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, 2011

Comprehensive Annual Financial Report

Policemen's Annuity and Benefit Fund

A Component unit
of the City of Chicago
for the year ended
December 31, 2011

Prepared by
John J. Gallagher, Jr.
Executive Director
Regina Tuczak
Comptroller
Pacifico V. Panaligan
Assistant Comptroller

221 North LaSalle Street
Suite 1626
Chicago, IL 60601

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
Comprehensive Unit Financial Report
Year Ended December 31, 2011

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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, 2010

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

Linda C. Davison

President

Jeffrey R. Esser

Executive Director

The Retirement Board
of the
Policemen's Annuity and Benefit Fund
City of Chicago

221 North LaSalle Street-Room 1626
Chicago, Illinois 60601
(312) 744-3891
Outside Chicago: 1-800-656-6606
www.chipabf.org

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

The Policemen's Annuity and Benefit Fund of Chicago (the Fund) hereby submits the comprehensive annual financial report (CAFR) for the year ending December 31, 2011. 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, a listing of investment managers, and the Fund's organizational chart.

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, commissions paid to managers and brokers 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.

<u>Financial Information</u>

Management of the Fund is responsible for establishing and maintaining an internal control structure designed to maintain reasonable assurance regarding the safekeeping 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 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. Consideration of the internal controls over financial reporting is included in the auditor's review. The Fund does engage an independent certified public accountant to audit the Fund's financial statements, and the auditor's unqualified audit opinion on the financial statements as of and for the years ended December 31, 2011 and 2010, is included in the financial section.

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 contribution). While the impact of the sub-prime collapse on the capital markets has somewhat subsided, its ripple effects continue to affect world economies in general and European markets in particular. Though impressive, the gains registered in 2009 and 2010 have not been substantial enough to fully erase the severity of the losses registered in 2008. Further, the Fund's assets were down by about 7.68% in 2011, despite slightly positive returns of 0.78%, which highlights the acuteness of the effects of underfunding on the Fund's operations. In terms of asset classes, Private Capital was the stronger performer among the portfolio (+12.78%), which helped offset marginal losses in Equities (-4.68%) and Alternative Investments (-2.91%).

In 2011, the Fund carried on with its long-term commitment to de-risk the allocation. Specifically, in an effort to lower the expected overall volatility of the Fund, part of the Equity portfolio was rebalanced into two new Global Tactical Asset Allocation mandates. 47 professional investment management firms managed the investment portfolio at year-end 2011. This number is expected to decline somewhat in 2012, as the Fund continues to streamline its allocation in traditional asset portfolios, such as Equity and Fixed Income. These firms make investment decisions under the Prudent Person Rule authorized by state statues and the Investment Policy guidelines adopted by the Board of Trustees. The Board also employs an investment consultant and Chief Investment Officer to monitor investment performance, aid in the selection of investment management firms, and assist in the development of its Investment Policy.

Economic Condition and Outlook

Although the collapse in market prices in 2008 has significantly impacted the value of Fund net assets, which were $4.3 billion as of year-end 2007, the Board of Directors, staff, and investment consultants continue to support the Fund's objective of meeting its long-term defined pension benefit obligations.

While the Board of Directors and the Fund's investment consultant feel that the Fund's structure is sufficiently diversified to sustain conventional market conditions, continued economic instability and volatility in the capital markets could impact its performance to an extent beyond what can be reasonably anticipated by most scenarios.

Generally, investment decisions and strategies attempt to balance optimal performance and risk management, given the Fund's ongoing liquidity needs and constraints. That said, a sustained economic recovery and substantial growth in asset prices remain critical factors in the Fund's ability to meet its future obligations.

Funding Status

The actuarial value of assets at year-end 2011, using the GASB 25 and 43 methods, was $3.445 billion with a corresponding actuarial liability of $9.688 billion. The GASB 25 actuarial liability increased approximately $312 million, up from $9.375 billion in 2010. Fund assets currently fund 35.6% of this liability, decreasing from a funded ratio of 39.7% in 2010. The decrease in the funded ratio is the result of many issues, including the collapse of the global financial markets in 2008, benefit payments in excess of contributions and investment income for a significant period of time, and increasing applications for benefits with a declining active membership.

While the employer contribution requirement (tax multiplier) since 1982 has remained constant at 2.00 times the employee contributions received two years prior, recent legislation was signed into law which will require actuarially-determined employer contributions. This new legislation, which will be effective with the City of Chicago tax levy beginning in 2015, will mandate that the Fund be 90% funded by 2040. The funding ratio will consider the fair value of the Fund's assets and application of certain required actuarial assumptions and methodologies. This new legislation, which was enacted in the 2011 legislative session, is a significant development that will greatly contribute to improving the funded status of the Fund.

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 and all future budgets, have been expanded to include all revenue and expense categories, including employer and employee contributions, investment income, annuity, death, and disability benefit expenses. The current fiscal planning and budgeting process normally begins in the third quarter and ends in December with the approval by the Board of Trustees.

Administrative expenses represent only 0.7% of the total deductions from plan assets in 2011. The Fund works diligently to monitor and control administrative expenses. In 2011, administrative expenses declined by $.29 million from 2010 amounts.

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 and investment income are not sufficient to offset total annual benefit expenses, requiring the Fund to liquidate portions of its investment portfolio to assist in paying benefits when due.

The executive directors from each of the four city pension funds served on this Mayoral commission as well as an elected trustee representing each pension fund. Several union-appointed representatives and private-sector business leaders also served on the Commission. The Commission issued its report in 2011 and a copy is available on the Fund's website at www.chipabf.org.

Major Initiatives

The Fund continues to strive for customer service excellence by improving the operational efficiencies and service delivery to the membership. The Fund, with the assistance of an external computer software developer, implemented a new pension administration system which became fully operational in 2009. The Fund continues to add enhancements to the system. In 2010, an online estimate program for retirement benefits for members was added and is available at the Fund's website. The estimate program allows members to input various personal data pertinent to their career as sworn officers with the City of Chicago, and receive an on-line estimate of their pension benefit. In 2011, integration between the Fund's pension system and the Fund' benefit payment system was completed to allow for more accurate and efficient processing of payments. Further enhancements are scheduled for 2012, including an on-line program that will allow members to estimate service purchase costs for military service performed prior to appointment with the Chicago Police Department.

Professional Services

The Fund's actuarial services are provided by Gabriel, Roeder, Smith & Company. The annual audit of the financial statements was conducted by Mitchell & Titus LLP, Certified Public Accountants. The Fund's investment consultant is NEPC, LLC. 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 to the Fund for its comprehensive annual financial report for the fiscal year ended December 31, 2010. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The 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 the 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. We are always looking for cost effective ways to better serve the Fund's members and, as always, welcome your comments or suggestions.

Respectfully submitted,

John J. Gallagher, Jr.
Executive Director
June 22, 2012

RETIREMENT BOARD MEMBERS AND OFFICE STAFF

December 31, 2011

Office Staff Members

John J. Gallagher, Jr., Executive Director
Sam Kunz, Chief Investment Officer
Regina Tuczak, Comptroller
Pacifico V. Panaligan, Assistant Comptroller

Support Staff

Adarsh Bagai	Robert Crawford	Joseph Ferreri
Karina Fruin	Kay Hylton	Anthony Kiefer
Carol Lopez	Kris Matalik	Anne McGowan
Dorothy Miller	Richard Mulhbacher	Maggie O'Grady
Ed Rausch	Alma Rivera	Erwin Santos
Maritza Vazquez	Kathy Walsh	

PROFESSIONAL CONSULTANTS

LEGAL ADVISOR
David R. Kugler, Esquire

MEDICAL ADVISOR
Peter Orris, M.D.

INVESTMENT CONSULTANTS
NEPC, LLC

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
CBRE Clarion Securities
Capital Guardian Trust Co.
The Carlyle Group
Chicago Equity Partners
Dearborn Partners
Denali Advisors
DRA Advisors LLC
DV Urban Realty
European Investors Inc.
Global Infrastructure Partners
Grantham, Mayo, Van Otterloo & Co., LLC
Great Lakes Advisors
HarbourVest Partners, LLC
Holland Capital Management
Invesco Capital Management
JP Morgan Asset Management
K2 Advisors
LM Capital Group
Lone Star Funds
Macquarie Group
McKinley Capital Management
Mesa West Capital
Mesirow
Montag & Caldwell
Morgan Stanley Real Estate
Muller & Monroe
Northern Trust Global Investments
Oaktree Capital Management
Piedmont Investment Advisors
Prudential Real Estate
Quadrant Real Estate Advisors
RCP Advisors
SEI PIMCO
Shamrock-Hostmark
Taplin, Canida & Habacht
UBS Global Asset Management
Wellington Management Company
Wells Capital Management
William Blair & Company

ORGANIZATION CHART

RETIREMENT
BOARD OF TRUSTEES

Kenneth A. Hauser, President
Michael A. Conway, Vice-President and Investment Committee Chairman
James P. Maloney, Recording Secretary
Stephanie D. Neely, Treasurer
Amer Ahmad, Trustee
Lois A. Scott, Trustee
Michael K. Shields, Trustee
Brian E. Wright, Trustee

⇑

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

⇑

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

⇑

BENEFIT CALCULATIONS	**BENEFIT CLAIMS**	**BENEFIT COUNSELING**	**BENEFIT DISBURSEMENTS**
Joseph Ferreri	Kay Hylton	Maggie O'Grady	Kris Matalik

Information regarding investment professionals that provide services to The Policemen's Annuity and Benefit Fund of Chicago can be found in the Other Supplementary Information to the Financial Statements (see Schedule of Investment Fees on page 66) and the Investment Section (pages 67 to 86)

Financial Section

MITCHELL & TITUS

Mitchell & Titus, LLP
333 West Wacker Drive
Chicago, IL 60606
Tel: +1 312 332 4964
Fax: +1 312 332 0181
www.mitchelltitus.com

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statements of plan net assets of the Policemen's Annuity and Benefit Fund of Chicago (the Fund) as of December 31, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Policemen's Annuity and Benefit Fund of Chicago as of December 31, 2011 and 2010, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

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

MITCHELL & TITUS

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules of administrative expenses, consulting costs, and investment fees are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Mitchell & Titus, LLP

June 21, 2012

The Management's Discussion and Analysis section of this report is intended to serve as an introduction to the financial statements of the Policemen's Annuity and Benefit Fund of Chicago (the Fund) 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 more comprehensive understanding of the data provided in the financial statements. Information contained in the note disclosures includes the Fund's accounting policies, descriptions of pension and health benefits and related liabilities, detail of investments and related risks, fund reserves, and various other relevant topics.

- **Required Supplementary Information** presents detailed required historical information and is presented after the Notes to the Financial Statements. This supplementary information includes data on funding progress and employer contributions, along with other information useful in evaluating the financial condition of the Fund.

Financial Highlights

- The net assets of the Fund decreased by $264 million, or 7.7%, to $3.176 million during 2011. At December 31, 2010, the net assets of the Fund increased by $114 million, or 3.3%, to $3,440 million from the December 31, 2009, balance of $3,326 million.

- Fund investment income earned, net of investment-related expenses was approximately $32.5 million during 2011, compared with a gain of approximately $368.7 million during 2010. The returns reflect declining Equities in general and non-U.S. Equities in particular, as concerns about global growth, especially in Europe, hit the markets in the third quarter. Equities' subpar performance was mitigated by strong returns in Fixed Income and Private Equity, which posted robust annual returns of 7.88% and 12.78%, respectively. On a relative basis, Private Equity and Equity compared favorably against their respective benchmarks. While U.S. and Non-U.S. Equity returns were approximately in line with their benchmarks, the Fund's overweight toward U.S. Equity was a clear positive contributor to relative returns. While Real Estate and Infrastructure contributed positively to absolute returns, they both trailed their benchmarks on a relative basis.

Financial Highlights *(continued)*

- The Fund received contributions of $98.2 million from members and $183.5 million from the City of Chicago in 2011, compared to contributions of $108.4 million from members and $183.8 million from the City of Chicago in 2010. The number of active members declined 3.9% from 2010 to 2011; which partially contributed to the decline in contributions, however, the decrease in contributions is due primarily to a retroactive wage increase provided to active members in August 2010, which was reflective of a new employment contract between the City of Chicago and collective bargaining groups for various ranks within the Chicago Police Department, with salary increases effective July 1, 2007. The retroactive increases resulted in a one-time payment of $12.3 million of additional member contributions in 2010. The 2011 and 2010 member contributions also reflect approximately $3.1 million and $3.3 million, respectively, of incremental purchases of service credit from prior law enforcement positions, including military service. Employer contributions from the City of Chicago experienced a slight decline of 0.2% from 2010 to 2011. Employer contributions are mandated by a statutorily set multiplier of 2.0 times member contributions collected two years prior. The decrease in contributions is reflective of member contributions from 2009, which had declined from the prior year.

- Benefit payments, excluding death benefits, increased by approximately $32.0 million in 2011, from $534.5 million in 2010 to $566.5 million in 2011. The number of retirees and beneficiaries increased in 2011 by 283 members, or 2.3%, thus contributing to the increase. Since January 1, 2010, the Fund has experienced over 1,000 retirements of active members, which resulted in significant increases in benefits in both 2010 and 2011. Another reason for the increase is the annual cost of living adjustments provided to retirees born prior to January 1, 1955. Death benefits and refunds of employee deductions decreased slightly from 2010 to 2011 by approximately $0.6 million, from $9.4 million to $8.8 million, respectively. The decrease is due to fewer death benefits and refunds paid in 2011, as compared to 2010.

- Administrative expenses were essentially unchanged from 2010 to 2011, as both years incurred approximately $3.9 million in related expenses. Fund management has worked vigorously to maintain and control administrative expenses, including fees paid to consultants, and staff salary and benefits, both of which declined from 2010 to 2011.

- The funding objective of the Fund is to meet its long-term defined pension benefit obligations. The funding ratio of the Fund on a fair value basis experienced a decrease, from 36.7% at December 31, 2010 to 32.8% at December 31, 2011. The decrease reflects a decline in net assets, combined with an increase in the actuarial liability at December 31, 2011, as compared to December 31, 2010.

Financial Highlights *(continued)*

- Under GASB numbers 25 and 43, the Fund uses a five-year actuarial smoothing method in valuing its assets to determine its funded status and the contributions required to fund the plan going forward. This actuarial valuation method reduces the effect of short-term market volatility and provides a more stable trend valuation for the Fund's long-term planning needs. The funding ratio of the Fund using an actuarial value of assets experienced a decrease, from 39.7% at December 31, 2010 to 35.6% at December 31, 2011.

- In compliance with GASB No. 45, the Fund recognizes a liability for other post-employment benefits (OPEB), representing health insurance coverage for active and retired Fund employees. This obligation was first accrued as an expense in the 2008 financial statements. Expense of $0.440 million and $0.463 million was recognized in 2010 and 2011, respectively, resulting in a total accrued liability of $0.831 million and $1.160 million as of December 31, 2010, and 2011, respectively.

Plan Net Assets

A summary of Plan net assets is presented below:

Plan Net Assets
(In millions)
As of December 31, 2011, 2010, and 2009

	2011	2010	2009	2011–2010 Change $	2011–2010 Change %
Receivables	$ 196.7	$ 212.9	$ 204.9	$ (16.2)	(7.6)
Brokers–unsettled trades	194.0	276.4	121.3	(82.4)	(29.8)
Investments, at fair value	3,094.8	3,301.1	3,150.0	(206.3)	(6.2)
Invested securities lending collateral	312.1	295.7	375.1	16.4	5.5
Total assets	3,797.6	4,086.1	3,851.3	(288.5)	(7.1)
Brokers–unsettled trades	304.4	344.2	144.1	(39.8)	(11.6)
Securities lending payable	312.1	295.7	376.1	16.4	5.5
OPEB obligation	1.2	0.8	0.5	0.4	50.0
Accounts payable and accrued expenses	4.4	5.7	4.5	(1.3)	(22.8)
Total liabilities	622.1	646.4	525.2	(24.3)	(3.8)
Net assets	$ 3,175.5	$ 3,439.7	$ 3,326.1	$ (264.2)	(7.7)

Plan Net Assets *(continued)*

The decrease in net assets of $264.2 million in 2011 was driven primarily by immediate benefit funding requirements. The assets available for investment earned 0.78% in 2011, compared to an investment gain of 12.72% in 2010. Persistent concerns about the global economy in general and European activity in particular affected Equity returns during the year. The relative performance of Fixed Income and Private Capital provided some relief and the overall portfolio performance was basically flat during the measurement period.

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, 2011, 2010 and 2009

				2011–2010 Change	
	2011	2010	2009	$	%
ADDITIONS					
Member contributions	$ 98.2	$ 108.4	$ 95.6	$ (10.2)	(9.4)
Employer contributions	183.5	183.8	180.5	(0.3)	(0.2)
Net investment gains (losses) and investment income	32.5	368.7	566.0	(336.2)	(91.2)
Securities lending income (loss)	1.2	0.9	1.3	0.3	33.3
Miscellaneous income	0.1	0.0	0.8	0.1	0.0
Total additions	315.5	661.8	844.2	(346.3)	(52.3)
DEDUCTIONS					
Annuity, disability, and death benefits	568.0	536.3	508.5	31.7	5.9
Refunds of contributions	7.3	7.6	6.2	(0.3)	(3.9)
OPEB expense	0.5	0.4	0.2	0.1	25.0
Administrative expenses	3.9	3.9	4.3	0.0	0.0
Total deductions	579.7	548.2	519.2	31.5	5.7
Net (decrease) increase	$ (264.2)	$ 113.6	$ 325.0	$ (377.8)	332.6

The Fund experienced a net decrease in net assets in 2011, after two years of net increases in both 2010 and 2009. The decreases are due primarily to payments of benefits that were in excess of contributions received and investment returns. Net assets available for investment produced earnings of 0.78%, 12.72% and 21.5% in 2011, 2010 and 2009, respectively. While the overall investment portfolio performance was essentially flat in 2011, the Fund continues to experience retirement levels in 2011 and 2010 significantly above levels in 2009 and 2008. The increased retirement levels are partially attributed to some early retirement health care benefits offered to members by the City of Chicago in 2011 and 2010. Retirements of over 1,000 active members occurred during the two years of 2011 and 2010.

Investment Activities

The Fund continues to prudently implement the revised strategic allocation approved by the Board of Trustees in late 2010. Overall, rebalancing activity was concentrated on funding two mandates in Global Tactical Asset Allocation (GTAA) for about 10% of the total portfolio in late 2011. The U.S. Equity exposure was further reduced through the year because of immediate benefit funding requirements.

The strategic allocation was unchanged during 2011. Long-term targets include: 21% for U.S. Equity, 20% for non-U.S. Equity, 22% for Fixed Income and Cash, 19% for Tactical & Alpha Strategies, 4% for Real Assets, 7% for Private Equity, 5% for Real Estate, and 2% for Infrastructure.

Investment Returns
Years Ended December 31, 2011, 2010 and 2009

	2011	2010	2009
Total fund (%)	0.78	12.72	21.50
Equities	(4.68)	15.60	34.78
Fixed income	7.88	7.91	11.62
Alternatives	(2.91)	5.29	10.96
Private capital	12.78	11.40	(16.49)
Cash and cash equivalents	0.13	0.19	0.48

Private capital consists of investments in private equity, real estate and infrastructure. Alternative investments consist of fund of hedge fund investments and tactical allocations.

Plan Membership

The following table reflects the Plan membership as of December 31, 2011, 2010 and 2009.

Changes in Plan Membership
As of December 31, 2011, 2010 and 2009

				2011–2010	
	2011	2010	2009	Change	%
Retirees and beneficiaries receiving benefits	12,663	12,380	12,154	283	2.3
Active employees	12,236	12,737	13,154	(501)	(3.9)
Terminated (inactive members) employees entitled to benefits or refunds of contributions	624	620	634	4	0.6
Total	25,523	25,737	25,942	(214)	(0.8)

Funding Status

The actuarial value of assets, using the GASB 25 and 43 methods, for the December 31, 2011 valuation was $3,445 million and the actuarial liability was $9,688 million. The actuarial liability increased by approximately $313 million in 2011, from $9,375 million in 2010 to $9,688 million in 2011. The assets currently fund 35.6% of this liability, a decrease from the 39.7% funded ratio in 2010. The decrease in the funded ratio resulted largely from the collapse in U.S. and global financial markets in 2008. As the Fund uses a five-year actuarial smoothing method in valuing its assets to determine its funded status, investment losses experienced in 2008, which were $1,104 million, are reflected in the actuarial value of assets over a five-year period, concluding in 2012. Likewise, actuarial investment gains and losses from 2008 through 2011 are also amortized over a five-year period.

The Board of Trustees is very concerned with the funded level of actuarial liabilities. The unfunded accrued actuarial liability for pension benefits and for the health insurance supplement increased from 2010 to 2011. Additionally, the annual required contribution for these benefits, as computed under GASB 25 and 43, was not reached in 2011 or 2010. However, 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 maximum investment performance.

On December 30, 2010, Governor Pat Quinn signed into law, SB 3538, as part of Public Act 096-1495. This new legislation included provisions, which will significantly change the method by which contributions to the Fund by the Employer are determined, as well as the level of benefits afforded police officers hired by the City of Chicago after January 1, 2011.

Police officers hired after January 1, 2011, are subject to different provisions in their defined benefit pension plan provisions. The changes are similar to other revisions made to various state and local pension systems in Illinois, including a change in the minimum retirement age for a non-reduced benefit, changes in the method of determining final average salary, changes in the calculation of the annual cost of living increase for retirees, changes in survivor benefits, and a salary cap on compensation included in the calculation of pension benefits.

The formula by which the Employer, the City of Chicago, will fund members' pension benefits was significantly changed, effective with the City of Chicago tax levy beginning in 2015. Previously, the City of Chicago met its fiduciary obligation for funding through a tax multiplier calculation that was based upon active member contributions. Public Act 096-1495 changes that funding obligation such that annually actuarially determined employer contributions will be calculated and required. Such actuarially determined contributions will be established with a funding goal of 90% by the end of 2040, based upon the actuarial value of Fund assets and application of certain required actuarial assumptions and methodologies. The Public Act also provides an enhancement mechanism such that failure by the City of Chicago to remit the required contributions can result in withholding of certain grants owed by the State of Illinois Comptroller to the City of Chicago, and direct deposit of such monies to the Fund.

Funding Status *(continued)*

The financing for the Fund, as measured and reported for the City of Chicago tax levy beginning in 2015 requires that assets are marked-to-market at March 30, 2011 and the actuarial value of assets be based upon a five-year smoothing of investment gains and losses incurred in fiscal years ending after March 30, 2011. The actuarial value of assets as defined in Public Act 096-1495 will affect the actuarial valuation as of January 1, 2015, and the development of contributions for Plan year-ending December 31, 2015. The Fund intends to adopt the statutory change in the actuarial value of assets effective for the plan year beginning January 1, 2015. Consequently, the financial statements included herein continue the five-year smoothing method already in place prior to this legislation without a reset of asset values at March 30, 2011.

Contact Information

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

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

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Statements of Plan Net Assets
As of December 31, 2011 and 2010

	2011	2010
ASSETS		
Cash	$ 250	$ 250
Receivables		
Employer tax levies, net of allowance for loss of $17,953,633 in 2011 and $18,417,241 in 2010	184,153,465	199,875,680
Member contributions	4,588,788	4,624,607
Interest and dividends	7,995,119	8,381,341
Accounts receivable—due from brokers	193,960,667	276,373,195
	390,698,039	489,254,823
Investments at fair value		
U.S. common stock and other equity	764,633,977	1,041,332,798
Collective investment funds, stock	159,441,205	285,809,608
Collective investment funds, international equities	25,893,101	26,976,684
Collective investment funds, fixed income	376,262,936	260,847,982
International equity	554,553,305	640,455,817
Bonds and notes	625,957,258	557,575,568
Short-term instruments	136,445,651	91,970,139
Infrastructure	42,980,775	38,165,359
Forward contracts and swaps	11,243,614	4,728,596
Hedge fund-of-funds	79,205,340	81,704,551
Real estate	120,609,791	94,421,845
Venture capital and private equity	197,576,112	177,116,975
	3,094,803,065	3,301,105,922
Invested securities lending cash collateral	312,160,256	295,714,545
Total assets	3,797,661,610	4,086,075,540
LIABILITIES		
Refunds and accounts payable	4,437,278	5,676,240
Trade accounts payable—due to brokers	304,394,921	344,185,437
Securities lending cash collateral	312,160,256	295,714,545
OPEB obligation	1,160,474	830,621
Total liabilities	622,152,929	646,406,843
Net assets held in trust for pension benefits	$ 3,175,508,681	$ 3,439,668,697

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

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Statements of Changes in Plan Net Assets
For the Years Ended December 31, 2011 with and 2010

	2011	2010
ADDITIONS		
Contributions		
Employer	$ 183,521,526	$ 183,834,639
Plan member salary deductions	98,222,258	108,402,353
Total contributions	281,743,784	292,236,992
Investment income		
Net (depreciation) appreciation in fair value of investments	(20,412,408)	316,282,278
Interest	23,149,998	27,113,326
Dividends	36,153,795	29,784,972
Real estate income	3,298,599	5,300,838
	42,189,984	378,481,414
Investment activity expenses		
Investment management fees	(8,899,000)	(9,109,616)
Custodial fees	(186,900)	(183,525)
Investment consulting fees	(583,351)	(542,554)
Total investment activity expenses	(9,669,251)	(9,835,695)
Net income from investing activities	32,520,733	368,645,719
From securities lending activities		
Securities lending income	963,567	1,132,624
Borrower rebates	455,422	10,242
Bank fees	(283,613)	(230,530)
Net income from securities lending activities	1,135,376	912,336
Total net investment income	33,656,109	369,558,055
Miscellaneous income	104,468	20,031
Total additions	315,504,361	661,815,078
DEDUCTIONS		
Pension and disability benefits	566,457,386	534,462,320
Death benefits	1,510,800	1,782,400
Refunds of employee deductions	7,337,234	7,587,436
	575,305,420	543,832,156
Administrative expenses	3,895,731	3,924,928
OPEB expense	463,226	440,051
Total deductions	579,664,377	548,197,135
Net (decrease) increase	(264,160,016)	113,617,943
Net assets held in trust for pension benefits		
Beginning of year	3,439,668,697	3,326,050,754
End of year	$ 3,175,508,681	$ 3,439,668,697

The accompanying notes are an integral part of these 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 impose specific financial burdens on the primary government. A primary government may also be financially accountable for its component units.

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 is included in the City's fiduciary statement of net assets as pension trust funds.

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 U.S. Government and U.S. Government agencies; corporate bonds, debentures, and notes; certain notes secured by mortgages, including pass-through securities; common and preferred stocks; certain pooled funds; limited partnerships 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 fair value, which approximates cost. 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, net asset value is determined and certified by the investment managers as of the reporting date. Real estate investments are valued at estimated fair value as determined by the general partner, based upon appraisals provided by the investment manager. Hedge fund, venture capital, private equity, infrastructure, and certain opportunistic investments are reported at estimated fair value as determined by the general partner of the investment vehicle.

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

Income Taxes

Income earned by the Fund is not subject to Federal income tax.

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 is able to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statements of plan net assets.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 PENSION PLAN

Plan Description and Contribution Information

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 police officers of the City of Chicago and their widows and children. Any City employee 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, 2011 and 2010 were $1,034,403,526 and $1,048,084,301, respectively. At December 31, 2011 and 2010, the Fund membership consisted of the following:

	2011	2010
Active employees	12,236	12,737
Retirees and beneficiaries currently receiving benefits	12,663	12,380
Terminated employees entitled to benefits or a refund of contributions, but not yet receiving them	624	620
	25,523	25,737

The Fund provides retirement benefits as well as death and disability benefits. Employees age 50 or older 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 2003, the mandatory retirement age for a participant is 63. Employees age 50 or older 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 four 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.

NOTE 2 PENSION PLAN *(continued)*

Plan Description and Contribution Information *(continued)*

The monthly annuity increases 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 the recipient was born before January 1, 1955.

If the recipient was born after January 1, 1955, the monthly annuity increases 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 will not exceed a total of 30%.

Members hired after January 1, 2011 will be subject to different provisions within their defined benefit pension plan. The new provisions include a minimum retirement age of 55, a final average salary calculation based upon 96 consecutive months within the last 120 months of employment, an annual salary cap for purposes of calculating a pension benefit, and cost-of-living increases for a pension benefit that include considerations related to the consumer price index for urban consumers.

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)*

Plan Description and Contribution Information *(continued)*

The financing by which the City will fund members' pension benefits will significantly change, effective with the City of Chicago tax levy beginning in 2015. New legislation changes that funding obligation such that annually actuarially determined employer contributions will be calculated and required. Such actuarially determined contributions will be established with a funding goal of 90% by the end of 2040, based upon the actuarial value of Fund assets and application of certain required actuarial assumptions and methodologies.

The actuarial calculation utilized and reported to the City of Chicago for its tax levy beginning in 2015 requires that assets are marked-to-market at March 30, 2011, and the actuarial value of assets be based upon a five-year smoothing of investment gains and losses incurred in fiscal years ending after March 30, 2011. The actuarial value of assets as defined in the new legislation (Public Act 096-1495) will affect the actuarial valuation as of January 1, 2015, and the development of contributions for plan year end December 31, 2015. The Fund intends to adopt the statutory change in the actuarial value of assets effective for the plan year beginning January 1, 2015. Consequently, the 2011 and 2010 financial statements continue the five-year smoothing method already in place prior to this legislation without a reset of asset values at March 30, 2011.

Funded Status and Funding Progress

The funded status of the Fund as of December 31, 2011 and 2010, the most recent actuarial valuation dates, 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)
12/31/11	$ 3,444,690,362	$ 9,522,395,036	$ 6,077,704,674	36.17%	$ 1,034,403,526	587.56%
12/31/10	3,718,954,539	9,210,056,428	5,491,101,889	40.38	1,048,084,301	523.92

NOTE 2 PENSION PLAN *(continued)*

Funded Status and Funding Progress *(continued)*

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information regarding the actuarial values of Fund assets and the ratio to the AAL for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2011 and 2010
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)
General inflation rate	3.0%

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.

Premiums are established 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 City's health care plans. Currently, the Fund pays 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 $95 per month from July 1, 2009 through June 30, 2013 for each annuitant who is not qualified to receive Medicare benefits; and up to a maximum of $65 per month from July 1, 2009 through June 30, 2013 for each annuitant who is qualified to receive Medicare benefits. These supplemental payments by the Fund are included in employer contributions on the statements of changes in plan net assets. The supplemental health care benefits are not dependent upon inflation, as the benefits paid are a fixed dollar amount.

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

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

At December 31, 2011 and 2010, the number of annuitants or surviving spouses who had subsidized health insurance totaled 10,368 and 10,118, respectively. Of the 2,295 and 2,261 remaining annuitants or surviving spouses, at December 31, 2011 and 2010, respectively, substantially all were eligible for subsidized health insurance, subject to their election of such benefits at a future date, and successful completion of the City's enrollment procedures, which includes certificate of insurability or an annual exam. Additionally, of the 624 and 620 terminated employees entitled to benefits or a refund, at December 31, 2011 and 2010, respectively, approximately 123 and 178 of the terminated employees were eligible for subsidized health insurance, subject to their election of such benefits at a future date and successful completion of the City's enrollment procedures. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The estimated City contribution represents the expected benefit payments for the health insurance supplement. In 2011 and 2010, the Fund received contributions of $9,591,394 and $9,354,163, respectively, from the City, and remitted contributions of insurance premiums to the City of $9,591,394 and $9,354,163, respectively. Contributions to the health insurance supplement are equal to insurance premium payments to the City. There were no net assets to report for the health insurance supplement at December 31, 2011 or 2010.

Funded Status and Funding Progress

The funded status of the Fund's health care plans as offered by the City as of December 31, 2011 and 2010, which are the most recent actuarial valuation dates, 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)
12/31/11	$ -	$ 165,954,869	$ 165,954,869	0.00%	$ 1,034,403,526	16.04%
12/31/10	-	164,796,449	164,796,449	0.00	1,048,084,301	15.72

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, present multi-year trend information regarding the actuarial values of Fund assets and the ratios to the AALs for benefits.

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Additional information as of the latest actuarial valuation follows:

Valuation dates	12/31/2011 and 12/31/2010
Actuarial cost method	Entry age normal
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% (fixed dollar subsidy)

NOTE 4 CASH AND INVESTMENT RISK

Cash

The bank balance and carrying amount of the Fund's deposits at December 31, 2011 were $493,439 and ($1,261,343.96), respectively; and $680,800 and ($3,663) at December 31, 2010, respectively. These balances excluded $250 of petty cash. The bank balance at December 31, 2011 and 2010 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
- Diversify investments across several asset classes

The Board has indicated interest in developing a risk policy statement in parallel to the Fund's investment policy. The policy would highlight those risks managed at the Fund level and those managed by external managers. The risk policy would also state the types of risks that are monitored and how they are measured. Until such policy is developed by PABF staff and adopted by the Board, there is no formal policy relating to specific investment-related risk.

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

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Summary

The following table presents a summary of the Fund's investments by type at December 31, 2011 and 2010.

	2011	2010
U.S. Government and agency fixed income	$ 371,075,296	$ 280,131,869
U.S. corporate fixed income	254,881,962	277,443,699
U.S. common collective fixed income funds	266,262,936	260,847,982
Global common collective fixed income funds	110,000,000	-
U.S. equities	764,633,977	1,041,332,798
U.S. common collective stock funds	159,441,205	285,809,608
International equity common collective fund	25,893,101	26,976,684
Foreign equities	554,553,305	640,455,817
Pooled short-term investment funds	71,017,151	39,528,450
Infrastructure	42,980,775	38,165,359
Real estate	120,609,791	94,421,845
Venture capital	197,576,112	177,116,975
Forward contracts and swaps	11,243,614	4,728,596
Hedge fund-of-funds	79,205,340	81,704,551
Cash and cash equivalents	65,428,501	52,441,689
Total investments at fair value	$ 3,094,803,066	$ 3,301,105,922

There are no individual investments held by the Fund that represent 5% or more of net assets held in trust for pension benefits, except for the Fund's investment in the MFO GMO Global Asset Allocation Fund, which amounted to $159,441,205 at December 31, 2011 and the Northern Trust Collective Daily U.S. Market Cap Equity Index Fund, which amounted to $285,809,608 at December 31, 2010.

The Fund's investments were managed by approximately 48 external investment managers in 2011 and 2010, with additional services provided by an external investment consultant. The Fund does not employ any internal investment managers, therefore its investments are not managed internally. The Fund does not have a formal policy regarding the credit risk of its external managers or investment consultant.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks

The Fund's investments are subject to certain types of risks, including interest rate risk, credit risk, custodial credit risk, and foreign currency risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of plan net assets.

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 does not have a formal policy regarding interest rate risk. The Fund attempts to mitigate its exposure to fair value loss arising from increasing interest rates by diversifying its fixed income investment strategy and by allocation to several investment managers. The Fund employed six such managers in 2011 and 2010. Each investment manager is required to determine the maturities of all fixed-income securities in their portfolio. Additionally, guidelines are provided to the external investment managers, including a target duration range that is consistent with each investment manager's respective strategy.

The following tables show the segmented time distribution of the Fund's investments into time periods of maturities based on the investments' cash flows.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

At December 31, 2011, the Fund had the following investments and maturities related to certain fixed-income securities (bonds and notes):

Investment Type	Fair Value	Investment Maturities: Less than 1 Year	1 to 6 Years	7 to 10 Years	More than 10 Years
Asset-backed securities	$ 35,752,259	$ -	$ 18,017,079	$ 2,884,423	$ 14,850,756
Commercial mortgage-backed securities	30,262,053	-	-	257,092	30,004,961
Corporate bonds	172,368,570	3,299,204	72,208,005	52,633,404	44,227,957
Government agency securities	7,027,300	-	5,565,767	1,074,122	387,411
Government bonds	140,236,547	-	79,531,167	20,425,055	40,280,325
Government mortgage-backed securities	212,973,337	-	1,317,988	3,564,253	208,091,096
Government issued commercial mortgage-backed securities	3,488,511	-	-	3,488,511	-
Guaranteed fixed income	790,733	790,733	-	-	-
Index-linked government funds	7,349,601	560,421	1,294,361	5,494,819	-
Municipal principal bonds	7,608,318	-	155,552	1,942,872	5,509,894
Non-government-backed collateralized mortgage obligations	8,100,029	-	166,745	2,128,022	5,805,262
	$ 625,957,258	$ 4,650,358	$ 178,256,664	$ 93,892,573	$ 349,157,662

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

At December 31, 2010, the Fund had the following investments and maturities related to certain fixed-income securities (bonds and notes):

		Investment Maturities			
Investment Type	**Fair Value**	**Less than 1 Year**	**1 to 6 Years**	**7 to 10 Years**	**More than 10 Years**
Asset-backed securities	$ 32,578,424	$ 65,804	$ 19,264,484	$ 5,111,930	$ 8,136,206
Commercial mortgage-backed securities	37,206,916	774,204	-	221,211	36,211,501
Corporate bonds	191,479,418	6,572,238	72,928,834	64,234,070	47,744,276
Government agency securities	7,891,724	352,300	6,610,419	929,005	-
Government bonds	85,696,817	1,507,597	49,840,074	9,199,568	25,149,578
Government mortgage-backed securities	178,085,262	-	1,236,546	11,050,140	165,798,576
Government issued commercial mortgage-backed securities	1,736,490	-	-	1,736,490	-
Guaranteed fixed income	795,621	-	795,621	-	-
Index-linked government funds	6,721,576	-	1,812,517	4,909,059	-
Municipal principal bonds	5,211,889	-	-	720,789	4,491,100
Non-government-backed collateralized mortgage obligations	10,171,431	-	223,823	2,805,996	7,141,612
	$ 557,575,568	$ 9,272,143	$ 152,712,318	$ 100,918,258	$ 294,672,849

Credit risk—Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. One measure of credit risk is the quality ratings issued by national ratings agencies such as Moody's Investors Services and Standard & Poor's Financial Services (S&P). The Fund's investment policy establishes guidelines for diversification and credit quality of investment portfolios for each investment manager. Suggested levels of credit quality ratings less than investment grade are provided to the external investment managers.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

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

	Fair Value	
	2011	**2010**
Quality Rating		
AAA	$ 42,043,466	$ 56,463,793
AA	19,942,594	14,360,688
A	66,680,101	69,473,070
BBB	85,993,665	96,777,172
BB	9,247,168	8,903,126
B	2,765,016	2,417,108
Not rated	20,716,106	23,956,102
CC through D	7,493,846	5,092,640
Total credit risk of U.S. corporate fixed income	254,881,962	277,443,699
U.S. Government and agency fixed income securities	371,075,296	280,131,869
	$ 625,957,258	$ 557,575,568

Custodial credit rate risk: Custodial credit risk applies to investments, cash, and certificates of deposit. 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 investments or collateral securities that are in the possession of an outside party. For cash and certificates of deposit, custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned. As of December 31, 2011 and 2010 deposits of $5,597,226 and $4,244,367, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. The Fund does not have a formal policy regarding custodial credit risk.

Foreign currency risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

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 investments by requiring managers of foreign investments to maintain diversified portfolios. The Fund's equity and fixed-income portfolios include investments that are subject to foreign currency risk. Such investments include non-U.S. equities, government bonds, corporate bonds, and derivative instruments. Additionally, some of the Fund's investment managers at least partially hedge foreign currency exchange risk. The Fund's exposure to foreign currency risk is as follows:

	Fair Value	
	2011	**2010**
Currency		
Australian Dollar	$ 9,930,392	$ 9,385,547
Brazilian Real	7,198,246	8,985,936
British Pound Sterling	104,128,663	96,477,892
Canadian Dollar	26,997,593	22,440,604
Chinese Yuan Renminbi	1,904,861	-
Czech Koruna	91,170	324
Danish Krone	4,250,216	7,511,992
Euro Currency Unit	115,151,982	117,606,602
Hong Kong Dollar	39,076,595	51,072,671
Hungarian Forint	172	201
Indian Rupee	2,840,703	5,614,096
Indonesian Rupiah	5,575,641	4,201,582
Japanese Yen	62,513,696	85,348,057
Malaysian Ringgit	1,682,800	4,387,940
Mexican Peso	7,129,667	2,173,325
New Israeli Shekel	703,127	2,470,998
New Taiwan Dollar	4,274,584	-
Nigerian Naira	782	-
Norwegian Krone	3,814,658	3,036,361
Polish Zloty	1,782,972	2,768,388
Singapore Dollar	5,656,373	10,042,919
South African Rand	5,974,553	4,818,026
South Korean Won	11,744,146	15,422,037
Swedish Krona	10,459,335	13,187,507
Swiss Franc	35,246,370	42,507,285
Taiwan Dollar	-	9,908,375
Thai Baht	3,399,319	2,653,278
Turkish Lira	916,122	1,898,448
Total investments in foreign currency	$ 472,444,738	$ 523,920,391

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives

The Fund's investment managers may enter into derivative transactions as permitted by their guidelines. A derivative financial instrument is an investment whose payoff depends on 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. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in the underlying element of the derivative will cause the value of a financial instrument to decrease or become more costly to settle. Most of the derivative transactions executed by the Fund's investment managers are related to currency through foreign exchange contracts, the vast majority of which is for hedging purposes, and interest rates through interest rate futures and forward contracts, the purpose of which is mostly duration management. In addition to derivative transactions executed directly by the Fund's investment managers, the Fund also holds interests in collective funds, hedge funds, and private equity funds, which may engage in derivative transactions. The Fund does not directly purchase derivatives with borrowed funds.

Futures contracts: The Fund's external investment managers enter into futures contracts in the normal course of investing activities to manage market risk associated with the Fund's fixed-income investments and to achieve overall investment portfolio objectives. These contracts involve elements of market risk in excess of amounts recognized in the statements of plan net assets. The credit risk associated with these contracts is minimal, as they are traded on organized exchanges and settled daily.

At December 31, 2011, the Fund had interest rate futures contracts to purchase LIBOR/Euro dollars, United Kingdom Treasury securities, and U.S. Treasury securities with notional amounts of $54,609,434, $2,847,910, and $6,577,730, respectively. At December 31, 2011, the Fund also had interest rate future contracts to (sell) Australian treasury securities, Canadian treasury securities, LIBOR/Euro dollars, and U.S. Treasury securities with notional amounts of ($2,828,955), ($4,339,073), ($7,863,552), and ($26,498,150), respectively. At December 31, 2010, the Fund had interest rate futures contracts to purchase United Kingdom Treasury bonds, LIBOR/Euro dollars, and U.S. Treasury securities with notional amounts of $6,360,703, $20,915,475 and $26,700,094, respectively. At December 31, 2010, the Fund also had interest rate futures contracts to (sell) German Treasury bonds, LIBOR/Euro dollars, and U.S. Treasury securities with notional amounts of ($9,862,244), ($44,304,938) and ($60,466,462), respectively.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

The fair value of futures contracts in the statements of plan net assets was zero at December 31, 2011 and 2010, as settlements are by cash daily. The Fund had net investment (losses) of ($3,841,888) and ($979,018) on futures contracts in 2011 and 2010, respectively. These losses are accounted for as net (depreciation) appreciation in fair value of investments.

Interest rate and credit default swaps: The Fund's external investment managers utilize interest rate and credit default swaps in the management of the Fund's fixed-income portfolio. Swap agreements are contractual agreements between two or more parties in which each party agrees to exchange sets of cash flows based on certain agreed-upon parameters. The holder is exposed to credit risk for nonperformance and to market risk for changes in interest rates. Gains and losses on swaps are determined based on fair values and are recorded in the statements of changes in plan net assets. The notional value of credit default swaps was $38,150,729 and $31,635,000 as of December 31, 2011 and 2010, respectively. The notional value of interest rate swaps was $0 and $3,579,595, as of December 31, 2011 and 2010, respectively. The fair value of swaps outstanding at December 31, 2011 and 2010 was a net liability of $386,497 and $40,300, respectively. The unrealized gain (loss) of swaps outstanding at December 31, 2011 and 2010 was $193,201 and ($592,459), respectively. Investment (loss) from holdings and sales of interest rate and credit default swaps was ($159,145) and ($1,754,318) in 2011 and 2010, respectively. These earnings are included in net (depreciation) appreciation in the fair value of investments in the statements of changes in net assets.

Foreign exchange contracts: The Fund's external investment managers utilize foreign currency forward contracts, primarily for hedging purposes. Foreign currency forward contracts are contractual agreements to buy or sell a specific amount of a foreign currency at a certain date for an agreed price. As the fair value of the underlying foreign currency varies from the contractual agreed price, the Fund records an unrealized gain or loss. The holder is exposed to credit risk for nonperformance and to market risk for changes in interest rates. The Fund had pending foreign currency purchases and sales that included positions with various currencies primarily including Australian dollars, Brazilian real, British pound sterling, Canadian dollars, Chinese yuan renminbi, Danish krone, Euros, Hong Kong dollars, Japanese yen, Malaysian ringgit, Mexican pesos, New Israeli shekel, Norwegian krone, Polish zloty, Singapore dollars, South African rand, South Korean won, Swedish krona, Swiss francs, Thai baht, Turkish lira and U.S. dollars at December 31, 2011 and 2010. Total pending foreign currency purchases and (sales) were $94,810,186 and ($94,383,075), respectively, at December 31, 2011, and $112,794,150 and ($113,138,764), respectively, at December 31, 2010.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

Thus, the Fund had a net unrealized gain (loss) on pending foreign currency forward contracts of $427,111 and ($344,615) at December 31, 2011 and 2010, respectively. Investment income from holdings and sales of foreign currency forward contracts was $322,791 and $600,403 in 2011 and 2010, respectively.

Forward interest rate contracts: The Fund's external investment managers entered into forward contracts to purchase or sell U.S. Treasury securities during 2011 and 2010. Forward contracts are contracts for delayed delivery of securities in which the seller agrees to make delivery at a specified future date of a specified instrument, at a specified price or yield. The holder is exposed to credit risk for nonperformance and to market risk for changes in interest rates.

These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statements of plan net assets. The Fund's external investment managers attempt to mitigate this credit risk through structured trading with reputable parties.

At December 31, 2011, the Fund held forward contracts to buy U.S. Treasury notes and (sell) U.S. TIPS (Treasury Inflation Protected Securities). The fair value of these contracts was $9,570,276 and ($9,231,257), respectively. At December 31, 2010, the Fund held forward contracts to buy U.S. Treasury strips. The fair value of these contracts was $4,132,105. The unrealized (loss) on these contracts was $217,289 and ($205,932) at December 31, 2011 and 2010, respectively. Investment income from holdings and sales of interest rate forwards was $488,154 and $1,639,975 in 2011 and 2010, respectively. These earnings are included in net (depreciation) appreciation in the fair value of investments in the statements of changes in net assets.

Investment Management Fees

Investment management fees from equity and fixed income managers, including most of the collective funds, are included in investment management fees on the statements of changes in plan net assets. Investment management fees from funds of short-term investments, infrastructure, hedge, real estate, venture capital and private equity are reflected in the net investment income from such investment products. Such investment management fees are not significant to the financial statements.

NOTE 5 SECURITIES LENDING PROGRAM

State statutes and Board of Trustees policies permit the Fund to lend some of 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 to a minimum of 102% for U.S. securities and 105% for non-U.S. 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 108 days and 101 days, as of December 31, 2011 and 2010, respectively. Cash collateral is invested in the lending agent's Core USA Collateral Pool, which at December 31, 2011 and 2010, had a weighted-average life, as measured by interest sensitivity, of 31 days and 25 days, respectively. 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, 2011 and 2010 were as follows:

	2011	2010
Market value of securities loaned	$ 309,349,594	$ 289,657,158
Market value of cash collateral from borrowers	312,160,256	295,714,545
Market value of non-cash collateral from borrowers	5,306,392	1,581,537

As of December 31, 2011 and 2010, the Fund had limited credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Fund.

NOTE 6 UNFUNDED INVESTMENT COMMITMENTS

The Fund had unfunded commitments of approximately $133 million and $169 million at December 31, 2011 and 2010, respectively, in connection with real estate, infrastructure, and private equity investments.

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

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 insurance for eligible retirees and their spouses through PABF's group health insurance plan, which covers both active and retired members. As of December 31, 2011 and 2010, seven retirees were in the Staff Retiree Health Plan and 21 and 22 active employees, respectively, could be eligible at retirement. Benefit subsidy provisions have been established by PABF's Board of Trustees. The amount of the subsidy varies according to a retiree's years of service with PABF and the coverages elected. These benefit subsidy provisions can be modified or terminated at the sole discretion of the PABF Board.

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. For 2011 and 2010, PABF contributed approximately $126,431 and $120,990, respectively, to the Staff Retiree Health Plan for current premiums, with an implicit subsidy of $6,942 and $6,640, for 2011 and 2010, respectively. Members receiving benefits contributed approximately $27,000, or 21%, of the total premiums, for 2011, and approximately $23,000, or 19%, of the total premiums, for 2010.

Annual OPEB Cost and Net OPEB Obligation

PABF's annual Other Post-Employment Benefit (OPEB) expense is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The amortization period is open.

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

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

The following table shows the components of PABF's annual OPEB cost for 2011 and 2010, the amount actually contributed to the Staff Retiree Health Plan, and changes in PABF's net OPEB obligation to the Staff Retiree Health Plan:

	2011	2010
Annual required contribution	$ 453,535	$ 434,005
Interest on net OPEB obligation	37,378	23,319
Adjustment to annual required contribution	(27,687)	(17,273)
Annual OPEB expense	463,226	440,051
Employer contributions made	(133,373)	(127,630)
Increase in net OPEB obligation	329,853	312,421
Net OPEB obligation at beginning of year	830,621	518,200
Net OPEB obligation at end of year	$ 1,160,474	$ 830,621

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Staff Retiree Health Plan, and the net OPEB obligation for 2011 and 2010 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2011	$ 463,226	28.8%	$ 1,160,474
12/31/2010	440,051	29.0	830,621

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

Funded Status and Funding Progress

The funded status of PABF's Staff Retiree Health Plan as of December 31, 2011, and 2010, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/11	$ -	$ 5,971,137	$ 5,971,137	0.00%	$ 1,553,756	384.3%
12/31/10	-	5,588,688	5,588,688	0.00	1,486,848	375.9

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 Staff Retiree Health 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 RSI following the notes to the financial statements, present multi-year trend information on the actuarial values of assets of the Staff Retiree Health Plan and its ratio to the AAL 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), which 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 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.

For the December 31, 2011 and 2010 actuarial valuations, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return based on the employer's assumed return on its assets and at December 31, 2011 and 2010, an annual healthcare cost trend rate of 8.5% initially, reduced by increments of 0.5 percentage point per year to an ultimate rate of 5.0% after eight years. December 31, 2011 and 2010, the wage inflation assumption was 4.5%. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 30-year period.

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

	2011	2010
Balances at December 31	$ 1,756,616,672	$ 1,908,133,221

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 reserve is maintained on a cost basis, in accordance with the Illinois Pension Code.

Salary Deduction Reserve

	2011	2010
Balances at December 31	$ 1,288,178,539	$ 1,251,989,944

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.

NOTE 8 RESERVES *(continued)*

Annuity Payment Reserve

	2011	2010
Balances at December 31	$ 2,011,129,797	$ 1,834,457,008

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.

A portion of reserve balances associated with widows' annuity payments was reclassified from the Annuity Payment Reserve in Note 8 to the financial statements as of December 31, 2010 to the Prior Service Annuity Reserve to more appropriately reflect the source and nature of the account reserve balance. The amount of the reclassification was $326,938,084. The reclassification is reflected in Note 8 to the financial statements.

Prior Service Annuity Reserve

	2011	2010
Balances at December 31	$ (1,031,063,600)	$ (815,305,299)

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. This reserve included an unfunded liability of $6,614,740,813 and $6,215,148,607 as of December 31, 2011 and 2010, respectively.

NOTE 8 RESERVES *(continued)*

Gift Reserve

	2011	2010
Balances at December 31	$ 13,390,856	$ 13,541,513

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.

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.

Ordinary Death Benefit Reserve

	2011	2010
Balances at December 31	$ (20,166,678)	$ (18,155,098)

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 had a deficit.

Automatic Increase Reserve

	2011	2010
Balances at December 31	$ (843,024,309)	$ (735,439,994)

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, 2011 and 2010, the Automatic Increase Reserve had a deficit.

NOTE 8 RESERVES *(continued)*

Supplementary Payment Reserve

	2011	2010
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 benefits, and compensation annuities and is 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 that expires June 30, 2016. There is a renewal option for a 10-year extension on the lease, however, such option has not yet been exercised. Office rental expense amounted to $239,258 and $233,234 for the years ended December 31, 2011 and 2010, respectively.

Future minimum rental payments under the office lease at December 31, 2011 are as follows:

Year	Amount
2012	$ 244,687
2013	248,626
2014	252,562
2015	256,502
2016	107,560

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 change 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.

REQUIRED SUPPLEMENTARY INFORMATION

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Funding Progress—Pension
For the Years Ended December 31, 2011 and 2010
(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)
12/31/06	$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
12/31/09	3,884,978,241	8,736,101,666	4,851,123,425	44.47	1,011,205,359	479.74
12/31/10	3,718,954,539	9,210,056,428	5,491,101,889	40.38	1,048,084,301	523.92
12/31/11	3,444,690,362	9,522,395,036	6,077,704,674	36.17	1,034,403,526	587.56

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Employer Contributions—Pension
For the Years Ended December 31, 2011 and 2010
(Unaudited)

Year Ended December 31,	Contributions Annual Required	Actual Employee	Actual Employer	Percentage Contributed
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
2009	339,488,187	95,614,390	172,043,785	50.68
2010	363,624,570	108,402,353	174,500,507	47.99
2011	402,751,961	98,222,258	174,034,600	43.21

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Notes to Required Supplementary Information—Pension
For the Years Ended December 31, 2011 and 2010
(Unaudited)

Valuation date	December 31, 2011 and 2010, 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)
General inflation rate	3.0%

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Funding Progress—Health Insurance Supplement
For the Years Ended December 31, 2011 and 2010
(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)
12/31/06	$ -	$ 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
12/31/09	-	164,799,819	164,799,819	0.00	1,011,205,359	16.30
12/31/10	-	164,796,449	164,796,449	0.00	1,048,084,301	15.72
12/31/11	-	165,954,869	165,954,869	0.00	1,034,403,526	16.04

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Employer Contributions—Health Insurance Supplement
For the Years Ended December 31, 2011 and 2010

(Unaudited)

Year Ended December 31,	Contributions Annual Required	Actual Employee	Actual Employer	Percentage Contributed
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
2009	11,810,766	-	9,266,431	78.46
2010	10,659,006	-	9,354,163	87.76
2011	10,538,116	-	9,591,394	91.02

(Unaudited)

Valuation date	December 31, 2011 and 2010, 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
Healthcare Cost Trend Rate	0.00% (fixed dollar subsidy)

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Funding Progress—Staff Retiree Health Plan
For the Years ended December 31, 2011 and 2010

(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
12/31/09	-	3,474,800	3,474,800	0.00	1,256,800	276.5
12/31/10	-	5,588,688	5,588,688	0.00	1,486,848	375.9
12/31/11	-	5,971,137	5,971,137	0.00	1,553,756	384.3

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Schedule of Employer Contributions—Staff Retiree Health Plan

For the Years Ended December 31, 2011 and 2010

(Unaudited)

Year Ended December31,	Contributions Annual Required	Contributions Actual Employee	Contributions Actual Employer	Percentage Contributed
2007	$ 261,500	$ -	$ 88,800	34.0%
2008	274,600	-	104,700	38.1
2009	290,600	-	121,000	41.6
2010	434,005	-	127,630	29.4
2011	453,535	-	133,373	29.4

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Notes to Required Supplementary Information—Staff Retiree Health Plan
For the Years Ended December 31, 2011 and 2010
(Unaudited)

Valuation date	December 31, 2011 and 2010, 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	8.5% per year, graded down to 5.0% per year, ultimate trend in 0.5% increments

OTHER SUPPLEMENTARY INFORMATION

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Schedule of Administrative Expenses
For the Years Ended December 31, 2011 and 2010

	2011	2010
Administrative expenses		
Actuary services	$ 104,774	$ 147,539
Benefits disbursement	195,618	193,951
Equipment service and rent	73,007	67,030
External auditors	63,300	54,520
Fiduciary insurance	103,989	104,564
Legal services	270,867	315,263
Medical consultant	238,718	187,073
Miscellaneous	582,563	589,491
Occupancy and utilities	247,275	240,075
Personnel salaries and benefits	1,995,711	2,004,179
Postage	7,500	7,500
Supplies	12,410	13,743
	$ 3,895,732	$ 3,924,928

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Schedule of Consulting Costs
For the Years Ended December 31, 2011 and 2010

	2011	2010
Payments to consultants		
External auditors	$ 63,300	$ 54,520
Medical consultant	238,718	187,073
Legal services	270,867	315,263
Actuary service	104,774	147,539
Investment manager fees	8,899,000	9,109,616
Master trustee fees	186,900	183,525
Consulting fees	583,351	542,554
	$ 10,346,910	$ 10,540,090

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)
Schedule of Investment Fees
For the Years Ended December 31, 2011 and 2010

	2011	2010
Investment managers		
Ariel Capital Management	$ 325,396	$ 320,177
Artisan Partners	546,648	495,093
Attucks Asset Management	37,115	42,651
CBRE Clarion Securities	64,934	56,596
Capital Guardian Trust Co.	470,515	467,486
Channing Capital	136,453	164,141
Chicago Equity Partners	299,380	313,561
Dearborn Partners LLC	193,310	181,294
Denali Advisors	115,084	103,359
European Investors	46,976	42,733
Great Lakes Advisors	506,981	516,238
Holland Capital Management	254,010	229,200
Invesco Capital Management	378,678	379,564
JP Morgan Fleming Asset Management	511,839	605,289
LM Capital Group	85,551	80,810
McKinley Capital	402,104	367,077
Montag & Caldwell	541,860	732,840
Northern Trust Global Investments - Index Funds	112,960	106,849
Piedmont Investment Advisors	228,920	214,599
Taplin, Canida, & Habacht	123,876	117,495
UBS Global Asset Management	1,357,377	1,588,191
Wellington Management	600,362	330,776
Wells Capital Management	437,678	410,825
William Blair & Co.	1,120,993	1,242,772
Total investment manager fees	8,899,000	9,109,616
Investment consultants		
Elkins McSherry Inc	20,000	20,000
Ennis Knupp & Associates	-	175,100
Courtland Partners	-	54,325
NEPC LLC	451,800	187,093
The Townsend Group	5,515	-
Kolhberg & Associates	106,036	106,036
Total investment consultants fees	583,351	542,554
Master custodian		
The Northern Trust Company	186,900	183,525
Total investment fees	$ 9,669,251	$ 9,835,695

Investment Section

Investments

(Compiled by NEPC, LLC, Investment Consultant 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 investment, (2) make periodic adjustments to the proportions of equity and fixed income investments, and (3) diversify pension assets.

One Main Street | Cambridge, MA 02142 | TEL: 617.374.1300 | www.nepc.com

CAMBRIDGE | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | SAN FRANCISCO

Allocation of Assets As of December 31, 2011, the Fund's asset allocation targets were as follows:

Asset Class	Current Asset Allocation	Long-Term Target Allocation
U.S. Equity	27%	21%
Non U.S. Equity	18%	20%
Fixed Income	29%	22%
Opportunistic Strategies	12%	19%
Private Equity	8%	7%
Real Estate	4%	5%
Infrastructure	2%	2%
Real Assets	0%	4%
TOTAL	100%	100%

Diversification The Fund's assets are diversified in several ways to minimize the potential for overexposure to individual investments, and provide a broad opportunity set for the portfolio while trying to minimize risk. Since 1984, the Trustees have expanded the number of asset classes available for investment and expanded on the current manager line up. As of December 31, 2011, the Fund retained 53 investment managers for a total of 62 different fund strategies. Two additional managers were hired in 2011 as part of the Fund's new allocation to global asset allocation (GAA).

Investment Objective Given the most recent investment policy adopted by the Board of Trustees, the return of the total fund will be compared with the return of a "policy portfolio" comprising of a target policy weighted mix as follows:

15% - Russell 1000 Index
6% - Russell 2000 Index
14% - MSCI EAFE Index
6% - MSCI Emerging Markets Index
10% - 60% MSCI World Index / 40% CITI WGBI Index
9% - HFRI Fund of Fund Composite Index
2% - Dow Jones – UBS Commodity Index
2% - Barclays Global Inflation Linked: U.S. TIPS Index
13% - Barclays Aggregate Index
9% - 1/3 each – Barclays Global Aggregate Index/Merrill Lynch Global High Yield Index/JP Morgan Emerging Market Bond Index
9% - Cambridge Private Equity 1 QTR Lagged Index
5% - NCREIF Property Index

The investment objective is to equal or exceed the policy portfolio rate of return net of fees. The Total Fund's return will also be compared to the ICC total public fund universe.

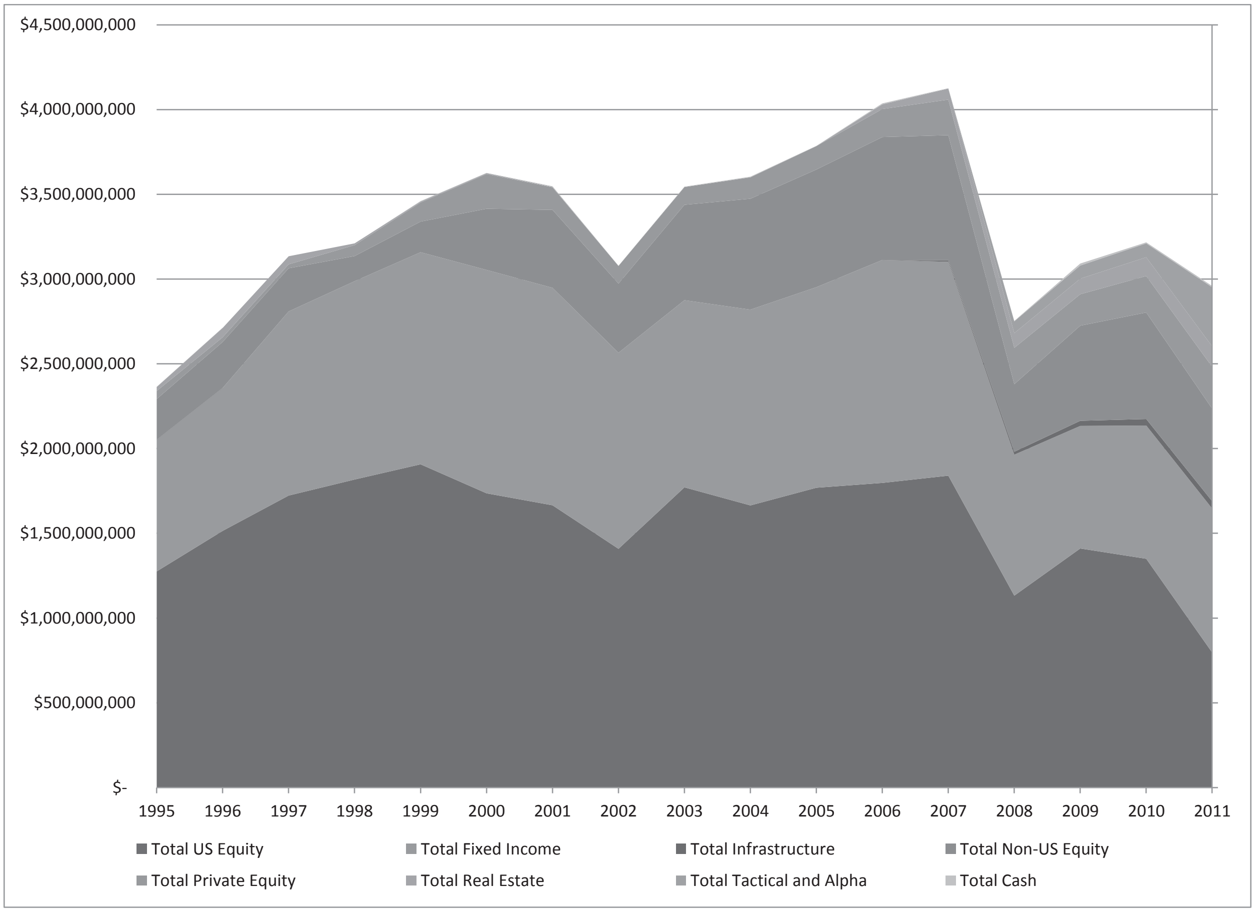
2011 Asset Allocation As of December 31, 2011, the Fund was overweight to US Equity Fixed Income and Private Equity. Concurrently, the Fund was underweight to Non US Equity, Real Estate, Infrastructure, Real Assets and Opportunistic Strategies. The Fund's ending market value decreased by approximately $257.6 million during the year. The decrease is a combination of investment gains, $48.1 million, and net outflows of $305.8 million. The Fund's asset allocation as of December 31, 2011 is shown on the following pages.

Fair Value and Asset Allocation
As of December 31, 2011
($ in thousands)

	U.S. Equity	Non-US Equity	U.S. Bond	Real Estate	Private Equity	Infrastructure	Tactical	Real Assets	Cash	Total	% of Total	Policy
Ariel Capital Management	$45,881								$843	$46,724	1.6%	
Attucks	$37								$10	$47	0.0%	
Channing Capital	$3									$3	0.0%	
Chicago Equity Partners	$78,371								$536	$78,907	2.7%	
Denali Advisors	$22,499								$170	$22,669	0.8%	
Great Lakes	$177,659								$9,742	$187,401	6.3%	
Holland Capital	$57,546								$1,874	$59,420	2.0%	
Montag & Caldwell	$137,843								$10,054	$147,897	5.0%	
Piedmont	$42,588								$602	$43,190	1.5%	
UBS Global Asset Management	$111,768								$4,194	$115,962	3.9%	
William Blair and Company	$91,208								$3,162	$94,370	3.2%	
U.S. Equity	**$765,403**	-	-	-	-	-	-	-	**$31,187**	**$796,590**	**26.9%**	**21.0%**
Artisan International		$65,315							$3,669	$68,984	2.3%	
Capital Guardian Trust		$99,993							$3,739	$103,732	3.5%	
Global Transition Account		$2								$2	0.0%	
J.P. Morgan Asset Management		$92,768							$1,617	$94,385	3.2%	
McKinley Capital Management		$56,318							$1,445	$57,763	2.0%	
UBS Global Asset Management		$98,342							$1,084	$99,426	3.4%	
William Blair		$120,273							$1,671	$121,944	4.1%	
Non-US Equity	-	**$533,011**	-	-	-	-	-	-	**$13,225**	**$546,236**	**18.5%**	**20.0%**
Dearborn (Baird)			$100,377						$1,339	$101,716	3.4%	
LM Capital			$33,019						$2,296	$35,315	1.2%	
NT Aggregate Bond			$151,481							$149,911	5.1%	
Taplin, Canida & Habacht			$65,345						$2,899	$68,244	2.3%	
Wellington			$214,544						$14,536	$229,080	7.7%	
Wells Capital Management			$200,513						$27,631	$228,144	7.7%	
Oaktree Capital			$35,443							$35,443	1.2%	
Fixed Income	-	-	**$800,722**	-	-	-	-	-	**$48,701**	**$849,423**	**28.7%**	**22.0%**

	U.S. Equity	Non-US Equity	U.S. Bond	Real Estate	Private Equity	Infrastructure	Opportunistic	Real Assets	Cash	Total	% of Total	Policy
RCP Advisors VI					$10,526					$10,526	0.4%	
Adams Street Partners					$83,793					$83,793	2.8%	
Adams St Partners					$2,107					$2,107	0.1%	
Adams Street Partners					$3,110					$3,110	0.1%	
Chancellor					$450					$450	0.0%	
Harbourvest Partners, LLC					$440					$440	0.0%	
Harbourvest V IPO					$48,933					$48,933	1.7%	
Invesco Fund IV Venture					$13,915					$13,915	0.5%	
Invesco Fund IV Int'l					$5,988					$5,988	0.2%	
Invesco Fund IV U.S.					$23,519					$23,519	0.8%	
Mesirow Fund II					$18,395					$18,395	0.6%	
Mesirow Fund IV					$12,146					$12,146	0.4%	
Muller & Monroe					$13,725					$13,725	0.5%	
Muller & Monroe MEPEFF					$9,464					$9,464	0.3%	
Private Equity	-	-	-	-	**$246,511**	-	-	-	-	**$246,511**	**8.3%**	**7.0%**
Global Infrastructure Partners						$30,816				$30,816	1.0%	
The Carlyle Group						$12,164				$12,164	0.4%	
Infrastructure	-	-	-	-	-	**$42,980**	-	-	-	**$42,980**	**1.5%**	**2.0%**
Declaration Management				$14						$14	0.0%	
ABR Chesapeake III				$8,881						$8,881	0.3%	
AG Core Plus Realty II				$9,824						$9,824	0.3%	
Apollo Real Estate Advisors				$7,088						$7,088	0.2%	
DRA Advosors				$3,000						$3,000	0.1%	
DV Urban				$7,141						$7,141	0.2%	
Lone Star Fund IV				$7,508						$7,508	0.3%	
Lone Star Global				$3,412						$3,412	0.1%	
M.S. Prime Property				$10,878						$10,878	0.4%	
Macquarie Global				$6,265						$6,265	0.2%	
Mesa West II				$12,165						$12,165	0.4%	
Morgan Stanley RE VI-Int'l				$2,399						$2,399	0.1%	
PRISA				$9,003						$9,003	0.3%	
Quadrant RE Advisors				$5,395						$5,395	0.2%	
Shamrock-Hostmark				$567						$567	0.0%	
UBS Realty Investors				$11,933						$11,933	0.4%	
European Investors II				$6,007						$6,007	0.2%	
ING Clarion				$9,365						$9,365	0.3%	
Real Estate	-	-	-	**$120,845**	-	-	-	-	-	**$120,845**	**4.1%**	**5.0%**
Aetos Capital							$40,602			$40,602	1.4%	
K2 Advisors							$38,604			$38,604	1.3%	
GMO	$43,368	$57,750	$32,414				$25,766		$144	$159,442	5.4%	
Pimco	$4,840	$13,420	$41,030	$2,860			$47,300		$550	$110,000	3.7%	
Tactical & Alpha	**$48,208**	**$71,170**	**$73,444**	**$2,860**	-	-	**$152,272**	-	**$694**	**$348,648**	**11.8%**	**19.0%**
Real Assets	-	-	-	-	-	-	-	-	-	**$0**	**0.0%**	**4.0%**
Cash									$7,736	$7,736	0.3%	
Cash									**$7,736**	**$7,736**	**0.3%**	**0.0%**
Total Fund	**$813,611**	**$604,181**	**$874,166**	**$123,705**	**$246,511**	**$42,980**	**$152,272**	**$0**	**$101,543**	**$2,958,969**	**100.0%**	**100.0%**
% of Total	27.5%	20.4%	29.5%	4.2%	8.3%	1.5%	5.1%	0.0%	3.4%	100.0%		

HISTORICAL ASSET ALLOCATION BY ASSET CLASS



*History unavailable prior to 1995

Summary of 2011 Investment Activity

Investment Manager Changes In fourth quarter of 2011, two additional managers were hired as part of the Fund's new allocation to global asset allocation (GAA), the PIMCO All Asset Fund and GMO Global Asset Allocation Strategy. These managers were funded through the liquidation of the NTGI Dow Jones Total Stock Market Index Fund.

Market Environment

The global markets were quite volatile in 2011, faced with optimism about a possible economic recovery coupled with worries about the European debt crisis, inflation in China, US unemployment, unrest in the Middle East, and the downgrade of the US credit rating by the S&P.

In addition, Japan was hit by an earthquake and tsunami in March that resulted in a monumental nuclear crisis, sending the Japanese stock market into a tailspin and global markets along with it. Despite these events, worldwide markets have remained resilient, and as the year ended, improving economic data in the US and European policy moves managed to bolster equity markets.

As a whole, developed markets lagged US Markets, which was a function of weak currency returns and the uncertainty that the Euro cast on international markets. Fears surrounding the Euro and growing inflation concerns in China caused Emerging markets to suffer as investors shed risk. By and large, equity securities moved with little regard for fundamentals and correlations across risky asset classes were elevated.

Global Equity Markets

Equity markets got off to a strong start in 2011 as investors, optimistic about an economic recovery, continued to reallocate assets from bonds to stocks. While the markets cooled off in March in response to unnerving global headlines, most global segments — with the obvious exception of Japan — still ended the first quarter in positive territory.

It was a bumpy ride for global equity markets in the second quarter. The period started on a positive trend, as investors applauded strong corporate earnings results, but macro headlines in May and June quickly derailed market gains. Continued economic fears surrounding the European debt crisis, inflationary concerns in China, poor jobs reports from the US, and ongoing unrest in the Middle East all contributed to lower returns. During the final days of the quarter, the markets rallied sharply neutralizing major losses to end the period anywhere between modestly positive to modestly negative.

The third quarter saw panic-driven declines in the equity markets, with all major equity indices decreasing by double-digit percentages, pushing year-to-date results into negative territory. Fear overshadowed fundamentals as investors focused on macro concerns related to several issues that made headlines: the Eurozone debt crisis, a potential slowdown in China, and, closer to home, the S&P downgrade of the US credit rating and lower-than-expected GDP growth rates. Amid renewed worries about a double-dip recession, there was nowhere to hide in the equity markets.

During the fourth quarter equity markets posted positive results to end another volatile year in which macro headlines overshadowed company fundamentals. After the quarter started out with a huge rally in October, the lack of a clear solution to the European debt crisis caused some divergence in results, with US markets gaining advantage over non-US stocks, and European markets lagging the most. US investors responded favorably to improvements in economic data on unemployment and consumer spending during the quarter. As indicators provided support for moderate US GDP growth, the primary beneficiaries were those market segments deemed as riskier or even previously left for dead.

Equity Index Returns (12/31/11)				
Global Equity	**Quarter**	**1 Year**	**3 Years**	**5 Years**
MSCI World	7.6%	-5.5%	11.1%	-2.4%
US Equity				
S&P 500	11.8%	2.1%	14.1%	-0.3%
Dow Jones Industrial Average	12.8%	8.4%	14.9%	2.4%
NASDAQ Composite	8.2%	-0.8%	19.4%	2.4%
RUSSELL 1000 GROWTH	10.6%	2.6%	18.0%	2.5%
RUSSELL 1000 VALUE	13.1%	0.4%	11.6%	-2.6%
RUSSELL 2000	15.5%	-4.2%	15.6%	0.2%
RUSSELL 2000 GROWTH	15.0%	-2.9%	19.0%	2.1%
RUSSELL 2000 VALUE	16.0%	-5.5%	12.4%	-1.9%
International Equity				
MSCI EAFE	3.3%	-12.1%	7.6%	-4.7%
MSCI Emerging Markets Free	4.4%	-18.4%	20.3%	2.4%
MSCI Europe	5.4%	-11.1%	7.5%	-5.2%
MSCI UK	9.1%	-2.6%	15.0%	-3.2%
MSCI Japan	-3.9%	-14.3%	1.5%	-6.6%
MSCI Far East	-2.7%	-14.7%	3.8%	-5.4%

Global Fixed Income Markets

To start the year off, the global fixed-income markets had a resilient first quarter. US credit sectors in particular posted solid results as the business environment and leading unemployment indicators improved. Over the quarter, markets became concerned with the potential for higher inflation, as well as higher interest rates, as commodity and energy prices continued to rise. In addition, uncertainty surrounding the US fiscal situation came to a head, with the highly politicized budget debate in Washington nearly shutting down the government. Washington's continuing struggle to lay out a fiscal road map for the coming years may ultimately decide the future outlook for the US bond market.

In the second quarter, uncertainty about the sustainability of the US recovery and concerns over the European debt crisis overtook market sentiment. In this environment, high-grade US fixed-income sectors posted strong results. Concerns over domestic inflation subsided as oil prices fell, the housing market remained weak, and unemployment numbers ticked up in many parts of the country. By the end of the quarter, Congress had yet to reach an agreement on the US debt ceiling, furthering anxiety in fixed-income markets.

US high-grade fixed income markets posted strong returns in the third quarter as investors sought safety in US Treasuries, investment grade corporate bonds, and US MBS. Treasury yields fell to remarkably low levels across the yield curve, particularly at the long end, as the Fed's "Operation Twist" drove down long-term interest rates to historic levels. Riskier segments of fixed income markets sold off, including high yield corporate bonds and emerging markets debt.

As the year came to a close, fixed income markets delivered mostly positive returns, with US high yield and hard currency emerging markets debt among the best performing sectors. US high grade credit led investment grade sectors, followed by agency MBS. Riskier segments of bond markets seemed to shrug off persistent concerns over the still unsettled problems brewing in the Eurozone, providing fuel for the rally. The Federal Reserve's "Operation Twist" pushed long-term yields to record lows despite the downgrade of US Treasury securities by Standard & Poor's. Long-term Treasuries and TIPS were the best performing fixed income segments for the year, with both returning well over 20%.

Fixed Income Index Returns (12/31/11)				
Global Fixed Income	**Quarter**	**1 Year**	**3 Years**	**5 Years**
Citi World Gov. Bond	-0.1%	6.4%	4.3%	7.1%
JPM EMBI Plus	-1.0%	-5.2%	3.6%	4.5%
Domestic Fixed Income				
BC Aggregate	1.1%	7.8%	6.8%	6.5%
BC Government	0.8%	9.0%	4.0%	6.6%
BC US Credit	1.7%	8.4%	10.7%	6.8%
BC Mortgage Backed	0.9%	6.2%	5.9%	6.5%
BC Govt/Credit	1.2%	8.7%	6.6%	6.6%
BC TIPS	1.7%	8.9%	8.5%	6.9%
BC High Yield	6.5%	5.0%	24.1%	7.5%
S&P LSTA Lev. Loan	2.9%	1.5%	19.2%	4.2%
90 DAY T-BILL	0.0%	1.0%	1.4%	1.5%
10-Year Bond Yirelds	**Dec-11**	**Sep-11**	**Jun-11**	**Mar-11**
US	1.9%	1.9%	3.2%	3.5%
Germany	1.8%	1.9%	3.0%	3.4%
UK	2.0%	2.4%	3.4%	3.7%
Japan	1.0%	0.9%	1.1%	1.3%

Total Fund Performance (gross of fees) For 2011, on a gross of fee basis, the Total Fund returned 1.1% which outperformed the policy index return of 0.3%. Over the trailing three year period, the Fund's 11.7% return significantly outperformed the policy index return of 9.7%. This ranked the Fund in the 32nd percentile (1% being the highest, 100% being the lowest) of the ICC Public Fund Universe. The median (50%) return of the ICC Public Fund for this time period was 11.0%. Over the trailing five years, the Fund's 2.0% return slightly trailed the policy index return of 2.9% and ranked the Fund in the 59th percentile. The median (50%) return of the ICC Public Fund for this time period was 2.1%.

Asset Class Performance (net of fees) The Fund's US equity portfolio returned 0.3%, which underperformed the Russell 3000 Index return of 1.0%. The non-US equity portfolio returned -13.5% outpacing the MSCI ACWI Ex US return of -13.7%. The combined equity portfolio, including domestic and non-U.S., returned -4.7%, outperforming the MSCI ACWI Index return of -7.4%. Within the fixed income portfolio, the composite's return of 7.9% outperformed the Barclays Capital Aggregate return of 7.8%. The total real estate portfolio returned 6.4%% for the year. The private equity portfolio, which is valued on a lag, returned 16.9% for the year. The Fund's hedge fund portfolio returned -3.1%, outperforming the HFR Fund of Funds Index return of -5.6%.

Longer Term Performance On the following pages, a detailed analysis of the Fund's net of fee performance has been provided both on a trailing and calendar year basis.

NOTE: NEPC provides Chicago Police with quarterly economic and investment market updates and performance reviews, investment manager monitoring and selection advice, and related investment services for traditional and non-traditional asset classes. Investment performance analysis and comparisons produced by NEPC have been calculated using standard performance evaluation methodologies and are consistent with industry standards. Performance results are calculated using a time-weighted return methodology. The Board's goal of achieving market rates of returns, while mitigating unwarranted risk, is measured against appropriate benchmarks and comparative universes on a quarterly basis. Performance is measured on a most recent quarter, year-to-date, and accumulated trailing annual periods, as well as three and five year periods (full market cycle). Risk-adjusted performance on an absolute basis and a comparative basis is also measured. This review process allows the Board to evaluate and determine whether established goals and objective are being achieved. Data on traditional assets held by the Fund is provided by the Fund's custodian to NEPC. Data on alternative investments held by the Fund is provided by the investment manager to NEPC.

ANNUAL INVESTMENT RETURNS[1]

Calculations are prepared utilizing a time weighted rate of return

ANNUAL INVESTMENT RETURNS

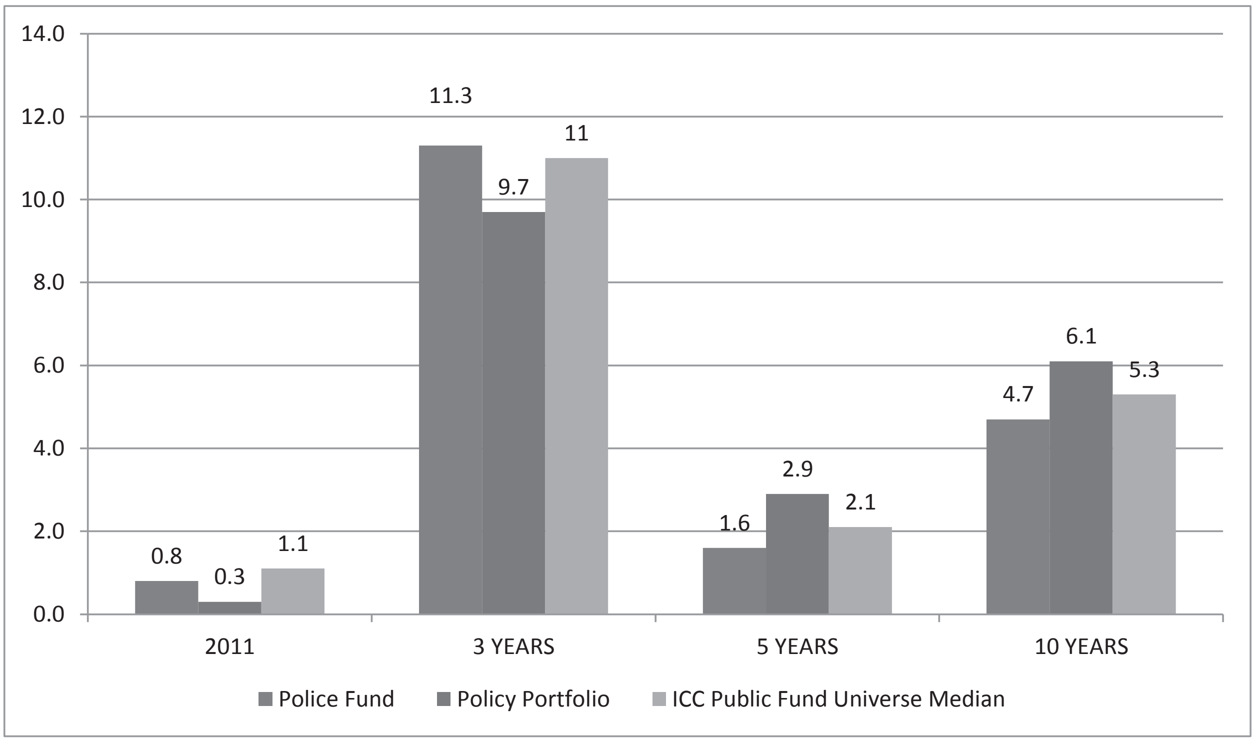
	2006	2007	2008	2009	2010	2011	*Cumulative Annualized Returns* 3 Years	5 Years	10 Years
TOTAL FUND									
Police Fund	12.1%	8.8%	-27.8%	21.5%	12.7%	0.8%	11.3%	1.6%	4.7%
Policy Portfolio	14.0	10.7	-20.9	16.6	12.8	0.3	9.7	2.9	6.1
ICC Public Funds Universe Median	13.8	8.7	-25.5	19.8	13.2	1.1	11.0	2.1	5.3
Inflation	2.5	4.1	0.1	2.7	1.4	3.1	2.5	2.3	2.6
U.S EQUITY									
Police Fund	12.2%	7.5%	-37.7%	32.9%	17.3%	0.3%	16.1%	1.0%	4.0%
DJ U.S. Total Stock Market Index	15.8	5.6	-37.2	28.6	17.5	1.1	15.2	0.2	N/A
ICC US Equity Universe Median	14.3	5.2	-37.9	28.6	19.5	-0.1	15.8	1.0	4.9
NON-U.S EQUITY									
Police Fund	23.7%	16.4%	-46.3%	40.1%	11.5%	-13.5%	10.5%	-3.3%	4.9%
Performance Benchmark	26.7	16.7	-45.5	41.4	11.2	-13.7	10.7	-2.9	6.3
ICC Non US Equity Universe Median	25.1	14.1	-44.1	36.6	10.7	-12.1	9.9	-2.6	6.9
FIXED INCOME									
Police Fund	4.6%	5.1%	-4.1%	11.7%	7.8%	7.9%	9.1%	6.1%	5.3%
Barclays Capital Aggregate Bond Index	4.3	7.0	5.2	5.9	6.5	7.8	6.8	6.5	5.8
ICC Bond Universe Median	4.4	6.5	-0.4	11.8	8.7	7.4	9.1	6.9	6.2
REAL ESTATE									
Police Fund[2]	N/A	-5.5	-11.2	-9.1	7.3	6.4	1.2	-2.7	N/A
NCREIF Net Property Index	N/A	15.8	-6.5	-16.9	13.1	16.1	-1.5	3.4	N/A
Asset Allocation									
US Stocks	45%	45%	41%	41%	42%	27%			
Non US Stocks	18%	18%	15%	18%	20%	19%			
Private Equity	4%	5%	8%	6%	7%	8%			
Fixed Income	33%	31%	30%	28%	23%	29%			
Infrastructure	--	--	<1%	1%	1%	2%			
Opportunistic	--	--	3%	3%	4%	12%			
Real Estate	<1%	2%	3%	3%	3%	4%			

[1] *All Chicago PABF performance presented net of fees. ICC universe returns are presented gross of fees*

[2] *Real Estate results are shown beginning in 2007, when the Fund's new real estate program was initiated*

ANNUAL AND CUMULATIVE RETURNS (net of fees)

As of December 31, 2011



Real Estate Investments

(Compiled by NEPC, LLC, Investment Consultant to the Fund)

2011 US Real Estate Market Review

In 2011, core real estate continued to rebound while non-core distressed properties continued to lag. US property fundamentals improved moderately, with occupancies and new rental rates generally increasing relative to 2010 but new development remained at historical lows. In the core market, capitalization rates approached peak market values, and average income yields remained strong, especially relative to high grade fixed income markets. Spreads between core real estate income yields and the five-year US Treasury were close to all-time highs. Transaction volumes returned to pre-bubble levels indicating that markets are functioning (i.e. buyers and sellers can transact). Significant capital flows, both equity and debt, moved into the core market. At year-end, open-end funds had multiple-quarter entrance queues, and US public REITs/REOCs issued $19 billion of equity in 2011. While debt was more readily available at attractive terms for stabilized core properties due to limited new supply, core properties were still viewed as valued below replacement cost.

Non-core real estate valuations continued to lag. In this segment properties remained priced 30%–40% below peak values as many owners struggled with capital structure distress. Raising equity for new funds remained difficult, with volumes still well below peak levels, and limited debt capital available from traditional sources to help restructure challenged balance sheets.

We believe that the distress in the non-core market will continue through 2012, presenting an opportunity for investors who are able to take on illiquidity. We view two broad strategies to be attractive: recapitalization (loan-to-loan) and control (loan-to-own). The recapitalization strategy provides gap financing to restructure properties, with generally a value-add type risk/return profile. The control strategy requires expertise in foreclosure, bankruptcy, restructuring, and repositioning, and has an opportunistic risk/return profile.

Chicago PABF Real Estate Portfolio Summary

As of year-end 2011, PABF's real estate portfolio had a total reported value of $124.3 million (~4.2% of total plan assets). In addition, PABF had unfunded commitments to real estate of $21.9 million bringing the total plan real estate exposure to $146.2 million (or 4.9% of total plan assets). PABF's target allocation to real estate is 5.0% of total plan assets. The real estate portfolio was split 30% in core, 19% in value-add, 28% in opportunistic, 10% in real estate debt, and 12% in REIT/REOC investments. For 2011, the return for the fund real estate allocation was 8.2%.

Core Real Estate

US core commercial real estate continued to improve in 2011. The NCREIF Property Index ("NPI") had a total gross return of 14.3% in 2011. The NCREIF Fund Index Open-End Diversified Core ("ODCE") had a total gross return of 15.0% in 2011. Core real estate continued to receive significant positive funds flow in 2011 (continuing the trend from 2010). This followed two years of exit queues (2008 and 2009) where investors were unable to redeem from open-end real estate funds. The table that follows shows the performance of PABF's core funds for 2011 relative to the NPI and ODCE. It should be noted that the UBS Trumbull Property Fund is a low leverage fund which will lag levered funds in improving markets.

Investment Fund	Vintage Year	Commit-ment	Fund 2011 Return	NPI Gross 2011 Return	ODCE Net 2011 Return
Prime Property Fund	2006	$13.5	15.2%	14.3%	15.0%
Prudential PRISA I	2007	$13.7	16.6%	14.3%	15.0%
Quadrant Fund	2006	$12.1	10.6%	14.3%	15.0%
UBS Trumbull Property Fund	2006	$14.0	10.6%	14.3%	15.0%

Note: commitment in millions.

Value-Add Real Estate

The table below shows the performance of PABF's value-add real estate funds for 2011 and since inception relative to the applicable vintage year index benchmark. The AG Core Plus Realty Fund II is included with the value-add investments for lack of an applicable benchmark.

Investment Fund	Vintage Year	Commit-ment	Fund 2011 Return	Fund Return Since Inception	Benchmark Vintage Year Return Since Inception
AG Core Plus Realty Fund II	2006	$15.0	16.3%	5.5%	(7.8%)
ABR Chesapeake Fund III	2006	$10.0	8.9%	1.6%	(7.8%)
DRA G&I Fund VI LLC	2007	$5.0	29.7%	6.1%	(4.7%)
Mesa West R.E. Inc. Fund II	2008	$20.0	15.2%	11.2%	(2.1%)
DMR Mortgage Opportunity	2009	$10.0	NA	53.7%	13.3%

Note: commitment in millions.
Note: for benchmarking purposes, we compared Fund performance to the Thomson One Value-Add/Opportunistic Real Estate Fund universe (December 31, 2011).

Opportunistic Real Estate
The table that follows shows the performance of PABF's opportunistic real estate funds for 2011 and since inception relative to the applicable vintage year index benchmark.

Investment Fund	Vintage Year	Commit-ment	Fund 2011 Return	Fund Return Since Inception	Benchmark Vintage Year Return Since Inception
DV Urban Realty Partners I	2006	$15.0	(10.4%)	(22.0%)	(7.8%)
Apollo Europe R.E. Fund III	2007	$10.0	3.0%	(4.5%)	(4.7%)
MGP Asia Fund III	2007	$10.0	21.8%	1.0%	(4.7%)
Morgan Stanley R.E. VI	2007	$11.0	5.8%	(37.2%)	(4.7%)
Shamrock Hotel Fund	2007	$5.0	(61.3%)	(43.6%)	(4.7%)
Lone Star Fund VI (U.S.)	2008	$10.0	17.0%	16.4%	(2.1%)
Lone Star R.E. Fund (U.S.)	2008	$5.0	2.7%	7.7%	(2.1%)

Note: commitment in millions.
Note: for benchmarking purposes, we compared Fund performance to the Thomson One Value-Add/Opportunistic Real Estate Fund universe (December 31, 2011).

Real Estate Securities
In 2011, the real estate securities markets had another good year following 2009 and 2010. During the year, publicly traded real estate companies, in the US alone, raised $19 billion of equity capital to continue to improve their balance sheets. The FTSE NAREIT Equity REIT Index ("FNERTR") posted a total return of 8.3% in 2011. The table below shows the performance of PABF's real estate securities fund performance for 2011 compared to the FTSE NAREIT Equity REIT Total Return Index.

Investment Fund	Vintage Year	Commit-ment	Fund 2011 Return	FNERTR 2011 Return
EII World Fund	2008	$10.0	(5.1%)	8.3%
ING Clarion Global RE Securities	2008	$20.0	(5.5%)	8.3%

Note: commitment in millions.
Note: FNERTR is the FTSE NAREIT Equity REIT Total Return Index.

Largest Stock Holdings as of December 31, 2011

	Shares	Stocks	Fair Value
1	6,891,926	HARBOURVEST GL PVT EQUITY 'A' SHARES	$ 48,932,675
2	35,780	APPLE INC COM STK	14,490,900
3	168,275	EXXON MOBIL COPR COM	14,262,989
4	378,340	KRAFT FOODS INC CL A	14,134,782
5	187,205	NESTLE SA CHFO	10,810,683
6	96,500	CHEVRON CORP COM	10,267,600
7	15,870	GOOGLE INC CL A	10,250,433
8	572,070	GENERAL ELECTRIC CO	10,245,774
9	155,688	QUALCOMM INC COM	8,516,134
10	434,820	CISCO SYSTEMS INC	7,861,546

Largest Bond Holdings as of December 31, 2011

	Par	Bonds	Fair Value
1	35,000,000	FNMA SINGLE FAMILY MORTGAGE 4% 30 YEARS	$ 36,766,415
2	15,163,000	UNITED STATES TREAS NTS 11.875% DUE 12-31-2016 REG	15,190,248
3	12,075,000	UNITED STATES TREAS NTS 1.375 DUE 5-15-2013	12,266,497
4	9,300,000	GNMA I SINGLE FAMILY MORTGAGE 4% 30 YEARS SETTLES JAN	9,975,701
5	9,743,000	UNITED STATES TREAS NTS 1% DUE 10-31-2016	9,837,390
6	7,800,000	FNMA 30 YR-PASS-THROUGHS 5.5 YEARS SETTLES JAN	8,493,467
7	7,675,000	UNITED STATES TREAS NTS 2.375 DUE 7-31-2017 REG	8,248,829
8	7,300,000	UNITED STATES TREAS NTS 2.5% DUE 4/30/2015 REG	7,790,472
9	5,275,000	UNITED STATES TREAS BDS 4.375% DUE 2-15-2038 REG	6,819,583
10	4,075,000	UNITED STATES TREAS BDS 6.25% DUE 8-15-2023 REG	5,832,344

A complete list of portfolio holdings is available upon request.

Commissions Paid by Investment Managers in 2011

Manager	Total Number of Trades	Total Number of Shares	Total Commissions
Ariel Capital Management	516	2,201,600	$ 70,472
Artisan Partners	2,216	9,946,651	129,725
Attucks Asset Management	1,122	2,381,824	22,704
Capital Guardian Trust Co.	1,571	18,075,319	114,655
Channing Capital	195	1,151,700	20,221
Chicago Equity Partners	1,508	7,923,120	172,357
Denali Advisor	549	1,504,517	24,716
Great Lakes Advisors	121	764,544	26,759
Holland Capital Management	152	392,100	10,204
ING Clarion Real Estate	1,370	1,232,247	7,694
JP Morgan Global Asset Management	387	5,913,214	51,910
McKinley Capital Management	1,180	24,354,021	222,159
Montag & Caldwell	320	4,009,748	124,755
Piedmont Investment	308	2,101,610	59,122
UBS Global Asset Management	490	14,868,576	149,001
UBS US Equity Fund	1,797	7,749,442	237,042
William Blair & Company	4,078	21,556,346	371,526
	17,880	**126,126,579**	**$ 1,815,023**

Commissions Paid to Brokers in 2011

Broker	Total Number of Shares	Total Commissions
Loop Capital Markets	3,680,473	$ 102,863
Credit Suisse	8,933,859	97,131
Merrill Lynch	8,608,123	90,654
JP Morgan Securities	10,013,711	85,543
Mr. Beal and Company	2,589,406	73,881
G-Trade Services Ltd	7,566,197	72,550
Goldman Sachs & Co	6,044,710	71,416
Morgan Stanley	4,721,017	71,335
Cabrera Capital Markets	4,957,912	70,228
Citigroup Global Markets	7,522,444	59,760
Investment Technology Group	3,985,556	55,150
UBS	4,781,143	52,746
Deutsche Bank	2,972,779	48,580
Gardner Rich & Co.	1,450,086	45,991
BNY ESI Securities	1,107,569	42,711
Cheuvreux De Virieu Paris	2,093,159	34,330
Liquidnet Inc	3,834,775	32,475
Castleoak Securities Inc.	4,194,906	29,967
Williams Capital Group LP	94,466	29,967
Instinet	1,724,907	29,756
Bear Sterns	812,325	27,061
Barclays Capital	2,704,920	26,360
Melvin Securities	810,265	24,390
Nomura Securities	2,430,276	24,341
Cheevers & Co.	682,557	24,151
Pershing LLC	2,320,025	19,890
Macquarie Securities	2,443,421	19,460
Jefferies & Co.	542,143	18,394
Weeden and Company	478,239	17,875
HSBC	939,087	15,739
Goldman Executing & Clearing	514,017	15,343
CLSA Securities	1,049,124	13,203
Societe Generale	313,729	10,887
ABN Amro	1,521,878	10,791
Raymond James	321,598	9,942
Exane Paris	376,875	11,112
Redburn Partners LP	243,784	9,598
	486,429	8,851

Credit Agricole Securities	1,646,575	8,753
Robert W Baird & Co.	237,133	8,681
Citation Group	236,345	8,482
Bernstein, Sanford & Co	406,219	8,158
Blaylock and Company Inc.	215,027	7,831
Daiwa Secs	733,616	7,648
ISI Group Inc.	200,955	7,046
Brokers with less than $7,000 in commissions	12,959,754	265,309
Totals	**126,126,579**	**$ 1,815,023**

Investment Summary
as of 12/31/11

Investment Type	Fair Value	Percent of Total Fair Value
Fixed Income		
Government Bonds	$ 371,075,296	12.0%
Corporate Bonds	254,881,962	8.2%
Total Bonds:	625,957,258	20.2%
Fixed Income Funds	376,262,936	12.1%
Total Fixed Income:	1,002,220,194	32.4%
Equities		
U.S. Equities	764,633,977	24.7%
International Equities	554,553,306	17.9%
Stock Index Funds	185,334,306	6.0%
Total Equities:	1,504,521,589	48.6%
Other Investments		
Hedge Fund-of-Funds	79,205,339	2.6%
Infrastructure	42,980,775	1.4%
Real Estate	120,609,791	3.9%
Swaps	1,673,338	0.1%
Forward Contracts	9,570,276	0.3%
Venture Capital	197,576,112	6.4%
Total Other:	451,615,631	14.6%
Short-term funds and Cash:	136,445,651	4.4%
Total Assets at Fair Value:	$ 3,094,803,065	100.0%

Actuarial Section

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

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

312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

April 30, 2012

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, 2011

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, 2011. This valuation has been performed to measure the funded status of the Fund and to determine the contribution levels for 2012. In addition, it includes disclosure information required under GASB Statement No. 25, Statement No. 27, Statement No. 43, and Statement No. 45. The assumptions and methods used were recommended by the actuary and approved by the Board and meet the parameters set for the disclosure presented in the financial section by GASB Statement No. 25 and GASB Statement No. 43. 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
- Prioritized 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. In each future fiscal year, gains and losses will be phased in over a five year period.

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.

Plan Provisions — The actuarial valuation is based on plan provisions in effect as of December 31, 2011.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of the Fund when due. State Law currently 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 an employer to employee contribution ratio of 5.71:1 is needed to meet the actuarially determined contribution requirement.

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

Lance J. Weiss

Alex Rivera, F.S.A., E.A., M.A.A.A.	Lance Weiss, E.A., F.C.A, M.A.A.A
Senior Consultant	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 Normal 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, 2009, and were based on an experience study for the period January 1, 2003, to December 31, 2008.

A. Demographic Assumptions

Mortality: 1994 Group Annuity Mortality Table. The mortality table used is a static table and provides an estimated margin of 25 percent, based on the postretirement experience from 2003 through 2008, for future mortality improvement.

Disabled Mortality: 1994 Group Annuity Mortality Table set forward six years.

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	.0003
27	.0006
32	.0012
37	.0015
42	.0020
47	.0045
52	.0050
57	.0060
62	.0060

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

Duty Disability	45%
Occupational Disease Disability	15%
Ordinary Disability	40%

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

For members hired before January 1, 2011:

Attained Age	Rate [1]
49	.00
50	.08
51	.08
52	.08
53	.08
54	.15
55	.15
56	.15
57	.15
58	.15
59	.15
60	.25
61	.30
62	.35
63	1.00

For members hired on or after January 1, 2011:

Attained Age	Rate [1]
49	.00
50	.02
51	.02
52	.02
53	.02
54	.08
55	.17
56	.17
57	.17
58	.17
59	.17
60	.25
61	.30
62	.35
63	1.00

[1] Only for members eligible for a formula annuity.

Turnover Rates: The following sample rates exemplify the table:

Years of Service	Rate
0	0.028
1	0.022
2	0.014
3	0.013
4-9	0.012
10	0.011
11	0.010
12	0.009
13	0.008
14	0.007
15	0.006
16	0.005
17-25	0.004

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.

General Inflation: The 8.00% Investment Return Rate assumption contains a 3.00% inflation assumption and a 5.00% real rate of return assumption for pension.

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

Completed Years of Service*	Scale
1	0.250
2	0.060
3	0.050
4	0.050
5	0.040
6-9	0.000
10	0.035
11-14	0.000
15	0.035
16-19	0.000
20	0.035
21-24	0.000
25	0.035
Over 25	0.000

* Includes increases at 12 and 18 months of service.

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)
2009	13,154	(1.6)	1,011,205,359	(1.2)	76,874	0.4	5.50	2.5
2010	12,737	(3.2)	1,048,084,301	3.6	82,287	7.0	5.50	1.2
2011	12,236	(3.9)	1,034,403,526	(1.3)	84,538	2.7	5.50	2.1
Average Increase (Decrease) for the last 5 years:		**(2.3)%**		**0.4 %**		**2.8 %**		**2.7 %**

[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 $1,034,403,526 current year salary, $36,784,720 is duty availability pay.

Summary of Changes in Active Participants
For Fiscal Year Ending December 31, 2011

	Male	Female	Total
Number of Participants at Beginning of Fiscal Year	**9,636**	**3,101**	**12,737**
Increases:			
Participants Added During Year	38	13	51
Participants Returning From Inactive or Disability Status	17	5	22
Totals	9,691	3,119	12,810
Decreases:			
Terminations During Year	421	153	574
Number of Participants at End of Fiscal Year	**9,270**	**2,966**	**12,236**
Total Inactive Participants			**624**
Terminations:			
Withdrawal (With Refunds)	6	6	12
Withdrawal (Without Refunds)	65	21	86
Ordinary Disability Benefit	12	7	19
Occupational Disease Disability Benefit	2	0	2
Duty Disability Benefit	9	3	12
Retirements	313	112	425
Deaths (Occupational)	1	0	1
Deaths (Non-occupational)	13	4	17
Totals	**421**	**153**	**574**

SUMMARY OF CHANGES IN ANNUITANTS AND BENEFICIARIES FOR FISCAL YEAR ENDING DECEMBER 31, 2011

	Number at Beginning of Year	Additions During Year	Terminations During Year	Number at End of Year
Service Retirement Annuities	8,495	500	232	8,763
Widow Annuities	3,079	144	132	3,091
Children's Annuities	222	18	26	214
Ordinary Disability Benefit (Non-Occupational)	37	22	16	43
Occupational Disease Disability Benefit	40	4	8	36
Duty Disability Benefit (Occupational)	284	19	33	270
Children's Disability Benefit	155	33	12	176
Widows' Compensation Annuities (Service Connected Death)	69	1	0	70
Totals	**12,381**	**741**	**459**	**12,663**
Annual Benefits	**$ 528,223,948**	**$ 49,577,580**	**$ 15,414,732**	**$ 562,386,796**

POLICEMEN'S ANNUITY AND BENEFIT FUND
TOTAL ANNUITANTS AND BENEFICIARIES (LAST SEVEN YEARS)

	Annuitants & Beneficiaries Beginning of Year	Additions During The Year	Terminations During The Year	Annuitants & Beneficiaries at Year-end	Average Annuitants & Beneficiaries
2005	11,808	676	485	11,999	11,904
2006	11,999	542	515	12,026	12,013
2007	12,026	627	518	12,135	12,081
2008	12,135	603	555	12,183	12,159
2009	12,183	476	505	12,154	12,169
2010	12,154	803	576	12,381	12,268
2011	12,381	741	459	12,663	12,522

Policemen's Annuity and Benefit Fund
Actuarial Accrued Liability Prioritized Solvency Test

Valuation Date 12/31	(1) Active and Inactive Member Contribution	(2) Retirees and Beneficiaries	(3) Active and Inactive Members (ER Financed Portion)	Actuarial Value of Assets	Portion (%) of Present Value Covered By Assets (1)	(2)	(3)
1996	$ 717,890,959	$ 2,150,952,000	$ 1,498,186,586	$ 2,599,760,692	100.00%	87.49%	0.00%
1997	750,341,108	2,333,523,000	1,525,303,810	2,896,754,452	100.00%	91.98%	0.00%
1998 [1,2]	777,205,937	2,690,216,494	1,690,773,788	3,249,729,847	100.00%	91.91%	0.00%
1999	763,729,532	2,939,332,536	1,691,810,150	3,685,681,671	100.00%	99.41%	0.00%
2000 [1]	818,382,556	3,228,954,418	1,604,693,684	4,019,467,561	100.00%	99.14%	0.00%
2001 [2]	803,453,930	3,463,944,097	1,665,112,602	4,183,796,025	100.00%	97.59%	0.00%
2002	846,622,627	3,769,125,439	1,769,097,893	4,124,579,960	100.00%	86.97%	0.00%
2003 [1,2]	893,425,839	3,856,262,804	1,831,744,607	4,039,695,590	100.00%	81.59%	0.00%
2004 [2]	910,480,098	4,313,531,046	1,810,260,330	3,933,031,342	100.00%	70.07%	0.00%
2005 [1,2]	950,764,942	4,677,632,909	2,094,339,296	3,914,431,654	100.00%	63.36%	0.00%
2006	1,016,217,810	4,858,554,051	2,241,771,313	3,997,990,919	100.00%	61.37%	0.00%
2007	1,082,742,927	5,006,931,293	2,309,718,259	4,231,681,817	100.00%	62.89%	0.00%
2008	1,144,380,257	5,208,199,833	2,299,966,099	4,093,719,894	100.00%	56.63%	0.00%
2009 [1]	1,217,645,647	5,391,373,730	2,291,882,108	3,884,978,241	100.00%	49.47%	0.00%
2010	1,251,147,487	5,717,654,520	2,406,050,870	3,718,954,539	100.00%	43.16%	0.00%
2011	1,286,345,939	6,041,684,411	2,360,319,555	3,444,690,362	100.00%	35.72%	0.00%

[1]Change in actuarial assumptions.
[2]Change in benefits.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
DEVELOPMENT OF ANNUAL REQUIRED
CONTRIBUTION UNDER GASB #25 AND GASB #43 FOR 2012 [1]

	Pension	Health Ins. Supplement	Total
(1) Normal Cost (see Table 2)	$ 173,599,191	$ 4,311,802	$ 177,910,993
(2) Actuarial Accrued Liability (AAL)	$ 9,522,395,036	$ 165,954,869	$ 9,688,349,905
(3) Unfunded AAL (UAAL)			
(a) Actuarial Value of Assets	$ 3,444,690,362	$ 0	$ 3,444,690,362
(b) UAAL (2-3(a))	6,077,704,674	165,954,869	6,243,659,543
(4) Amortization Payable at Beginning of Year [2]	$ 332,163,023	$ 5,925,123	$ 338,088,146
(5) Estimated Member Contributions	$ 95,307,068	$ 0	$ 95,307,068
(6) Annual Required Contribution (ARC) for 2012			
(a) Interest Adjustment for Semimonthly Payment	20,555,027	236,553	20,791,580
(b) Annual Required Contribution (1 + 4 - 5 + 6(a))	$ 431,010,173	$ 10,473,478	$ 441,483,651
(c) Annual Required Contribution (Percent of Pay)	41.67%	1.01%	42.68%
(7) Estimated City Contribution for 2012	$ 204,584,726	$ 9,510,274 [3]	$ 214,095,000
(8) Estimated Deficiency/(Excess) for 2012			
(a) in Dollars (6(b)-7)	$ 226,425,447	$ 963,204	$ 227,388,651
(b) as a Percentage of Pay	21.89%	0.09%	21.98%

[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 2012.

POLICEMEN'S ANNUITY AND BENEFIT FUND
SUMMARY OF BASIC ACTUARIAL VALUES

UNFUNDED ACTUARIAL ACCRUED LIABILITY - BEGINNING OF 2011		
(1)	Actuarial Accrued Liability - 12/31/2010	$9,374,852,877
(2)	Assets at Book Value - 12/31/2010	3,159,704,269
(3)	Unfunded Accrued Actuarial Liability - 12/31/2010	$6,215,148,608
EXPECTED UNFUNDED ACTUARIAL ACCRUED LIABILITY - END OF 2011		
(4)	Normal Cost for 2011	$ 184,141,415
(5)	Total Contributions for 2011	281,848,251
(6)	Interest on (3), (4), & (5) at Valuation Rates	495,126,554
(7)	Expected Unfunded Actuarial Accrued Liability - 12/31/2011 ((3)+(4)-(5)+(6))	$6,612,568,326
DEVIATIONS FROM EXPECTED		
(8)	(Gain)/Loss on Investment Return (Book Value)	$33,901,883
(9)	(Gain)/Loss from Salary Changes	(57,363,388)
(10)	(Gain)/Loss from Retirement	26,087,803
(11)	(Gain)/Loss from Turnover	(194,142)
(12)	(Gain)/Loss from Mortality	(4,742,046)
(13)	(Gain)/Loss from Disability	(4,031,057)
(14)	(Gain)/Loss from adjustments to Retroactive Benefits	11,274,900
(15)	(Gain)/Loss from New Entrants	2,432,847
(16)	(Gain)/Loss from All Other Sources	(5,194,313)
(17)	Composite Actuarial (Gain)/Loss	$2,172,487
(18)	(Gain)/Loss as a percentage of Expected UAAL ((17)/(7))	0.0%
UNFUNDED ACTUARIAL ACCRUED LIABILITY - END OF 2011		
(19)	Unfunded Accrued Actuarial Liability - 12/31/2011 ((7)+(17))	$6,614,740,813

POLICEMEN'S ANNUITY AND BENEFIT FUND
SUMMARY OF BASIC ACTUARIAL VALUES

	APV of Projected Benefits	Actuarial Accrued Liability (AAL)
(1) Values for Active Members		
(a) Retirement	$4,910,611,587	$3,440,353,205
(b) Termination	66,403,842	7,386,676
(c) Disability	353,249,110	148,274,817
(d) Death	86,691,102	22,794,582
Total for Actives	$5,416,955,641	$3,618,809,280
(2) Values for Inactive Members		
(a) Retired	5,278,829,776	5,278,829,776
(b) Survivor	491,596,433	491,596,433
(c) Disability	262,140,423	262,140,423
(d) Inactive (Deferred Vested)	27,856,214	27,856,214
(e) Children	9,117,779	9,117,779
Total for Inactives	6,069,540,625	6,069,540,625
(3) Grand Totals	$11,486,496,266	$9,688,349,905
(4) Normal Cost for Active Members	$ 177,910,993	
(5) Actuarial Present Value of Future Compensation	$10,784,482,502	

POLICEMEN'S ANNUITY AND BENEFIT FUND
SCHEDULE OF RETIRED MEMBERS BY TYPES OF BENEFITS AND MONTHLY BENEFIT LEVELS

	Retirement		Disability		Widow[1]		Child[2]		Totals	
Years	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Under $100	7	1				2			**7**	**3**
$100 to under $250	11	3					115	74	**126**	**77**
$250 to under $500	20	7				1	54	40	**74**	**48**
$500 to under $750	19	1			1	1	44	43	**64**	**45**
$750 to under $1,000	2	2					11	8	**13**	**10**
$1,000 to under $2,000	179	34			39	2,479	1		**219**	**2,513**
$2,000 to under $3,000	561	61	4		4	503			**569**	**564**
$3,000 to under $4,000	1,573	326	65	34		56			**1,638**	**416**
$4,000 to under $5,000	2,318	231	150	40	1	27			**2,469**	**298**
$5,000 to under $6,000	2,250	174	37	11	2	36			**2,289**	**221**
$6,000 to under $7,000	621	42	4			6			**625**	**48**
$7,000 to under $8,000	174	14							**174**	**14**
$8,000 to under $9,000	43	5				1			**43**	**6**
$9,000 to under $10,000	54	6				1			**54**	**7**
$10,000 and over	24		2	2		1			**26**	**3**
Totals:	**7,856**	**907**	**262**	**87**	**47**	**3,114**	**225**	**165**	**8,390**	**4,273**

[1] *Includes reversionary.*
[2] *Children's Disability Benefit not tracked before 1993.*

SCHEDULE OF AVERAGE BENEFIT PAYMENTS FOR NEW ANNUITIES GRANTED IN 2011

Years of Service:	0-9	10-14	15-19	20-24	25-29	30-34	>= 35	Total
Number of Retired Members	1	8	16	95	175	103	102	**500**
Average annual salary [4 out of 10]	$18,730	$76,848	$70,140	$82,778	$92,829	$93,780	$98,280	**$91,097**
Average Monthly Benefit	390	$2,158	$2,728	$3,949	$5,497	$5,861	$6,142	**$5,257**

Policemen's Annuity and Benefit Fund of Chicago
Summary of Principal Eligibility And Benefit Provisions
as of December 31, 2011

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. *For participants that first became members on or after January 1, 2011, attainment of age 55 with at least 10 years of service. Participants may retire at attainment of age 50 with 10 years of service with a reduced benefit.*
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 or receiving a mandatory retirement minimum annuity, 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%.

For participants that first became members on or after January 1, 2011, increases are equal to the lesser of 3.00 percent and 50 percent of CPI-U of the original benefit, commencing at age 60.

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.

For participants that first became members on or after January 1, 2011, the member is entitled to an annuity based on an accrual rate of 2.5 percent of the final average salary for each fraction of service. Maximum is 75 percent of the final average salary. Final average salary is calculated using salary from the eight highest consecutive years within the last 10 years of service prior to retirement. Pensionable salary is limited to $106,800 in 2011, increased by the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12-month period ending with the September preceding the November 1, which is the date that the new amount will be calculated and made available to the pension funds.

For participants that first became members on or after January 1, 2011, who retire after age 50 but before age 55 is attained, the member is entitled to an annuity based on an accrual rate of 2.5 percent of the final average salary for each fraction of service, reduced by one half of one percent per month for retirement prior to age 55, subject to a maximum benefit of 75 percent.

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-purchase 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.

For participants that first became members on or after January 1, 2011, widow benefits are equal to 66-2/3 percent of the officer's earned annuity at the date of death. Automatic increases to the annuity are equal to the lesser of 3.00 percent and 50 percent of CPI-U, commencing when the survivor reaches age 60, and applied to the original granted retirement annuity.

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 or occupational 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% 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
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%
2009	95,614,390	180,510,851	567,314,823	844,239,428	17.85%
2010	108,402,353	183,834,639	369,558,055	661,815,078	17.54%
2011	98,222,258	183,521,528	33,656,109	315,504,361	17.51%

Year	Benefits Expenses	Administrative Expenses	Refunds	Total	Income Less Payouts
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)
2009	508,515,984	4,303,599	6,193,872	519,013,455	325,225,973
2010	536,244,720	3,924,928	7,587,436	548,197,135	113,617,943
2011	567,968,186	3,895,731	7,337,234	579,664,377	(264,160,016)

(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
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
2009	417,879,734	56,616,500	1,326,895	21,803,624	1,622,800	9,266,431	508,515,984
2010	442,653,907	57,739,825	1,344,265	23,370,160	1,782,400	9,354,163	536,244,720
2011	472,856,232	59,935,287	1,340,422	22,184,051	1,510,800	9,591,394	567,968,186

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 *
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
2009	50,799	68	59.2	28.6
2010	53,060	68	59.1	28.1
2011	55,104	68	59.5	27.4

* *Averages for New Annuitants in 2011.*

RETIREES AND BENEFICIARIES BY TYPE OF BENEFIT

Years	ANNUITANTS Employee	Spouse[1]	Child	DISABILITY Ordinary	Duty	Occup.	Child[2]	Widow Comp.	Total
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
2009	8,227	3,111	232	44	284	52	138	66	12,154
2010	8,495	3,079	222	37	284	40	155	69	12,381
2011	8,763	3,091	214	43	270	36	176	70	12,663

1) Includes reversionary.

2) New benefit classification enacted by law in 1995.

Schedule of Active Member Data - Last 10 Years

Year	Number of Members at Year End	Annual Average Salary	% Increase in Average Salary
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%
2009	13,154	76,874	0.4%
2010	12,737	82,287	7.0%
2011	**12,236**	**84,538**	**2.7%**

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
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
2009	8,227	50,799	4,233	59.2	68	28.6
2010	8,495	53,060	4,422	59.1	68	28.1
2011	**8,763**	**55,104**	**4,592**	**59.5**	**68**	**27.4**

Schedule of Widow Annuitants - Last 10 Years

Year	Number at Year End	Average Annual Benefit	% Increase in Average Benefit
2002	3,092	12,965	--%
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%
2009	3,111	17,159	1.0%
2010	3,079	17,415	1.5%
2011	**3,091**	**17,898**	**2.8%**

Schedule of Children's Annuities - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2002	235	4,490	--%
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	1.8%
2009	232	5,749	2.4%
2010	222	5,683	(1.1)%
2011	**214**	**5,992**	**5.4%**

Schedule of Ordinary Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
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%
2009	44	38,081	1.8%
2010	37	40,665	6.8%
2011	**43**	**41,864**	**2.9%**

Schedule of Duty Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2002	289	41,350	--%
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%
2009	284	49,842	2.4%
2010	284	52,822	6.0%
2011	**270**	**54,703**	**3.6%**

Schedule of Occupational Disease Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2002	103	40,360	--%
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%
2009	52	46,427	1.9%
2010	40	48,439	4.3%
2011	**36**	**49,341**	**1.9%**

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

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2002	150	1,540	--%
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%
2009	138	1,200	0%
2010	155	1,200	0%
2011	**176**	**1,200**	**0%**

NOTE: Child disability benefits are $100 per month.

Schedule of Widow's Compensation Annuities - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2002	59	46,130	--%
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%
2009	66	56,596	2.2%
2010	69	57,529	1.6%
2011	**70**	**61,122**	**6.2%**

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