Capital Management (formerly Madison Square Investors)	517,975	74,806
NTGI All Country World Ex-US Index	198,807	218,574
NTGI International Small Cap Index	200,373	227,336
Walter Scott	787,732	824,234
William Blair	1,166,307	1,119,799
Total International Equity	$ 3,705,355	$ 3,731,599

Schedule Of Investment Management Compensation (continued)

Years Ended December 31, 2012 and 2011

	2012	2011
Hedge Fund of Funds		
K2 Advisors	$ 2,100,865	$ 2,106,725
The Rock Creek Group	1,754,651	1,732,636
Total Hedge Fund of Funds	3,855,516	3,839,361
Real Estate Managers		
AFL-CIO Building Trust	653,692	541,398
American Realty	511,162	305,691
Capri Capital	601,985	613,313
DV Urban	173,823	193,554
J P Morgan	762,789	684,443
John Buck Company	91,321	143,538
Mesirow Real Estate	500,000	612,500
Prudential Asset Mgmt.	885,083	683,151
Shamrock-Hostmark Hotel Fund	71,072	71,072
Tishman Speyer	165,906	193,759
UBS Realty Advisors	83,870	73,241
Walton Street Partners	245,362	310,693
Total Real Estate	4,746,065	4,426,353
Private Equity Managers		
Adams Street Partners	529,000	529,000
Carpenter Bancorp Fund	200,000	200,000
Citigroup International PE Fund	225,000	225,000
First Analysis	143,959	317,077
Hispania Partners	221,062	243,635
Hopewell Ventures	156,600	156,524
Invesco	2,225	2,552
Levine Leichtman	410,942	487,553
MK Capital	100,000	100,000
Mesirow Financial	789,500	1,544,339
Midwest Mezzanine Fund	302,258	432,654
Morgan Stanley Secondary	200,000	200,000
Muller & Monroe	214,875	241,065
Nogales Investors	45,614	38,462
GoldPoint Partners (formerly New York Life Investment Management)	375,000	640,582
Prudential Capital Partners	35,836	-
Stepstone (formerly Parish Capital)	100,000	72,981
RCP Advisors	200,000	200,000
Total Private Equity	$ 4,251,871	$ 5,631,424

Schedule Of Investment Management Compensation (continued)

Years Ended December 31, 2012 and 2011

	2012	2011
Total Investment Management Fees	$ 24,313,131	$ 25,104,625
Other Investment Expenses		
Investment Consultant	$ 300,624	$ 290,000
Master Custodian	179,344	169,681
Negotiation fee: Custody Reduction	148,212	148,212
Investment Legal Services	432,217	596
Miscellaneous Investment Expense	-	8,500
Total Other Investment Expenses	1,060,397	616,989
Total Investment Expenses	$ 25,373,528	$ 25,721,614

Investment

INVESTMENT REPORT - 2012

May 31, 2013

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 2012.

This past year was an eventful year for financial markets across the globe. In the U.S., the markets seemed focused on the presidential election and the fiscal and monetary policies that would result based on the outcome. In particular, investors wanted to know what, if any, additional quantitative easing measures the Federal Reserve would take and whether the U.S. would go over the "fiscal cliff". Immediately following President Obama's win, investors, whom it was believed generally favored a Romney presidency, saw the market drop dramatically. The S&P 500 fell by approximately 2.4% on the day following the November 6th election and by November 15th was down approximately 5.3% since Election Day. Luckily, positive data coming out of the housing sector reversed the short-term trajectory of the market following the election and the equity markets quickly recovered ending the year on a solid ground. The S&P 500 was up 16.0% in 2012. Outside the U.S., some progress was made in 2012 in containing the European economic crisis while economic growth in China was better than expected. The MSCI EAFE index, which measures international equity performance, generated a 17.3% return for the year. Despite the economic and political uncertainty that persisted throughout much of 2012, the financial markets generally showed resilience and strength. The following table provides a five-year summary of the calendar year returns of certain major equity market indices:

EQUITY MARKETS					
	2012	**2011**	**2010**	**2009**	**2008**
S&P 500	16.0%	2.1%	15.1%	26.5%	-37.0%
Russell 2000	16.3%	-4.2%	26.9%	27.2%	-33.8%
MSCI EAFE	17.3%	-12.1%	7.8%	31.8%	-43.4%
MSCI Emerging	18.2%	-18.4%	18.9%	78.5%	-53.3%

In total, the Plan's investment portfolio generated a 12.9% net-of-fees return in 2012. The Plan's assets were valued at $5.2 billion at year-end, an increase of $129.5 million, or 2.6%, from the prior year. The difference between the portfolio rate of return and the rate of growth in total plan assets can largely be attributed to the approximately $459.8 million that had to be liquidated from the investment portfolio throughout the year to honor monthly benefit payments. At year-end 2012, assets were allocated as follows: 25% to domestic equity, 21% to international equity, 10% to hedged equity, 26% to fixed income, 9% to real estate, 5% to private equity, and the remainder to short-term instruments. The Plan's top ten domestic equity holdings made up 8.9% of the total domestic equity allocation and the Industrial sector was the Plan's main overweight. The top ten international equity holdings made up 6.7% of the total exposure to international equities. The Plan incurred $25.4 million in investment-related fees during 2012, down 1.4% from 2011.

Investment Section

The financial markets continue to rally throughout the first part of 2013. Despite concerns that the March government budget cuts in the U.S. would slow economic growth, the impact on the financial markets has not yet been felt. In fact, the major stock market indices continue to break new ground in 2013 and, as of the date of this letter, are at or near the recent all-time highs. MEABF's portfolio performed well given the positive economic undercurrents. MEABF's portfolio generated an estimated total return of 5.3% in the first quarter of 2013 and as of May 31, 2013 is up an estimated 6.4%, net of fees.

From an investment standpoint, the Plan's primary objective is to maximize returns while taking on a prudent amount of risk. However, the Plan does have secondary goals. One such goal is to promote the utilization of woman-, minority-, and disabled- and veteran-owned financial firms. The Retirement Board fully supports this goal as it relates to utilization of investment managers and brokerage service providers. By Illinois law, diversity targets must be established relating to such services. In 2012, the Plan met or exceeded all such goals.

The Plan is structured as a defined benefit pension plan. Its sole purpose is to pay earned benefits to its members. To successfully accomplish this objective in perpetuity, this type of retirement plan should receive actuarially determined contributions annually and prudently invest them to meet current and future earned benefit obligations. Unfortunately, contributions to this Plan are not actuarially determined. Total contributions to the Plan of $288.6 million in 2012 represented approximately 38% of the $748.4 million in total operating outflows, the majority of which went to pay benefits. Without sufficient contributions, annual funding deficits will accumulate and overwhelm the Plan over time.

This report includes the certification letter from the Plan's custodian for 2012; 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. Investment information contained in the Financial Section of this report is derived from MEABF's Financial Report published on April 16, 2013. Due to a time lag in reporting of certain investment-related data from underlying investment managers, additional information is available as of the date of this report. As a result, the information contained within the Investment Section of this report is more current and may differ from that which is contained in the Financial Section. All portfolio rates of return are presented using a time-weighted rate of return methodology based on market values.

We hope you find this report informative.

Respectfully submitted,

Michael Walsh

Michael Walsh
Chief Investment Officer

The Northern Trust Company
50 South La Salle Street
Chicago, Illinois 60675
(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, 2012 through December 31, 2012.

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
Senior Account Manager,
2nd 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 upon 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 continued to work 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 the 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 as well as alternative investments 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 actuarially assumed rate of return of 7.5%. Returns of asset classes within the portfolio are evaluated against comparable market indices, including the S&P 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 pre-determined targets.

Investment Managers

As of December 31, 2012

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

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

American Realty Advisors
Glendale, California
Real Estate Core Funds

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

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

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

Cornerstone Capital Management
New York, New York
International Equity Growth

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
Global Equity

Geneva Capital Management
Milwaukee, Wisconsin
Domestic Equity Mid Cap Growth

GoldPoint Partners
New York, New York
Private Equity Mezzanine Funds

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

Investment Managers (Continued)

Hopewell Ventures
Chicago, Illinois
Private Equity Direct Partnership

Invesco
New York, New York
Private Equity Fund of Funds

John Buck Company
Chicago, Illinois
Real Estate Partnerships

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

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 Partnerships

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

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

Newport Capital Partners
Skokie, Illinois
Real Estate Partnership

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

Prudential Capital Partners
Chicago, Illinois
Private Equity Mezzanine Fund

Prudential Real Estate Investors
Parsippany, New Jersey
Real Estate Funds

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

StepStone Group
San Diego, California
Private Equity Fund of Funds

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

UBS Realty Investors
Hartford, Connecticut
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, 2012

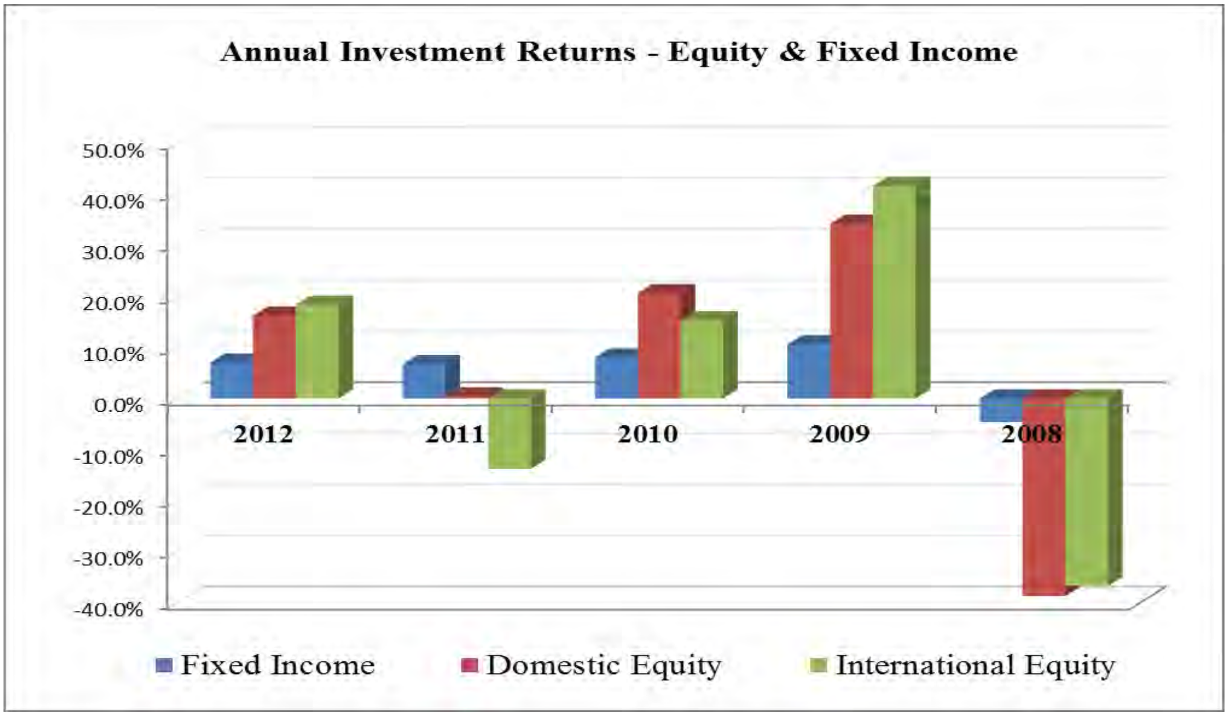
	2012	2011	2010	2009	2008	Annualized 3 Yrs	5 Yrs	10 Yrs
Total Plan								
The Plan - Gross	13.2%	0.3%	14.0%	19.7%	-28.4%	9.1%	2.2%	6.7%
The Plan - Net	12.9%	0.1%	14.2%	19.6%	-28.6%	8.9%	1.9%	6.5%
Median Fund > $1 Billion	11.8%	0.6%	12.5%	19.4%	-25.8%	8.0%	3.1%	7.1%
Fixed Income								
The Plan	7.0%	6.7%	8.0%	10.6%	-4.6%	7.3%	5.4%	4.8%
Barclays Aggregate Bond	4.2%	7.8%	6.5%	5.9%	5.2%	6.2%	5.9%	5.2%
Barclays Government/Credit	3.9%	5.8%	5.9%	5.2%	5.7%	5.2%	5.2%	4.6%
Domestic Equity								
The Plan	16.2%	0.4%	20.5%	34.2%	-38.7%	12.0%	2.9%	7.8%
S&P 500	16.0%	2.1%	15.1%	26.5%	-37.0%	10.9%	1.7%	7.1%
Russell 2000	16.3%	-4.2%	26.9%	27.2%	-33.8%	12.2%	3.6%	9.7%
International Equity								
The Plan	18.3%	-13.8%	15.3%	41.6%	-36.6%	5.5%	1.1%	11.5%
MSCI EAFE ex U.S.	16.8%	-13.7%	11.2%	41.4%	-45.5%	3.9%	-2.9%	9.7%
Real Estate								
The Plan	10.2%	15.3%	16.9%	-31.8%	-16.2%	14.1%	-3.2%	4.9%
NCREIF Open End	10.5%	14.3%	13.1%	-16.9%	-6.5%	12.6%	2.1%	8.4%
Private Equity								
The Plan	14.9%	11.4%	26.6%	3.9%	-13.8%	17.5%	7.7%	10.9%
Venture Economic PE	13.3%	9.4%	18.4%	14.9%	-21.0%	13.7%	5.8%	12.7%
Hedge Fund								
The Plan	9.3%	-4.7%	5.3%	N/A	N/A	3.1%	N/A	N/A
HFRX Hedged Equity	4.8%	-19.1%	8.9%	13.1%	-25.5%	-2.6%	-4.9%	0.7%

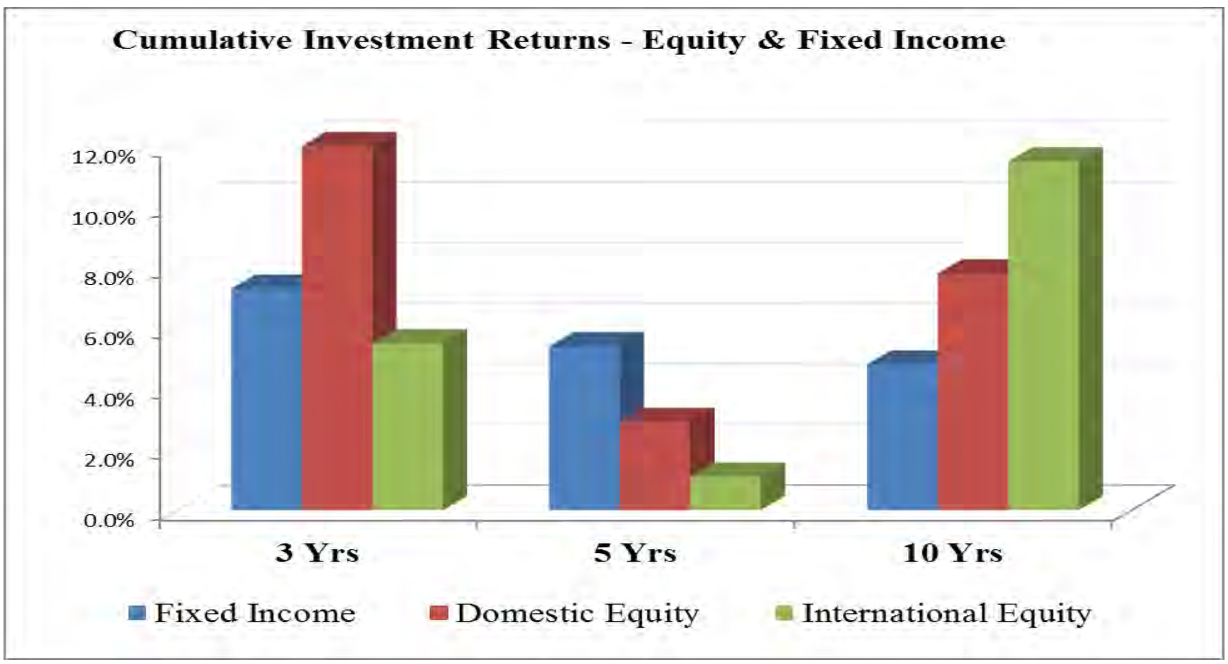
Investment returns were supplied by Marquette Associates and calculated using the time-weighted rate of return method. Returns are presented net-of-fees unless otherwise noted.

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.

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.

Investments (Fair and Book values)

As of December 31, 2012 and December 31, 2011

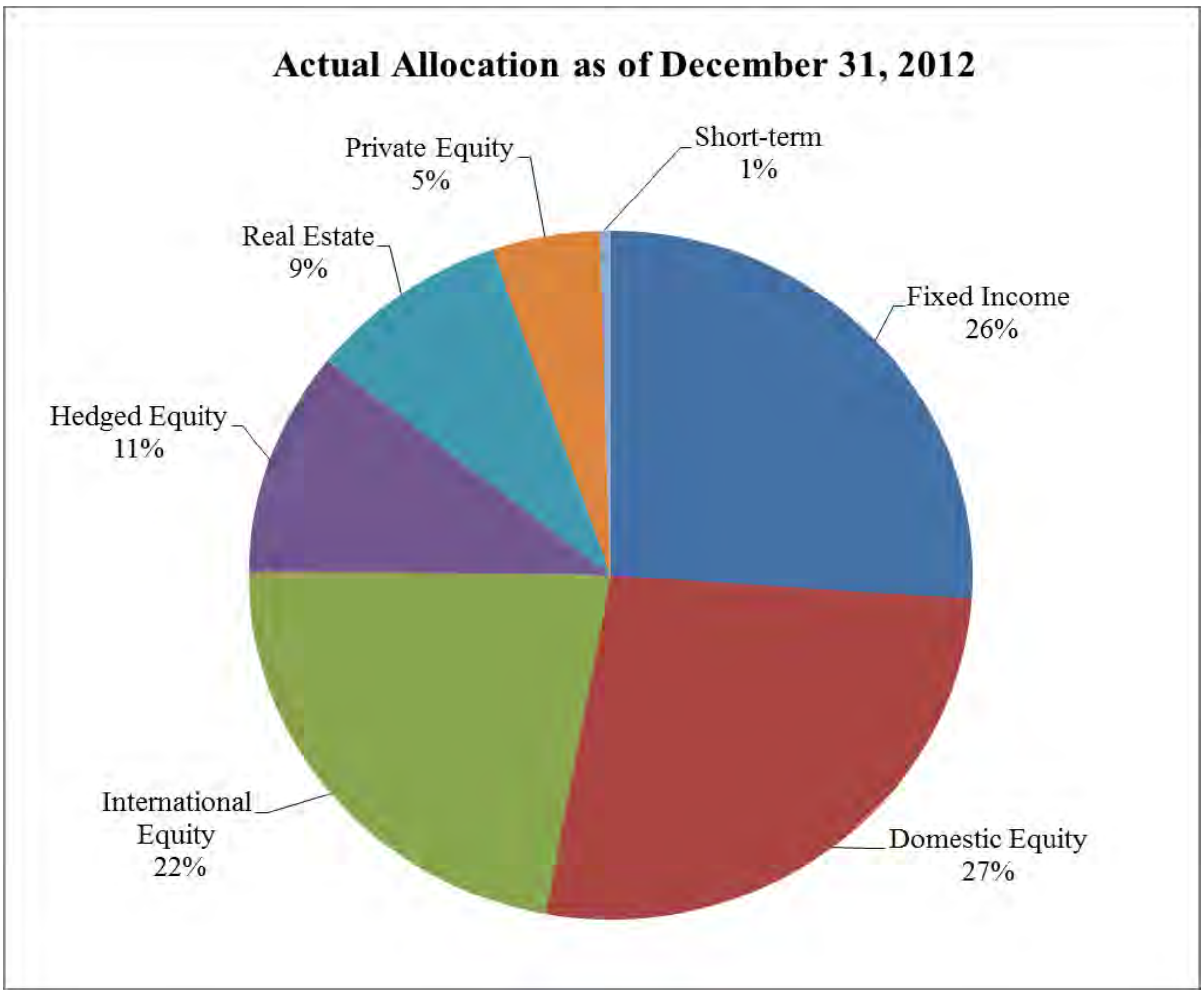
Category	12/31/2012 Fair Value	%	12/31/2012 Book Value	%	12/31/2011 Fair Value	%	12/31/2011 Book Value	%
Fixed Income	$1,303,764,343	26%	$1,262,892,610	28%	$ 1,268,830,397	26%	$ 1,237,519,753	26%
Equities								
Domestic	1,283,930,189	25%	998,393,614	22%	1,423,798,841	29%	1,185,502,238	25%
International	1,083,785,368	21%	997,876,003	22%	923,458,754	19%	988,475,674	21%
Total Equities	2,367,715,558	47%	1,996,269,617	43%	2,347,257,595	48%	2,173,977,912	46%
Hedged Equity	525,532,482	10%	450,000,000	10%	483,125,786	10%	450,000,000	9%
Real Estate	450,296,070	9%	420,599,053	9%	405,561,171	8%	401,097,316	8%
Private Equity	236,847,155	5%	285,763,269	6%	209,931,492	4%	264,567,918	6%
Cash Equivalents	173,704,217	3%	173,818,185	4%	224,090,637	5%	224,192,691	5%
Total Investments	$5,057,859,825	100%	$4,589,342,734	100%	$5,292,175,950	100%	$4,773,484,108	100%

Note: Numbers may not add up due to rounding.

Investment Asset Allocation

As of December 31, 2012

Asset Class	Target Allocation	Actual Allocation
Fixed Income	25%	26%
Domestic Equity	25%	27%
International Equity	20%	22%
Hedged Equity	10%	11%
Real Estate	10%	9%
Private Equity	10%	5%
Short-term	0%	1%
Investment Assets	**100%**	**100%**



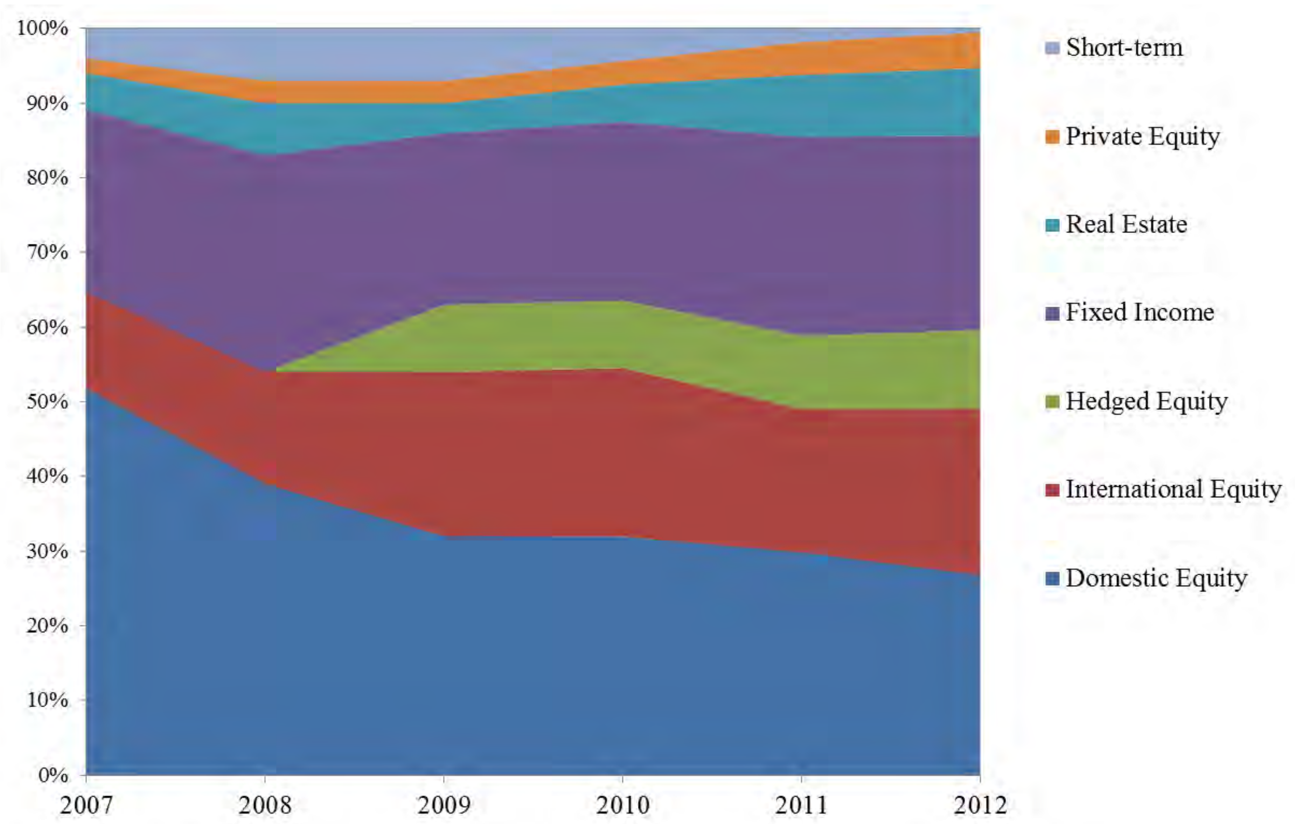
Note: Numbers may not add up due to rounding

Investment Asset Allocation

Last six years

Asset Class	2007	2008	2009	2010	2011	2012
Fixed Income	25%	29%	24%	25%	27%	26%
Domestic Equity	55%	41%	34%	33%	30%	27%
International Equity	12%	16%	22%	23%	19%	22%
Hedged Equity	0%	0%	10%	10%	10%	11%
Real Estate	5%	7%	4%	5%	8%	9%
Private Equity	2%	3%	3%	3%	4%	5%
Short-term	1%	4%	4%	2%	2%	1%
Investment Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Allocation Over the Last Six Years



Note: Numbers may not add up due to rounding

Domestic Equity Portfolio Summary

Year Ended December 31, 2012

Economic Sector Allocation

Sector	Market Value	Percentage of Total	Dow Jones U.S. Index Allocation
Industrials	$231,418,257	18.0%	12.9%
Financials	212,949,320	16.6%	17.9%
Consumer Services	186,503,725	14.5%	12.9%
Technology	164,123,549	12.8%	15.5%
Consumer Goods	146,643,327	11.4%	10.4%
Health Care	129,889,552	10.1%	11.1%
Oil & Gas	122,398,366	9.5%	10.0%
Basic Materials	49,457,786	3.9%	3.2%
Utilities	27,342,910	2.1%	3.5%
Telecommunications	13,202,421	1.0%	2.7%
Miscellaneous	976	0.0%	0.0%
Total	**$1,283,930,189**	**100.0%**	**100.0%**

Top 10 Holdings

Name of Security	Sector	Shares	Fair Value	Unrealized Gain/Loss	% of U.S. Equity
Apple Inc.	Technology	41,896	$22,331,825	$15,224,096	1.7%
Exxon Mobil Corp.	Oil & Gas	171,024	14,802,127	5,982,310	1.2%
Qualcomm Inc.	Technology	190,324	11,803,894	2,425,404	0.9%
Chevron Corp.	Oil & Gas	103,351	11,176,377	4,745,189	0.9%
The TJX Companies	Consumer Services	221,034	9,382,893	3,916,931	0.7%
CITRIX SYS INC COM	Technology	140,426	9,233,010	2,967,751	0.7%
Amazon Com Inc	Consumer Services	36,313	9,119,647	3,448,517	0.7%
Range Resources Co.	Oil & Gas	143,241	8,999,832	2,220,480	0.7%
IBM Corp.	Technology	45,500	8,715,525	4,333,384	0.7%
Philip Morris	Consumer Goods	101,748	8,510,203	4,786,032	0.7%
Total		**1,976,596**	**$114,075,333**	**$50,050,094**	**8.9%**

Note: A complete listing of the portfolio holdings is available for review at the Fund office.
Numbers may not add up due to rounding.

International Equity Portfolio Summary

Year Ended December 31, 2012

Country Allocation

Country	Market Value	Percentage of Total	MSCI ACWI ex US Index Allocation
Europe/Africa			
United Kingdom	$160,516,080	14.8%	15.4%
Germany	67,123,324	6.2%	6.0%
France	57,411,880	5.3%	6.5%
Switzerland	48,255,685	4.5%	5.9%
Sweden	23,974,469	2.2%	2.2%
Spain	19,164,828	1.8%	2.1%
Italy	18,480,163	1.7%	1.5%
Other	99,201,687	9.2%	7.4%
Total Europe/Africa	494,128,116	45.6%	47.0%
Asia/Pacific			
Japan	173,159,188	16.0%	13.6%
Australia	62,263,752	5.7%	6.1%
Hong Kong	37,628,616	3.5%	2.1%
India	22,172,144	2.0%	1.6%
Korea, Republic of	21,686,018	2.0%	3.7%
China	18,771,878	1.7%	4.4%
Taiwan	16,935,324	1.6%	2.6%
Other	73,697,566	6.8%	5.9%
Total Asia/Pacific	426,314,486	39.3%	40.1%
Americas			
Canada	65,075,311	6.0%	7.8%
Brazil	26,864,211	2.5%	3.0%
Bermuda	18,833,138	1.7%	0.0%
Cayman Islands	15,454,396	1.4%	0.0%
Mexico	12,590,049	1.2%	1.3%
Other	24,525,662	2.3%	0.9%
Total Americas	163,342,767	15.1%	13.0%
Total	**$1,083,785,369**	**100.0%**	**100.0%**

Note: Numbers may not add up due to rounding.

International Equity Portfolio Summary (Continued)

Year Ended December 31, 2012

Top 10 Holdings

Name of Security	Country	Sector	Shares	Fair Value	Unrealized Gain/Loss	% of Int'l Equity
China Mobile	Hong Kong	Telecom. Services	907,391	$10,565,556	$603,788	1.0%
Samsung Electronics Co., Ltd.	Korea	Info. Technology	6,787	9,648,847	3,536,805	0.9%
CNOOC Ltd.	China	Energy	3,390,000	7,339,092	1,482,054	0.7%
HSBC Holdings	U.K.	Financials	696,386	7,322,749	(352,186)	0.7%
Adidas	Germany	Consumer Discretionary	75,437	6,696,381	1,769,433	0.6%
Nestle SA	Switzerland	Consumer Staples	102,217	6,655,523	2,468,649	0.6%
Essilor INTL	France	Health Care	63,277	6,341,922	1,962,166	0.6%
Novartis AG	Switzerland	Health Care	99,014	6,214,404	1,111,579	0.6%
Standard Chartered PLC	U.K.	Financials	242,943	6,213,812	416,927	0.6%
Sabmiller	U.K.	Consumer Staples	124,660	5,724,434	1,455,122	0.5%
Total			**5,708,112**	**$72,722,720**	**$14,454,337**	**6.7%**

Note: A complete listing of the portfolio holdings is available for review at the Fund office.
Numbers may not add up due to rounding.

Fixed Income Portfolio Summary

Year Ended December 31, 2012

Asset Allocation

Asset Category	Market Value	Percentage of Total	Barclays Aggregate Index Allocation
Corporate Bonds	$505,759,342	38.8%	21.5%
Government Bonds	283,371,766	21.7%	36.4%
Government Mortgage Backed Securities	231,588,041	17.8%	29.6%
Bank Loans	127,511,478	9.8%	0.0%
Government Agencies	86,489,547	6.6%	10.3%
Commercial Mortgage-Backed	25,710,328	2.0%	1.8%
Municipal/Provincial Bonds	22,916,439	1.8%	0.0%
Non-Government Backed C.M.O.s	8,072,912	0.6%	0.0%
Index Linked Government Bonds	7,721,501	0.6%	0.0%
Other	4,622,989	0.4%	0.4%
Total	**$1,303,764,343**	**100.0%**	**100.0%**

Top 10 Holdings

Name of Security	Sector	Fair Value	Unrealized Gain/Loss	% of Fixed Income
U.S. Treasury Notes 0.25 Due 11/30/2013	Government Bonds	$33,019,338	-$855	2.5%
U.S. Treasury Notes 3.50 Due 05/15/2020	Government Bonds	19,923,035	1,844,743	1.5%
U.S. Treasury Notes 0.25 Due 11/30/2014	Government Bonds	19,730,769	1,073	1.5%
U.S. Treasury Notes 2.375% Due 07/31/2015	Government Bonds	15,636,206	616,098	1.2%
U.S. Treasury Notes 3.75% Due 11/15/2018	Government Bonds	13,856,991	811,869	1.1%
U.S. Treasury Notes 0.25 Due 09/15/2014	Government Bonds	11,687,734	20,114	0.9%
U.S. Treasury Notes 3.125% Due 05/15/2019	Government Bonds	10,872,000	-4,055	0.8%
U.S. Treasury Notes 1.75% Due 07/31/2015	Government Bonds	10,365,620	78,791	0.8%
U.S. Treasury Notes 2.125 Due 08/15/2021	Government Bonds	8,646,531	251,562	0.7%
U.S. Treasury Notes 2.625% Due 02/29/2016	Government Bonds	8,560,624	342,675	0.7%
Total		**$152,298,848**	**$3,962,015**	**11.7%**

Note: A complete listing of the portfolio holdings is available for review at the Fund office.
Numbers may not add up due to rounding.

Domestic Equity Brokerage Commissions

As of December 31, 2012

Broker Name	Commissions	(#) Shares
Loop Capital*	$192,955	13,354,493
Cabrera Capital Markets, Inc.*	115,494	4,897,932
Cheevers & Company*	60,000	2,183,941
Robert W Baird & Co.	52,364	1,319,214
Susquehanna Financial Group	34,614	859,679
M.R. Beal & Co.*	34,202	1,094,386
Williams Capital*	32,214	966,833
Podesta & Co.*	29,803	749,766
Barclays Capital, Inc	29,604	832,466
Piper Jaffray	24,558	1,070,517
CastleOak Securities LLC*	22,529	715,385
The Williams Capital Group*	22,074	1,471,601
Managers with < $20,000 of Commissions	507,013	16,146,691
Total Domestic Equity Commissions	$1,157,423	45,662,904

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

Numbers may not add up due to rounding.

International Equity Brokerage Commissions

As of December 31, 2012

Broker Name	Commissions	(#) Shares
Morgan Stanley & Co. Inc.	$53,909	12,913,120
Beutche Bank Securities Inc	45,821	5,834,097
UBS	45,644	9,638,573
Loop Capital*	44,211	4,155,074
Bank of America/Merrill Lynch	36,084	8,714,614
Cabrera Capital Mkts*	36,074	8,546,090
J.P. Morgan	30,065	6,329,332
Credit Suisse	29,456	28,937,366
Citigroup	23,815	4,378,319
Barclays	20,560	2,576,119
Managers with < $20,000 of Commissions	187,865	646,211,434
Total International Equity Commissions	$553,505	738,234,138

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

Numbers may not add up due to rounding.

Investment Fees

As of December 31, 2012
In Thousands

	2012		2011	
Investment Manager Fees	**Fees**		**Fees**	
Fixed Income Managers	$2,306		$2,119	
Domestic Equity Managers	5,448		5,356	
International Equity Managers	3,705		3,732	
Hedged Equity Managers	3,856		3,839	
Real Estate Managers	4,746		4,426	
Private Equity Managers	4,252		5,631	
	$24,313	(1)	$25,105	(2)
Other Investment Fees				
Investment Consultant	$301		$290	
Master Custodian	179		170	
Negotiation Fee: Custody Reduction	148		148	
Investment Legal Services	432		1	
Miscellaneous Expenses	0		9	
	1,060		617	
Total Investment Fees	$25,374		$25,722	

(1) Total investment management fees for 2012 represent 0.49% of total investments as reported in the Statements of Plan Net assets

(2) Total investment management fees for 2011 represent 0.52% 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 53 - 55.

Numbers may not add up due to rounding.

Actuarial

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April 10, 2013

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, 2012. 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 2013. 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 investment return assumption. The investment return assumption was lowered from 8.00 percent to 7.50 percent.

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 6.41 is needed to adequately finance the Plan in fiscal year 2013 on an actuarially sound basis under a policy of contributing normal cost plus 30-year level dollar amortization of the unfunded liability. It should be noted that the statutory employer contributions have been less than the Annual Required Contribution (ARC) for the past ten years and are again expected to be less than the ARC for 2013. 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 10 to 15 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.

Sincerely,

Alex Rivera　　Amy Williams　　Paul T Wood

Alex Rivera, F.S.A., E.A., M.A.A.A.	Amy Williams, A.S.A., M.A.A.A.	Paul T. Wood, A.S.A.
Senior Consultant	Consultant	Senior Analyst

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, 2011		December 31, 2012	% Change
ACTUARIAL VALUES					
Actuarial Values					
Actuarial Liability	$	12,456,172,022	$	13,637,460,046	**9.48 %**
Assets - Actuarial Value		5,552,291,417		5,073,320,275	**(8.63)%**
Unfunded Liability (Surplus)		6,903,880,605		8,564,139,771	**24.05 %**
Funded Ratio		**44.57%**		**37.20%**	**(16.54)%**
Annual Required Contribution (ARC)	$	705,454,416	$	834,398,482	**18.28 %**
Market Values					
Actuarial Liability	$	12,456,172,022	$	13,637,460,046	**9.48 %**
Assets - Market Value		5,053,248,869		5,182,669,659	**2.56 %**
Unfunded Liability		7,402,923,153		8,454,790,387	**14.21 %**
Funded Ratio		**40.57%**		**38.00%**	**(6.32)%**
Book Values					
Actuarial Liability	$	12,456,172,022	$	13,637,460,046	**9.48 %**
Assets - Book Value		4,874,683,099		4,714,152,568	**(3.29)%**
Unfunded Liability (Surplus)		7,581,488,923		8,923,307,478	**17.70 %**
Funded Ratio		**39.13%**		**34.57%**	**(11.67)%**

Actuarial Liability and Annual Required Contribution include both Pension and OPEB

Summary of Actuarial Valuation (continued)

	December 31, 2011	December 31, 2012	% Change
Assets			
Market Value - Beginning of Year	$ 5,435,593,422	$ 5,053,248,869	**(7.03) %**
Income			
Investment Income	31,583,226	589,198,468	**1765.54 %**
Employer Contributions	156,525,374	158,380,709	**1.19 %**
Employee Contributions	132,596,417	130,266,293	**(1.76)%**
Subtotal	320,705,017	877,845,470	**173.72 %**
Outgo (Refunds, Benefits & Expenses)	703,049,570	748,424,680	**6.45 %**
Net Change	(382,344,553)	129,420,790	**133.85 %**
Market Value - End of Year	$ 5,053,248,869	$ 5,182,669,659	**2.56 %**
Book Value - Beginning of Year	$ 4,927,631,310	$ 4,874,683,099	**(1.07)%**
Income			
Investment Income	360,979,568	299,247,147	**(17.10)%**
Employer Contributions	156,525,374	158,380,709	**1.19 %**
Employee Contributions	132,596,417	130,266,293	**(1.76)%**
Subtotal	650,101,359	587,894,149	**(9.57)%**
Outgo (Refunds, Benefits & Expenses)	703,049,570	748,424,680	**6.45 %**
Net Change	(52,948,211)	(160,530,531)	**(203.18)%**
Book Value - End of Year	$ 4,874,683,099	$ 4,714,152,568	**(3.29)%**
Actuarial Value - Beginning of Year	$ 6,003,389,605	$ 5,552,291,417	**(7.51)%**
Income			
Investment Income	(37,170,409)	(19,193,464)	**48.36 %**
Employer Contributions	156,525,374	158,380,709	**1.19 %**
Employee Contributions	132,596,417	130,266,293	**(1.76)%**
Subtotal	251,951,382	269,453,538	**6.95 %**
Outgo (Refunds, Benefits & Expense)	703,049,570	748,424,680	**6.45 %**
Net Change	(451,098,188)	(478,971,142)	**(6.18)%**
Actuarial Value - End of Year	**$ 5,552,291,417**	**$ 5,073,320,275**	**(8.63)%**

Summary of Actuarial Valuation (continued)

	December 31, 2011	December 31, 2012	% Change
Members			
Active[1]	31,976	31,326	**(2.03)%**
Inactive	12,762	13,465	**5.51 %**
Retirees	18,813	19,614	**4.26 %**
Deferred	2	3	**50.00 %**
Survivors	4,274	4,225	**(1.15)%**
Reversionary Annuitants	129	129	**0.00 %**
Disabilities	610	530	**(13.11)%**
Children	164	149	**(9.15)%**
Payroll Data			
Valuation Payroll[2]	$ 1,605,993,339	$ 1,590,793,702	**(0.95)%**
Average Salary	50,225	50,782	**1.11 %**

[1] *Active members include disabled employees.*

[2] *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, 2012. The purposes of this valuation are:

1. To develop the minimum actuarially determined contribution for 2013.
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.

1. Retired Lives:

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

2. Active Lives:

The value of future payments for active employees who will receive benefits in the future is estimated, since the amount of pension is only known at the actual time of retirement. This estimate is made using various assumptions as to future salary increases, probable retirement age, and probability of death, withdrawal, or disablement before retirement. 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 at a particular point in time. 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, 2013, is $820.0 million, which is for pension benefits only. This amount is net of estimated employee contributions of $137.9 million and is based on a 30-year amortization period.

GASB #43 requires the calculation of a separate ARC for Other Postemployment Benefits (OPEB) beginning with the Fund's 2006 fiscal year. The OPEB ARC for the fiscal year ending December 31, 2013, is $14.4 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	7.50% 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.

Effective with fiscal year Ending December 31, 2014, GASB #67 is replacing GASB #25 for pension plan financial reporting requirements. GASB #68 is replacing GASB #27 for employer financial reporting effective with fiscal year ending December 31, 2015. The discount rate used for GASB #67 and #68 reporting purposes will produce a blended or average discount rate based on 7.50 percent for the projected benefits for all current members that can be paid from current assets and projected investment return, future employee contributions from current members, and future employer contributions attributable to current members, and a municipal bond rate (for example 4.00 percent) for the portion of the projected benefits after assets are depleted. We believe the liability based on the GASB blended rate will become the predominant liability on which users will focus.

Due to the blended discount rate and shorter amortization periods required under GASB #67 and #68, the liabilities and pension expense will be much higher and more volatile than under the current standards. A measurement of the blended discount rate, liability and pension expense has not yet been performed.

The Total ARC for FY 2013 is $834.4 million, which is $678.2 million more than the statutory contribution (after the assumed 4 percent loss on the tax levy) of $156.2 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 $2.0 billion as of December 31, 2012, and is projected to increase significantly in fiscal year 2013 ($678.2 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 $6.904 billion to $8.564 billion during the year, resulting in a decrease in the funding ratio from 44.6 percent to 37.2 percent. The increase in the Unfunded Actuarial Accrued Liability is mainly attributable to an increase in the Actuarial Accrued Liability due to decreasing the investment return assumption from 8.0 percent per year to 7.5 percent per year, unfavorable investment return on the actuarial value of assets due to the recognition of deferred investment losses from 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 $7.403 billion to $8.455 billion, and the funded ratio decreased from 40.6 percent to 38.0 percent.

Plan Membership

	December 31, 2011	December 31, 2012
Active Members [1]		
Number	31,976	31,326
Vested	17,938	17,037
Non-vested	14,038	14,289
Average Age	47.1	46.8
Average Service	12.1	11.9
Average Annual Salary	$50,225	$50,782
Inactive Members		
Number	12,762	13,465
Average Age	45.7	45.9
Average Service	4.1	4.0
Retirees		
Number	18, 813	19,614
Average Age	72.7	72.6
Average Annual Benefit	$32,269	$33,343
Deferred		
Number	2	3
Average Age	50.5	52.7
Average Annual Benefit	$6,510	$9,168
Surviving Spouses		
Number	4,274	4,225
Average Age	77.6	77.9
Average Annual Benefit	$12,640	$13,007
Reversionary Annuitants		
Number	129	129
Average Age	80.8	80.4
Average Annual Benefit	$4,428	$4,580
Children	164	149
Total Members	68,120	68,911

[1] *Active members include disabled employees.*

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

Total members receiving benefits under the Plan increased 3.2 percent during 2012, from 23,380 to 24,117, while the number of active members decreased 2.0 percent from 31,976 to 31,326. Total expenditures for benefits increased from $664 million in 2011 to $705 million during 2012, or 6.2 percent.

Changes in Provisions of the Plan

The following Public Acts were passed in 2012 by the 97th General Assembly that made changes to the Fund Provisions.

P. A. 97-0651 (HB 3813), approved January 5, 2012
P. A. 97-0967 (HB 3969), approved August 16, 2012

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 2012 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 investment return assumption was changed from 8.0 percent per year to 7.5 percent per year with the inflationary component of the investment return assumption remaining at 3.0 percent per year.

2012 Experience Analysis

The Fund had an investment gain in 2012 of $203 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 $445 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 $71 million. Service credit changes and purchases resulted in an experience loss of $6 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 $520 million. Contributions lower than Normal Cost plus interest have increased the Unfunded Actuarial Accrued Liability each year for the past eleven years.

The investment return assumption change increased the Unfunded Actuarial Accrued Liability by $731 million.

There was an additional loss of $28 million from all other factors, including actual retirement, termination, disability, mortality experience, and data changes. This is about 0.2 percent of the December 31, 2012, liabilities, which is a reasonable variation.

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

Reconciliation of Funded Ratio

	2011	2012
Funded Ratio Beginning of Year	**49.81%**	**44.57%**
Expected Increase If All Assumptions Realized	2.00%	2.09%
Expected Funded Ratio	**51.81%**	**46.66%**
Gains (Losses) during the Year Attributable to:		
Contributions in Excess (Less Than) of Normal Cost plus Interest	-3.58%	-4.02%
Gain (Loss) on Investment Return	-4.00%	-3.44%
Gain (Loss) from Salary Changes	0.39%	0.21%
Gain (Loss) from Retirement, Termination, & Mortality	-0.22%	-0.08%
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	-0.04%	-0.02%
Changes in Assumptions	-0.51%	-2.11%
Plan Amendments	0.00%	0.00%
Total Gain (Losses) During the Year	**-7.24%**	**-9.46%**
Funded Ratio End of Year	**44.57%**	**37.20%**

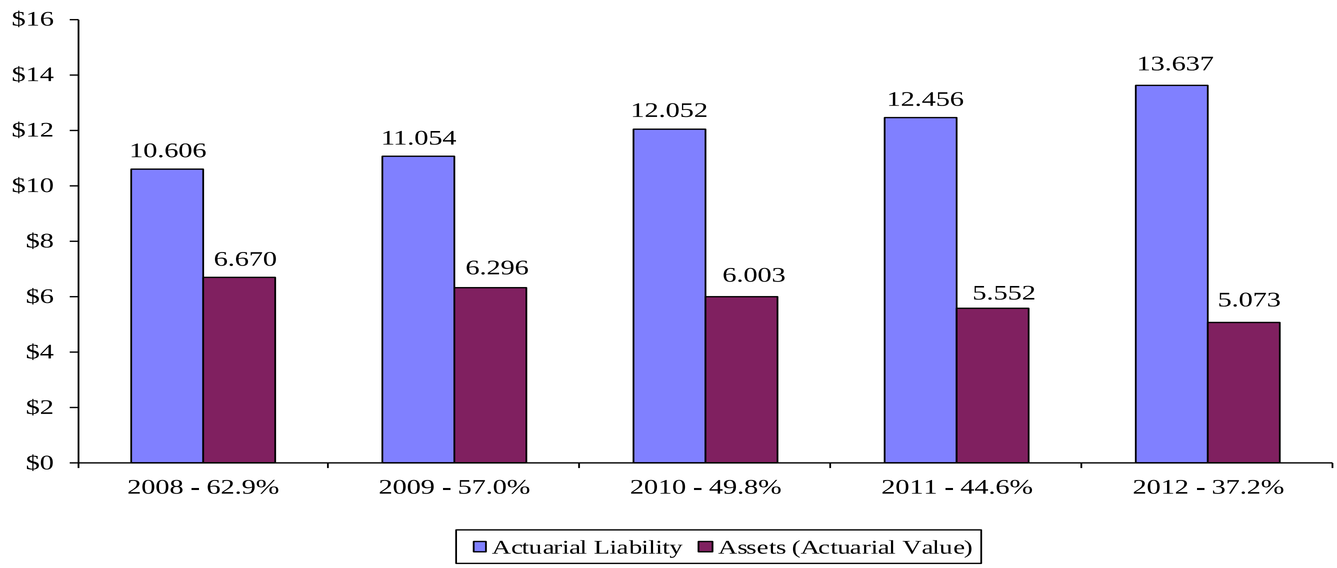
Analysis of Financial Experience

	2008	2009	2010	2011	2012
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)					
Beginning of Year	$3,296,152,269	$3,936,346,961	$4,758,504,409	$6,048,840,271	$6,903,880,605
(Gains) Losses during the Year Attributable to:					
Contributions less than (in excess of) Normal Cost plus Interest	211,536,054	263,525,304	320,818,396	449,777,576	520,449,450
(Gain) Loss on Investment Return	437,218,599	541,514,597	412,377,681	501,202,990	445,339,476
(Gain) Loss from Salary Changes	6,654,805	(2,224,555)	(60,823,939)	(107,481,719)	(71,303,218)
(Gain) Loss from Retirement, Termination, & Mortality	(25,452,703)	7,921,619	26,339,285	60,500,888	28,400,986
(Gain) Loss from Data Corrections	-	-	-	-	-
(Gain) Loss from Transfers	-	-	-	-	-
Change in Methodology	-	-	-	-	-
Non-ERI Service Credit Changes/Purchases	10,237,937	11,420,483	14,796,688	10,008,932	5,952,536
Changes in Assumptions	-	-	576,827,751	(58,968,333)	731,419,936
Plan Amendments	-	-	-	-	-
Net Increase (Decrease) in UAAL	640,194,692	822,157,448	1,290,335,862	850,040,334	1,660,259,166
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) End of Year	$3,936,346,961	$4,758,504,409	$6,048,840,271	$6,903,880,605	$8,564,139,771

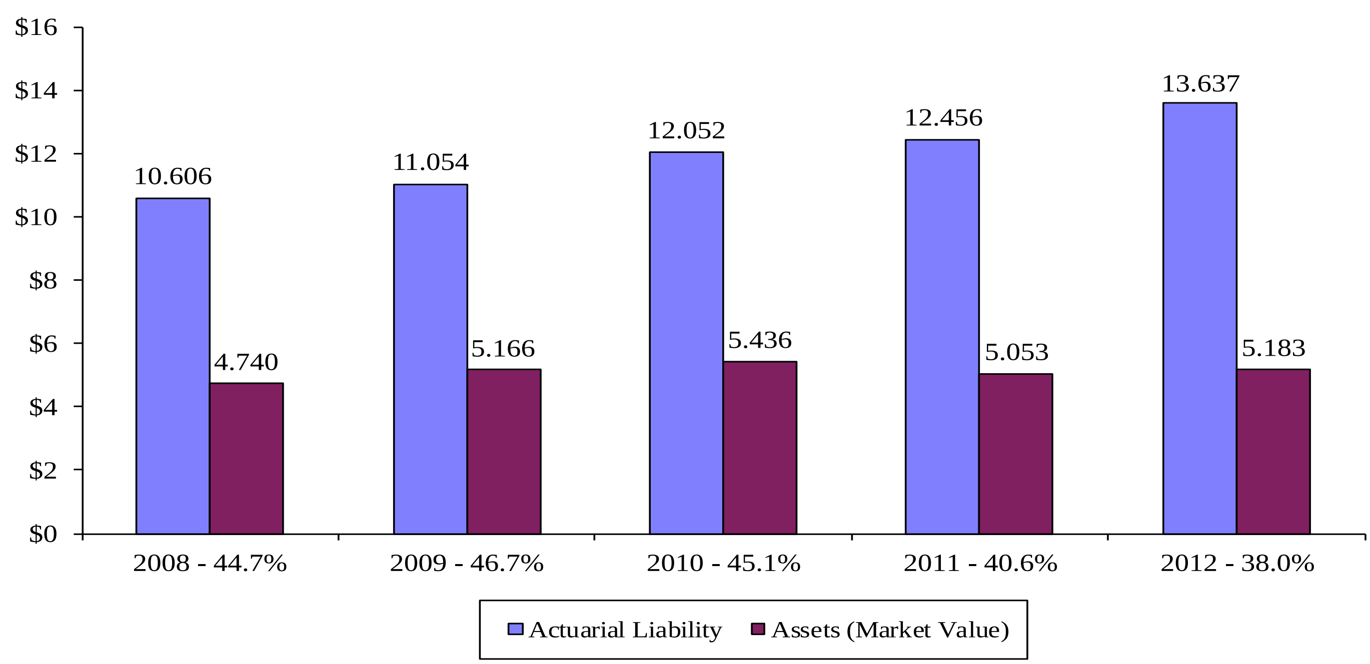
Funding Analysis

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

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

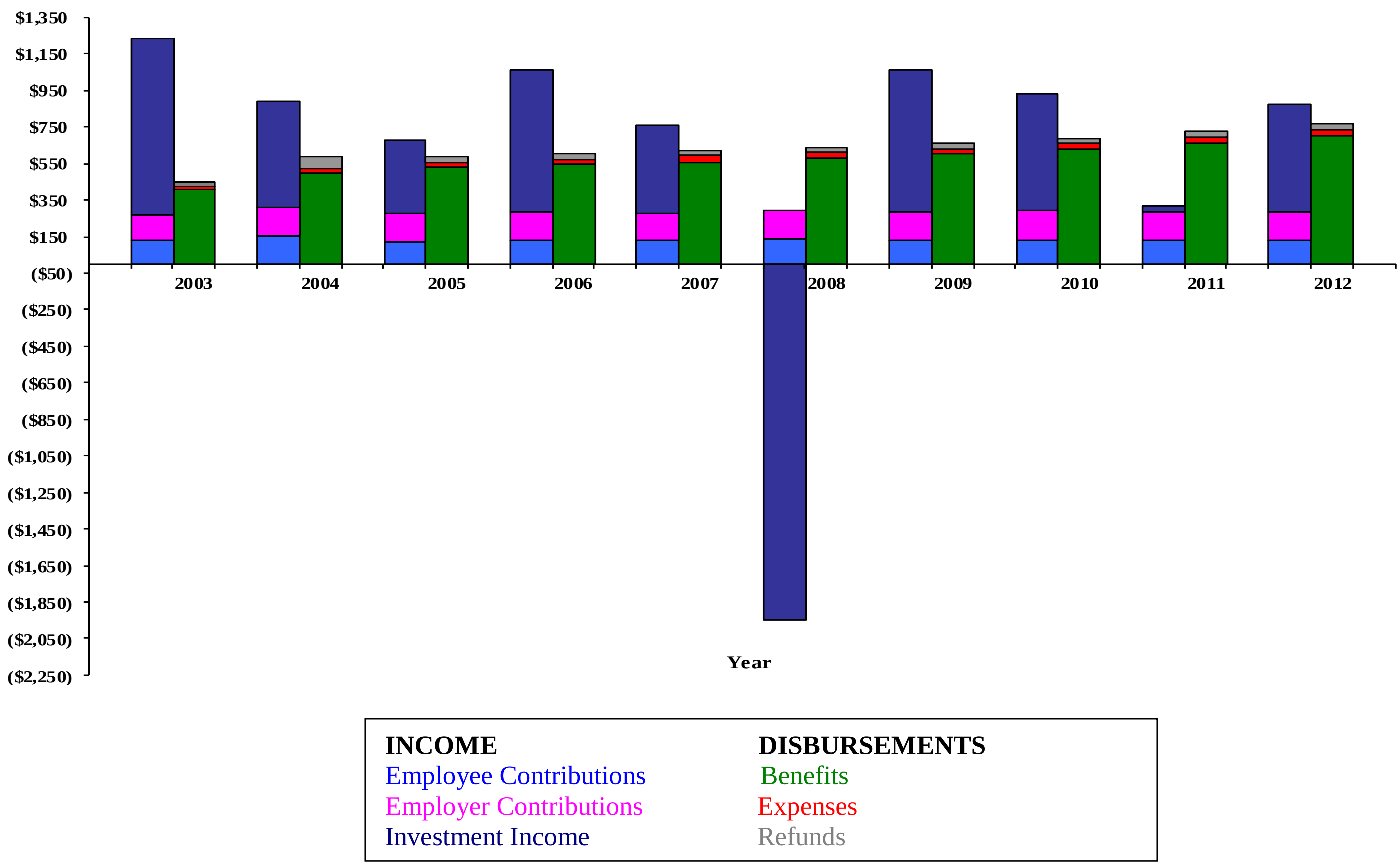


COMPONENTS OF FUNDED RATIO
BASED ON MARKET VALUE
($ IN BILLIONS)



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

SUMMARY OF INCOME AND DISBURSEMENTS
($ IN MILLIONS)



Conclusion

When measured using the Actuarial Value of Assets, which smoothes gains and losses over a five-year period, the funding ratio decreased from 44.6 percent in 2011 to 37.2 percent in 2012. On a market value basis, the funded ratio has decreased from 40.6 percent in the last valuation to 38.0 percent in this valuation. This decrease is the result of continued contribution shortfalls and the change in the investment rate assumption. The funded ratio using the Actuarial Value of Assets is expected to slightly increase for the next few years toward the funded ratio using the Market Value of Assets as there are deferred asset gains that will be recognized in the Actuarial Value of Assets in the next four years.

Contributions continue to be 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 10 to 15 years. If assets become depleted, the Plan would then be funded on a pay-as-you-go policy with contributions equal to annual benefit payments. The pay-as-you-go policy is projected to increase the annual contribution by three to four times the amount currently required.

The Net Pension Obligation (NPO) has increased from less than $0 as of December 31, 2006, to over $2.0 billion as of December 31, 2012, 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	2013 Normal Cost
(1) Values for Active and Inactive Members		
(a) Retirement	$ 7,194,377,609	$ 186,191,250
(b) Termination – Vested	418,834,998	27,433,749
(c) Termination - Non Vested	75,097,271	23,892,194
(d) Death	101,364,088	4,639,157
(e) Inactive Vested and Non-Vested	376,730,517	-
(f) Health Insurance	117,234,979	4,529,064
(g) Disability	-	11,930,953
(h) Expenses of Administration	-	6,841,486
Total for Actives and Inactive	$ 8,283,639,462	$ 265,457,853
(2) Values for Members in Payment Status	$ 7,633,045,219	$ -
(3) Grand Totals	$ 15,916,684,681	$ 265,457,853

Actuarial Present Value of Future Compensation	$ 14,749,878,803

Actuarial Reserve Liabilities

As of December 31, 2012

Accrued Liabilities for Active and Inactive Participants [1]	$ 6,004,414,827
Reserves For:	
Service Retirement Pension	$ 6,683,231,695
Future Spouses of Current Retirees	474,204,260
Surviving Spouse Pension	385,872,822
Health Insurance Supplement	88,388,157
Children Annuitants	1,348,285
Total Accrued Liabilities	$ 13,637,460,046
Unfunded Actuarial Liabilities	$ 8,564,139,771
Actuarial Net Assets	$ 5,073,320,275

[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, 2012

	Annuity Payment Fund	Prior Service Fund	Total
Statutory Reserves[1]			
Retirees	$ 1,405,717,855	$ 5,248,370,731	$ 6,654,088,586
Future Surviving Spouses	316,655,466	412,199,796	728,855,262
Spouse	176,411,760	173,539,307	349,951,067
Annual Benefits			
Retirees	$ 167,750,806	$ 487,805,930	$ 655,556,736
Future Surviving Spouses	N/A	N/A	N/A
Spouse	$ 26,518,518	$ 29,025,822	$ 55,544,340

[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)
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%
2012 [1]	1,724,021,890	7,633,045,219	4,280,392,937	5,073,320,275	100.00%	43.88%	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.

Due to the inadequacy of the current statutory funding policy, the current assets are only sufficient to cover active and inactive member contributions and 44 percent of retiree liabilities. The present value of employer financed benefits for active and inactive members is completely unfunded.

Development of Actuarial Value of Assets

As of December 31, 2012

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

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

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

	Item	Amount	Weight for Timing	Weighted Amount
i)	Member Contributions	$ 130,266,293	50.0%	$ 65,133,147
ii)	City Contributions & Misc.	158,380,709	50.0%	79,190,355
iii)	Benefit Payments	(704,674,410)	50.0%	(352,337,205)
iv)	Refunds	(36,908,784)	50.0%	(18,454,392)
v)	Administration	(6,841,486)	50.0%	(3,420,743)
vi)	Total	$ (459,777,678)		$(229,888,838)

(c)	Market Value of Assets Adj. for Actual Income and Disbursements [(a) + (b)(vi))]	$ 4,823,360,031
(d)	Assumed Rate of Return on Plan Assets for the Year	8.00%
(e)	Expected Return [(c) * (d)]	$ 385,868,802

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

(a)	Market Value of Assets as of 12/31/2011	$ 5,053,248,869
(b)	Income (less investment income) for Prior Plan Year	288,647,002
(c)	Disbursements Paid in Prior Year	748,424,680
(d)	Market Value of Assets as of 12/31/2012	5,182,669,659
(e)	Actual Return [(d) + (c) - (b) - (a)]	$ 589,198,468

(3) **Investment Gain/(Loss) for Prior Year** — $ 203,329,666

(4) **Actuarial Value of Assets as of 12/31/2012**

(a) Market Value of Assets as of 12/31/2012 — $ 5,182,669,659

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

	Plan Year	Gain/(Loss)	Weight for Timing	Deferred Amount
i)	2008	$ (2,495,444,480)	0.00%	$ -
ii)	2009	413,471,595	20.00%	82,694,319
iii)	2010	240,039,034	40.00%	96,015,614
iv)	2011	(386,707,137)	60.00%	(232,024,282)
v)	2012	203,329,666	80.00%	162,663,733
vi)	Total	$ (2,025,311,322)		$ 109,349,384

(c) Actuarial Value of Assets [(a) - (b) (vi)] — $ 5,073,320,275

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
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%
2012	705,454,416	157,602,048	158,380,709	22.45%

[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
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%
2012	37.20%	538.36 %	9.86%

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)								
2003	1,002	$25,806,766	695	$3,9969,748	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	3.94%
2012	1,559	68,828,940	758	20,349,840	19,614	655,556,736	33,423	3.58%
Surviving Spouse Annuitants (Not Including Compensation)								
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[3]	374	4,152,804	317	3,479,496	4,403	54,594,060	12,399	-0.06%
2012	237	4,168,092	286	3,217,812	4,354	55,544,340	12,757	2.89%

[1] *Annual benefits added to payroll include post-retirement increase amounts starting in 2004.*

[2] *Early retirement incentive offered to employees.*

[3] *Number added in 2011 includes 121 reversionary annuitants that are also surviving spouses*.

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
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 %
2012	31,326	(2.03)%	1,590,793,702	(0.95)%	50,782	1.11 %	4.50 %	1.68 %
Average Increase (Decrease) for the Last five years		(2.13)%		0.33 %		2.52 %	4.50 %	1.38 %

Actuarial Methods and Assumptions
As of December 31, 2012

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. The mortality table used is a static table and provides an estimated margin of 9 percent for future mortality improvements. (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	40.00%
63–69	20.00%
70–79	45.00%
80 +	100.00%

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: 7.50 percent per annum (net of investment expense) for pensions and 4.50 percent per annum for OPEB. The 7.50 percent assumption contains a 3.00 percent inflation assumption and a 4.50 percent real rate of return assumption for pension. Pension investment return and discount rate adopted 2012 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

Actuarial Cost Method: Entry age normal cost method, under which the normal cost as a percentage of pay for each employee remains level from entry age to retirement, and the accrued liability represents the fund which would now be on hand if all past normal costs had actually been paid, and all current assumptions had been realized.

Amortization Method: 30-Year Level Dollar amortization of the unfunded liability.

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.

Benefit Service:	Exact fractional years of service are used to determine the amount of benefit payable.
Decrement Timing:	All decrements are assumed to occur mid-year.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Operation:	Turnover decrements do not operate after member reaches retirement eligibility for a minimum annuity formula benefit.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service on the date the decrement is assumed to occur.
Pay Increase Timing:	Middle of (fiscal) year.
Reciprocal Service:	No assumption for reciprocal service.
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.
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. It is assumed that 50 percent of future retirees will elect to receive the health insurance supplement at retirement. (Adopted 2011).

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 payroll of the calendar year. Retired members and beneficiaries are those who were paid benefits in the last month of calendar year

Changes in Plan Net Position
(Last ten years)

	2012	2011	2010	2009	2008
Additions:					
Employer contributions	$ 158,380,709	$ 156,525,374	$ 164,302,005	$ 157,697,608	$ 155,832,612
Member contributions	130,266,293	132,596,417	133,299,542	130,980,605	137,748,907
Net investment income	589,198,468	31,583,226	638,568,991	778,562,620	(1,947,575,935)
Other Income	-	-	24,435	-	-
Total Additions	$ 877,845,470	$ 320,705,017	$ 936,194,973	$1,067,240,833	$(1,653,994,416)
Deductions:					
Annuities	$ 681,508,540	$ 640,090,207	$ 607,540,457	$ 583,436,041	$ 561,947,108
Disabilities	13,643,816	13,963,941	13,041,253	11,682,652	11,687,603
Healthcare Subsidy	9,522,054	9,516,053	9,549,685	9,651,118	9,029,362
Refunds	36,908,784	32,104,031	29,949,703	28,094,365	25,501,985
Administrative Expenses	6,841,486	7,375,338	6,744,947	7,765,918	7,749,714
Total Deductions	$ 748,424,680	$ 703,049,570	$ 666,826,045	$ 640,630,094	$ 615,915,772
Net Increase/(Decrease)	129,420,790	(382,344,553)	269,368,928	426,610,739	(2,269,910,188)
Beginning of year	5,053,248,869	5,435,593,422	5,166,224,494	4,739,613,755	7,009,523,943
End of year	$5,182,669,659	$5,053,248,869	$5,435,593,422	$5,166,224,494	$ 4,739,613,755

Changes in Plan Net Position (continued)

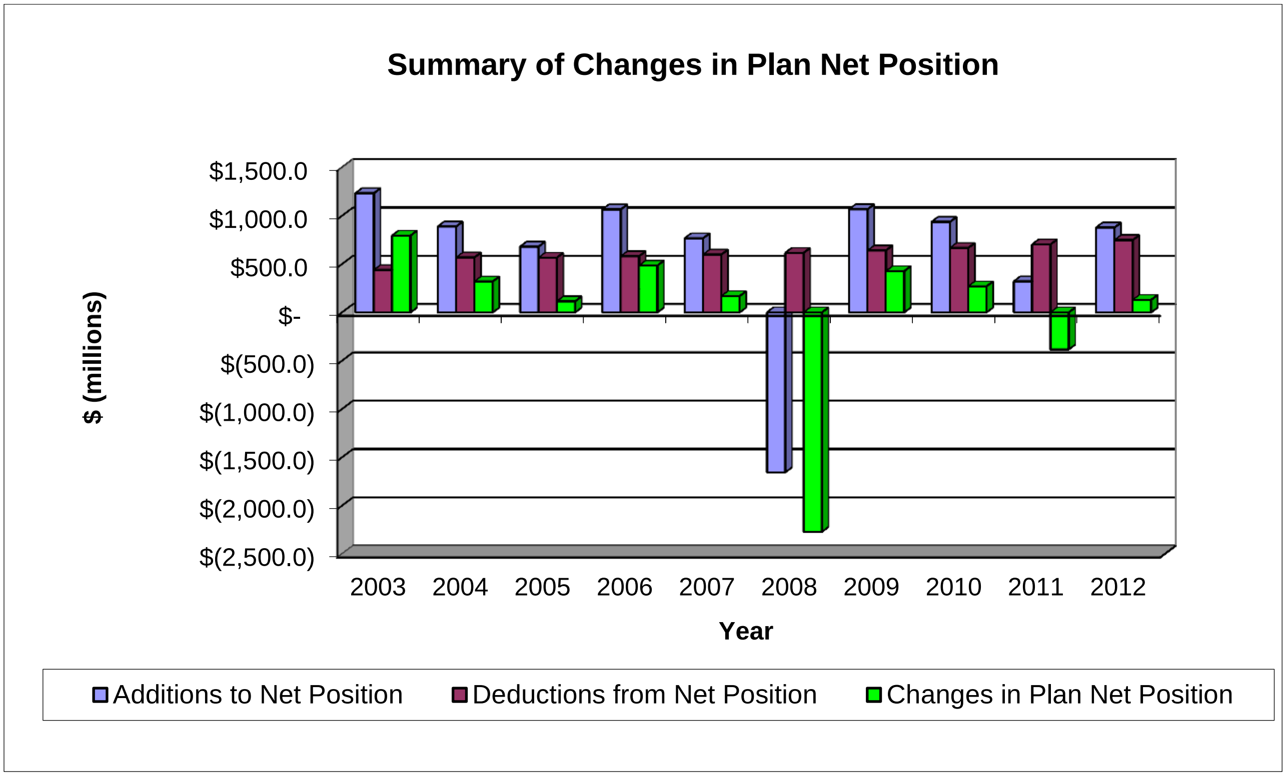
(Last ten years)

	2007	2006	2005	2004	2003
Additions:					
Employer contributions	$ 148,137,050	$ 157,062,769	$ 155,067,116	$ 153,919,476	$ 141,882,893
Member contributions	132,442,200	129,466,091	122,542,484	155,884,575	129,644,188
Net investment income	485,926,151	778,725,950	402,310,621	578,730,089	961,888,872
Other Income	-	-	-	-	-
Total Additions	$ 766,505,401	$1,065,254,810	$ 679,920,221	$ 888,534,140	$1,233,415,953
Deductions:					
Annuities	$ 543,411,793	$ 528,426,078	$ 514,623,174	$ 481,319,408	$ 390,834,936
Disabilities	10,624,807	10,267,132	9,990,510	8,830,525	10,879,692
Health Care Subsidy	8,530,910	8,730,476	8,877,021	8,689,957	6,881,611
Refunds	28,009,512	27,194,308	26,737,456	64,272,300	25,561,485
Administrative Expenses	7,532,301	6,397,685	5,545,268	5,470,007	4,678,634
Total Deductions	$ 598,109,323	$ 581,015,679	$ 565,773,429	$ 568,582,197	$ 438,836,358
Net Increase/(Decrease)	168,396,078	484,239,131	114,146,792	319,951,943	794,579,595
Beginning of year	6,841,127,865	6,356,888,734	6,242,741,942	5,922,789,999	5,128,210,404
End of year	$7,009,523,943	$6,841,127,865	$6,356,888,734	$6,242,741,942	$5,922,789,999

Summary of Changes in Plan Net Position

(Last ten years)

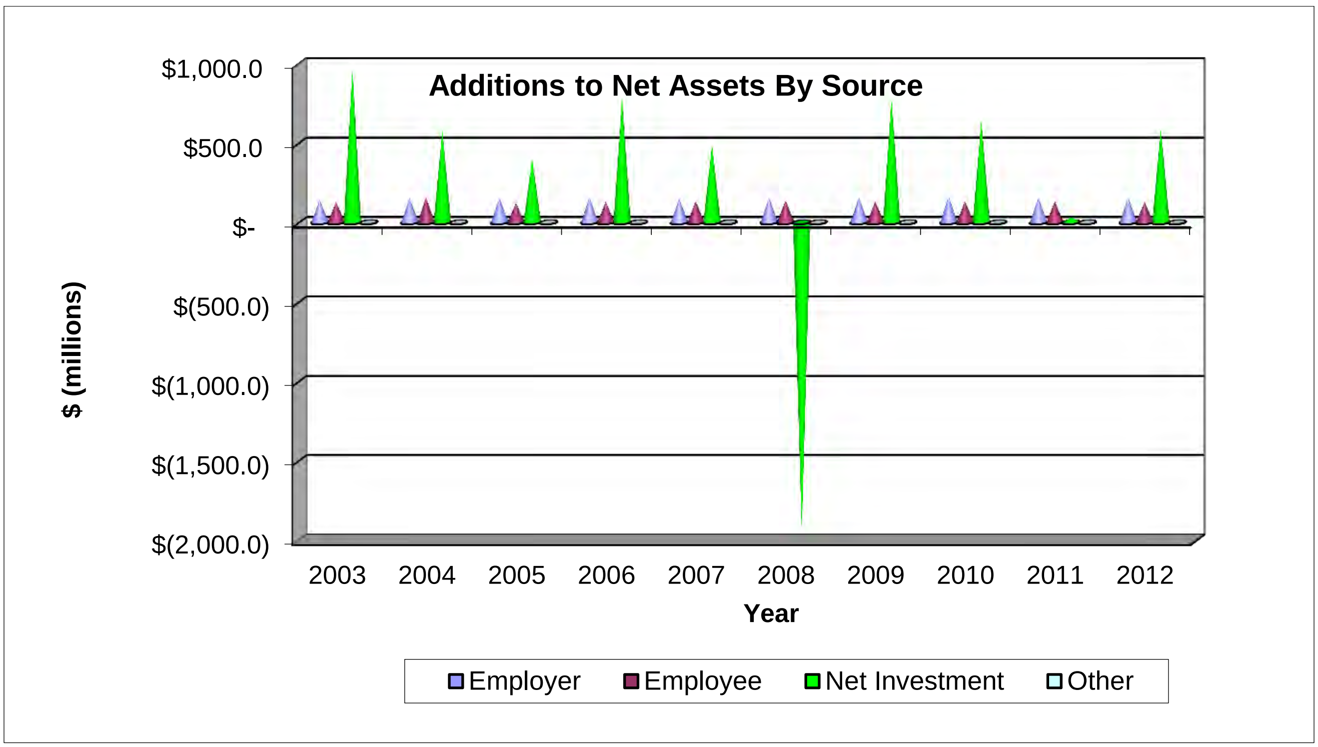
Year		Additions to Net Position		Deductions from Net Position		Increase (Decrease) in Net Position
2003	$	1,233,415,953	$	438,836,358	$	794,579,595
2004		888,534,140		568,582,197		319,951,943
2005		679,920,221		565,773,429		114,146,792
2006		1,065,254,810		581,015,679		484,239,131
2007		766,505,401		598,109,323		168,396,078
2008		(1,653,994,416)		615,915,772		(2,269,910,188)
2009		1,067,240,833		640,630,094		426,610,739
2010		936,194,973		666,826,045		269,368,928
2011		320,705,017		703,049,570		(382,344,553)
2012		877,845,470		748,424,680		129,420,790



Additions to Net Assets By Source

(Last ten years)

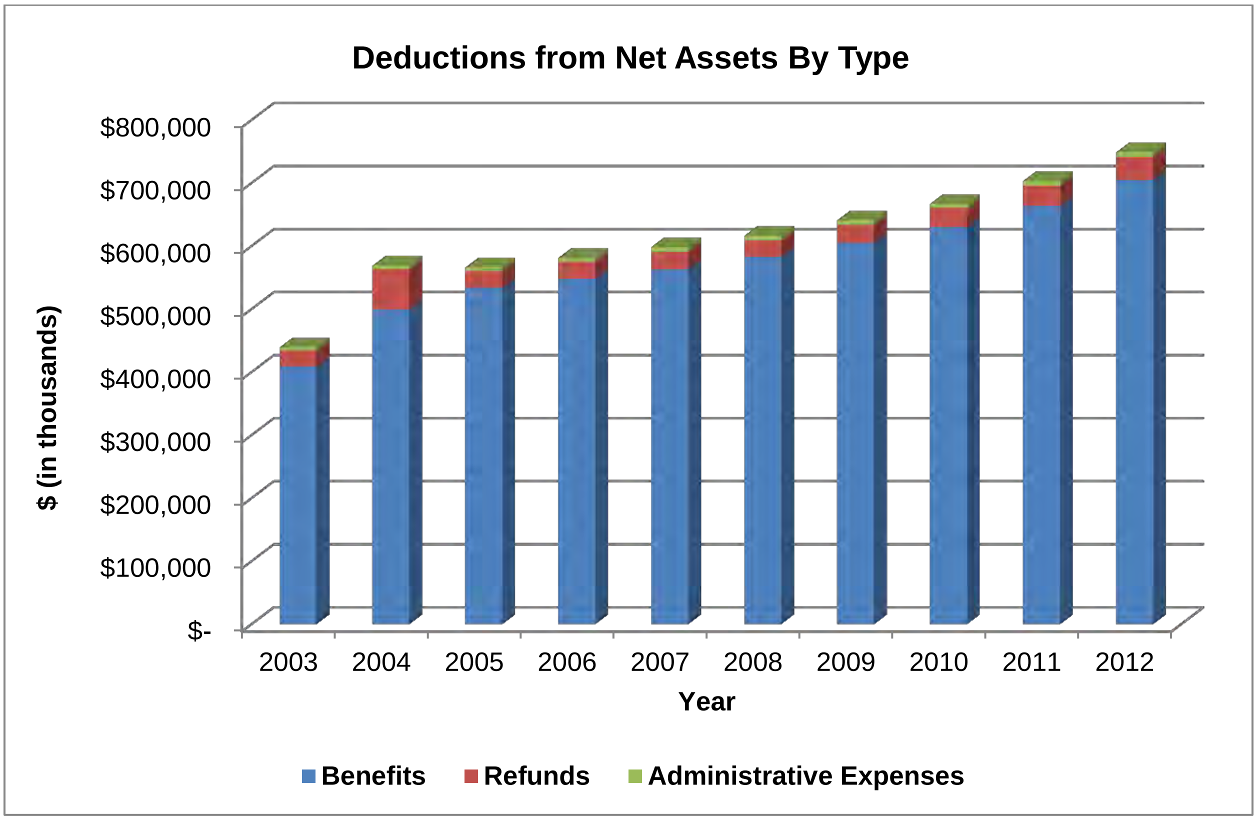
Year	Employer Contributions	Employee Contributions	Investment Income (net of expense)	Other Income	Total
2003	$ 141,882,893	$ 129,644,188	$ 961,888,872	$ -	$ 1,233,415,953
2004	153,919,476	155,884,575	578,730,089	-	888,534,140
2005	155,067,116	122,542,484	402,310,621	-	679,920,221
2006	157,062,769	129,466,091	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
2012	158,380,709	130,266,293	589,198,468	-	877,845,470



Deductions from Net Assets By Type

(Last ten years)

Year	Benefits	Refunds	Administrative Expense	Total
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
2012	704,674,410	36,908,784	6,841,486	748,424,680

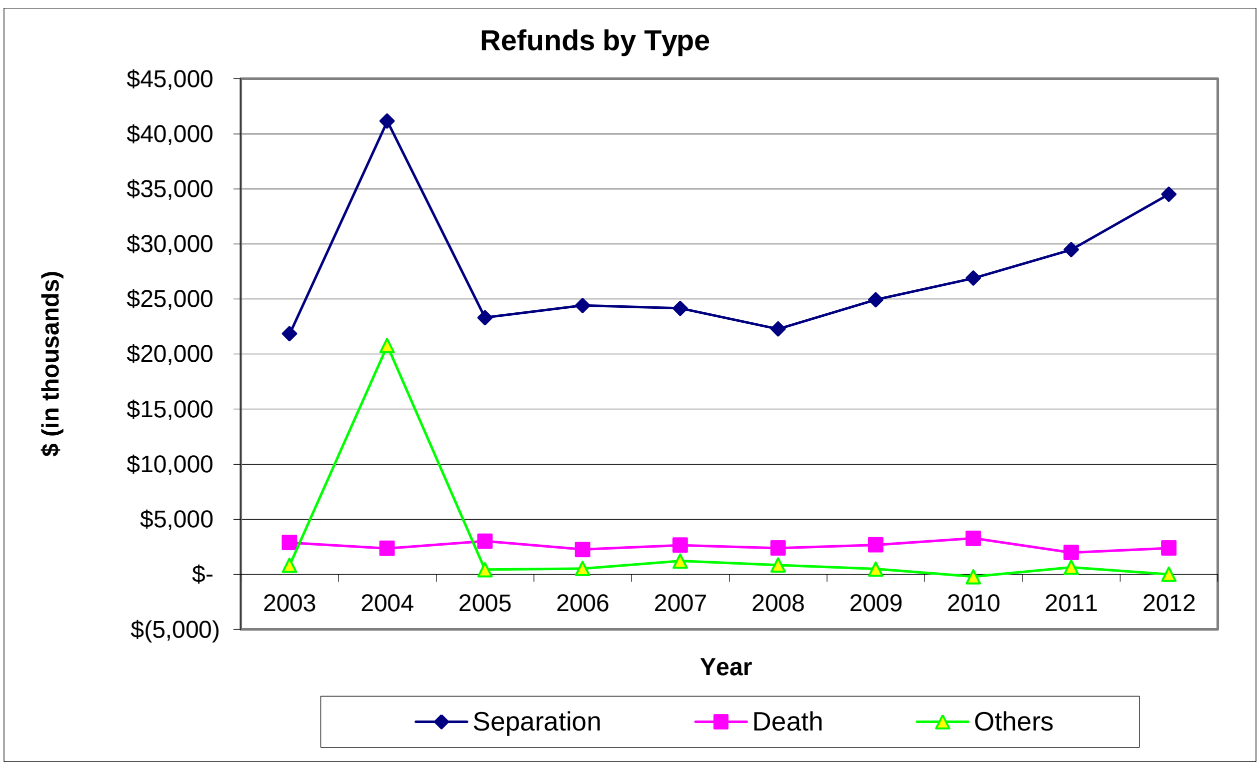


Refunds by Type

(Last ten years)

Year		Separation		Death		Others[1]		Total
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
2012		34,519,018		2,389,915		(149)		36,908,784

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



Benefits by Type

(Last ten years)

	2012	2011	2010	2009	2008
Annuities:					
Employee	$ 624,554,190	$ 584,973,939	$ 553,066,296	$ 530,008,332	$ 509,510,036
Surviving Spouse	56,494,913	54,600,246	53,970,603	52,904,482	51,880,155
Children	459,437	516,022	503,559	523,227	556,917
Total Annuities	681,508,540	640,090,207	607,540,457	583,436,041	561,947,108
Disabilities:					
Ordinary	9,477,386	9,708,906	9,274,262	8,290,644	8,311,069
Duty	4,166,431	4,255,035	3,766,991	3,392,008	3,376,534
Total Disabilities	13,643,816	13,963,941	13,041,253	11,682,652	11,687,603
Postemployment Healthcare Subsidy:					
Employee	8,120,476	8,070,084	8,068,820	8,155,184	7,628,736
Surviving Spouse	1,395,783	1,439,178	1,472,885	1,487,337	1,389,751
Children	5,795	6,792	7,980	8,597	10,875
Total Healthcare Subsidy	9,522,054	9,516,054	9,549,685	9,651,118	9,029,362
Total Benefits	$ 704,674,410	$ 663,570,201	$ 630,131,395	$ 604,769,811	$ 582,664,073

Benefits by Type (continued)

(Last ten years)

	2007	2006	2005	2004	2003
Annuities:					
Employee	$ 491,780,107	$ 477,505,602	$ 464,243,871	$ 431,559,744	$ 341,614,633
Surviving Spouse	51,063,889	50,340,031	49,783,518	49,163,339	48,558,458
Children	567,797	580,445	595,785	596,325	661,845
Total Annuities	543,411,793	528,426,078	514,623,174	481,319,408	390,834,936
Disabilities:					
Ordinary	7,857,240	7,824,045	8,011,243	7,200,947	8,475,088
Duty	2,767,567	2,443,087	1,979,267	1,629,578	2,404,604
Total Disabilities	10,624,807	10,267,132	9,990,510	8,830,525	10,879,692
Postemployment Healthcare Subsidy:					
Employee	$ 7,199,189	$ 7,373,775	$ 7,499,145	$ 7,301,575	$ 5,606,013
Surviving Spouse	1,318,801	1,343,866	1,367,932	1,376,142	1,275,598
Children	12,920	12,835	9,944	12,240	-
Total Healthcare Subsidy	$ 8,530,910	$ 8,730,476	$ 8,877,021	$ 8,689,957	$ 6,881,611
Total Benefits	$ 562,567,510	$ 547,423,686	$ 533,490,705	$ 498,839,890	$ 408,596,239

History of Average Pension Benefit Payments to New Retirees

(Last ten years)

Retirement Effective Dates		Years of Service					
		10-14	15-19	20-24	25-29	30 & Over	Total
	Average Monthly Benefit at Retirement	$ 921	$1,391	$1,813	$2,550	$ 3,532	$ 2,419
2003	Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	$ 3,406
	Number of Active Recipients	135	107	98	133	318	791
	Average Monthly Benefit at Retirement	$ 911	$1,631	$2,237	$2,776	$ 3,767	$ 3,005
2004	Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A
	Number of Active Recipients	137	210	473	583	1,408	2,811
	Average Monthly Benefit at Retirement	$1,067	$1,250	$1,578	$2,177	$ 3,269	$ 2,394
2005	Average Final Average Salary	$2,955	$2,799	$3,110	$3,298	$ 4,095	$ 3,565
	Number of Active Recipients	56	54	51	65	219	445
	Average Monthly Benefit at Retirement	$1,141	$1,286	$1,577	$2,416	$ 3,610	$ 2,451
2006	Average Final Average Salary	$3,471	$2,927	$3,076	$3,716	$ 4,555	$ 3,804
	Number of Active Recipients	53	60	95	73	194	475
	Average Monthly Benefit at Retirement	$1,198	$1,381	$2,029	$2,658	$ 3,919	$ 2,800
2007	Average Final Average Salary	$3,548	$3,075	$3,796	$2,811	$ 4,939	$ 4,242
	Number of Active Recipients	54	69	94	70	229	516
	Average Monthly Benefit at Retirement	$1,293	$1,630	$2,031	$2,765	$ 4,129	$ 2,847
2008	Average Final Average Salary	$3,980	$3,565	$3,981	$4,199	$ 5,285	$ 4,491
	Number of Active Recipients	60	65	106	63	206	500
	Average Monthly Benefit at Retirement	$1,407	$1,790	$2,275	$3,255	$ 4,082	$ 2,969
2009	Average Final Average Salary	$4,664	$4,148	$4,406	$5,005	$ 5,209	$ 4,794
	Number of Active Recipients	57	75	153	92	231	608
	Average Monthly Benefit at Retirement	$1,334	$1,835	$2,215	$3,208	$ 4,354	$ 3,129
2010	Average Final Average Salary	$4,418	$4,311	$4,278	$4,945	$ 5,590	$ 4,933
	Number of Active Recipients	60	77	169	132	287	725
	Average Monthly Benefit at Retirement	$1,350	$1,981	$2,432	$3,459	$ 4,696	$ 3,361
2011	Average Final Average Salary	$4,261	$4,506	$4,661	$5,265	$ 6,046	$ 5,257
	Number of Active Recipients	66	88	193	185	311	843
	Average Monthly Benefit at Retirement	$1,295	$2,014	$2,391	$3,362	$ 4,506	$ 3,230
2012	Average Final Average Salary	$4,400	$4,893	$4,533	$5,094	$ 5,737	$ 5,125
	Number of Active Recipients	93	132	274	254	418	1,171

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

Source of Data: 2012 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
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
2012	33,423	72.6	33,508	62.7	24.8

Source of Data: 2012 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	27	11	-	-	-	-	-	-	-	38
20-24	342	576	31	-	-	-	-	-	-	949
25-29	462	1,244	458	51	-	-	-	-	-	2,215
30-34	339	1,019	883	389	61	-	-	-	-	2,691
35-39	250	808	898	770	300	21	-	-	-	3,047
40-44	226	728	952	1,050	728	337	14	-	-	4,035
45-49	175	619	886	1,154	866	759	313	22	-	4,794
50-54	130	456	858	1,214	919	962	662	138	4	5,343
55-59	76	312	652	933	803	801	517	205	37	4,336
60-64	41	148	388	531	496	489	323	121	37	2,574
65-69	11	41	142	166	153	158	108	59	33	871
70 & Over	4	22	74	69	61	76	54	32	41	433
W/O DOB	-	-	-	-	-	-	-	-	-	-
Total	**2,083**	**5,984**	**6,222**	**6,327**	**4,387**	**3,603**	**1,991**	**577**	**152**	**31,326**

Source of Data: 2012 Actuarial Valuation Report

Current Retirees by Range of Pension Amounts

As of December 31, 2012

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	3	-	-	-	3
$ 1 - $ 250	322	85	36	149	592
251 - 500	420	67	57	-	544
501 - 750	336	79	24	-	439
751 - 1,000	1,023	2,559	9	-	3,591
1,001 - 1,250	1,547	360	2	-	1,909
1,251 - 1,500	2,742	303	1	-	3,046
1,501 - 1,750	1,003	245	-	-	1,248
1,751 - 2,000	1,106	185	-	-	1,291
2,001 - 2,250	1,037	116	-	-	1,153
2,251 - 2,500	1,067	89	-	-	1,156
2,501 - 2,750	864	66	-	-	930
2,751 - 3,000	722	38	-	-	760
3,001 - 3,250	717	16	-	-	733
3,251 - 3,500	685	10	-	-	695
3,501 - 3,750	620	3	-	-	623
3,751 - 4,000	580	2	-	-	582
4,001 - 4,250	549	1	-	-	550
4,251 - 4,500	599	-	-	-	599
4,501 - 4,750	536	1	-	-	537
4,751 - 5,000	485	-	-	-	485
5,001 - 5,250	393	-	-	-	393
5,251 - 5,500	424	-	-	-	424
5,501 - 5,750	350	-	-	-	350
5,751 - 6,000	306	-	-	-	306
Over $6,000	1,181	-	-	-	1,181
Totals	**19,617**	**4,225**	**129**	**149**	**24,120**

Source of Data: 2012 Actuarial Valuation Report

MEABF Staff Retiree Healthcare (OPEB)

Counts	
Retirees and Beneficiaries	Total
16	16

Retiree and Beneficiary Health Coverage Type			
1 Person	2 Person	Family	Total
9	6	1	16

History of Retirees and Beneficiaries By Type of Benefit

(Last ten years)

	Annuitants				Disability		Compensation	Reciprocal	
Year	Employee	Spouse	Child	Reversionary[1]	Ordinary	Duty	Annuitants[2]	Employee	Spouse
2003	13,909	4,118	210		323	190	2	1,944	383
2004	16,109	4,087	201		294	132	2	2,144	385
2005	16,027	4,094	204		304	158	2	2,194	373
2006	15,926	4,075	193		330	193	2	2,257	376
2007	15,899	4,042	178		304	209	2	2,299	368
2008	15,804	4,018	174		266	192	2	2,369	360
2009	15,838	4,008	167		306	220	2	2,407	356
2010	15,961	3,982	173		304	246	2	2,477	364
2011	16,230	3,910	164	129	346	264	2	2,583	364
2012	16,874	3,864	149	129	280	250	2	2,740	361

[1] *Prior to December 31, 2011, reversionary annuitants were included with spouse annuitants.*

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

Source of Data: 2012 Actuarial Valuation Report

Retirees and Beneficiaries By Type of Coverage - Health Insurance Subsidy

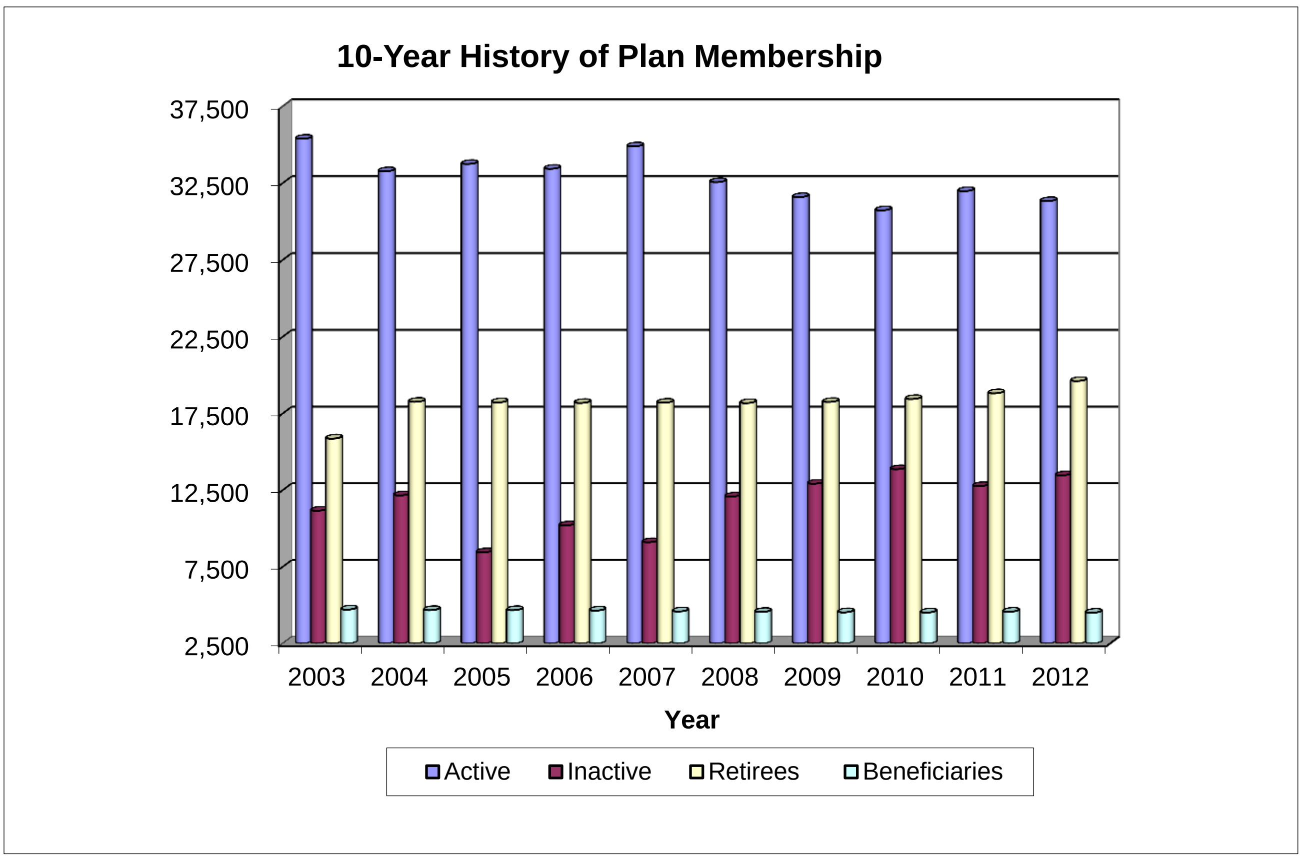
(Last ten years)

	Covered Annuitants						
	Employee		Spouse			Total Not	Total
Year	Single	Family	Single	Family	Total	Covered	Annuitants
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
2012	6,356	2,835	1,654	34	10,879	12,960	23,839

10-Year History of Plan Membership

(Last ten years)

Year	Active	Inactive	Retirees	Beneficiaries	Total
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
2012	31,326	13,465	19,617	4,503	68,911

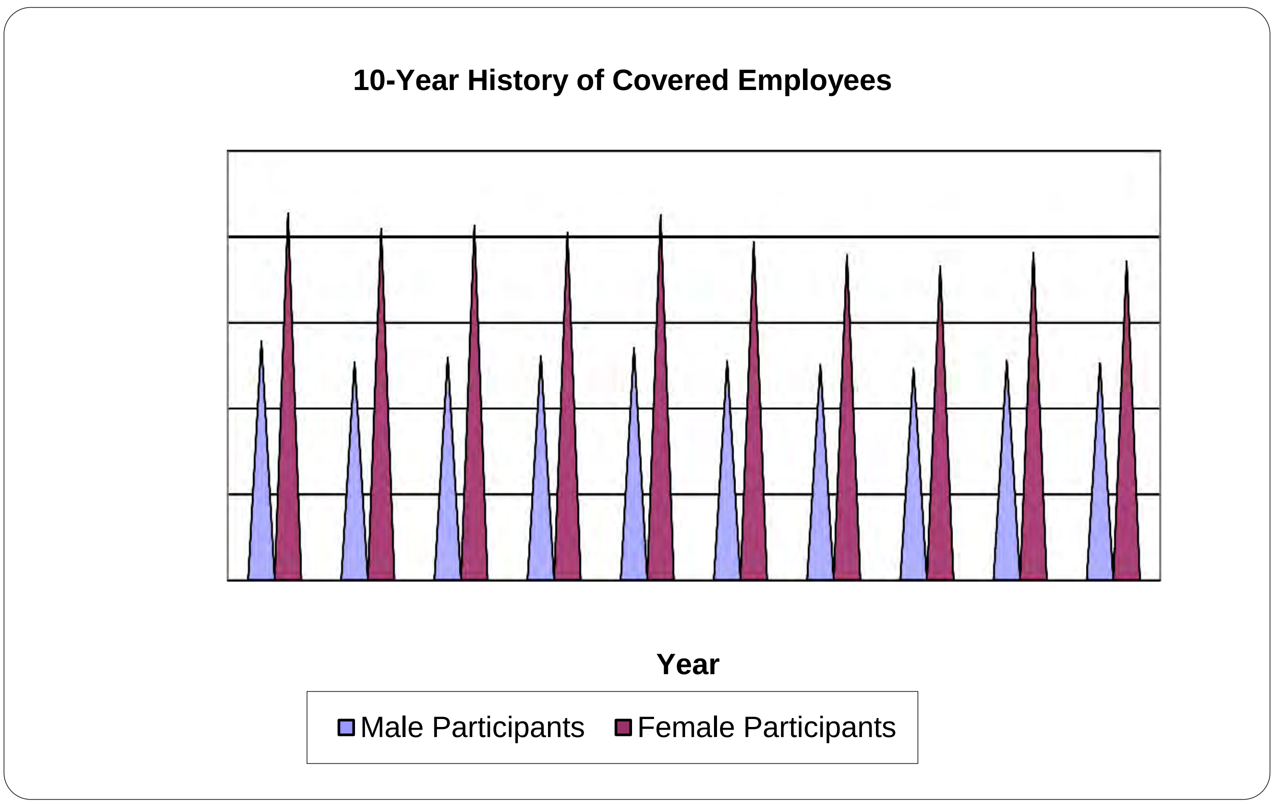


10-Year History of Covered Employees

(Last ten years)

Year	Male Participants	Female Participants	Total Participants
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
2012	12,696	18,630	31,326

Source of Data: 2012 Actuarial Valuation Report



LEGISLATIVE CHANGES IN PLAN PROVISIONS 1993 THROUGH 2012

1992 Session

SB 1650

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

1993 Session

- No legislative changes.

1994 Session

- No legislative changes.

1995 Session

SB 114

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

SB 424

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

1996 Session

SBJPA

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

1997 Session

HB 15

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

HB 313

- Approved June 27, 1997. For withdrawals from service occurring on or after June 27, 1997, an employee (or surviving spouse) age 50 or over with at least 30 years of service is eligible to receive an annuity based on the minimum annuity formula.
- For withdrawals from service occurring on or after June 27, 1997, an employee under age 60, with at least 25 years of service, is not subject to an age discount.
- The surviving spouse of a retiree dying on or after June 27, 1997, while receiving an annuity is eligible for one-half of the employee's annuity at death, discounted for spouse's age under 55 at the time of employee's death.
- Beginning June 27, 1997, employees already receiving annuity will receive a minimum annuity of $550 for life (reciprocal annuitants must have at least five years of Municipal service). Any future employee annuitant withdrawing from service after attainment of age 60 with 10 or more years of service would qualify for this minimum.

- Beginning June 27, 1997, widow(er)s already receiving annuity will receive a minimum annuity of $500 for life (reciprocal annuitants must have at least five years of Municipal service). For future spouses of retirees, 10 years of service is required. For spouses of employees dying in service in the future, five years of service is required.
- Beginning June 27, 1997, the child's annuity will be increased to $220 per month if the spouse of the deceased employee parent survives or $250 per month if no such spouse survives.
- Coverage in the City group health insurance is extended through June 30, 2002, with some modification in the plans offered. Pension plan supplement remains $45 and $75 for Medicare eligible and non-Medicare eligible annuitants respectively.
- Spouses of employees dying in service after age 50 on or after June 27, 1997, will be eligible to receive 50 percent of the annuity that the employee would have received. This annuity will be reduced by 0.25 percent per month for each month that the spouse is below the age of 55.
- Spouses of employees dying after retirement on or after June 27, 1997, will be eligible to receive 50 percent of the employee's annuity at death. This annuity will be reduced by 0.25 percent per month for each month that the spouse is below the age of 55.

HB 1641

- Approved August 22, 1997.
- Beginning August 22, 1997, for surviving spouses of employees who retired or died in service before January 23, 1987, the previous $300, $400, or $500 maximum spouse annuity limitation is removed. If an excess spouse refund was paid, it must be repaid with interest.
- Service paid under Section 8-230 can be counted for ordinary disability purposes for periods of disability on or after August 22, 1997.
- Early Retirement Incentive was created for withdrawals from December 31, 1997, to June 30, 1998.
  - Requires an election form to be filed before June 1, 1998.
  - Requires a member to be a current contributor on November 1, 1997, and have not previously retired under this Article.
  - Provides for elimination of the age discount for employees age 55 to 60.
  - Provides for 80 percent maximum final average salary compared to the present 75 percent.
  - Provides for an optional purchase of up to five years of service credit for 4.25 percent of the November 1, 1997, salary.
  - Provides for a 24-month option to pay for ERI service.
  - Provides for a tax levy derived from ERI contributions.

1998 Session

HB 3515

- Approved August 14, 1998.
- Beginning January 1, 1999, the automatic increase for employee annuitants changed to 3.00 percent compounded for all past, current, and future annuitants regardless of the effective date of the annuity. Term annuities are not eligible for the increase.
- Employees withdrawing after January 1, 1999, will be eligible for the minimum formula upon attainment of age 60 if they have at least 10 years of service.
- Beginning January 1, 1999, employees already receiving an annuity as of August 14, 1998, will receive a minimum annuity of $850 for life (reciprocal annuitants must have at least five years of Municipal service). Any future employee annuitant withdrawing from service after August 14, 1998, after attainment of age 60 with 10 or more years of service would qualify for this minimum.

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

HB 1612

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

1999 Session

- No Changes.

2000 Session

HB 1583

- Approved July 6, 2000.
- An employee or widow whose annuity would amount to less than $800 per month may elect to receive a refund in lieu of annuity. Formerly, only employees and widows whose annuity would be less than $300 per month could choose a refund.
- The reversionary annuity tables have been extended down to age 50 from age 55 to comply with the change in the law allowing retirement at age 50 with 30 years of service.
- The Board is allowed to pay an annuity (if the person qualifies) directly to a Medicare approved, State certified nursing home or to a publicly owned and operated nursing home, hospital, or mental institution. Each person must qualify under the provisions of this amendment.

- Annuities of widows who remarry on or after the date 60 days after the effective date of this amendment would not be terminated upon remarriage.
- For annuities effective before January 1, 1998, all annuity payments will be made on the first day of the calendar month, for the entire month without proration.

2001 Session

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

2002 Session

SB 314
- Effective July 1, 2002.
- The accrual rate for the minimum formula annuity is changed from 2.20 percent to 2.40 percent of final average salary and the maximum annuity is changed from 75 percent to 80 percent of final average salary for employees withdrawing from service on or after January 1, 2002.
- The 3.00 percent post-retirement automatic increase will now begin no later than three years after retirement for an eligible retiree (An eligible retiree is an employee annuitant, not a widow or widower annuitant, originally granted a lifetime annuity). For eligible retirees less than age 60 on the first anniversary of retirement, the 3.00 percent increase will begin at the earlier of age 60, and the latest of the following dates:
    - The third anniversary of retirement
    - The attainment of age 53; or
    - January 1, 2002

  For eligible retirees age 60 or older on the first anniversary of retirement, the 3.00 percent increase will begin on the first anniversary of retirement.

HB 5168
- Effective June 28, 2002.
- For the eligible spouse of an employee who dies in service on or after August 28, 2002, with at least 10 years of service, the annuity is no less than 50 percent of the minimum formula annuity the employee would have been entitled to based on service and salary to the date of death without regard to age eligibility requirements. This is equal to 2.40 percent of final average salary for each year of service. The employee and the spouse must have been married for ten years.
- For children of employees who die in service on or after June 28, 2002, there is no service requirement for eligibility for children’s annuity.
- The definition of “child” now includes any child adopted before employee withdraws from service and at least one year prior to the date any benefit for the child accrues. Previously the adoption also had to take place before the employee attained age 55.

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

2003 Session

SB 1701

- Effective July 1, 2003.
- The healthcare benefits were extended and increased to $85 per month for non-Medicare eligible participants and $55 per month for Medicare eligible participants for the period from July 1, 2003, through June 30, 2008. Thereafter, the benefits are extended and increased from $85 to $95 and $55 to $65 for the period July 1, 2008, to June 30, 2013.
- The healthcare benefits referred to above are not and shall not be construed to be pension or retirement benefits for the purposes of Section 5 of Article XIII of the Illinois Constitution of 1970.

2004 Session

HB 600

- Effective January 16, 2004.
- Early Retirement Incentive was created for withdrawals from January 31, 2004, to February 29, 2004 (or to May 31, 2004, for those deemed critical employees).
- Requires an election form to be filed before January 31, 2004.
- Requires a member to be a current contributor who has not previously retired under this Article and satisfy one of the following:
    - Active as of October 15, 2003
    - Returned to active from approved leave of absence prior to December 15, 2003
    - Receiving ordinary or duty disability benefits as of October 15, 2003
    - Restored to service by January 31, 2004, after having been involuntarily laid off

- Requires that employees that re-enter service forfeit their right to receive benefits and will have their benefits recalculated at the time of retirement excluding the benefits provided under the ERI.
- Requires that the participant is age 50 with ten years of creditable service in this Fund and have 70 combined years of age and service, with service in one or more systems under the Reciprocal Act (excluding service purchased under the ERI).
- Provides for elimination of the age discount for employees younger than age 60.
- Provides for an optional purchase of up to five years of service credit for 4.25 percent of the monthly salary rate in effect October 15, 2003.
- Provides for a 24-month option to pay for ERI service.
- Provides for the exclusion of ERI contributions from the base from which the tax levy is derived.
    - Allows Board members to continue until the end of their terms without forfeiting the benefits provided by the early retirement incentive.
    - Provides for a lump sum benefit option of 100 percent of salary at retirement and an actuarially reduced monthly annuity for those employees who were eligible for the maximum benefit (excluding purchased service under the ERI).
- Automatic increases in annuities will now take effect in the January of each year in which they are to be provided.
- An employee who previously withdrew contributions from the Fund, may have his rights under the Fund restored after repaying the withdrawn contributions with interest after completing the required amount of service after the date of refund. The required service is:
    - 90 days of service under this Fund or
    - Two years of service under any participating Fund under the Reciprocal Act.
- Municipality credits earned in this Fund shall be transferred to the Firemen's Annuity and Benefit Fund of Chicago with 11.00 percent interest compounded annually to the date of the transfer for former paramedics who are now covered under the Firemen's Annuity and Benefit Fund.
- Employees may elect to have their optional contributions "picked-up" by the employer, to be treated as employer contributions for tax purposes. The employee election is irrevocable.
- For the eligible spouse of an employee who died in service on or after January 1, 2002, and before August 28, 2002, with at least 10 years of service, the annuity is no less than 50 percent of the minimum formula annuity the employee would have been entitled to based on service and salary to date of death without regard to age eligibility requirements. This minimum formula annuity is equal to 2.40 percent of final average salary for each year of service. The employee and spouse must have been married for ten years.

2005 Session

SB 23

- Approved June 27, 2005.
- Prohibits the investment or deposit from the retirement system or pension fund to certain entities doing business in or with the government of the Republic of the Sudan. Fund managing companies must certify that under Section 1-110.5 of the pension code that they have not loaned to, invested in, or otherwise transferred any of the pension fund assets to a forbidden entity.

SB 253

- Approved August 4, 2005.
- Provides, that to qualify as an “emerging investment manager”, the maximum value of an investment portfolio that a manager manages is $2,000,000,000 (was $400,000,000).

SB 1446

- Approved August 22, 2005.
- Provides for various changes in provisions and procedures concerning Qualified Illinois Domestic Relations Orders. Allows for alternate payee’s benefit to be based on a percentage of employee’s benefit. Effective July 1, 2006.

HB 227

- Approved August 22, 2005.
- Provides a benefit to a spouse married to the employee after retirement under certain conditions.

2006 Session

- No Changes.

2007 Session

HB 49

- Approved August 17, 2007.
- Provides that, beginning on the effective date, legally adopted children shall be entitled to the same benefits as other children, and no child’s or survivor’s benefit shall be disallowed because the child is an adopted child.

SB 1169

- Approved August 28, 2007.
- Provides that, in order for an Illinois finance entity to be eligible for investment or deposit of retirement system or pension fund assets, the Illinois finance entity must annually certify that it complies with the requirements of the High Risk Home Loan Act and the rules adopted pursuant to that Act that are applicable to that Illinois finance entity. Requires the retirement system or pension fund to divest its assets with the Illinois finance entity if the certification is not made. Provides that these certification requirements are severable. Makes changes in the severability provisions applicable to the amendatory Act.

SB 1380
- Approved August 28, 2007.
- Amends the Illinois Municipal Retirement Fund (IMRF) and Chicago Municipal Articles of the Illinois Pension Code. Allows a sheriff's law enforcement employee under the IMRF Article to transfer service credit under the Chicago Municipal Article to the IMRF.

2008 Session

- No Changes.

2009 Session

SB 2520
- Approved February 17, 2009.
- Provides that, before any action is taken by the Board on an application for a duty disability benefit or a widow's compensation or supplemental benefit, the employee or widow shall file a claim with the employer to establish that the disability or death occurred while the employee was acting within the scope of and in the course of his or her duties. Provides an offset of disability benefits for any amounts provided to the employee or surviving spouse as temporary total disability payments, permanent disability payments, a lump sum settlement award, or other payment under the Workers' Compensation Act or the Workers' Occupational Diseases Act. Makes other changes concerning disability benefits.

HB 2557
- Approved August 25, 2009.
- Provides that it is the public policy of the State to encourage pension funds to promote the economy of Illinois through the use of economic opportunity investments within the bounds of financial and fiduciary prudence. Provides that the pension funds submit a report to the Governor and General Assembly by September 1 of each year identifying the economic opportunity investments made by the Fund, the primary location of the business or project, the percentage of the Fund's assets in economic opportunity investments, and the actions the Fund has taken to increase the use of economic opportunity investments.
- Requires the Fund to instruct the investment advisors to utilize investment strategies designed to ensure that all securities transactions are executed in such a manner that the total explicit and implicit costs and the total proceeds in every transaction are the most favorable under the circumstances.

SB 364
- Approved April 3, 2009.
- Requires Board members to file a verified written statement of economic interest annually with the office of the Clerk of Cook County.
- Requires the Board to adopt a policy that sets quantifiable utilization goals for the management of assets in specific asset classes for emerging investment managers. Goals shall be separated by minority ownership, female ownership, and person with a disability ownership.
- Requires that if at least one emerging firm(s) meet criteria of search process, at least one shall be invited to present to the Board for final consideration.
- Requires the Board to adopt a policy that sets forth goals for increasing the racial, ethnic and gender diversity of its fiduciaries, including its consultants and senior staff.
- Requires the Board to adopt a policy that sets forth goals for utilization of WMDBE firms for all contracts and services, based on the percentage of total dollar amount of all contracts let.

- Requires the Board to adopt a policy that sets forth goals for increasing the utilization of minority broker-dealers.
- Requires an annual report to the Governor and General Assembly on the utilization of "emerging firms" as defined by Article 1 of the Pension Code.
- Requires the Board to award all contracts for investment services using a competitive process that is substantially similar to the process required for the procurement of professional services under Article 35 of the Illinois Procurement Code. Requires the Board to adopt a procurement policy which will be posted on the Fund's website and filed with the Illinois Procurement Policy Board.
- Provides that a person may not act as a consultant or investment adviser unless that person is registered as an investment adviser or bank under the federal Investment Advisers Act of 1940.
- Requires investment contracts between the Retirement Board and investment service providers to include certain required information.
- Provides consultant contracts cannot exceed five years in duration; however, incumbent consultant may compete for new contract.
- Requires investment consultants and advisers to disclose all direct and indirect fees, commissions, penalties, and other compensation paid by or on behalf of the investment consultant or adviser in connection with the services provided.
- Requires that a description of every contract let for investment services be posted on the website, including name of entity awarded the contract, amount of contract, total fees paid, and disclosure describing the factors that contributed to the selection.

- Requires the Fund to maintain a website that shall include standard investment reporting, a copy of relevant Board policies, a listing of investment consultants and managers, a notification of any requests for investment services, and the names and e-mail addresses of Board members, Fund directors, and senior staff.
- Requires Board members to attend at least eight hours of ethics training per year and requires each Board to annually certify its member's compliance and submit an annual certification to the Division of Insurance of the Department of Financial and Professional Regulation.
- Prohibits any Fund trustee or employee or their spouses or immediate family living with them to intentionally solicit or accept any gift from any prohibited source as prescribed in Article 10 of the State Officials and Employees Ethics Act, including educational materials and missions and travel expenses for discussing Fund business.
- Provides that any person who knowingly makes any false statement or falsifies or permits falsifying any record of the pension fund in an attempt to defraud is guilty of a Class 3 felony.
- Provides that no person or entity shall retain a person or entity to influence the outcome of an investment decision or the procurement of investment advice to a pension fund for compensation, contingent upon the decision of the Board.
- Requires approval for travel or education mission expense of a Trustee by a majority of the Board prior to mission.

SB 1440

- Approved August 18, 2009.
- Provides that the Fund may, and to the extent required by federal law shall, allow an employee to roll over a refund, lump-sum benefit, or other non-periodic distribution (including the non-taxable portion) directly to any entity that is designated in writing by the person, is qualified under federal law to accept the distribution, and has agreed to accept the distribution.

SB 1705

- Approved August 25, 2009.
- Provides the Municipal fund will send city contributions to the Fire fund for a fireman who was employed by the Chicago Fire Department and participated in the Municipal fund, terminated that service, and received a refund, if the employee establishes the service under the Fire fund.

2010 Session

Public Act 96-0889 (SB 1946)

- Approved April 14, 2010.
- Establishes a new tier of benefits for participants that first become members on or after the effective date of January 1, 2011.
  - Final average compensation is based on the average of the highest consecutive eight years within the last ten years of service.
  - Establishes a cap on final average salary of $106,800, as automatically increased by the lesser of 3 percent or one-half of the annual increase in the Consumer Price Index-U during the preceding 12-months.
  - Increases eligibility for a retirement annuity:
    - Age 67 with 10 years of service for an unreduced benefit.
    - Age 62 with 10 years of service for a reduced benefit. Reduction is one-half percent for each full month that retirement precedes age 67.
  - Changes provisions for automatic increases in annuity:
  - Increases begin in the year following the later of the first anniversary of the annuity start date and attainment of age 67.
  - Increases are equal to the lesser of 3 percent or one-half of the annual increase in the Consumer Price Index-U during the preceding 12-months.
  - Increases are based on the amount of the originally granted benefit (not compounded).
  - Changes benefits provided to surviving spouses:
  - Surviving spouse annuity is equal to 66 2/3 percent of the participant's earned retirement annuity at the date of death.
  - Provides an automatic increase in annuity:
    - Increases begin on January 1 in the year following the commencement of the survivor's annuity if the deceased member died while receiving a retirement annuity and January 1 following the first anniversary of commencement otherwise.
    - Increases are equal to the lesser of 3 percent or one-half of the annual increase in the Consumer Price Index-U during the preceding 12-months.
    - Increases are based on the amount of the originally granted benefit (not compounded).
- Establishes that members that are receiving a retirement annuity and accept a full-time position under the same Article or another Article established under the Illinois Compiled Statutes would have their benefits suspended during employment. Their benefits would be recalculated, if applicable, upon termination of employment.

Public Act 96-1490 (SB 550)

- Approved December 30, 2010.
- Amends certain provisions established in SB1946 that apply to participants that first become members on or after January 1, 2011:
  - Establishes the period for calculating the annual unadjusted percentage increase in the Consumer Price Index-U as the 12-month period ending with September for purposes of capping salary and calculating the automatic increase in annuity percentage.
  - Establishes that the salary cap of $106,800 applies for all purposes under the Code, including the calculation of benefits and employee contributions.
  - Establishes that the survivor’s annuity is calculated with no reduction due to age.
  - Establishes that members who withdraw before age 62, or with less than 10 years of service, regardless of age, are entitled to all salary deductions for retirement annuity and spouse annuity accumulated with interest to date of resignation, plus the 0.50 percent deducted for annuity increase purposes without interest.
  - Establishes that increases in annuity for employee annuitants commence on January 1.

2011 Session

Public Act 97-0530 (SB 1672)

- Approved August 23, 2011.
- Requires all pension funds and retirement systems subject to the Code to comply with the federal Heroes Earnings Assistance and Relief Tax Act of 2008.

Public Act 97-0609 (SB 1831)

- Approved August 26, 2011.
- Applies to those members hired on or after January 1, 2012.
  - Provides that if a new hire is receiving a retirement annuity or pension and accepts a contractual position to provide services to a governmental entity from which he or she has retired, then that person's annuity or pension will be suspended during that contractual service.
  - Makes it a Class A misdemeanor for a pensioner who is seeking contractual employment to fail to notify certain persons about his or her retirement status before accepting an employment contract.

Public Act 97-0504 (HB 1670)

- Approved August 23, 2011.
- Amends the Open Meetings Act.
  - Requires each elected or appointed member of a public body subject to this Act who is such a member on the effective date of the amendatory Act to successfully complete the electronic training curriculum developed and administered by the Public Access Counselor.
  - Requires those members to complete the training not later than one year after the effective date of the amendatory Act.
  - Requires each elected or appointed member of a public body subject to the Act who becomes such a member after the effective date of the amendatory Act to successfully complete the electronic training curriculum developed and administered by the Public Access Counselor.

- Requires those members to complete the training not later than the 90th day after the date the member either (i) takes the oath of office, if the member is required to take an oath of office to assume the person's duties as a member of the public body or (ii) otherwise assumes responsibilities as a member of the public body, if the member is not required to take an oath of office to assume the person's duties as a member of the governmental body.
- Requires each member who successfully completes the curriculum to file a copy of the certificate of completion with the public body.
- Provides that the failure of one or more members of a public body to complete the training required by this Section does not affect the validity of an action taken by the public body.
- Provides that an elected or appointed member of a public body subject to this Act who has successfully completed the required training and filed a copy of the certificate of completion with the public body is not required to subsequently complete that training.

2012 Session

Public Act 97-0651 (HB 3813)

- Approved and effective January 5, 2012.
- Requires any reasonable suspicion of fraud against the Fund to be reported to the State's Attorney for investigation.
- Changes provisions for Union Leaves of Absence as follows:
  - Service credit can be accrued only for union leaves that begin before the effective date of this amendatory Act.
  - "Any pension plan established by the local labor organization" is defined as any pension plan in which the member can receive credit as a result of his membership in the local labor organization. This is a declaration of existing law.
  - Salary used for calculation of final average salary must be a salary paid by an employer, not by the union. This is a declaration of existing law.
  - Minimum annuity section 11-134 is changed to add to the final average salary the product of (1) final average salary, (2) the average percentage increase in the CPI during the leave of absence, and (3) the number of years of leave of absence. This does not seem to deal with a situation where the employee may have been on leave within the last 10 years but is last with Municipal. It also only amends paragraph (f-1) which applies to those members who go on annuity on or after the attainment of age 60.
  - Does not change that contributions are based on current salary with the union.

Public Act 97-0967 (HB 3969)

- Approved and effective August 16, 2012.
- Applies if the member retired after the effective date with less than 2 years of service in a participating system under the Reciprocal Act after General Assembly service.
- Requires that if the final average salary in a participating system is used to calculate the annuity, the employer must pay the General Assembly Retirement System for any increased cost of the General Assembly annuity that is attributable to the higher salary under the participating system.

End of Report

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