POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO, ILLINOIS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

a Component Unit of the City of Chicago

for the years ended December 31, 2014 and 2013

Comprehensive Annual Financial Report

Policemen's Annuity and Benefit Fund

A Component Unit
of the City of Chicago
for the years ended
December 31, 2014
and 2013

Prepared by

Regina Tuczak
Executive Director

James A. Dollard
Comptroller

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Government Finance Officers Association

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, 2013

Executive Director/CEO

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

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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, 2014. 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 information is accurate in all material respects and is 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, sworn or designated by law as a peace officer, is generally included in 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 effective July 1, 1922, with the mission of providing retirement benefits to the sworn police members of the Chicago Police Department, their spouses and children. 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 one member from the retired members and their spouses. 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, engaging a certified independent public accountant to conduct an annual audit on the financial results each year and engaging an actuary to perform an annual actuarial valuation of the Fund. Annually, the Fund files financial statements and an actuarial valuation with the State of Illinois Department of Insurance and the City of Chicago, along with other governmental entities as requested. A summary of plan provisions overseen by the Retirement Board, as prescribed in the state statutes, 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 a summary Fund 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. Because the cost of internal control should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements. 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, 2014 and 2013, 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 contributions). The Fund's net position held in trust actually decreased by approximately $203 million from December 31, 2014 to December 31, 2013. The Fund's investments returned 6.24%, which reflects a solid performance relative to the limited opportunities in the 2014 markets. However, the reduction in the net position of the Fund reflects the effects of underfunding on the Fund's operations. During 2014, the Fund liquidated over $300 million in assets, as contributions from members and the employer are significantly less than benefits paid to members.

The Fund's assets are diversified in several ways, which minimizes the potential for overexposure to individual investments and provides a broad opportunity set for the portfolio, while trying to minimize risk. The Fund has approximately 42 professional investment management firms investing on behalf of the Fund. These firms make investment decisions under the Prudent Person Rule authorized by State statutes and the Investment Policy guidelines adopted by the Board of Trustees. The Board also employs 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.

In 2014, the Fund hired three new fixed income investment manager firms, which will provide new allocations in global multi sector, unconstrained and absolute return fixed income products. These new mandates did replace two managers that held core fixed income products.

Economic Condition and Outlook

Since the great financial crisis of 2008, the Fund has enjoyed sound performance gains, earning +11.2% net, annualized. Despite these gains, obligations have impacted the asset base and it has yet to reach pre-crisis levels of over $4 billion. Given the experience of the last six years, the Board of Trustees and the Fund's investment consultant have taken strides to structure the portfolio utilizing a broadly diversified asset allocation. As a result, 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. However, a significant correction in the capital markets, like another 2008, would negatively impact all investments, including the Fund's assets in a very meaningful way.

Funding Status

In 2014, the Fund's actuary, Gabriel, Roeder, Smith and Company completed a review of economic and demographic experience for the Fund, based on data submitted from plan years 2009 through 2013. As a result of this review, several actuarial assumptions were changed in 2014. Most notably the investment return assumption was changed from 7.75% at December 31, 2013, to 7.5% at December 31, 2014, and mortality tables for pre-retirement, post-retirement healthy and disability members were updated to reflect more current longevity tables. These changes increased actuarial liabilities by over $500 million.

In addition to the assumption changes, the Fund adopted GASB Number 67 for the year ended December 31, 2014. The accounting changes relating to this GASB are presented in the notes and required supplementary information to the financial statements. In summary, this accounting standard requires that projected benefit payments be disclosed to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate. Using this methodology, for accounting purposes, the Fund's single discount rate is 7.15% at December 31, 2014, and 7.56% at December 31, 2013. The funded ratios, for accounting purposes, were 26.0% and 30.8% at December 31, 2014, and 2013, respectively.

For purposes of funding, the actuarial value of assets and liabilities was $2,954,318,954 and $11,048,192,187, respectively, at December 31, 2014. The funded ratio, for purposes of calculating the statutory contribution, declined from 30.29% at December 31, 2013, to 26.74% at December 31, 2014.

The employer contribution requirement (tax multiplier) since 1982 has remained constant at 2.00 times the employee contributions received two years prior. In 2014, the Fund recognized an employer contribution of approximately $187,000,000, representing that tax multiplier requirement. In late 2010, legislation was signed into law which requires actuarially-determined employer contributions. This legislation, which is effective with the City of Chicago tax levy beginning in 2015, mandates that the Fund be 90% funded by 2040. The funding ratio considers the fair value of the Fund's assets and application of certain required actuarial assumptions and methodologies. Based upon this legislative requirement, the Fund submitted a 2015 tax levy request of $592,853,325 to the employer, the City of Chicago. The 2016 tax levy request is expected to increase to $675,825,755. Such contributions from the employer will provide significant sources of funding to the Fund's benefit obligations. The tax levy requests have been prepared by the Fund's actuary based upon legislation effective at December 31, 2014.

The Budget Process

The Fund's budget is prepared through a process that originated in 1975. 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 0.6% of the total deductions from plan assets in both 2014 and 2013. Any increases in administrative expenses are carefully reviewed by the Board of Trustees, both during the annual budget process, and at each monthly Board of Trustee meeting. At each monthly meeting, cumulative administrative expenses are compared to budget allocations. Anticipated expenditures are detailed to the Board of Trustees monthly and approved at each meeting.

Major Initiatives and Developments

The Fund welcomed approximately 338 new members in 2014, including some members returning from disability status. This compares to 607 new members in 2013. Approximately 350 and 406 members retired in 2014 and 2013, respectively. Additionally, the Fund has approximately 1,318 and 1,042 Tier 2 members at December 31, 2014, and 2013, respectively. Tier 1 members continue to decline with retirements, as such members were 11,119 and 10,702 at December 31, 2013 and 2014, respectively. The Fund continues to strive for customer service excellence by improving the operational efficiencies and service delivery to the membership. The Fund has a pension administration system which is used to calculate member benefits. In an effort to contain administrative costs, no significant developments were made to the system in 2014, however, integration of the pension administrative system with historical benefit payment information is expected to become functional in 2015.

In 2014, employment contracts between the City of Chicago and collective bargaining groups for various ranks within the Chicago Police Department were finalized, with retroactive salary increases dating back to July 1, 2012. The Fund's staff will be recalculating any benefits awarded to members from 2012 through 2014, which are impacted by the salary changes. The Fund's staff expects to communicate and pay any revised benefit awards to applicable members in 2015.

The Fund also continues to develop and enhance its website, located at www.chipabf.org. The website includes the online estimate program for active members, information regarding service purchases, electronic copies of the Fund's newsletter, information on scheduled meetings of the Board of Trustees, and other important updates.

Professional Services

The Fund's actuarial valuation, along with other actuarial services, are provided by Gabriel, Roeder, Smith & Company. The annual audit of the financial statements is performed 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, 2013. In order to be awarded a Certificate of Achievement, a government award 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. Gratitude is also extended to the financial reporting and accounting staff that has compiled this report. Over the past four years, the Fund has processed over 1,800 retirement applications and benefits. These are very significant levels of retirements for the Fund and accuracy and efficiency are of utmost importance to the staff as benefits are processed for the hardworking members of this Fund.

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,

Regina Tuczak
Executive Director
June 25, 2015

RETIREMENT BOARD MEMBERS AND OFFICE STAFF

December 31, 2014

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
Acadian Asset Management, LLC
Adams Street Partners
Aetos Capital LLC
AG Realty
Apollo Real Estate Advisors
Artisan Partners
Blackrock Asset Management
CBRE Clarion Securities
The Carlyle Group Dearborn Partners
Denali Advisors
DRA Advisors LLC
Earnest Partners, LLC
European Investors Inc.
Fisher Investments
Global Infrastructure Partners
Grantham, Mayo, Van Otterloo & Co., LLC
Great Lakes Advisors
HarbourVest Partners, LLC
Invesco Capital Management
K2 Advisors
LM Capital Group
Lazard Asset Management, LLC
Lone Star Funds
Mesa West Capital
Mesirow Financial
Montag & Caldwell
Morgan Stanley Real Estate
Muller & Monroe
Newport Capital Partners, LLC
Northern Trust Global Investments
Oaktree Capital Management
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

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Brian E. Wright, Vice-President
James P. Maloney, Recording Secretary and Investment Committee Chairman
Juan Carlos Avila, Trustee
Carol L. Hamburger, Trustee
Michael K. Lappe, Trustee
Lois A. Scott, Trustee
Kurt A. Summers, Jr., Trustee

EXECUTIVE DIRECTOR
Regina Tuczak, CPA

ACTING CHIEF INVESTMENT OFFICER
James P. Maloney

PROFESSIONAL CONSULTANTS
Legal Advisor
Medical Advisor
Investment Consultants
Consulting Actuary
Auditor
Master Custodian
Investment Managers

COMPTROLLER
James A. Dollard, CPA

ASSISTANT COMPTROLLER
Pacifico V. Panaligan, CPA

BENEFIT CALCULATIONS	BENEFIT CLAIMS	BENEFIT COUNSELING	BENEFIT DISBURSEMENTS
Gladys Bernal	Kay Hylton		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 75) and the Investment Section (pages 78 to 96).

Financial Section

Mitchell & Titus
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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of Policemen's Annuity and Benefit Fund of Chicago (the Fund), a component unit of the City of Chicago, which comprise the statements of fiduciary net position as of December 31, 2014 and 2013, and the related statements of changes in net fiduciary position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund at December 31, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

Mitchell & Titus

Adoption of GASB Statement No. 67

As discussed in Note 1 to the financial statements, the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, in 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles 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 the Governmental Accounting Standards Board, which 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, 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.

Supplementary and Other Information

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

The information included in the introductory section, the investment section, the actuarial section, and the statistical section as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Mitchell & Titus, LLP

June 24, 2015

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:

- **Statements of Fiduciary Net Position** report the Fund's assets, liabilities, and the resultant net position where assets minus liabilities equal net position held in trust for pension benefits at the end of the year.
- **Statements of Changes in Fiduciary Net Position** show the sources and uses of funds during the calendar year, where additions minus deductions equal the net increase or decrease in net position held in trust for pension benefits for the year.
- **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 required supplementary information includes data on the employer's net pension liability and changes thereof, employer's contribution and money-weighted rate of return for the pension plan; and information on funding progress and employer's contributions for the Health Insurance Supplement and Staff Retiree Health Plan; along with the other information useful in evaluating the fiduciary net position of the Fund.
- **Supplementary Information** presents the detail on costs of maintaining a defined benefit pension plan.

Financial Highlights

- The fiduciary net position of the Fund decreased by $203.2 million, or 6.2%, to $3,062.0 million at December 31, 2014. At December 31, 2013, the fiduciary net position of the Fund increased by $51.8 million, or 1.6%, to $3,265.2 million from the December 31, 2012 balance of $3,213.4 million.

- Fund investment income earned, net of investment-related expenses was approximately $180.7 million during 2014, compared to a gain of approximately $414.4 million during 2013. Despite limited opportunities in the marketplace in 2014, the Fund's investment portfolio performed well relative to its peer group of public pension funds. Asset classes with performance stronger than designated benchmarks include Fixed Income, Private Equity, Infrastructure and Real Estate. The overall positive return of 6.24% reflects improvement in U.S. Equities, as in 2014, investors sought relative safety in the marketplace by investing in U.S. Large Cap Equities, as volatility increased throughout

Financial Highlights *(continued)*

the year against the backdrop of falling oil prices and other geopolitical activity. The return, however, was offset by non-U.S. Equities which delivered a negative return on both a relative and absolute basis, which was largely due to strong U.S. dollar appreciation. From an allocation perspective, in late 2013, 9% of the total allocation was reallocated from non-U.S. Large Cap to non-U.S. Small Cap and Emerging Market Equity in order to diversify this part of the allocation.

- The Fund received contributions of $95.7 million from members and $187.1 million from the City of Chicago in 2014, compared to contributions of $93.3 million from members and $188.9 million from the City of Chicago in 2013. The number of active members decreased by 1.2% from 2013 to 2014. Despite the decrease in active members, contributions from members actually increased by 2.6%. This increase is due to a change in the mix of active members; as members with in excess of 20 years of service increased by approximately 13% from 3,041 to 3,449. Correspondingly, average salaries increased, resulting in an increase in contributions to the Fund. Additionally, retroactive wage increases were provided to all Sergeants, Lieutenants and Captains in 2014, which were reflective of new employment contracts between the City of Chicago and collective bargaining groups for the respective ranks within the City Police Department, with salary increases effective July 1, 2012. Employer contributions from the City of Chicago experienced a decline of 1.0% from 2013 to 2014. 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 2012, which had declined from the prior year.

- Benefit payments, excluding death benefits, increased by approximately $21.6 million in 2014, from $632.2 million in 2013 to $653.8 million in 2014. The number of retirees and beneficiaries increased in 2014 by 71 members, or 0.5%, thus contributing to the increase. Since January 1, 2012, the Fund has experienced approximately 1,330 retirements of active members, which has resulted in significant increases in benefits in 2012, 2013 and 2014. In 2014, over 390 active members retired, resulting in an increase in annuities of over $20 million in 2014. Also contributing to 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 increased from 2013 to 2014 by approximately $0.8 million, from $9.7 million to $10.5 million. The increase is due to a large volume of resignation refunds granted in 2014, which were $1.1 million greater than in 2013. Administrative expenses decreased in 2014 by approximately $0.1 million. The Fund's management has worked vigorously to maintain and control administrative expenses, including a reduction of $0.07 million in salaries and related benefits in 2014.

- 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, for purposes of statutory funding, experienced a decrease, from 32.4% at December 31, 2013 to 27.7% at December 31, 2014. The decrease reflects a significant increase in the actuarial liability at December 31, 2014, as compared to December 31, 2013, primarily due to a decrease in

Financial Highlights *(continued)*

the investment return assumption from 7.75% at December 31, 2013 to 7.5% at December 31, 2014, along with a change in the mortality tables used for disability, pre-retirement and post-retirement members. Additionally, in 2014, the City of Chicago completed negotiations with collective bargaining groups representing various ranks within the Chicago Police Department. The actuarial liability reflects the new salary tables.

- The Fund adopted GASB Statement No. 67, "Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25", during the year ended December 31, 2014. Adoption of this GASB Statement had no effect on the Fund's fiduciary net position, but changed the approach for measuring pension liabilities. As of December 31, 2014 and 2013, the Fund's funded ratio was 26.0% and 30.8%, respectively.

- In compliance with GASB No. 45, the Fund recognizes a liability for other post-employment benefits (OPEB), which represents health insurance coverage for active and retired Fund employees. Expense of $0.42 million and $0.41 million was recognized in 2014 and 2013, respectively, resulting in a total accrued liability of $2.08 million and $1.78 million as of December 31, 2014 and 2013, respectively.

Fiduciary Net Position

A summary of fiduciary net position is presented below:

Fiduciary Net Position
(In millions)
As of December 31, 2014, 2013, and 2012

	2014	2013	2012	2014–2013 Change $	2014–2013 Change %
Receivables	$ 195.3	$ 201.6	$ 221.1	$ (6.3)	(3.1)%
Brokers–unsettled trades	117.3	146.6	159.4	(29.3)	(20.0)
Investments, at fair value	2,970.4	3,097.3	3,066.8	(126.9)	(4.1)
Invested securities lending cash collateral	288.5	271.9	255.4	16.6	6.1
Total assets	3,571.5	3,717.4	3,702.8	(145.9)	(3.9)
Brokers–unsettled trades	214.1	173.2	227.7	40.9	23.6
Securities lending payable	288.5	271.9	255.4	16.6	6.1
OPEB obligation	2.1	1.8	1.5	0.3	16.7
Refunds and accounts payable	4.8	5.3	4.7	(0.5)	(9.4)
Total liabilities	509.5	452.2	489.4	57.3	12.7
Net position	$ 3,062.0	$ 3,265.2	$ 3,213.4	$ (203.2)	(6.2)%

Fiduciary Net Position *(continued)*

The decrease in fiduciary net position of $203.2 million in 2014 was due primarily to a decrease in the net appreciation in the fair value of investments. The assets available for investment earned 6.24% in 2014, compared to an investment gain of 14.51% in 2013. The relative strength of the U.S. economy could not overcome the pullback experienced across global markets. As a result, the portfolio experienced a sound return, albeit lower than the previous years.

Changes in Fiduciary Net Position

The following table reflects a comparative summary of various changes in fiduciary net position:

Changes in Fiduciary Net Position
(In millions)
Years Ended December 31, 2014, 2013 and 2012

				2014–2013 Change	
	2014	**2013**	**2012**	**$**	**%**
ADDITIONS					
Member contributions	$ 95.7	$ 93.3	$ 98.2	$ 2.4	2.6%
Employer contributions	187.0	188.9	207.2	(1.9)	(1.0)
Net investment gains and investment income	180.7	414.4	352.0	(233.7)	(56.4)
Securities lending income	1.2	0.9	1.2	0.3	33.3
Miscellaneous income	0.7	0.5	0.4	0.2	40.0
Total additions	465.3	698.0	656.7	(232.7)	(33.3)
DEDUCTIONS					
Annuity, disability, and death benefits	655.3	633.8	602.8	21.5	3.4
Refunds of contributions	9.0	8.1	11.2	0.9	11.1
OPEB expense	0.4	0.4	0.5	0.0	0.0
Administrative expenses	3.8	3.9	4.4	(0.1)	(2.6)
Total deductions	668.5	646.2	618.8	22.3	3.5
Net increase/(decrease)	$ (203.2)	$ 51.8	$ 37.8	(255.0)	(492.3)%

The Fund experienced a net decrease in fiduciary net position in 2014, after two years of increases in both 2013 and 2012. The decrease reflects an investment return of 6.24%, which were offset significantly by increasing benefit payments. The Fund continues to liquidate assets as contributions from members and the employer are approximately $381.6 million less than benefits to members. This liquidation of assets is consistent with 2013 activity, in which contributions from members and the employer were approximately $359.7 million less than benefits to members. The Fund continues to experience significant retirement levels in 2014, 2013 and 2012. The significant retirement levels are partially attributed to some early retirement health care benefits offered to members by the City of Chicago. Retirements of over 1,330 active members occurred during the three years of 2014, 2013 and 2012.

Investment Activities

The strategic allocation was unchanged in 2014. Long-term targets include: 21% for U.S. Equity, 20% for non-U.S. Equity, 22% for Fixed Income and Cash, 19% for Tactical and Alpha Strategies, 4% for Real Assets, 7% for Private Equity, 5% for Real Estate, and 2% for Infrastructure.

The Fund continues to prudently implement the revised strategic allocation approved by the Board of Trustees in late 2010. U.S. exposures were reduced through the year because of immediate benefit funding requirements. The Fund did not experience many changes in the current allocation from 2013; however, the Fund did hire three new managers in 2014 within the Fixed Income allocation. New fixed income managers will invest in two unconstrained bond funds and a strategic fixed income fund. These new mandates will replace two fixed income managers that held core fixed income products. In 2013, restructuring of the Equity portfolio occurred, which was rebalanced to include non-US Small Cap and Emerging Market Equity. Specifically, three managers were terminated and three managers were hired to improve the portfolio's overall diversification.

Investment Returns
Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Total fund (%)	6.24%	14.51%	12.39%
Equities	4.26	25.75	17.66
Fixed income	6.03	(1.19)	6.72
Alternatives	1.87	8.47	12.05
Private capital	18.03	13.04	8.01
Cash and cash equivalents	0.07	0.11	0.14

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

Plan Membership

The following table reflects the Plan membership as of December 31, 2014, 2013 and 2012.

Plan Membership
As of December 31, 2014, 2013 and 2012

	2014	2013	2012	2014–2013 Change	2014–2013 %
Retirees and beneficiaries receiving benefits	13,230	13,159	12,966	71	0.5%
Active employees	12,020	12,161	12,026	(141)	(1.2)
Terminated (inactive members) employees entitled to benefits or refunds of contributions	630	654	664	(24)	(3.7)
Total	25,880	25,974	25,656	(94)	(0.4)

Funding Status

The valuation as of December 31, 2014 reflects the results of an experience review of the economic and demographic assumptions for the period from January 1, 2009, through December 31, 2013. This experience review was completed by the Fund's actuaries. Based upon the results of the experience review, several actuarial assumptions were changed in 2014. The change in assumptions increased actuarial liabilities by $553.5 million, or 5.3% of total liabilities. Two significant actuarial assumptions that were changed included the investment return, which was changed from 7.75% at December 31, 2013 to 7.5% at December 31, 2014, and the mortality tables for pre-retirement, post-retirement healthy and disability. The new mortality rates used are the 2014 Total Employee mortality table weighted 85% for males and 115% for females; the Retirement Plans 2014 Healthy Annuitant mortality table weighted 108% for males and 97% for females, and the Retirement Plans 2014 Healthy Annuitant mortality table weighted 115% for males and 115% for females.

In addition to the assumption changes, the Fund adopted GASB No. 67 for the year ended December 31, 2014. This accounting standard requires that projected benefit payments are required to be disclosed to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating. Using this methodology, the Fund's Single Discount Rate is 7.15% at December 31, 2014 and 7.56% at December 31, 2013. The funded ratios at December 31, 2014, and 2013, were 30.8% and 26.0%, respectively.

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

Funding Status *(continued)*

Before Public Act 096-1495, the City of Chicago met its statutory obligation for funding through a tax multiplier calculation that was based upon active member contributions. Public Act 096-1495 changes the City of Chicago funding obligation, effective with tax levy year 2015, such that each year annual actuarially determined employer contributions will be calculated. Such actuarially determined contributions will be established that produce a projected funding goal of 90% by the end of 2040, based upon the projected actuarial value of Fund assets and liabilities and application of certain required actuarial 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.

The calculation of the statutory contributions mandated by PA 096-1495 required that the actuarial cost method of the actuarial liability be changed from entry age normal to projected unit credit. This change is reflected in the statutory funding calculations for 2013 and all market value funding calculations. For GASB purposes, the actuarial cost method continues to be entry age normal, which satisfies the requirements of GASB No. 25 for plan year ended December 31, 2013, and GASB No. 67 for plan year ended December 31, 2014.

Based upon the statutory provisions of PA 096-1495, which was in effect at December 31, 2014, and related calculations provided by the Fund's actuarial consultant, contributions from the City of Chicago are expected to significantly increase from $592.9 million in 2015 to $675.8 million in 2016. These are significant funding contributions compared with previous years. In 2014 and 2013, the annual required contribution for the pension and health insurance benefits, as computed under GASB Nos. 25 and 43, was not reached, despite the City of Chicago meeting its fiduciary obligation for funding through a 2 times multiplier of active member contributions.

As previously noted, the statutory provisions of PA 096-1495 also required that assets be marked to market at March 30, 2011. The actuarial value of assets at December 31, 2014, reflects that assets were marked to the market value of assets at January 1, 2012, and all related investment gains and losses through January 1, 2012, were recognized. For purposes of the actuarial asset valuation, resetting the actuarial value of assets to the market value of assets at January 1, 2012, instead of March 30, 2011, does not impact the statutory contribution requirement for 2015.

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:

Ms. Regina M. Tuczak
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 Fiduciary Net Position
As of December 31, 2014 and 2013

	2014	2013
ASSETS		
Cash	$ 250	$ 250
Receivables		
Employer tax levies, net of allowance for loss of $18,177,719 in 2014 and $19,677,411 in 2013	184,457,332	190,071,158
Member contributions	4,739,959	4,513,521
Interest and dividends	6,099,084	7,027,508
Accounts receivable—due from brokers	117,341,100	146,643,193
	312,637,475	348,255,380
Investments, at fair value		
U.S. common stock and other equity	474,142,865	489,961,707
Collective investment funds, stock	355,092,681	430,949,971
Collective investment funds, international equities	28,588,836	29,596,278
Collective investment funds, fixed income	191,250,913	284,158,454
International equity	635,744,045	655,118,654
Bonds and notes	719,987,510	580,084,746
Short-term instruments	135,835,426	187,366,569
Infrastructure	36,538,895	35,538,660
Forward contracts and swaps	16,059,481	3,845,772
Hedge fund-of-funds	100,368,762	95,941,758
Real estate	94,281,030	119,140,822
Venture capital and private equity	182,463,748	185,569,567
	2,970,354,192	3,097,272,958
Invested securities lending cash collateral	288,542,319	271,856,279
Total assets	3,571,534,236	3,717,384,867
LIABILITIES		
Refunds and accounts payable	4,756,525	5,312,489
Trade accounts payable—due to brokers	214,140,603	173,235,185
Securities lending cash collateral	288,542,319	271,856,279
OPEB obligation	2,080,467	1,780,360
Total liabilities	509,519,914	452,184,313
Net position held in trust for pension benefits	$ 3,062,014,322	$ 3,265,200,554

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 Fiduciary Net Position
For the Years Ended December 31, 2014 with and 2013

	2014	2013
ADDITIONS		
Contributions		
Employer	$ 187,074,950	$ 188,889,240
Plan member salary deductions	95,675,538	93,328,944
Total contributions	282,750,488	282,218,184
Investment income		
Net appreciation in fair value of investments	136,126,859	364,545,293
Interest	19,452,054	20,352,113
Dividends	31,592,777	32,815,167
Real estate income	3,547,612	5,327,641
	190,719,302	423,040,214
Investment activity expenses		
Investment management fees	(9,304,806)	(7,989,489)
Custodial fees	(183,532)	(190,592)
Investment consulting fees	(495,364)	(493,265)
Total investment activity expenses	(9,983,702)	(8,673,346)
Net income from investing activities	180,735,600	414,366,868
From securities lending activities		
Securities lending income	984,565	936,295
Borrower rebates	429,565	221,980
Bank fees	(248,437)	(231,531)
Net income from securities lending activities	1,165,693	926,744
Total net investment income	181,901,293	415,293,612
Miscellaneous income	740,305	479,328
Total additions	465,392,086	697,991,124
DEDUCTIONS		
Pension and disability benefits	653,779,124	632,204,674
Death benefits	1,566,933	1,634,600
Refunds of employee deductions	8,991,636	8,087,018
	664,337,693	641,926,292
Administrative expenses	3,817,256	3,891,329
OPEB expense	423,369	406,183
Total deductions	668,578,318	646,223,804
Net (decrease) increase	(203,186,232)	51,767,320
Net position held in trust for pension benefits		
Beginning of year	3,265,200,554	3,213,433,234
End of year	$ 3,062,014,322	$ 3,265,200,554

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; real estate; derivatives; currencies and other types of investment vehicles as set forth in the Illinois Compiled Statutes.

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

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed-income securities are valued principally using quoted market prices provided by independent pricing services. For collective investments, 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 taxes.

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 fiduciary net position 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 fiduciary net position.

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

Recent Accounting Pronouncements

The following standards were adopted by the Fund during 2014 and 2013:

GASB's codification standard on *Items Previously Reported as Assets and Liabilities* was effective for the Fund beginning with its year ending December 31, 2013. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this standard did not have any material impact on the financial statements.

GASB's codification standard on *Technical Corrections—2014—an amendment of GASB Statements No. 10 and No. 62* was effective for the Fund beginning with its year ending December 31, 2013. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance in previously issued standards. The adoption of this standard did not have any material impact on the financial statements.

GASB Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, was established to provide improved financial reporting by state and local government pension plans. The Fund adopted GASB Statement No. 67 for its December 31, 2014 financial statements. The adoption of this statement had no effect on the Fund's fiduciary net position, but changed the approach for measuring the pension liability and required certain changes to note disclosures and required supplementary information. The adoption of GASB Statement No. 67 resulted in elimination of certain actuarial disclosures related to the pension plan's funding progress, and the addition of disclosures related to pension plan's net pension liability and changes thereof, employer's contribution and money-weighted rate of return for the pension plan investments.

Other accounting standards that the Fund is currently reviewing for applicability and potential impact on the financial statements include:

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

Recent Accounting Pronouncements *(continued)*

GASB's codification standard on *Accounting and Financial Reporting for Pensions* establishes new financial reporting requirements for most governmental employers that provide their employees with pension benefits through these types of plans. The new standard will be effective for the Fund beginning with its year ending December 31, 2015. The new standard replaces the previous standards relating to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The new standard requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The standard also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

GASB's codification standard on *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* addresses issues regarding application of transition provisions and amounts associated with contributions, if any, made by a government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The new standard will be effective for the Fund beginning with its year ending December 31, 2015.

GASB's codification standard on *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The Statement also provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of the new standard will be effective for the Fund beginning with its year ending December 31, 2016.

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, 2014 and 2013 were $1,074,333,318 and $1,015,426,128, respectively. At December 31, 2014 and 2013, the Fund membership consisted of the following:

	2014	2013
Active employees	12,020	12,161
Retirees and beneficiaries currently receiving benefits	13,230	13,159
Terminated employees entitled to benefits or a refund of contributions, but not yet receiving them	630	654
	25,880	25,974

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. 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 first hired after January 1, 2011 are 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 two 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 at December 31, 2014, reflects that assets were marked to the market value of assets at January 1, 2012, and all related investment gains and losses through January 1, 2012, were recognized. Investment gains and losses for the years ended December 31, 2012, 2013 and 2014, are recognized at a rate of 20% per year over a five-year period. For purposes of the actuarial asset valuation, resetting the actuarial value of assets to the market value of assets at January 1, 2012, instead of March 30, 2011, does not impact the statutory contribution requirement for 2015.

The total pension liability at December 31, 2014, and 2013, was $11,773,430,559 and $10,596,153,366, respectively. The plan fiduciary net position at December 31, 2014, and 2013, was $3,062,014,322 and $3,265,200,554, respectively. The net pension liability at December 31, 2014, and 2013, was $8,711,416,237, and $7,330,952,812, respectively. The increase in the net liability is primarily due to several significant assumption changes, including a decrease in the long-term expected rate of return on pension plan investments. The Single Discount Rate required by GASB Statement No. 67 as of December 31, 2014, was based on a long-term expected rate of return on pension plan investments of 7.50% and a long-term municipal bond rate of 3.56%. The Single Discount Rate as of December 31, 2013, was based on a long-term expected rate of return on pension plan investments of 7.75% and a long-term municipal bond rate of 4.73%. Additionally, mortality tables for pre-retirement, post-retirement and disability members changed from 1994 tables to 2014 tables.

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 a significant portion of the cost of health coverage and the remaining amount 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 December 31, 2016, 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 December 31, 2016, for each annuitant who is qualified to receive Medicare benefits. These subsidy rates expire on December 31, 2016.

The disclosures herein assume that for valuation purposes the health insurance supplement in effect at December 31, 2014 and 2013, will end on December 31, 2016.

The supplemental payments by the Fund are included in employer contributions on the statements of changes in fiduciary net position. The supplemental health care benefits are not dependent upon inflation, as the benefits paid are a fixed dollar amount.

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.

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Plan Description and Contribution Information *(continued)*

At December 31, 2014 and 2013, the number of annuitants or surviving spouses who had subsidized health insurance totaled 10,676 and 10,809, respectively. Of the 2,554 and 2,350 remaining annuitants or surviving spouses, at December 31, 2014 and 2013, 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 630 and 654 terminated employees entitled to benefits or a refund, at December 31, 2014 and 2013, respectively, approximately 57 and 89 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 2014 and 2013, the Fund received contributions of $9,657,123 and $9,847,310, respectively. Contributions to the health insurance supplement are equal to the insurance premium payments to the City. There were no net assets available for the health insurance supplement at December 31, 2014 or 2013.

Funded Status and Funding Progress

The funded status of the Fund's health care plans as offered by the City as of December 31, 2014 and 2013, 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)
12/31/14	$ -	$ 18,762,125	$ 18,762,125	0.00%	$ 1,074,333,318	1.75%
12/31/13	-	28,375,681	28,375,681	0.00	1,015,426,128	2.79

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)*

Funded Status and Funding Progress *(continued)*

Additional information as of the latest actuarial valuation follows:

Valuation dates	December 31, 2014 and 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	December 31, 2014: 3 year closed– period for FY 2014 and beyond; December 31, 2013: 4 year closed period for FY 2013 and beyond
Asset valuation method	No assets (pay-as-you-go)
Actuarial assumptions	
OPEB investment rate of return	4.5%
Projected salary increases	(3.75% - 2014; 4.0% - 2013) per year, plus additional percentage related to service
Healthcare cost trend rate	0.0% (fixed dollar subsidy)
General inflation rate	3.0%

NOTE 4 CASH AND INVESTMENT RISK

Cash

The bank balance and carrying amount of the Fund's deposits at December 31, 2014 were $553,685 and ($748,533), respectively; and $552,755 and ($205,473) at December 31, 2013, respectively. These balances excluded $250 of petty cash. The bank balance at December 31, 2014 and 2013 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 Trustees assume the responsibility for establishing the Fund's 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

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Policy *(continued)*

The Trustees have 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 risks.

Money-Weighted Rate of Return

For the year ended December 31, 2014, the annual money-weighted rate of return on the plan investments, net of investment expense, was 6.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investment Summary

The following table presents a summary of the Fund's investments by type at December 31, 2014 and 2013.

	2014	2013
U.S. Government and agency fixed income	$ 352,303,045	$ 262,696,101
U.S. corporate fixed income	367,684,464	317,388,645
U.S. common collective fixed-income funds	60,605,016	154,432,010
Global common collective fixed-income funds	130,645,897	129,726,444
Global common collective equity funds	200,696,300	198,103,231
U.S. equities	474,142,865	489,961,707
U.S. common collective stock funds	154,396,381	232,846,740
International equity common collective fund	28,588,836	29,596,278
Foreign equities	635,744,045	655,118,654
Pooled short-term investment funds	55,097,459	160,600,280
Infrastructure	36,538,895	35,538,660
Real estate	94,281,030	119,140,822
Venture capital	182,463,748	185,569,567
Forward contracts and swaps	16,059,481	3,845,772
Hedge fund-of-funds	100,368,762	95,941,758
Cash and cash equivalents	80,737,968	26,766,289
Total investments at fair value	$ 2,970,354,192	$ 3,097,272,958

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Summary *(continued)*

There are no individual investments held by the Fund that represented 5% or more of net position held in trust for pension benefits, except for the Fund's investment in the MFO GMO Global Asset Allocation Fund, which amounted to $200,696,300 and $198,103,231 at December 31, 2014 and 2013, respectively, and the NTGI Collective Russell 1000 Index Fund which amounted to $154,396,381 and $232,846,740 at December 31, 2014 and 2013, respectively. There are no insurance contracts excluded from plan assets.

The Fund's investments were managed by approximately 46 external investment managers during 2014 and 2013, 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.

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 fiduciary net position.

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 engaged five such managers in 2014 and six in 2013. 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.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

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

At December 31, 2014, 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	$ 72,626,358	$ 2,963	$ 29,990,646	$ 12,883,729	$ 29,749,020
Collateralized bonds	436,832	-	-	-	436,832
Commercial mortgage-backed securities	48,792,690	-	374,937	1,250,816	47,166,937
Corporate bonds	221,247,437	11,516,205	82,380,828	54,000,807	73,349,597
Government agency securities	6,656,486	-	3,668,954	2,870,381	117,151
Government bonds	160,910,542	2,009,218	110,608,974	20,692,986	27,599,364
Government mortgage-backed securities	173,300,033	-	916,127	4,325,715	168,058,191
Index-linked government funds	11,435,983	-	8,947,303	1,600,202	888,478
Municipal principal bonds	8,030,968	302,082	589,051	217,640	6,922,195
Non-government-backed collateralized mortgage obligations	16,550,180	-	941,962	1,545,178	14,063,040
	$ 719,987,509	$ 13,830,468	$ 238,418,782	$ 99,387,454	$ 368,350,805

At December 31, 2013, 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	$ 43,742,110	$ 35,339	$ 23,234,549	$ 6,232,211	$ 14,240,011
Commercial mortgage-backed securities	33,078,814	-	-	337,121	32,741,693
Corporate bonds	220,547,091	15,411,751	89,242,861	59,779,605	56,112,874
Government agency securities	5,062,004	-	4,211,470	618,228	232,306
Government bonds	102,513,315	-	65,153,093	14,954,644	22,405,578
Government mortgage-backed securities	127,117,580	-	204,660	2,022,654	124,890,266
Government issued commercial mortgage-backed securities	424,569	-	424,569	-	-
Index-linked government funds	27,578,633	949,799	21,991,392	2,723,670	1,913,772
Municipal principal bonds	8,423,139	-	1,036,445	467,123	6,919,571
Non-government-backed collateralized mortgage obligations	11,597,491	-	566,493	685,180	10,345,818
	$ 580,084,746	$ 16,396,889	$ 206,065,532	$ 87,820,436	$ 269,801,889

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

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 does not have a formal policy in regard to aggregate credit quality of fixed income holdings. The Fund utilizes external investment management firms to invest in fixed income securities and credit quality is addressed within the guidelines of the mandate for each of the managers. If a holding falls below specific guideline requirements, the manager will either sell the security or will inform the Fund of the lower rating and why they believe that it is prudent to continue to hold the security as they believe that the security will return to minimum constraints.

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	
	2014	**2013**
Quality Rating		
AAA	$ 59,158,096	$ 41,006,879
AA	28,186,144	28,200,907
A	81,049,905	83,193,875
BBB	110,584,681	111,297,039
BB	14,973,493	10,744,191
B	1,244,601	31,456
Not rated	62,044,871	33,736,175
CCC through D	10,442,673	9,178,123
Total credit risk of U.S. corporate fixed income	367,684,464	317,388,645
U.S. Government and agency fixed income securities	352,303,045	262,696,101
	$719,987,509	$580,084,746

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

Custodial credit 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, 2014, and 2013, cash deposits of $1,131,708 and $956,773, 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.

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:

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

	Fair Value	
	2014	**2013**
Currency		
Australian Dollar	$ 11,050,417	$ 15,848,310
Brazilian Real	15,237,093	19,899,117
British Pound Sterling	67,095,129	89,281,171
Canadian Dollar	15,725,060	11,775,603
Chinese Yuan Renminbi	(1,492,774)	313,459
Colombian Peso	1,015,869	1,491,743
Czech Koruna	2,340,050	2,496,940
Danish Krone	3,260,712	4,870,828
Dominican Peso	4	-
Euro Currency Unit	96,577,715	112,860,881
Hong Kong Dollar	69,390,154	67,211,924
Hungarian Forint	576,211	193
Indian Rupee	9,929,822	5,896,837
Indonesian Rupiah	5,990,184	4,698,752
Japanese Yen	89,830,272	81,319,319
Malaysian Ringgit	1,859,817	2,528,327
Mexican Peso	9,686,030	9,845,592
New Israeli Shekel	2,847,974	2,495,275
New Romanian Leu	377,183	-
New Taiwan Dollar	16,350,000	9,859,013
New Zealand Dollar	131,100	367,215
Nigerian Naira	(34,439)	580,245
Norwegian Krone	3,695,179	4,684,530
Peruvian Nuevo Sol	2,809	-
Philippine Peso	-	701,188
Polish Zloty	1,576,467	914,677
Qatari Rial	50,708	1,235,292
Russian Ruble	337,017	-
Singapore Dollar	2,232,781	2,674,492
South African Rand	9,406,880	9,630,972
South Korean Won	18,104,930	18,865,496
Swedish Krona	11,542,308	6,228,217
Swiss Franc	26,591,749	24,837,407
Thai Baht	2,356,705	1,766,998
Turkish Lira	8,393,434	6,639,716
Uruguayan Peso	465,710	-
Total investments in foreign currency	$502,500,260	$521,819,729

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 fiduciary net position. The credit risk associated with these contracts is minimal, as they are traded on organized exchanges and settled daily.

At December 31, 2014, the Fund had interest rate futures contracts to purchase U.S. Treasury securities and UK Treasury securities with notional amounts of $46,748,633 and $729,441, respectively. At December 31, 2014, the Fund also had interest rate futures contracts to sell U.S. Treasury securities and German Treasury securities with notional amounts of $13,384,984 and $759,391, respectively. At December 31, 2013, the Fund had interest rate futures contracts to purchase U.S. Treasury securities with notional amounts of $37,468,080. At December 31, 2013, the Fund also had interest rate future contracts to sell U.S. Treasury securities, Japanese Government Bonds, and UK Treasury securities with notional amounts of $8,824,675, $6,980,177 and $5,504,524, respectively.

The fair value of futures contracts in the statements of fiduciary net position was zero at December 31, 2014 and 2013, as settlements are by cash daily.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

The Fund had net investment earnings of $1,508,682 and $125,157 on futures contracts in 2014 and 2013, respectively. These earnings are accounted for as net 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 fiduciary net position. The notional value of credit default swaps was $105,811,288 and $104,865,202 as of December 31, 2014 and 2013, respectively. The Fund did not hold any interest rate swaps as of December 31, 2014 and 2013. The fair value of swaps outstanding at December 31, 2014 and 2013 was a net (liability) asset of $(378,304) and $1,983,310, respectively. Investment loss from holdings and sales of interest rate and credit default swaps was $2,428,100 and $2,331,082 in 2014 and 2013, respectively. These losses are included in net appreciation in fair value of investments in the statements of changes in fiduciary net position.

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, Colombian pesos, Danish krone, Euros, Hong Kong dollars, Hungarian forint, Indian rupee, Indonesian rupiah, Japanese yen, Malaysian ringgit, Mexican pesos, New Israeli shekel, New Taiwan dollar, Nigerian naira, Norwegian krone, Polish zloty, Romanian new leu, Russian ruble, Singapore dollars, South Korean won, Swedish krona, Swiss francs, Taiwan dollar, Thai baht, Turkish lira, U.S. dollars and Yuan renminbi at December 31, 2014 and 2013. Total pending foreign currency purchases and (sales) had notional values of $48,425,836 and $(48,450,832), respectively, at December 31, 2014, and $110,623,648 and $(110,533,355), respectively, at December 31, 2013.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

The Fund had a net unrealized gain (loss) on pending foreign currency forward contracts of $(14,996) and $90,293 at December 31, 2014 and 2013, respectively, which is reflected in the fair value of the investments on the statements of fiduciary net position. Investment income from holdings and sales of foreign currency forward contracts was $503,997 and $1,525,509 in 2014 and 2013, respectively.

Forward interest rate contracts: The Fund's external investment managers entered into forward contracts to purchase or sell bond securities during 2014 and 2013. 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 fiduciary net position. The Fund's external investment managers attempt to mitigate this credit risk through structured trading with reputable parties.

At December 31, 2014, the Fund held forward contracts to buy Canadian government bonds, U.S. TIPS (Treasury Inflation Protected Securities) and U.S. government bonds with fair values of $14,089,070, and the Fund also held forward contracts to (sell) Canadian government bonds and U.S. Treasury notes with fair values of $14,540,430. At December 31, 2013, the Fund did not hold any forward contracts. The unrealized gain on these contracts was $38,144 and $0 at December 31, 2014 and 2013, respectively. Investment (loss) income from holdings and sales of interest rate forward contracts was $(358,584) and $1,170,592 in 2014 and 2013, respectively. These (losses) earnings are included in net appreciation in fair value of investments in the statements of changes in fiduciary net position.

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 fiduciary net position. 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 that may include cash, U.S. government securities, and irrevocable letters of credit at 102% of the fair value of the loaned securities plus any accrued interest 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) due to insolvency of the borrower or if the master custodian fails to live up to its contractual responsibilities relating to the lending of those securities.

All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is 154 days and 128 days, as of December 31, 2014 and 2013, respectively. Cash collateral is invested in the lending agent's Core USA Collateral Pool, which at December 31, 2014 and 2013, had a weighted-average life, as measured by interest sensitivity, of 39 days. The relationship between the maturities of the investment pool and the Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine. The Fund cannot pledge or sell collateral securities received unless the borrower defaults.

Loans outstanding as of December 31, 2014 and 2013 were as follows:

	2014	2013
Fair value of securities loaned	$ 282,464,957	$ 266,783,040
Fair value of cash collateral from borrowers	288,542,319	271,856,279
Fair value of non-cash collateral from borrowers	1,502,256	1,049,482

As of December 31, 2014 and 2013, 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 $84 million and $93 million at December 31, 2014 and 2013, 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, 2014, 10 retirees were in the Staff Retiree Health Plan and eighteen active employees could be eligible at retirement. As of December 31, 2013, nine retirees were in the Staff Retiree Health Plan and 18 active employees could be eligible at retirement. Benefit subsidy provisions have been established by PABF's Board of Trustees. The amount of the subsidy varies 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 2014 and 2013, PABF contributed approximately $123,263 and $108,262, respectively, to the Staff Retiree Health Plan for current premiums, inclusive of an implicit subsidy of $10,661 and $10,276, for 2014 and 2013, respectively. Members receiving benefits contributed approximately $50,197 or 40.7%, of the total premiums, for 2014, and approximately $26,172 or 24%, of the total premiums for 2013.

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 2014 and 2013, the amount actually contributed to the Staff Retiree Health Plan, and changes in PABF's net OPEB obligation to the Staff Retiree Health Plan:

	2014	2013
Annual required contribution	$ 409,004	$ 394,221
Interest on net OPEB obligation	80,116	66,710
Adjustment to annual required contribution	(65,751)	(54,748)
Annual OPEB expense	423,369	406,183
Employer contributions made	(123,263)	(108,262)
Increase in net OPEB obligation	300,106	297,921
Net OPEB obligation at beginning of year	1,780,361	1,482,440
Net OPEB obligation at end of year	$ 2,080,467	$ 1,780,361

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Staff Retiree Health Plan, and the net OPEB obligation for 2014 and 2013 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	$ 423,369	29.1%	$ 2,080,467
12/31/2013	406,183	26.7	1,780,361
12/31/2012	491,848	34.5	1,482,440

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, 2014, and 2013, 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)
12/31/14	$ -	$ 5,538,553	$ 5,538,553	0.00%	$ 1,304,207	424.7%
12/31/13	-	5,212,127	5,212,127	0.00	1,276,471	408.3

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, 2014 and 2013 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, 2014 and 2013, an annual healthcare cost trend rate of 8.5% starting 2015, reduced by increments of 0.5 percentage point per year to an ultimate rate of 5.0% after eight years. At December 31, 2014 and 2013, the wage inflation assumption was 3.75%. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 30-year open 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

	2014	2013
Balances, at December 31	$ 2,046,631,796	$ 2,028,237,876

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

	2014	2013
Balances, at December 31	$ 1,412,729,397	$ 1,353,436,830

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

	2014	2013
Balances, at December 31	$ 2,291,357,499	$ 2,234,896,893

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

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

Prior Service Annuity Reserve

	2014	2013
Balances, at December 31	$ (1,442,209,251)	$ (1,248,229,524)

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 $8,093,873,233 and $7,026,723,767 as of December 31, 2014 and 2013, respectively.

Gift Reserve

	2014	2013
Balances, at December 31	$ 13,317,832	$ 12,853,284

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.

NOTE 8 RESERVES *(continued)*

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

	2014	2013
Balances, at December 31	$ (27,235,320)	$ (24,754,256)

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

	2014	2013
Balances, at December 31	$(1,233,025,033)	$(1,091,687,951)

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, 2014 and 2013, the Automatic Increase Reserve had a deficit.

Supplementary Payment Reserve

	2014	2013
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.

NOTE 8 RESERVES *(continued)*

The following reserves have a $0 balance at December 31, 2014 and 2013. City contributions are allocated to these reserve accounts in amounts equal to payments made on an annual basis.

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 NET PENSION LIABILITY OF THE FUND

The components of the net pension liability at December 31, 2014, were as follows:

Total pension liability	$ 11,773,430,559
Plan fiduciary net position	3,062,014,322
Fund's net pension liability	$ 8,711,416,237
Plan fiduciary net position as a percentage of total pension liability	26.01%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.75% per year, plus additional percentage related to service
Investment rate of return	7.5%
Cost of living adjustments	For members hired before January 1, 2011: 3.0% (1.50% for retirees born after January 1, 1955, to a maximum of 30%) For members hired on or after January 1, 2011: 1/2 CPI, maximum 3.0%; assumed rate of 1.5%

Mortality rates were based on the Sex Distinct Retirement Plans 2014 Total Employee and Healthy Annuitant mortality tables for males and females, as appropriate.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

NOTE 9 NET PENSION LIABILITY OF THE FUND *(continued)*

Actuarial Assumptions *(continued)*

The long-term expected rate of return on pension plan investments was determined under a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed or each major class. These rates are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target allocation as of December 31, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	21%	5.63%
Non-U.S. Equity	20	7.06
Fixed Income	22	1.08
Global Asset Allocation	12	4.00
Private Equity	7	8.96
Hedge Funds	7	3.74
Real Estate	5	4.11
Real Assets	4	4.34
Infrastructure	2	5.44
Total	100%	

Single Discount Rate

A Single Discount Rate of 7.15% was used to measure the total pension liability. This Single Discount Rate was based on an expected rate of return on pension plan investments of 7.50% and a municipal bond rate of 3.56%. The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between statutory contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2063. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2063, and the municipal bond rate was applied to all benefit payments after that date.

NOTE 9 NET PENSION LIABILITY OF THE FUND *(continued)*

Single Discount Rate *(continued)*

Regarding the sensitivity of the net pension liability to changes in the Single Discount Rate, the following presents the plan's net pension liability, calculated using a Single Discount Rate of 7.15%, as well as what the plan's net pension liability would be if it were calculated using a Single Discount Rate that is 1-percentage-point lower or 1-percentage-point higher:

Sensitivity of Net Pension Liability
to the Single Discount Rate Assumption

1% Decrease 6.15%	Current Single Discount Rate Assumption 7.15%	1% Increase 8.15%
$ 10,123,094,063	$ 8,711,416,237	$ 7,524,223,623

NOTE 10 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 11 LEASE AGREEMENT

The Fund leases its office facilities under a noncancellable agreement that expires June 30, 2016. Office rental expense amounted to $252,566 and $249,483 for the years ended December 31, 2014 and 2013, respectively.

NOTE 11 LEASE AGREEMENT *(continued)*

Future minimum rental payments under the office lease at December 31, 2014 are as follows:

Year	Amount
2015	$ 256,502
2016	129,073

NOTE 12 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 Changes in Net Pension Liability
For the Year Ended December 31, 2014
(Unaudited)

Total Pension Liability	
Service cost including pension plan administrative expense	$ 199,435,084
Interest on the total pension liability	791,693,017
Assumption changes	845,070,287
Benefit payments	(645,688,934)
Refunds	(8,991,636)
Pension plan administrative expense	(4,240,625)
Net Change in Total Pension Liability	1,177,277,193
Total Pension Liability – Beginning	10,596,153,366
Total Pension Liability – Ending (a)	$ 11,773,430,559
Plan Fiduciary Net Position	
Employer contributions	$ 177,417,827
Employee contributions	95,675,538
Pension plan net investment income	181,901,293
Benefit payments	(645,688,934)
Refunds	(8,991,636)
Pension plan administrative expense	(4,240,625)
Other	740,305
Net Change in Plan Fiduciary Net Position	(203,186,232)
Plan Fiduciary Net Position – Beginning	3,265,200,554
Plan Fiduciary Net Position – Ending (b)	$ 3,062,014,322
Net Pension Liability – Ending (a)-(b)	$ 8,711,416,237

The above information is required beginning in 2014. Information for the next 10 years will be presented in future years.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Notes to Schedule of Changes in Net Pension Liability
For the Year Ended December 31, 2014
(Unaudited)

Beginning of year total pension liability for 2014 uses a Single Discount Rate of 7.56% and the benefit provisions in effect as of the December 31, 2013 funding valuation. The Single Discount Rate of 7.56% was based on a long-term expected rate of return on pension plan investments of 7.75% used in the December 31, 2013 funding valuation, and a long-term municipal bond rate as of December 26, 2013 of 4.73%.

End of year total pension liability for 2014 uses a Single Discount Rate of 7.15% and the benefit provisions in effect as of the December 31, 2014 funding valuation. The Single Discount Rate of 7.15% was based on a long-term expected rate of return on pension plan investments of 7.50% used in the December 31, 2014 funding valuation, and a long-term municipal bond rate as of December 31, 2014 of 3.56%.

The increase in total pension liability for 2014 reflects the change in assumption resulting from the Experience Study for the period January 1, 2009, through December 31, 2013, and the change in the Single Discount Rate from 7.56% as of December 31, 2013 to 7.15% as of December 31, 2014.

Mortality rates were based on the Sex Distinct Retirement Plans 2014 Total Employee and Healthy Annuitant mortality tables for males and females, as appropriate.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Net Pension Liability
As of December 31, 2014
(Unaudited)

Total pension liability	$ 11,773,430,559
Plan fiduciary net position	3,062,014,322
Net pension liability	$ 8,711,416,237
Plan fiduciary net position as a percentage of total pension liability	26.01%
Covered employee payroll	$ 1,074,333,318
Net pension liability as a percentage of covered employee payroll	810.87%

The above information is required beginning in 2014. Information for the next 10 years will be presented in future years.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Contributions—Pension
Last 10 Years

(Unaudited)

Year Ended	Actuarially Determined Contribution (a)	Actual Contribution (b)	Contribution Deficiency (Excess) (c) = (b)-(a)	Covered Payroll (d)	Actual Contribution as a % of Covered Payroll (e) = (b)/(d)	Statutory Contribution (f)	Statutory Contribution Deficiency/(Excess) (g) =(f)-(b)
12/31/05	$ 238,423,459	$ 178,278,371	$ 60,145,088	$ 948,973,732	18.79%	$ 159,633,000	$ (18,645,371)
12/31/06	262,657,025	150,717,705	111,939,321	1,012,983,634	14.88%	157,591,000	6,873,296
12/31/07	312,726,608	170,598,268	142,128,341	1,038,957,026	16.42%	170,112,293	(485,975)
12/31/08	318,234,870	172,835,805	145,399,065	1,023,580,667	16.89%	175,080,814	2,245,009
12/31/09	339,488,187	172,043,784	167,444,403	1,011,205,359	17.01%	177,333,569	5,289,785
12/31/10	363,624,570	174,500,507	189,124,063	1,048,084,301	16.65%	177,060,837	2,560,330
12/31/11	402,751,961	174,034,600	228,717,361	1,034,403,526	16.82%	176,068,606	2,034,006
12/31/12	431,010,173	197,885,552	233,124,621	1,015,170,686	19.49%	204,329,314	6,443,762
12/31/13	474,177,604	179,521,259	294,656,345	1,015,426,128	17.68%	182,716,690	3,195,431
12/31/14	491,651,208	178,158,132	313,493,076	1,074,333,318	16.58%	178,773,877	615,745

(Unaudited)

Valuation Date:	December 31, 2014
Notes:	Actuarially determined contribution rates are calculated as of December 31, which is 12 months prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates as of the Valuation Date:

Actuarial Cost Method:	Projected-unit credit
Amortization Method:	Prior to 2015, 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. Beginning in tax levy year 2015, the Statutory Contributions are equal to a level percentage of pay contribution determined so that the Plan attains a 90% funded ratio by the end of 2040 on an open group basis.
Remaining Amortization Period:	Not applicable. An amortization payment is not directly calculated. The amortization payment is the difference between the total statutory contribution and the employer normal cost contribution.
Asset Valuation Method:	5-year smoothed market
Inflation:	3%
Salary Increases:	Salary increase rates based on age-related productivity and merit rates plus inflation.
Postretirement Benefit Increases:	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% and 50% of CPI-U of the original benefit, commencing at age 60.
Investment Rate of Return:	7.50% as of the December 31, 2014 valuation.
Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2014 valuation pursuant to an experience study for the period January 1, 2009 through December 31, 2013.

Mortality:	Post-Retirement Healthy mortality rates: Sex Distinct Retirement Plans 2014 Healthy Annuitant mortality table weighted 108% for males and 97% for females. Pre-retirement mortality rates: Sex Distinct Retirement Plans 2014 Total Employee mortality table weighted 85% for males and 115% for females. Disabled mortality: Sex Distinct Retirement Plans 2014 Healthy Annuitant mortality table weighted 115% for males and 115% for females.

Methods and Assumptions Used for Accounting Purposes as of the Valuation Date:

Actuarial Cost Method:	Entry age normal
Asset Method:	Market value
Discount Rate:	7.15% as of the December 31, 2014 valuation. 7.56% as of the December 31, 2013 valuation.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Schedule of Money-Weighted Rate of Return—Pension

(Unaudited)

Year Ended	Annual Money-Weighted Rate of Return, Net of Investment Expense
12/31/14	6.24%

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
Last 6 Years

(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)
12/31/09	$ -	$ 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
12/31/12	-	168,811,118	168,811,118	0.00	1,015,170,686	16.63
12/31/13	-	28,375,681*	28,375,681	0.00	1,015,426,128	2.79
12/31/14	-	18,762,125	18,762,125	0.00	1,074,333,318	1.75

*Due to Public Act 98-0043 effective June 28, 2013, it is assumed for valuation purposes that the health insurance supplement in effect prior to June 30, 2013 will end on December 31, 2016 for all employee annuitants and their future surviving spouses.

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
Last 6 Years

(Unaudited)

Year Ended	Contributions Annual Required	Actual Employee	Actual Employer	Percentage Contributed
12/31/09	$ 11,810,766	$ -	$ 9,266,431	78.46%
12/31/10	10,659,006	-	9,354,163	87.76
12/31/11	10,538,116	-	9,591,394	91.02
12/31/12	10,473,478	-	9,765,686	93.24
12/31/13	10,429,882	-	9,847,310	94.41
12/31/14	9,723,621	-	9,657,123	99.32

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Notes to Required Supplementary Information—Health Insurance Supplement
For the Years Ended December 31, 2014 and 2013
(Unaudited)

Valuation date	December 31, 2014 and 2013
Actuarial cost method	Entry age normal
Actuarial value of assets	No assets (pay-as-you-go)
Amortization method	Level percent
Remaining amortization period	3 years closed-period for 2014 and beyond; 4 year closed-period for 2013 and beyond
Actuarial assumptions	
OPEB investment rate of return	4.5%
Projected salary increases	3.75% - 2014; 4.0% - 2013 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
Last 6 Years
(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)
12/31/09	$ -	$ 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
12/31/12	-	6,376,689	6,376,689	0.00	1,623,675	392.7
12/31/13	-	5,212,127	5,212,127	0.00	1,276,471	408.3
12/31/14	-	5,538,553	5,538,553	0.00	1,304,207	424.7

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

Last 6 Years

(Unaudited)

Year Ended	Contributions Annual Required	Actual Employee	Actual Employer	Percentage Contributed
12/31/09	$ 290,600	$ -	$ 121,000	41.6%
12/31/10	434,005	-	127,630	29.4
12/31/11	453,535	-	133,373	29.4
12/31/12	478,309	-	169,882	35.5
12/31/13	394,221	-	108,262	27.5
12/31/14	409,004	-	123,263	30.1

Valuation date	December 31, 2014 and 2013
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	3.75% per year
Healthcare cost trend rate	8.5% per year, graded down to 5.0% per year, ultimate trend in 0.5% increments

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, 2014 and 2013

	2014	2013
Administrative expenses		
Actuary services	$ 125,038	$ 88,922
Benefits disbursement	209,764	206,072
Equipment service and rent	162,310	167,478
External auditors	37,000	50,000
Fiduciary insurance	139,794	141,653
Legal services	442,729	461,222
Medical consultant	403,884	448,196
Miscellaneous	274,843	292,516
Occupancy and utilities	258,427	254,668
Personnel salaries and benefits	1,741,726	1,764,179
Postage	10,702	5,000
Supplies	11,039	11,423
	$ 3,817,256	$ 3,891,329

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, 2014 and 2013

	2014	2013
Payments to consultants		
External auditors	$ 37,000	$ 50,000
Medical consultant	403,884	448,196
Legal services	442,729	461,222
Actuary service	125,038	88,922
Investment manager fees	9,304,806	7,989,489
Master trustee fees	183,532	190,592
Consulting fees	495,364	493,265
	$ 10,992,353	$ 9,721,686

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, 2014 and 2013

	2014	2013
Investment managers		
Acadian Asset Management	$ 744,370	$ 9,784
Ariel Capital Management	-	15,658
Artisan Partners	866,212	695,585
Capital Guardian Trust Co.	-	582,191
Dearborn Partners LLC	129,668	215,310
Denali Advisors	218,678	180,687
Earnest Partners	885,056	-
European Investors	69,698	60,057
Fisher Investments	821,926	670,903
Great Lakes Advisors	258,422	344,311
Holland Capital Management	302,741	262,531
ING Clarion	87,781	79,966
Invesco Capital Management	468,750	375,000
JP Morgan Fleming Asset Management	153,746	557,744
Lazard Asset Management	601,439	8,257
LM Capital Group	97,077	94,066
McKinley Capital	-	405,695
Montag & Caldwell	82,920	243,409
Northern Trust Global Investments - Index Funds	59,891	72,567
Taplin, Canida, & Habacht	168,804	137,137
UBS Global Asset Management	842,861	855,240
Wellington Management	529,415	390,821
Wells Capital Management	498,702	481,898
William Blair & Co.	1,416,649	1,250,672
Total investment manager fees	9,304,806	7,989,489
Investment consultants		
Elkins McSherry Inc	15,000	20,000
NEPC LLC	480,364	473,265
Total investment consultants fees	495,364	493,265
Master custodian		
The Northern Trust Company	183,532	190,592
Total investment fees	$ 9,983,702	$ 8,673,346

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Investment Section

NEPC, LLC

Investments[1]

(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. The Trustees consistently review the investment policy and make changes when deemed appropriate.

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.

[1]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 return, 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.

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Allocation of Assets As of December 31, 2014, the Fund's asset allocation targets were as follows:

Asset Class	Current Asset Allocation	Long-Term Target Allocation
U.S. Equity	22%	21%
Non U.S. Equity	22%	20%
Fixed Income	28%	22%
Opportunistic Strategies	15%	19%
Private Equity	9%	7%
Real Estate	3%	5%
Infrastructure	1%	2%
Real Assets	0%	4%
Cash	0%	0%
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, 2014, the Fund retained 42 investment managers for a total of 55 different fund strategies.

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

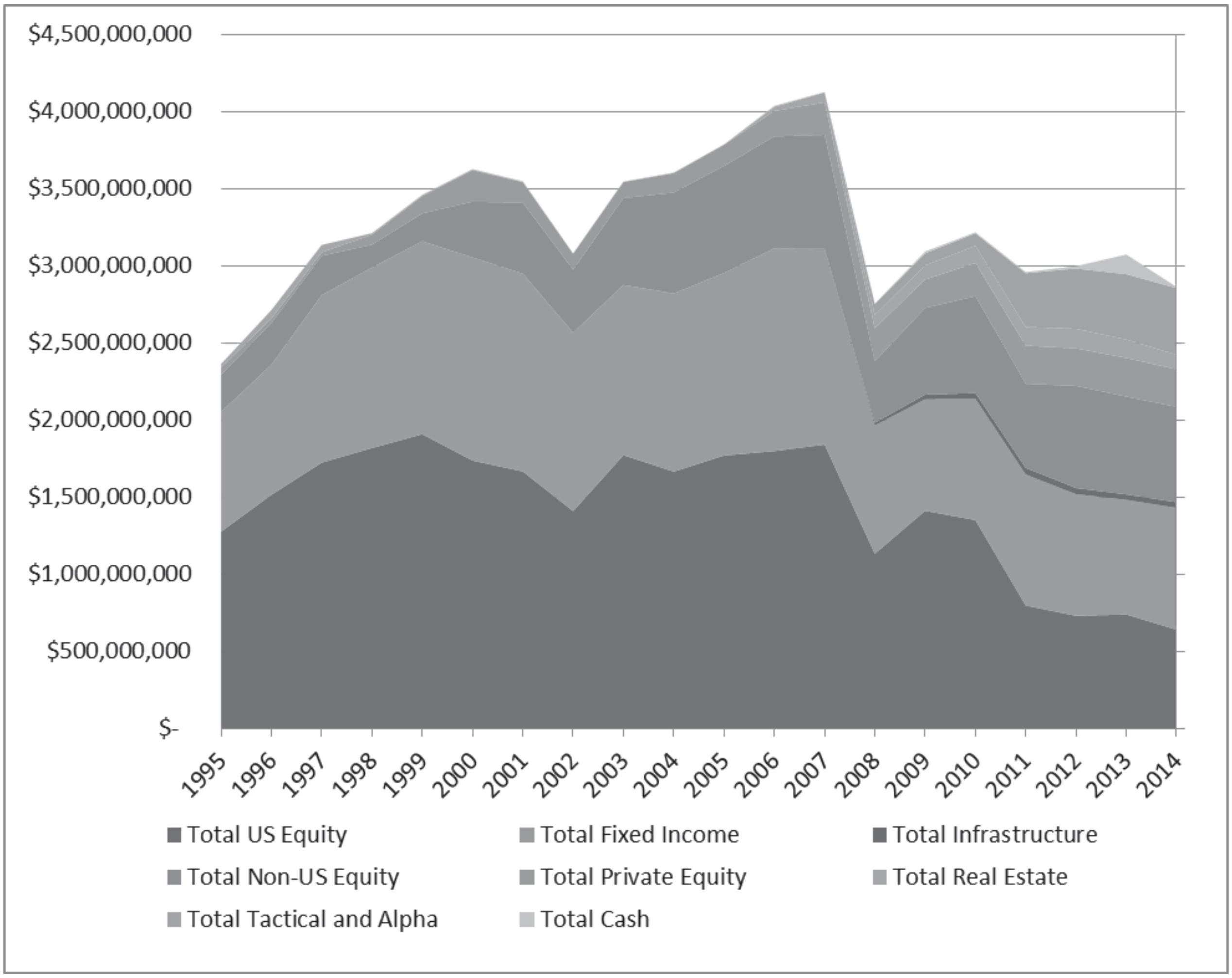
The investment objective is to equal or exceed the policy portfolio rate of return net of fees. The Total Fund's return will also be compared to the InvestorForce total public fund universe.

2014 Asset Allocation As of December 31, 2014, the Fund was overweight to U.S. Equity, Fixed Income and Non U.S. Equity. Concurrently, the Fund was underweight to Real Estate, Infrastructure, Real Assets and Opportunistic Strategies. The Fund's ending market value decreased by approximately $210 million during the year. The decrease is a combination of investment gains of $182.4 million, and net outflows of $392.4 million. The Fund's asset allocation as of December 31, 2014 is shown on the following pages.

Fair Value and Asset Allocation
As of December 31, 2014
($ in thousands)

	U.S. Equity	Non-US Equity	Bonds	Real Estate	Private Equity	Infrastructure	Tactical	Real Assets	Cash	Total	% of Total	Policy
Denali Advisors	$ 45,275								$ 549	$ 45,824	1.6%	
Great Lakes	$ 98,774								$ 3,833	$ 102,607	3.6%	
Fisher Investments	$ 109,880								$ 524	$ 110,404	3.9%	
Holland Capital	$ 80,006								$ 2,533	$ 82,540	2.9%	
Montag & Caldwell	$ 39,309								$ 979	$ 40,289	1.4%	
NTGI Russell	$ 154,396								$ -	$ 154,396	5.4%	
William Blair and Company	$ 100,828								$ 2,924	$ 103,752	3.6%	
U.S. Equity	**$ 628,470**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 11,343**	**$ 639,813**	**22.4%**	**21.0%**
Artisan International		$ 126,831							$ 1,057	$ 127,888	4.5%	
Global Transition		$ -							$ -	$ -	0.0%	
UBS Global Asset Management		$ 60,740							$ 500	$ 61,240	2.1%	
William Blair		$ 149,720							$ 3,846	$ 153,566	5.4%	
Acadian		$ 92,677							$ 524	$ 93,202	3.3%	
Earnest Partners		$ 96,447							$ -	$ 96,447	3.4%	
Lazard		$ 86,112							$ -	$ 86,112	3.0%	
Non-US Equity	**$ -**	**$ 612,527**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 5,927**	**$ 618,454**	**21.6%**	**20.0%**
Dearborn (Baird)			$ 106,774						$ 8,085	$ 114,859	4.0%	
LM Capital			$ 37,361						$ 2,220	$ 39,581	1.4%	
Taplin, Canida & Habacht			$ 70,554						$ 6,333	$ 76,887	2.7%	
Wellington			$ 217,109						$ 44,021	$ 261,129	9.1%	
Wells Capital Management			$ 231,756						$ 24,258	$ 256,014	8.9%	
Oaktree Capital			$ 41,550						$ -	$ 41,550	1.5%	
Transition Account			$ -						$ -	$ -	0.0%	
Fixed Income	**$ -**	**$ -**	**$ 705,103**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 84,917**	**$ 790,020**	**27.6%**	**22.0%**
	U.S. Equity	Non-US Equity	Bonds	Real Estate	Private Equity	Infrastructure	Opportunistic	Real Assets	Cash	Total	% of Total	Policy
RCP Advisors VI					$ 20,994					$ 20,994	0.7%	
Adams Street Partners					$ 3,548					$ 3,548	0.1%	
Adams St Partners					$ 11,212					$ 11,212	0.4%	
Adams Street Partners					$ 66,278					$ 66,278	2.3%	
Chancellor					$ 246					$ 246	0.0%	
Harbourvest V IPO					$ -					$ -	0.0%	
HVP Partners					$ 61,077					$ 61,077	2.1%	
Invesco Fund IV Venture					$ 6,665					$ 6,665	0.2%	
Invesco Fund IV Int'l					$ 4,184					$ 4,184	0.1%	
Invesco Fund IV U.S.					$ 16,717					$ 16,717	0.6%	
Mesirow Fund III					$ 15,293					$ 15,293	0.5%	
Mesirow Fund IV					$ 17,124					$ 17,124	0.6%	
Muller & Monroe ILPEFF					$ 10,788					$ 10,788	0.4%	
Muller & Monroe MEPEFF					$ 9,428					$ 9,428	0.3%	
Private Equity	**$ -**	**$ -**	**$ -**	**$ -**	**$ 243,555**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 243,555**	**8.5%**	**7.0%**
Global Infrastructure Partners						$ 15,632				$ 15,632	0.5%	
The Carlyle Group						$ 20,907				$ 20,907	0.7%	
Infrastructure	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 36,539**	**$ -**	**$ -**	**$ -**	**$ 36,539**	**1.3%**	**2.0%**
ABR Chesapeake III				$ 7,158						$ 7,158	0.3%	
AG Core Plus Realty II				$ 2,026						$ 2,026	0.1%	
Apollo Real Estate Advisors				$ 5,229						$ 5,229	0.2%	
Lone Star Fund IV				$ 2,846						$ 2,846	0.1%	
Lone Star Real Estate				$ 1,240						$ 1,240	0.0%	
Mesa West II				$ 6,336						$ 6,336	0.2%	
Morgan Stanley MSREF				$ 2,528						$ 2,528	0.1%	
Newport Capital Partners				$ 2,700						$ 2,700	0.1%	
DRA Advisors				$ 1,193						$ 1,193	0.0%	
PABF-Blackrock Asia II				$ 5,847						$ 5,847	0.2%	
Meisrow RE Value Fund				$ 10,743						$ 10,743	0.4%	
Morgan Stanley PRIME				$ 15,520						$ 15,520	0.5%	
Quadrant R.E Advisors				$ 1,111						$ 1,111	0.0%	
Shamrock-Hostmark				$ 3						$ 3	0.0%	
UBS Realty Advisors				$ 15,657						$ 15,657	0.5%	
CBRE Clarion				$ 14,100					$ 138	$ 14,238	0.5%	
European Investors II				$ -						$ -	0.0%	
Real Estate	**$ -**	**$ -**	**$ -**	**$ 94,236**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 138**	**$ 94,374**	**3.3%**	**5.0%**
Aetos Capital							$ 49,962			$ 49,962	1.7%	
K2 Advisors							$ 50,407			$ 50,407	1.8%	
GMO	$ 33,918	$ 74,860	$ 60,610	$ -	$ -	$ -	$ 20,070	$ -	$ 11,239	$ 200,696	7.0%	
PIMCO	$ 3,009	$ 31,396	$ 65,630	$ 2,093	$ -	$ -	$ 19,492	$ 8,634	$ 392	$ 130,646	4.6%	
Tactical & Alpha	**$ 36,926**	**$ 106,256**	**$ 126,241**	**$ 2,093**	**$ -**	**$ -**	**$ 139,930**	**$ 8,634**	**$ 11,631**	**$ 431,711**	**15.1%**	**19.0%**
Real Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**$ -**	**$ -**	**0.0%**	**4.0%**
Cash									$ 7,679	$ 7,679	0.3%	
Cash	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 7,679**	**$ 7,679**	**0.3%**	**0.0%**
Total Fund	**$ 665,396**	**$ 718,782**	**$ 831,344**	**$ 96,329**	**$ 243,555**	**$ 36,539**	**$ 139,930**	**$ 8,634**	**$ 121,636**	**$ 2,862,144**	**100.0%**	**100.0%**
% of Total	23.2%	25.1%	29.0%	3.4%	8.5%	1.3%	4.9%	0.3%	4.2%	100%		

HISTORICAL ASSET ALLOCATION BY ASSET CLASS



*History unavailable prior to 1995

Summary of 2014 Investment Activity

Investment Manager Changes Throughout 2014, three new managers were hired and four managers were terminated, all within the Fixed Income Allocation. GAM Unconstrained Bond, Manulife Strategic Fixed Income and MacKay Shields Unconstrained Bond were all retained following the Board approved restructure of the Fixed Income allocation. Within the non-U.S. portfolio, the core portfolios managed by Capital Guardian, McKinley Capital, and JP Morgan were terminated (after the Board voted to restructure the non-U.S. portfolio, per the recommendation of NEPC), and replaced by a non-U.S. small capitalization portfolio managed by Acadian, and emerging market portfolios managed by Earnest Partners and Lazard.

Market Environment

2014 brought a bounty of good economic news for the US: domestic equities topped off another rousing year, yields on fixed income securities narrowed, the economy grew at a healthy pace and unemployment receded further. Consumer confidence at home hit levels last seen before the great recession and the economy added the most jobs since 1999.

During the year, diversification continued to be a headwind for investment portfolios, as US stocks continued to lead the way. For the year, The S&P 500 gained 13.7% and the Russell 2000 was up 4.9%. By contrast, emerging market equities were in negative territory returning -2.2%, while non US equity returned -4.9%; the majority of this underperformance due to a strengthening dollar. Within fixed income we saw a similar swing in results, as credit and MBS outperformed government bonds, while non U.S. sovereign bonds underperformed U.S. Treasuries.

Global Equity Markets

US stocks posted modest gains in the three months ended March 31, 2014, but there was a shift in dynamics, especially in the final week of the quarter. Following a strong 2013, stocks started the year with a drop in January amid concerns regarding the Fed tapering. They rebounded in February, hitting new record highs, on the heels of the Fed stating it would maintain current short-term interest rates near zero well beyond unemployment dropping below 6.5%, especially if inflation remains below 2%. Equities oscillated again in March, falling after the Fed touched on the possibility of raising interest rates. In anticipation of rising interest rates, investors sold their positions in small caps, fast-growing stocks and non-earners, while moving into stocks of more moderately-valued, stable companies exhibiting cyclical growth. The S&P 500 Index rose 1.8% while the Russell 2000 gained a modest 1.1%. Value outperformed growth across the market cap spectrum; large caps trumped small caps in the financials, healthcare, materials and technology sectors, while small caps stayed ahead in consumer discretionary, consumer staples, energy, producer durables and utilities.

International equities lagged US markets, returning 0.7%, as measured by the MSCI EAFE Index. Returns within Asia were negative, with Japan declining 5.6% amid skepticism surrounding the potential for future structural and political reform. Europe led non-US equities as France and peripheral countries recorded robust gains. Italy and Ireland were two of the best markets for the quarter, with stocks returning roughly 14% so far this year. In developed and emerging markets, small cap significantly outperformed large cap. Despite rallying in March, emerging markets ended the quarter down 0.4% after absorbing volatility throughout the quarter. Russia was the worst performing market with a -14.4% return, while Indonesia gained a hefty 21.3%. Within emerging markets, consumer discretionary, healthcare and technology sectors beat energy and materials.

US equities advanced in the second quarter amid improving economic data underscoring growth in the United States and Europe. Equity indices scaled new highs and price-to-earnings multiples are at the higher end of their historical ranges. Earnings growth guidance is holding up as corporate managers came out of the first quarter with a constructive view for the rest of the year.

Initially, momentum investors, anxious of the Fed accelerating its pace of tapering bond purchases, rotated from growth into the perceived safety of lower price-to-earnings and higher-yielding equities in the value sectors from March through May. This aided the energy and utilities sectors, which led performance in the second quarter. The appetite for the narrow segment of momentum stocks in biotech and technology returned mid-May as investors focused on high-growth and high yielding stocks. For the quarter ended June 30, large cap stocks outperformed small cap stocks, with the S&P 500 Index returning 5.2% versus 2.1% for the Russell 2000 Index. So far this year, value has outpaced growth across the capitalization spectrum.

International equities gained 4.1% in the second quarter, according to the MSCI EAFE Index, underperforming domestic and emerging markets. Japan was one of the better performing regions of the market, returning roughly 6.6% during the quarter, amid positive remarks on structural reform from Prime Minister Abe. Emerging markets rallied to a 12-month high; returns during the quarter were bolstered by improving conditions in the Ukraine, positive election results in India, and better economic conditions in China. Turkey and India were the best performing markets, returning 15% and 13%, respectively. Technology, energy and utilities led the way in sector performance, each clocking gains of over 10%. The consumer segment of the market lagged, returning around 4% during the quarter.

US equity markets appeared fairly calm on the surface with the S&P 500 Index up 1.1% for the three months ending September 30. There were hints of turbulence earlier in the third quarter when the S&P 500 fell by over 2% in August. Riskier small-cap equities significantly underperformed large-cap equities amid growing concerns around economic growth in Europe and China. To this end, the Russell 2000 index fell 7.4%. The energy sector was the worst performer as oil prices dropped amid rising global supplies. In terms of style, growth bested value in both large and small stocks.

Beyond the US, equities in developed and emerging markets underperformed due to, in part, currency weakness as the MSCI EAFE and the MSCI EM lost 5.8% and 3.5%, respectively. The losses came on the back of intensifying tensions in the Middle East and the Ebola virus outbreak in West Africa. Also, weak economic data in Europe pushed the ECB to continue easing its monetary policy. Europe was the worst performing developed market region, returning -7.0% in the third quarter. Meanwhile, subdued economic data in Japan resulted in a weaker yen, which bolstered exports and limited losses to 2.3% for the quarter.

US stocks continued their winning streak in the fourth quarter amid positive economic data. Investors moved towards defensive equities, companies that benefitted from lower energy prices, and bond-proxy stocks such as healthcare, staples, utilities, REITs and consumer discretionary. Energy was the worst performing sector, bearing the brunt of increasing oil supply, a stronger US dollar and deteriorating global macroeconomic conditions. Small-cap stocks outperformed large-cap equities for the quarter but fell behind in the year as a whole. The S&P 500 Index outperformed the Russell 2000 Index by nearly 9% last year, the widest margin since 1998. Value equities narrowly outperformed growth among large-cap and midcap stocks in 2014, while growth bested value in small-cap equities.

Stocks of developed and emerging markets didn't fare as well, losing 3.6% and 4.5%, respectively, during the quarter, as continuing weakness in commodities and a strong US dollar eroded returns. In local currency terms, developed markets performed relatively better with the Eurozone roughly flat while

Japanese stocks gained nearly 5%. The energy and materials sectors were the weakest performers in developed and emerging markets. Among countries, Russia traded off 33% while the ruble declined nearly 32%. A bright spot in emerging markets was the financial sector in China, which gained amid speculation of a supportive monetary policy.

Equity Index Returns as of 12/31/2014				
Global Equity	**Quarter**	**1 Year**	**3 Yrs**	**5 Yrs**
MSCI World	0.7%	2.9%	14.9%	9.3%
US Equity	**Quarter**	**1 Year**	**3 Yrs**	**5 Yrs**
S&P 500	4.9%	13.7%	20.4%	15.5%
Dow Jones Industrial Average	4.6%	7.5%	15.3%	14.2%
NASDAQ Composite	5.4%	13.4%	27.3%	21.7%
Russell 1000 Growth	4.8%	13.1%	20.3%	15.8%
Russell 1000 Value	5.0%	13.5%	20.9%	15.4%
Russell 2000	9.7%	4.9%	19.2%	15.6%
Russell 2000 Growth	10.1%	5.6%	20.1%	16.8%
Russell 2000 Value	9.4%	4.2%	18.3%	14.3%
International Equity	**Quarter**	**1 Year**	**3 Yrs**	**5 Yrs**
MSCI EAFE	-3.6%	-4.9%	11.1%	5.3%
MSCI Emerging Markets	-4.5%	-2.2%	4.0%	1.8%
MSCI Europe	-4.4%	-6.2%	13.3%	5.9%
MSCI UK	-4.2%	-5.4%	10.5%	7.9%
MSCI Japan	-2.4%	-4.0%	10.7%	6.1%
MSCI Far East	-1.7%	-2.6%	11.4%	6.7%

Global Fixed Income Markets

Bond markets rallied in the first quarter, seemingly moving beyond the challenges faced by a majority of fixed income sectors in 2013. Early in the quarter, investors snapped up safer, higher-quality assets amid concerns around an economic slowdown in China and the unseasonably harsh winter in the US. This flight to quality was further reinforced following the crisis in Ukraine and Russia taking control of Crimea. A small portion of the gains in Treasuries was lost in March when markets interpreted Janet Yellen's first statements to Congress as Fed chairwoman as a signal that the Fed may increase the federal funds rate earlier than expected.

The 10-year US Treasury yield decreased 31 basis points to 2.72% during the first quarter. Intermediate-term Treasury Inflation-Protected Securities, or TIPS, gained 1.0% during the quarter, recouping some of the losses of 2013. Credit spreads tightened and yields fell during the quarter, fueling robust gains in credit markets. Investment grade credit spreads narrowed to 103 basis points, the lowest they have been since before the financial crisis. The US Credit Index gained 2.9% and the Long Duration Credit Index returned 6.3% in the first quarter. Agency mortgage-backed securities gained 1.6% in the first quarter. High yield bonds returned 3.0% during the quarter, outperforming leveraged loans. The yield spread, or yield advantage, of high yield bonds over Treasuries fell to 3.58% from 3.82% at the end of 2013. This spread tightening was fueled by steady demand for the asset class amid low default rates and healthy fundamentals in corporate credit. The Credit Suisse Leveraged Loan Index gained 1.3% during the first quarter. Lower-rated securities outperformed higher quality issues during the quarter in line with last year's trend. Demand for floating-rate assets continues to be robust; bank loans have now experienced over 90 consecutive weeks of inflows from mutual funds and issuance of collateralized loan obligations remains strong.

Fixed income markets continued to rally through June on the heels of a robust first quarter. Despite expectations for higher interest rates, Treasuries rallied in the second quarter, spurring strong performance across bond sectors. The 10-year Treasury yield fell almost 20 basis points during the quarter, finishing at 2.5%. The Treasury yield curve flattened as two year yields rose slightly to 0.47% from 0.44%. Treasury Inflation-Protected Securities, or TIPS, outperformed nominal Treasuries due to increased inflation (expectations and actual), with the Barclays US TIPS Index posting gains of 3.8% over the period.

The additional monetary accommodation implemented by the ECB in June fueled gains in Eurozone sovereign debt and helped to extend a rally in emerging markets debt. Emerging market debt has been the clear winner in the first half of the year following a challenging 2013. In addition to the accommodative action by the ECB, declining Treasury yields and economic stability in several emerging market countries provided a tailwind for the asset class. Coming off a strong February and March, local currency (JP Morgan GBI-EM GD Unhedged) and external currency (JP Morgan EMBI+) emerging markets debt had a stellar second quarter, returning 4.0% and 5.8%, respectively.

Risk aversion permeated fixed income markets in the third quarter amid growing concerns around geopolitical events and global economic growth. As a result, demand for long-dated US Treasuries increased, while the fear of interest rate hikes triggered a selloff in shorter-dated maturities. To this end, the Treasury yield curve flattened with the spread between two- and 10-year rates falling 16 basis points to 1.92%. The yield on the 10-year Treasury dropped four basis points during the quarter, finishing at 2.49%. Treasury Inflation-Protected Securities, or TIPS, significantly underperformed nominal Treasuries amid lower inflation expectations due to a stronger US dollar, lower energy prices, and underwhelming growth prospects in Europe. The Barclays US TIPS Index posted a loss of 2.0% for the three months ended September 30.

Government bonds of developed markets rallied in the fourth quarter against a backdrop of diverging policy among central banks, global growth concerns outside of the US, and a steep decline in energy prices.

The yield on the 10-year US Treasury dropped 35 basis points during the quarter, finishing at 2.17%. Rates on shorter-dated Treasuries rose on expectations that the Fed would start raising rates in mid-2015. In addition, expectations of lower inflation pulled down rates on the long-end, flattening the yield curve. The spread between two- and 10-year rates fell 44 basis points to 1.50%. Treasury Inflation-Protected Securities, or TIPS, underperformed nominal Treasuries as falling energy prices weighed on the outlook for inflation. The Barclays US 1-10 Year TIPS Index posted a loss of 1.0% for the three months ended December 31, 2014.

Fixed Income Index Returns as of 12/31/2014				
Global Fixed Income	**Quarter**	**1 Year**	**3 Yrs**	**5 Yrs**
Citi WGBI	-1.5%	-0.5%	-1.0%	1.7%
JPM EMBI Plus	-0.9%	6.2%	5.0%	8.1%
Domestic Fixed Income	**Quarter**	**1 Year**	**3 Yrs**	**5 Yrs**
BC Aggregate Bond	1.8%	6.0%	2.7%	4.5%
BC US Agg. Treasury	1.9%	5.1%	1.4%	4.2%
BC US Credit	1.8%	7.5%	5.1%	7.1%
BC Mortgage Backed	1.8%	6.1%	2.4%	4.0%
BC Interm. Gov't/Credit	0.9%	3.1%	2.1%	3.8%
BC 1-10 Yr TIPS	-1.0%	0.9%	0.0%	2.8%
BC High Yield	-1.0%	2.5%	8.4%	9.0%
S&P LSTA Lev. Loan	-0.5%	1.6%	5.8%	6.2%
3 Month T-Bills	0.0%	0.0%	0.1%	0.1%
10-Year Bond Yields	**Dec-14**	**Sep-14**	**Dec-13**	**Dec-12**
US	2.2%	2.5%	3.0%	1.8%
Germany	0.5%	0.9%	1.9%	1.3%
UK	1.8%	2.4%	3.0%	1.8%
Japan	0.3%	0.5%	0.7%	0.8%

Total Fund Performance (gross of fees) For 2014, on a gross of fee basis, the Total Fund returned 6.6% which outperformed the policy index return of 4.9%. This ranked the Fund in the 29th percentile (1% being the highest, 100% being the lowest) of the IF Public DB Universe. The median (50%) return of the IF Public Fund for this time period was 5.8%. Over the trailing three year period, the Fund's 11.3% return outperformed the policy index return of 10.2%. This ranked the Fund in the 44th percentile of the IF Public DB Universe. The median (50%) return of the IF Public Fund for this time period was 11.0%. Over the trailing five years, the Fund's 9.5% return outperformed the policy index return of 8.6% and ranked the Fund in the 42nd percentile. The median (50%) return of the IF Public Fund for this time period was 9.2%.

Asset Class Performance (gross of fees) The Fund's U.S. equity portfolio returned 10.6%, which underperformed the Russell 3000 Index return of 12.6%. The non-U.S. equity portfolio returned -1.3% outpacing the MSCI ACWI Ex U.S. return of -3.9%. The combined equity portfolio, including domestic and non-U.S., returned 4.8%, outperforming the MSCI ACWI Index return of 4.2%. Within the fixed income portfolio, the composite's return of 6.3% outperformed the Barclays Capital Aggregate Index return of 6.0%. The total real estate portfolio returned 13.2%% for the year, underperforming the NCREIF Property Index return of 11.3%. The private equity portfolio, which is valued on a lagged basis, returned 20.4% for the year, outperforming the Thomson One All Private Equity Index return of 18.5%. The infrastructure portfolio returned 23.1% for the year, outperforming the NCREIF Property Index return of 11.3%. The Fund's hedge fund portfolio returned 4.6%, outperforming the HFRI Fund of Funds Index return of 3.4%. The global asset allocation portfolio returned 1.1%, trailing the 2.3% return of a blended 60% MSCI ACWI/40% Citi WGBI index.

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.

ANNUAL INVESTMENT RETURNS[1]

Calculations are prepared utilizing a time weighted rate of return

ANNUAL INVESTMENT RETURNS - December 31, 2014

	2007	2008	2009	2010	2011	2012	2013	2014	*Cumulative Annualized Returns* 3 Years	5 Years	10 Years
TOTAL FUND											
Police Fund	9%	-28%	22%	13%	1%	12%	15%	6%	11%	9%	6%
Policy Portfolio	11	-21	17	13	0	13	13	5	10	9	7
IF Public DB Universe Median	9	-26	20	13	1	12	16	6	11	9	6
Inflation	4	0	3	1	3	1	2	2	2	2	2
U.S EQUITY											
Police Fund	8%	-38%	33%	17%	0%	15%	34%	10%	19%	15%	8%
Russell 3000 Index	5	-37	28	17	1	16	34	13	21	16	8
eVestment US Equity Universe Median	5	-38	29	20	0	0	36	10	20	16	9
NON-U.S EQUITY											
Police Fund	16%	-46%	40%	12%	-14%	21%	18%	-2%	12%	6%	5%
Performance Benchmark	17	-46	41	11	-14	17	15	-4	9	4	5
eVestment Non US Equity Universe Median	14	-44	37	11	-12	20	25	-4	13	7	6
FIXED INCOME											
Police Fund	5%	-4%	12%	8%	8%	7%	-1%	6%	4%	5%	5%
Barclays Capital Aggregate Bond Index	7	5	6	7	8	4	-2	6	3	4	5
eVestment Bond Universe Median	7	0	12	9	7	6	0	4	4	5	5
REAL ESTATE											
Police Fund[2]	-6%	-11%	-9%	7%	6%	10%	7%	12%	10%	9%	--
NCREIF Net Property Index	16	-7	-17	13	16	11	8	11	11	11	9
INFRASTRUCUTRE											
Police Fund	--	-15%	-6%	15%	9%	-3%	19%	23%	12%	12%	9%
NCREIF Net Property Index	16	-7	-17	13	16	11	8	11	11	11	9
PRIVATE EQUITY											
Police Fund	21%	-7%	-21%	13%	17%	17%	15%	20%	15%	15%	
Thompson One All Priavate Equity Lag	37	2	-26	16	12	14	11	19	16	15	13
HEDGE FUND											
Police Fund	--	--	11%	5%	-3%	8%	12%	5%	8%	5%	--
HFRI Fund of Funds Composite Index	10	-21	12	6	-6	5	9	3	6	3	3
GLOBAL ASSET ALLOCATION											
Police Fund	--	--	--	--	--	13%	8%	1%	7%	--	--
60% MSCI ACWI(Net)/40% CITI WGBI	12	-24	21	10	-2	10.0	11.0	2.0	8	6	5

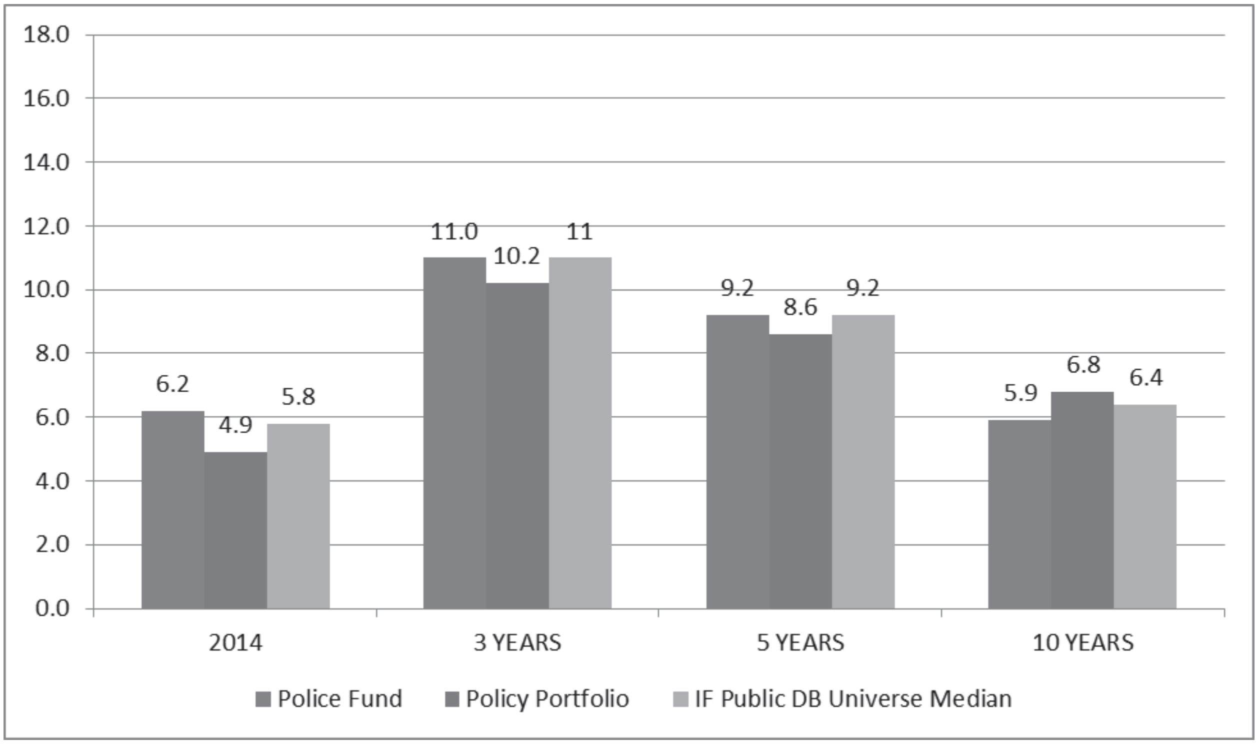
Asset Allocation	2007	2008	2009	2010	2011	2012	2013	2014
US Stocks	45%	41%	41%	42%	27%	24%	24%	22%
Non US Stocks	18%	15%	18%	20%	19%	22%	21%	22%
Private Equity	5%	8%	6%	7%	8%	8%	8%	9%
Fixed Income	31%	30%	28%	23%	29%	26%	24%	28%
Infrastructure	--	<1%	1%	1%	2%	2%	1%	1%
Opportunistic	--	3%	3%	4%	12%	13%	14%	15%
Real Estate	2%	3%	3%	3%	4%	4%	4%	3%

[1] *All Chicagp PABF performance presented net of fees. IF and eVestment 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, 2014



NEPC, LLC

Real Estate Investments

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

2014 U.S. Real Estate Market Review

Real estate fundamentals continued to improve in 2014, building on a trend that's been ongoing since the global financial crisis. Occupancy rates were up across property types, with apartments near their structural occupancy limits, while new construction remains below long-term averages for all properties excluding apartments. This market dynamic has allowed landlords to continue to push rents, with office, apartment, and industrial properties experiencing annual rental growth above long-term averages (and retail rental growth just turning positive in 2014). As a result, broad commercial real estate continues to experience strong NOI growth, and the case can be made for continued above average NOI growth in the near-term. The concern for US real estate continues to be whether net income growth will offset potentially higher capitalization rates (which would potentially be triggered by an increase in interest rates).

While core real estate properties have generally stabilized (and are characterized by historically low cap rates in many markets), NEPC continues to believe that select non-core opportunities remain in the US, particularly for niche-focused and historically conservative managers with a proven ability to understand local markets and invest conservatively while avoiding overheated markets. Outside of the US, NEPC still views Europe as the best candidate for a marginal dollar of real estate investment. The opportunity in Europe is more focused on asset mispricing, rather than future expected growth, and is limited in duration as capital continues to enter the market.

Chicago PABF Real Estate Portfolio Summary

As of year-end 2014, PABF's real estate portfolio had a total reported value of $96.0 million (~3.4% of total plan assets). In addition, PABF had unfunded commitments to real estate of $27.2 million, bringing the total plan real estate exposure to $123.2 million (or 4.3% of total plan assets), though it's likely that not all of this capital will be called. PABF's target allocation to real estate is 5.0% of total plan assets. The real estate portfolio was split 34% in core, 29% in value-add, 22% in opportunistic, and 15% in REIT/REOC investments. The total real estate portfolio observed an internal rate of return of 9.6% during 2014.

Core Real Estate

U.S. core commercial real estate continued to experience strong post-recession performance in 2014. The NCREIF Property Index ("NPI") had a total gross return of 11.8% in 2014. The NCREIF Fund Index Open-End Diversified Core ("ODCE") had a total net return of 11.5% in 2014.[1] Capital continued to flow into core real estate in 2014 (a trend that has continued since 2010) with open-end core funds reporting large entrance queues. The table that follows shows the performance of PABF's core funds for 2014 relative to the NPI and ODCE. It should be noted that the UBS Trumbull Property Fund is a low-leverage fund that will lag more highly-levered funds in improving markets.

Investment Fund	Vintage Year	Commit-ment	Fund 2014 Return	NPI Gross 2014 Return	ODCE Net 2014 Return
Prime Property Fund	2006	$13.5	14.2%	11.8%	11.5%
Quadrant Fund	2006	$13.4	13.6%	11.8%	11.5%
UBS Trumbull Property Fund	2006	$14.3	9.5%	11.8%	11.5%

Note: commitment in millions.

Value-Add Real Estate

The table below shows the performance of PABF's value-add real estate funds for 2014 and since inception relative to the applicable vintage year index benchmark. The AG Core Plus Realty Fund II and the two debt funds (DMR Mortgage Opportunity Fund and Mesa West Real Estate Income Fund II) are included with the value-add investments for lack of an applicable benchmark.

Investment Fund	Vintage Year	Commit-ment	Fund 2014 Return	Fund Return Since Inception	Benchmark Vintage Year Return Since Inception
AG Core Plus Realty Fund II	2006	$15.0	18.3%	8.0%	(3.5%)
ABR Chesapeake Fund III	2006	$10.0	6.0%	3.2%	(3.5%)
DRA G&I Fund VI LLC	2007	$5.0	50.3%	10.86%	3.3%
Mesa West R.E. Inc. Fund II	2008	$20.0	(4.8%)	15.6%	10.2%
DMR Mortgage Opportunity	2009	$10.0	NA	53.7%	19.2%
Mesirow Financial RE Value	2012	$10.0	13.1%	11.0%	14.2%

Note: Commitment in millions. For benchmarking purposes, we compared Fund performance to the Cambridge Associates Value-Add Real Estate Fund universe (as of December 31, 2014).

[1] The NPI consists of property-level returns of core assets and does not include the effects of leverage, while the ODCE represents actual fund-level returns and does reflect the use of leverage.

Opportunistic Real Estate
The table that follows shows the performance of PABF's opportunistic real estate funds for 2014 and since inception relative to the applicable vintage year index benchmark.

Investment Fund	Vintage Year	Commit-ment	Fund 2014 Return	Fund Return Since Inception	Benchmark Vintage Year Return Since Inception
Newport Capital / DV Urban I	2006	$15.0	8.7%	(25.2%)	0.6%
Apollo Europe R.E. Fund III	2007	$10.0	1.2%	2.4%	2.7%
BlackRock Asia Fund III	2007	$10.0	16.9%	6.9%	2.7%
Morgan Stanley R.E. VI	2007	$11.0	5.6%	(19.2%)	2.7%
Shamrock Hotel Fund	2007	$5.0	NA	(55.4%)	2.7%
Lone Star Fund VI (U.S.)	2008	$10.0	(0.8%)	13.1%	4.9%
Lone Star R.E. Fund (U.S.)	2008	$5.0	0.9%	5.1%	4.9%

Note: Commitment in millions. For benchmarking purposes, we compared Fund performance to the Cambridge Associates Opportunistic Real Estate Fund universe (as of December 31, 2014). BlackRock Asia Fund III was formerly the MGPA Asia Fund III.

Real Estate Securities
In 2014, the real estate securities markets had strong overall performance, with the FTSE NAREIT All Equity REIT Index ("FNERTR") posting a 28.0% return for the year. The index had positive returns in 11 months out of the year, following a mixed (and nearly flat) 2013. REITs have generated an average annual return of 13.5% over the past 20 years. The EII World Fund was liquidated during 2014, and the table below shows performance for the remaining real estate securities investment, compared to the FTSE NAREIT All Equity REIT Total Return Index.

Investment Fund	Vintage Year	Commit-ment	Fund 2014 Return	FNERTR 2014 Return
ING Clarion Global RE Securities	2008	$20.0	14.9%	28.0%

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

Largest Stock Holdings as of December 31, 2014

	Shares	Stocks	Fair Value
1	41,292	ADR BAIDU SPONSERED ADR	$ 9,413,337
2	61,872	BATER AG NPV	8,460,108
3	1,428,462	AIA GROUP LTD	7,948,334
4	5,954	SAMSUNG ELECTRONIC	7,188,244
5	86,060	NESTLE SA	6,318,198
6	518,037	ADRICIC BK LTD	5.983,327
7	63,700	EXXON MOBIL CORP	5,889,065
8	58,400	HONEYWELL INTL INC	5,835,328
9	43,700	AMERIPRISE FINL INC	5,779,325
10	21,287	VISA INC	5,581,451

Largest Bond Holdings as of December 31, 2014

	Par	Bonds	Fair Value
1	18,251,000	UNITED STATES TREAS NTS 1.0% DUE 12-15-2017	$ 18,208,220
2	17,951,000	UNITED STATES TREAS .625% DUE 12-31-2016	17,927,161
3	14,060,000	UNITED STATES TREAS .375% DUE 10-31-2016	14,001,778
4	12,237,000	UNITED STATES TREAS NTS 1.5% DUE 11-30-2019	12,159,564
5	8,700,000	UNITED STATES TREAS NTS 1.00% DUE 9-15-2017	8,704,759
6	7,600,000	FNMA SINGLE FAMILY MORTGAGE 4.5% 30 YEARS	8,249,564
7	7,225,000	UNITED STATES TEAS 1.25% DUE 4-30-2019	7,140,894
8	6,125,000	UNITED STATES TREAS NTS 0.125% DUE 4/15/2019	6,138,516
9	5,600,000	FNMA SINGLE FAMILY MORTGAGE 4% 30 YEARS	5,976,622
10	5,400,000	FNMA SINGLE FAMILY MORTGAGE 3% 30 YEARS	5,462,440

A complete list of portfolio holdings is available upon request.

Commissions Paid by Investment Managers in 2014

Manager	Total Number of Trades	Total Number of Shares	Total Commissions
Ariel Capital Management	3,179	58,927,125	$ 79,199
Artisan Partners	2,365	11,685,600	139,899
Cordillera	1	174	3
Denali Advisor	275	1,364,350	24,431
Earnest Partners	231	8,292,686	14,682
Fischer Investments	142	1,043,895	20,869
Great Lakes Advisors	155	714,921	25,022
Harbourvest Global	9	1,314,049	30,781
Holland Capital Management	94	346,052	9,773
ING Clarion	1,001	1,178,758	11,163
JP Morgan Global Asset Management	1	77,636	1,389
Lazard Asset Management	2,077	16,549,724	123,484
Montag & Caldwell	206	492,748	13,596
Transition Account	14	96,960	3,521
UBS Global Asset Management	548	8,888,684	58,489
William Blair & Company	3,644	14,812,966	278,875
	13,942	**125,786,328**	**$ 875,176**

Commissions Paid to Brokers in 2014

Broker	Total Number of Shares	Total Commissions
Barclays Capital	6,640,117	$ 15,076
Cabrera Capital Markets	1,683,575	32,349
Cheevers & Co.	755,333	25,530
Citigroup Global Markets	7,874,614	15,402
CLSA Securities	11,946,949	19,895
Credit Suisse	8,320,266	62,487
Deutsche Bank	3,777,884	23,337
Goldman Sachs & Co.	7,082,878	46,137
G-Trade Services Ltd	3,474,570	61,166
HSBC	561,797	8,933
Instinet	6,999,294	19,597
Investment Technology Group	2,424,627	12,654
JP Morgan Securities	4,990,123	50,017
Jefferies & Co.	316,360	8,296
Liquidnet Inc.	1,520,975	14,200
Loop Capital Markets	1,376,078	45,670
Macquarie Securities	4,906,854	13,644
Merrill Lynch	5,310,284	43,683
Morgan Stanley	14,647,328	52,940
Northern Trust Company	1,314,049	30,781

Commissions Paid to Brokers in 2014 (Con'd)

Broker	Total Number of Shares	Total Commissions
Pershing LLC	1,506,274	9,735
Societe Generale	1,225,355	7,401
Topeka Capital Markets	191,100	9,555
UBS	5,259,774	34,529
Brokers with less than $7,000 in commissions	21,679,870	172,162
Totals	**125,786,328**	**$ 835,176**

Investment Summary
as of 12/31/14

Investment Type	Fair Value	Percent of Total Fair Value
Fixed Income		
Government Bonds	$ 352,303,045	11.9%
Corporate Bonds	367,684,465	12.4%
Total Bonds	719,987,510	24.3%
Fixed Income Funds	191,250,913	6.4%
Total Fixed Income	911,238,423	30.7%
Equities		
U.S. Equities	474,142,865	16.0%
International Equities	635,744,045	21.4%
Stock Index Funds	383,681,517	12.9%
Total Equities:	1,493,568,427	50.3%
Other Investments		
Hedge Fund-of-Funds	100,368,763	3.4%
Infrastructure	36,538,895	1.2%
Real Estate	94,281,030	3.2%
Swaps	1,970,410	0.1%
Forward Contracts	14,089,070	0.5%
Venture Capital	182,463,748	6.1%
Total Other:	429,711,916	14.5%
Short-term funds and Cash:	135,835,426	4.5%
Total Assets at Fair Value:	$ 2,970,354,192	100.0%

Actuarial Section

GRS

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April 28, 2015

Board of Trustees
Policemen's Annuity and Benefit Fund
City of Chicago
221 North LaSalle Street, Suite 1626
Chicago, IL 60601-1404

Subject: Actuarial Valuation Report for the Year Ending December 31, 2014

Dear Members of the Board:

At your request, we have performed an actuarial valuation of the Policemen's Annuity and Benefit Fund of Chicago ("the Fund") as of December 31, 2014. This valuation has been performed to measure the funded status of the Fund and to determine the contribution levels for 2015. In addition, it includes disclosure information required under GASB Statement No. 27, Statement No. 43 and Statement No. 45 for the fiscal year ending December 31, 2014. 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. 27 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. 27 and No. 45
- 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
- Development of Statutory Contributions Requirements
- 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 – Actuarial value of assets are used to develop actuarial results for the determination of statutory contribution requirements as well as for financial reporting under GASB 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, as required by Statute, is the Projected Unit Credit cost method. The objective of this method is to uniformly amortize the costs of Fund benefits over the entire career of each member. 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. The actuarial method utilized for all GASB reporting purposes is the Entry-Age Normal method.

Actuarial Assumptions – The actuarial assumptions, including reducing the investment return assumption from 7.75% to 7.50%, have been changed since the last report. These changes reflect the results of the experience study performed for the period of January 1, 2009 through December 31, 2013, approved by the Board on March 16, 2015, and first effective with this 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, 2014.

Public Act 96-1495, effective as of January 1, 2011, requires that the City finance plan benefits on an actuarial basis commencing with tax levy year 2015. The funding policy requires that future employer contributions, employee contributions and other fund income is sufficient to produce 90% funding by fiscal year end 2040. The projections are based on an open group, level percent of pay financing and the Projected Unit Credit cost method. This valuation report contains the projected funding requirements under the Public Act 96-1495 and the applicable contributions for tax levy year 2016.

The valuation is based on the statutes in effect as of December 31, 2014, and does not consider any pending legislative changes as of the release date of the report. Upon Board approval, GRS may reissue the report or provide a supplemental report to reflect substantive statutory changes.

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

To the best of our knowledge this report is complete and accurate and was prepared in accordance with (1) standards of practice promulgated by the Actuarial Standards Board and (2) the statutory requirements. The actuarial assumptions used for the valuation produce results which, in the aggregate, are reasonable. Alex Rivera and Lance Weiss are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. The signing actuaries are independent of the plan sponsor.

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 statutory funding and State reporting purposes is the Projected Unit Credit cost method. The Actuarial Cost Method used for GASB accounting purposes is the Entry-Age Normal cost method.

Under the Projected Unit Credit Cost Method, each participant's projected benefit is allocated in proportion to service as of the valuation date. The Actuarial Accrued Liability is the present value of the portion of benefits allocated for periods of service as of the valuation date. The Normal Cost is the present value of the benefits allocated for service during the current plan year.

Under the Entry Age Normal Cost Method, each participant's projected benefit is allocated on a level percent of pay basis from entry age to assumed exit age. The Actuarial Accrued Liability is the portion of the present value associated with pay prior to the valuation date. The Normal Cost is the portion of the present value associated with pay during the current plan year.

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. The total contribution developed under this method is the sum of the Normal Cost and the payment toward the UAAL.

II. CURRENT ACTUARIAL ASSUMPTIONS

The current actuarial assumptions were adopted and became effective December 31, 2014, and were based on an experience study for the period January 1, 2009, to December 31, 2013.

A. Demographic Assumptions

Mortality:	**Pre-Retirement mortality rates:** Sex distinct Retirement Plans 2014 Total Employee mortality table weighted 85% for males and 115% for females. **Post-Retirement Healthy mortality rates:** Sex distinct Retirement Plans 2014 Healthy Annuitant mortality table weighted 108% for males and 97% for females. When compared to observed experience, the recommended rates include a 23% margin for future mortality improvements.
Disabled Mortality:	Sex distinct Retirement Plans 2014 Healthy Annuitant mortality table weighted 115% for males and 115% for females.

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	.0007
32	.0007
37	.0020
42	.0030
47	.0040
52	.0050
57	.0060
62	.0060

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

Duty Disability	55%
Occupational Disease Disability	10%
Ordinary Disability	35%

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]
50	.05
51	.05
52	.05
53	.05
54	.05
55	.19
56	.19
57	.19
58	.25
59	.25
60	.25
61	.30
62	.30
63	1.00

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

For members hired on or after January 1, 2011:

ATTAINED AGE	RATE [1]
50	.02
51	.02
52	.02
53	.02
54	.03
55	.21
56	.21
57	.21
58	.27
59	.27
60	.25
61	.30
62	.30
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	0.030
1	0.028
2	0.020
3	0.015
4-5	0.010
6-10	0.009
11	0.008
12	0.007
13-24	0.006

B. Economic Assumptions

Investment Return Rate: 7.50% per annum for pensions effective as of December 31, 2014 and 4.50% for OPEB effective as of December 31, 2005.

General Inflation: The 7.50% Investment Return Rate assumption contains a 3.00% inflation assumption and a 4.50% real rate of return assumption for pension.

Future Salary Increases: Assumed rates of individual salary increase at 3.75% per year, plus an additional percentage based on the following service scale:

COMPLETED YEARS OF SERVICE*	SCALE
1	0.3625
2	0.0325
3	0.0325
4	0.0325
5	0.0225
6-9	0.0000
10	0.0225
11-14	0.0000
15	0.0225
16-19	0.0000
20	0.0225
21-24	0.0000
25	0.0225
26-29	0.0000
30	0.0225
Over 30	0.0000

* *Includes increases at 12 and 18 months of service*.

Asset Value: For Book-value of Assets, bonds are at amortized value and stocks are at cost.

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

The actuarial value of assets was marked to the market value as of January 1, 2012, and is smoothed by using a five-year phase-in of each year's unexpected investment gains and losses.

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: Due to P. A. 98-0043 effective June 28, 2013, it is assumed for valuation purposes that the health insurance supplement in effect prior to June 30, 2013, will end on December 31, 2016, for all employee annuitants (and their future surviving spouses). The amount of the Plan paid health insurance from July 1, 2008, until June 30, 2016, is $95.00 per month for each annuitant (employees and surviving spouses) not qualified to receive Medicare benefits, and $65.00 if qualified. It is assumed that all annuitants age 65 and older will be eligible for Medicare and all annuitants less than age 65 will not be eligible for Medicare. Future widows of retirees are assumed to be eligible for Medicare, as well as widow annuitants that are currently receiving a health insurance supplement.

The projections under the provisions of P.A. 96-1495 were based on the following assumptions and methods:

Population: Active members who terminate, retire, become disabled or die during the year are replaced by new entrants such that the number of active members remains level during the projection period based on the most recent actuarial valuation. The number of active members as of the valuation at December 31, 2014 is 12,020.

New Entrant Profile:

(1) The entry age of future new entrants, which is summarized below, is based on the profile of current active members hired over the last five years with one or more years of service as of December 31, 2014. These members were hired from January 1, 2010, through December 31, 2013.

Entry Age	Number
20 to 25	21
25 to 30	669
30 to 35	338
35 to 40	156
40 to 45	3

(2) Approximately 80% of the new entrants are assumed to be male.

(3) Based on the most recent employment contract, new entrants were assumed to earn $46,206 for the plan year ending December 31, 2014. This amount includes pay provided for duty availability pay. The new entrant pay for members hired after 2014 is assumed to increase by the wage inflation assumption of 3.75%.

(4) Pay for a specific new entrant is assumed to increase in the future by the wage inflation and the service based increases disclosed in this actuarial valuation.

(5) The projections assume a pay cap of $110,631 for plan year 2014, increasing by 1.5% per year after plan year 2014. The annual increase of 1.5% per year is based on 50% of the CPI-U increase which is assumed to be 3.0% per year.

Administrative Expenses: Statutory funding projections include an explicit administrative expense assumption of $4,241,000 for plan year end December 31, 2014, increased by 3.0% per year.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
HISTORY OF AVERAGE ANNUAL SALARIES

Year End	Members in Service	Increase	Current Year Salary	Increase	Average Salary	Increase	Actuarial Assumptions	CPI Chicago
1985 [1]	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
2012	12,026	(1.7)	1,015,170,686	(1.9)	84,415	(0.1)	5.50	1.7
2013	12,161	1.1	1,015,426,126	0.0	83,499	(1.1)	5.50	0.5
2014	12,020	(1.2)	1,074,333,318	5.8	89,379	7.0	4.80 [4]	1.5
Average Increase (Decrease) for the last 5 years:		**(1.8)%**		**1.2 %**		**3.1 %**		**1.4 %**

[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 $1,074,333,318 current year salary, $37,730,861 is duty availability pay.*
[4] *See Appendix 4 in 2014 Actuarial Valuation for a complete description of the current assumptions.*

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SUMMARY OF CHANGES IN ACTIVE PARTICIPANTS
FOR FISCAL YEAR ENDING DECEMBER 31, 2014

	Male	Female	Total
Number of Participants at Beginning of Fiscal Year [2]	**9,328**	**2,833**	**12,161**
Increases:			
Participants Added During Year	239	66	305
Participants Returning From Inactive or Disability Status	24	9	33
Totals	9,591	2,908	12,499
Decreases:			
Terminations During Year	330	149	479
Number of Participants at End of Fiscal Year	**9,261**	**2,759**	**12,020**
Total Inactive Participants			630
Terminations:			
Withdrawal (With Refunds)[1]	22	4	26
Withdrawal (Without Refunds)	60	22	82
Ordinary Disability Benefit	9	9	18
Occupational Disease Disability Benefit	2	1	3
Duty Disability Benefit	4	2	6
Retirements	220	108	328
Deaths (Occupational)	0	0	0
Deaths (Non-occupational)	13	3	16
Totals	**330**	**149**	**479**

[1] This total differs from the total of 70 shown in Exhibit D in 2014 Actuarial Valuation due to the fact that only 26 of the refunds were paid to participants who were considered to be active as of December 31, 2013.

[2] Includes five active members reclassified from male to female and four active members reclassified from female to male.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SUMMARY OF CHANGES IN ANNUITANTS AND BENEFICIARIES
FOR FISCAL YEAR ENDING DECEMBER 31, 2014

	Number at Beginning of Year	**Additions During Year**	**Terminations During Year**	**Number at End of Year**
Service Retirement Annuities	9,194	392	275	9,311
Widow Annuities	3,130	128	149	3,109
Children's Annuities	206	17	26	197
Ordinary Disability Benefit (Non-Occupational)	46	22	20	48
Occupational Disease Disability Benefit	35	4	3	36
Duty Disability Benefit (Occupational)	269	15	25	259
Children's Disability Benefit	213	18	27	204
Widows' Compensation Annuities (Service Connected Death)	66	0	0	66
Totals	**13,159**	**596**	**525**	**13,230**
Annual Benefits	**$ 622,189,283**	**$ 40,659,334**	**$ 18,637,572**	**$ 644,211,045**

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
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
2012	12,663	811	508	12,966	12,830
2013	12,966	683	490	13,159	13,078
2014	13,159	596	525	13,230	13,195

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
HISTORY OF RETIREES AND BENEFICIARIES
ADDED TO AND REMOVED FROM BENEFIT PAYROLL

	Added to Payroll		Removed from Payroll		Payroll End of Year		Average Annual	Increase to Avg.
Yr.	No.	Annual Benefits.	No.	Annual Benefits	No.	Annual Benefits	Benefits	Benefits
Employee Annuitants (Male and Female)								
2011	500	42,603,517	232	10,471,101	8,763	482,875,300	55,104	3.9%
2012	539	43,830,960	267	12,652,422	9,035	514,053,838	56,896	3.3%
2013	401	36,004,890	242	11,690,500	9,194	538,368,228	58,556	2.9%
2014	392	34,915,092	275	13,594,175	9,311	559,689,145	60,111	2.7%
Widow/Widower Annuitants (Not Including Compensation) [1]								
2011	144	3,709,829	132	2,007,664	3,091	55,323,666	17,898	2.8%
2012	174	4,436,964	143	2,110,153	3,122	57,650,477	18,466	3.2%
2013	157	3,969,877	149	2,259,835	3,130	59,360,519	18,965	2.7%
2014	128	3,403,918	149	2,515,975	3,109	60,248,462	19,379	2.2%

[1] *Not including Compensation Annuitants.*

All Other Annuitants								
2014	76	$ 2,340,324	101	$ 2,527,422	810	$ 24,273,438	29,967	—%

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
ACTUARIAL ACCRUED LIABILITY PRIORITIZED SOLVENCY TEST – (FOR FUNDING PURPOSES)

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)
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%
2012 [1]	1,309,825,828	6,475,282,318	2,435,530,363	3,148,929,770	100.00%	28.40%	0.00%
2013 [2]	1,358,193,244	6,594,792,197	2,127,620,103	3,053,881,777	100.00%	25.71%	0.00%
2014 [1]	1,410,544,951	7,159,705,456	2,477,941,780	2,954,318,954	100.00%	21.56%	0.00%

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

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
DEVELOPMENT OF STATUTORY CONTRIBUTION [1]

	Pension	Health Ins. Supplement	Total
(1) Total Normal Cost for 2015	$ 203,848,861	$ 36,292	$ 203,885,153
(2) Actuarial Accrued Liability (AAL) at 12/31/2014 [1]	$ 10,382,376,572	$ 19,419,804	$ 10,401,796,376
(3) Unfunded AAL (UAAL)			
(a) Actuarial Value of Assets at 12/31/2014 [3]	$ 2,963,479,146	$ 0	$ 2,963,479,146
(b) UAAL (2-3(a))	7,418,897,427	19,419,804	7,438,317,230
(4) Estimated Member Contributions during 2015	$ 104,012,130	$ 0	$ 104,012,130
(5) Estimated City Contribution for Tax Levy Year 2015	$ 582,992,045	$ 9,871,280 [2]	$ 592,863,325

[1] *Pension liabilities were discounted at 7.75% per year, and OPEB liabilities discounted at 4.5% per year.*

[2] *Represents expected health insurance supplemental benefits for fiscal year 2015.*

[3] *The actuarial value of assets was retroactively marked to the market value of assets as of December 31, 2011. Marking the actuarial value of assets at either March 30, 2011 or December 31, 2011, produced the exact same statutory contribution for tax levy year 2015 because the contribution depends on the projected funded ratio at plan year end 2040.*

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
DEVELOPMENT OF ACTUARIAL GAINS AND LOSSES FOR 2014 – (FOR FUNDING PURPOSES)

UNFUNDED ACTUARIAL ACCRUED LIABILITY - BEGINNING OF 2014		
(1)	Actuarial Accrued Liability - 12/31/2013	$10,080,605,544
(2)	Actuarial Value of Assets - 12/31/2013	3,053,881,777
(3)	Unfunded Accrued Actuarial Liability - 12/31/2013	$7,026,723,767
EXPECTED UNFUNDED ACTUARIAL ACCRUED LIABILITY - END OF 2014		
(4)	Normal Cost for 2014	$ 198,458,616
(5)	Total Contributions for 2014	283,490,793
(6)	Interest on (3), (4), & (5) at Valuation Rates	548,402,853
(7)	Expected Unfunded Actuarial Accrued Liability - 12/31/2014 ((3)+(4)-(5)+(6))	$7,490,094,443
DEVIATIONS FROM EXPECTED		
(8)	(Gain)/Loss on Investment Return (Smoothed (Actuarial) Value)	$ (59,090,695)
(9)	(Gain)/Loss from Salary Changes	84,817,360
(10)	(Gain)/Loss from Retirement	17,201,006
(11)	(Gain)/Loss from Turnover	1,418,528
(12)	(Gain)/Loss from Mortality	(11,637,721)
(13)	(Gain)/Loss from Disability	(6,115,514)
(14)	(Gain)/Loss from New Entrants	(904,397)
(15)	(Gain)/Loss from All Other Sources	24,633,482
(16)	Composite Actuarial (Gain)/Loss	**$50,322,049**
(17)	(Gain)/Loss as a percentage of Expected UAAL (16)/(7)	**0.7%**
(18)	(Gain)/Loss from Assumption Changes	$553,456,741
UNFUNDED ACTUARIAL ACCRUED LIABILITY - END OF 2014		
(19)	Unfunded Accrued Actuarial Liability - 12/31/2014 ((7)+(16)+(18))	$8,093,873,233

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SUMMARY OF BASIC ACTUARIAL VALUES –
(FOR FUNDING PURPOSES)

	APV of Projected Benefits	Accrued Liability (AAL)
(1) Values for Active Members		
(a) Retirement	$5,506,168,508	$3,496,361,782
(b) Termination	82,890,342	52,956,203
(c) Disability	425,758,401	272,349,968
(d) Death	52,672,776	33,324,455
Total for Actives	$6,067,490,027	$3,854,992,408
(2) Values for Inactive Members		
(a) Retired	6,321,184,495	6,321,184,495
(b) Survivor	535,659,874	535,659,874
(c) Disability	293,414,812	293,414,812
(d) Inactive (Deferred Vested)	33,494,323	33,494,323
(e) Children	9,446,275	9,446,275
Total for Inactives	7,193,199,779	7,193,199,779
(3) Grand Totals	$13,260,689,806	$11,048,192,187
(4) Normal Cost for Active Members	$ 216,401,490	
(5) Actuarial Present Value of Future Compensation	$11,162,110,583	

Results include health income supplement of $34,043 in normal cost, $18,721,604 in actuarial accrued liability and $18,762,125 in present value of projected benefits. Results are based on projected unit credit cost method and a discount rate of 7.50% for pension benefits and 4.5% for healthcare benefits.

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

	Retirement		Disability		Widow [1]		Child		Totals	
Years	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Under $100	6	1							**6**	**1**
$100 to under $250	11	3					126	98	**137**	**101**
$250 to under $500	21	8					32	28	**53**	**36**
$500 to under $750	20	2					34	48	**54**	**50**
$750 to under $1,000	4	4					23	12	**27**	**16**
$1,000 to under $2,000	99	36			41	2,273			**140**	**2,309**
$2,000 to under $3,000	355	40	3		8	691			**366**	**731**
$3,000 to under $4,000	1,160	358	38	34		81			**1,198**	**473**
$4,000 to under $5,000	1,984	388	119	55		32			**2,103**	**475**
$5,000 to under $6,000	2,661	290	57	30	3	37			**2,721**	**357**
$6,000 to under $7,000	1,163	123	5	2		4			**1,168**	**129**
$7,000 to under $8,000	312	24				2			**312**	**26**
$8,000 to under $9,000	101	8				1			**101**	**9**
$9,000 to under $10,000	53	9				1			**53**	**10**
$10,000 and over	61	6				1			**61**	**7**
Totals:	**8,011**	**1,300**	**222**	**121**	**52**	**3,123**	**215**	**186**	**8,500**	**4,730**

[1] *Includes reversionary.*

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SCHEDULE OF AVERAGE BENEFIT PAYMENTS FOR NEW ANNUITIES GRANTED DURING 2014

	Years of Service:	0-9	10-14	15-19	20-24	25-29	30-34	>= 35	Total
	Number of Retired Members	0	1	13	105	161	140	131	**551**
2010	Average annual salary used	$0	$81,122	$70,339	$80,639	$88,735	$91,739	$92,194	**$88,330**
	Average Monthly Benefit	$0	$2,535	$2,667	$3,837	$5,385	$5,734	$5,762	**$5,199**
	Number of Retired Members	1	8	16	95	175	103	102	**500**
2011	Average annual salary used	$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**
	Number of Retired Members	0	9	22	123	217	88	80	**539**
2012	Average annual salary used	$0	$72,245	$65,305	$85,175	$92,825	$94,854	$98,415	**$90,773**
	Average Monthly Benefit	$0	$2,066	$2,511	$4,002	$5,408	$5,928	$6,151	**$5,108**
	Number of Retired Members	0	6	20	118	161	62	34	**401**
2013	Average annual salary used	$0	$62,730	$75,088	$86,979	$94,193	$99,759	$102,980	**$92,252**
	Average Monthly Benefit	$0	$1,809	$2,857	$4,164	$5,427	$6,235	$6,436	**$5,084**
	Number of Retired Members	0	4	18	122	180	44	24	**392**
2014	Average annual salary used	$0	$64,795	$72,985	$87,586	$95,372	$94,991	$104,035	**$92,097**
	Average Monthly Benefit	$0	$1,907	$2,815	$4,230	$5,746	$6,052	$6,634	**$5,189**

Policemen's Annuity and Benefit Fund of Chicago
Summary of Principal Eligibility And Benefit Provisions
as of December 31, 2014

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% and 50% 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% of the final average salary for each fraction of service. Maximum is 75% 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% 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% 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%.

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.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SUMMARY OF PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS
AS OF DECEMBER 31, 2014 (CONT'D)

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% of the officer's earned annuity at the date of death. Automatic increases to the annuity are equal to the lesser of 3.00% and 50% 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

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 December 31, 2016.

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 %

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SUMMARY OF PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS
AS OF DECEMBER 31, 2014 (CONT'D)

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.

Prior to 2015, 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.

Starting in tax levy year 2015, employer contributions combined with member contributions and other fund revenue must be equal to the amount, as a level percentage of payroll, that is sufficient to produce 90% funding by the end of fiscal year 2040.

"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.

SALARY CAP AND COLA DEVELOPMENT FOR MEMBERS HIRED ON OR AFTER JANUARY 1, 2011

Year Ending	CPI-U	½ CPI-U	COLA	Maximum Annual Pensionable Earnings
2011			3.00%	$106,800.00
2012	3.90%	1.95%	1.95%	$108,882.60
2013	2.00%	1.00%	1.00%	$109,971.43
2014	1.20%	0.60%	0.60%	$110,631.26
2015	1.70%	0.85%	0.85%	$111,571.63

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
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%
2012	95,892,052	207,228,022	353,176,346	656,719,636	20.41%
2013	93,328,944	188,889,240	415,293,612	697,991,124	18.60%
2014	95,675,538	187,074,950	181,901,293	465,392,086	17.41%

Year	Benefits Expenses	Administrative Expenses	Refunds	Total	Income Less Payouts
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)
2012	602,756,032	4,396,638	11,150,565	618,795,083	37,924,553
2013	633,839,274	3,891,329	8,087,018	646,223,804	51,767,320
2014	655,346,057	3,817,256	8,991,636	668,578,318	(203,186,232)

(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
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
2012	506,760,531	61,250,640	1,416,014	21,427,161	1,543,000	9,756,686	602,756,032
2013	538,536,309	63,523,734	1,315,842	18,981,479	1,634,600	9,847,310	633,839,274
2014	559,600,101	64,434,631	1,293,297	18,793,972	1,566,933	9,657,123	655,346,057

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
AVERAGE EMPLOYEE RETIREMENT BENEFITS PAYABLE

Years Ended	Average Annual Benefit	Average Current Age of Retirees	Average Age at Retirement Current Year	Average Years of Benefit Service at Retirement Current Year
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
2012	56,896	69	58.7	26.7
2013	58,556	69	58.2	26.1
2014	60,111	69	57.6	26.2

Policemen's Annuity and Benefit Fund of Chicago
Retirees and Beneficiaries by Type of Benefit

Years	Annuitants			Disability				Widow	Total
	Employee	Spouse[1]	Child	Ordinary	Duty	Occup.	Child[2]	Comp.	
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
2012	9,035	3,122	214	47	263	36	180	69	12,966
2013	9,194	3,130	206	46	269	35	213	66	13,159
2014	9,311	3,109	197	48	259	36	204	66	13,230

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

Schedule of Active Member Data - Last 10 Years

Year	Number of Members at Year End	Annual Average Salary	% Increase in Average Salary
2005	13,462	70,493	--%
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%
2012	12,026	84,414	-0.1%
2013	12,161	83,499	-1.1%
2014	**12,020**	**89,379**	**7.0%**

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
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
2012	9,035	56,896	4,741	58.7	69	26.7
2013	9,194	58,556	4,880	58.2	69	26.1
2014	**9,311**	**60,111**	**5,009**	**57.6**	**69**	**26.2**

Schedule of Widow Annuitants - Last 10 Years

Year	Number at Year End	Average Annual Benefit	% Increase in Average Benefit
2005	3,107	15,339	--%
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%
2012	3,122	18,466	3.2%
2013	3,130	18,965	2.7%
2014	**3,109**	**19,379**	**2.2%**

Schedule of Children's Annuities - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2005	247	4,967	--%
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%
2012	214	6,365	6.2%
2013	206	6,388	0.4%
2014	**197**	**6,565**	**2.8%**

Schedule of Ordinary Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2005	35	35,984	--%
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%
2012	47	42,164	0.7%
2013	46	41,958	-0.5%
2014	**48**	**41,917**	**-0.1%**

Schedule of Duty Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2005	298	45,447	--%
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%
2012	263	54,910	0.4%
2013	269	55,587	1.2%
2014	**259**	**56,301**	**1.3%**

Schedule of Occupational Disease Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2005	82	41,537	--%
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%
2012	36	50,375	2.1%
2013	35	52,191	3.6%
2014	**36**	**53,579**	**2.7%**

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

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2005	139	1,200	--%
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%
2012	180	1,200	0%
2013	213	1,200	0%
2014	**204**	**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
2005	65	52,595	--%
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%
2012	69	61,566	0.7%
2013	66	63,079	2.5%
2014	**66**	**63,427**	**0.6%**

Schedule of Health Insurance Supplement Data – Last 7 Years

Year	Number of Members at Year End	Annual Average Benefit Subsidy	% Increase in Average Benefit Subsidy
2008	10,017	$884	--%
2009	10,048	$922	4.3%
2010	10,118	$925	0.3%
2011	10,368	$925	0.0%
2012	10,738	$909	-1.7%
2013	10,809	$911	0.2%
2014	**10,676**	**$905**	**-0.7%**

Note: Health Insurance Supplement benefits are $95 per month for each annuitant that is not qualified to receive Medicare benefits or $65 per month for each annuitant that is qualified to receive Medicare benefits. Health insurance supplement benefits are not based upon final average salary or credited service year. The benefit amount is exclusively determined by Medicare eligibility.

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