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, 2008

Comprehensive Annual Financial Report

Policemen's Annuity and Benefit Fund

A Component unit
of the City of Chicago
for the year ended
December 31, 2008

Prepared by
John J. Gallagher, Jr.
Executive Director
Samuel Kunz
Chief Investment Officer
Charles A. McLaughlin
Comptroller
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POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
Comprehensive Annual Financial Report
Year Ended December 31, 2008
TABLE OF CONTENTS

Introductory Section

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, 2007

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

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

President

Executive Director

THE RETIREMENT BOARD
of the
Policemen's Annuity and Benefit Fund
City of Chicago

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228

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, 2008. 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.

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.

Investment Performance and Policy

The Fund relies heavily upon the performance of its assets to fund benefits (augmented by both employer and employee contributions). The severe dislocation created by market conditions has drastically reduced the performance of those assets. The impact of the sub-prime mortgage collapse on U.S. Equity markets in late 2007 preceded an overall economic collapse which resulted in negative portfolio performance throughout this past year. 2008 saw the U.S. stock market suffering its worst year since the Great Depression with equity prices dropping an average of -37.2%. The Fund's own domestic equity portfolio declined by -37.7%. International equity markets collapsed as well with the Fund's international equity portfolio falling -46.3% in 2008. The Fund's fixed income holdings generated an overall return of –4.1% in 2008.

47 professional investment management firms managed the investment portfolio at year-end 2008. These firms make investment decisions under the Prudent Person Rule

authorized by state statutes and the investment policy guidelines adopted by the Board of Trustees. The Board also employs two investment consultants to monitor investment performance, to aid in the selection of investment management firms, and to assist in the development of investment policy.

Economic Condition and Outlook

Although the collapse in market prices has reduced the value of Fund assets from $4.3 billion as of year-end 2007 to $3.0 billion as of year-end 2008, the Board of Directors and the Fund's investment consultants feel that the Fund is sufficiently structured and diversified to sustain prevailing market conditions. The Fund is undergoing a restructuring effort towards greater allocation to alternative investments (Private equity, real estate, infrastructure, hedge fund-of-funds, and other opportunistic vehicles) which the Fund's Board of Trustees and investment advisors feel constitutes a sound strategy that should be continued despite market dislocation.

Current market conditions constitute an anomaly rarely seen in the history of the Fund since inception. The Fund needs a sustained recovery in the market value of its assets in order to meet its future obligations to its annuitants. The paramount objective of the Fund is to meet its long-term defined pension benefit obligations. The funding ratio of the plan on a market value basis has declined substantially in 2008 and the Fund is clearly not alone among employee benefit plans in this occurrence.

Funding Status

The actuarial value of assets at year-end 2008, using the GASB 25 and 43 methods, was $4.09 billion with a corresponding actuarial liability of $8.65 billion. This actuarial liability increased by $253 million from $8.40 billion in 2007. Fund assets currently fund 47.3% of this liability, decreasing from a funded ratio of 50.4 % in 2007. The decrease in the funded ratio largely resulted from the collapse of U.S. and global financial markets. It should also 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 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 2009 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.

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 in 2009.

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 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.***

Professional Services

The Fund's actuarial services are provided by Gabriel, Roeder, Smith & Company. The annual audit was conducted by Mitchell & Titus LLP, Certified Public Accountants. The Fund's primary investment consultant is Ennis, Knupp, and Associates. In 2006, the Fund hired Courtland Partners, Ltd. as an additional consultant specializing in real estate investment. 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, 2007. 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 17 out of the past 18 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 new pension administration system, we will be better able to serve you going forward and, as always, welcome your comments or suggestions.

Respectfully submitted,

John J. Gallagher, Jr.

John J. Gallagher, Jr.
Executive Director
June 1, 2009

RETIREMENT BOARD MEMBERS AND OFFICE STAFF

December 31, 2008

Office Staff Members

John J. Gallagher, Jr., Executive Director
Samuel Kunz, Chief Investment Officer
Charles A. McLaughlin, Comptroller
Pacifico V. Panaligan, Assistant Comptroller

Support Staff

Adarsh Bagai	Robert Crawford	Joseph Ferreri
Karina Fruin	Egla Giotta	Kay Hylton
Carol Lopez	Kristi Matalik	Anne McGowan
Dorothy Miller	Richard Mulhbacher	Maggie O'Grady
Ed Rausch	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
Mitchell & Titus L.L.P.

MASTER CUSTODIAN
The Northern Trust Company

COMMERCIAL BANK
Chase

INVESTMENT MANAGERS

ABR Chesapeake
Adams Street Partners
Aetos Capital LLC
AG Realty
Apollo Real Estate Advisors
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
European Investors Inc.
Global Infrastructure Partners
Great Lakes Advisors
HarbourVest Partners, LLC
Holland Capital Management
ING Clarion Real Estate
Invesco Capital Management
JP Morgan Fleming Asset Management
K2 Advisors
LM Capital Group
Lone Star Funds
Macquarie Group
McKinley Capital Management
Mesirow
Montag & Caldwell
Morgan Stanley Real Estate
Muller & Monroe
Northern Trust Global Investments
Piedmont Investment Advisors
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
Michael K. Shields, Trustee
Paul A. Volpe, Trustee

⇑
⇑

EXECUTIVE DIRECTOR	**CHIEF INVESTMENT OFFICER**
John J. Gallagher, Jr.	Samuel Kunz, CFA

⇑
⇑
⇑

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	Kristi Matalik

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Financial Section

Mitchell & Titus

A member firm of Ernst & Young Global Limited

Mitchell & Titus LLP
116 S. Michigan Ave. Fax: (312) 332-0181
Chicago, IL 60603 www.mitchelltitus.com

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statement of plan net assets of the Policemen's Annuity and Benefit Fund of Chicago (the "Fund") as of December 31, 2008, and the related statement of changes in plan net assets for the year 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 audit. The financial statements of the Fund as of and for the year ended December 31, 2007, were audited by other auditors whose report dated May 15, 2008, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2008, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

The accompanying management's discussion and analysis and the required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are 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 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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. These other supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

June 8, 2009

Mitchell & Titus, LLP

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 the employer must pay as determined under the parameters in 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 *Schedule of Investment Fees* to reflect the costs involved in managing a defined benefit pension plan.

FINANCIAL HIGHLIGHTS

- The global meltdown in financial markets in 2008 has had a drastic effect upon the assets of the Policemen's Annuity and Benefit Fund of Chicago. The U.S. stock market suffered its worse year since 1931, dropping by -37.2%. The Fund's own U.S. equity holdings fared no better, declining by -37.7% compared to an overall return of +7.5% in 2007. The international equity markets collapsed as well, ending the year down -45.5%, in sharp contrast to a +16.7% return in 2007. The Fund's own global equities declined by -46.3% in 2008 and its fixed income portfolio generated an overall return of –4.1%, compared with +5.2% for the previous year.

- The net assets of the Policemen's Annuity and Benefit Fund of Chicago decreased by $1.33 billion or 30.7% to $3.0 billion by year-end 2008 down from $4.33 billion at year-end 2007. Although the drastic decline in asset value has been one of overriding concerns, the Fund's Board of Trustees and investment consultant feel that the Fund is sufficiently structured and diversified to sustain prevailing market conditions. The Fund continues to undergo a portfolio restructuring program aimed at achieving higher returns and lower volatility through greater allocation to alternative investments, including private equity, real estate, infrastructure assets, hedge fund-of-funds, and other opportunistic vehicles.

- The Fund's Management emphasizes the clear and important distinction between realized and unrealized losses. Although the Fund's unrealized losses for 2008 have been unprecedented ($969.6 million), the realized or recognized losses for this period have been far lower ($223.0 million). The bulk of the Fund's losses in 2008 is unrealized and therefore considered largely recoverable over time.

- 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 material decrease from 51.6% at year-end 2007 to 34.7% at year-end 2008. 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 2007 except for investment income. Total contributions by the employees and employer were $274.7 million for 2008 as compared to $272.0 million for 2007.

- Expenses for the Fund continue to be dominated by benefit payments made to annuitants and disability recipients. Benefit payments for 2008, excluding death benefits and refunds, were $489.8 million, up from $469.7 million in 2007. Death benefits and refunds of employee deductions remained consistent from 2007 to 2008 and account for only 1.6% of total benefit expenses. The Fund's administrative expenses for 2008 were $4.2 million, compared to $3.1 million in 2007. Three-quarters of this increase ($811,000) is due to the one-time cost of a new and significantly improved pension administration system. The system will be completed in 2009.

- Investment management fees decreased from $13.7 million in 2007 to $10.7 million in 2008, reflecting the decline in the market value of the Fund's assets under active management. The Fund's investment management fees are based upon the market value of those assets. The steep decline in the fund's portfolio value during 2008 -30.7% has resulted in a corresponding decline in investment management fees.

- The Board of Trustees has taken major steps to reduce operating and investment management expenses by restructuring its custodial and investment fee agreements. These efforts have already provided significant operating savings and will continue to do so going forward. The administrative expenses of the Fund relative to its size are low when compared to similarly-sized funds.

- The Fund's financial reporting remains in full compliance with the Governmental Accounting Standards Board (GASB). In pursuant of GASB Statement No. 45, the Fund recognizes a liability for other post-employment benefits (OPEB) which represent health insurance coverage for active and retired employees of the Fund. This obligation was disclosed in the 2007 Notes to the Financial Statements and is being recognized as an accrued expense in the amount of $344,600 in 2008.

- Effective January 1, 2008, the Fund implemented the provisions of GASB Statement No. 50. GASB Statement No. 50 requires that information about the funded status of each pension plan as of the most recent actuarial valuation be disclosed in the notes to the financial statements. Additionally, GASB Statement No. 50 requires disclosure of information about actuarial methods and assumptions used in valuations on which reported information about the ARC and the funded status and funding progress are based. The required schedules of funding progress immediately following the notes to the financial statements present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

PLAN NET ASSETS

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

Plan Net Assets
(In millions)
As of December 31, 2008 and 2007

			2008-2007 Change	
	2008	2007	$	%
Short-term instruments	$ 165.9	$ 136.7	$ 29.2	21.4%
Receivables	197.9	195.1	2.8	1.4
Brokers – unsettled trades	359.4	205.9	153.5	74.6
Investments, at fair value	2,681.4	4,051.8	(1,370.4)	-33.8
Invested securities lending collateral	287.6	516.0	(228.4)	-44.3
Total assets	3,692.2	5,105.5	(1,413.3)	

Brokers – unsettled trades	393.2	251.3	141.9	56.5
Securities lending payable	292.6	516.0	(223.4)	-43.3
OPEB Obligation	0.3	0.0	0.3	100.0
Accounts payable and accrued expenses	5.1	5.0	0.1	2.0
Total liabilities	691.2	772.3	(81.1)	
Net Plan Assets	$ 3,001.0	$ 4,333.2	$ (1,332.2)	

Net decrease of plan net assets was $1.33 billion in 2008, coming off a $141.1 million increase in 2007. Widespread dislocation in U.S. and global financial markets produced a material decrease in the fair value of investments for 2008.

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, 2008 and 2007

			2008-2007 Change	
	2008	2007	$	%
Additions:				
Member contributions	$ 93.2	$ 93.3	$ (0.1)	-0.1%
Employer contributions	181.5	178.7	2.8	1.6
Net investment gains (losses) and investment income	(1,104.4)	347.8	(1,452.2)	-417.5
Securities lending income (loss)	(0.5)	2.1	(2.6)	-123.8
Miscellaneous income	0.2	0.0	0.2	100.0
Total additions	(830.0)	621.9	(1,451.9)	
Deductions:				
Annuity and disability benefits	$ 491.6	$ 471.5	$ 20.1	4.3
Refunds of contributions	6.1	6.2	(0.1)	-1.6
OPEB accrued expense	0.3	0.0	0.3	100.0
Administrative expenses	4.2	3.1	1.1	35.5
Total deductions	502.2	480.8	21.4	
Net Increase	$ (1,332.2)	$ 141.1	$(1,473.3)	

REVENUES – ADDITIONS TO PLAN NET ASSETS

- Member contributions decreased slightly from $93.3 million in 2007 to $93.2 million in 2008. This marginal decrease reflects the net decline in participants of 375 (from 13,748 at 2007 year-end to 13,373 at 2008 year-end). Additionally, there have been no contract increases for active membership in 2008 since the previous employment contract ended June 30, 2007.

- Employer contributions increased from the prior year by 1.6% from $178.7 million received in 2007 to $181.5 million received in 2008. Employer contributions are mandated by a statutorily set multiplier of 2.0 times member contributions collected two years prior. Since member contributions increased marginally two years prior, due to retroactive annuity adjustments from a new contract, the employer contribution increased slightly in 2008.

- The net loss on total investment activity was ($1,104.4) million in 2008, compared to net income of $347.8 million in 2007. The decrease was due to a collapse in the financial markets, particularly in the last quarter of 2008. Net investment activity decreased due to a reversal in market appreciation in 2008, which produced a -27.8% return for the year compared to a +8.8% return for 2007.

EXPENSES – DEDUCTIONS FROM PLAN NET ASSETS

- Pension, disability and death benefits rose from $471.5 million in 2007 to $491.6 million in 2008, an increase of 4.3%. The increase in benefits is chiefly attributable to the 3% automatic cost-of-living increase payable to those annuitants eligible to receive it.

Plan Membership

The following table reflects the changes in plan membership from year-end 2007 to year-end 2008.

Changes in Plan Membership
As of December 31, 2008 and 2007

	2008	2007	Change	%
Retirees and beneficiaries receiving benefits	12,183	12,135	48	0.4%
Active employees	13,373	13,748	(375)	-2.7
Terminated (inactive members) employees entitled to benefits or refunds of contributions	636	554	82	14.8
Total	26,192	26,437	(245)	-0.9%

FUNDING STATUS

The actuarial value of assets, using the GASB 25 and 43 methods, for the December 31, 2008, valuation was $4.09 billion and the actuarial liability was $8.65 billion. The actuarial liability increased significantly by $253.2 million in 2008, from $8.4 billion in 2007 to $8.65 billion in 2008. The assets currently fund 47.3% of this liability, a decrease from the 50.4 % funded ratio in 2007. The decrease in the funded ratio largely resulted from the collapse in U.S. and global financial markets. As markets are expected to recover as they have in other historically significant downturns, the Fund expects a more positive trend to return to the funded ratio above its actuarial assumption of long-term rate of return of 8%.

The Board of Trustees is very concerned with the investment results of 2008 and will continue to monitor the financial situation moving into 2009. A recession of this magnitude may persist for an extended period of time. The Board has taken steps to ensure a sufficient level of liquidity within the portfolio to fund monthly benefits while pursuing its long-term goal of diversification towards alternative assets. The Board has and will continue to prudently provide the necessary resources to fund those monthly benefits while also minimize the absorption of unrealized losses in its public equity holdings.

Pension Commission

In late 2007, the Mayor of the City of Chicago announced the formation of a special Pension Commission to propose ways to improve the financial strength of the City's four pension funds. Even before the current upheaval in the financial markets, the Fund had been experiencing a drag on its funding progress from negative cash flow which threatened its long-term stability. Negative cash flow occurs when employee and employer contributions are not sufficient to fund annuitant benefits, requiring the Fund to tap into its investment portfolio to augment these contributions.

The executive directors from each of the four City pension funds, as well as an elected trustee from each pension, have been serving on this mayoral commission. Several union-appointed representatives and private-sector business leaders also serve on the commission. The overriding goal of the Pension Commission is to provide specific recommendations to the City of Chicago, as plan sponsor, and the fund members, on steps that may be taken to improve the overall funding of the city plans. The commission is expected to issue a recommendation in 2009.

Investment Activities

The Fund has continued to reallocate resources to alternative investments. In 2008, two allocations of $40 million each were made to hedge fund-of-fund managers. The Fund committed an additional $100 million to real estate managers. The Fund increased its allocation to private equity by an additional $40 million. And the Fund has begun to evaluate opportunistic investments. The Fund achieved much of this reallocation through the termination of two managers. By year-end 2008, the Board of Trustees, working closely with its investment consultant, had arrived at new longer-term target allocations: U.S. Equities 33%, International Equities 18%, Fixed Income 20%, Private Equity 7%, Real Estate 7%, Opportunistic 10%, and Infrastructure 5%. The asset allocation during year-end 2007 was 45% of assets invested in domestic equity, 15% in international equity, 30% invested in fixed income, 4% in private equity, 5% in real estate and 1% in infrastructure investments.

Investment Returns
Years Ended December 31, 2008 and 2007

	2008	2007
Total Fund	(27.8%)	8.8%
Benchmark portfolio	(25.7%)	7.9%
@EKA Public Fund Index	(25.5%)	8.7%
Domestic equities	(37.7%)	7.5%
Benchmark (DJ Wilshire 5000)	(37.2%)	5.6%
International equities	(46.3%)	16.4%
Benchmark (MSCI All-Country)	(45.5%)	16.7%
Fixed income	(4.1%)	5.1%
Benchmark (Barclays Capital Aggregate)	5.2%	7.0%

Effects of Economic Factors

The financial position of the plan, which has been fairly stable in recent years, has been shaken by recent market developments. The actual portfolio return of -27.8% in 2008 is unprecedented in the Fund's history and drastically lags the 8.0% actuarial rate of return, but the hope for eventual market stabilization and recovery remains strong. The Fund has been in existence since 1887 and has always fulfilled its obligation to its annuitants and their families.

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
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Chicago, IL 60601

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
Statements of Plan Net Assets
December 31, 2008 and 2007

	2008	2007
ASSETS		
Cash	$ 250	$ 250
Receivables:		
Employer tax levies, net of allowance for loss of $16,071,614 in 2008 and $14,812,131 in 2007	184,583,494	175,156,206
Member contributions	4,568,185	8,338,948
Interest and dividends	8,705,209	11,569,438
Accounts receivable—due from brokers	359,458,397	205,888,263
	557,315,285	400,952,855
Investments at fair value:		
U.S. Common stock and other equity	958,142,235	1,603,774,230
Collective investment, stock	186,929,884	334,686,255
Collective investment, fixed income	297,275,551	297,077,039
International equity	445,987,186	717,502,770
Bonds and notes	469,517,596	882,980,818
Short-term instruments	165,898,425	136,713,405
Infrastructure	17,378,111	8,263,605
Hedge fund-of-funds	69,937,800	-
Real estate	86,035,448	65,241,080
Venture capital	150,183,393	142,311,495
	2,847,285,629	4,188,550,697
Invested securities lending cash collateral	287,600,269	516,052,543
Total Assets	3,692,201,433	5,105,556,345
LIABILITIES		
Refunds and accounts payable	5,075,246	4,958,163
Trade accounts payable—due to brokers	393,161,289	251,311,712
Securities lending cash collateral	292,621,917	516,052,543
OPEB Obligation	344,600	-
Total Liabilities	691,203,052	772,322,418
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 33)	$ 3,000,998,381	$ 4,333,233,927

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, 2008 and 2007

	2008	2007
ADDITIONS		
Contributions:		
Employer	$ 181,526,448	$ 178,678,154
Plan member salary deductions	93,207,408	93,299,996
Total contributions	274,733,856	271,978,150
Investment (loss) income:		
Net (depreciation) appreciation in fair value of investments	(1,187,618,379)	265,358,442
Interest	36,659,393	53,094,326
Dividends	54,994,319	42,467,732
Real estate income	3,006,892	1,564,726
	(1,092,957,775)	362,485,226
Investment Activity Expenses:		
Investment management fees	(10,695,551)	(13,657,186)
Custodial fees	(217,885)	(661,616)
Investment consulting fees	(563,110)	(360,649)
Total investment activity expenses	(11,476,546)	(14,679,451)
Net (loss) income from investing activities	(1,104,434,321)	347,805,775
From Securities Lending Activities:		
Net depreciation in fair value of investments	(5,080,033)	-
Securities lending income	13,376,393	33,941,848
Borrower rebates	(7,840,877)	(31,143,858)
Bank fees	(930,628)	(689,609)
Net (loss) income from securities lending activities	(475,145)	2,108,381
Total net investment (loss) income	(1,104,909,466)	349,914,156
Miscellaneous income	159,543	27,821
Total Additions	(830,016,067)	621,920,127
DEDUCTIONS		
Pension and disability benefits	489,823,660	469,723,677
Death benefits	1,779,200	1,754,836
Refunds of employee deductions	6,118,449	6,206,813
	497,721,309	477,685,326
Administrative expenses	4,153,570	3,077,073
OPEB expense	344,600	-
Total Deductions	502,219,479	480,762,399
Net (Decrease) Increase	(1,332,235,546)	141,157,728
Net assets held in trust for pension benefits:		
Beginning of year	4,333,233,927	4,192,076,199
End of year	$ 3,000,998,381	$ 4,333,233,927

See accompanying notes to financial statements.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Accounting principles generally accepted in the United States 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 Policemen's Annuity and Benefit Fund of Chicago (the "Fund" or "PABF") is considered to be a component unit of the City of Chicago (the "City"). The Fund is part of the City's financial reporting entity, and it is included in the City's pension trust funds' financial statements.

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.

Use of Estimates

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

Investments

The Fund is authorized 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 other types of investment vehicles as set forth in the Illinois Compiled Statutes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. Hedge fund, venture capital, infrastructure, and certain opportunistic investments do not have established quoted market prices and are reported at estimated fair value as determined by money managers.

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.

Administrative Expenses

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

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 at fair value. 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.

GASB Statement No. 50

Effective January 1, 2008, the Fund implemented the provisions of GASB 50. GASB 50 requires that information about the funded status of each pension plan as of the most recent actuarial valuation be disclosed in the notes to the financial statements. Additionally, GASB 50 requires disclosure of information about actuarial methods and assumptions used in valuations on which reported information about the ARC and the funded status and

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

funding progress are based. The required schedules of funding progress, immediately following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 2 PENSION PLAN

Plan Description and Contribution Information

The Policemen's Annuity and Benefit Fund of Chicago 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, their widows, and their 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 Act 5, Article 5) and may be amended only by the Illinois State Legislature. The Fund is governed by an eight-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, 2008 and 2007, were $1,023,580,667 (unaudited) and $1,038,957,026, (unaudited) respectively. At December 31, 2008 and 2007, the Fund membership consisted of the following (unaudited):

	2008	2007
Active employees	13,373	13,748
Retirees and beneficiaries currently receiving benefits	12,183	12,135
Terminated employees entitled to benefits or a refund of contributions but not yet receiving them	636	554
	26,192	26,437

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 have been completed. 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 the attainment of age 55 or the first anniversary of retirement, and by 3% on each January 1 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 the attainment of age 60 or the first anniversary of retirement, and 1.5% on each January 1 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.

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.

NOTE 2 PENSION PLAN *(continued)*

Funded Status and Funding Progress (Unaudited)

The funded status of the Fund as of December 31, 2008, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") Entry Age (b)	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/08	$4,093,719,894	$8,482,574,033	$4,388,854,139	48.26%	1,023,580,667	428.77%
12/31/07	4,231,681,817	8,220,352,638	3,988,670,821	51.48	1,038,957,026	383.91

The schedule of funding progress, presented as required supplementary information ("RSI") following the notes to the financial statements, present multiyear trend information about whether the actuarial values of Fund assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2008
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
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% (1.50% for retirees born after January 1, 1955)

NOTE 3 HEALTH INSURANCE SUPPLEMENT

Plan Description and Contribution Information

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

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Premiums are set by the City with the City paying 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, 2008 and 2007, the number of annuitants or surviving spouses who have subsidized health insurance totaled 10,017 and 9,890, respectively. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The estimated City contribution represents the expected benefit payments for the health insurance supplement. In 2008 and 2007, the Fund received contributions of $8,850,186 and $8,107,708 from the City, and remitted contributions of insurance premiums to the City of $8,850,186 and $8,107,708, respectively. Contributions to the health insurance supplement equal to insurance premium payments to the City. There are no net assets to report for the health insurance supplement at December 31, 2008 or 2007.

Funded Status and Funding Progress (Unaudited)

The funded status of the Fund as of December 31, 2008, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") Entry Age (b)	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/08	$ -	$ 169,972,156	$ 169,972,156	0.00%	$1,023,580,667	16.61%
12/31/07	-	179,039,841	179,039,841	0.00	1,038,957,026	17.23

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

The schedule of funding progress, presented as required supplementary information ("RSI") following the notes to the financial statements, present multiyear trend information about whether the actuarial values of Fund assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2008
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	No assets (Pay-as-you-go)
Actuarial assumptions:	
OPEB investment rate of return	4.5%
Projected salary increases	4.0% per year, plus additional percentage related to service
Health cost trend rate	0.0%

NOTE 4 CASH AND INVESTMENT RISK

Cash

The bank balance and carrying amount of the Fund's deposits, excluding $250 of petty cash, at December 31, 2008, were $863,116 and ($828,761), respectively; and they were $524,732 and ($1,112,586) at December 31, 2007, respectively. The entire bank balance at December 31, 2008 and 2007, is on deposit with the City Treasurer and is insured or collateralized by securities held by the City Treasurer in the Fund's name.

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 investments to enhance long-term return
- Diversify investments across several asset classes
- Avoid market-timing strategies

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

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.

Investment Summary

The following table presents a summary of the Fund's investments by type at December 31, 2008 and 2007:

	2008	2007
US Government and agency fixed income	$ 226,332,190	$ 377,137,151
US corporate fixed income	243,185,406	505,843,667
US common collective fixed income funds	297,275,551	297,077,039
US equities	958,142,235	1,603,774,230
US common collective stock funds	186,929,884	334,686,255
Foreign equities	445,987,186	717,502,770
Pooled short-term investment funds	73,208,119	63,487,605
Infrastructure	17,378,111	8,263,605
Real estate	86,035,448	65,241,080
Private equity	150,183,393	142,311,495
US miscellaneous	-	17,323,000
US Treasury bills	-	4,192,072
Hedge fund-of-funds	69,937,800	-
SWAPS	701,587	178,465
Cash and cash equivalents	91,988,719	51,532,263
Total investments at fair value	$ 2,847,285,629	$ 4,188,550,697

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 employed six such managers in 2008 and seven managers during 2007. 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 to purchase a combination of shorter term and longer term investments and to time cash flow from

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

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, 2008, the Fund had the following investments and maturities related to certain fixed income securities (bonds and notes):

		Investment Maturities			
Investment Type	Market Value	Less than 1 Year	1 to 6 Years	7 to 10 Years	More than 10 Years
Asset backed securities	$ 41,488,871	$ 203,453	$ 23,949,417	$ 5,996,521	$ 11,339,480
Commercial mortgage backed securities	39,671,716	-	-	751,797	38,919,919
Corporate bonds	141,400,932	2,266,531	52,164,270	49,394,497	37,575,634
Government agency securities	15,699,981	-	8,594,980	1,659,303	5,445,698
Government bonds	39,311,798	2,001,771	3,261,405	11,152,109	22,896,513
Government mortgage backed securities	170,985,707	-	709,798	15,664,365	154,611,544
Guaranteed fixed income	1,961,176	-	1,961,176	-	-
Municipal principal bonds	334,704	-	-	-	334,704
Non-government backed collateralized mortgage obligations	18,662,711	-	758,863	3,811,578	14,092,270
Total	$ 469,517,596	$ 4,471,755	$ 91,399,909	$ 88,430,170	$ 285,215,762

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

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

		Investment Maturities			
Investment Type	Market Value	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

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 & 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 & Poor's:

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

	Fair Value	
	2008	2007
Quality Rating:		
AAA	$ 70,656,569	$ 304,053,978
AA	5,541,401	60,524,815
A	68,466,924	61,527,498
BBB	62,636,066	92,786,236
BB	4,240,319	17,115,783
B	2,405,289	28,248,182
Not rated	26,573,859	77,890,384
Other	2,664,979	3,622,904
Total credit risk of US corporate fixed income	243,185,406	645,769,780
US Government and agency fixed income securities	226,332,190	237,211,038
	$ 469,517,596	$ 882,980,818

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, 2008 and 2007, deposits of $517,839 and $1,704,739, were exposed to custodial credit risk as uninsured and uncollateralized.

Concentration of Credit Risk—The Fund's investment policy limits the aggregate amount that can be invested in each asset class. Long-term allocation targets at December 31, 2008, were as follows: US equities 33%, international equities 18%, fixed income 20%, private equity 7%, real estate 7%, opportunistic 10%, and infrastructure 5%. The asset allocation targets for the year ended December 31, 2007, were as follows: 45% of assets invested in domestic equity, 15% in international equity, 30% invested in fixed income, 4% in private equity, 5% in real estate, and 1% in infrastructure investments.

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 US dollars.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

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 currency and security risk. The fund's exposure to foreign currency risk is as follows:

	Fair Value	
	2008	2007
Currency		
Australian Dollar	$ 12,062,499	$ 28,439,364
Brazilian Real	1,188,161	2,809,428
British Pound Sterling	57,807,165	98,282,762
Canadian Dollar	13,899,826	23,891,877
Czech Koruna	(2,103,706)	1,097,173
Danish Krone	4,219,171	3,914,486
Egyptian Pound	276,976	2,432,630
Euro Currency Unit	104,078,408	189,299,832
Hong Kong Dollar	18,969,862	43,589,740
Hungarian Forint	32,190	669,211
Indian Rupee	1,904,608	5,672,056
Indonesian Rupiah	1,504,286	4,325,303
Israeli Shekel	543,900	653,150
Japanese Yen	63,409,406	108,613,550
Malaysian Ringgit	481,555	6,285,987
Mexican Peso	1,449,749	2,292,091
New Taiwan Dollar	-	14,638,415
Norwegian Krone	1,221,275	6,936,939
Polish Zloty	133,450	660,528
Singapore Dollar	3,168,558	7,749,478
South African Rand	1,580,239	8,570,121
South Korean Won	2,623,045	12,499,164
Swedish Krona	6,197,952	12,458,757
Swiss Franc	43,906,396	67,286,249
Taiwan Dollar	4,404,600	-
Thia Baht	263,839	769,123
Turkish Lira	1	1,370,937
Total investments in foreign currency	$ 343,223,411	$ 655,208,351

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

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 instrument 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 $70,639,388 and $12,640,840 at December 31, 2008 and 2007, respectively.

NOTE 5 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% for US securities. 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 60 days. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted-average maturity of 17 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, 2008 and 2007 are as follows:

	2008	**2007**
Market value of securities loaned	$ 282,849,401	$ 519,603,447
Market value of cash collateral from borrowers	287,600,269	516,052,543
Market value of non-cash collateral from borrowers	821,204	18,543,037

NOTE 5 SECURITIES LENDING PROGRAM *(continued)*

As of December 31, 2008 and 2007, the Fund had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Fund.

There was an unrealized loss of $5,080,033 recorded in the financial statements for the year ended December 31, 2008, calculated based on the difference between book value of cash collateral due to borrowers under the securities lending program and the fair value of invested cash collateral under the securities lending program.

NOTE 6 UNFUNDED INVESTMENT COMMITMENTS

The Fund has unfunded commitments of approximately $300 million at December 31, 2008, in connection with real estate, infrastructure, and private equity investments.

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN

(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 ("Staff Retiree Health Plan"). The Staff Retiree Health Plan provides lifetime health and dental care insurance for eligible retirees and their spouses through 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 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.

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN *(continued)*

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. For 2008, PABF contributed $86,000 to the plan for current premiums, plus the implicit subsidy of $18,700. Plan members receiving benefits contributed $27,036, or 21% of the total premiums, through their required contributions between $72 and $555 per month based upon their coverage.

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 30 years. The calculations assume an opening transition liability of $0 as of December 31, 2007. The following table shows the components of PABF's annual OPEB cost for 2008, the amount actually contributed to the plan, and changes in PABF's net OPEB obligation to the Staff Retiree Health Plan:

	2008
Annual required contribution	$ 274,600
Interest on net OPEB obligation	7,800
Adjustment to annual required contribution	(5,800)
Annual OPEB expense	276,600
Employer contributions made	104,700
Increase in net OPEB obligation	171,900
Net OPEB obligation at beginning of year	172,700
Net OPEB obligation at end of year	$ 344,600

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN *(continued)*

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2008 and 2007 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2008	$ 274,600	38%	$ 344,600
12/31/2007	261,500	34	172,700

Funded Status and Funding Progress (Unaudited)

Based on the results of the December 31, 2007, valuation (the most recent actuarial valuation) projected to December 31, 2008, the actuarial accrued liability for benefits was $3,239,700, none of which was funded; the covered payroll was $1,202,700; and the ratio of unfunded actuarial accrued liability to covered payroll was 269.4%.

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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 members 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.

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN *(continued)*

In the December 31, 2008, 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 4.5% general inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a period of 30 years. The projected salary increase assumption was 4%.

NOTE 8 RESERVES

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

City Contribution Reserve

	2008	2007
Balances at December 31	$ 1,020,868,413	$ 1,922,681,788

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 $4,388,854,139 in 2008 and $3,988,670,821 in 2007.

NOTE 8 RESERVES *(continued)*

Salary Deduction Reserve

	2008	2007
Balances at December 31	$1,118,778,431	$1,060,202,962

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.

Annuity Payment Reserve

	2008	2007
Balances at December 31	$ 588,854,748	$ 636,950,919

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.

Prior Service Annuity Reserve

	2008	2007
Balances at December 31	$ 822,176,168	$1,181,599,800

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.

NOTE 8 RESERVES *(continued)*

Gift Reserve

	2008	2007
Balances at December 31	$ 13,835,549	$ 13,530,344

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

	2008	2007
Balances at December 31	$ (14,164,303)	$ (12,276,132)

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 $14,164,303 at December 31, 2008, and $12,276,132 at December 31, 2007, respectively.

Automatic Increase Reserve

	2008	2007
Balances at December 31	$ (549,798,027)	$ (469,903,156)

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, 2008 and 2007, the Automatic Increase Reserve has a deficit of $549,798,027 and $469,903,156, respectively.

NOTE 8 RESERVES *(continued)*

Supplementary Payment Reserve

	2008	2007
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.

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.

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.

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.

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.

Expense Reserve

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

NOTE 9 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.

NOTE 10 LEASE AGREEMENT

The Fund leases its office facilities under a noncancellable agreement which expires in 2015. Office rental expense amounted to $225,355 and $200,217 for the years ended December 31, 2008 and 2007, respectively.

Future minimum rental payments under the office lease at December 31, 2008 are as follows:

Year	Amount
2009	$ 229,294
2010	233,234
2011	239,258
2012	244,687
2013	248,626
Thereafter	509,064
	$ 1,704,163

NOTE 11 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
For the Years Ended December 31, 2008 and 2007
(Unaudited)

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)
12/31/03	$ 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
12/31/08	4,093,719,894	8,482,574,033	4,388,854,139	48.26	1,023,580,667	428.77

Schedule of Employer Contributions—Pension
For the Years Ended December 31, 2008 and 2007

Year Ended December 31	Contributions			Percentage Contributed
	Annual Required	Actual Employee	Actual Employer	
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
2008	318,234,870	93,207,408	172,835,805	54.31

The accompanying notes are an integral part of this schedule.

Valuation date	December 31, 2008 and 2007, respectively
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 Supplement
For the Years Ended December 31, 2008 and 2007
(Unaudited)

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
12/31/08	-	169,972,156	169,972,156	0.00	1,023,580,667	16.61

Schedule of Employer Contributions—Health Insurance Supplement
For the Years Ended December 31, 2008 and 2007

Year Ended December 31	Contributions			Percentage Contributed
	Annual Required	Actual Employee	Actual Employer	
2006	$ 11,076,022	$ -	$ 8,041,573	72.60%
2007	11,220,081	-	8,107,708	72.26
2008	11,348,959	-	8,850,186	77.98

The accompanying notes are an integral part of this schedule.

Valuation date	December 31, 2008 and 2007, respectively
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

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
Required Supplementary Information
Schedule of Funding Progress—Staff Retiree Health Plan
For the Years ended December 31, 2008 and 2007
(Unaudited)

Actuarial Valuation Date	GASB 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)
12/31/07	$ -	$ 3,021,300	$3,021,300	0.00%	$ 1,150,900	262.5%
12/31/08	-	3,239,700	3,239,700	0.00	1,202,700	269.4

Schedule of Employer Contributions—Staff Retiree Health Plan
For the Years Ended December 31, 2008 and 2007

Year Ended December 31	Contributions			Percentage Contributed
	Annual Required	Actual Employee	Actual Employer	
2007	$ 261,500	$ -	$ 88,800	34%
2008	274,600	-	104,700	38

The accompanying notes are an integral part of this schedule.

Valuation date	December 31, 2008 and 2007, respectively
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% per year
Wage Inflation	4.5% per year
Healthcare Trend	9.0% per year, graded down to 5.0% per year ultimate trend in 1.0% increments

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Other Supplementary Information

Schedule of Administrative Expenses

For the Years Ended December 31, 2008 and 2007

	2008	2007
Administrative Expenses:		
Personal services	$ 1,738,915	$ 1,542,049
Supplies	13,185	12,580
Professional services	12,081,579	15,228,160
Fiduciary insurance	111,766	110,712
Occupancy and utilities	230,468	208,338
Postage	6,000	3,000
Equipment service and rent	62,272	46,309
Benefit disbursements	233,681	193,667
Miscellaneous	1,152,250	411,709
	$ 15,630,116	$ 17,756,524

See accompanying independent auditors' report.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
Other Supplementary Information
Schedule of Consulting Costs
For the Years Ended December 31, 2008 and 2007

	2008	2007
Payment to Consultants:		
External auditors	$ 45,925	$ 55,150
Medical consultant	217,251	176,978
Legal services	240,450	215,430
Actuary service	101,407	101,151
Investment manager fees	10,695,551	13,657,186
Master trustee fees	217,885	661,616
Consulting fees	563,110	360,649
	$ 12,081,579	$ 15,228,160

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
Other Supplementary Information
Schedule of Investment Fees
For the Years Ended December 31, 2008 and 2007

	2008	2007
Investment Managers:		
Ariel Capital Management	$ 253,697	$ 352,536
Artisan Partners	680,013	435,163
Attucks Asset Management	42,053	18,961
Capital Guardian Trust Co.	580,627	720,492
Channing Capital	148,667	185,437
Chicago Equity Partners	492,410	623,527
Cordillera Asset Management	144,770	205,578
Dearborn Partners LLC	171,345	164,960
Denali Advisors	135,582	95,806
European Investors	678	-
Great Lakes Advisors	595,058	765,474
Harris Investments	19,039	319,062
Holland Capital Management	269,124	171,427
Invesco	383,197	296,175
JP Morgan	388,016	1,374,235
LM Capital Group	71,065	67,722
McKinley Capital	432,141	515,745
Montag & Caldwell	794,282	753,689
Northern Trust Global Investments - Index Funds	133,351	154,493
Piedmont Investment Advisors	189,043	137,081
Piedra Capital Ltd.	77,932	144,606
Taplin, Canida, & Habacht	118,768	118,154
UBS Asset Management	1,692,687	2,846,904
Wellington Management	416,630	418,221
Wells Capital Management	355,190	336,988
William Blair & Co.	2,110,186	2,421,524
Zenna Financial Services	-	13,226
Total investment managers fees	10,695,551	13,657,186
Investment Consultants:		
Ennis Knupp & Associates	350,375	250,419
Courtland Partners	133,208	110,230
Kolhberg & Associates	79,527	-
Total investment consultants fees	563,110	360,649
Master Custodian:		
The Northern Trust Company	217,885	661,616
Total investment fees	$ 11,476,546	$ 14,679,451

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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.

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Allocation of Assets. As of December 31, 2008, the Fund's asset allocation targets were as follows:

Asset Category	Current Target Allocation	Long-Term Target Allocation
Domestic Stocks	41%	33%
International Stocks	15%	18%
Fixed Income	30%	20%
Private Equity	8%	7%
Real Estate	3%	7%
Opportunistic Strategies	3%	10%
Infrastructure	1%	5%
TOTAL	100%	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, 2008, the Fund retained 47 investment managers for a total of 57 different accounts. During the year, the Opportunistic Strategies Asset class was funded with initial commitments to Aetos Capital and K2 Advisors. Within the Private Equity Asset class, the Adams Street Partners 2008 Program began to draw down assets. Additionally, the Mesirow Fund IV and Muller & Monroe's M2 Funds were given their initial funding. A commitment of $30 million was made to RCP Advisors Fund IV with the initial drawdown scheduled for early 2009. Five new real estate managers were also funded during 2008: Apollo Real Estate Advisors, Lone Star Fund IV, Lone Star Global Fund, European Investors II, and ING Clarion.

Investment Objective. The return of the Total Fund is compared with the return of a "policy portfolio" comprising 50% of the Dow Jones U.S. Total Stock Market Index, 15% of the Morgan Stanley Capital International (MSCI) All Country World ex-U.S. Index, 30% of the Barclays Capital Aggregate Bond Index, 3% of the NCREIF Net Property Index, and 2% HFR Fund-of-Funds 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.

2008 Asset Allocation. As of December 31, 2008, the Fund's allocation to each asset class was in-line with current policy targets. New capital commitments were made during 2008 to Adams Street, Muller & Monroe and RCP Advisors. As stated above, there were additional allocations made to real estate managers during the year. The funding of the five new managers brought the allocation to real estate to 3.1% at year end. There were no new commitments made to infrastructure managers; however, the two existing managers continued to draw down assets. Two hedge fund-of-funds were hired to provide the initial allocation to the opportunistic strategies asset class. The Fund's market value decreased by approximately $1.4 billion during the year. This was a result of a combination of investment losses and disbursements. The Fund's asset allocation as of December 31, 2008 is shown in the table on the following page.

FairValue & Asset Allocation
At December 31, 2008
($ in thousands)

	U.S. Equity	Non-U.S. Equity	Fixed Income	Real Estate	Private Equity	Infrastructure	Opportunistic	Cash	Total	# of Total
Ariel Capital Management	$29,602	--	--	--	--	--	--	$149	$29,750	1.1%
Attucks	59,803	--	--	--	--	--	--	--	59,803	2.2
Channing Capital	15,434	--	--	--	--	--	--	371	15,805	0.6
Chicago Equity Partners	102,531	--	--	--	--	--	--	931	103,462	3.8
Cordillera	12,777	--	--	--	--	--	--	644	13,421	0.5
Denali Advisors	16,265	--	--	--	--	--	--	214	16,479	0.6
Great Lakes	132,836	--	--	--	--	--	--	42,873	175,710	6.4
Holland Capital	36,252	$3,007	--	--	--	--	--	1,382	40,641	1.5
Montag & Caldwell	170,132	--	--	--	--	--	--	1,892	172,024	6.2
NT US MarketCap	186,930	--	--	--	--	--	--	--	186,930	6.8
Piedmont	30,200	--	--	--	--	--	--	679	30,880	1.1
UBS Global Management	132,138	--	--	--	--	--	--	--	132,138	4.8
William Blair	150,351	--	--	--	--	--	--	4,970	155,322	5.6
Domestic Stocks	*1,075,251*	*3,007*	--	--	--	--	--	*54,107*	*1,132,365*	*40.8*
Artisan International	--	$45,074	--	--	--	--	--	$2,806	$47,880	1.7
Capital Guardian Trust	--	77,862	--	--	--	--	--	5,288	83,150	3.0
Global Transition Account	--	8	--	--	--	--	--	--	8	0.0
JP Morgan Asset Mgmt.	--	65,637	--	--	--	--	--	656	66,293	2.4
McKinley Capital Mgmt.	--	46,109	--	--	--	--	--	936	47,046	1.7
UBS Global Management	--	65,018	--	--	--	--	--	1,990	67,009	2.4
William Blair & Company	--	78,328	--	--	--	--	--	8,819	87,147	3.2
International Stocks	--	*378,036*	--	--	--	--	--	*20,496*	*398,532*	*14.5*
Dearborn (Baird)	--	--	$84,317	--	--	--	--	$169	$84,486	3.1
LM Capital	--	--	28,741	--	--	--	--	320	29,061	1.1
NT Aggregate Bond	--	--	297,276	--	--	--	--	--	297,276	10.8
Taplin, Canida & Habacht	--	--	51,590	--	--	--	--	2,431	54,021	2.0
UBS Global Management	--	--	--	--	--	--	--	14,501	14,501	0.5
Wellington	--	--	152,540	--	--	--	--	18,853	171,393	6.2
Wells Capital Management	--	--	180,843	--	--	--	--	--	180,843	6.6
Bonds	--	--	*795,308*	--	--	--	--	*36,274*	*831,582*	*30.2*
Adams Street Partners	--	--	--	--	$87,775	--	--	--	$87,775	3.2
Chancellor	--	--	--	--	1,057	--	--	--	1,057	0
Harbourvest Partners	--	--	--	--	65,687	--	--	--	65,687	2.4
INVESCO Private Capital	--	--	--	--	34,933	--	--	--	34,933	1.3
Mesirow Fund II	--	--	--	--	10,387	--	--	--	10,387	0.4

	U.S. Equity	Non-U.S. Equity	Fixed Income	Real Estate	Private Equity	Infrastructure	Opportunistic	Cash	Total	# of Total
Mesirow Fund IV	--	--	--	--	3,245	--	--	--	3,245	0.1
Muller & Monroe	--	--	--	--	7,847	--	--	--	7,847	0.3
Muller & Munroe MEPEFF	--	--	--	--	3,401	--	--	--	3,401	0.1
Zell/Chilmark	--	--	--	--	18	--	--	--	18	0.0
Private Equity	--	--	--	--	*214,352*	--	--	--	*214,352*	*7.8*
Global Infrastructure Partners	--	--	--	--	--	$11,902	--	--	$11,902	0.4
The Carlyle Group	--	--	--	--	--	5,476	--	--	5,476	0.2
Infrastructure	--	--	--	--	--	*17,378*	--	--	*17,378*	*0.6*
ABR Chesapeake III	--	--	--	$8,181	--	--	--	--	$8,181	0.3
AG Core Plus Realty II	--	--	--	5,305	--	--	--	--	5,305	0.2
Apollo Real Estate Advisors	--	--	--	1,894	--	--	--	--	1,894	0.1
DRA Advisors	--	--	--	1,562	--	--	--	--	1,562	0.1
DV Urban	--	--	--	7,058	--	--	--	--	7,058	0.3
Lone Star Fund IV	--	--	--	8,425	--	--	--	--	8,425	0.3
Lone Star Global	--	--	--	1,237	--	--	--	--	1,237	0.0
M.S. Prime Property	--	--	--	12,374	--	--	--	--	12,374	0.4
Macquarie Global	--	--	--	1,221	--	--	--	--	1,221	0.0
Morgan Stanley RE VI-INTL	--	--	--	4,685	--	--	--	--	4,685	0.2
PRISA	--	--	--	11,779	--	--	--	--	11,779	0.4
Quadrant R.E. Advisors	--	--	--	3,169	--	--	--	--	3,169	0.1
Shamrock-Hostmark	--	--	--	3,399	--	--	--	--	3,399	0.1
UBS Realty Investors	--	--	--	13,221	--	--	--	--	13,221	0.5
European Investors II	--	--	--	1,108	--	--	--	--	1,108	0.0
ING Clarion	--	--	--	1,936	--	--	--	--	1,936	0.1
Real Estate	--	--	--	*86,554*	--	--	--	--	*86,554*	*3.1*
Aetos Capital	--	--	--	--	--	--	$34,990	--	$34,990	1.3
K2 Advisors	--	--	--	--	--	--	34,948	--	34,948	1.3
Opportunistic Strategies	--	--	--	--	--	--	*69,938*	--	*69,938*	*2.5*
Cash Flow Account	--	--	--	--	--	--	--	$2,386	$2,386	0.1
Cash	--	--	--	--	--	--	--	*2,386*	*2,386*	*0.1*
Total	$1,075,251	$381,044	$795,308	$86,554	$214,352	$17,378	$69,938	$113,263	$2,753,087	100%
Percent of Total	39.1%	13.8%	28.9%	3.1%	7.8%	0.6%	2.5%	4.1%	100%	
Policy	40.8	15	29.9	3.1	8.0	0.6	2.6	0	100%	
Percent Passively Managed	23	0	37	0	0	0	0	0	100%	

Summary of 2008 Investment Activity

Investment Manager Changes. Several changes were made to the investment manager line-up during the year. Two U.S. equity managers and one fixed income manager were terminated. Three new private equity partnerships began drawing down assets. Additionally, five real estate managers received initial funding throughout the year as the Fund continues to ramp up in this asset class. The Fund also began allocating assets to the new opportunistic strategies component by funding two investments in hedge fund-of-funds.

Market Environment. The domestic stock market finished 2008 with a return of -37.2%. The year was one of extreme price volatility which ended in the worst annual performance since 1931. During the first half of 2008, the U.S. economy faced the headwinds of price appreciations in the commodity markets, particularly oil and agriculture products, as well as substantial reductions in consumer spending. The organized rescue of Bear Stearns in March was perceived by some market participants to be the culmination of the subprime credit crisis, but in retrospect was actually a sign of much more to come.

By September, the government bailouts of the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and AIG had taken place. Market volatility continued to escalate following the collapses of Lehman Brothers and Washington Mutual, the merging of Merrill Lynch and Bank of America, and the reorganization of investment banks Goldman Sachs and Morgan Stanley into bank holding companies. To combat the economic turmoil, the U.S. government passed a $700 billion bailout bill, the Troubled Asset Relief Program (TARP), in which it initially agreed to purchase distressed assets from banks and gradually cast a wider safety net to other industries. The year ended with stocks experiencing one of the worst quarters in history as they collectively lost approximately one fifth of their value. An exceptionally bleak October and November were followed by comparatively small gains in December.

On a style basis value stocks remained ahead of growth and on a capitalization basis small cap outperformed large cap. The Russell 3000 Growth Index returned -38.4% in 2008 vs. the -36.3% return of the Russell 3000 Value Index, while the Russell 1000 Index of large cap stocks returned -37.6% vs. the -33.8% return of the Russell 2000 Index of small cap stocks.

Non-U.S. stocks underperformed the U.S. market for the first time in seven years, exacerbated by a strengthening dollar in response to heightened level of risk aversion. Developed markets fared better in the turbulent conditions than emerging markets as the MSCI EAFE Index outperformed the MSCI Emerging Markets Index by 9.9% during 2008. Emerging markets had been the best performing segment of the equity market for seven consecutive years prior to 2008.

While the U.S. fixed income market generated a solid 5.2% return in aggregate during 2008, there was significant dispersion among sectors. The Barclays Capital Aggregate Bond Index benefited greatly from a growing composition of guaranteed Treasury securities when the credit crunch triggered a flight to quality, and also from high quality mortgage backed securities. However, investors holding lower quality assets during the year saw credit spreads balloon dramatically, significantly devaluing their assets. By year-end, the Federal Reserve reduced the federal funds rate to an unprecedented band of 0.00-0.25%.

Real estate, as measured by the NCREIF Net Property Index ended the year with a loss of 6.5%. Property values continuously declined on a year-over-year basis, and the trend showed little sign of reversing as 2008 came to a close. Housing starts experienced a steep drop-off as glutted inventories needed to clear the market. Commercial real estate also suffered as vacancy rates spiked.

Inflation, as measured by the Consumer Price Index, ended the year flat with an increase of 0.1% due to the large decrease in energy prices during the second half of the year. Deflation became a greater concern than inflation by year-end, as evidenced by the Fed's efforts to spur growth by flooding the economy with dollars.

Total Fund Performance. For 2008, the Total Fund posted a return of -27.8%, which trailed the -25.7% 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 lagged the policy portfolio and trailed the average public fund. For the trailing five-year period, the Fund’s return of 0.9% slightly underperformed the 1.4% return of the policy portfolio.

Asset Class Performance. The Fund’s domestic stock component posted a return of -37.7% and underperformed the return of the Index by almost 0.5 percentage points during 2008. Ariel, Chicago Equity Partners, and UBS were the largest detractors to the relative result. Great Lakes, Montag & Caldwell, and William Blair were the largest contributors on a relative basis. The Fund’s international stock component produced a loss of 46.3% in 2008, which fell short of the benchmark’s return of -45.5%. The Artisan, McKinley, and William Blair international portfolios each struggled during the year against their benchmarks. The bond component posted a positive return of 1.1% but lagged the Bond Index by 3.5 percentage points during the year. Each of the seven fixed income managers failed to keep pace with the benchmark.

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, 2008. 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.

	2004	2005	2006	2007	2008	Cumulative Annualized Returns 3 Years	5 Years	10 Years
TOTAL FUND								
Police Fund	10.8%	7.3%	12.1%	8.8%	-27.8%	-4.2%	0.9%	2.5%
Policy Portfolio[2]	10.9	6.5	13.3	7.9	-25.7	-3.1	1.4	2.2
Russell/Mellon Public Fund Index	12.0	8.4	13.8	8.7	-25.5	-2.7	2.3	3.3
Inflation	3.3	3.4	2.5	4.1	0.1	2.2	2.7	2.5
DOMESTIC STOCKS								
Police Fund	13.2%	6.8%	12.2%	7.5%	-37.7%	-9.1%	-1.9%	0.2%
DJ U.S. Total Stock Market Index	12.5	6.4	15.8	5.6	-37.2	-8.4	-1.7	-0.6
Universe Median	12.8	7.0	14.3	5.2	-37.9	-9.3	-2.1	0.0
INTERNATIONAL STOCKS								
Police Fund	15.7%	15.9%	23.7%	16.4%	-46.3%	-8.2%	0.7%	-0.3%
Performance Benchmark[3]	20.9	16.6	26.7	16.7	-45.5	-7.0	2.6	1.6
Universe Median	19.4	15.4	25.1	14.1	-44.1	-7.3	2.1	3.0
FIXED INCOME								
Police Fund	4.4%	2.5%	4.6%	5.1%	-4.1%	1.8%	2.5%	4.4%
Barclays Capital Aggregate Bond Index	4.3	2.4	4.3	7.0	5.2	5.5	4.7	5.6
Universe Median	4.8	2.5	4.4	6.5	-0.4	3.4	3.5	5.1
REAL ESTATE								
Police Fund[4]	N/A	N/A	N/A	0.5%	-18.0%	N/A	N/A	N/A
NCREIF Net Property Index	N/A	N/A	N/A	15.8	-6.5	N/A	N/A	N/A
Asset Allocation								
Domestic Stocks	48%	47%	45%	45%	41%			
International Stocks	18	18	18	18	15			
Private Equity	3	4	4	5	8			
Fixed Income	31	31	33	31	30			
Infrastructure	N/A	N/A	N/A	N/A	<1			
Opportunistic	N/A	N/A	N/A	N/A	3			
Real Estate	<1	0	<1	2	3			

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

[2]*As of December 31, 2000, the performance benchmark has been composed of 50% of the DJ U.S. Total Stock Market Index, 15% of the Morgan Stanley Capital International (MSCI) All Country World ex-US Index, and 35% of the Barclays Capital Aggregate Bond Index.*

[3]*As of October 1, 2000, the performance benchmark is the MSCI All Country World ex- U.S. Index. Before October of 2000, the benchmark was the MSCI EAFE-Free Index. Prior to 1993, a combination of the hedged and unhedged MSCI EAFE Index to reflect prior hedged and unhedged foreign equity investments.*

[4]*As the Real Estate Investments were in the final stages of liquidation during 2003, the results are not shown until 2007, when the new real estate program was initiated.*

Real Estate Investments

(Compiled by Courtland Partners, Real Estate Investment Advisors to the Fund)

2008 Private Real Estate Market Review

During 2008, real estate markets experienced severe and unprecedented change to the underlying capital structure of the industry. The commercial real estate market has followed the larger economy into a downturn that is expected to last through 2009 and into 2010. Property fundamentals and values have deteriorated as economic demand for commercial space has diminished and investor confidence has been shaken. Commercial property values have decreased from historical highs and as a result, capitalization rates have been driven up by more conservative cash flow expectations and investor uncertainty. Almost without exception all property types and all regions have been negatively impacted, with core properties having been less impacted than value and opportunistic. Overall, the vintage year and amount of leverage employed by the fund played a pivotal role as to the severity of loss experienced by investors. For the first time since private equity real estate became a mainstream asset class in most institutional portfolios, the asset class faces broad fundamental challenges going forward.

Core Real Estate

The NCREIF Property Index ("NPI") reported its first negative annual return since 1992, and only the third in its 31-year history. The NPI, which represents U.S. private core real estate performance, reported a total return for 2008 of -6.5%, comprised of an income return of 5.1% and an appreciation return of -11.2%. The appreciation return of -11.2% was the third lowest on record, the last time appreciation returns saw such sizable declines was during the 1990-1991 recession. Such dramatic declines continued despite the broader economy rebounding in the middle of 1991. The NCREIF Property Index declined 32.3% from the peak in 1990 until the trough in 1995. As a result of the 1990-1991 recession, property values decreased significantly in the first three years of the downturn; the current downturn has started off with greater value decline in the first year. Although history may not be an exact indicator of returns, it certainly suggests that a prolonged downturn of three to five years is likely given the severity of this economic decline. To expect a quick rebound in values would be uncharacteristic of previous downturns.

Value Real Estate

According to preliminary numbers from the Courtland Partners Database, the average value fund gross total return for calendar year 2008 was -16.5%, comprised of a 5.4% income return and a -21.9% appreciation return. The total gross return of -16.5% for calendar year 2008 was a dramatic decrease from calendar year 2007's 13.6%. Because value funds typically include investments that involve efforts to increase property value such as releasing, repositioning, redevelopment, or development, they tend to employ a moderate level of leverage and thus exhibit moderate volatility in returns. As 2008 illustrates, return performance can vary greatly depending on the amount of leverage employed. According to the Courtland Partners Database, as of the fourth quarter of 2008, value fund strategies on average showed total leverage to be approximately 63%.

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Opportunistic Real Estate

Preliminary numbers from the Courtland Partners Database show the average opportunistic fund gross total return for calendar year 2008 was -34.5%, comprised of a 1.0% income return and a -35.3% appreciation return. The 2008 gross total return of -34.5% was in stark contrast to the 17.0% return in calendar 2007. Opportunistic funds are predominantly invested in non-core properties that exhibit high-risk attributes including high levels of leverage. Investments include international properties, operating companies, development, land and distressed properties. As a result of the adverse conditions in the commercial real estate markets during the fourth quarter of 2008, the average opportunistic real estate fund experienced significant capital write downs during the fourth quarter. According to the Courtland Partners Database, as of the fourth quarter of 2008, opportunistic fund strategies on average showed total leverage to be approximately 74%.

Global REITs

In 2008, the real estate securities market was devastated by the general decline in the equity markets and the deterioration in the outlook for commercial real estate. Extreme volatility was the rule rather than the exception in 2008. The FTSE EPRA/NAREIT Global Real Estate Index posted the worst calendar year ever in 2008 with a -47.8% total return, at one point during the fourth quarter the index was down more than 61.0%. The best performing region was North America down only 40.6%, while Europe and Asia were down 51.1% and 52.5%, respectively. Of the major sub-regions based on size, total return for calendar year 2008 was as follows: U.S. -37.7%, Hong Kong -57.4%, Japan -33.9%, Australia -64.4%, France -35.9%, UK -61.1%, Canada -51.4%, Singapore -56.0% and the Netherlands -38.1%.

List of Largest Assets Held

Largest Stock Holdings as of December 31, 2008

	Shares	Stocks	Fair Value
1	6,891,926	HARBOURVEST GLOBAL	63,750,316
2	173,121	CHEVRON CORP COM	12,805,760
3	197,508	PROCTER & GAMBLE CO COM	12,209,945
4	216,323	WAL-MART STORES INC COM	12,127,067
5	298,224	NESTLE SA COM STK	11,656,051
6	76,332	ROCHE HLDGS AG GENUSSCHEINE NPV	11,654,014
7	195,577	PEPSICO	10,711,752
8	659,930	GENERAL ELEC CO COM	10,690,866
9	140,224	BURLINGTON NORTHN SANTA FE CORP COM	10,616,359
10	116,984	APPLE INC	9,984,584

Largest Bond Holdings as of December 31, 2008

	Par	Bonds	Fair Value
1	8,500,000	FNMA 30 YEAR PASS-THROUGHS 5.5% 30 YRS	8,656,740
2	7,500,000	FHLMC GOLD TBA POOL #99999 5.5 DUE 03-15-2030	7,626,600
3	6,229,000	US OF AMER TREAS NOTES 3.75 DUE 11-15-2018	7,051,415
4	6,776,267	FNMA POOL #745418 5.5% DUE 04-01-2036	6,954,435
5	5,195,000	FNMA 6 DUE 05-15-2011	5,741,945
6	4,579,014	FNMA POOL #889069 5.5% 01-01-2021	4,740,653
7	4,500,000	FNMA 30 YR PASS-THROUGHS 5.5 30 YEARS	4,612,500
8	5,500,000	DAIMLERCHRYSLER AUTOTR 2006-D CL B 5-08-13	4,371,010
9	4,064,088	FNMA REMIC TR 2001-81 CL-HE 6.5 01-25-2032	4,221,665
10	3,829,038	CMO MEZZ CAP TR2006-C4MTG PASSTHRU9-15-16	3,811,578

A complete list of portfolio holdings is available upon request.

Commissions Paid by Investment Managers in 2008

Manager	Total Number of Trades	Total Number of Shares	Total Commissions
Ariel Capital	1,021	2,131,825	49,218
Artisan Partners	2,165	10,215,645	116,332
Attucks	1,216	298,012	638
Capital Guardian	3,069	24,432,811	234,199
Channing Capital	168	661,986	20,747
Chicago Equity Partners	2,454	12,545,907	261,968
Cordillera	1,614	4,874,345	233,727
Denali Advisors	504	1,046,895	21,300
Great Lakes	9	316,000	14,159
Harris Investment	1,204	2,447,048	33,227
Holland Capital	138	938,451	35,123
ING Clarion	242	327,553	1,336
Invesco		91,078	1,580
JP Morgan	411	4,285,128	40,560
McKinley Capital	872	13,500,289	163,312
Montag & Caldwell	237	4,489,400	156,449
Piedmont	202	1,812,365	59,735
Piedra Capital	293	1,791,931	53,893
UBS International Equity	847	12,785,378	115,666
UBS US Equity Fund	2,341	8,118,366	251,647
William Blair	2,508	35,742,775	564,423
	21,515	**142,853,188**	**2,429,240**

Commissions Paid to Brokers in 2008

Broker	Total Number of Shares	Total Commissions
Cabrera Capital Markets	12,230,743	166,569
Merrill Lynch	518,953,440	139,890
Instinet	6,197,869	136,229
Liquidnet Inc	5,301,181	105,452
Mr Beal and Company	2,968,731	97,929
Goldman Sachs & Co	429,186,855	96,010
Investment Technology Group	6,567,643	95,807
Citigroup Global Markets	104,425,035	95,266
UBS	20,114,309	91,808
CSFB	764,675,714	86,831
Pershing	8,277,580	86,339
Morgan Stanley	193,322,091	85,942
Lehman Brothers	495,845,128	72,419
Gardner Rich & Co	2,078,466	68,650
JP Morgan Securities	669,961	55,881
Credit Suisse	423,954,368	48,242
Loop Capital Markets	30,198,192	46,839
Melvin Securities	1,334,080	44,888
Deutsche Bank	49,464,498	44,393
Macquarie Securities	6,548,847	37,406
Barclays Capital	629,957,802	32,480
Bear Stearns	31,892,891	30,675
Citation Group	880,500	28,935
Credit Lyonnais	4,244,803	26,698
Cheevers & Co	801,546	26,026
BNY ESI Securities	551,525	18,269
Bernstein, Sanford & Co	753,649	17,375
Piper Jaffrey	367,479	15,232
Podesta and Company	569,675	15,202
ABN Amro	1,117,547	12,008
Weeden & Co	445,850	11,952
Magna Securities Corp	364,995	11,472
HSBC	14,250,317	11,026
Cheuvreux De Virieu Paris	276,793	10,812
Keefe Bruyette & Woods	378,424	10,659
Pipeline Trading Systems	491,863	9,809
Societe Generale	144,871	9,562
Robert W Baird & Co	226,203	8,559
Morgan Keegan & Co	10,830,628	7,971
Knight Securities	318,737	7,844

Thinkequity Partners LLC	150,300	7,515
ISI Group Inc	193,160	7,480
Cazenove & Co	1,708,271	7,241
Kepler Equities	64,785	7,166
Donaldson Lufkin and Jenrette Secs	10,405,027	7,142
Nomura Securities	329,466	7,121
Brokers with less than $7,000 in commissions	13,437,371,038	360,218
Totals	**17,231,402,877**	**2,429,240**

Investment Summary
as of 12/31/08

Investment Type	Fair Value	Percent of Total Fair Value
Fixed Income		
Government Bonds	226,332,190	7.9%
Corporate Bonds	243,185,406	8.5%
Total Bonds:	469,517,596	16.5%
Pooled Bond Index Fund	297,275,551	10.4%
Total Fixed Income:	766,793,147	26.9%
Equities		
U.S. Equities	958,142,235	33.7%
International Equities	445,987,186	15.7%
Stock Index Funds	186,929,884	6.6%
Total Equities:	1,591,059,305	55.9%
Other Investments		
Real Estate	86,035,448	3.0%
Infrastructure	17,378,111	0.6%
Hedge Fund-of-Funds	69,937,800	2.5%
Venture Capital	150,183,393	5.3%
Total Other:	323,534,752	11.4%
Short-term funds and Cash:	165,898,425	5.8%
Total Assets at Fair Value:	2,847,285,629	100.0%

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Actuarial Section

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April 9, 2009

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, 2008

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, 2008. This valuation has been performed to measure the funded status of the Fund and to determine the contribution levels for 2009. 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 5.43:1 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 is $95.00 per month for each annuitant (employees and widows) not qualified to receive Medicare benefits and $65.00 if qualified. 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	3.6
2006	13,749	2.1	1,012,983,635	6.7	73,677	4.5	5.50	0.7
2007	13,748	0.0	1,038,957,026	2.6	75,572	2.6	5.50	4.7
2008	13,373	(2.7)	1,023,580,667	(1.5)	76,541	1.3	5.50	(0.6)
Average Increase (Decrease) for the last 5 years:		**(0.5)%**		**3.0 %**		**3.5 %**		**2.1 %**

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 $1,023,580,667 current year salary, $38,811,267 is duty availability pay.

SUMMARY OF CHANGES IN ACTIVE PARTICIPANTS FOR FISCAL YEAR ENDING DECEMBER 31, 2008

	Male	Female	Total
Number of Participants at Beginning of Fiscal Year	**10,441**	**3,307**	**13,748**
Increases:			
Participants Added During Year	92	36	128
Participants Returning From Inactive or Disability Status	10	7	17
Totals	10,543	3,350	13,893
Decreases:			
Terminations During Year	409	111	520
Number of Participants at End of Fiscal Year	10,134	3,239	13,373
Total Inactive Participants			636
Terminations:			
Withdrawal (With Refunds)[1]	26	11	37
Withdrawal (Without Refunds)	109	25	134
Ordinary Disability Benefit	9	3	12
Occupational Disease Disability Benefit	4	0	4
Duty Disability Benefit	9	5	14
Retirements	234	65	299
Deaths (Occupational)	2	0	2
Deaths (Non-occupational)	16	2	18
Totals	**409**	**111**	**520**

SUMMARY OF CHANGES IN ANNUITANTS AND BENEFICIARIES
FOR FISCAL YEAR ENDING DECEMBER 31, 2008

	Number at Beginning of Year	Additions During Year	Terminations During Year	Number at End of Year
Service Retirement Annuities	8,155	340	285	8,210
Widow Annuities	3,137	188	177	3,148
Children's Annuities	242	13	18	237
Ordinary Disability Benefit (Non-Occupational)	52	12	25	39
Occupational Disease Disability Benefit	65	5	12	58
Duty Disability Benefit (Occupational)	284	23	21	286
Children's Disability Benefit	136	20	17	139
Widows' Compensation Annuities (Service Connected Death)	64	2	0	66
Totals	12,135	603	555	12,183

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
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
2008	12,135	603	555	12,183	0.4%	12,159

ACTUARIAL ACCRUED LIABILITY PRIORITIZED SOLVENCY TEST

	(Col. A)	(Col. B)	(Col. C)	(Col. D)			
Valuation Date 12/31	Active and Inactive Member Contributions	Retirees and Beneficiaries	Active and Inactive Members (ER Financed Portion)	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%
2008	1,144,380,257	5,208,199,833	2,299,966,099	4,093,719,894	100%	56.63%	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 2008		
(1)	Actuarial Accrued Liability - 12/31/2007	$8,399,392,479
(2)	Assets at Book Value - 12/31/2007	3,868,236,918
(3)	Unfunded Accrued Actuarial Liability - 12/31/2007	$4,531,155,561
EXPECTED UNFUNDED ACTUARIAL ACCRUED LIABILITY - END OF 2008		
(4)	Normal Cost for 2008	$ 184,545,154
(5)	Total Contributions for 2008	274,893,399
(6)	Interest on (3), (4), & (5) at Valuation Rate	360,191,209
(7)	Expected Unfunded Actuarial Accrued Liability - 12/31/2008 ((3)+(4)-(5)+(6))	$4,800,998,525
DEVIATIONS FROM EXPECTED		
(8)	(Gain)/Loss on Investment Return (Book Value)	$440,358,163
(9)	(Gain)/Loss from Salary Changes	(114,688,769)
(10)	(Gain)/Loss from Retirement	(17,601,575)
(11)	(Gain)/Loss from Turnover	(8,159,439)
(12)	(Gain)/Loss from Mortality	(10,544,516)
(13)	(Gain)/Loss from Disability	(7,907,183)
(14)	(Gain)/Loss from Program Changes	62,327,746
(15)	(Gain)/Loss from New Entrants	2,079,063
(16)	(Gain)/Loss from All Other Sources	(83,977)
(17)	Composite Actuarial (Gain)/Loss	$345,779,512
UNFUNDED ACTUARIAL ACCRUED LIABILITY - END OF 2008		
(18)	Unfunded Accrued Actuarial Liability - 12/31/2008 ((7)+(16))	$5,146,778,037

SUMMARY OF BASIC ACTUARIAL VALUES

	APV of Projected Benefits	Actuarial Accrued Liability (AAL)
(1) Values for Active Members		
(a) Retirement	$4,605,699,331	$3,215,188,981
(b) Termination	96,258,688	23,046,970
(c) Disability	392,228,375	150,673,456
(d) Death	96,393,712	28,069,746
Total for Actives	$5,190,580,106	$3,416,979,153
(2) Values for Inactive Members		
(a) Retired	4,482,422,018	4,482,422,018
(b) Survivor	480,758,910	480,758,910
(c) Disability	231,615,079	231,615,079
(d) Inactive (Deferred Vested)	27,367,203	27,367,203
(e) Children	13,403,826	13,403,826
Total for Inactives	5,235,567,036	5,235,567,036
(3) Grand Totals	$10,426,147,142	$8,652,546,189
(4) Normal Cost for Active Members	$ 182,505,483	
(5) Actuarial Present Value of Future Compensation	$10,344,705,447	

SUMMARY OF
PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS

AS OF DECEMBER 31, 2008

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. Salary deductions are contributed by the City.

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 $95 per month for non-Medicare eligible city annuitants and $65 per month for Medicare eligible city annuitants 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 (Last 10 Years)** further details the total annual benefit expense by breaking it down into payments to annuitants, survivors, disability payments, death benefits, and health insurance supplements.

- **Average Employee Retirement Benefits Payable** provides 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.

- **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.

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
1997	63,315,812	109,361,629	506,339,581	679,017,022	17.09%
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%
2008	93,207,408	181,685,991	(1,104,909,466)	(830,016,067)	17.75%

Year	Benefits Expenses	Administrative Expenses	Refunds	Total	Income Less Payouts
1997	227,827,254	1,932,357	2,966,400	232,726,011	446,291,011
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
2008	491,602,860	4,153,570	6,118,449	501,874,879	(1,331,890,946)

(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
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
2008	401,472,930	56,142,862	1,351,770	22,005,912	1,779,200	8,850,186	491,602,860

AVERAGE EMPLOYEE RETIREMENT BENEFITS PAYABLE

Years Ended	Average Annual Benefit	Average Current Age of Retirees	Average Age at Retirement Current Year	Average Years of Service at Retirement Current Year
1979	7,920	68	57.3	28.1
1980	8,573	68	57.6	28.2
1981	9,292	68	58.4	28.6
1982	10,020	68	59.1	29.2
1983	10,770	68	59.4	29.3
1984	11,782	68	58.6	29.9
1985	13,070	68	58.7	30.2
1986	15,033	67	57.7	30.0
1987	16,257	67	58.1	30.1
1988	17,855	67	58.8	30.9
1989	19,315	67	58.6	30.7
1990	21,120	68	58.9	30.2
1991	21,782	68	58.4	30.8
1992	23,128	68	57.7	30.3
1993	24,724	68	56.9	29.6
1994	25,636	68	55.7	29.5
1995	26,996	67	55.3	29.2
1996	28,412	67	55.5	29.8
1997	29,867	67	55.0	29.3
1998	31,682	66	54.6	30.0
1999	33,220	66	54.8	29.9
2000	34,880	66	56.3	31.6
2001	36,428	66	56.4	29.8
2002	38,199	66	55.6	29.4
2003	38,998	66	57.1	30.2
2004	41,914	66	57.5	30.4
2005	43,930	67	57.3	30.6
2006	45,680	67	58.0	29.6
2007	47,392	67	58.1	29.3
2008	49,239	68	58.3	29.4

RETIREES AND BENEFICIARIES BY TYPE OF BENEFIT

Years	ANNUITANTS			DISABILITY				Widow	
	Employee	Spouse[1]	Child	Ordinary	Duty	Occup.	Child[2]	Comp.	Total
1979	3,458	3,140	558	145	47			64	7,412
1980	3,546	3,154	511	163	57			66	7,497
1981	3,657	3,170	475	142	72			71	7,587
1982	3,666	3,175	462	125	75			70	7,573
1983	3,642	3,202	446	104	86			70	7,550
1984	3,723	3,152	435	87	113			74	7,584
1985	3,861	3,234	406	95	126			70	7,792
1986	4,212	3,145	380	78	144			69	8,028
1987	4,467	3,100	354	66	156			75	8,218
1988	4,595	3,184	350	63	167			78	8,437
1989	4,772	3,202	335	58	179			71	8,617
1990	4,936	3,214	335	51	187			66	8,789
1991	5,033	3,137	329	75	192			68	8,834
1992	5,109	3,129	310	83	204			66	8,901
1993	5,195	3,151	294	59	211		160	66	9,136
1994	5,309	3,123	281	51	221		159	64	9,208
1995	5,510	3,133	254	51	231	1	144	60	9,384
1996	5,714	3,120	252	67	256	12	158	59	9,638
1997	5,945	3,104	240	59	270	36	130	59	9,843
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
2008	8,210	3,148	237	39	286	58	139	66	12,183

1) Includes reversionary.

2) New benefit classification enacted by law in 1993.

Schedule of Active Member Data - Last 10 Years

Year	Number of Members at Year End	Annual Average Salary	% Increase in Average Salary
1999	13,829	54,617	---
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%
2008	**13,373**	**76,541**	**1.3%**

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
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
2008	**8,210**	**49,239**	**4,103**	**58.3**	**68**	**29.4**

Schedule of Widow Annuitants - Last 10 Years

Year	Number at Year End	Average Annual Benefit	% Increase in Average Benefit
1999	3,118	11,589	---
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%
2008	**3,148**	**16,992**	**3.2%**

Schedule of Children's Annuities - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
1999	249	3,958	---
2000	267	4,193	5.9%
2001	255	4,343	3.6%
2002	235	4,490	3.4%
2003	247	4,521	0.7%
2004	249	4,682	3.6%
2005	247	4,967	6.1%
2006	255	5,053	1.7%
2007	242	5,518	9.2%
2008	**237**	**5,615**	**1.7%**

Schedule of Ordinary Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
1999	57	25,646	---
2000	48	26,480	3.3%
2001	52	21,895	-17.3%
2002	38	28,400	29.7%
2003	29	23,272	-18.1%
2004	44	32,607	40.1%
2005	35	35,984	10.4%
2006	39	39,004	8.4%
2007	52	39,075	0.2%
2008	**39**	**37,407**	**-4.3%**

Schedule of Duty Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
1999	291	32,423	---
2000	274	32,912	1.5%
2001	265	35,594	8.1%
2002	289	41,350	16.2%
2003	285	41,147	-0.5%
2004	287	42,358	2.9%
2005	298	45,447	7.3%
2006	291	47,503	4.5%
2007	284	48,713	2.5%
2008	**286**	**48,682**	**-0.1%**

Schedule of Occupational Disease Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
1999	76	36,863	---
2000	87	37,241	1.0%
2001	95	37,518	0.7%
2002	103	40,360	7.6%
2003	97	38,665	-4.2%
2004	85	40,752	5.4%
2005	82	41,537	1.9%
2006	69	42,640	2.7%
2007	65	44,360	4.0%
2008	**58**	**45,548**	**2.7%**

Schedule of Children's Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
1999	150	400	---
2000	149	392	-1.9%
2001	143	1,200	206.0%
2002	150	1,540	28.3%
2003	139	1,235	-19.8%
2004	130	1,230	-0.4%
2005	139	1,200	-2.5%
2006	132	1,200	0.0%
2007	136	1,193	-0.5%
2008	**139**	**1,200**	**0.5%**

Schedule of Widow's Compensation Annuities - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
1999	58	42,345	---
2000	59	41,232	-2.6%
2001	59	40,453	-1.9%
2002	59	46,130	14.0%
2003	63	47,567	3.1%
2004	65	45,411	-4.5%
2005	65	52,595	15.8%
2006	64	55,096	4.8%
2007	64	56,056	1.7%
2008	**66**	**55,386**	**-1.2%**

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