POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO, ILLINOIS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

a component unit of the City of Chicago

for the year ended December 31, 2007

Comprehensive Annual Financial Report

Policemen's Annuity and Benefit Fund

A Component unit
of the City of Chicago
for the year ended
December 31, 2007

Prepared by
John J. Gallagher, Jr.
Executive Director
Charles A. McLaughlin
Comptroller
Pacifico V. Panaligan
Assistant Comptroller

221 North LaSalle Street
Suite 1626
Chicago, IL 60601

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
Component Unit Financial Report
Year Ended December 31, 2007

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Policemen's Annuity and Benefit Fund of Chicago

Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

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

President

Executive Director

THE RETIREMENT BOARD
of the
Policemen's Annuity and Benefit Fund
City of Chicago
221 NORTH LASALLE STREET-ROOM 1626
CHICAGO, ILLINOIS 60601
(312) 744-3891

Address Communications
to the Retirement Board

Outside Chicago: 1-800-656-6606

Retirement Board of the Policemen's
Annuity and Benefit Fund of Chicago
Chicago, Illinois

The Policemen's Annuity and Benefit Fund of Chicago hereby submits the comprehensive annual financial report (CAFR) for the Fund, year ending December 31, 2007. The Fund accepts responsibility for the accuracy of the data and the completeness and fairness of presentation, including disclosures. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Fund. All disclosures necessary to enable the reader to understand the Fund's financial activities have been included.

Any employee of the City of Chicago employed under the provisions of the municipal personnel ordinance as police service is covered by the Policemen's Annuity and Benefit Fund of Chicago. The Fund is governed under Illinois State Statutes (Chapter 40, Pension, Article 5, Illinois Compiled Statutes) and may be amended only by the Illinois Legislature.

The Fund was established in 1921 with the mission of providing retirement benefits to the members of the Chicago Police Department and their spouses. To properly execute this mission the Fund is administered by an eight (8) member Board of Trustees. The Board is composed of four (4) elected members, with one elected from each rank of police officer, sergeant, lieutenant and above, and a member from the retired members and their widows. The Mayor of Chicago appoints four members. The Retirement Board then elects a Board President, a Vice-President and a Recording Secretary from its own membership.

The Retirement Board is charged with many duties including: approval of all applications for benefits and annuities, investment of Fund monies in a manner prescribed by the State Statutes and Fund policy, adoption of rules and regulations for the proper conduct of the affairs of the Fund, an annual audit conducted by a certified public accountant certifying financial results for each year and the filing of a detailed report of the affairs of the Fund to the State of Illinois Department of Insurance and the City of Chicago each year. A summary of plan provisions adopted by the Retirement Board are presented as part of this CAFR.

This report presents the financial activities of the Fund and is composed of five (5) sections:

1. The introductory section contains the table of contents, this transmittal letter, a listing of the Retirement Board members and office staff members, a listing of professional consultants, the Fund's organizational chart and a summary of plan provisions;

2. The financial section contains the report of the independent auditors, management discussion and analysis, the financial statements and accompanying notes, required supplementary information and supporting schedules of the Fund;

3. The investment section reports on activity, policy, results, allocation, fees and commissions and includes an investment summary;

4. The actuarial section contains the report of the Fund's actuary with supporting actuarial assumptions, schedules and tables;

5. The statistical section provides membership data for both active members and annuitants of the Fund as well as a history of investment yields.

Financial Information

The management of the Fund is responsible for establishing and maintaining an internal control structure designed to ensure the safety of the Fund's assets from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements that conform to generally accepted accounting principles. The internal control system is included in the auditor's review and is designed to provide reasonable, but not absolute, assurance that these objectives are being met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Users of this report are strongly encouraged to review the **Management's Discussion and Analysis** portion of the Financial Section in order to obtain a more complete understanding of the Fund's financial condition and activity.

The Budget Process

The Fund's budget is prepared through a process that originated in 1975. At that time, a budget for only the Fund's administrative expenses was prepared and approved. The 1990 budget was expanded to include all revenue and expense categories, including employer and employee contributions, investment income, annuity, death and disability benefit expenses. The 1992 budget was further developed to include a complete listing of the goals, programs and projects of the Fund. The 2008 budget process builds from recent years' strengths and includes additional charts and graphs. Policies and procedures have remained substantially consistent with those of the prior year, with the exception that the ideas for new projects were sought beginning in July. The current fiscal planning and budgeting process then formally begins in July and ends in December with the approval by the Board of Trustees.

Revenues

Revenues are needed to finance retirement benefits and are accumulated from the contributions of active police officers, the corresponding employer contributions and investment income. The following summarizes revenue collections for the years of 2007, 2006, and 2005 by source along with a percentage of 2007 total income detailed.

Source of Revenue	2007	Percent of Revenue	2006	% Increase /(Decrease) 2006-07	2005
Employer Contributions	178,678,154	28.73%	157,689,286	13.3%	177,910,607
Employee Contributions	93,299,996	15.00%	91,965,685	1.5%	89,109,811
Investment Income	349,914,156	56.26%	447,275,047	(21.8%)	261,389,227
Other Revenue	27,821	0.00%	1,069,991	(97.4%)	367,764
Total Revenue	**621,920,127**	**100.00%**	**698,000,009**	**(10.9%)**	**528,777,409**

Gross revenues for 2007 decreased a total of $76.1 million as compared to 2006. The decrease is attributable chiefly to the decline in the realized fair value of investments for 2007 as compared to 2006.

Expenses

The expenses paid in 2007 by the Fund include annuity payments, benefit payments and administration expense. Total Fund expenses for 2007, 2006, and 2005 by type are as follows:

Type of Expense	2007	Percent of Expense	2006	% Increase /(Decrease) 2006-07	2005
Annuities	439,483,811	91.41%	421,116,037	4.4%	399,843,737
Disability	22,132,157	4.60%	21,783,830	1.6%	22,184,204
Death Benefits	1,754,836	0.37%	1,886,443	(7.0%)	1,500,000
Refunds	6,206,813	1.29%	5,271,842	17.7%	5,644,241
Hospitalization	8,107,708	1.69%	8,001,771	1.3%	7,917,077
Administration	3,077,073	0.64%	2,700,475	13.9%	2,660,819
Total Expenses	**480,762,398**	**100.00%**	**460,760,398**	**4.3%**	**439,750,078**

The expenses paid by the Fund for 2007 total $480,762,398, an increase of 4.3% when compared to a total of $460,760,398 for 2006. The increase in benefit payments accounted for most of the increase in expenses in 2007 over 2006.

Total revenues over expenses for 2007 produced a decline in net assets held in trust for pension benefits of $141,157,728 compared to $237,239,611 for 2006, a 40.5% decrease. This decrease can be attributed chiefly to a sharp decline in the realized market appreciation of both US and International equities triggered chiefly by the sub-prime mortgage crisis and further compounded by recessionary fears and rising oil prices. Investment management and consulting expenses for 2007 were $14,679,451 (.33% of net assets held in trust at December 31, 2007 or 33 basis points), which compares favorably with other public employee pension funds. The Police Fund charges investment management cost as a reduction of investment income which is the same treatment currently used by many plans. The Fund also generated income from security lending activity totaling $2,108,381 in 2007 compared to $1,384,335 in 2006. Administrative expenses for 2007 were $3,077,073 (.07% of net assets held in trust at December 31, 2007 or 7 basis points).

Funding Status

In 2007 revenues of $ 621,920,127 exceeded expenses of $ 480,762,398 by $ 141.2 million. This increase brought the plan's net asset base to $4.33 billion. The net asset base currently funds 51.59 % on a fair value basis of the aggregate actuarial liability of $8.40 billion. For the purposes of this report, the actuarial section details the GASB 25 funding ratio method used by the actuary, which is a five-year market-smoothing period to arrive at the actuarial value of assets. The actuarial funded ratio of 50.38% is a increase of 1.12% from 2006 and is considered below normal levels. It should be noted that there has been no increase in the employer contribution requirement (tax multiplier) since 1982 when the rate was increased from 1.97 to 2.00 times the employee contribution two years prior. The Fund has and will continue to perform asset liability modeling studies to assist the Board in administering the plan.

Investment Policy and Performance

The investment portfolio is a financial resource that is the leading contributor to the Plan. In 2007, the investment portfolio returned 8.8%, exceeding the actuarial assumed return of 8.0%. 41 professional investment management firms currently manage the investment portfolio. These firms make investment decisions under the prudent person rule authorized by state statutes and investment policy guidelines adopted by the Board of Trustees. The Board also employs an investment consultant to monitor investment performance, to aid in the selection of investment management firms and assist in the development of investment policy.

Plan management's uppermost investment goal is to optimize the total return of the Plan's assets through a policy of diversification while achieving maximum rates of return within a parameter of prudent risk as measured on the total portfolio.

The Total Fund outperformed its policy portfolio by 90 basis points, returning 8.8% versus a policy portfolio return of 7.9%. The Fund also edged out the Russell/Mellon Public Fund Index by 10 basis points (8.8% vs. 8.7%). The Index represents the median return of all U.S. public funds, regardless of their individual asset allocations. The Fund's domestic equity portfolio outperformed the DJ Wilshire 5000 Index by 1.9% (7.5% vs. 5.6%). Absolute returns for foreign equity in 2007 were 16.4% compared to the MSCI-All Country World ex-U.S. Index, which returned 16.7%. The Fund's fixed income portfolio underperformed its benchmark, the Lehman Brothers Aggregate Index 5.1% versus 7.0%.

Economic Condition and Outlook

As a long-term institutional investor, the Fund set forth investment guidelines and objectives and continues to abide by this policy. A major consideration of that policy is portfolio diversification.

In 1984, the Fund adopted the present guidelines under Illinois State statutes and the results have been very good since then and are expected to remain so. A third party custodial agent holds the Funds' investments.

Public Pensions Commission

Late in 2007, the Mayor of the City of Chicago announced the formation of a special Commission to propose ways to improve the financial strength of the City's four pension funds. The Police Pension Fund has been experiencing a drag on its funding progress from the impact that negative cash flows have on long-term investment returns. Negative cash flow occurs when employee and employer contributions are not sufficient enough to offset total annual benefit expenses, requiring the Fund to tap into its investment portfolio to assist in paying benefits when due.

The executive directors from each of the four City pension funds are serving on this Mayoral commission as well as an elected trustee representing each pension fund. Several union-appointed representatives and private-sector business leaders also serve on the Commission. The Commission is expected to issue a recommendation within 12 to 18 months.

Major Initiatives

The Fund will continue to strive for customer service excellence by improving the operational efficiencies and service delivery to the membership. In August of 2007, the Board approved the hiring of a consultant to develop a new pension accounting and administration system which will significantly improve our ability to better serve our active and retired participants. The new system is on target to become fully operational in early 2009. We have also joined with several other local public pension funds in establishing a disaster recovery center. The Fund has established, and continues to expand, a web-site with the web address of ***chipabf.org*.**

The Investment Committee will continue to use the Investment Policy Manual that is now the comprehensive source of investment information and will also provide guidelines for current and future trustees and staff. The Fund has offered a deferred compensation investment program to its employees since January 1, 1993.

Professional Services

The Fund's actuarial services are provided by Gabriel, Roeder, Smith & Company. The annual audit is conducted by Hill Taylor LLC, Certified Public Accountants. In 2006, the Fund hired Courtland Partners, Ltd. as real estate investment advisors. Courtland advised the Fund on making allocations to a pool of real estate managers in 2006 and 2007. Given the recent nature of these investments, no substantial financial performance data existed as of December 31, 2007. A complete listing of all investment managers is detailed in the CAFR's introductory section.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting for the year ended December 31, 2006. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports and the Fund has received the certificate for 16 out of the past 17 years.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgments

On behalf of the Board of Trustees, I wish to express appreciation to the staff and professional consultants who work so effectively to ensure the continued successful operation of the Fund. It is an honor and a privilege to serve the men and women of the Chicago Police Department and the City of Chicago. I extend my appreciation to all Fund participants for their interest and involvement in all plan activities. With our office improvements, we will be better able to serve you going forward and, as always, welcome your comments or suggestions.

Respectfully submitted,

John J. Gallagher, Jr.
Executive Director
June 13, 2008

RETIREMENT BOARD MEMBERS AND OFFICE STAFF

December 31, 2007

Appointed Trustees

Robert F. Reusche, President
Steven J. Lux,
Investment Committee Chairman
Stephanie D. Neely, Treasurer
Paul A. Volpe

Elected Trustees

Kenneth A. Hauser, Vice President
Michael J. Lazzaro, Recording Secretary
James P. Maloney
Steven M. Robbins

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Charles A. McLaughlin, Comptroller
Pacifico V. Panaligan, Assistant Comptroller

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Richard Mulhbacher	Maggie O'Grady	Ed Rausch
Kim Reno	Erwin Santos	Kathy Walsh
Richard Wrobel		

PROFESSIONAL CONSULTANTS

LEGAL ADVISOR
David R. Kugler, Esquire

MEDICAL ADVISOR
S. David Demorest, M.D.

INVESTMENT CONSULTANTS
Ennis, Knupp and Associates
Courtland Partners, Ltd.

CONSULTING ACTUARY
Gabriel, Roeder, Smith & Company

AUDITOR
Hill, Taylor L.L.C.

MASTER CUSTODIAN
The Northern Trust Company

COMMERCIAL BANK
Chase

INVESTMENT MANAGERS

ABR Chesapeake
Adams Street Partners
AG Realty
Ariel Capital Management
Artisan Partners
Attucks Asset Management LLC
Capital Guardian Trust Co.
The Carlyle Group
Chancellor
Channing Capital
Chicago Equity Partners
Cordillera Asset Management
Dearborn Partners
Denali Advisors
DRA Advisors LLC
DV Urban Realty
Global Infrastructure Partners
Great Lakes Advisors
HarbourVest Partners, LLC
Harris Investment Management
Holland Capital Management
Invesco Capital Management
JP Morgan Fleming Asset Management
LM Capital Group
Macquarie Group
McKinley Capital Management
Mesirow
Montag & Caldwell
Morgan Stanley Real Estate
Muller & Monroe
Northern Trust Global Investments
Piedmont Investment Advisors
Piedra Capital, Ltd.
Prudential Real Estate
Quadrant Real Estate Advisors
Shamrock-Hostmark
Taplin, Canida & Habacht
UBS Global Asset Management
Wellington Management Company
Wells Capital Management
William Blair & Company

ORGANIZATION CHART

RETIREMENT
BOARD OF TRUSTEES
Robert F. Reusche, President
Kenneth A. Hauser, Vice-President
Steven J. Lux, Investment Committee Chairman
Michael J. Lazzaro, Recording Secretary
Stephanie D. Neely, Treasurer
James P. Maloney, Trustee
Steven M. Robbins, Trustee
Paul A. Volpe, Trustee

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EXECUTIVE DIRECTOR
John J. Gallagher, Jr.

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PROFESSIONAL CONSULTANTS	**COMPTROLLER**
Legal Advisor	Charles A. McLaughlin, CPA
Medical Advisor	**ASSISTANT COMPTROLLER**
Investment Consultants	Pacifico V. Panaligan, CPA
Consulting Actuary	
Auditor	
Master Custodian	
Investment Managers	

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BENEFIT CALCULATIONS	**BENEFIT CLAIMS**	**BENEFIT COUNSELING**	**BENEFIT DISBURSEMENTS**
Richard Wrobel	Kay Hylton	Maggie O'Grady	Kris Matalik

Financial Section

Member of The
American Institute
Of Certified Public Accountants

Member Of The
Illinois CPA Society

Hill Taylor LLC
Certified Public Accountants
116 South Michigan Avenue, 11th Floor
Chicago, Illinois 60603
V 312-332-4964 F 312-332-0181

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Policemen's Annuity and Benefit
Fund of Chicago

We have audited the accompanying statements of plan net assets of the Policemen's Annuity and Benefit Fund of Chicago (Fund) as of December 31, 2007 and 2006, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Policemen's Annuity and Benefit Fund of Chicago as of December 31, 2007 and 2006, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America..

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental schedules listed in the table of contents are required by the GASB. The other supplementary schedules of administrative expenses, consulting costs, and investment fees are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Fund. The required supplementary information and other supplemental schedules of administrative expenses, consulting costs, and investment fees are the responsibility of the management of the Fund. The information on those schedules has been subjected to the auditing procedures applied in the audits of the basic financial statements of the Fund and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hill, Taylor LLC

May 15, 2008

Management's Discussion and Analysis

The Management's Discussion and Analysis section of this report is intended to serve as an introduction to the Policemen's Annuity and Benefit Fund of Chicago's financial statements and to supplement the information contained therein.

OVERVIEW OF FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION

The basic financial statements are prepared in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB) and are described below:

- **The Statements of Plan Net Assets** report the Fund's assets, liabilities and the resultant net assets where Assets minus Liabilities equal Net Assets available at the end of the year.

- **The Statements of Changes in Plan Net Assets** show the sources and uses of funds during the calendar year, where Additions minus Deductions equal the Net Increase (or Decrease) in Net Assets available for the year.

- **The Notes to the Financial Statements** are an integral part of the financial statements and include important information and schedules to provide a better understanding of the data provided in the financial statements. Information contained in the note disclosures discusses the accounting policies, benefits, contributions, fund reserves and various other relevant topics.

Due to the long-term nature of the Fund, additional information is provided to supplement the information included in the financial statements. Two required supplementary schedules for the Pension and Health Insurance, respectively, are provided that include historical trend information for the past six years for the Pension and since adoption of GASB Statement No. 43 for the Health Insurance to aid in analysis of the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.

- **The Schedule of Funding Progress** contains actuarial valuations of the status of the plan in an ongoing as well as a historical basis. Actuarial Liabilities in excess of Actuarial Valuation of Assets indicates that insufficient assets have been accumulated to fund future benefits of current members and retirees.

- **The Schedule of Employer Contributions** contains historical trend information regarding the value of total annual contributions that the employer must pay (as determined under the parameters of GASB Statement No. 25 for the Pension and GASB Statement No. 43 for the Health Insurance) and the related percentage the employer has contributed to meet its requirement.

- **The Notes to the Required Supplementary Information** provides background information and the actuarial method and assumptions used to aid in understanding the required supplementary schedules.

Additional schedules provided include the *Schedule of Administrative Expenses, Schedule of Consulting Costs,* and the *Schedule of Investment Fees* to reflect the costs involved in managing a defined benefit pension plan.

FINANCIAL HIGHLIGHTS

- The Retirement Board of the Policemen's Annuity and Benefit Fund of Chicago's net assets increased by $141.1 million or 3.4% to $4.33 billion, in 2007 from $4.2 billion at year-end 2006. The increase was mainly attributable to appreciation in the fair value of investments. The investment return for 2007 was 8.8%, down from 12.1% in 2006. This decline was chiefly due to a downturn in U.S. equity markets in 4th Quarter of 2007. U.S. equities sustained in aggregate a loss of almost 4.5% in the fourth quarter, triggered by the sub-prime mortgage crisis and the subsequent credit crunch.

- The funding objective of the Plan is to meet its long-term defined pension benefit obligations. The Funding Ratio of the plan on a market value basis experienced a slight decrease from 51.65% at year-end 2006 to 51.59% for 2007. The Fund uses a 5-year actuarial smoothing method in valuing its assets to determine its funded status and the required contributions necessary to fund the plan going forward. This actuarial valuation method reduces the effect of short-term market volatility and provides more stable trend valuation for the long-term planning needs of the Fund.

- Revenues for the Fund were consistent with 2006 except for investment income. For 2007, the net appreciation of $265.4 million contributed to the overall increase in net assets of $141.1 million. Total contributions by the employees and employer were $272.0 million for 2007 as compared to $249.7 million for 2006. The significant increase is due to the fact that the regular 2007 employer contributions were supplemented by one-time debt proceeds of $12.2 million which did not occur in 2006.

- Expenses for the Fund continue to be dominated by the benefit payments made for annuitants and disability recipients. Benefit payments for 2007, excluding death benefits and refunds, were $469.7 million, up from $450.9 million in 2006. Death benefits and refunds of employee deductions remained consistent from 2006 to 2007 and account for only 1.7% of total benefit expenses. The Fund's administrative expenses for 2007 were $3.1 million, comparable to $2.7 million in 2006.

- Investment management fees increased from $12.5 million in 2006 to $13.7 million in 2007, reflecting a re-allocation of fund assets from passive index funds to actively-managed funds with the greater expense incurred by the later type of asset management. The move towards actively-managed funds in 2007 is in keeping with the Fund's long-term investment policy of increasing the portfolio's rate of return. The move towards actively managed funds has also led to an increase in net income from securities lending activities from $1.4 million in 2006 to $2.1 million in 2007, resulting from a material increase in the portfolio's pool of securities eligible for securities lending.

PLAN NET ASSETS

A summary of the Plan's Net Assets is presented below:

Plan Net Assets
(In millions)
Years Ended December 31, 2007 and 2006

	2007	2006	2007-2006 Change $	2007-2006 Change %
Cash and cash equivalents	$ 136.7	$ 99.2	$ 37.5	37.8%
Receivables	195.0	172.2	22.8	13.2
Brokers – unsettled trades	205.9	177.1	28.8	16.3
Investments, at fair value	4,051.9	3,930.3	121.6	3.1
Invested securities lending collateral	516.0	564.2	(48.2)	(8.5)
Total assets	5,105.5	4,943.0	162.5	
Brokers – unsettled trades	251.3	180.0	71.3	39.6
Securities lending payable	516.0	564.2	(48.2)	(8.5)
Accounts payable and accrued expenses	5.0	6.7	(1.7)	(25.4)
Total liabilities	772.3	750.9	21.4	
Net Plan Assets	$ 4,333.2	$ 4,192.1	$ 141.1	

Net increase of plan net assets was $141.1 million and $237.3 million in 2007 and 2006, respectively. Advancing financial markets produced an increase in the investments at fair value for 2007.

CHANGES IN PLAN NET ASSETS

The following table reflects a comparative summary of various changes in Plan Net Assets.

Changes in Plan Net Assets
(In millions)
Years Ended December 31, 2007 and 2006

	2007	2006	2007-2006 Change $	2007-2006 Change %
Additions:				
Member contributions	$ 93.3	$ 92.0	$ 1.3	1.4%
Employer contributions	178.7	157.7	21.0	13.3

	2007	2006	2007-2006 Change $	%
Net investment gains (losses) and investment income	347.8	445.9	(98.1)	(22.0)
Securities lending income	2.1	1.4	0.7	50.0
Miscellaneous income	0.0	1.1	(1.1)	(100.0)
Total additions	621.9	698.1	(76.2)	
Deductions:				
Annuity and disability benefits	$ 471.5	$ 452.8	$ 18.7	4.1%
Refunds of contributions	6.2	5.3	0.9	17.0
Administrative expenses	3.1	2.7	0.4	14.8
Total deductions	480.8	460.8	20.0	
Net Increase	$ 141.1	$ 237.3	$ (96.2)	

REVENUES – ADDITIONS TO PLAN NET ASSETS

- Member contributions increased by 1.4% to $93.3 million in 2007 from $92.0 million in 2006. This increase reflects the impact of retroactive salary increases for the active membership under the employment contract covering the period from July 1, 2003 through June 30, 2007.

- Employer contributions increased from the prior year by 13.3% (from $157.7 million received in 2006 to $178.7 million received in 2007). Employer contributions are mandated by a statutorily set multiplier of 2.0 times member contributions collected two years prior. Since member contributions increased materially two years prior, due to retroactive annuity adjustments from a new contract, the employer contribution increased measurably in 2007. Also, the Fund received one-time debt proceeds of $12.2 million in 2007 in addition to its distributions of real estate tax receipts from the employer.

- The net gain on total investment activity was $347.8 million in 2007, compared to $445.9 million in 2006. The decreased was due chiefly to poor performance in the financial market in the last quarter of 2007. Net investment activity decreased due to decline in market appreciation in 2007, which produced an 8.8% return for the year compared to a 12.1% gain for 2006.

EXPENSES – DEDUCTIONS FROM PLAN NET ASSETS

- Pension, disability and death benefits rose from $452.8 million to $471.5 million in 2007, an increase of 4.1% from 2006. The increases in benefits were attributable to two factors, a statutory change that improved the formula for employee annuity benefits as well as retroactive annuity adjustments due to a new employment contract. Also, benefit payments increased because of the 3% automatic increase (cost of living) payable for those retired annuitants eligible to receive it contributed to the total increase in benefit payments.

PLAN MEMBERSHIP

The following table reflects the changes in plan membership from year-end 2006 to year-end 2007.

Changes in Plan Membership
As of December 31, 2007 and 2006

	2007	2006	Change	%
Retirees and beneficiaries receiving benefits	12,135	12,026	109	0.9%
Active employees	13,748	13,749	(1)	0.0
Terminated (inactive members) employees entitled to benefits or refunds of contributions	554	595	(41)	(6.9)
Total	26,437	26,370	67	6.0%

FUNDING STATUS

The actuarial value of assets, using the GASB 25 and 43 methods, for the December 31, 2007 valuation was $4.2 billion and the actuarial liability was $8.4 billion. The actuarial liability increased significantly by $282.8 million in 2007, from $8.1 billion in 2006 to $8.4 billion in 2007. The assets currently fund 50.4% of this liability, an increase from the 49.3% funded ratio in 2006. The increase in the funded ratio largely resulted from the diminishing effects of poor investments returns for the years 2001 and 2002. Fiscal year 2001 is no longer being absorbed in a five-year actuarial smoothing of assets method used to determine the actuarial value of assets. As markets continue to advance, as they did in 2006 and for the first three quarters of 2007, the Fund expects a more positive trend to return to the funded ratio near term if the Fund can continue to achieve a rate of return above its actuarial assumption of 8%.

INVESTMENT ACTIVITIES

At year-end 2007, the Fund assets achieved a total fund return of 8.8% compared to 12.1% in 2006. Most of this decrease was due to negative results posted by the U.S. equity market in the fourth quarter of 2007. Domestically, the fund managers returned 7.5% in 2007, down 39% from the average return of 12.2% in 2006. International stocks returned an average of 16.4% for the year, down 31% from a return of 23.7% in 2006. The Fund's investment asset allocation stayed within policy limits with 44.6% of assets invested in domestic equity, 17.9% in international equity, 30.6% invested in fixed income, 5.1% in private equity, 1.6% in real estate and an initial allocation to infrastructure investments of 0.2%.

Investment Returns
Years Ended December 31, 2007 and 2006

	2007	2006
Total Fund	8.8%	12.1%
Benchmark Portfolio	7.9	13.3
@EKA Public Fund Index	8.7	13.8
Domestic Equities	7.5%	12.2%
Benchmark (Wilshire 5000)	5.6	15.8
International Equities	16.4%	23.7%
Benchmark (MSCI All-Country)	16.7	26.7
Fixed Income	5.1%	4.6%
Benchmark (Lehman Aggregate)	7.0	4.3

EFFECTS OF ECONOMIC FACTORS

The financial position of the plan has remained consistent overall. Actual portfolio returns in 2006 of 12.1% and 2007 of 8.8% have exceeded the 8.0% actuarial rate of return, but the Fund's liabilities have increased due to plan benefits improvements. The impact of the sub-prime mortgage collapse in U.S. equity markets resulted in negative portfolio performance for the fourth quarter of 2007.

CONTACT INFORMATION

This financial report is designed to provide the employer, plan participants and others with a general overview of the Plan's finances and to show accountability for the monies received. Questions concerning any data provided in this report can be submitted to:

Mr. John J. Gallagher, Jr.
Executive Director
Policemen's Annuity and Benefit
Fund of Chicago
221 N. LaSalle
Suite 1626
Chicago, IL 60601

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF PLAN NET ASSETS

DECEMBER 31, 2007 AND 2006

	2007	2006
Assets		
Cash	$ 250	$ 250
Receivables:		
Employer tax levies, net of allowance for loss of $14,812,131 in 2007 and $15,751,762 in 2006	175,156,206	152,064,197
Member contributions	8,338,948	8,173,403
Interest and dividends	11,569,438	11,950,142
Accounts receivable - due from brokers	205,888,263	177,139,566
	400,952,855	349,327,308
Investments at fair value:		
Common stock and other equity	1,603,774,230	1,569,866,651
Collective investment, stock	334,686,255	410,476,372
Collective investment, fixed income	297,077,039	381,052,756
International equity	717,502,770	548,499,467
Bonds and notes	882,980,818	828,525,881
Short term instruments	136,713,405	99,206,041
Infrastructure	8,263,605	-
Real estate	65,241,080	27,579,058
Venture capital	142,311,495	164,262,438
	4,188,550,697	4,029,468,664
Invested securities lending cash collateral	516,052,543	564,202,733
Total Assets	5,105,556,345	4,942,998,955
Liabilities		
Refunds and accounts payable	4,958,163	6,697,824
Trade accounts payable - due to brokers	251,311,712	180,022,199
Securities lending cash collateral	516,052,543	564,202,733
Total Liabilities	772,322,418	750,922,756
Net assets held in trust for pension benefits		
	$ 4,333,233,927	$ 4,192,076,199

See accompanying notes to financial statements.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF CHANGES IN PLAN NET ASSETS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Additions		
Contributions		
Employer	$ 178,678,154	$ 157,689,286
Plan member salary deductions	93,299,996	91,965,685
Total contributions	271,978,150	249,654,971
Investment income:		
Net appreciation in fair value of investments	265,358,442	373,574,074
Interest	53,094,326	47,278,483
Dividends	42,467,732	38,141,915
Real estate	1,564,726	273,704
	362,485,226	459,268,176
Investment activity expenses:		
Investment management fees	(13,657,186)	(12,477,272)
Custodial fees	(661,616)	(521,115)
Investment consulting fees	(360,649)	(379,077)
Total investment activity expenses	(14,679,451)	(13,377,464)
Net income from investing activities	347,805,775	445,890,712
From securities lending activities:		
Securities lending income	33,941,848	29,767,186
Borrower rebates	(31,143,858)	(27,921,696)
Bank fees	(689,609)	(461,155)
Net income from securities lending activities	2,108,381	1,384,335
Total net investment income	349,914,156	447,275,047
Miscellaneous income	27,821	1,069,991
Total Additions	621,920,127	698,000,009
Deductions		
Pension and disability benefits	469,723,677	450,901,638
Death benefits	1,754,836	1,886,443
Refunds of employee deductions	6,206,813	5,271,842
	477,685,326	458,059,923
Administrative expenses	3,077,073	2,700,475
Total Deductions	480,762,399	460,760,398
Net Increase	141,157,728	237,239,611
Net assets held in trust for pension benefits		
Beginning of year	4,192,076,199	3,954,836,588
End of Year	$ 4,333,233,927	$ 4,192,076,199

See accompanying notes to financial statements.

1. Plan Description:

The Policemen's Annuity and Benefit Fund of Chicago (Fund) is the administrator of a defined benefit, single-employer pension plan with a defined contribution minimum for the purpose of providing benefits to the policemen of the City of Chicago (City), their widows and children. Any employee of the City employed under the provisions of the municipal personnel ordinance as police service is covered by the Fund. The defined benefits as well as the employer and employee contribution levels are mandated in Illinois Compiled Statutes (40 ILCS 5/5) and may be amended only by the Illinois State Legislature. The Fund is governed by an 8-member Board of Trustees (four appointed by the City, three elected by the policemen, and one elected by the annuitants) whose duties are to administer the Fund under the Illinois Pension Code.

The City of Chicago payrolls for employees covered by the Fund for the years ended December 31, 2007 and 2006 were $1,038,957,026 and $1,012,983,634, respectively. At December 31, 2007 and 2006, the Fund membership consisted of the following:

	2007	2006
Active employees	13,748	13,749
Retirees and beneficiaries currently receiving benefits	12,135	12,026
Terminated employees entitled to benefits or a refund of contributions but not yet receiving them	554	595
	26,437	26,370

The Fund provides retirement benefits as well as death and disability benefits. Employees age 50 or more with at least 10 years of service are entitled to receive a money purchase annuity and partial City contributions if less than 20 years of service. Effective in 2003, the mandatory retirement age for a participant is 63. Employees age 50 or more with at least 20 years of service are entitled to receive a minimum formula annuity of 2.5% per year for the first 20 years of service plus 2.5% per year for each following year or fraction thereof 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). The annuity shall not exceed 75% of the highest average annual salary.

The monthly annuity is increased by 3% of the original annuity at the first of the month following the later of age 55 or the first anniversary of retirement, and by 3% on each January 1st thereafter, if born before January 1, 1955.

If born after January 1, 1955, then the monthly annuity is increased by 1.5% of the original annuity at the first of the month following the later of age 60 or the first anniversary of retirement, and 1.5% on each January 1st thereafter, but not to exceed a total of 30%.

Covered employees are required to contribute 9.0% of their salary to the Fund. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest. The City is required by State statutes to contribute the remaining amounts necessary to finance the requirements of the Fund. It is required to levy a tax at a rate not more than an amount equal to the total amount of contributions by the employees to the Fund made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 2.00 annually.

Health Insurance Supplement

(a) Health Plan Description

The City offers group health benefits to annuitants and their eligible dependents through the City's health care plans.

(b) Funding Policy

Premiums are set by the City with the City pays 50% of the claims or premiums, whichever are applicable, and the remaining amount to be paid by all annuitants participating in the plans. Currently, the Fund pays to the City on behalf of each of the annuitants who chooses to participate in any of the City's health care plans up to a maximum of $85 per month from July 1, 2003 through June 30, 2008 and $95 per month from July 1, 2008 through June 30, 2013 for each annuitant who is not qualified to receive Medicare benefits; and up to a maximum of $55 per month from July 1, 2003 through June 30, 2008, and $65 per month from July 1, 2008 through June 30, 2013 for each annuitant who is qualified to receive Medicare benefits.

The health insurance supplement is financed with current contributions on a pay-as-you-go basis. There is no separate healthcare account established by the Fund to pay the health insurance supplement.

At December 31, 2007 and 2006, the number of annuitants or surviving spouses who have subsidized health insurance totaled 9,890 and 9,656, respectively. The Plan's share of the Program cost subsidy for 2007 and 2006 was $8,107,708 and $8,041,573, respectively.

(c) Annual OPEB Cost and Net OPEB Obligation

The Fund's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the 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 cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Fund's annual OPEB cost for 2007 and 2006, the amounts actually contributed to the plan, and changes in the Fund's net OPEB obligation to the Retiree Health Insurance Supplement:

	2007	2006
Annual required contribution	$ 11,220,081	$ 11,076,022
Interest on net OPEB obligation	256,327	253,416
Adjustment to annual required contribution	(1,310,756)	(2,423,507)
Annual OPEB expense	10,165,652	8,905,931
Contributions made	(8,107,708)	(8,041,573)
Increase in net OPEB obligation	2,057,944	864,358
Net OPEB obligation – beginning of year	176,981,897	176,117,539
Net OPEB obligation – end of year	$ 179,039,841	$ 176,981,897

The Fund contributed 72.26% and 72.60% of the annual required OPEB contribution to the Retiree Health Insurance Supplement for 2007 and 2006, respectively.

(d) Funded Status and Funding Progress

As of December 31, 2007, the most recent actuarial date, the actuarial accrued liability for benefits was $179,039,841, none of which was funded. The unfunded actuarial accrued liability for 2006 was $176,981,897. The covered payroll (annual payroll of active employees covered by the plan) was $1,038,957,026 for 2007 and $1,012,983,634 for 2006; and the ratio of the unfunded actuarial accrued liability to the covered payroll was 17.23% for 2007 and 17.47% for 2006. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. A schedule of funding progress is presented in the required supplementary information on page 30. This schedule provides information about progress made in accumulating sufficient assets to pay benefits when due.

(e) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

In the December 31, 2007 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return which is based upon the employer's assumed return on its assets and an annual healthcare cost trend rate of 9.0% initially, reduced by increments of 1.0 percentage point per year to an ultimate rate of 5.0% after four years. Both rates include a 3.0% general inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a period of 30 years.

2. **Summary of Significant Accounting Policies:**

(a) **Reporting Entity**

Accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB) define a financial reporting entity as consisting of the primary government and its component units for which the primary government is financially accountable. Financial accountability includes appointing a voting majority of a component unit's governing board, the ability of the primary government to impose its will on the component unit or a potential for the component unit to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for its component units that are fiscally dependent on it.

Based on the above criteria, the Fund is considered to be a component unit of the City of Chicago. The Fund is part of the City's financial reporting entity and it is included in the City's pension trust funds' financial statements.

(b) **Basis of Accounting**

The Fund's financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized as additions in the period in which employee services are performed. Benefits and refunds are recognized as deductions when payable. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

(c) **Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

(d) **Investments**

The Fund is authorized by 40 ILCS 5/1-113 to invest in bonds, notes and other direct obligations of the United States Government and United States Government agencies; corporate bonds, debentures and notes; certain notes secured by mortgages, including pass through securities; common and preferred stocks; certain pooled funds and various types of investment securities. Investment made in accordance with the State Statutes shall be deemed to be prudent.

(e) **Method Used to Value Investments**

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed income securities are valued principally using quoted market prices provided by independent pricing services. For collective investments, the net asset value is determined and certified by the investment managers as of the reporting date. Real estate investments are valued by appraisals. Investments that do not have an established market are reported at estimated fair value.

(f) **Furniture and Office Equipment**

Furniture and office equipment are not capitalized as they are immaterial and are charged to expenses in the year of purchase.

(g) **Administrative Expenses**

Administrative expenses are budgeted and approved by the Board of Trustees of the Fund. Administrative expenses are funded by the employer contributions.

(h) **Securities Lending Transactions**

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets in the statements of plan net assets. Securities received as collateral are reported as assets only if the Fund has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statements of plan net assets. The costs of securities lending transactions are reported as deductions in the statements of changes in plan net assets at gross amounts.

3. **Cash and Investment Risk Disclosure:**

(a) **Cash**

The bank balance and carrying amount of the Fund's deposits, excluding $250 of petty cash, at December 31, 2007 were $524,732 and $(1,112,586), respectively; and they were $509,520 and $(614,732) at December 31, 2006, respectively. The entire bank balance at December 31, 2007 and 2006 is on deposit with the City Treasurer and is insured or collateralized by securities held by the City Treasurer in the Fund's name.

(b) **Investment Policy**

The Fund's overall investment policy is based on the following principles established by the Trustees:

- Maintain a long-term investment horizon for the Fund
- Emphasize equity investment to enhance long-term return
- Diversify investments across several asset classes
- Avoid market timing strategies

In order to minimize the impact of large losses and to reduce annual variability of returns, the Fund's assets are allocated across major asset classes and diversified broadly within each asset class.

(c) **Investment Summary**

The following table presents a summary of the Fund's investments by type at December 31, 2007 and 2006:

	2007	2006
U.S. Government and Agency Fixed Income	$ 377,137,151	$ 397,636,968
U.S. Corporate Fixed Income	505,843,667	430,888,913
U.S. Fixed Income Funds	297,077,039	381,052,756
U.S. Equities	1,603,774,230	1,569,866,651
U.S. Stock Funds	334,686,255	410,476,372
Foreign Equities	717,502,770	548,499,467
Pooled Short-Term Investment Funds	63,487,605	68,623,813
Infrastructure	8,263,605	-
Real Estate	65,241,080	27,579,058
Private Equity	142,311,495	164,262,438
U.S. Miscellaneous	17,323,000	763,000
Commercial Paper	-	6,190,266
U.S. Treasury Bills	4,192,072	8,498,370
SWAPS	178,465	-
Cash and Cash Equivalents	51,532,263	15,130,592
Total Investments at Fair Value	$ 4,188,550,697	$ 4,029,468,664

(d) **Investment Risks**

The Fund's investments are subject to certain types of risks, including interest rate risk, credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk. The following describes those risks:

Interest Rate Risk – Interest rate risk is the risk that the fair value of debt securities decreases due to increases in the prevailing market interest rate. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Fund manages its exposure to fair value loss arising from increasing interest rates by complying with the following policy: all fixed income investments must be managed by external money managers. The Fund employs seven such managers. The specific guidelines for each manager require that the manager be responsible for determining the maturities for all fixed income securities in their portfolio. Additionally, the Fund's policy in managing its exposure to interest rate risks is by purchasing a combination of shorter term and longer term investments and by timing cash flow from maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The following tables show the segmented time distribution of the Fund's investments into time periods of maturities based on the investments' cash flows.

At December 31, 2007, the Fund had the following investments and maturities:

Investment Type	Market Value	Investment Maturities Less than 1 Year	1 to 6 years	7 to 10 years	More Than 10 years
Asset backed securities	$ 48,852,205	$ 765,962	$ 24,383,941	$ 3,425,767	$ 20,276,535
Commercial mortgage backed securities	92,647,231	-	-	530,263	92,116,968
Corporate bonds	250,749,025	13,185,343	100,396,930	75,442,329	61,724,423
Government agency securities	38,422,214	1,459,913	23,384,537	11,059,467	2,518,297
Government bonds	96,357,798	504,141	42,796,094	18,365,749	34,691,814
Government mortgage backed securities	232,095,695	-	2,021,527	22,769,488	207,304,680
Index linked government bonds	6,434,659	-	699,405	-	5,735,254
Municipal principal bonds	3,826,786	-	-	480,728	3,346,058
Non-government backed collateralized mortgage obligations	113,595,205	623,935	-	5,326,893	107,644,377
Total	$ 882,980,818	$ 16,539,294	$ 193,682,434	$ 137,400,684	$ 535,358,406

At December 31, 2006, the Fund had the following investments and maturities:

Investment Type	Market Value	Investment Maturities: Less than 1 Year	1 to 6 years	7 to 10 years	More Than 10 years
Asset backed securities	$ 51,880,789	$ 1,026,125	$ 23,584,831	$ 8,344,855	$ 18,924,978
Commercial mortgage backed securities	53,746,166	-	-	-	53,746,166
Corporate bonds	232,028,675	8,138,430	94,052,080	71,468,224	58,369,941
Government agency securities	51,442,296	670,193	24,125,549	24,653,757	1,992,797
Government bonds	118,142,805	4,427,677	76,636,288	4,667,006	32,411,834
Government mortgage backed securities	204,418,504	-	1,204,702	8,977,481	194,236,321
Municipal bonds	1,458,394	-	389,413	337,822	731,159
Non-government backed collateralized mortgage obligations	93,233,283	-	208,010	4,404,120	88,621,153
Other fixed income	22,174,969	-	-	22,174,969	-
Total	$ 828,525,881	$ 14,262,425	$ 220,200,873	$ 145,028,234	$ 449,034,349

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings issued by national ratings agencies such as Moody’s and Standard and Poor’s. The Fund’s investment policy limits its investments in corporate bonds to those that are rated Baa or better by nationally recognized rating agencies.

The following table provides information on the credit ratings associated with the Fund's investments in debt securities. Rates were obtained from Standard and Poor's:

	2007	2006
	Fair Value	Fair Value
Quality Rating -		
AAA	$ 304,053,978	$ 227,770,426
AA	60,524,815	29,788,431
A	61,527,498	69,788,862
BBB	92,786,236	90,894,788
BB	17,115,783	11,219,049
B	28,248,182	26,358,496
Not rated	77,890,384	82,339,282
Other	3,622,904	2,491,401
Total credit risk of debt securities	645,769,780	540,650,735
U.S. Government & agencies	237,211,038	287,875,146
	$ 882,980,818	$ 828,525,881

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fund's name. The Fund's master custodian holds all investments of the Fund in the Fund's name. As of December 31, 2007 and 2006, deposits of $1,704,739 and $294,862, were exposed to custodial credit risk as uninsured and uncollaterized.

Concentration of Credit Risk – The Fund's investment policy limits the aggregate amount that can be invested in each asset class. Domestic equity, international equity, fixed income, private equity and real estate are limited to 45%, 15%, 33%, 5% and 2% of the market value of the aggregate portfolio, respectively.

The Fund has no significant investments in any organization that represent 5% or more of net assets held in trust for pension benefits.

Foreign Currency Risk – This is the risk that changes in exchange rates will adversely affect the fair value of an investment. International equity securities purchased by the Fund meet exchange listing requirements and all foreign equities held by the Fund are denominated in U.S. dollars.

The Fund does not have a formal investment policy governing foreign currency risk, but does manage its exposure to loss in the fair value of assets by requiring managers of foreign investments to maintain diversified portfolios in order to minimize foreign current and security risk.

	2007	2006
	Fair Value	Fair Value
Currency		
Australian Dollar	$ 28,439,364	$ 19,731,453
Brazilian Real	2,809,428	2,214,143
British Pound Sterling	98,282,762	102,018,243
Canadian Dollar	23,891,877	24,828,052
Czech Koruna	1,097,173	-
Danish Krone	3,914,486	1,869,082
Egyptian Pound	2,432,630	269,984
Euro Currency Unit	189,299,832	191,907,981
Hong Kong Dollar	43,589,740	31,110,448
Hungarian Forint	669,211	394,914
Indian Rupee	5,672,056	1,865,269
Indonesian Rupiah	4,325,303	2,463,402
Israeli Shekel	653,150	(1,379,615)
Japanese Yen	108,613,550	124,193,613
Malaysian Ringgit	6,285,987	770,105
Mexican Peso	2,292,091	6,458,144
New Taiwan Dollar	14,638,415	-
New Zealand Dollar	-	(350,841)
Norwegian Krone	6,936,939	5,140,350
Polish Zloty	660,528	-
Singapore Dollar	7,749,478	15,407,784
South African Rand	8,570,121	8,309,474
South Korean Won	12,499,164	14,481,959
Swedish Krona	12,458,757	17,703,268
Swiss Franc	67,286,249	60,076,552
Taiwan Dollar	-	12,918,301
Thia Baht	769,123	802,178
Turkish Lira	1,370,937	993,648
Total	$ 655,208,351	$ 644,197,891

(e) **Derivatives**

The Fund's investment managers may enter into derivative transactions as permitted by their guidelines for hedging or risk reduction, not for speculative purposes. A derivative financial instrument is an investment whose payoff depends upon the value of an underlying such as bond or stock prices, a market index, or commodity prices. Derivative financial instruments involve, to varying degrees, credit risk and market risk. The Fund held fixed income future contracts of $12,640,840 and $7,595,438 at December 31, 2007 and 2006, respectively.

4. **Securities Lending Program**

State statutes and Board of Trustees policies permit the Fund to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Fund's master custodian, Northern Trust Bank, lends securities of the type on loan at year-end for collateral in the form of cash, irrevocable letters of credit or other securities of 102 percent for U.S. securities. At year-end, the Fund has no credit risk exposure to borrowers because the amounts the Fund owes the borrowers exceed the amounts the borrowers owe the Fund. The contract with the Fund's master custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Fund for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is 95 days. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted-average maturity of 27 days. The relationship between the maturities of the investment pool and the Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine. The Fund cannot pledge or sell collateral securities received unless the borrower defaults.

Loans outstanding as of December 31, 2007 and 2006 are as follows:

	2007	2006
Market value of securities loaned	$ 519,603,447	$ 570,835,841
Market value of cash collateral from borrowers	516,052,543	564,202,733
Market value of non-cash collateral from borrowers	18,543,037	23,170,427

5. **Contributions**:

The Fund's funding policy provides for an employer contribution which when added to the amounts contributed by the employees will be sufficient for the requirements of the Fund. This amount cannot be more than an amount equal to the total amount of contributions by the employees to the Fund made in the calendar year two years prior to the year of employer contribution multiplied by 2.00.

The total annual actuarial required contribution to the Fund (financed by the employees and the City) is equal to the normal cost plus interest only on the unfunded actuarial accrued liabilities determined using the entry age normal method. This actuarial cost method amortizes the costs of the participants' benefits over the entire career of each member as a level of percentage of compensation. The employer contribution required for interest only on the unfunded actuarial accrued liabilities results in a decreasing annual employer cost expressed as a percentage of payroll as future payrolls increase. Since the tax levy is expressed as a multiple of the total salary deductions made two years prior, the City is effectively contributing a level annual percentage of payrolls.

6. **The Fund as Employer – Post-Employment Benefits Other Than Pensions:**

(a) **Plan Description**

The Policemen's Annuity and Benefit Fund of Chicago (PABF), as an employer, administers a single-employer defined benefit post-retirement healthcare plan ("Retiree Health Plan"). The Retiree Health Plan provides lifetime health and dental care insurance for eligible retirees and their spouses through the PABF's group health insurance plan, which covers both active and retired members. Currently 7 retirees are in the plan and 20 active employees could be eligible at retirement. Benefit subsidy provisions have been established by the PABF's Board of Trustees. The amount of the subsidy varies based upon the retiree's years of service with PABF. These benefit subsidy provisions can be modified or terminated at the sole discretion of the PABF Board.

(b) **Funding Policy**

The contribution requirements of plan members and the PABF are established by the PABF's Board of Trustees within the provisions of the Illinois statutes. The required contribution is based on projected pay-as-you-go financing requirements. For 2007, PABF contributed $420,728 to the plan for current premiums, including an $83,879 subsidy for retiree health and dental care premiums (76.0% of total premiums this year). Plan members receiving benefits contributed $26,544, or 24.0% of the total premiums, through their required contributions of between $79 and $493 per month based upon their coverage.

(c) **Annual OPEB Cost and Net OPEB Obligation**

PABF's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the 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 cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The calculations assume an opening transition liability of zero as of December 31, 2006. The following table shows the components of the PABF's annual OPEB cost for 2007, the amount actually contributed to the plan, and changes in the PABF's net OPEB obligation to the Retiree Health Plan:

	2007
Annual required contribution	$ 261,500
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-

Annual OPEB expense	261,500
Contributions made	(88,800)
Increase in net OPEB obligation	172,700
Net OPEB obligation – beginning of year	-
Net OPEB obligation – end of year	$ 172,700

In 2007, PABF contributed 34.0% of the annual required OPEB contribution to the plan.

(d) **Funded Status and Funding Progress**

As of December 31, 2007, the most recent actuarial date, the actuarial accrued liability for benefits was $3,021,300, none of which was funded. The covered payroll (annual payroll of active employees covered by the plan) was $1,150,900 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 262.5%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Since the PABF does not intend to fund the plan, no schedule of funding progress is presented.

(e) **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

In the December 31, 2007 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return which is based upon the employer's assumed return on its assets and an annual healthcare cost trend rate of 9.0% initially, reduced by increments of 1.0 percentage point per year to an ultimate rate of 5.0% after four years. Both rates include a 3.0% general inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a period of 30 years.

7. **Reserves:**

The Fund maintains several reserves as required by the Illinois Pension Code and Board policy. The following are brief descriptions of the reserves.

(a) **City Contribution Reserve**

	2007	2006
Balances at December 31	$ 1,922,681,788	$ 1,812,623,964

The City Contribution Reserve is maintained for the payment of the City's portion of future retirement benefits for active and inactive participants. Interest at 3% is credited to this reserve annually. When the amount of annuity for a policeman or widow is fixed, the City Contribution Reserve is charged with the amount of the present value of retirement benefit and the Annuity Payment Reserve is credited with such amount.

The City Contribution Reserve does not equal the present value of expected retirement benefits. The unfunded liability as calculated by the actuary was $3,988,670,821 in 2007 and $3,941,570,358 in 2006.

(b) **Salary Deduction Reserve**

	2007	2006
Balances at December 31	$ 1,060,202,962	$ 1,000,682,920

The Illinois Pension Code requires the Fund to maintain separate accounts for each policeman for the amounts of salary deductions with interest at 3% per year. When a policeman retires, the amount of his annuity is charged to the Salary Deduction Reserve and credited to the Annuity Payment Reserve. If a policeman takes a separation refund, his salary deductions are refunded to him and charged to the Salary Deduction Reserve. This reserve is fully funded.

(c) **Annuity Payment Reserve**

	2006	2007
Balances at December 31	$ 636,950,919	$ 682,879,418

When the amount of annuity has been fixed, the present value of expected benefit is transferred from the City Contribution Reserve and the Salary Deduction Reserve to the Annuity Payment Reserve for the payment of annuity. All age and service annuities, widow's annuities and refunds are charged to this reserve.

Annually, the actuary calculates the present value of all annuities. The Investment and Interest Reserve will transfer amounts to the Annuity Payment Reserve to ensure that the balance in the Annuity Payment Reserve equals the present value of annuities. This reserve is fully funded.

(d) **Prior Service Annuity Reserve**

	2007	2006
Balances at December 31	$ 1,181,599,800	$ 1,091,780,544

The Prior Service Annuity Reserve is increased by the City's contributions for policemen and widows' prior service annuities and all prior service annuities payable to policemen and widows are charged to this reserve.

(e) **Gift Reserve**

	2007	2006
Balances at December 31	$ 13,530,344	$ 12,465,043

The Gift Reserve is maintained for gifts, grants, bequests or other amounts received by the Fund. The Board of Trustees determines the use of these funds. Interest is credited to the Gift Reserve annually.

(f) **Investment and Interest Reserve**

All gains and losses from investments and investment earnings are recorded in the Investment and Interest Reserve. Interest due to the City Contribution Reserve, Salary Deduction Reserve, Prior Service Annuity Reserve, Gift Reserve and Supplementary Payment Reserve is transferred from the Investment and Interest Reserve to those reserves.

(g) **Ordinary Death Benefit Reserve**

	2007	2006
Balances at December 31	$ (12,276,132)	$ (10,522,052)

Amounts contributed by policemen and the City for death benefits are credited to the Ordinary Death Benefit Reserve. Death benefit payments are charged to this reserve. The Ordinary Death Benefit Reserve has a deficit of $12,276,132 at December 31, 2007 and $10,522,052 at December 31, 2006, respectively.

(h) **Automatic Increase Reserve**

	2007	2006
Balances at December 31	$ (469,903,156)	$ (398,281,040)

The Automatic Increase Reserve is credited with amounts deducted from the salaries of policemen and matching contributions by the City for automatic increase in annuity with interest thereon. Payments of increased annuities and salary deduction refunds for increase in annuity are charged to this reserve. At December 31, 2007 and 2006, the Automatic Increase Reserve has a deficit of $469,903,156 and $398,281,040, respectively.

(i) **Supplementary Payment Reserve**

	2007	2006
Balances at December 31	$ 447,402	$ 447,402

The Supplementary Payment Reserve receives amounts transferred from the Investment and Interest Reserve for supplemental increases in annuity for certain eligible retirees. This reserve is fully funded.

(j) **Child's Annuity Reserve**

Amounts contributed by the City for child's annuity are credited to the Child's Annuity Reserve and payments of child's annuity are charged to this reserve.

(k) **Duty Disability Reserve**

The Duty Disability Reserve is increased by the City's contributions for duty disability benefits, child's disability benefit and compensation annuity; and decreased by the payments of these benefits.

(l) **Ordinary Disability Reserve**

Amounts contributed by the City for ordinary disability benefits are credited to the Ordinary Disability Reserve. Payments of ordinary disability benefits are charged to this reserve.

(m) **Hospitalization Fund Reserve**

The health care premiums are paid from the tax levies and are credited to the reserve for Group Hospitalization Fund. Premium payments to the City are charged against this reserve.

(n) **Expense Reserve**

Amounts contributed toward the cost of administration are credited to the Expense Reserve while expenses of administration are charged to this reserve.

8. **Deferred Compensation Plan:**

The Fund offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Fund, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is managed by a third-party administrator.

The assets of the plan were placed in trust accounts with the plan administrator for the exclusive benefit of participants and their beneficiaries and are not considered assets of the Fund.

9. **Lease Agreement:**

The Fund leases its office facilities under a noncancellable agreement. The lease expired in 2005 and was renewed for ten years until 2015. Office rental expense amounted to $200,217 and $110,786 for the years ended December 31, 2007 and 2006, respectively.

Future minimum rental payments under the office lease at December 31, 2007 are as follows:

Year	Amount
2008	$ 225,355
2009	229,294
2010	233,234
2011	239,258
2012	244,687
Thereafter	757,691
	$ 1,929,519

10. **Risk Management:**

The Fund is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund carries commercial insurance to reduce its exposure to risk of loss. There is no significant reduction in insurance coverage from year to year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS – PENSION

YEARS ENDED DECEMBER 31, 2007 AND 2006

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)
12/31/02	$ 4,124,579,960	$ 6,384,845,959	$ 2,260,265,999	64.60%	$ 866,531,789	260.84%
12/31/03	4,039,695,590	6,581,433,250	2,541,737,660	61.38	887,555,791	286.37
12/31/04	3,933,031,342	7,034,271,474	3,101,240,132	55.91	874,301,958	354.71
12/31/05	3,914,431,654	7,722,737,147	3,808,305,493	50.69	948,973,732	401.31
12/31/06	3,997,990,919	7,939,561,277	3,941,570,358	50.36	1,012,983,634	389.11
12/31/07	4,231,681,817	8,220,352,638	3,988,670,821	51.48	1,038,957,026	383.91

See notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION

YEARS ENDED DECEMBER 31, 2007 AND 2006

Year Ended December 31	Contributions Annual Required	Contributions Actual Employee	Contributions Actual Employer	Percentage Contributed
2002	$ 130,237,405	$ 79,238,513	$ 141,989,027	109.02%
2003	181,545,562	79,816,332	140,807,354	77.56
2004	203,757,534	78,800,816	135,744,173	66.62
2005	238,423,459	89,109,811	178,278,371	74.77
2006	262,657,025	91,965,685	150,717,705	57.38
2007	312,726,608	93,299,996	170,598,268	54.55

See notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION

YEARS ENDED DECEMBER 31, 2007 AND 2006

Valuation date	December 31, 2007
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	30 years
Actuarial value of assets	5-year smoothed market
	Actuarial assumptions:
Pension investment rate of return	8.0%
Projected salary increases	4.0% per year, plus additional percentage related to service
Cost of living allowance	3.0% (1.5% for retirees born after January 1, 1955)

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS – HEALTH INSURANCE

YEARS ENDED DECEMBER 31, 2007 AND 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/05	$ -	$ 176,117,539	$ 176,117,539	0.00%	$ 948,973,732	18.56%
12/31/06	-	176,981,897	176,981,897	0.00	1,012,983,634	17.47
12/31/07	-	179,039,841	179,039,841	0.00	1,038,957,026	17.23

See notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH INSURANCE

YEARS ENDED DECEMBER 31, 2007 AND 2006

Year Ended December 31	Contributions			Percentage Contributed
	Annual Required	Employee	Employer	
2006	$ 11,076,022	$ -	$ 8,041,573	72.60%
2007	11,220,081	-	8,107,708	72.26

See notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – HEALTH INSURANCE

YEARS ENDED DECEMBER 31, 2007 AND 2006

Valuation date	December 31, 2007
Actuarial cost method	Entry age normal
Actuarial value of assets	No assets (pay-as-you-go)
Amortization method	Level percent open
Remaining amortization period	30 years
	Actuarial assumptions:
OPEB investment rate of return	4.5%
Projected salary increases	4.0% per year, plus additional percentage related to service

See notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Administrative Expenses:		
Personal services	$ 1,542,049	$ 1,432,092
Supplies	12,580	9,342
Professional services	15,228,160	13,759,579
Fiduciary insurance	110,712	119,186
Occupancy and utilities	208,338	112,329
Postage	3,000	6,000
Equipment service and rent	46,309	44,404
Benefit disbursements	193,667	202,125
Miscellaneous	411,709	392,882
	$ 17,756,524	$ 16,077,939

See accompanying independent auditors' report.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF CONSULTING COSTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Payment to Consultants:		
External auditors	$ 55,150	$ 34,750
Medical consultant	176,978	87,999
Legal services	215,430	160,927
Actuary service	101,151	98,439
Investment manager fees	13,657,186	12,477,272
Master trustee fees	661,616	521,115
Consulting fees	360,649	379,077
	$ 15,228,160	$ 13,759,579

See accompanying independent auditors' report.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT FEES

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Investment Managers:		
Ariel Capital Management	$ 352,536	$ 342,245
Artisan Partners	435,163	502,295
Attucks Asset Management	18,961	-
BNY Asset Management	-	186,593
Capital Guardian Trust Co	720,492	1,092,381
Channing Capital	185,437	176,656
Chicago Equity Partners	623,527	567,387
Cordillera Asset Management	205,578	204,059
Dearborn Partners LLC	164,960	134,149
Denali Advisors	95,806	122,819
Great Lakes Advisors	765,474	435,844
Harris Investments	319,062	212,294
Holland Capital Management	171,427	257,452
Invesco	296,175	479,134
JP Morgan	1,374,235	786,318
LM Capital Group	67,722	42,917
McKinley Capital	515,745	421,978
Montag & Caldwell	753,689	662,382
Northern Trust Global Investments - Index Funds	154,493	181,064
Piedmont Investment Advisors	137,081	119,381
Piedra Capital Ltd.	144,606	146,721
Taplin, Canida, & Habacht	118,154	71,798
UBS Asset Management	2,846,904	2,848,810
Wellington Management	418,221	403,243
Wells Capital Manageemnt	336,988	334,906
William Blair & Co.	2,421,524	1,727,765
Zenna Financial Services	13,226	16,681
Total Investment Manager Fees	13,657,186	12,477,272
Investment Consultants:		
Ennis Knupp & Associates	250,419	320,913
Courtland Partners	110,230	58,164
Total Investment Consultant Fees	360,649	379,077
Master Custodian:		
The Northern Trust Company	661,616	521,115
Total Investment Management Fees	$ 14,679,451	$ 13,377,464

See accompanying independent auditors' report.

Investment Section

ENNISKNUPP

Investments

(Compiled by Ennis, Knupp & Associates, Investment Advisors to the Fund)

Investment Authority. Since December 16, 1987, the Policemen's Annuity & Benefit Fund of Chicago has operated in accordance with Public Act 85-964, which is the Prudent-Person rule for the Police Fund's investments. The Prudent-Person rule states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under the prevailing conditions. (A fiduciary is any person who has authority or control with respect to the management or administration of plan assets.)

Investment Policy. In 1983, the Trustees undertook a restructuring of the Fund's investment policy to improve the Fund's investment diversification. The revised policy allows for investment in additional asset classes (e.g., international stocks and bonds, real estate and private equity investments). As a result of the policy change, the Fund was restructured. The Trustees allocated monies among the new asset classes and added several new investment managers. The Trustees also allocated monies to passive investments (index funds), which provide a low-cost means of achieving market-like returns.

Distinction of Responsibilities. In order to clarify the roles and responsibilities of the Trustees and the various investment professionals engaged by the Trustees, the Trustees divided the responsibilities for the Fund as follows:

> The Trustees assume the responsibility for establishing the investment policy that is to guide the investment of the Fund. The investment policy describes the degree of investment risk that the Trustees deem appropriate.
>
> Investment managers are appointed to execute the policy and invest pension assets in accordance with the policy and applicable statutes, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual investments, (2) make periodic adjustments to the proportions of equity and fixed income investments, and (3) diversify pension assets.

Ennis Knupp + Associates
10 South Riverside Plaza, Suite 1600
Chicago, Illinois 60606-3709
vox 312 715 1700
fax 312 715 1952
www.ennisknupp.com

Allocation of Assets. As of December 31, 2007, the Fund's asset allocation targets were as follows:

Asset Category	Target Allocation
Domestic Stocks	45%
International Stocks	15%
Fixed Income	30%
Private Equity	5%
Real Estate	5%
TOTAL	100%

Diversification. The Fund's assets are diversified in several ways to minimize the potential for large losses in individual investments. Since 1984, the Trustees have expanded the number of asset classes available for investment to six and have hired multiple managers. As of December 31, 2007, the Fund retained 43 investment managers for a total of 49 different accounts. During the year, the Infrastructure asset class was funded with initial commitments to Global Infrastructure Partners and The Carlyle Group. Within the Private Equity class, the majority of HarbourVest partnerships were traded in for shares in a newly created publicly traded vehicle comprising of existing and future HarbourVest partnerships. Six new real estate managers were also funded during 2007: AG Core Plus Realty, DRA Advisors, Macquarie, Morgan Stanley, Shamrock-Hostmark, and PRISA.

Investment Objective. The return of the Total Fund is compared with the return of a "policy portfolio" comprising 50% of the Wilshire 5000 Stock Index, 15% of the Morgan Stanley Capital International (MSCI) All Country World ex-U.S. Index, 34% of the Lehman Brothers Aggregate Bond Index, and 1% of the NCREIF Net Property Index. The investment objective is to equal or exceed the policy portfolio rate of return after fees. The Total Fund's return is also compared with a universe of other public funds.

2007 Asset Allocation. As of December 31, 2007, the Fund's allocation to non-U.S. stocks was slightly above the policy (17.9% of assets versus 15%). The allocation to domestic equity was in line with the policy (44.6% versus 45%). While the Fund was slightly overweight to fixed income (30.6% versus 30%), the allocation was within the allowable range. New capital commitments were made to Mesirow as well as Adams Street Partners in 2007. As stated above, there were additional allocations made to real estate managers during the year. The funding of the six new managers brought the allocation to real estate to 1.6% at year end. The Fund's market value increased by approximately $243 million during the year. This was a result of a combination of investment gains and disbursements. The Fund's asset allocation as of December 31, 2007 is shown in the table on the following page.

Asset FairValue & Asset Allocation
At December 31, 2007
($ in thousands)

	U.S. Equity	Non-U.S. Equity	Fixed Income	Real Estate	Private Equity	Infrastructure	Cash	Total	# of Total
Ariel Capital Management	$54,243	--	--	--	--	--	$1,220	$55,464	1.3%
Attucks	58,622	--	--	--	--	--	--	58,622	1.4
Channing Capital	23,390	--	--	--	--	--	600	23,990	0.6
Chicago Equity Partners	175,465	--	--	--	--	--	1,415	176,880	4.3
Cordillera	23,180	--	--	--	--	--	966	24,145	0.6
Denali Advisors	25,651	--	--	--	--	--	181	25,831	0.6
Great Lakes	242,265	--	--	--	--	--	32,412	274,677	6.7
Harris Investments	34,828	--	--	--	--	--	711	35,539	0.9
Holland Capital	54,439	$4,882	--	--	--	--	1,709	61,030	1.5
Montag & Caldwell	250,896	--	--	--	--	--	2,279	253,175	6.1
NT US MarketCap	334,692	--	--	--	--	--	--	334,692	8.1
Piedmont	25,815	--	--	--	--	--	662	26,477	0.6
Piedra Capital	21,924	--	--	--	--	--	866	22,790	0.6
UBS Global Management	216,480	--	--	--	--	--	2,851	219,331	5.3
William Blair	236,850	--	--	--	--	--	10,642	247,492	6
Domestic Stocks	*1,778,740*	*4,882*	--	--	--	--	*56,513*	*1,840,136*	*44.6*
Artisan International	$395	$86,330	--	--	--	--	$2,932	$89,656	2.2
Capital Guardian Trust	--	140,821	--	--	--	--	4,655	145,476	3.5
Global Transition Account	--	0	--	--	--	--	--	0	0
JP Morgan Asset Mgmt.	--	113,898	--	--	--	--	2,064	115,962	2.8
McKinley Capital Mgmt.	--	91,997	--	--	--	--	1,601	93,598	2.3
UBS Global Management	--	121,738	--	--	--	--	1,329	123,067	3
William Blair & Company	--	164,275	--	--	--	--	6,400	170,675	4.1
International Stocks	*395*	*719,058*	--	--	--	--	*18,981*	*738,433*	*17.9*
Dearborn (Baird)	--	--	$85,488	--	--	--	$516	$86,004	2.1
LM Capital	--	--	27,132	--	--	--	1,190	28,321	0.7
NT Aggregate Bond	--	--	297,083	--	--	--	--	297,083	7.2
Taplin, Canida & Habacht	--	--	54,654	--	--	--	369	55,022	1.3
UBS Global Management	--	--	431,118	--	--	--	3,784	434,902	10.5
Wellington	--	--	207,597	--	--	--	-22,243	185,354	4.5
Wells Capital Management	--	--	175,234	--	--	--	--	175,234	4.2
Bonds	--	--	*1,278,305*	--	--	--	*-16,385*	*1,261,921*	*30.6*
Adams Street Partners	--	--	--	--	$95,907	--	--	$95,907	2.3
Chancellor	--	--	--	--	2,001	--	--	2,001	0
Harbourvest Partners	--	--	--	--	71,118	--	--	71,118	1.7
INVESCO Private Capital	--	--	--	--	24,234	--	--	24,234	0.6
Mesirow Fund II	--	--	--	--	11,369	--	--	11,369	0.3
Muller & Monroe	--	--	--	--	6,584	--	--	6,584	0.2
Zell/Chilmark	--	--	--	--	17	--	--	17.4	0
Private Equity	--	--	--	--	*211,231*	--	--	*211,230.80*	*5.1*

	U.S. Equity	Non-U.S. Equity	Fixed Income	Real Estate	Private Equity	Infrastructure	Cash	Total	# of Total
Global Infrastructure Partners	--	--	--	--	--	$4,901	--	$4,901.10	0.1
The Carlyle Group	--	--	--	--	--	3,363	--	3,362.50	0.1
Infrastructure	--	--	--	--	--	*8,264*	--	*8,263.60*	*0.2*
ABR Chesapeake III	--	--	--	$5,000	--	--	--	$5,000.00	0.1
AG Core Plus Realty II	--	--	--	2,250	--	--	--	2,250.00	0.1
DRA Advisors	--	--	--	737	--	--	--	737.2	0
DV Urban	--	--	--	2,126	--	--	--	2,125.70	0.1
M.S. Prime Property	--	--	--	13,121	--	--	--	13,121.40	0.3
Macquarie Global	--	--	--	1,265	--	--	--	1,265.00	0
Morgan Stanley RE VI-INTL	--	--	--	2,772	--	--	--	2,771.60	0.1
PRISA	--	--	--	14,682	--	--	--	14,681.70	0.4
Quadrant R.E. Advisors	--	--	--	13,812	--	--	--	13,812	0.3
Shamrock-Hostmark	--	--	--	3,099	--	--	--	3,099	0.1
UBS Realty Investors	--	--	--	6,468	--	--	--	6,468	0.2
Real Estate	--	--	--	*65,331*	--	--	--	*65,331*	*1.6*
Cash Flow Account	--	--	--	--	--	--	$2,065	$2,065	0.1
Cash	--	--	--	--	--	--	*2,065*	*2,065*	*0.1*
Total	$1,779,135	$723,940	$1,262,807	$65,331	$211,231	$8,264	$61,174	$4,127,380	100%
Percent of Total	43.1%	17.5%	30.0%	1.6%	5.1%	0.2%	1.5%	100%	
Policy	45	15	33	2	5	0	0	100%	
Percent Passively Managed	22	0	24	0	0	0	0	100%	

Summary of 2007 Investment Activity

Investment Manager Changes. Several changes were made to the investment manager line-up during the year. Six Real estate managers received initial funding throughout the year as the Fund continues to ramp up in this asset class. The Fund also initiated 2 investments in the Infrastructure asset class in November.

Market Environment. 2007 was a year of decreased returns for the stock markets as U.S. equity markets posted a muted gain of 5.6% for the year as measured by the DJ Wilshire 5000 Index. It was also a year of two distinct halves as the subprime meltdown induced credit crises reared its ugly head in the summer of 2007. What began as an issue with subprime mortgage delinquencies quickly spread across the broader credit markets. Prior to the credit event in the summer, U.S. equities were up 7.6% in the first half of the year and ended up being down 1.8% in the second half.

Across the ten different sectors, five posted gains with energy leading the way with a return of 34.5%. Among the sectors that posted losses, financial was the most disappointing with a return of negative 15.9%. From a style perspective, large cap stocks, as measured by the Russell 100 Index, outperformed small cap stocks, as measured by the Russell 2000 Index, by 7.3 percentage points. Furthermore, growth stocks significantly outperformed value stocks in 2007 – it was the first year that growth outperformed value after lagging for seven consecutive years.

The non-U.S. stock market, as measured by the MSCI All Country World ex-U.S. Index, advanced 16.7% for the year on the strength of continued economic growth around the world. A weakening dollar also boosted foreign stock returns for U.S. based investors. The emerging markets, which consists of developing nations advanced the most during the year with an impressive 39.4%. Latin America and Eastern Europe have led the charge for this group. Japan continues to disappoint as its market fell 4.2% during the year. At the end of the year, the U.S market comprised 42% of the global equity market capitalization.

As expected when the equity markets have a down year performance-wise, the fixed income market advanced during 2007 with a 7.0% return as measured by the Lehman Brothers Aggregate Bond Index. The second half of the year saw a boost in performance of the Treasury and Agency sectors as a result of en-masse flight to quality. The Fed began to aggressively cut fed funds rates and increase the availability of liquidity during the year in order to ensure calmness amongst market participants.

Total Fund Performance. For 2007, the Total Fund posted a return of 8.8%, which exceeded the 7.9% return of the policy benchmark. The policy benchmark represents a hypothetical portfolio invested solely in passive index funds in the proportion of the Fund's allocation targets. Over the trailing three-year period, the Fund's performance slightly outperformed the policy portfolio and trailed the average public fund. For the trailing five-year period, the Fund's return of 11.9% slightly underperformed the 12.2% return of the policy portfolio.

Asset Class Performance. The Fund's domestic stock component posted a return of 7.5% and outperformed the return of the Index by almost 2 percentage points during 2007. Great Lakes, Montag & Caldwell, Denali, and Piedmont were the largest contributors to the favorable result. The Fund's international stock component produced a strong gain of 16.4% in 2007, yet this return fell short of the benchmark's return of 16.7%. The UBS international equity portfolio and the JP Morgan international equity portfolio both struggled during the year against their benchmarks. The bond component posted a positive return of 5.1% yet lagged the Bond Index during the year.

Longer-Term Performance. The table on the following page details the annual returns earned by the Fund over the past five calendar years, as well as the cumulative annualized returns for periods ending December 31, 2007. Also shown are the returns of the Fund's aggregate investments in each of the major asset classes, as well as those of the performance benchmarks.

ANNUAL INVESTMENT RETURNS[1]

Calculations were repaired using a time-weighted rate of return based on the market rate of return.

	2003	2004	2005	2006	2007	*Cumulative Annualized Returns* 3 Years	5 Years	10 Years
TOTAL FUND								
Police Fund	21.0%	10.8%	7.3%	12.1%	8.8%	9.4%	11.9%	7.3%
Policy Portfolio[2]	22.8	10.9	6.5	13.3	7.9	9.2	12.2	7.1
Russell/Mellon Public Fund Index	22.9	12.0	8.4	13.8	8.7	10.3	12.9	7.7
Inflation	1.9	3.3	3.4	2.5	3.9	3.4	3.2	2.8
DOMESTIC STOCKS								
Police Fund	30.8%	13.2%	6.8%	12.2%	7.5%	8.8%	13.8%	6.9%
Wilshire 5000 Stock Index	31.7	12.5	6.4	15.8	5.6	9.2	14.0	6.3
Universe Median	31.6	12.8	7.0	14.3	5.2	8.8	13.9	6.8
INTERNATIONAL STOCKS								
Police Fund	37.1%	15.7%	15.9%	23.7%	16.4%	18.6%	21.5%	8.1%
MSCI All-Country World Ex-US Index	40.8	20.9	16.6	26.7	16.7	19.9	24.0	9.9
Universe Median	37.0	19.4	15.4	25.1	14.1	18.1	22.0	10.3
FIXED INCOME								
Police Fund	4.5%	4.4%	2.5%	4.6%	5.1%	4.1%	4.2%	5.7%
Lehman Bros. Aggregate Bond Index	4.1	4.3	2.4	4.3	7.0	4.6	4.4	6.0
Universe Median	5.3	4.8	2.5	4.4	6.5	4.5	4.7	5.8
REAL ESTATE								
Police Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NCREIF Net Property Index	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Asset Allocation								
Domestic Stocks	46%	48%	47%	45%	45%			
International Stocks	13	18	18	18	18			
Private Equity	3	3	4	4	5			
Fixed Income	38	31	31	33	31			
Real Estate	<1	<1	0	<1	2			

[1]*Returns are reported net of investment management fees.*

[2]*As of December 31, 2006, the performance benchmark has been composed of 50% of the Wilshire 5000 Stock Index, 15% of the Morgan Stanley Capital International (MSCI) All Country World ex-US Index, 34% of the Lehman Brothers Aggregate Bond Index, and 1% of the NCREIF Net Property Index.*

List of Largest Assets Held

Largest Stock Holdings as of December 31, 2007

	Shares	Stocks	Fair Value
1	6,891,926	HARBOURVEST GLOBAL	67,540,875
2	793,414	GENERAL ELEC CO COM	29,411,857
3	647,501	INTEL CORP COM	17,262,377
4	296,431	MERCK & CO. INC., COM	17,225,605
5	195,688	BURLINGTON NORTHN SANTA FE CORP COM	16,287,112
6	171,455	CHEVRON CORP COM	16,001,895
7	168,925	CONOCOPHILLIPS COM	14,916,078
8	194,518	PROCTER & GAMBLE CO COM	14,281,512
9	68,866	APPLE INC	13,640,977
10	258,489	AMERICAN EXPRESS CO COM	13,446,598

Largest Bond Holdings as of December 31, 2007

	Par	Bonds	Fair Value
1	17,155,000	UNITED STATES TREAS NTS DTD 07/02/2007	18,195,022
2	13,893,000	UNITED STATES TREAS BDS DTD 05/15/2007	14,539,886
3	13,424,500	FNMA POOL #256526 6.0% DUE 01 DEC 2036	13,520,620
4	9,742,000	UNITED STATES TREAS BDS DTD 08/15/1993	11,663,765
5	10,050,000	FNMA 30 YEAR PASS-THROUGHS 6.5 MAT 30	10,320,144
6	10,461,834	FNMA POOL #735926 4.5% DUE 01 OCT 2020	10,286,807
7	9,000,000	J P MORGAN CHASE COML MTG SECS CORP	8,962,488
8	9,000,000	J P MORGAN CHASE COML MTG SECS CORP	8,962,488
9	7,102,779	FNMA POOL #835753 5.0% DUE 01 AUG 2035	6,934,230
10	7,000,000	FORD MTR CR CO LLC NT 5.8% 12 JAN 2009	6,644,365

A complete list of portfolio holdings is available upon request.

Commissions Paid by Investment Managers in 2007

Manager	Total Number of Trades	Total Number of Shares	Total Commissions
Ariel Capital Management	1,164	1,650,200	45,780
Artisan Partners	2,624	13,422,556	181,173
Attucks Asset Management	838	163,034	701
Capital Guardian Trust Co.	2,331	37,616,947	176,210
Channing Capital	244	867,614	29,592
Chicago Equity Partners	2,661	13,161,352	338,543
Cordillera Asset Management	1,687	6,680,000	259,883
Denali Advisors	486	1,250,381	21,993
Great Lakes Advisors	35	592,041	27,200
Harris Investment Management	1,380	3,058,793	97,253
Holland Capital Management	123	895,029	33,168
JP Morgan Fleming Asset Mgmt.	521	5,427,582	87,404
McKinley Capital Management	752	7,520,880	259,445
Montag & Caldwell	354	5,161,480	173,119
Piedmont Investment	216	1,358,662	44,200
Piedra Capital	160	1,421,621	66,636
Strong Capital	1	2,778	111
UBS Global Asset Management	3,224	19,971,155	419,876
William Blair & Company	2,617	27,737,607	666,381
Transition Account	1	1,119	45
	21,419	**147,960,831**	**2,928,713**

Commissions Paid to Brokers in 2007

Broker	Total Number of Shares	Total Commissions
Merrill Lynch	794,637,558	174,559
Goldman Sachs	362,045,262	173,345
Pershing	4,915,998	160,910
Cabrera Capital Markets	8,974,445	142,847
Investment Technology	5,410,752	115,488
Lehman Brothers	346,891,855	114,378
Liquidnet Inc	4,613,657	109,807
Instinet	7,243,871	109,288
Morgan Stanley	2,633,047,787	92,837
Gardner Rich & Co	2,532,635	91,051
Citigroup Global Markets	7,834,872,761	88,814
Mr Beal & Company	2,512,969	88,750
Bear Stearns	2,900,870	84,953
JP Morgan	1,150,443,362	82,483
Melvin Securities	2,333,966	80,458
CSFB	80,166,000	79,548
UBS	17,009,735	78,911
Deutsche Bank	1,580,460,465	47,493
Credit Suisse	327,860,540	44,446
MacQuarie Securities	3,133,245	40,285
Credit Lyonnais	5,093,893	36,607
Jeffries & Co	820,960	36,409
Loop Capital Markets	2,896,539	32,583
Williams Capital	9,377,439	31,259
Robert W Baird	661,392	26,549
Knight Securities	4,316,310	26,286
Dresdner Kleinwort	764,319	25,591
Societe Generale	1,806,978	25,024
BNY ESI Securities	748,905	24,156
Magna Securities	616,394	24,057
Cheevers & Co	608,357	23,574
Chevreux De Virieu	136,223	19,198
Bernstein, Sanford & Co	624,109	19,161
B Trade Services	990,726	18,362
Weeden and Co	442,983	15,925
Kepler Equities	159,682	15,787
Keefe Bruvette	372,294	15,312
Nomura Securities	923,771	15,046
Blair, William & Co	284,768	13,798
Pipeline Trading Systems	665,740	13,315
Cazenove & Co	42,640	13,174

Goldman Executing and Clearing	527,635	12,968
ABN Amro	718,597	12,665
HSBC	6,664,613	12,374
Jackson Securities	318,546	11,717
Morgan Keegan & Co	1,601,889	11,562
Kinnard John & Company	199,400	9,960
RBC Capital Markets	1,447,885	9,571
Thomas Weisel	259,300	9,488
Bank of America	275,016	9,235
Suntrust Robinson	182,900	7,884
Guzman & Co	353,389	7,772
Daiwa Secs	121,125	7,264
Brokers with less than $7,000 in commissions	25,260,105,190	334,429
Totals	**40,477,137,640**	**2,928,713**

Investment Summary
as of 12/31/07

Investment Type	Fair Value	Percent of Total Fair Value
Fixed Income		
Government Bonds	377,137,151	9.0%
Corporate Bonds	505,843,667	12.1%
Total Bonds:	882,980,818	21.1%
Pooled Bond Index Fund	297,077,039	7.1%
Total Fixed Income:	1,180,057,857	28.2%
Equities		
U.S. Equities	1,603,774,230	38.3%
International Equities	717,502,770	17.1%
Stock Index Funds	334,686,255	8.0%
Total Equities:	2,655,963,255	63.4%
Other Investments		
Real Estate	65,241,080	1.6%
Infrastructure	8,263,605	0.2%
Venture Capital	142,311,495	3.4%
Total Other:	215,816,180	5.2%
Short-term funds and Cash:	136,713,405	3.3%
Total Assets at Fair Value:	4,188,550,697	100.0%

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Actuarial Section

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

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

312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

April 11, 2008

Board of Trustees
Policemen's Annuity and Benefit Fund
City of Chicago
221 North LaSalle Street, Suite 1626
Chicago, IL 60601

Subject: Actuarial Valuation Report for the Year Ending December 31, 2007

Dear Members of the Board:

At your request, we have performed an actuarial valuation for the Policemen's Annuity and Benefit Fund of Chicago ("the Fund") as of December 31, 2007. This valuation has been performed to measure the funded status of the Fund and to determine the contribution levels for 2008. In addition, it includes disclosure information required under GASB Statement No. 25, Statement No. 27, Statement No. 43, and Statement No. 45. These actuarial valuations of the Fund are performed annually.

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

- Summary of Actuarial Valuation Methods and Assumptions
- Schedule of Active Member Data
- Retirements and Beneficiaries Added to and Removed from Rolls
- Solvency (Termination) Test
- Development of Annual Required Contributions under GASB Statements No. 25 and No. 43
- Development of Actuarial Gains and Losses
- Summary of Basic Actuarial Values

We have also provided the following schedules in the financial section of the report.

- Schedule of Funding Progress
- Schedule of Employer Contributions
- Notes to Required Supplementary Information

This valuation is based upon:

Data relative to the members of the Fund — Data for active members and persons receiving benefits from the Fund was provided by the Fund's staff. We have tested this data for reasonableness.

Asset Values — The value of assets of the Fund was provided by the Fund's staff. Book values of assets are used to develop actuarial results for the state reporting basis. Actuarial value of assets are used for financial reporting under GASB Statement No. 25 and Statement No. 27.

Actuarial Method — The actuarial method utilized by the Fund is the Entry-Age Normal Actuarial Cost Method. The objective of this method is to amortize the costs of Fund 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 financed. All actuarial gains and losses under this method are reflected in the UAAL.

Actuarial Assumptions — All actuarial assumptions remain unchanged from the prior valuation. The assumptions used are set forth in Appendix 4: Actuarial Methods and Assumptions of the Valuation Report.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of the Fund when due. The provision of State Law establishing the Fund constrains employer contributions to be twice 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 2:1 relationship. The most recent actuarial valuation of the Fund on the State reporting basis shows that a ratio of 4.98:1 is needed to adequately finance the Fund.

The valuation results set forth in this report are based on the data and actuarial techniques described above, and upon the provision of the Fund as of the valuation date. Based on these items, we certify these results to be true and correct.

Respectfully yours,

Alex Rivera, FSA
Senior Consultant

Michael R. Kivi, FSA
Senior Consultant

I. 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 Actuarial Cost Method used in this valuation for all purposes is the Entry Age Actuarial Cost Method.

Under the Entry Age Normal Actuarial Cost Method, each participant's benefits are assumed to be funded by annual installments, equal to a level percentage of compensation, payable from date of participation to assumed retirement. The total "Normal Cost" is the sum of the current year's annual installments determined for all active participants. The "Actuarial Accrued Liability" is the excess of the value of projected benefits for all participants (both active and retired) over the discounted value of Normal Costs determined for future years of service.

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 fixed period of time (e.g. 30 years) from the date incurred. At a minimum, interest on UAAL should be funded. The total contribution developed under this method is the sum of the Normal Cost and the payment toward the UAAL. The Minimum Actuarially Determined Contribution contains only an interest payment on the UAAL.

II. CURRENT ACTUARIAL ASSUMPTIONS

The current actuarial assumptions were adopted and became effective December 31, 2003, and were based on an experience study for the period January 1, 1998, to December 31, 2002.

A. Demographic Assumptions

Mortality: 1983 Group Annuity Mortality Table.

Disabled Mortality: 1992 Railroad Retirement Board Disability Mortality Table.

Rate of Disability: Rates at which members are assumed to become disabled under the provisions of the Fund. Sample rates assumed are as follows:

Attained Age	Rate
22	.0005
27	.0096
32	.0023
37	.0025
42	.0025
47	.0045
52	.0060
57	.0075
62	.0075

The distribution of disability types is assumed to be as follows:

Duty Disability	35%
Occupational Disease Disability	35%
Ordinary Disability	30%

Rate of Retirement: Rates at which members are assumed to retire under the provisions of the Fund. The rates assumed are as follows:

Attained Age	Rate
49	.040
50	.120
51	.120
52	.120
53	.120
54	.160
55	.160
56	.160
57	.160
58	.160
59	.160
60	.250
61	.250
62	.400
63	1.000

Turnover Rates: The following sample rates exemplify the table:

Years of Service	Rate
0	.040
1	.020
5-9	.012
10+	.008

B. Economic Assumptions

Investment Return Rate: 8.00% per annum for pensions and 4.50% for OPEB. OPEB rate effective as of December 31, 2005.

Future Salary Increases: Assumed rates of individual salary increase at 4.0% per year, plus an additional percentage based on the following service scale:

Service	Scale
0	0.1700
1	0.0600
2	0.0500
3	0.0500
4	0.0500
5-9	0.0000
10	0.0350
11-14	0.0000
15	0.0350
16-19	0.0000
20	0.0350
21-24	0.0000
25	0.0350
26-29	0.0000
30	0.0250
Over 30	0.0000

Asset Value: For State reporting, bonds are at amortized value and stocks are at cost.

For GASB #25 and #27, the actuarial value of assets is smoothed by recognizing each year's difference between actual and expected investment return at the rate of 20 percent per year over a five-year period.

C. Other Assumptions

Marital Status: It is assumed that 85% of members have an eligible spouse. The male spouse is assumed to be three years older than the female spouse. No assumption is made about other dependents.

Group Health Insurance: It is assumed for valuation purposes that the current health insurance supplement will continue for life for all employee annuitants (and their future widows). The amount of the Fund-paid health insurance from July 1, 2003, until June 30, 2008 is $85.00 per month for each annuitant (employees and widows) not qualified to receive Medicare benefits and $55.00 if qualified. After June 30, 2008, the amounts will be $95.00 and $65.00, respectively. It is assumed that all annuitants age 65 and over will be eligible for Medicare and all annuitants less than age 65 will not be eligible for Medicare. Future widows of retirees are assumed to be eligible for Medicare, as well as widow annuitants that are currently receiving a health insurance supplement.

Required Ultimate Multiple: The actuarially determined contribution (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% overall loss on tax levy is assumed.

HISTORY OF AVERAGE ANNUAL SALARIES

Year End	Members in Service	Increase	Current Year Salary	Increase	Average Salary	Increase	Actuarial Assumptions	CPI Chicago
1968	12,427	6.8	$108,057,504	11.2	$8,895	6.5	3.50	4.3
1969	12,595	1.4	136,846,000	26.6	10,865	22.1	3.50	5.4
1970	12,948	2.8	160,682,780	17.4	12,410	4.2	3.50	5.6
1971	13,296	2.7	178,077,405	10.8	13,393	7.9	5.00	3.9
1972	13,318	0.2	185,841,384	4.4	13,954	4.2	5.00	2.9
1973	13,692	2.8	196,404,600	5.7	14,344	2.8	5.00	6.2
1974	13,291	(2.9)	205,212,984	4.5	15,440	7.6	5.00	10.7
1975	13,163	(1.0)	226,348,320	10.3	17,196	11.4	5.00	7.9
1976	13,353	1.4	244,004,592	7.8	18,273	6.3	5.00	4.8
1977	13,446	0.7	259,475,784	6.3	19,298	5.6	5.00	6.4
1978	13,107	(2.5)	270,132,744	4.1	20,610	6.8	5.00	8.6
1979	12,635	(3.6)	277,077,160	2.5	21,924	6.4	5.00	12.5
1980	12,587	(0.4)	292,438,368	5.5	23,233	6.0	5.00	14.4
1981	12,465	(1.0)	310,153,128	6.1	24,882	7.1	5.00	9.6
1982	12,810	2.8	348,850,944	12.5	27,233	9.4	6.00	6.8
1983	12,557	(2.0)	381,553,344	9.4	30,386	11.6	6.00	4.0
1984 [1]	12,110	(3.6)	379,686,648	(2.8)	30,610	0.7	6.00	3.8
1985	12,096	(0.1)	395,295,432	6.6	32,680	6.8	6.00	3.8
1986	12,578	4.0	431,883,240	9.3	34,336	5.1	6.00	2.0
1987	12,602	0.2	443,122,728	2.6	35,163	2.4	6.00	4.1
1988 [2]	12,495	(0.8)	443,669,520	0.1	35,508	1.0	6.00	3.9
1989	12,060	(3.5)	437,121,504	(1.5)	36,246	2.1	6.00	5.1
1990	12,039	(0.2)	471,544,173	7.9	39,168	8.1	6.00	5.5
1991	12,513	3.9	520,015,930	10.3	41,558	6.1	6.00	3.0
1992	12,570	0.5	538,404,098	3.5	42,832	3.1	5.80	3.3
1993	12,591	0.2	561,156,282	4.2	44,568	4.1	5.80	2.3
1994	13,095	4.0	599,073,276	6.8	45,748	2.6	5.80	2.9
1995	13,437	2.6	622,413,737	3.9	46,321	1.3	5.80	2.2
1996	13,475	0.3	654,149,310	5.1	48,545	4.8	5.80	3.8
1997	13,435	(0.3)	675,515,532	3.7	50,280	3.6	5.80	1.7
1998 [3]	13,586	1.1	736,401,756	9.0	54,203	7.8	5.50	1.5
1999	13,829	1.8	755,303,667	2.6	54,617	0.8	5.50	2.6
2000	13,858	0.2	759,343,026	0.5	54,795	0.3	5.50	4.0
2001	13,889	0.2	763,352,475	0.5	54,961	0.3	5.50	0.8
2002	13,720	(1.2)	866,531,789	13.5	63,158	14.9	5.50	2.5
2003	13,746	0.2	887,555,791	2.4	64,568	2.2	5.50	1.7
2004	13,569	(1.3)	874,301,958	(1.5)	64,434	(0.2)	5.50	2.2
2005	13,462	(0.8)	948,973,732	8.5	70,493	9.4	5.50 [4]	3.6
2006	13,749	2.1	1,012,983,635	6.7	73,677	4.5	5.50 [4]	0.7
2007	13,748	0.0	1,038,957,026	2.6	75,572	2.6	5.50 [4]	4.7
Average Increase (Decrease) for the last 5 years:		**0.0 %**		**3.7 %**		**3.7 %**		**2.6 %**

1 Members in service does not include those age 63 and over who are still working.
2 Figures do not include retroactive raise.
3 Pay definition changed to include duty availability pay. Of the $1,038,957,026 current year salary, $38,665,024 is duty availability pay.
4 See Appendix 4 for a complete description of the current assumptions.

SUMMARY OF CHANGES IN ACTIVE PARTICIPANTS FOR FISCAL YEAR ENDING DECEMBER 31, 2007

	Male	Female	Total
Number of Participants at Beginning of Fiscal Year	**10,444**	**3,305**	**13,749**
Increases:			
Participants Added During Year	287	86	373
Participants Returning From Inactive or Disability Status	29	9	38
Totals	10,760	3,400	14,160
Decreases:			
Terminations During Year	319	93	412
Number of Participants at End of Fiscal Year	10,441	3,307	13,748
Total Inactive Participants			554
Terminations:			
Withdrawal (With Refunds)	26	10	36
Withdrawal (Without Refunds)	26	7	33
Ordinary Disability Benefit	13	12	25
Occupational Disease Disability Benefit	6	0	6
Duty Disability Benefit	8	4	12
Retirements	227	58	285
Deaths (Occupational)	0	0	0
Deaths (Non-occupational)	13	2	15
Totals	**319**	**93**	**412**

SUMMARY OF CHANGES IN ANNUITANTS AND BENEFICIARIES FOR FISCAL YEAR ENDING DECEMBER 31, 2007

	Number at Beginning of Year	Additions During Year	Terminations During Year	Number at End of Year
Service Retirement Annuities	8,083	336	264	8,155
Widow Annuities	3,093	202	158	3,137
Children's Annuities	255	20	33	242
Ordinary Disability Benefit (Non-Occupational)	39	27	14	52
Occupational Disease Disability Benefit	69	6	10	65
Duty Disability Benefit (Occupational)	291	14	21	284
Children's Disability Benefit	132	22	18	136
Widows' Compensation Annuities (Service Connected Death)	64	0	0	64
Totals	12,026	627	518	12,135

TOTAL ANNUITANTS AND BENEFICIARIES (LAST SIX YEARS)

	Annual Allowances Beginning of Year	Annual Allowances Added to Rolls	Annual Allowances Removed from Rolls	Annual Allowances at Year-end	% Increase in Annual Allowances	Average Annual Allowances
2002	11,175	744	561	11,358	1.6%	11,267
2003	11,358	669	586	11,441	0.7%	11,400
2004	11,441	858	491	11,808	3.2%	11,625
2005	11,808	676	485	11,999	1.6%	11,904
2006	11,999	542	515	12,026	0.2%	12,013
2007	12,026	627	518	12,135	0.9%	12,081

ACTUARIAL ACCRUED LIABILITY
PRIORITIZED SOLVENCY TEST

Valuation Date 12/31	(Col. A) Active and Inactive Member Contributions	(Col. B) Retirees and Beneficiaries	(Col. C) Active and Inactive Members (ER Financed Portion)	(Col. D) Actuarial Value of Assets	Portion (%) of Present Value Covered By Assets (1)	(2)	(3)
1996	$717,890,959	$2,150,952,000	$1,498,186,586	$2,599,760,692	100%	87.49%	0%
1997	750,341,108	2,333,523,000	1,525,303,810	2,896,754,452	100%	91.98%	0%
1998	777,205,937	2,690,216,494	1,690,773,788	3,249,729,847	100%	91.91%	0%
1999	763,729,532	2,939,332,536	1,691,810,150	3,685,681,671	100%	99.41%	0%
2000	818,382,556	3,228,954,418	1,604,693,684	4,019,467,561	100%	99.14%	0%
2001	803,453,930	3,463,944,097	1,665,112,602	4,183,796,025	100%	97.59%	0%
2002	846,622,627	3,769,125,439	1,769,097,893	4,124,579,960	100%	86.97%	0%
2003	893,425,839	3,856,262,804	1,831,744,607	4,039,695,590	100%	81.59%	0%
2004	910,480,098	4,313,531,046	1,810,260,330	3,933,031,342	100%	70.07%	0%
2005	950,764,942	4,677,632,909	2,094,339,296	3,914,431,654	100%	63.36%	0%
2006	1,016,217,810	4,858,554,051	2,241,771,313	3,997,990,919	100%	61.37%	0%
2007	1,082,742,927	5,006,931,293	2,309,718,259	4,231,681,817	100%	62.89%	0%

(1) Percentage equals lesser of 100% or (Col. D / Col. A)

(2) Percentage equals lesser of 100% or [(Col. D - Col. A) / Col. B]

DEVELOPMENT OF ANNUAL REQUIRED CONTRIBUTION UNDER GASB NO. 25 AND GASB NO. 43 FOR 2008 [1]

	Pension	Health Ins. Supplement	Total
(1) Normal Cost (see Table 2)	$ 179,844,821	$ 4,700,333	$ 184,545,154
(2) Actuarial Accrued Liability (AAL)	$ 8,220,352,638	$ 179,039,841	$ 8,399,392,479
(3) Unfunded AAL (UAAL)			
(a) Actuarial Value of Assets	$ 4,231,681,817	$ 0	$ 4,231,681,817
(b) UAAL (2-3(a))	3,988,670,821	179,039,841	4,167,710,662
(4) Amortization Payable at Beginning of Year [2]	$ 217,991,664	$ 6,392,299	$ 224,383,963
(5) Estimated Member Contributions	$ 95,770,359	$ 0	$ 95,770,359
(6) Annual Required Contribution (ARC)			
(a) Interest Adjustment for Semimonthly Payment	16,168,744	256,327	16,425,071
(b) Annual Required Contribution (1 + 4 - 5 + 6(a))	$ 318,234,870	$ 11,348,959	$ 329,583,829
(c) Annual Required Contribution (Percent of Pay)	30.63%	1.09%	31.72%
(7) Estimated City Contribution	$ 172,754,714	$ 11,176,286 [3]	$ 183,931,000
(8) Deficiency/(Excess)			
(a) in Dollars (6(b)-7)	$ 145,480,156	$ 172,673	$ 145,652,829
(b) as a Percentage of Pay	14.00%	0.02%	14.02%

[1] Pension liabilities were discounted at 8.0% per year, and OPEB liabilities discounted at 4.5% per year.
[2] Amortization is over a 30-year period as a level percent of pay.
[3] Represents expected health insurance supplemental benefits for fiscal year 2008

SUMMARY OF BASIC ACTUARIAL VALUES

UNFUNDED ACTUARIAL ACCRUED LIABILITY - BEGINNING OF 2007

(1)	Actuarial Accrued Liability - 12/31/2006	$8,116,543,174
(2)	Assets at Book Value - 12/31/2006	3,760,378,124
(3)	Unfunded Accrued Actuarial Liability - 12/31/2006	$4,356,165,050

EXPECTED UNFUNDED ACTUARIAL ACCRUED LIABILITY - END OF 2007

(4)	Normal Cost for 2007	$ 179,482,922
(5)	Total Contributions for 2007	272,005,971
(6)	Interest on (3), (4), & (5) at Valuation Rate	345,961,524
(7)	Expected Unfunded Actuarial Accrued Liability - 12/31/2007 ((3)+(4)-(5)+(6))	$4,609,603,525

DEVIATIONS FROM EXPECTED

(8)	(Gain)/Loss on Investment Return (Book Value)	$ (20,776,800)
(9)	(Gain)/Loss from Salary Changes	(58,809,297)
(10)	(Gain)/Loss from Retirement	(6,546,688)
(11)	(Gain)/Loss from Turnover	1,576,799
(12)	(Gain)/Loss from Mortality	(689,504)
(13)	(Gain)/Loss from Disability	(4,231,389)
(14)	(Gain)/Loss from Data Changes	8,456,974 (1)
(15)	(Gain)/Loss from New Entrants	2,571,941
(16)	Composite Actuarial (Gain)/Loss	($78,447,964)

UNFUNDED ACTUARIAL ACCRUED LIABILITY - END OF 2007

(17)	Unfunded Accrued Actuarial Liability - 12/31/2007 ((7)+(16))	$4,531,155,561

[1] The main components of the data loss are: $12.4 million for new beneficiaries in payment status without a prior record, and $3.9 million gain due to other experience and data changes.

SUMMARY OF BASIC ACTUARIAL VALUES

	APV of Projected Benefits	Actuarial Accrued Liability (AAL)
(1) Values for Active Members		
(a) Retirement	$4,606,484,497	$3,169,092,581
(b) Termination	97,304,697	23,626,045
(c) Disability	401,355,191	150,386,599
(d) Death	98,010,894	27,932,348
Total for Actives	$5,203,155,279	$3,371,037,573
(2) Values for Inactive Members		
(a) Retired	4,273,914,361	4,273,914,361
(b) Survivor	472,936,587	472,936,587
(c) Disability	247,121,494	247,121,494
(d) Inactive (Deferred Vested)	21,423,613	21,423,613
(e) Children	12,958,851	12,958,851
Total for Inactives	5,028,354,906	5,028,354,906
(3) Grand Totals	$10,231,510,185	$8,399,392,479
(4) Normal Cost for Active Members	$ 184,545,154	
(5) Actuarial Present Value of Future Compensation	$10,735,480,285	

Summary of Principal Eligibility And Benefit Provisions

AS OF DECEMBER 31, 2007

PARTICIPANTS

An employee in the police department of the City of Chicago appointed and sworn or designated by law as a peace officer with the title of policeman, policewoman, chief surgeon, police surgeon, police dog catcher, police kennelman, police matron and members of the police force of the police department.

SERVICE

In computing service rendered by a police officer, the following periods shall be counted, in addition to all periods during which he performed the duties of his position, as periods of service for annuity purposes only: All periods of (a) vacation; (b) leave of absence with pay; (c) military service; (d) disability for which the police officer receives disability benefit. The calculation of service is based on a day-to-day basis for most purposes. For the purpose of calculating benefits under the Dominant Formula, one-year of Service is credited for a year in any portion of which a police officer is compensated.

RETIREMENT

Eligibility

Attainment of age 50 with at least 10 years of service.

Mandatory

Effective in plan year 2003, retirement is mandatory for a participant who has attained age 63.

Accumulation Annuity

At age 50 or more, with 10 or more years of service, the employee is entitled to an annuity based on the sums accumulated for age and service annuity plus 1/10 of the sum accumulated from the contributions by the City for the age and service annuity for each completed year of service after the first 10 years. At age 50 or more with 20 or more years, the employee is entitled to an annuity based on all sums accumulated.

Formula Minimum Annuity

While there are several alternative formulas available with 20 or more years of service, the Dominant Formula is 50% of highest average salary (including duty availability pay) in 48 consecutive months within the last 10 years of service plus 2.5% for each year or fraction of service over 20 years, limited to 75% of average salary.

Mandatory Retirement Minimum Annuity	A police officer who is required to withdraw from service due to attainment of mandatory retirement age who has less than 20 years of service credit may elect to receive an annuity equal to 30% of average salary for the first 10 years of service, plus 2% of average salary for each completed year of service in excess of 10, to a maximum of 48% of average salary. This benefit qualifies for post retirement increases.
Post-Retirement Increase	A retiree born before January 1, 1955, with at least 20 years of service, receives an increase of 3% of the original annuity, starting on the first of the month following the first anniversary of his retirement or the first of the month following attainment of age 55, whichever is later, and shall not be subject to a 30% maximum increase. For retirees born after January 1, 1955, automatic increases are 1.5% of the original annuity, commencing at age 60, or the first anniversary of retirement, if later, to a maximum of 30%.
Minimum Annuity	The benefit of any retiree who retired from the service before January 1, 1986, at age 50 or over with at least 20 years of service, or due to termination of disability is not less than \$1,050 per month.
Reversionary Annuity	A member, prior to retirement, may elect to reduce his own annuity, and provide a reversionary annuity, to begin upon the officer's death, for the officer's spouse.

SURVIVOR INCOME BENEFITS PAYABLE ON DEATH

Death in Service (Non-Duty):	Generally, a money purchased benefit is provided, based on total salary deductions and City contributions. However, if a policeman dies in service after December 31, 1985, with at least 1.5 years of service, the widow's annuity is the greater of (a) 30% of the annual maximum salary attached to the classified civil service position of a first class patrolman at the time of his death (without dollar limit) or (b) 50% of the benefit accrued by the policeman at date of death. The lifetime benefit is payable until death.
Death in Service (Duty Related)	
Compensation Annuity	75% of the member's salary attached to the civil service position that would ordinarily have been paid to such member as though in active discharge of his duties at the time of death payable until the date the policeman would have attained age 63.

Supplemental Annuity	Payable for life and is equal to the difference between the money purchase annuity for the spouse and an amount equal to 75% of the annual salary (including all salary increases and longevity raises) the police officer would have been receiving when he attained age 63 if the police officer had continued in service at the same rank last held in the department.
Death after Retirement	If a police officer retires on or after January 1, 1986, and subsequently dies, the widow's annuity is 40% before 1988 and 50% on and after January 1, 1988 of the retired policeman's annuity at the time of death (without dollar limit).
Maximum Annuity	\$500 a month (after discount for age difference) under both the accumulation method and the old formula method. There is no dollar limit on the 30%, 40% or 50% benefit.
Minimum Annuity	Any spouse is entitled to a minimum annuity of \$1,000 a month.

CHILDREN'S ANNUITIES

Eligibility	Payable at death of the policeman to all unmarried children less than 18 years of age.
Benefit	10% of the annual maximum salary of a first class patrolman during widow (widower) life, 15% otherwise.
Payable Until	Age 18. If the child is disabled, benefit is payable for life or as long as such disablement exists.
Family Maximum	60% (non-duty death) or 100% (duty death) of the salary that would ordinarily been paid to the policeman, if he had been in the active discharge of his duties.
Parent's Annuities Eligibility	Payable to a dependent parent at the death of a policeman who is in either active service, or receiving a disability benefit, or on leave of absence, or in receipt of an annuity granted after 20 years of service, or waiting to start receiving an annuity granted for 20 years of service. The benefit is only payable if there are no surviving spouses or children eligible for benefits.
Benefit	18% of the current salary attached to the rank at separation from service.
Payable until	Death of the dependent parent.

DUTY DISABILITY BENEFIT

Eligibility	Disabling condition incurred in the performance of duty.
Benefit	75% of salary at the time the disability is allowed plus $100.00 per month for each unmarried child less than age 18, (total amount of child's benefits shall not exceed 25% of salary). Beginning January 1, 2000, after 7 years of payment, the benefit shall not be less than 60% of the current salary attached to the rank held by the policemen at the time of disability. Payable to employee's age 63 or by operation of law, whichever is later. Salary deductions are contributed by the City.

OCCUPATIONAL DISEASE DISABILITY BENEFIT

Eligibility	Heart attack or any disability heart disease after 10 years of service.
Benefit	65% of salary attached to the rank held by the police officer at the time of his or her removal from the police department payroll with a minimum after 10 years of 50% of the current salary attached to the rank. Each natural or legally adopted unmarried child of the officer under the age of 18 is entitled to a benefit of $100 per month. This benefit is not terminated at age 18 if the child is then dependent by reason of physical or mental disability.

ORDINARY DISABILITY BENEFIT

Eligibility	Disabling condition other than duty related.
Benefit	50% of salary at the time of injury, payable for a period not more than 25% of service (excluding any previous disability time) rendered prior to injury, nor more than 5 years. Disability shall cease at age 63. Salary deductions are contributed by the City.

DEATH BENEFIT

Eligibility

Payable upon the death of a police officer whose death occurs while in active service; on authorized leave of absence; within 60 days of receipt of salary; while receiving duty or ordinary disability benefit; occurring within 60 days of termination of such benefit; or occurring on retirement while in receipt of annuity and separation was effective after 20 years of service. This benefit is payable to beneficiaries or, if none, to estate.

Benefit

Death in Service:

Age at Death	Benefit
49 and under	$12,000
50-62	$12,000 less $400 for each year by which age at death exceeds 49.
63 and Over	$6,000

Death after Retirement:

Age at Death	Benefit
50 and over	$6,000

If death results from injury incurred in performance of duty before retirement on annuity, the benefit payable is $12,000 regardless of the attained age.

GROUP HEALTH HOSPITAL AND SURGICAL INSURANCE PROGRAM

The pension fund shall provide payments in the amount of $85 per month for non-Medicare eligible city annuitants and $55 per month for Medicare eligible city annuitants from July 1, 2003, through June 30, 2008. Thereafter, the pension fund shall provide payments in the amount of $95 per month for non-Medicare eligible city annuitants and $65 per month for Medicare eligible city annuitants from July 1, 2008, through June 30, 2013.

REFUNDS

Policemen

Without regard to service and under age 50, or with less than 10 years of service and under age 57 at withdrawal: a refund of all salary deductions together with 1.5% simple interest until the date of withdrawal.

For Spouse's Annuity	Upon retirement an unmarried policeman will receive a refund of contributions for spouse's annuity, accumulated at 3% (4% for those commencing membership prior to January 1, 1954) compounded annually.
Of Remaining Amounts	If at death of a retired policeman the total member contributions paid while active exceed the total retirement benefits paid to date of death, the difference is payable.

CONTRIBUTIONS

Salary Deductions	Employee	7 %	
	Spouse	1½%	
	Annuity Increase	½%	
		9 %	
City Contributions [1]	Employee	9-5/7%	
	Spouse	2 %	
	Annuity Increase	½%	Unallocated
		12-3/14%	

[1] Credited to Participant's Accumulation Annuity and Widow's Annuity Account

In addition to the above contributions, a contribution is made to support the Death Benefit. Policemen contribute $2.50 per month. City contributes a total of $224,000 for all policemen. The total City contribution is generated by a tax equal to double the contributions by the policemen to the Fund two years prior to the year of the tax levy.

"PICK UP" OF EMPLOYEE SALARY DEDUCTIONS	Beginning January 1, 1982, the employee contributions were "picked up" by the employer. The W-2 salary is therefore reduced by the amount of contribution. For pension purposes the salary remains unchanged. Income tax will be paid when a refund or annuity is received. For the purpose of benefits, refunds or contributions, these contributions will be treated as employee contributions.

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Statistical Section

SUPPLEMENTAL INFORMATION

The following section contains special schedules designed to supplement benefit payment data contained elsewhere in this Comprehensive Annual Financial Report.

- **Revenues by Source and Expenses by Type** details the specific sources and uses of funds: Employee contributions obtained from participants through payroll deductions, employer contributions from the City of Chicago's real estate tax levy (Calculated using a 2.0 multiplier that matches employee contributions on a two year lag basis) and finally, investment income derived from the Fund's portfolio of assets. On the expense side, the largest component is benefit payments to participants, followed by refunds of contributions to participants and finally, the Fund's own administrative expenses.

- **Schedule of Benefit Expenses by Type** further details the total annual benefit expense by breaking it down into payments to annuitants, survivors, disability payments, death benefits, and health insurance supplements over the last 10 years.

- **Schedule of Retired Member Data** provide some key demographics of the annuitant population including average annual benefit paid, average current age, average age at retirement, and average years of service prior to retirement over the last 10 years.

- **Schedule of Active Member Data** provides the number of participants in the fund as well as their average annual salary and the percent increase in the average salary over the last 10 years.

- **Retirees and Beneficiaries by Type of Benefit** provides totals for each type of benefit payment including those to annuitants and their survivors as well as to employees receiving disability benefits from the Fund over the last 10 years.

- **Widow Annuitants** provides the total of surviving spouses receiving benefits as well as their average annual benefit over the last 10 years.

Revenues by Source and Expenses by Type

Year	Employee Contributions(1)	Employer Contributions(2)	Investment Income (3)	Total	Employer Cont. as a percent of Current Year Payroll
1998	69,890,008	118,867,416	467,101,444	655,858,868	16.19%
1999	70,185,289	125,281,970	475,716,575	671,183,834	16.14%
2000	71,261,412	139,481,871	31,299,210	242,042,493	16.58%
2001	71,146,651	139,675,766	(214,033,382)	(3,210,965)	18.37%
2002	79,238,513	141,989,025	(335,936,484)	(114,708,946)	18.30%
2003	79,816,332	140,807,354	627,291,033	847,914,719	15.86%
2004	78,800,816	135,744,173	367,908,110	582,453,099	15.53%
2005	89,109,811	178,278,371	261,389,227	528,777,409	18.79%
2006	91,965,685	158,759,277	447,275,047	698,000,009	15.67%
2007	93,299,996	178,705,975	349,914,156	621,920,127	17.20%

Year	Benefits Expenses	Administrative Expenses	Refunds	Total	Income Less Payouts
1998	251,231,727	1,923,882	4,288,642	257,444,251	398,414,617
1999	274,572,115	2,104,158	4,627,583	281,303,856	389,879,978
2000	297,506,761	2,201,877	4,642,278	304,350,916	(62,308,423)
2001	324,836,320	2,451,822	5,664,009	332,952,151	(336,163,116)
2002	350,413,759	2,544,860	5,238,860	358,197,479	(472,906,425)
2003	370,696,206	3,166,145	4,806,372	378,668,723	469,245,996
2004	401,519,101	2,626,056	5,781,659	409,926,816	172,526,283
2005	431,445,018	2,660,819	5,644,241	439,750,078	89,027,331
2006	452,788,081	2,700,475	5,271,842	460,760,398	237,239,611
2007	471,478,513	3,077,073	6,206,813	480,762,399	141,157,728

(1) Includes deductions in lieu for disability
(2) Net tax levy and miscellaneous income
(3) Includes realized net gain or loss on sale and exchange of assets, and net of investment expense

Schedule of Benefit Expenses by Type (Last 10 Years)

Year	Employee	Spouse	Dependent	Ordinary, Duty and Children Disability	Death	Hospitalization	Total
1998	194,708,964	34,599,872	908,620	13,989,343	1,833,790	5,191,138	251,231,727
1999	212,421,576	38,208,300	993,831	15,677,024	1,938,352	5,333,033	274,572,116
2000	233,114,183	39,163,934	1,177,881	16,711,644	1,818,700	5,520,420	297,506,762
2001	257,540,559	40,169,959	1,189,323	18,536,460	1,736,900	5,663,121	324,836,322
2002	278,369,295	42,773,551	1,197,537	20,563,408	1,610,800	5,899,168	350,413,759
2003	297,127,105	43,938,085	1,178,671	19,938,927	1,783,627	6,720,792	370,687,207
2004	322,926,347	47,527,540	1,230,130	20,250,689	1,837,006	7,747,390	401,519,102
2005	347,272,478	51,283,810	1,228,497	22,184,105	1,500,000	7,976,128	431,445,018
2006	366,275,912	53,432,655	1,368,446	21,783,830	1,886,443	8,040,795	452,788,081
2007	384,061,774	54,134,067	1,287,970	22,132,157	1,754,836	8,107,708	471,478,512

Schedule of Retired Member Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	Average Monthly Benefit	Average Age at Retirement	Average Age of Current Retirees	Average Years of Service at Retirement
1998	6,241	31,682	2,640	54.6	66	30.0
1999	6,520	33,220	2,768	54.8	66	29.9
2000	6,876	34,880	2,907	56.3	66	31.6
2001	7,192	36,428	3,036	56.4	66	29.8
2002	7,392	38,199	3,183	55.6	66	29.4
2003	7,498	38,998	3,250	57.1	66	30.2
2004	7,815	41,914	3,493	57.5	66	30.4
2005	8,026	43,930	3,661	57.3	67	30.6
2006	8,083	45,680	3,807	58.0	67	29.6
2007	**8,155**	**47,392**	**3,949**	**58.1**	**67**	**29.3**

Schedule of Active Member Data - Last 10 Years

Year	Number of Members at Year End	Annual Average Salary	% Increase in Average Salary
1998	13,586	54,203	---
1999	13,829	54,617	0.8%
2000	13,858	54,795	0.3%
2001	13,889	54,961	0.3%
2002	13,720	63,158	14.9%
2003	13,746	64,568	2.2%
2004	13,569	64,434	-0.2%
2005	13,462	70,493	9.4%
2006	13,749	73,677	4.5%
2007	**13,748**	**75,572**	**2.6%**

Schedule of Retirees and Beneficiaries by Type of Benefit
At Year-End - Last 10 Years

	ANNUITANTS			DISABILITY				Compensation	
Year	Employee	Spouse	Child	Ordinary	Duty	Occupational	Child	**Widows**	**TOTAL**
1998	6,241	3,093	228	56	279	57	150	57	**10,161**
1999	6,520	3,118	249	57	291	76	150	58	**10,519**
2000	6,876	3,107	267	48	274	87	149	59	**10,867**
2001	7,192	3,114	255	52	265	95	143	59	**11,175**
2002	7,392	3,092	235	38	289	103	150	59	**11,358**
2003	7,498	3,083	247	29	285	97	139	63	**11,441**
2004	7,815	3,133	249	44	287	85	130	65	**11,808**
2005	8,026	3,107	247	35	298	82	139	65	**11,999**
2006	8,083	3,093	255	39	291	69	132	64	**12,026**
2007	**8,155**	**3,137**	**242**	**52**	**284**	**65**	**136**	**64**	**12,135**

Widow Annuitants - Last 10 Years

Year	**Number at Year End**	**Average Annual Benefit**	**% Increase in Average Benefit**
1998	3,093	10,438	---
1999	3,118	11,589	11.0%
2000	3,107	11,918	2.8%
2001	3,114	12,305	3.2%
2002	3,092	12,965	5.4%
2003	3,083	12,950	-0.1%
2004	3,133	14,239	10.0%
2005	3,107	15,339	7.7%
2006	3,093	15,903	3.7%
2007	**3,137**	**16,464**	**3.5%**