

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, 2015 and 2014



Comprehensive Annual Financial Report

A Component Unit
of the City of Chicago
for the years ended
December 31, 2015
and 2014

Prepared by

Regina Tuczak

Executive Director

James A. Dollard

Comptroller

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Policemen's Annuity and Benefit Fund

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Comprehensive Unit Financial Report
Years Ended December 31, 2015 and 2014

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Introductory Section



Government Finance Officers Association

**Certificate of
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**Policemen's Annuity and Benefit
Fund of Chicago, Illinois**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2014

Executive Director/CEO

Members of the Board
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Juan C. Avila
Carole L. Brown
Carol L. Hamburger
Kurt A. Summers, Jr.

Representing the Active Police
and Disability Beneficiaries
Michael K. Lappe
James P. Maloney, Recording Secretary
Brian E. Wright, Vice-President

Representing the Annuity
Beneficiaries
Kenneth A. Hauser, President

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

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Executive Director

James A. Dollard, CPA
Comptroller

Pacifico Panaligan, CPA
Assistant Comptroller

Peter Orris, M.D.
Physician

David R. Kugler
Attorney for the Board

Aoifinn Devitt
Chief Investment Officer

Address Communications
to the Retirement Board

**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 years ended December 31, 2015, and 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 January 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 a member from the retired members and their widows. The Mayor of Chicago appoints four members. The Retirement Board then elects a Board President, a Vice-President and a Recording Secretary from its own membership.

The Retirement Board is charged with many duties including: approval of all applications for benefits and annuities, investment of Fund monies in a manner prescribed by the State Statutes and Fund policy, adoption of rules and regulations for the proper conduct of the affairs of the Fund, 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 accompanying notes 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.

Financial Information

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, 2015 and 2014, 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 upon the performance of its assets to fund benefits (augmented by both employer and employee contributions). The Fund's net position held in trust declined by approximately \$3.1 million from December 31, 2014, to December 31, 2015. The Fund's investment assets returned a loss of 0.41% for 2015, reflecting the uncertainty which rattled investors in 2015, along with the sharp decline in global markets, particularly during the third quarter of 2015. While the Fund's performance ranked approximately in the 57th percentile of its Defined Benefit Plan peers, as measured by the Fund's investment consultant, the Fund suffered from many of the significant global economic trends of 2015, including extension of the U.S. economic cycle, the path of the Federal Reserve's monetary policy tightening, and the economic slowdown in China.

In addition to the challenging economic events of 2015, the Fund continues to deplete assets to meet benefit payment requirements. In 2015, the Fund liquidated approximately \$320 million in assets, in addition to usage of approximately \$70 million in distributions from the Fund's private equity, real estate and infrastructure portfolios, as it kept pace with benefit payment needs. Legislation effective in 2015, and changes made in 2016, will provide some funding relief, however, for at least the next five years, the Fund is expected to continue in a negative cash flow position such that benefit payments and administrative expenses will most likely exceed contributions from members and the employer.

In 2014, the Fund appointed three new fixed income investment manager firms which were hired to invest in two unconstrained bond funds and a strategic fixed income fund. In 2015, the transition to these new portfolio mandates was completed, thus providing the Fund a fixed income portfolio with a more global allocation. In addition, the Fund terminated its hedge fund of funds portfolio managers in late 2015. Proceeds of such termination were used immediately to fund benefit payments. Also in 2015, the Fund changed its securities lending agent.

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 over 40 professional investment management firms investing on behalf of the Fund. These firms make investment decisions for the Fund 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 firm, and assist in the development of its investment policy.

Generally, investment decisions and strategies attempt to balance optimal performance and risk management, given the Fund's ongoing liquidity needs and constraints. That said, a sustained economic recovery and substantial growth in asset prices remain critical factors in the Fund's ability to meet its future obligations. On the other hand, it is expected that a significant correction in the capital markets would negatively impact the Fund's assets in a very meaningful way.

Current and Future Developments

In November of 2014, the Fund's Chief Investment Officer, Samuel Kunz resigned his position for another employment opportunity. At that time, Trustee and Lieutenant James Maloney was appointed by the Board as the Fund's Acting Chief Investment Officer. In the following months, the Fund conducted a search for a full-time Chief Investment Officer. After a thorough and methodical process, the Board hired a new Chief Investment Officer, Ms. Aoifinn Devitt, who began her responsibilities at the Fund on April 5, 2016.

In 2015, the Fund welcomed 494 members to active status, including approximately 59 members returning from inactive or disability status. The Fund has been working closely with the Human Resources Department of the Chicago Police Department, the Board's consulting physician, the Fund's medical consulting firm, and the Fund's members on disability to place certain members, previously on disability, back to service with the Chicago Police Department, as positions become available for such members and based upon medical eligibility. Based upon these efforts, the quantity of members with a duty, occupational or ordinary disability status has declined in both 2015 and 2014.

With the addition of new members, the Fund has approximately 1,733 and 1,318 Tier 2 members at December 31, 2015, and 2014, respectively. Tier 1 members continue to decline with retirements, as such members were 10,328, and 10,702, at December 31, 2015, and 2014, respectively. In 2015, the Fund's staff processed approximately 400 retirement applications of members. The number of retiree applications continues at a steady pace, as retirements within the past five years of 2011 through 2015 have approximated 2,200 members.

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. These retroactive increases were primarily received in 2015, and resulted in approximately \$8.0 million of additional member contributions into the Fund in 2015. Once these contributions were received, the Fund's staff began calculations of any benefits awarded to members from 2012 through 2014, which were impacted by the salary changes. Approximately 1,500 benefits required revision and almost all such calculations are now complete.

The Fund continues to strive for customer service excellence by improving the operational efficiencies and service delivery to the membership. Enhancements to the Fund's pension administration system continue. 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, electronic copies of the Fund's newsletter, information on scheduled meetings of the Board of Trustees, and other important updates.

Funding Status

For purposes of funding, the actuarial value of assets and liabilities was \$3,186,423,762, and \$11,288,237,048, respectively at December 31, 2015. The funded ratio, for purposes of calculating the statutory contribution, increased from 26.74% to 28.23%. However, on a fair value basis, for purposes of statutory funding, the funded ratio experienced a decrease from 27.7% at December 31, 2014, to 27.1% at December 31, 2015.

Prior to 2015, the employer contribution requirement (tax multiplier) since 1982 remained constant at 2.00 times the employee contributions received two years prior. Effective with Public Act 096-1495 (PA-1495), which was signed into law in late 2010, a change was enacted which significantly altered the employer contribution requirement. Such legislation provided that effective with tax levy year 2015, which would be received by the Fund in 2016, as such taxes were collected, employer contributions were to be actuarially determined such that a projected funding goal of 90% was attained by the end of 2040. The financial statements included herein reflect such legislation, including recognition of an approximate \$580 million receivable from the City of Chicago as of December 31, 2015.

Effective May 30, 2016, Public Act 096-0506 (PA-0506), became law and replaced PA-1495. The funding provisions of PA-0506 are significantly different than those of PA-1495. The new policy provides that beginning with the tax levy year 2015, which will be collected in taxes paid to the Fund in 2016, the employer shall levy and collect a tax in the annual amount of \$420 million in 2016; \$464 million in 2017; \$500 million in 2018; \$557 million in 2019; and \$579 million in 2020. Beginning in tax levy year 2020, which is payable to the Fund in 2021 when the taxes are collected, contributions by the employer, along with member contributions and investment income are to be an amount sufficient to produce a funded ratio of 90% by 2055.

This new legislation is expected to result in a negative cash position for the Fund in each of the years 2016 through 2020, and possibly beyond 2020. While the impact of this new legislation on the pension liability has not yet been determined, the impact is expected to be significant. The Fund, along with its actuaries, continues to analyze the impact of the new legislation. The immediate impact of such legislation will result in collections of approximately \$173 million less in 2016, than reflected in the financial statements as receivable at December 31, 2015. In addition, expected contributions from the employer in years 2016 through 2020, will be less than under the provisions of PA-1495.

The provisions of PA-0506 do however provide significant funding level increases over years prior to 2015, when a 2.00 times multiplier was utilized by the employer. While it is anticipated that increased funding levels will be used to immediately fund benefit payments, other changes to Fund investment policies and management of assets will be evaluated.

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, 2014. In order to be awarded a Certificate of Achievement, a government unit 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.

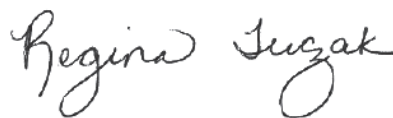
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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. This report is intended to provide complete and reliable information to the members of the Fund, the employer of the members, the City of Chicago, and other important users of the Fund's financial and demographic information.

I extend my appreciation to all Fund members 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 28, 2016

RETIREMENT BOARD MEMBERS AND OFFICE STAFF

December 31, 2015

Appointed Trustees

Juan Carlos Avila
Carole L. Brown
Carol L. Hamburger
Kurt A. Summers, Jr.

Elected Trustees

Kenneth A. Hauser, President
Michael K. Lappe
James P. Maloney, Recording Secretary and
Investment Committee Chairman
Brian E. Wright, Vice President

Office Staff Members

Regina Tuczak, Executive Director
James A. Dollard, Comptroller
Pacifico V. Panaligan, Assistant Comptroller

Support Staff

Holly Anderson	Quiana Knapp	Rich Muhlbacher
Gladys Bernal	Joseph Kosman	Edward Rausch
Robert Crawford	Angela Loeffler	Jacqueline Robinson
Jonathan Facundo	Anthony Madonia	Ivan Rogic
Karina Fruin	Kristi Matalik	Erwin Santos
Kay Hylton	Anne McGowan	Carol Vega

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

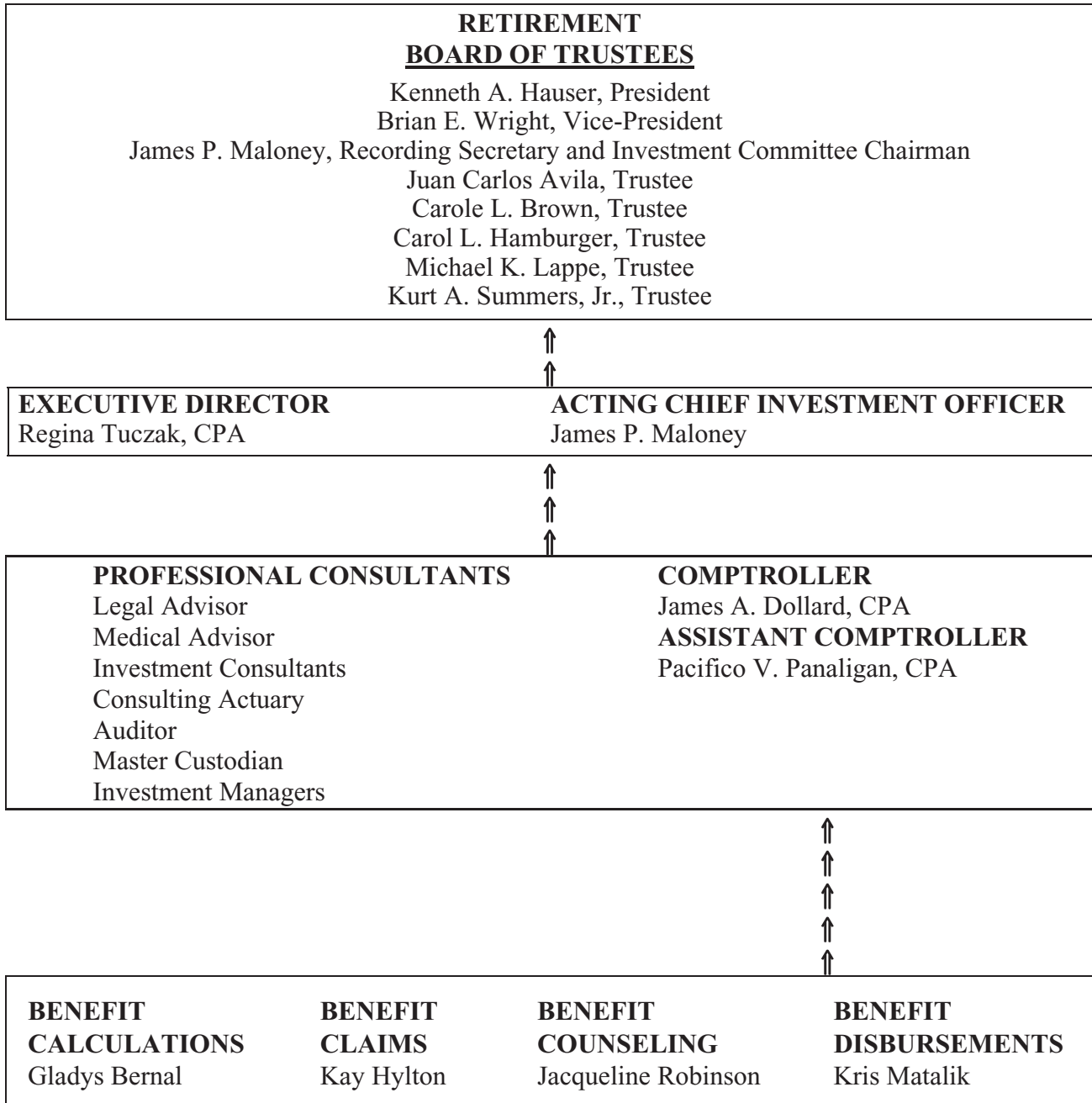
COMMERCIAL BANK

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
Denali Advisors
DRA Advisors LLC
Earnest Partners, LLC
Fisher Investments
Global Asset Management
Global Infrastructure Partners
Grantham, Mayo, Van Otterloo & Co., LLC
Great Lakes Advisors
HarbourVest Partners, LLC
Holland Capital Management
Invesco Capital Management
K2 Advisors
LM Capital Group
Lazard Asset Management, LLC
Lone Star Funds
MacKay Shields LLC
Manulife Asset Management
Mesa West Capital
Mesirow Financial
Montag & Caldwell
Morgan Stanley Real Estate
Muller & Monroe
Newport Capital Partners, LLC
Northern Trust Global Investments
Quadrant Real Estate Advisors
RCP Advisors
Shamrock-Hostmark
SEI PIMCO
UBS Global Asset Management
Wellington Management Company
Wells Capital Management
William Blair & Company

ORGANIZATION CHART



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

INDEPENDENT AUDITOR'S REPORT

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, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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MITCHELL TITUS

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 as of December 31, 2015 and 2014, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The schedule of administrative expenses, schedule of consulting costs and schedule of investment fees are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary 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. Such 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 of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



MITCHELL TITUS

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 27, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

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 accounting principles generally accepted in the United States of America 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 \$3.1 million, or 0.1%, to \$3,058.9 million at December 31, 2015. At December 31, 2014, the fiduciary net position of the Fund decreased by \$203.2 million, or 6.2%, to \$3,062.0 million from the December 31, 2013 balance of \$3,265.2 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Financial Highlights *(continued)*

- Fund investment (loss) gain and investment income, net of investment-related expenses was a loss of approximately \$(6.0) million during 2015, compared to a gain of approximately \$180.7 million during 2014. For 2015, although absolute performance was negative, the Fund outperformed its policy index on a net of fee basis and ranked slightly below its peer median. 2015 was marked by uncertainty caused by several globally significant economic trends; the extension of the U.S. economic cycle, the path of the Federal Reserve's monetary policy tightening, and the extent of the economic slowdown in China. This uncertainty rattled investors, culminating in risk aversion and contributing to a sharp decline in global markets, particularly during the third quarter of 2015. Asset classes with absolute positive performance and performance stronger than their designated benchmarks included U.S. equities, private equity and infrastructure. U.S. equities markets ended a volatile 2015 on a strong note, which was additive to the Fund's portfolio, particularly in smaller capitalization portfolio. The Fund's non-U.S. equity portfolio returned negative for the year due to the market environment, but did outperform its respective benchmark. Negative performance in the fixed income portfolio hurt the portfolio on both a relative and absolute basis. Although the real estate and hedge fund portfolios returns were positive for the year on an absolute basis, they did underperform their respective benchmarks. Finally, the global asset allocation portfolio returned negative for the year, being impacted by the portfolio's non-U.S. exposures.

- The Fund received contributions of \$107.6 million from members and \$582.3 million from the City of Chicago in 2015, compared to contributions of \$95.7 million from members and \$187.1 million from the City of Chicago in 2014. The number of active members increased slightly from 2014 to 2015. The increase in member contributions is primarily due to a retroactive wage increase provided to most active members in January 2015, which was reflective of a new employment contract between the City of Chicago and collective bargaining groups for various sworn officers within the Chicago Police Department, with salary increases effective July 1, 2012. The retroactive increases resulted in approximately \$8.0 million of additional member contributions in 2015. Also contributing to the increase is the wage increases provided to active members under the terms of the new employment contract. The significant increase in employer contributions is due to enactment of Public Act 096-1495, which requires that the employer, the City of Chicago, finance benefits of the Fund on an actuarial basis commencing with tax levy year 2015. The financing requires that employer contributions, employee contributions and other fund income be sufficient to produce 90% funding by the conclusion of year 2040. Prior to tax levy year 2015, employer contributions were mandated by a statutorily set multiplier of 2.0 times member contributions collected two years prior.

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Financial Highlights (continued)

- Benefit payments, excluding death benefits, increased by approximately \$22.7 million in 2015, from \$653.8 million in 2014 to \$676.5 million in 2015. The average monthly benefit for each retiree has increased. For the last five years of 2011-2015, approximately 2,200 active members have retired; which approximates 23% of the retirees at the end of 2015. Recent retirements generally have higher monthly annuities, as annuities are usually calculated with the last four years of pensionable wages. For example, the average monthly annuity awarded in 2015 was approximately \$200 higher than an annuity awarded in 2014. The average monthly annuity awarded in 2015 was approximately \$2,500 higher than an annuity awarded in 1995. Thus, while beneficiary levels remained constant between 2014 and 2015, new retirees included in the averages, have earned a significantly higher monthly annuity than, for example, a retiree of 20 or more years prior, who expires during the year. Also contributing to the increase is the annual cost-of-living adjustments provided to retirees born prior to January 1, 1955, and those retirees born after January 1, 1955, who reached 60 years of age in 2015. Payments for cost-of-living adjustments increased by approximately \$7.0 million from 2014 to 2015. Death benefits and refunds of employee deductions decreased slightly from 2014 to 2015 by approximately \$0.8 million, from \$10.5 million to \$9.7 million, respectively. The decrease is due to a smaller volume of resignation refunds granted in 2015. Administrative expenses increased by approximately \$0.2 million, primarily due to increased salary and benefit expense, as the Fund hired employees in 2015 to replace positions vacant 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 under Public Act 96-1495, experienced a decrease, from 27.7% at December 31, 2014 to 27.1% at December 31, 2015. The decrease reflects an increase in the actuarial liability, due to normal cost and interest on the actuarial obligation, while asset values did not increase from 2014 to 2015.

- 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, 2015 and 2014, the Fund's funded ratio was 25.4% and 26.0%, 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 \$0.45 million and \$0.42 million was recognized in 2015 and 2014, respectively, resulting in a total accrued liability of \$2.37 million and \$2.08 million as of December 31, 2015 and 2014, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Fiduciary Net Position

A summary of fiduciary net position is presented below:

Fiduciary Net Position

(In millions)

As of December 31, 2015, 2014, and 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015–2014</u> <u>Change</u>	
				<u>\$</u>	<u>%</u>
Receivables	\$ 591.6	\$ 195.3	\$ 201.6	\$ 396.3	202.9 %
Brokers–unsettled trades	89.8	117.3	146.6	(27.5)	(23.4)
Investments, at fair value	2,520.3	2,970.4	3,097.3	(450.1)	(15.2)
Invested securities lending cash collateral	<u>93.1</u>	<u>288.5</u>	<u>271.9</u>	<u>(195.4)</u>	<u>(67.7)</u>
Total assets	<u>3,294.8</u>	<u>3,571.5</u>	<u>3,717.4</u>	<u>(276.7)</u>	<u>(7.7)</u>
Brokers–unsettled trades	135.5	214.1	173.2	(78.6)	(36.7)
Securities lending payable	93.1	288.5	271.9	(195.4)	(67.7)
OPEB obligation	2.4	2.1	1.8	0.3	14.3
Refunds and accounts payable	<u>4.9</u>	<u>4.8</u>	<u>5.3</u>	<u>0.1</u>	<u>2.1</u>
Total liabilities	<u>235.9</u>	<u>509.5</u>	<u>452.2</u>	<u>(273.6)</u>	<u>(53.7)</u>
Net position	<u>\$ 3,058.9</u>	<u>\$ 3,062.0</u>	<u>\$ 3,265.2</u>	<u>\$ (3.1)</u>	<u>(0.1)%</u>

The decrease in fiduciary net position of \$3.0 million in 2015 was due to a few factors, including continued liquidation of investments to fund benefit payments and an investment return of (0.41)%. Cash contributions received were approximately \$385 million less than benefit payments in 2015. This shortfall was funded through liquidation of invested assets and distributions received through the Fund's private equity, real estate and infrastructure investment manager vehicles. This liquidation of assets is consistent with 2014 activity, in which contributions from members and the employer were approximately \$382 million less than benefits to members. The liquidation of assets is evidenced by the reduction in investment assets of approximately \$450 million from December 31, 2014 to 2015. In addition, the assets available for investment lost (0.41%) in 2015, compared to an investment gain of 6.24% in 2014. For 2015, although absolute performance was negative, the Fund outperformed its policy index on a net of fee basis. The year 2015 was marked by uncertainty caused by several globally significant economic trends; the extension of the U.S. economic cycle, the path of the Federal Reserve's monetary policy tightening, and the extent of the economic slowdown in China. This uncertainty rattled investors, culminating in risk aversion and contributing to a sharp decline in global markets, particularly during the third quarter of 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

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, 2015, 2014 and 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015-2014</u> <u>Change</u>	
				<u>\$</u>	<u>%</u>
ADDITIONS					
Member contributions	\$ 107.6	\$ 95.7	\$ 93.3	\$ 11.9	12.4 %
Employer contributions	582.3	187.0	188.9	395.3	211.4
Net investment gain (loss) and investment income	(6.0)	180.7	414.4	(186.7)	(103.3)
Securities lending income	0.7	1.2	0.9	(0.5)	(41.7)
Miscellaneous income	<u>3.1</u>	<u>0.7</u>	<u>0.5</u>	<u>2.4</u>	<u>342.9</u>
Total additions	<u>687.7</u>	<u>465.3</u>	<u>698.0</u>	<u>222.4</u>	<u>47.8</u>
DEDUCTIONS					
Annuity, disability, and death benefits	678.4	655.3	633.8	23.1	3.5
Refunds of contributions	7.8	9.0	8.1	(1.2)	(13.3)
OPEB expense	0.4	0.4	0.4	-	-
Administrative expenses	<u>4.1</u>	<u>3.8</u>	<u>3.9</u>	<u>0.3</u>	<u>7.9</u>
Total deductions	<u>690.7</u>	<u>668.5</u>	<u>646.2</u>	<u>22.2</u>	<u>3.3</u>
Net increase/(decrease)	<u>\$ (3.0)</u>	<u>\$ (203.2)</u>	<u>\$ 51.8</u>	<u>\$ 200.2</u>	<u>(98.5)%</u>

The Fund experienced a decrease in fiduciary net position in 2015. The decrease reflects an investment return of (0.41)%, compared to a return of 6.24% in 2014. As mentioned, the Fund continues to liquidate investments to fund benefit payments. The large increase in employer contributions in 2015 versus 2014 is due to an employer receivable of approximately \$580 million at December 31, 2015. The 2015 tax levy by the City of Chicago, as provided for in Public Act 096-1495, is scheduled for collection and distribution to the Fund in 2016. Previously, employer contributions to the Fund were mandated by a statutorily set multiplier of 2.0 times member contributions collected two years prior.

Investment Activities

The strategic allocation was unchanged in 2015. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Investment Activities *(continued)*

The Fund continues to prudently implement the strategic allocation approved by the Board of Trustees in late 2010. In 2014, three new fixed income managers were hired to invest in two unconstrained bond funds and a strategic fixed income fund. These new mandates were transitioned in 2015, and the restructuring resulted in the termination of three fixed income managers. As part of the transition, approximately \$88 million was liquidated from the fixed income portfolio and used to fund benefit payments. Within the Tactical and Alpha Strategy, the Fund terminated the hedge fund of funds portfolio managers in late 2015. Proceeds of such termination received were used to fund benefit payments. With the U.S. equity allocation, reductions were made throughout the year because of immediate funding requirements.

Investment Returns

Years Ended December 31, 2015, 2014 and 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total fund (%)	(0.41)%	6.24%	14.51 %
Equities	(1.30)	4.26	25.75
Fixed income	(1.07)	6.03	(1.19)
Alternatives	(5.35)	1.87	8.47
Private capital	9.72	18.03	13.04
Cash and cash equivalents	0.14	0.07	0.11

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, 2015, 2014 and 2013.

Plan Membership

As of December 31, 2015, 2014 and 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015-2014</u>	
				<u>Change</u>	<u>%</u>
Retirees and beneficiaries receiving benefits	13,210	13,230	13,159	(20)	(0.2)%
Active employees	12,061	12,020	12,161	21	0.3
Terminated (inactive members) employees entitled to benefits or refunds of contributions	<u>637</u>	<u>630</u>	<u>654</u>	<u>7</u>	<u>1.1</u>
Total	<u>25,908</u>	<u>25,880</u>	<u>25,974</u>	<u>8</u>	<u>0.1 %</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Funding Status

The funding ratio of the Fund on a fair value basis, for purposes of statutory funding, experienced a decrease, from 27.7% at December 31, 2014 to 27.1% at December 31, 2015. For accounting purposes, the Fund adopted GASB No. 67 for the year ended December 31, 2014. This accounting standard requires that 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 and accounting standard, the funding ratios of the Fund at December 31, 2015 and 2014, were 25.4% and 26.0%, respectively.

The valuations as of December 31, 2015 and 2014, reflect the results of an experience review, completed by the Fund's actuary, of the economic and demographic assumptions of the Fund for the period January 1, 2009, through December 31, 2013. This experience review was completed in early 2015 and based upon the results, several actuarial assumptions were changed in 2014. Significant assumptions that were changed include the investment return and mortality tables. Actuarial information presented as of December 31, 2015 and 2014, reflects these assumption changes.

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.

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 changed the City of Chicago funding obligation, effective with tax levy year 2015, such that each year annual actuarially determined employer contributions are to be calculated. Such actuarially determined contributions are to 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.

Based upon the statutory provisions of PA 096-1495 and related calculations provided by the Fund's actuary, contributions receivable from the City of Chicago as of December 31, 2015, are \$580 million, as compared to \$184 million receivable as of December 31, 2014, which was calculated on the prior statutorily set multiplier of 2.0 times member contributions. The receivable as of December 31, 2015, which is payable to the Fund as 2015 levy tax revenues are collected from the City of Chicago in 2016, is a significant asset to the Fund.

Effective May 30, 2016, Public Act 096-1495 was changed by Public Act 099-0506. The funding provisions of Public Act 099-0506 are significantly different than those of Public Act 096-1495. Such provisions are not reflected in the financial statements as of December 31, 2015. The new policy provides that beginning with the tax levy year 2015, which will be collected in taxes paid to the Fund in 2016, the City shall levy and collect a tax in an annual amount of \$420 million in 2016; \$464 million in 2017; \$500 million in 2018; \$557 million in 2019; and \$579 million in 2020. Beginning in tax levy year 2020, which is payable to the Fund in 2021 when the taxes are collected, contributions by the City, along with member contributions and investment income are to be an amount sufficient to produce a funded ratio of 90% by 2055.

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Funding Status *(continued)*

The financial statements as of December 31, 2015, do not reflect legislative changes of 2016, including Public Act 099-0506. Due to the passage of Public Act 099-0506, the employer receivable of \$580 million at December 31, 2015, which is included in the Statements of Fiduciary Net Position as of December 31, 2015, will not be collected in full. The amount collected will be reduced by approximately \$173 million, to an expected collection amount of approximately \$407 million. In addition, the change in funding policy is expected to impact the total and net pension liability of the Fund. While the impact on the pension liability has not yet been determined, it is expected to be significant.

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 250	\$ 250
<i>Receivables</i>		
Employer tax levies, net of allowance for loss of \$26,714,401 in 2015 and \$18,177,719 in 2014	579,815,440	184,457,332
Member contributions	4,815,841	4,739,959
Interest and dividends	6,986,788	6,099,084
Accounts receivable—due from brokers	89,831,833	117,341,100
	<u>681,449,902</u>	<u>312,637,475</u>
<i>Investments, at fair value</i>		
U.S. common stock and other equity	460,460,737	474,142,865
Collective investment funds, stock	289,918,902	355,092,681
Collective investment funds, international equities	22,143,930	28,588,836
Collective investment funds, fixed income	125,887,254	191,250,913
Collective investment funds, international fixed income	87,226,783	-
International equity	618,856,305	635,744,045
U.S. bonds and notes	509,988,771	712,982,619
International bonds and notes	37,781,677	7,004,891
Short-term instruments	73,066,300	135,835,426
Infrastructure	38,932,764	36,538,895
Forward contracts and swaps	9,359,323	16,059,481
Hedge fund-of-funds	9,954,440	100,368,762
Real estate	80,387,687	94,281,030
Venture capital and private equity	156,327,767	182,463,748
	<u>2,520,292,640</u>	<u>2,970,354,192</u>
Invested securities lending cash collateral	93,088,584	288,542,319
Total assets	<u>3,294,831,376</u>	<u>3,571,534,236</u>
LIABILITIES		
Refunds and accounts payable	4,868,168	4,756,525
Trade accounts payable—due to brokers	135,551,728	214,140,603
Securities lending cash collateral	93,088,584	288,542,319
OPEB obligation	2,373,859	2,080,467
Total liabilities	<u>235,882,339</u>	<u>509,519,914</u>
Net position held in trust for pension benefits	<u>\$ 3,058,949,037</u>	<u>\$ 3,062,014,322</u>

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ADDITIONS		
<i>Contributions</i>		
Employer	\$ 582,277,634	\$ 187,074,950
Plan member salary deductions	107,626,311	95,675,538
Total contributions	<u>689,903,945</u>	<u>282,750,488</u>
<i>Investment income</i>		
Net (depreciation) appreciation in in the fair value of investments	(51,940,312)	136,126,859
Interest	19,171,732	19,452,054
Dividends	28,870,113	31,592,777
Real estate income	7,159,475	3,547,612
	<u>3,261,008</u>	<u>190,719,302</u>
<i>Investment activity expenses</i>		
Investment management fees	(8,552,490)	(9,304,806)
Custodial fees	(257,093)	(183,532)
Investment consulting fees	(504,207)	(495,364)
Total investment activity expenses	<u>(9,313,790)</u>	<u>(9,983,702)</u>
Net (loss) income from investing activities	<u>(6,052,782)</u>	<u>180,735,600</u>
<i>From securities lending activities</i>		
Securities lending income	776,834	984,565
Borrower rebates	121,757	429,565
Bank fees	(179,604)	(248,437)
Net income from securities lending activities	<u>718,987</u>	<u>1,165,693</u>
Total net investment (loss) income	<u>(5,333,795)</u>	<u>181,901,293</u>
Miscellaneous income	<u>3,091,545</u>	<u>740,305</u>
Total additions	<u>687,661,695</u>	<u>465,392,086</u>
DEDUCTIONS		
Pension and disability benefits	676,482,414	653,779,124
Death benefits	1,909,200	1,566,933
Refunds of employee deductions	7,826,847	8,991,636
	<u>686,218,461</u>	<u>664,337,693</u>
Administrative expenses	4,062,553	3,817,256
OPEB expense	445,966	423,369
Total deductions	<u>690,726,980</u>	<u>668,578,318</u>
Net decrease	(3,065,285)	(203,186,232)
<i>Net position held in trust for pension benefits</i>		
Beginning of year	3,062,014,322	3,265,200,554
End of year	<u>\$ 3,058,949,037</u>	<u>\$ 3,062,014,322</u>

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)

Notes to Financial Statements

December 31, 2015 and 2014

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.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

December 31, 2015 and 2014

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.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

December 31, 2015 and 2014

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

Recent Accounting Pronouncements

The following standards were adopted by the Fund during 2015 and 2014:

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 beginning with 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 the 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:

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.

GASB's codification standard on *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* addresses improvements to the usefulness of information about pensions included in the general purpose external financial reports of a government employer for making decisions and assessing accountability. The Statement also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*. The provisions of the new standard will be effective for the Fund beginning with its year ending December 31, 2017.

GASB's codification standard on *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73* addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy plan member contribution requirements. The provisions of the new standard will be effective for the Fund beginning with its year ending December 31, 2017.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

December 31, 2015 and 2014

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 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, 2015 and 2014 were \$1,086,607,979 and \$1,074,333,318, respectively. At December 31, 2015 and 2014, the Fund membership consisted of the following:

	<u>2015</u>	<u>2014</u>
Active employees	12,061	12,020
Retirees and beneficiaries currently receiving benefits	13,210	13,230
Terminated employees entitled to benefits or a refund of contributions, but not yet receiving them	<u>637</u>	<u>630</u>
	<u>25,908</u>	<u>25,880</u>

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.

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.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

December 31, 2015 and 2014

NOTE 2 PENSION PLAN *(continued)*

Plan Description and Contribution Information *(continued)*

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.

Applicable to the 2014 fiscal year, 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.

Commencing with the City tax levy year beginning in 2015, legislation in place at December 31, 2015, requires that the City finance plan benefits on an actuarial basis annually. The funding policy requires that future employer contributions, employee contributions and other Fund income are sufficient to produce a funding goal of 90% by the fiscal year end 2040, based upon the actuarial value of Fund assets and application of certain required actuarial assumptions and methodologies.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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NOTE 2 PENSION PLAN *(continued)*

Plan Description and Contribution Information *(continued)*

The actuarial calculation utilized and reported to the City 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, 2015, reflects that assets were marked to the fair 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, 2014 and 2015, 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 fair 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, 2015, and 2014, was \$12,032,733,000 and \$11,773,430,559, respectively. The plan fiduciary net position at December 31, 2015, and 2014, was \$3,058,949,037 and \$3,062,014,322, respectively. The net pension liability at December 31, 2015, and 2014, was \$8,973,783,963, and \$8,711,416,237, respectively. The Single Discount Rate of 7.15% required by GASB Statement No. 67 as of December 31, 2015, 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 3.57%. The Single Discount Rate of 7.15% 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%.

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.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Plan Description and Contribution Information *(continued)*

The disclosures herein assume that for valuation purposes the subsidy rates for the health insurance supplement in effect at December 31, 2015, and 2014, 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.

At December 31, 2015, and 2014, the number of annuitants or surviving spouses who had subsidized health insurance totaled 10,405 and 10,676, respectively. Of the 2,805 and 2,554 remaining annuitants or surviving spouses, at December 31, 2015, and 2014, 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 637 and 630 terminated employees entitled to benefits or a refund, at December 31, 2015, and 2014, respectively, approximately 52 and 57 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 2015 and 2014, the Fund received contributions of \$9,441,534 and \$9,657,123, 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, 2015, or 2014.

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December 31, 2015 and 2014

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Funded Status and Funding Progress

The funded status of the Fund’s health care plans as offered by the City as of December 31, 2015, and 2014, which are the most recent actuarial valuation dates, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
12/31/15	-	\$ 9,255,090	\$ 9,255,090	0.00	1,086,607,979	0.85%
12/31/14	-	18,762,125	18,762,125	0.00	1,074,333,318	1.75

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 the Healthcare Insurance Fund assets and the ratios to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation dates	December 31, 2015, and 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	December 31, 2015: 2 year Closed – period for FY 2015 and beyond; December 31, 2014: 3 year closed period for FY 2014 and beyond
Asset valuation method	No assets (pay-as-you-go)
<i>Actuarial assumptions</i>	
OPEB investment rate of return	4.5%
Projected salary increases	3.75% – per year, plus additional percentage related to service
Healthcare cost trend rate	0.0% (fixed dollar subsidy)
General inflation rate	3.0%

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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December 31, 2015 and 2014

NOTE 4 CASH AND INVESTMENT RISK

Cash

The bank balance and carrying amount of the Fund's deposits at December 31, 2015 were \$546,216 and \$(156,201), respectively; and \$553,685 and (\$748,533) at December 31, 2014, respectively. These balances excluded \$250 of petty cash. The bank balance at December 31, 2015, and 2014 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

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 years ended December 31, 2015 and 2014, the annual money-weighted rate of return on the plan investments, net of investment expense, was (0.41)% and 6.24%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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Notes to Financial Statements

December 31, 2015 and 2014

NOTE 4 CASH AND INVESTMENT RISK *(continued)*Investment Summary

The following table presents a summary of the Fund's investments by type at December 31, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
U.S. Government and agency fixed income	\$ 241,404,326	\$ 352,303,045
U.S. corporate fixed income	306,366,120	367,684,464
U.S. common collective fixed-income funds	93,919,509	60,605,016
Global common collective fixed-income funds	119,194,529	130,645,897
Global common collective equity funds	192,123,048	200,696,300
U.S. equities	460,460,737	474,142,865
U.S. common collective stock funds	97,795,855	154,396,381
International equity common collective funds	22,143,930	28,588,836
Foreign equities	618,856,305	635,744,045
Pooled short-term investment funds	21,458,105	55,097,459
Infrastructure	38,932,764	36,538,895
Real estate	80,387,687	94,281,030
Venture capital	156,327,767	182,463,748
Forward contracts and swaps	9,359,323	16,059,481
Hedge fund-of-funds	9,954,440	100,368,762
Cash and cash equivalents	51,608,195	80,737,968
Total investments at fair value	<u>\$ 2,520,292,640</u>	<u>\$ 2,970,354,192</u>

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 \$192,123,048 and \$200,696,300 at December 31, 2015, and 2014, respectively, and the NTGI Collective Russell 1000 Index Fund, which amounted to \$154,396,381 at December 31, 2014. There are no insurance contracts excluded from plan assets.

The Fund's investments were managed by approximately 45 external investment managers during 2015 and 2014, 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.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

December 31, 2015 and 2014

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks

The Fund's investments are subject to certain types of risks, including interest rate risk, credit risk, custodial credit risk and foreign currency risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of 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 six and five such managers in 2015 and 2014, respectively. Each investment manager is required to determine the maturities of all fixed-income securities in their portfolio. Additionally, guidelines are provided to the external investment managers, including a target duration range that is consistent with each investment manager's respective strategy.

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

At December 31, 2015, the Fund had the following investments and maturities related to certain fixed-income securities (bonds and notes):

Investment Type	Fair Value	Investment Maturities			
		Less than 1 Year	1 to 6 Years	7 to 10 Years	More than 10 Years
Asset-backed securities	\$ 45,757,765	\$ -	\$ 17,350,613	\$ 5,326,369	\$ 23,080,783
Bank loans	9,112,825	-	6,459,360	2,653,465	-
Collateralized bonds	435,204	-	-	435,204	-
Commercial mortgage-backed securities	25,073,132	-	414,325	1,234,335	23,424,472
Corporate bonds	202,328,988	6,303,857	69,517,915	82,812,623	43,694,593
Corporate convertible bonds	808,538	-	208,500	-	600,038
Government agency securities	10,704,270	266,052	7,247,574	2,802,773	387,871
Government bonds	113,245,899	4,648,557	67,892,840	26,497,116	14,207,386
Government mortgage-backed securities	116,377,994	-	1,308,860	1,205,228	113,863,906
Index-linked government funds	1,076,163	84,423	171,449	468,440	351,851
Municipal principal bonds	12,085,968	952,960	2,816,984	2,856,522	5,459,502
Non-government-backed collateralized mortgage obligations	10,583,643	-	477,254	1,179,480	8,926,909
Other fixed income	180,057	180,057	-	-	-
	<u>\$ 547,770,446</u>	<u>\$ 12,435,906</u>	<u>\$ 173,865,674</u>	<u>\$ 127,471,555</u>	<u>\$ 233,997,311</u>

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Notes to Financial Statements
December 31, 2015 and 2014

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

At December 31, 2014, the Fund had the following investments and maturities related to certain fixed-income securities (bonds and notes):

Investment Type	Fair Value	Investment Maturities			
		Less than 1 Year	1 to 6 Years	7 to 10 Years	More than 10 Years
Asset-backed securities	\$ 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
	<u>\$ 719,987,509</u>	<u>\$ 13,830,468</u>	<u>\$ 238,418,782</u>	<u>\$ 99,387,454</u>	<u>\$ 368,350,805</u>

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 (Moody's) and Standard & Poor's Financial Services. 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 the manager believes that it is prudent to continue to hold the security as they believe that the security will return to minimum constraints.

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Notes to Financial Statements

December 31, 2015 and 2014

NOTE 4 CASH AND INVESTMENT RISK (continued)Investment Risks (continued)

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

Quality Rating	Fair Value	
	2015	2014
Aaa	\$ 151,621,876	\$ 225,064,875
Aa	21,161,232	20,701,342
A	41,638,499	62,991,626
Baa	88,647,244	129,307,597
Ba	40,373,438	15,754,882
B	24,982,806	1,509,945
Not rated	47,719,657	57,402,405
Caa through C	7,357,786	14,140,958
Total credit risk of U.S. corporate fixed income	423,502,538	526,873,630
U.S. govt. fixed income securities- explicitly guaranteed	123,828,050	192,475,540
U.S. govt. agency securities-not rated	439,858	638,339
	<u>\$ 547,770,446</u>	<u>\$ 719,987,509</u>

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, 2015, and 2014, cash deposits of \$1,531,144 and \$1,131,708, 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.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

December 31, 2015 and 2014

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

The Fund does not have a formal investment policy governing foreign currency risk, but does manage its exposure to loss in the fair value of investments by requiring managers of foreign investments to maintain diversified portfolios. The Fund's equity and fixed-income portfolios include investments that are subject to foreign currency risk. Such investments include non-U.S. equities, government bonds, corporate bonds, and derivative instruments. Additionally, some of the Fund's investment managers at least partially hedge foreign currency exchange risk. The Fund's exposure to foreign currency risk is as follows:

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Notes to Financial Statements

December 31, 2015 and 2014

NOTE 4 CASH AND INVESTMENT RISK *(continued)*Investment Risks *(continued)*

	Fair Value	
	2015	2014
<i>Currency</i>		
Australian Dollar	\$ 8,450,019	\$ 11,050,417
Brazilian Real	9,375,535	15,237,093
British Pound Sterling	130,696,329	67,095,129
Canadian Dollar	14,059,611	15,725,060
Chinese Yuan Renminbi	(440,150)	(1,492,774)
Colombian Peso	753,448	1,015,869
Costa Rican Colon	54,426	-
Czech Koruna	2,224,550	2,340,050
Danish Krone	4,608,638	3,260,712
Dominican Peso	-	4
Euro Currency Unit	102,395,450	96,577,715
Hong Kong Dollar	54,361,326	69,390,154
Hungarian Forint	(35)	576,211
Indian Rupee	11,117,581	9,929,822
Indonesian Rupiah	7,126,204	5,990,184
Japanese Yen	91,502,259	89,830,272
Malaysian Ringgit	2,928,119	1,859,817
Mexican Peso	9,272,775	9,686,030
New Israeli Shekel	3,060,474	2,847,974
New Romanian Leu	(621)	377,183
New Taiwan Dollar	16,101,627	16,350,000
New Zealand Dollar	333,106	131,100
Nigerian Naira	-	(34,439)
Norwegian Krone	2,114,275	3,695,179
Peruvian Nuevo Sol	(1,199)	2,809
Philippine Peso	2,855,735	-
Polish Zloty	1,767,174	1,576,467
Qatari Rial	47,114	50,708
Russian Ruble	129,168	337,017
Singapore Dollar	(441,097)	2,232,781
South African Rand	6,521,332	9,406,880
South Korean Won	18,284,714	18,104,930
Swedish Krona	10,196,595	11,542,308
Swiss Franc	26,371,298	26,591,749
Thai Baht	1,609,988	2,356,705
Turkish Lira	6,699,182	8,393,434
Uruguayan Peso	7,872	465,710
Total investments in foreign currency	\$ 544,142,822	\$ 502,500,260

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Notes to Financial Statements

December 31, 2015 and 2014

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, 2015, the Fund had interest rate futures contracts to purchase U.S. Treasury securities and Euro Dollars with notional amounts of \$23,531,800 and \$5,935,156, respectively. At December 31, 2015, the Fund also had interest rate futures contracts to sell U.S. Treasury securities and Euro Dollars with notional amounts of \$66,810,100 and \$5,905,712, respectively. 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 future contracts to sell U.S. Treasury securities and German Treasury securities with notional amounts of 13,384,984 and \$7,593,914, respectively.

The fair value of futures contracts in the statements of fiduciary net position was zero at December 31, 2015 and 2014, as settlements are by cash daily.

The Fund had net investment (losses) earnings of (\$239,359) and \$1,508,682 on futures contracts in 2015 and 2014, respectively. These (losses) earnings are accounted for as net (depreciation) appreciation in fair value of investments.

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Notes to Financial Statements

December 31, 2015 and 2014

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

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 \$64,249,508 and \$105,811,288 as of December 31, 2015 and 2014, respectively. The notional value of interest rate swaps was \$1,004,595 and \$0 as of December 31, 2015 and 2014, respectively. The fair value of swaps outstanding at December 31, 2015 and 2014 was a net asset (liability) of \$200,810 and \$(378,304), respectively. Investment loss from holdings and sales of interest rate and credit default swaps was \$1,135,932 and \$2,428,100 in 2015 and 2014, respectively. These losses are included in net (depreciation) 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, Czech koruna, Danish krone, Euros, Hong Kong dollars, Hungarian forint, Indian rupee, Indonesian rupiah, Japanese yen, Malaysian ringgit, Mexican pesos, New Israeli shekel, New Romanian leu, New Taiwan dollar, New Zealand dollar, Nigerian naira, Norwegian krone, Peruvian Nuevo sol, Phillipine peso, Polish zloty, Romanian new leu, Russian ruble, Singapore dollars, South African rand, South Korean won, Swedish krona, Swiss francs, Taiwan dollar, Thai baht, Turkish lira, U.S. dollars, and Uruguayan peso at December 31, 2015 and 2014. Total pending foreign currency forward purchases and (sales) had notional values of \$64,582,115 and \$(64,691,317), respectively, at December 31, 2015, and \$48,425,836 and \$(48,450,832), respectively, at December 31, 2014.

The Fund had a net unrealized (loss) on pending foreign currency forward contracts of \$(109,202) and \$(14,996) at December 31, 2015 and 2014, 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 \$1,175,988 and \$503,997 in 2015 and 2014, respectively.

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December 31, 2015 and 2014

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

Forward interest rate contracts: The Fund's external investment managers entered into forward contracts to purchase or sell bond securities during 2015 and 2014. 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, 2015, the Fund held forward contracts to buy U.S. TIPS (Treasury Inflation Protected Securities) and U.S. government bonds with fair values of \$7,973,666, and the Fund also held forward contracts to (sell) U.S. Treasury notes with fair values of \$8,032,951. 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. The unrealized gain on these contracts was \$18,838 and \$38,144 at December 31, 2015 and 2014, respectively. Investment (loss) from holdings and sales of interest rate forward contracts was \$(318,664) and \$(358,584) in 2015 and 2014, respectively. These losses are included in net (depreciation) 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.

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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. At December 31, 2015, the Fund's securities lending agent was Deutsche Bank AG, New York Branch (Deutsche Bank). At December 31, 2014, the Fund's master custodian, Northern Trust Bank was the securities lending agent. At each respective year end, securities were loaned 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. At December 31, 2015, the contract with Deutsche Bank provides for indemnification for the Fund with respect to any shortfall between liquidation proceeds and the fair market value of: (1) in respect to lending transactions, the securities subject to such transaction, or (2) in the case of reverse transactions, the amount of cash deposited with a counterparty with respect to such transaction. The terms of liquidation proceeds, fair market value and reverse transactions are more specifically defined in the agency securities lending agreement.

All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the Fund's loans is 1 day and 154 days, as of December 31, 2015 and 2014, respectively. At December 31, 2015, cash collateral was reinvested in indemnified repurchase agreements which had an interest sensitivity of 83.55 days. At December 31, 2014, cash collateral was reinvested in the securities lending agent's Core USA Collateral Pool, which 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, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Fair value of securities loaned	\$ 90,964,784	\$ 282,464,957
Fair value reinvested of cash collateral from borrowers	93,088,584	288,542,319
Fair value of non-cash collateral from borrowers	-	1,502,256

As of December 31, 2015 and 2014, the Fund had limited credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Fund.

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NOTE 6 UNFUNDED INVESTMENT COMMITMENTS

The Fund had unfunded commitments of approximately \$77 million and \$84 million at December 31, 2015, and 2014, 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, 2015, 12 retirees were in the Staff Retiree Health Plan and 18 active employees could be eligible at retirement. As of December 31, 2014, 10 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 2015 and 2014, PABF contributed approximately \$152,574 and \$123,263, respectively, to the Staff Retiree Health Plan for current premiums, inclusive of an implicit subsidy of \$16,921 and \$10,661, for 2015 and 2014, respectively. Members receiving benefits contributed approximately \$80,802 or 52.9%, of the total premiums, for 2015, and approximately \$50,197 or 40.7%, of the total premiums for 2014.

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.

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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 2015 and 2014, the amount actually contributed to the Staff Retiree Health Plan, and changes in PABF's net OPEB obligation to the Staff Retiree Health Plan:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 429,179	\$ 409,004
Interest on net OPEB obligation	93,621	80,116
Adjustment to annual required contribution	<u>(76,834)</u>	<u>(65,751)</u>
Annual OPEB expense	445,966	423,369
Employer contributions made	<u>(152,574)</u>	<u>(123,263)</u>
Increase in net OPEB obligation	293,392	300,106
Net OPEB obligation at beginning of year	<u>2,080,467</u>	<u>1,780,361</u>
Net OPEB obligation at end of year	<u>\$ 2,373,859</u>	<u>\$ 2,080,467</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Staff Retiree Health Plan, and the net OPEB obligation for 2015, 2014 and 2013 are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2015	\$ 445,966	34.2%	\$2,373,859
12/31/2014	423,369	29.1	2,080,467
12/31/2013	406,183	26.7	1,780,361

Funded Status and Funding Progress

The funded status of PABF's Staff Retiree Health Plan as of December 31, 2015, and 2014, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Unfunded Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ([b-a]/c)</u>
12/31/15	-	\$ 5,883,114	\$ 5,883,114	0.00	\$ 1,476,561	444.3%
12/31/14	-	5,538,553	5,538,553	0.00	1,304,207	424.7

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

Funded Status and Funding Progress *(continued)*

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, 2015 and 2014 actuarial valuations, the entry age normal 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, 2015, and 2014, 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, 2015, and 2014, 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

	<u>2015</u>	<u>2014</u>
Balances, at December 31	<u>\$ 1,895,040,460</u>	<u>\$ 2,046,631,796</u>

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NOTE 8 RESERVES *(continued)*

City Contribution Reserve *(continued)*

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

	<u>2015</u>	<u>2014</u>
Balances, at December 31	\$ <u>1,469,066,967</u>	\$ <u>1,412,729,397</u>

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

Annuity Payment Reserve

	<u>2015</u>	<u>2014</u>
Balances, at December 31	\$ <u>2,365,036,932</u>	\$ <u>2,291,357,499</u>

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.

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Notes to Financial Statements

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NOTE 8 RESERVES *(continued)*

Prior Service Annuity Reserve

	<u>2015</u>	<u>2014</u>
Balances, at December 31	\$ <u>(1,269,600,342)</u>	\$ <u>(1,442,209,251)</u>

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 \$8,101,813,286 and \$8,093,873,233 as of December 31, 2015 and 2014, respectively.

Gift Reserve

	<u>2015</u>	<u>2014</u>
Balances, at December 31	\$ <u>13,173,046</u>	\$ <u>13,317,832</u>

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

Investment and Interest Reserve

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

Ordinary Death Benefit Reserve

	<u>2015</u>	<u>2014</u>
Balances, at December 31	\$ <u>(30,193,539)</u>	\$ <u>(27,235,320)</u>

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. At December 31, 2015 and 2014, the Ordinary Death Benefit Reserve had a deficit.

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Notes to Financial Statements

December 31, 2015 and 2014

NOTE 8 RESERVES *(continued)*

Automatic Increase Reserve

	<u>2015</u>	<u>2014</u>
Balances, at December 31	\$ <u>(1,384,021,889)</u>	\$ <u>(1,233,025,033)</u>

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, 2015 and 2014, the Automatic Increase Reserve had a deficit.

Supplementary Payment Reserve

	<u>2015</u>	<u>2014</u>
Balances, at December 31	\$ <u>447,402</u>	\$ <u>447,402</u>

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.

The following reserves have a \$0 balance at December 31, 2015, and 2014. 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.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

December 31, 2015 and 2014

NOTE 8 RESERVES (continued)

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, 2015, and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 12,032,733,000	\$ 11,773,430,559
Plan fiduciary net position	<u>3,058,949,037</u>	<u>3,062,014,322</u>
Fund's net pension liability	<u>\$ 8,973,783,963</u>	<u>\$ 8,711,416,237</u>
Plan fiduciary net position as a percentage of total pension liability	25.42%	26.01%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2015 and 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% (1.5% for retirees born after January 1, 1955, to a maximum of 30%) For members hired on or after January 1, 2011: 1/2 of CPI-U, maximum 3.0%

Mortality rates were based on the Sex Distinct Retirement Plans 2014 Total Employee and Healthy Annuitant mortality tables weighted 108% and 97% for post-retirement males and females, respectively, and 85% and 115% for pre-retirement males and females, respectively.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

December 31, 2015 and 2014

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 for 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, 2015 and 2014, are summarized in the following tables:

December 31, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	21%	6.1%
Non-U.S. Equity	20	7.8
Fixed Income	22	1.7
Global Asset Allocation	12	5.1
Private Equity	9	8.2
Hedge Funds	7	4.0
Real Estate	5	4.6
Real Assets	<u>4</u>	4.2
Total	<u><u>100%</u></u>	

December 31, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	21%	5.6%
Non-U.S. Equity	20	7.1
Fixed Income	22	1.1
Global Asset Allocation	12	4.0
Private Equity	7	9.0
Hedge Funds	7	3.7
Real Estate	5	4.1
Real Assets	4	4.3
Infrastructure	<u>2</u>	5.4
Total	<u><u>100%</u></u>	

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Notes to Financial Statements

December 31, 2015 and 2014

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

Single Discount Rate

As of December 31, 2015 and 2014, 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% for 2015 and 2014 and a municipal bond rate of 3.57% and 3.56%, respectively. 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 only 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.

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 as of December 31, 2015:

1% Decrease 6.15%	Single Discount Rate Assumption 7.15%	1% Increase 8.15%
\$ 10,402,347,972	\$ 8,973,783,963	\$ 7,771,126,657

Sensitivity of Net Pension Liability to the Single Discount Rate Assumption as of December 31, 2014:

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

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

December 31, 2015 and 2014

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. The current lease expires at June 30, 2016, and has been renewed for sixteen years through 2032. The new lease agreement includes an abatement clause during the term of the new lease.

Office rental expense amounted to \$256,505 and \$252,566 for the years ended December 31, 2015, and 2014, respectively.

Future minimum rental payments, net of abatement provisions under the office lease at December 31, 2015, are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 129,073
2017	-
2018	141,122
2019	340,744
2020	347,559

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.

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Notes to Financial Statements

December 31, 2015 and 2014

NOTE 13 SUBSEQUENT EVENT

Effective January 1, 2011, Public Act 96-1495 (PA-1495) required the City to finance fund benefits on an actuarial basis commencing with the City tax levy year beginning in 2015. The funding policy of PA-1495 required future employer contributions, employee contributions and other Fund income to be sufficient to produce a funding goal of 90% by fiscal year end 2040. Based upon the statutory provisions of PA-1495 and the application of required actuarial assumptions and methodologies utilized by the Fund's actuary, contributions receivable from the City as of December 31, 2015, are \$580 million. Taxes levied by the City relevant to the Fund are collected and paid to the Fund in the subsequent year.

Effective May 30, 2016, Public Act 096-0506 (PA-0506) became law and replaced PA-1495. The funding provisions of PA-0506 are significantly different than those of PA-1495. Such provisions are not reflected in the financial statements as of December 31, 2015. The new policy provides that beginning with the tax levy year 2015, which will be collected in taxes paid to the Fund in 2016, the City shall levy and collect a tax in an annual amount of \$420 million in 2016; \$464 million in 2017; \$500 million in 2018; \$557 million in 2019; and \$579 million in 2020. Beginning in tax levy year 2020, which is payable to the Fund in 2021 when the taxes are collected, contributions by the City, along with member contributions and investment income are to be an amount sufficient to produce a funded ratio of 90% by 2055.

The financial statements as of December 31, 2015, do not reflect legislative changes of 2016, including PA-0506. Due to the enactment of PA-0506, the employer receivable of \$580 million at December 31, 2015, which is included in the Statements of Fiduciary Net Position as of December 31, 2015, will not be collected in entirety. The amount collected will be reduced by approximately \$173 million, to an expected collection amount of approximately \$407 million. The expected collection amount in net of a 4% allowance approximating \$13 million. This results in a decrease in the Fiduciary Net Position held in trust for pension benefits at December 31, 2015, to approximately \$2,886 million. In addition, the change in funding policy is expected to impact the total and net pension liability of the Fund at December 31, 2015. While the impact on the pension liability has not yet been determined, it is expected to be significant.

REQUIRED SUPPLEMENTARY INFORMATION

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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Required Supplementary Information

Schedule of Changes in Net Pension Liability

For the Years Ended December 31, 2015 and 2014

(Unaudited)

	<u>2015</u>	<u>2014</u>
<i>Total pension liability</i>		
Service cost, including pension plan administrative expense	\$ 213,584,647	\$ 199,435,084
Interest on the total pension liability	832,972,131	791,693,017
Difference between expected and actual experience	(105,968,891)	-
Assumption changes	-	845,070,287
Benefit payments	(668,950,080)	(645,688,934)
Refunds	(7,826,847)	(8,991,636)
Pension plan administrative expense	(4,508,519)	(4,240,625)
Net change in total pension liability	259,302,441	1,177,277,193
Total pension liability – beginning	11,773,430,559	10,596,153,366
Total pension liability – ending (a)	<u>12,032,733,000</u>	<u>11,773,430,559</u>
<i>Plan fiduciary net position</i>		
Employer contributions	572,836,100	177,417,827
Employee contributions	107,626,311	95,675,538
Pension plan net investment (loss) income	(5,333,795)	181,901,293
Benefit payments	(668,950,080)	(645,688,934)
Refunds	(7,826,847)	(8,991,636)
Pension plan administrative expense	(4,508,519)	(4,240,625)
Other	3,091,545	740,305
Net change in plan fiduciary net position	(3,065,285)	(203,186,232)
Plan fiduciary net position – beginning	3,062,014,322	3,265,200,554
Plan fiduciary net position – ending (b)	<u>3,058,949,037</u>	<u>3,062,014,322</u>
Net pension liability – ending (a)-(b)	<u>\$ 8,973,783,963</u>	<u>\$ 8,711,416,237</u>

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

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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Required Supplementary Information

Notes to Schedule of Changes in Net Pension Liability

For the Years Ended December 31, 2015 and 2014

(Unaudited)

Beginning of year total pension liability for 2015 used a Single Discount Rate of 7.15% and the benefit provisions and funding policy 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 for the years 2015 through 2063 and c) a long-term municipal bond rate as of December 31, 2014 of 3.56% for subsequent years.

End of year total pension liability for 2015 uses a Single Discount Rate of 7.15% and the benefit provisions and funding policy in effect as of the December 31, 2015 funding valuation. The Single Discount Rate of 7.15% was based on a) a long-term expected rate of return on pension plan investments of 7.50% used in the December 31, 2015 funding valuation and a long-term municipal bond rate as of December 30, 2015 of 3.57% for subsequent years.

The increase in total pension liability for 2015 reflects the change in the long-term municipal bond rate from 3.56% as of December 31, 2014, to 3.57% as of December 30, 2015. This change was measured at the end of the year using a Single Discount Rate of 7.15%. There were no changes in assumptions, methods, plan provisions or statutory funding policy during the plan year ending December 31, 2015.

This supplementary information does not reflect Public Act 099-0506 which was effective May 30, 2016, and significantly defers the level of plan sponsor required contributions. This deferral of contributions will impact the total and net pension liability as reported at December 31, 2015. While the impact on the pension liability has not yet been determined, it is expected to be significant. In addition to the deferral of contributions, approximately \$173 million of the contribution receivable, which is included in the Plan Fiduciary Net Position at December 31, 2015, will not be realized. This would result in a decrease in the Plan Fiduciary Net Position at December 31, 2015, to approximately \$2,886 million.

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, 2015 and 2014

(Unaudited)

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 12,032,733,000	\$ 11,773,430,559
Plan fiduciary net position	<u>3,058,949,037</u>	<u>3,062,014,322</u>
Net pension liability	<u><u>\$ 8,973,783,963</u></u>	<u><u>\$ 8,711,416,237</u></u>
Plan fiduciary net position as a percentage of total pension liability	25.42%	26.01%
Covered employee payroll	<u>\$ 1,086,607,979</u>	<u>\$ 1,074,333,318</u>
Net pension liability as a percentage of covered employee payroll	825.85%	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)**
12/31/06	\$ 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
12/31/15	785,500,836	575,927,645	209,573,191	1,086,607,979	53.00%	583,421,466	7,493,821

* *The Fund's Statutory Funding does not conform to Actuarial Standards of Practice; therefore, the 2015 actuarially determined contribution is equal to the normal cost plus a 30-year closed level dollar amortization of the unfunded actuarial liability. Prior to 2015, the actuarially determined contribution was equal to the "ARC", which was equal to the normal cost plus a 30-year open level percent amortization of the unfunded actuarial liability.*

** *Excludes amount paid for health insurance supplement beginning in 2006.*

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Notes to Schedule of Contributions—Pension

(Unaudited)

Valuation Date: December 31, 2015 and 2014
Notes: Statutory 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 2.00 times 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: Five-year smoothed market

Inflation: 3.0%

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: 7.5% as of the December 31, 2015 and 2014 valuations.

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.

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Notes to Schedule of Contributions—Pension (*continued*)

(Unaudited)

Methods and Assumptions Used to Determine Contribution Rates as of the Valuation Date (*continued*):

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.

Other: The valuation is based on the statutes in effect as of December 31, 2015, and does not consider the impact of Public Act 099-0506, which was enacted on May 30, 2016 and does impact the 2015 statutory contribution.

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, 2015 and 2014 valuations

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)

<u>Year Ended</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
12/31/15	(0.41)%
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)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ([b-a]/c)</u>
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
12/31/15	-	9,255,090	9,255,090	0.00	1,086,607,979	0.85

* 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)

<u>Year Ended</u>	<u>Contributions</u>			<u>Percentage Contributed</u>
	<u>Annual Required</u>	<u>Actual Employee</u>	<u>Actual Employer</u>	
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
12/31/15	9,632,405	-	9,441,534	98.02

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, 2015 and 2014

(Unaudited)

Valuation date	December 31, 2015 and 2014
Actuarial cost method	Entry age normal
Actuarial value of assets	No assets (pay-as-you-go)
Amortization method	Level percent
Remaining amortization period	2 years closed-period for 2015 and beyond; 3 years closed-period for 2014 and beyond
<i>Actuarial assumptions</i>	
OPEB investment rate of return	4.5%
Projected salary increases	3.75% - per year, plus additional percentage related to service
Healthcare cost trend rate	0.00% (fixed-dollar subsidy)
General inflation rate	3.0%

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Schedule of Funding Progress—Staff Retiree Health Plan

Last 6 Years

(Unaudited)

<u>Actuarial Valuation Date</u>	<u>GASB Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
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
12/31/15	-	5,883,114	5,883,114	0.00	1,476,561	444.3

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Employer Contributions—Staff Retiree Health Plan
Last 6 Years
(Unaudited)

<u>Year Ended</u>	<u>Contributions</u>			<u>Percentage Contributed</u>
	<u>Annual Required</u>	<u>Actual Employee</u>	<u>Actual Employer</u>	
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
12/31/15	429,179	-	152,574	35.6

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Required Supplementary Information—Staff Retiree Health Plan

For the Years Ended December 31, 2015 and 2014

(Unaudited)

Valuation date	December 31, 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
<i>Actuarial assumptions</i>	
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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<i>Administrative expenses</i>		
Actuary services	\$ 94,325	\$ 125,038
Benefits disbursement	211,239	209,764
Equipment service and rent	178,369	162,310
External auditors	53,600	37,000
Fiduciary insurance	131,285	139,794
Legal services	389,745	442,729
Medical consultants	466,348	403,884
Miscellaneous	328,414	274,843
Occupancy and utilities	262,441	258,427
Personnel salaries and benefits	1,927,138	1,741,726
Postage	8,500	10,702
Supplies	11,149	11,039
	<u>\$ 4,062,553</u>	<u>\$ 3,817,256</u>

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<i>Payments to consultants</i>		
External auditors	\$ 53,600	\$ 37,000
Medical consultants	466,348	403,884
Legal services	389,745	442,729
Actuary service	94,325	125,038
Investment manager fees	8,552,490	9,304,806
Master trustee fees	257,093	183,532
Consulting fees	504,207	495,364
	<u>\$ 10,317,808</u>	<u>\$ 10,992,353</u>

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<i>Investment managers</i>		
Acadian Asset Management	\$ 756,419	\$ 744,370
Artisan Partners	873,049	866,212
Dearborn Partners LLC	-	129,668
Denali Advisors	229,037	218,678
Earnest Partners	808,477	885,056
European Investors	823	69,698
Fisher Investments	801,342	821,926
Great Lakes Advisors	371,872	258,422
Holland Capital Management	329,467	302,741
ING Clarion	92,544	87,781
Invesco Capital Management	281,250	468,750
JP Morgan Fleming Asset Management	-	153,746
Lazard Asset Management	541,458	601,439
LM Capital Group	162,841	97,077
MacKay Shields LLC	106,401	-
Manulife Asset Management	247,710	-
Montag & Caldwell	264,500	82,920
Northern Trust Global Investments - Index Funds	21,197	59,891
Taplin, Canida, & Habacht	39,479	168,804
UBS Global Asset Management	426,697	842,861
Wellington Management	461,060	529,415
Wells Capital Management	403,281	498,702
William Blair & Co.	1,333,586	1,416,649
Total investment manager fees	<u>8,552,490</u>	<u>9,304,806</u>
<i>Investment consultants</i>		
Elkins McSherry Inc.	20,000	15,000
NEPC LLC	484,207	480,364
Total investment consultants fees	<u>504,207</u>	<u>495,364</u>
<i>Master custodian</i>		
The Northern Trust Company	257,093	183,532
Total investment fees	<u><u>\$ 9,313,790</u></u>	<u><u>\$ 9,983,702</u></u>



Investment Section



Investments¹

(Complied 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 the Illinois Public Act 85-964, which is the Prudent Person rule for the Policemen’s Pension Fund. The Prudent-Person rule states that fiduciariesⁱⁱ must discharge their duties with 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.

Investment Policy

In 1984, the Trustees undertook a restructuring of the Fund's investment policy to improve the Fund's investment diversification. The revised policy allows for investments in additional asset classes (e.g., international stocks and bonds, real estate and private equity investments). As a result of this policy change, the Fund was restructured. The Trustees allocated monies among new asset classes and added several new investment managers. The Trustees also allocated monies to passive investments (index funds), which provides a low-cost means of achieving market-like returns. The Trustees consistently review the investment policy and make changes when deemed appropriate. The most recent asset allocation study was conducted by NEPC in 2015.

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:

(i) 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.

(ii) A fiduciary is any person who has authority or control with respect to the management or administration of plan assets.



The Trustees assume the responsibility for establishing the investment policy that is to guide the investment of the Fund's assets. 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.

Allocation of Assets

As of December 31, 2015, the Fund's asset allocation targets were as follows:

<u>Asset Class</u>	<u>Current Asset Allocation</u>	<u>Long Term Allocation Target</u>
U.S. Equity	22.6%	21.0%
Non U.S. Equity	24.0%	20.0%
Fixed Income	26.1%	22.0%
Tactical & Alpha (Opp)	13.0%	19.0%
Private Equity	9.0%	7.0%
Real Estate	3.3%	5.0%
Real Assets	0.0%	4.0%
Infrastructure	1.6%	2.0%
Cash	0.5%	0.0%

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, 2015, the Fund retained 48 investment managers for a total of 53 different investment 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
- 12% - 60% MSCI World Index / 40% CITI WGBI Index
- 7% - 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
- 4% - Barclays Global Aggregate Index
- 5% - LIBOR +3%
- 7% - Cambridge Private Equity 1 QTR Lagged Index
- 5% - NCREIF Property Index
- 2% - CPI+500 bps (for Infrastructure)

The investment objective is to match 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.

2015 Asset Allocation

As of December 31, 2015, compared to the target allocation, the Fund was overweight to U.S. Equity, Non U.S. Equity, Fixed Income, Private Equity and Cash. Concurrently, the Fund was underweight to Real Estate, Infrastructure, Real Assets and Opportunistic Investments. The Fund's asset allocation as of December 31, 2015 is shown on the following pages.

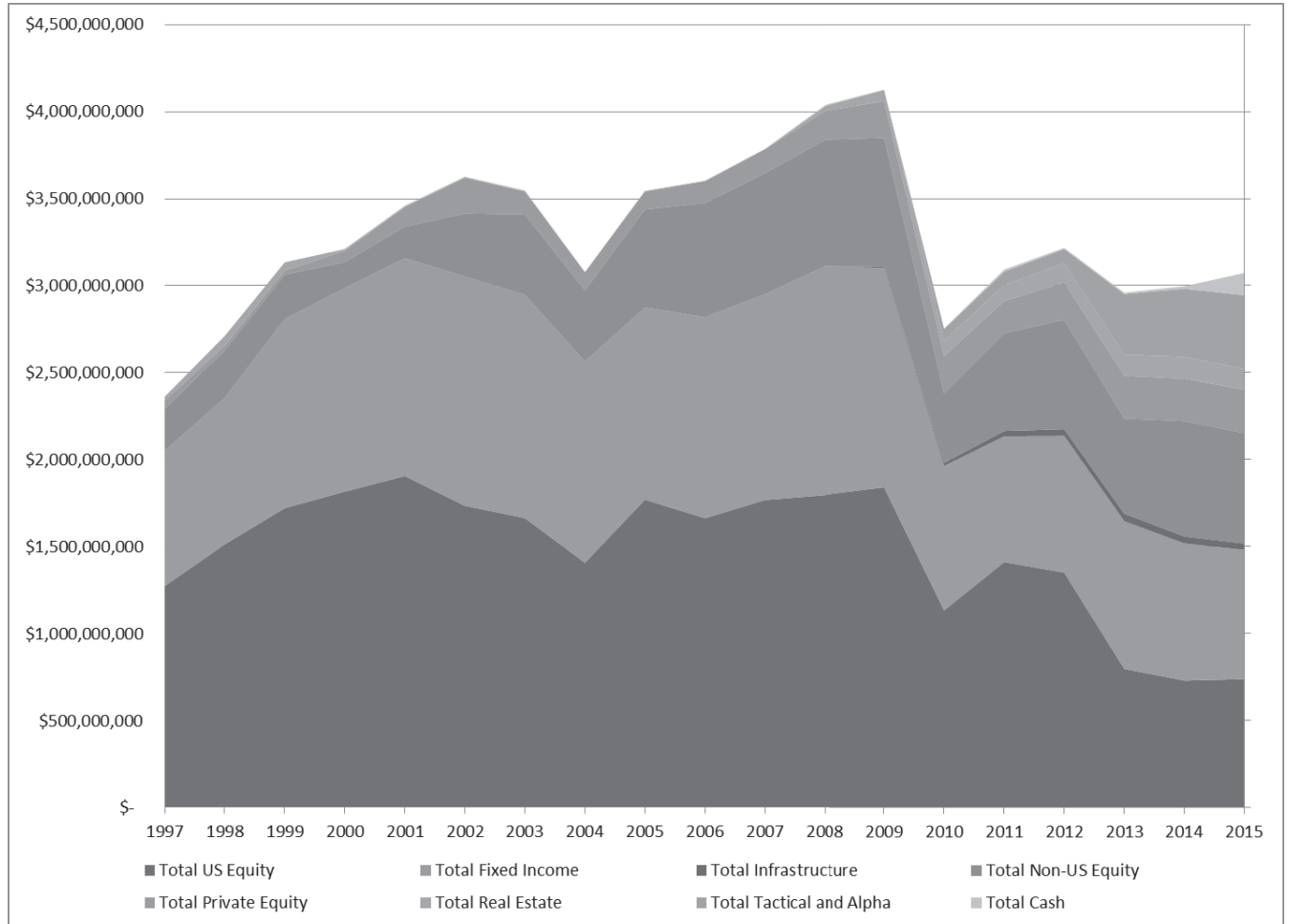


Fair Value and Asset Allocation
(as of December 31, 2015, \$ in Thousands)

Manager	Domestic Equity	Non-US Equity	Bonds	Real Estate	Private Equity	Infrastructure	Tactical	Real Assets	Cash	Total	% of Total	Policy
NTGI Russell 1000	\$ 97,795.86								\$ -	\$ 97,795.86		
Holland Capital	\$ 85,862.36								\$ 2,988.86	\$ 88,851.22		
Montag & Caldwell	\$ 41,086.32								\$ 1,945.14	\$ 43,031.46		
Denali Advisors	\$ 45,317.06								\$ 763.05	\$ 46,080.11		
Great Lakes	\$ 101,194.92								\$ 474.54	\$ 101,669.46		
William Blair SMID Growth	\$ 88,980.47								\$ 982.21	\$ 89,962.68		
Fisher Investments	\$ 90,740.85								\$ 643.14	\$ 91,384.00		
Domestic Equity	\$ 550,977.85								\$ 7,796.94	\$ 558,774.79	23%	21%
Artisan Partners		\$117,277.76							\$ 7,090.65	\$ 124,368.41		
UBS Int'l		\$ 56,202.08							\$ 953.86	\$ 57,155.94		
William Blair Int'l Growth		\$148,342.71							\$ 5,438.03	\$ 153,780.74		
Acadian		\$103,672.80							\$ 664.56	\$ 104,337.36		
Earnest Partners		\$ 77,812.46							\$ -	\$ 77,812.46		
Lazard		\$ 76,299.69							\$ -	\$ 76,299.69		
Non-US Equity		\$579,607.50							\$ 14,147.10	\$ 593,754.60	24%	20%
GAM Unconstrained Bond Fd			\$ 87,226.78						\$ -	\$ 87,226.78		
LM			\$ 87,127.27						\$ 2,774.48	\$ 89,901.75		
Mackay Shields			\$ 57,619.34						\$ -	\$ 57,619.34		
Manulife Asset Management			\$120,750.19						\$ -	\$ 120,750.19		
Wellington			\$103,710.94						\$13,106.48	\$ 116,817.42		
Wells Capital			\$168,578.05						\$ 4,612.32	\$ 173,190.37		
Fixed Income			\$625,012.57						\$ 20,493.27	\$ 645,505.85	26%	22%
Adams Street Partners					\$ 57,656.53				\$ -	\$ 57,656.53		
Adams Street Partners (Co-Inv)					\$ 7,932.90				\$ -	\$ 7,932.90		
Adams Street Partners (Direct)					\$ 2,714.17				\$ -	\$ 2,714.17		
Chancellor					\$ 118.20				\$ -	\$ 118.20		
HarbourVest Global Private Eq					\$ 66,129.78				\$ -	\$ 66,129.78		
Invesco Fund IV (Intl)					\$ 2,652.41				\$ -	\$ 2,652.41		
Invesco Fund IV (LBO/Corp Fin)					\$ 12,329.77				\$ -	\$ 12,329.77		
Invesco Fund IV (Venture)					\$ 6,066.07				\$ -	\$ 6,066.07		
Mesirow Fund III					\$ 11,895.42				\$ -	\$ 11,895.42		
Mesirow Fund IV					\$ 14,929.80				\$ -	\$ 14,929.80		
Muller & Monroe ILPEFF					\$ 8,269.13				\$ -	\$ 8,269.13		
Muller & Monroe MPEFF					\$ 7,006.52				\$ -	\$ 7,006.52		
RCP Fund VI LP					\$ 24,770.95				\$ -	\$ 24,770.95		
Private Equity					\$222,471.64				\$ -	\$ 222,471.64	9%	7%
Carlyle Group (The)						\$ 16,367.97			\$ -	\$ 16,367.97		
Global Infrastructure Partners						\$ 22,564.79			\$ -	\$ 22,564.79		
Infrastructure						\$ 38,932.76			\$ -	\$ 38,932.76	2%	2%
ABR Chesapeake III				\$ 4,612.62					\$ -	\$ 4,612.62		
AG Core Plus Realty II				\$ 1,006.80					\$ -	\$ 1,006.80		
Apollo Real Estate Advisors				\$ 2,092.02					\$ -	\$ 2,092.02		
Blackrock Asia III				\$ 6,166.71					\$ -	\$ 6,166.71		
DRA Advisors				\$ 1,049.01					\$ -	\$ 1,049.01		
Lone Star Fund VI (U.S.)				\$ 2,225.67					\$ -	\$ 2,225.67		
Lone Star Real Estate (U.S.)				\$ 648.25					\$ -	\$ 648.25		
Mesa West II				\$ 204.26					\$ -	\$ 204.26		
Mesirow RE Value Fund				\$10,308.94					\$ -	\$ 10,308.94		
Morgan Stanley MSREF VI Int'l				\$ 1,535.30					\$ -	\$ 1,535.30		
Morgan Stanley PRIME				\$17,250.77					\$ -	\$ 17,250.77		
Newport Capital Partners				\$ 1,507.39					\$ -	\$ 1,507.39		
Quadrant R.E. Advisors				\$ 732.36					\$ -	\$ 732.36		
UBS Realty Investors				\$17,020.83					\$ -	\$ 17,020.83		
CBRE Clarion Securities				\$13,987.71					\$ 172.58	\$ 14,160.29		
Real Estate				\$80,348.62					\$ 172.58	\$ 80,521.20	3%	5%
Aetos Capital							\$ 4,985.10		\$ -	\$ 4,985.10		
K2 Advisors I							\$ 4,969.34		\$ -	\$ 4,969.34		
GMO	\$ 31,316.06	\$ 68,587.93	\$ 37,656.12				\$26,705.10		\$ 27,857.84	\$ 192,123.05		
PIMCO/SEI	\$ 2,586.52	\$ 24,947.41	\$ 65,199.41	\$ 2,729.55			\$18,677.78	\$ 3,742.71	\$ 1,311.14	\$ 119,194.53		
Tactical & Alpha	\$ 33,902.58	\$ 93,535.34	\$102,855.52	\$ 2,729.55	\$ -	\$ -	\$55,337.33	\$3,742.71	\$29,168.98	\$ 321,272.02	13%	19%
Cash Flow									\$ 8,613.57	\$ 8,613.57		
Cash									\$ 8,613.57	\$ 8,613.57	0%	
Total Fund	\$ 584,880.43	\$673,142.84	\$727,868.10	\$83,078.18	\$222,471.64	\$ 38,932.76	\$55,337.33	\$3,742.71	\$80,392.44	\$2,469,846.43		
% of Total	24%	27%	29%	3%	9%	2%	2%	0%	3%	100%		



Historic Asset Allocation by Asset Class



Summary of 2015 Investment Activity

Investment Manager Changes

During 2015, three fixed income managers, that were funded following the Board approved restructure of the Fixed Income allocation in 2014, were funded in June. Also, three fixed income managers were fully liquidated in 2015 as part of the fixed income restructuring. Within the tactical & alpha (opportunistic) portfolio, the Board voted to terminate the hedge fund of fund portfolios managed by K2 and Aetos. As of 12/31/15, the portfolios had not been fully liquidated.



Market Environment

2015 was marked by uncertainty caused by several globally significant economic trends; the extension of the U.S. economic cycle, the path of the Federal Reserve's monetary policy tightening, and the extent of the economic slowdown in China. This uncertainty rattled investors, culminating in risk aversion and contributing to a sharp decline in global markets, particularly during the third quarter of 2015. While the expectation is that there will be greater clarity regarding these questions over the course of 2016, we believe the American consumer can spur economic expansion domestically. With continued domestic growth, the Fed will likely remain on a cautious and gradual path to reducing monetary support, while the European Central Bank and the Bank of Japan are expected to press forward with their accommodative monetary policies. Of greatest concern are the large corrections that have occurred in emerging markets in recent years amid greater dollar strength, depressed commodity prices and declining investment flows. These adjustments have been severe, but future return expectations appear to adequately compensate investors relative to the long-term risks. Nevertheless, the strength of the U.S. dollar may force a more aggressive currency adjustment in China and fuel greater volatility in emerging markets in the near term. To this end, we encourage investors to re-affirm their commitment levels to emerging markets and rebalance accordingly to capitalize on attractive entry points.

Global Equities

U.S. equities ended a volatile year on a strong note, for 2015. Despite a solid fourth quarter, the year saw the lowest gains for the S&P 500 since 2008 and for the Russell 2000 index since 2011. For the year, the consumer discretionary sector led performance in large caps while healthcare was the strongest performing sector in small caps; energy was the worst performing sector for both capitalization sizes. Growth bested value in large and small equities. For the year, international equities were down around 0.8%. The energy and materials sectors

Equity Index Returns as of 12/31/2015				
Global Equity	Quarter	1 Year	3 Yrs	5 Yrs
MSCI World	5.1%	-2.7%	7.5%	5.4%
US Equity	Quarter	1 Year	3 Yrs	5 Yrs
S&P 500	7.0%	1.4%	15.1%	12.6%
Dow Jones Industrial Average	7.0%	-2.2%	10.0%	8.5%
NASDAQ Composite	8.4%	5.7%	18.4%	13.5%
Russell 1000 Growth	7.3%	5.7%	16.8%	13.5%
Russell 1000 Value	5.6%	-3.8%	13.1%	11.3%
Russell 2000	3.6%	-4.4%	11.7%	9.2%
Russell 2000 Growth	4.3%	-1.4%	14.3%	10.7%
Russell 2000 Value	2.9%	-7.5%	9.1%	7.7%
International Equity	Quarter	1 Year	3 Yrs	5 Yrs
MSCI EAFE	4.7%	-0.8%	5.0%	3.6%
MSCI Emerging Markets	0.7%	-14.9%	-6.8%	-4.8%
MSCI Europe	2.5%	-2.8%	4.5%	3.9%
MSCI UK	0.7%	-7.6%	1.8%	3.5%
MSCI Japan	9.3%	9.6%	10.2%	4.4%
MSCI Far East	8.7%	6.7%	8.6%	4.1%

drove losses, trading down over 16% in 2015; consumer staples and healthcare were the strongest performers, up over 8%. Emerging economies returned 0.7% as the Fed's 25



basis points rate hike (its first since 2006) drove markets lower; healthcare and consumer discretionary sectors gained during the quarter while industrials and staples lagged. For 2015, the materials sector was a major detractor of performance.

For the first three months of the year, the S&P 500 index returned just under 1%, while small cap stocks (as measured by the Russell 2000 index) gained during the quarter. Growth bested value, helped by strong performance in biotech. Monetary accommodations and increasing optimism in Japan led to gains of 5% for the EAFE Index during the quarter, outpacing domestic and emerging markets. Japan was the top performer, returning close to 10%, while New Zealand and Singapore trailed the pack, selling off roughly 1%. Emerging markets returned 2.2% in the first quarter of 2015. Russia was the top performer, with quarterly returns of 18%. Other commodity driven markets, such as Brazil, lagged on the back of continued pressure on energy prices.

The second quarter saw global equities having modest performance. After clocking gains of 7.7% in April, emerging market equities sold off significantly in May and June. Similarly, the MSCI EAFE Index posted strong returns earlier in the quarter, followed by losses in June. Smaller capitalization equities bested larger capitalization equities, while growth outpaced value.

For the third quarter of 2015, international equities contracted sharply during the quarter with developed markets losing around 10% and emerging markets losing nearly 18%. Fear of the pending rate hike and negative headlines from China and Greece helped fuel the selloff during the quarter. Greece and Brazil were among the hardest hit emerging economics, trading down 35% and 33%, respectively. Domestically, U.S. equities suffered their worst quarterly loss in four years. The S&P 500 index declined 6.4% for the quarter, erasing the gains from previous quarters. Within the large-cap securities, growth bested value. Overall, energy and healthcare were the worst performing sectors for the quarter.

For the fourth quarter of 2015, equities rallied amidst robust corporate earnings and macroeconomic data. Subsequently, equities faltered amid plunging oil prices and concerns around the impact of a stronger U.S. dollar in light of the Fed's tightening monetary policy. For the fourth quarter, developed markets recouped a portion of the previous quarter's losses, gaining 4.8% in the quarter.

Global Fixed Income

For the first quarter of 2015, the global sovereign debt market gained as yields fell amid declining inflation and accommodative monetary policies. The ECB's €1 trillion government bond-buying program pushed yields in the Eurozone to record lows, while U.S. Treasury yields also declined on renewed expectations of a delayed Fed rate hike. The yield on the 10-year U.S. Treasury dropped 23 basis points to 1.94% at the end of March. The spread between two- and 10-year rates fell 12 basis points to 1.38%. Treasury Inflation- Protected



Securities, or TIPS, returned 1.4% during the quarter, as measured by the Barclays U.S. TIPS Index. The 10-year breakeven inflation rate increased 10 basis points to 1.78% as inflationary expectations inched up with the stabilization of oil prices. U.S. investment-grade corporate bonds returned 2.3% during the quarter. The Barclays Long Duration Credit Index gained 3.1%, bolstered by falling Treasury yields. Agency mortgage-backed securities benefitted from a decrease in mortgage rates in January and March, and posted quarterly gains of 1.1%. High-yield bonds bounced back after two quarters of losses, returning 2.5%. A strong U.S. dollar affected local-currency emerging market debt. Local-currency bonds were down 4.0% in the first quarter, as measured by the JPMorgan GBI-EM Global Diversified Index. Hard-currency emerging market debt market trumped local currency debt, with the JPMorgan EMBI Global Diversified Index returning 2.0%. After plunging at year end, Russian debt outperformed as oil prices stabilized and geopolitical tensions cooled. Brazilian debt underperformed amid disappointing growth, high inflation, and concerns around the mismanagement of the state-run oil giant Petrobras.

Reversing course from a strong first quarter, most fixed-income securities were in the red for the second quarter. Eurozone bonds gave back gains from the first quarter as Greece's debt crisis rattled investors. The Federal Reserve had hinted that barring any economic setbacks, the first rate increase would be slated for the later part of the year. Given this expected hike and a pickup in economic activity during the second quarter, the U.S. yield curve experienced a bear-steepening, which occurs when long term rates rise faster than short-term rates.

Fixed Income Index Returns as of 12/31/2015				
Global Fixed Income	Quarter	1 Year	3 Yrs	5 Yrs
Citi WGBI	-1.2%	-3.6%	-2.7%	-0.1%
JPM EMBI Plus	1.8%	1.8%	-0.3%	5.0%
Domestic Fixed Income	Quarter	1 Year	3 Yrs	5 Yrs
BC Aggregate Bond	-0.6%	0.5%	1.4%	3.2%
BC US Agg. Treasury	-0.9%	0.8%	1.0%	2.9%
BC US Credit	-0.5%	-0.8%	1.5%	4.4%
BC Mortgage Backed	-0.1%	1.5%	2.0%	3.0%
BC Interm. Gov't/Credit	-0.7%	1.1%	1.1%	2.6%
BC 1-10 Yr TIPS	-0.7%	-0.5%	-1.8%	1.6%
BC High Yield	-2.1%	-4.5%	1.7%	5.0%
S&P LSTA Lev. Loan	-2.1%	-0.7%	2.0%	3.4%
3 Month T-Bills	0.0%	0.0%	0.1%	0.1%
10-Year Bond Yields	Dec-15	Sep-15	Dec-14	Dec-13
US	2.3%	2.0%	2.2%	3.0%
Germany	0.6%	0.6%	0.5%	1.9%
UK	2.0%	1.8%	1.8%	3.0%
Japan	0.3%	0.4%	0.3%	0.7%

The 30-year Treasury ended 57 basis points higher at 3.11% in the second quarter, while the two-year Treasury was up seven basis points to 0.63%; this dynamic typically occurs in anticipation of a more hawkish monetary policy to combat an expected increase in inflation. Higher-yielding and shorter duration securities were able to hold on to and, in some instances, even add to their gains from the first quarter. The Barclays 1-3 year Government/ Credit Index returned 0.1% and U.S. high yield bonds were flat. Meanwhile,



long Treasuries fell 8.3% and investment grade corporate debt lost 2.9%. Despite strong earnings and credit fundamentals, the overall performance of U.S. high grade corporate bonds was hindered by record new issuance, which contributed to 16 basis points of spread widening in the quarter. Issuance had totaled almost \$650 billion year-to-date (with a record issuance of \$155 billion in May). This issuance was over 20% higher than in the first half of 2014. High-yield spreads tightened by five basis points to 535 basis points. New issue volume for high-yield bonds was up 3% from the first half of 2014 with \$185 billion in issuance. Emerging markets, external and local currency debt lost ground in the second quarter as yields increased globally. Emerging market currencies in particular, the Mexican peso, Thai baht and Turkish lira weakened against the U.S. dollar. U.S. dollar-denominated debt, as measured by the JP Morgan EMBI Index, fell 34 basis points; local currency debt fell 96 basis points, according to the JP Morgan GBIEM Index.

During the third quarter of 2015, U.S. Treasuries and other high grade assets rallied as lower quality securities sold off amid the market volatility. To this end, the Barclays U.S. Aggregate Bond Index gained 1.2% in the third quarter. Risk premiums widened with U.S. investment grade corporate spreads increasing 24 basis points to 169 basis points. High yield bond spreads spiked 160 basis points to 630 basis points with the Barclays U.S. Corporate High Yield Index losing 4.8%. The Treasury curve flattened over the quarter; the yield on the 30-year Treasury fell 24 basis points to 2.90%, while yields on the one-year Treasury increased by six basis points to 0.34%. Outside the U.S., developed market bonds rallied as investors shunned risk; the Citigroup WGBI Index rose 1.7% during the third quarter. Meanwhile, emerging market debt faced headwinds. Weakening currencies continue to be the principal drag on emerging market debt. Consequently, debt denominated in local currency declined the most, losing 10.5%, while hard-currency sovereign debt fell 1.7%, according to the JP Morgan EMBI Index. In general, the debt of exporters of oil and commodities underperformed during the quarter. Brazilian debt was also sharply lower, rocked by a ratings downgrade by Standard & Poor's Ratings Services, and continued economic weakness.

For the final quarter of 2015, the Fed's rate hike drove government yields higher, resulting in losses for Treasuries with maturities of less than one year. Within corporate credit, the precipitous selloff in commodity-related sectors was unrelenting. Consequently, high yield debt was the worst performer during the quarter and in 2015, losing 2.07% and 4.47%, respectively; in high yield, energy and metals and mining lost nearly 25% last year. Investment grade credit spreads widened 34 basis points over the course of 2015 to 165 basis points; contributors included global growth concerns, falling commodity prices, and record issuance of \$1.3 trillion which hampered liquidity. Abroad, emerging market debt remained hindered by a strengthening U.S. dollar, causing the local currency index to lose 0.01% compared to returns of 1.25% for the dollar-denominated index. Within developed markets, weakening currencies aided losses of 1.23%, according to the Citigroup WGBI Index.



Total Fund Fiscal Year End Performance (gross of fees)

For 2015, on a gross of fee basis, the Total Fund returned -0.1% which outperformed the policy index return of -0.7%. This ranked the Fund in the 57th 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 0.1%. Over the trailing three year period, the Fund's 6.9% return outperformed the policy index return of 5.7%. This ranked the Fund in the 63rd percentile of the IF Public DB Universe. The median (50%) return of the IF Public Fund for this time period was 7.4%. Over the trailing five years, the Fund's 6.9% return outperformed the policy index return of 5.9% and ranked the Fund in the 53rd percentile. The median (50%) return of the IF Public Fund for this time period was 7.0%.

Asset Class Fiscal Year End Performance (gross of fees)

The Fund's U.S. equity portfolio returned 2.6%, which outperformed the Russell 3000 Index return of 0.5%. The non-U.S. equity portfolio returned -3.7% outpacing the MSCI ACWI Ex U.S. return of -5.7%. The combined equity portfolio, including domestic and non U.S., returned -0.7%, outperforming the MSCI ACWI Index return of -2.4%. Within the fixed income portfolio, the composite's return of -0.7% lagged the Barclays Capital Aggregate Index return of 0.5%. The total real estate portfolio returned 5.8% for the year, underperforming the NCREIF Property Index return of 13.5%. The private equity portfolio, which is valued on a lagged basis, returned 11.0% for the year, outperforming the Thomson One All Private Equity Index return of 5.4%. The infrastructure portfolio returned 15.9% for the year, outperforming the NCREIF Property Index return of 13.5%. The Fund's hedge fund portfolio returned -0.9%, underperforming the HFRI Fund of Funds Index return of -0.3%. The global asset allocation portfolio returned -6.0%, trailing the -2.6% return of a blended 60% MSCI ACWI/40% Citi WGBI index.

Below is 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 (net of fees) – December 31, 2015 ⁱⁱⁱ

Calculations are prepared utilizing a time weighted rate of return

	2008	2009	2010	2011	2012	2013	2014	2015	3 Years	5 Years	10 Years
TOTAL FUND											
Police Fund	-27.8%	21.9%	12.7%	0.8%	12.4%	14.5%	6.2%	-0.4%	6.6%	6.5%	5.2%
Policy Portfolio	-20.9	16.7	12.8	0.2	12.6	13.3	4.9	-0.7	5.7	5.9	5.8
IF Public DB Universe Median	-24.9	20.2	12.9	0.9	12.4	15.5	5.8	0.1	7.2	6.9	5.8
Inflation	0.10	2.70	1.40	3.10	1.30	2.00	2.00	0.66	0.95	1.53	1.85
U.S EQUITY											
Police Fund	-37.7%	33.0%	17.3%	0.3%	15.0%	34.1%	10.2%	2.2%	14.7%	11.7%	7.4%
Russell 3000 Index	-37.3	28.3	16.9	1.0	16.4	33.6	12.6	0.5	14.7	12.2	7.4
eVestment US Equity Universe Median	-36.9	30.9	19.6	-0.4	16.0	35.6	10.3	-0.7	14.2	11.7	8.0
NON-U.S EQUITY											
Police Fund	-46.3%	40.1%	11.5%	-13.5%	20.6%	17.5%	-1.9%	-2.6%	3.3%	2.8%	3.5%
Performance Benchmark	-45.5	41.5	11.2	-13.7	16.8	15.3	-3.9	-5.7	1.5	1.1	2.9
eVestment Non US Equity Universe Median	-44.7	40.2	14.8	-12.4	19.5	20.2	-2.9	0.1	5.5	4.3	5.4
FIXED INCOME											
Police Fund	-4.1%	11.6%	7.8%	8.0%	6.7%	-1.2%	6.0%	-1.1%	1.2%	3.6%	4.3%
Index	5.2	5.9	6.5	7.8	4.2	-2.0	6.0	0.6	1.4	3.3	4.5
eVestment Bond Universe Median	2.4	9.3	6.9	6.5	6.1	-0.3	4.2	0.8	1.7	3.7	4.8
REAL ESTATE											
Police Fund ²	-11.2%	-9.1%	7.3%	6.5%	10.1%	6.9%	12.4%	5.0%	8.0%	8.1%	2.1%
NCREIF Net Property Index	-6.5	-16.9	13.1	16.1	11.0	8.0	11.0	13.5	11.9	12.5	8.0
INFRASTRUCUTRE											
Police Fund	-15.2%	-5.5%	15.1%	8.9%	-3.4%	19.0%	23.1%	15.9%	19.3%	12.3%	--
NCREIF Net Property Index	5.3	-22.1	5.8	16.1	11.0	11.0	11.3	13.5	11.9	12.6	8.0
PRIVATE EQUITY											
Police Fund	-6.5%	-21.3%	13.0%	16.9%	9.3%	15.1%	20.0%	10.6%	15.2%	14.3%	8.9%
Thompson One All Private Equity Lag	1.5	-26.3	15.8	12.0	14.4	16.3	17.9	5.9	13.3	13.2	10.4
HEDGE FUND											
Police Fund	--	11.0%	5.3%	-3.1%	8.3%	11.9%	4.6%	-0.9%	5.1%	4.0%	--
HFRI Fund of Funds Composite Index	-21.4	11.5	5.7	-5.7	4.8	9.0	3.4	-0.3	4.0	2.1	2.3
GLOBAL ASSET ALLOCATION											
Police Fund	--	--	--	--	13.2%	7.5%	1.1%	-6.0%	0.7%	--	--
60% MSCI ACWI(Net)/40% CITI WGBI	-24.1	21.3	10.0	-1.8	10.3	11.4	2.4	-2.6	3.6	3.8	4.6

Asset Allocation

US Stocks	41%	41%	42%	27%	24%	24%	22%	23%
Non US Stocks	15%	18%	20%	19%	22%	21%	22%	24%
Private Equity	8%	6%	7%	8%	8%	8%	9%	9%
Fixed Income	30%	28%	23%	29%	26%	24%	28%	26%
Infrastructure	<1%	1%	1%	2%	2%	1%	1%	2%
Opportunistic	3%	3%	4%	12%	13%	14%	15%	13%
Real Estate	3%	3%	3%	4%	4%	4%	3%	3%

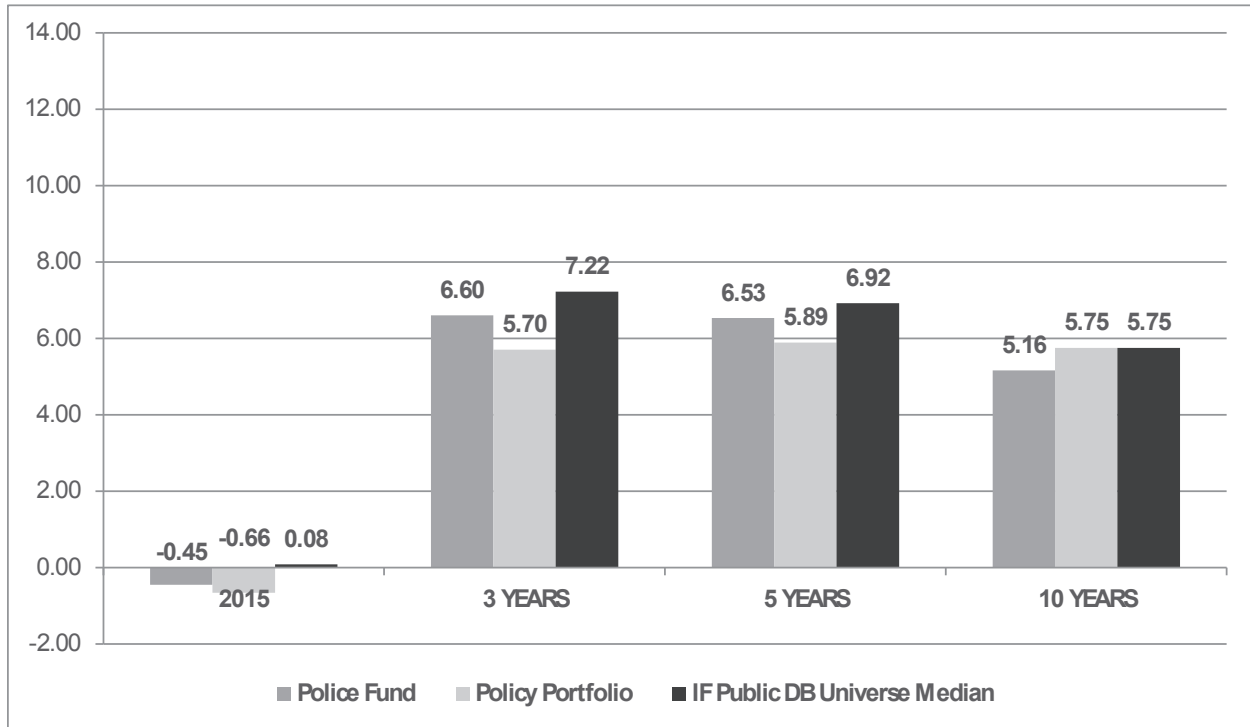
¹ All Chicagp PABF performance presented net of fees. IF and eVestment universe returns are presented gross of fees

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 fee)

As of December 31, 2015



ⁱⁱⁱ All Chicago PABF performance presented net of fees. IF and eVestment universe returns are presented gross of fees. Real Estate results are shown beginning in 2007, when the Fund's new real estate program was initiated.



Real Estate Investments

(Compiled by NEPC, LLC, the investment consultant to the Fund)

2015 U.S. Real Estate Market Review

The real estate markets have continued to perform well, particularly in the United States where fundamentals and capital flows remain strong. Capital markets (including access to public debt and equity markets, as well as private fundraising) remain healthy and capital flows into U.S. real estate have continued to increase. In general, new construction has remained relatively low and net absorption remains strong with all property types exhibiting high occupancy rates (retail occupancy remains below the long-term average, but has been increasing).

With respect to asset prices, the strong fundamentals, availability and pricing of debt, and strong capital flows have continued to push values higher, particularly for high quality assets in core markets. Income yields have continued to steadily decline since 2010 with cap rates in major cities at or near all-time lows. On a relative basis, however, yields remain at healthy levels – the NPI income yield was approximately 255 basis points above the 10-year U.S. Treasury as of December 31, 2015 (near the historical average spread).

NEPC remains neutral on U.S. private core real estate and REITs, given the combination of high asset prices, but strong fundamentals. We are neutral on real estate debt as competition among traditional lenders keeps yields low, but are in the process of reevaluating the debt market environment. We are positive on value-add and opportunistic real estate and still believe Europe is appealing. For domestic non-core real estate, we favor cash flow-driven, niche-focused managers who are attentive to duration risk at the current stage of the expansion cycle and have a demonstrated ability to stay disciplined.

Chicago PABF Real Estate Portfolio Summary

As of year-end 2015, PABF's real estate portfolio had a total reported value of \$83.7 million (~3.4% of total plan assets). In addition, PABF had unfunded commitments to real estate of \$33.4 million, bringing the total plan real estate exposure to \$117.2 million (or 4.7% 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 43% in core, 23% in value-add, 17% in opportunistic, and 17% in REIT investments. The total real estate portfolio observed an internal rate of return of 7.2% during 2015.

Core Real Estate

U.S. core commercial real estate continued to experience strong post-recession performance in 2015. While 2015 generated higher core real estate returns overall than 2014, returns have showed signs of slowing after a very strong second and third quarters. The NCREIF Property Index ("NPI") had a total gross return of 13.3% in 2015. The NCREIF Fund Index Open-End Diversified Core ("ODCE") had a total net return of 14.0% in 2015. Capital continued to flow into core real estate in 2015 (a trend that has continued since 2010), including through core funds as well as direct investments by large institutions. The table



below shows the performance of PABF's core funds for 2015 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	Commitment	Fund 2015 Return	NPI Gross 2015 Return	ODCE Net 2015 Return
Prime Property Fund	2006	\$13.5	14.6%	13.3%	14.0%
Quadrant Fund	2006	\$13.4	3.4%	13.3%	14.0%
UBS Trumbull Property Fund	2006	\$14.3	11.4%	13.3%	14.0%

Note: Commitment in millions.

Value Add Real Estate

The following table shows the performance of PABF's value-add real estate funds for 2015 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	Commitment	Fund 2015 Return	Fund Return Since Inception	Benchmark Vintage Year Return Since Inception
AG Core Plus Realty Fund II	2006	\$15.0	17.9%	10.2%	(2.8%)
ABR Chesapeake Fund III	2006	\$10.0	14.1%	4.0%	(2.8%)
DRA G&I Fund VI LLC	2007	\$5.0	20.7%	11.0%	4.1%
Mesa West R.E. Inc. Fund II	2008	\$20.0	(22.9%)	12.4%	9.9%
DMR Mortgage Opportunity	2009	\$10.0	NA	53.7%	20.3%
Mesirow Financial RE Value	2012	\$10.0	17.5%	12.9%	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 September 30, 2015, the most recent available).

Opportunistic Real Estate

The table below shows the performance of PABF's opportunistic real estate funds for 2015 and since inception relative to the applicable vintage year index benchmark.



Investment Fund	Vintage Year	Commitment	Fund 2015 Return	Fund Return Since Inception	Benchmark Vintage Year Return Since Inception
Newport Capital / DV Urban I	2006	\$15.0	15.6%	(20.4%)	0.7%
Apollo Europe R.E. Fund III	2007	\$10.0	0.0%	1.6%	1.7%
BlackRock Asia Fund III	2007	\$10.0	(3.7%)	5.6%	1.7%
Morgan Stanley R.E. VI	2007	\$11.0	6.1%	(16.6%)	1.7%
Shamrock Hotel Fund	2007	\$5.0	NA	(55.4%)	1.7%
Lone Star Fund VI (U.S.)	2008	\$10.0	(9.7%)	12.3%	4.8%
Lone Star R.E. Fund (U.S.)	2008	\$5.0	24.9%	6.0%	4.8%

Note: Commitment in millions. For benchmarking purposes, we compared Fund performance to the Cambridge Associates Opportunistic Real Estate Fund universe (as of September 30, 2015, the most recent available). BlackRock Asia Fund III was formerly the MGPA Asia Fund III.

Real Estate Securities

In 2015, the FTSE NAREIT All Equity REIT Index ("FNERTR") generated a total return of 2.8%; while still a positive year, this was substantially lower than 2014 (28.0%) and the 20-year average (12.9%). Performance has been strong early in 2016, with the index up 5.8% through March 31, 2016. The ING Clarion Global RE Securities fund remains the only real estate securities investment and underperformed in 2015 relative to the FNERTR index.

Investment Fund	Vintage Year	Commitment	Fund 2015 Return	FNERTR 2015 Return
ING Clarion Global RE Securities	2008	\$20.0	(0.5%)	2.8%

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

Largest Stock Holdings as of December 31, 2015

	Shares	Stocks	Fair Value
1	1,474,062	AIA GROUP LTD	\$ 8,863,221
2	112,659	MEDTRONIC PLC	8,665,730
3	6,559	SAMSUNG ELECTRONIC	7,048,177
4	33,850	ADR BAIDU INC	6,399,004
5	59,648	HONEYWELL INTL	6,177,743
6	48,018	BAYER AG	6,040,354
7	77,873	VISA INC	6,039,051
8	52,176	APPLE INC	5,492,046
9	87,638	ADR HDFC BK LTD	5,398,501
10	272,700	TENCENT HLDGS LIMITED	5,365,928

Largest Bond Holdings as of December 31, 2015

	Par	Bonds	Fair Value
1	9,700,000	UNITED STATES TREAS NTS 1.25% DUE 11-15-2018	\$ 9,684,849
2	8,400,000	UNITED STATES TREAS NTS 1.0% DUE 12-31-2017	8,389,500
3	7,000,000	GNMA II JUMBOS 3.5% 30 YEARS	7,297,227
4	6,800,000	UNITED STATES TREAS NTS 2.25% DUE 11-15-2024	6,796,546
5	6,600,000	UNITED STATES TREAS NTS 2.0% DUE 11-15-2021	6,619,338
6	5,400,000	UNITED STATES TREAS NTS 2.0% DUE 2-15-2023	5,368,572
7	5,100,000	FNMA SINGLE FAMILY MORTGAGE 3.5% 30 YEARS	5,261,787
8	4,275,000	UNITED STATES TREAS NTS 2.25% DUE 11-15-2025	4,265,480
9	4,075,000	UNITED STATES TREAS NTS 1.625% DUE 11-30-2020	4,050,803
10	3,300,000	FNMA SINGLE FAMILY MORTGAGE 4.0% 30 YEARS	3,491,968

A complete list of portfolio holdings is available upon request.

Commissions Paid by Investment Managers in 2015

Manager	Total Number of Trades	Total Number of Shares	Total Commissions
Ariel Capital Management	3,380	42,788,3855	\$ 50,654
Artisan Partners	2,159	13,264,478	129,481
Denali Advisor	276	1,558,751	29,983
Earnest Partners	286	24,897,235	25,584
Fisher Investments	128	1,156,900	14,356
Great Lakes Advisors	70	990,194	34,658
Holland Capital Management	150	481,795	13,449
ING Clarion	1,407	1,418,190	14,283
Lazard Asset Management	3,021	25,145,287	145,691
Montag & Caldwell	156	382,660	8,854
Northern Trust Company	1,478	498,955,239	104,435
UBS Global Asset Management	410	5,571,290	55,920
William Blair & Company	3,122	11,466,759	222,754
	16,043	628,077,163	\$ 850,102

Commissions Paid to Brokers in 2015

Broker	Total Number of Shares	Total Commissions
Barclays Capital	1,352,273	\$ 13,172
BNY Convergenx	12,363,064	60,228
Cabrera Capital Markets	421,103	10,388
Cheevers & Co.	917,510	26,215
Citigroup Global Markets	17,367,826	39,071
CLSA Securities	10,290,721	20,485
Credit Suisse	7,503,187	53,828
Deutsche Bank	3,753,877	22,040
Drexel Hamilton LLC	311,275	10,895
Goldman Sachs & Co.	5,522,507	43,877
HSBC	1,691,774	9,101
Instinet	9,871,977	21,927
Investment Technology Group	1,481,908	10,875
JP Morgan Securities	8,957,110	39,007
Jefferies & Co.	1,564,186	8,433
Loop Capital Markets	1,557,947	40,299
Macquarie Securities	2,267,583	8,356
Merrill Lynch	9,441,605	50,094
Morgan Stanley	8,652,036	38,357
Nomura Securities	1,614,479	7,727
Northern Trust Company	367,492,650	103,018
Pershing LLC	1,594,338	22,668
Topeka Capital Markets	326,550	16,328
UBS	6,281,020	40,005
Brokers with less than \$7,000 in commissions	145,478,657	133,708
Totals	628,077,163	\$ 850,102

**Investment Summary
as of 12/31/15**

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total Fair Value</u>
<u>Fixed Income</u>		
Government Bonds	\$ 241,404,326	9.6%
Corporate Bonds	<u>306,366,120</u>	<u>12.1%</u>
Total Bonds	547,770,446	21.7%
Fixed Income Funds	<u>213,114,037</u>	<u>8.5%</u>
Total Fixed Income	760,884,483	30.2%
<u>Equities</u>		
U.S. Equities	460,460,737	18.3%
International Equities	618,856,305	24.5%
Stock Index Funds	<u>312,062,832</u>	<u>12.4%</u>
Total Equities:	1,391,379,874	55.2%
<u>Other Investments</u>		
Hedge Fund-of-Funds	9,954,440	0.4%
Infrastructure	38,932,764	1.5%
Real Estate	80,387,687	3.2%
Swaps	1,385,657	0.1%
Forward Contracts	7,973,666	0.3%
Venture Capital	<u>156,327,767</u>	<u>6.2%</u>
Total Other:	294,961,981	11.7%
Short-term funds and Cash:	73,066,302	2.9%
Total Assets at Fair Value:	<u><u>\$ 2,520,292,640</u></u>	<u><u>100.0%</u></u>



Actuarial Section

June 10, 2016

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, 2015

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, 2015. This actuarial valuation has been performed to measure the funded status of the Fund and to determine the contribution levels for 2016, based on the statutes in effect as of December 31, 2015. In addition, it includes disclosure information required under GASB Statements No. 43 and 45 for the fiscal year ending December 31, 2015. Disclosure information required under GASB Statements Nos. 67 and 68 is provided in a separate report. 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 Statements No. 43 and 45. These actuarial valuations of the Fund are performed annually.

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

- Summary of Actuarial Valuation Methods and Assumptions;
- Schedule of Active Member Data;
- Retirements and Beneficiaries Added to and Removed from Rolls;
- Prioritized Solvency (Termination) Test;
- Development of Annual Required Contributions under GASB Statements No. 43 and 45;
- Development of Actuarial Gains and Losses; and
- 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 based on the statutes in effect as of December 31, 2015; and
- 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 . 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 – All actuarial assumptions remain unchanged from the prior valuation and 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. 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 and statutes in effect as of December 31, 2015.

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.

Please note that the PA 96-1495 funding policy was changed by PA 99-0506, effective as of May 30, 2016. The funding policy defined in PA 99-0506 significantly defers contributions when compared to the provisions of PA 96-1495. The new funding policy requires fixed City contributions for payment years 2016 to 2020, and level percent of pay contributions for years 2021 to 2055 that, along with member contributions and investment income, are projected to produce a funded ratio of 90% by 2055.

The funding valuation results contained in this report were prepared based on the statutes in effect as of December 31, 2015, and will be used solely to comply with the financial reporting requirements under GASB Statements No. 56, 67 and 68. The contributions contained in this report will be used to develop the blended discount rate under GASB Statements No. 67 and 68. The statutory funding amounts contained in this report are no longer valid as of May 30, 2016.

Gabriel Roeder Smith & Company

We strongly recommend that a formal liquidity and asset allocation study be performed as soon as practical and that GRS prepare statutory funding and accounting impact statements of PA 99-0506 using updated economic assumptions approved by the Board.

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. To the best of our knowledge, this actuarial statement is complete and accurate based on the statutes in effect as of December 31, 2015, and fairly presents the actuarial position of the Fund as of December 31, 2015, for purposes of complying with the financial reporting requirements under GASB Statements No. 56, 67 and 68. The statutory funding amounts contained in this report are no longer valid as of May 30, 2016. Based on these items, we certify these results to be true and correct.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

Actuarial valuations do not affect the ultimate cost of the Plan, only the timing of contributions into the Plan. Plan funding occurs over time. Contribution shortfalls (the difference between the actual contributions and the annual required contributions) remain the responsibility of the Plan sponsor. If the contribution levels over a period of years are lower or higher than necessary, it is normal and expected practice for adjustments to be made to future contribution levels to take account of this variance, with a view to funding the plan over time.

This report should not be relied on for any purpose other than the purpose stated.

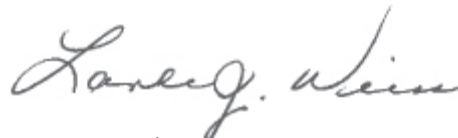
Alex Rivera and Lance J. Weiss are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

The signing actuaries are independent of the plan sponsor.

Respectfully yours,



Alex Rivera, FSA, EA, MAAA, FCA
Senior Consultant



Lance J. Weiss, EA, MAAA, FCA
Senior Consultant

Gabriel Roeder Smith & Company

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

ACTUARIAL METHODS AND ASSUMPTIONS AS OF DECEMBER 31, 2015

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.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
ACTUARIAL METHODS AND ASSUMPTIONS
AS OF DECEMBER 31, 2015 (CONT'D)

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

<u>ATTAINED AGE</u>	<u>RATE</u>
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:

<u>ATTAINED AGE</u>	<u>RATE ¹</u>
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.

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO
ACTUARIAL METHODS AND ASSUMPTIONS
AS OF DECEMBER 31, 2015 (CONT’D)

For members hired on or after January 1, 2011:

<u>ATTAINED AGE</u>	<u>RATE ¹</u>
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:

<u>YEARS OF SERVICE</u>	<u>RATE</u>
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.

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO
ACTUARIAL METHODS AND ASSUMPTIONS
AS OF DECEMBER 31, 2015 (CONT’D)

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 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.

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO
ACTUARIAL METHODS AND ASSUMPTIONS
AS OF DECEMBER 31, 2015 (CONT’D)

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, 2015 is 12,061.

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, 2015. These members were hired from January 1, 2011, through December 31, 2014.

Entry Age	Number
20 to 25	79
25 to 30	696
30 to 35	364
35 to 40	162
40 to 45	4

- (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 \$46,668 for the plan year ending December 31, 2015. This amount does not include duty availability pay. The new entrant pay for members hired after 2015 is assumed to increase by the wage inflation assumption of 3.75% plus duty availability pay after 3 years, increased by CPI compounded.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
ACTUARIAL METHODS AND ASSUMPTIONS
AS OF DECEMBER 31, 2015 (CONT'D)

- (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 \$111,572 for plan year 2015, increasing by 1.5% per year after plan year 2015. 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 \$4,509,000 for plan year end December 31, 2015, 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
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 ¹	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 ²	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	1.5
2015	12,061	0.3	1,086,607,979	1.1	90,093	0.8	4.80 ³	0.0
Average Increase (Decrease) for the last 5 years:		(1.1)%		0.7 %		1.9 %		1.1 %

¹ Members in service does not include those age 63 and over who are still working.

² Figures do not include retroactive raise.

³ Pay definition changed to include duty availability pay. Of the \$1,086,607,979 current year salary, \$39,722,819 is duty availability pay.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SUMMARY OF CHANGES IN ACTIVE PARTICIPANTS
FOR FISCAL YEAR ENDING DECEMBER 31, 2015

	Male	Female	Total
Number of Participants at Beginning of Fiscal Year ²	9,272	2,748	12,020
Increases:			
Participants Added During Year	341	94	435
Participants Returning From Inactive or Disability Status	45	14	59
Totals	9,658	2,856	12,514
Decreases:			
Terminations During Year	327	126	453
Number of Participants at End of Fiscal Year	9,331	2,730	12,061
Total Inactive Participants			637
<u>Terminations:</u>			
Withdrawal (With Refunds) ¹	15	2	17
Withdrawal (Without Refunds)	63	18	81
Ordinary Disability Benefit	11	6	17
Occupational Disease Disability Benefit	5	0	5
Duty Disability Benefit	5	1	6
Retirements	215	99	314
Deaths (Occupational)	0	0	0
Deaths (Non-occupational)	13	0	13
Totals	327	126	453

¹This total differs from the total of 52 shown in Exhibit D in 2015 Actuarial Valuation due to the fact that only 17 of the refunds were paid to participants who were considered to be active as of December 31, 2014.

²Includes 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, 2015**

	Number at Beginning of Year	Additions During Year	Terminations During Year	Number at End of Year
Service Retirement Annuities	9,311	363	289	9,385
Widow Annuities	3,109	147	178	3,078
Children's Annuities	197	20	19	198
Ordinary Disability Benefit (Non-Occupational)	48	21	28	41
Occupational Disease Disability Benefit	36	7	8	35
Duty Disability Benefit (Occupational)	259	13	42	230
Children's Disability Benefit	204	17	43	178
Widows' Compensation Annuities (Service Connected Death)	66	0	1	65
Totals	13,230	588	608	13,210
Annual Benefits	\$ 644,211,045	\$ 41,894,763	\$ 22,433,771	\$ 663,672,037

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
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
2015	13,230	588	608	13,210	13,220

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

Yr.	Added to Payroll		Removed from Payroll		Payroll End of Year		Average Annual Benefits	Increase to Avg. Benefits
	No.	Annual Benefits.	No.	Annual Benefits	No.	Annual 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%
2015	363	34,830,781	289	15,450,195	9,385	579,069,731	61,702	2.6%
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%
2015	147	4,022,206	178	2,831,532	3,078	61,439,136	19,961	3.0%

¹ Not including Compensation Annuitants.

All Other Annuitants								
2014	76	\$ 2,340,324	101	\$ 2,527,422	810	\$ 24,273,438	29,967	—%
2015	78	3,041,776	141	4,152,044	747	23,163,170	31,008	3.5%

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

Valuation Date 12/31	(1)	(2)	(3)	Actuarial Value of Assets	Portion (%) of Present Value Covered By Assets		
	Active and Inactive Member Contribution	Retirees and Beneficiaries	Active and Inactive Members (ER Financed Portion)		(1)	(2)	(3)
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%
2015	1,484,316,625	7,279,289,531	2,524,630,892	3,186,423,762	100.00%	23.38%	0.00%

¹Change in actuarial assumptions.

²Change in benefits.

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

	Pension	Health Ins. Supplement	Total
<u>(1) Total Normal Cost for 2016</u>	\$ 221,800,051	\$ 8,897	\$ 221,808,948
<u>(2) Actuarial Accrued Liability (AAL) at 12/31/2015 ¹</u>	\$ 11,402,041,654	\$ 9,794,476	\$ 11,411,836,130
<u>(3) Unfunded AAL (UAAL)</u>			
(a) Actuarial Value of Assets at 12/31/2015	\$ 3,217,944,759	\$ 0	\$ 3,217,944,759
(b) UAAL (2-3(a))	8,184,096,895	9,794,476	8,193,891,371
<u>(4) Estimated Member Contributions during 2016</u>	\$ 108,984,000	\$ 0	\$ 108,984,000
<u>(5) Estimated City Contribution for Tax Levy Year 2016</u>	\$ 666,173,977	\$ 9,651,778 ²	\$ 675,825,755

¹ Pension liabilities were discounted at 7.5% per year, and OPEB liabilities discounted at 4.5% per year.

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

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
DEVELOPMENT OF ACTUARIAL GAINS AND LOSSES FOR 2015 –
(FOR FUNDING PURPOSES)

UNFUNDED ACTUARIAL ACCRUED LIABILITY - BEGINNING OF 2015

(1) Actuarial Accrued Liability - 12/31/2014	\$11,048,192,187
(2) Actuarial Value of Assets - 12/31/2014	<u>2,954,318,954</u>
(3) Unfunded Accrued Actuarial Liability - 12/31/2014	\$8,093,873,233

EXPECTED UNFUNDED ACTUARIAL ACCRUED LIABILITY - END OF 2015

(4) Normal Cost for 2015	\$ 216,401,490
(5) Total Contributions for 2015	692,995,490
(6) Interest on (3), (4), & (5) at Valuation Rates	<u>597,327,968</u>
(7) Expected Unfunded Actuarial Accrued Liability - 12/31/2015	\$8,214,607,201
((3)+(4)-(5)+(6))	

DEVIATIONS FROM EXPECTED

(8) (Gain)/Loss on Investment Return (Smoothed (Actuarial) Value)	\$ (3,504,313)
(9) (Gain)/Loss from Salary Changes	(95,392,067)
(10) (Gain)/Loss from Retirement	15,669,449
(11) (Gain)/Loss from Turnover	1,402,142
(12) (Gain)/Loss from Mortality	(37,362,315)
(13) (Gain)/Loss from Disability	(8,557,476)
(14) (Gain)/Loss from New Entrants and Rehired Members	(2,265,995)
(15) (Gain)/Loss from All Other Sources	<u>17,216,660</u>
(16) Composite Actuarial (Gain)/Loss	(\$112,793,915)
(17) (Gain)/Loss as a percentage of Expected UAAL (16)/(7)	(1.4)%
(18) (Gain)/Loss from Assumption Changes	\$0

UNFUNDED ACTUARIAL ACCRUED LIABILITY - END OF 2015

(19) Unfunded Accrued Actuarial Liability - 12/31/2015	\$8,101,813,286
((7)+(16)+(18))	

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

	APV of Projected Benefits <u>As of 12/31/ 2015</u>	Accrued Liability (AAL) <u>As of 12/31/ 2015</u>
<u>(1) Values for Active Members</u>		
(a) Retirement	\$5,583,136,017	\$3,607,825,902
(b) Termination	83,028,729	52,684,432
(c) Disability	421,465,640	270,897,654
(d) Death	53,466,572	34,064,093
Total for Actives	\$6,141,096,958	\$3,965,472,081
 <u>(2) Values for Inactive Members</u>		
(a) Retired	6,451,076,954	6,451,076,954
(b) Survivor	539,924,513	539,924,513
(c) Disability	278,902,061	278,902,061
(d) Inactive (Deferred Vested)	43,475,436	43,475,436
(e) Children	9,386,003	9,386,003
Total for Inactives	7,322,764,967	7,322,764,967
<u>(3) Grand Totals</u>	\$13,463,861,925	\$11,288,237,048
<u>(4) Normal Cost for Active Members</u>	\$ 217,812,219	
<u>(5) Actuarial Present Value of Future Compensation</u>	\$11,112,481,409	

Results include health income supplement of \$9,342 in normal cost, \$9,246,515 in actuarial accrued liability and \$9,255,090 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

Years	Retirement		Disability		Widow ¹		Child		Totals	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Under \$100	6								6	0
\$100 to under \$250	10	3					105	95	115	98
\$250 to under \$500	22	8					27	24	49	32
\$500 to under \$750	20	3					42	46	62	49
\$750 to under \$1,000	4	4					17	12	21	16
\$1,000 to under \$2,000	80	38			38	2,172	7	1	125	2,211
\$2,000 to under \$3,000	312	32	1		12	743			325	775
\$3,000 to under \$4,000	1,038	363	29	25		96			1,067	484
\$4,000 to under \$5,000	1,862	414	96	49		32			1,958	495
\$5,000 to under \$6,000	2,614	328	66	30	3	38			2,683	396
\$6,000 to under \$7,000	1,325	151	6	3		4			1,331	158
\$7,000 to under \$8,000	416	33	1			2			417	35
\$8,000 to under \$9,000	144	9				1			144	10
\$9,000 to under \$10,000	50	11				1			50	12
\$10,000 and over	78	7				1			78	8
Totals:	7,981	1,404	199	107	53	3,090	198	178	8,431	4,779

¹ Includes reversionary.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SCHEDULE OF AVERAGE BENEFIT PAYMENTS FOR NEW ANNUITIES GRANTED DURING 2015

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
Number of Retired Members	0	7	14	105	184	42	11	363
2015 Average annual salary used	\$0	\$34,263	\$85,670	\$90,037	\$100,124	\$104,876	\$102,529	\$96,001
Average Monthly Benefit	\$0	\$951	\$3,334	\$4,271	\$6,005	\$6,555	\$6,408	\$5,379

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SUMMARY OF PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS
AS OF DECEMBER 31, 2015

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.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SUMMARY OF PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS
AS OF DECEMBER 31, 2015 (CONT'D)

***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%.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SUMMARY OF PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS
AS OF DECEMBER 31, 2015 (CONT'D)

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, 2015 (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.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SUMMARY OF PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS
AS OF DECEMBER 31, 2015 (CONT'D)

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.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
SUMMARY OF PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS
AS OF DECEMBER 31, 2015 (CONT'D)

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, 2015 (CONT'D)

<i>City Contributions</i> ¹	Employee	9-5/7%	
	Spouse	2%	
	Annuity Increase	1/2%	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	1/2 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
2016	0.00%	0.00%	0.00%	\$111,571.63

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Statistical Section

SUPPLEMENTAL INFORMATION

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

- **Revenues by Source and Expenses by Type** details the specific sources and uses of funds: Employee contributions obtained from participants through payroll deductions, employer contributions from the City of Chicago's real estate tax levy 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
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%
2015	107,626,311	582,277,634	(5,333,795)	687,661,695	53.59%

Year	Benefits Expenses	Administrative Expenses	Refunds	Total	Income Less Payouts
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)
2015	678,391,614	4,062,553	7,826,847	690,726,980	(3,065,285)

(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
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
2015	582,438,574	65,651,185	1,355,124	17,595,977	1,909,200	9,441,534	678,391,614

**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
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
2015	61,702	69	57.5	26.5

**POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
RETIREES AND BENEFICIARIES BY TYPE OF BENEFIT**

Years	ANNUITANTS			DISABILITY				Widow Comp.	Total
	Employee	Spouse ¹	Child	Ordinary	Duty	Occup.	Child ²		
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
2015	9,385	3,078	198	41	230	35	178	65	13,210

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
2006	13,749	73,677	--%
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%
2015	12,061	90,093	0.8%

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
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
2015	9,385	61,702	5,142	57.5	69	26.5

Schedule of Widow Annuitants - Last 10 Years

Year	Number at Year End	Average Annual Benefit	% Increase in Average Benefit
2006	3,093	15,903	--%
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%
2015	3,078	19,961	3.0%

Schedule of Children's Annuities - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2006	255	5,053	--%
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%
2015	198	6,844	4.2%

Schedule of Ordinary Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2006	39	39,004	--%
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%
2015	41	44,184	5.4%

Schedule of Duty Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2006	291	47,503	--%
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%
2015	230	59,057	4.9%

Schedule of Occupational Disease Disability Recipients Data - Last 10 Years

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2006	69	42,640	--%
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%
2015	35	56,287	5.1%

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

Year	Number of Annuitants at Year End	Average Annual Benefit	% Increase in Average Benefit
2006	132	1,200	--%
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%
2015	178	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
2006	64	55,096	--%
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%
2015	65	64,801	2.2%

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
2009	10,048	\$922	--%
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%
2015	10,405	\$907	0.2%

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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