

## Fall into Autumn

### **! ATTENTION ANNUITANTS & ACTIVE MEMBERS !** Special Pension Meeting

There will be a special meeting of Pension Fund Trustees and Staff on Thursday – October 15, 2009 at 10:00 AM held at the Police Academy located at 1300 West Jackson - 2<sup>nd</sup> Floor. There will be presentations addressing

- Investments • Retiree Healthcare • Korshak Decision
- Various pension topics, affecting active members and annuitants
  - Guest Speaker, Jim McNamee from IPPFA\*  
[\* *Illinois Public Pension Fund Association*]
- Question & Answer Session

### **RETIREE HEALTH CARE BENEFITS**

In July 2009, the City of Chicago and the Fraternal Order of Police Chicago Lodge No. 7 entered into an agreement regarding Retiree Healthcare Benefits. The agreement results in expanding Retiree Health Care Benefits to members who retire between the ages of 55 and 59. This is a stand-alone issue that will be part of the contract. This Agreement enhances the provisions of Section 25.2 of the current contract which entitles officers who retire at age 60 to receive premium free health insurance for the annuitant and their dependants until the annuitant reaches Medicare eligibility. However, the agreement calls for a minimum number of members to apply for retirement by a set date over the next three years. Once the minimums are reached for each year, all facets of the agreement will be set in motion. To obtain full details of the Agreement, we ask that you contact the FOP Lodge directly.

### **RETIREMENT APPOINTMENTS**

Due to the expected increased number of retirements over the upcoming years, the Pension Fund is scheduling appointments for members to complete the application process. After you have decided upon a retirement date please call

the Pension Fund Office at 744-3891 or PAX 357 to schedule your appointment. At that time a Fund counselor will review the items required for you to retire. Appointment will be Monday through Fridays from 9:00 am to 3:30 pm and we look forward to hearing from you.

## **ADDITIONS TO THE PORTABILITY PROVISION OF THE PENSION CODE**

On August 11, 2009, Legislation passed Public Act 96-0285, which allows current active police members of this Fund who were previously employed in a law enforcement capacity under Article 8 (City's Municipal Fund) or as a law enforcement officer with any agency of the United States Government to be added to the Portability provision of the Pension Code. ILCS 40 5/5-214.2

Any member interested in purchasing prior service credit towards their pension; there is detailed information and an application for this service credit which may be obtained at our website, [.chipabf.org](http://.chipabf.org)

Each application will require employment verification, pension plan participation and approved by the Board of Trustees on an individual basis before payments can be accepted.

Be aware the service purchased must be paid PRIOR to Retirement and within the guidelines set forth in the provision.

## **PUBLIC SAFETY OFFICERS' TAX DEDUCTION**

Remember to use the HELPS deduction allowance. Reporting of this deduction to the I.R.S. on your 2009 tax filing is your sole responsibility. **You must indicate you are a retired public safety officer by placing "P.S.O." in the margin next your taxable annuity. Full directions on the tax treatment for HELPS can be found on page 22 of the I.R.S. 1040 directions.**

Please know that the 1099-R that will be sent to you in January 2010 cannot

reflect the reduction of your taxable income by the insurance premiums you paid during the year. According to the I.R.S. the Fund cannot adjust your monthly taxable amount and cannot report insurance premiums withheld on a 1099-R.

## **TRUSTEES' CORNER**

### **Pension Q & A**

**By Sgt. Michael Lazzaro, Trustee**

#### **Q What is the procedure to retire and what documents are required?**

A 1- An Officer needs to prepare a PAR form and exit interview, have them signed by a Commanding Officer, and bring copies of both forms to the Pension fund.

2- To schedule an appointment call the pension fund office at (312-744-3891). Scheduling is Monday thru Friday 9:00 A.M. to 3:00 P.M.

3- You must provide the name, date of birth and social security number of all dependents. Also anyone (wife or children under 22) must be on your health care coverage before you retire.

4- If you or your spouse were previously married, you must provide proper documentation (certified divorce decree or death certificate) showing proof of termination of any previous marriages of you and your spouse.

#### **Q When should an annuitant apply for Medicare?**

A You should apply for Medicare approximately three months prior to attaining age 65. After receiving a Medicare card, please send a copy to the pension fund at least 30 days prior to your 65th birthday.

**Q How should the pension fund be notified of any changes?**

A All changes (address, tax withholding rates, medical Insurance status, and family status) MUST be made in writing. No exceptions!

**Q What is \$1.25 we pay to the Pension Fund on the 1st and the 16th?**

A That is for the death benefit, which pays \$12,000.00 for all active Officers under the age of 50. After age 50, the benefit decreases \$400.00 annually until age 63, at which time it is fixed at \$6000.00. When you're retired, the death benefit is paid-up and valued at \$6,000.00.

**FUND FACTS**

On March 1, 1990, The Police Fund became the first of the four city pension funds to implement electronic direct deposit. As of today, approximately 98% of annuitants get their monthly payments through electronic direct deposit



**Pensions Politics**

**By P.O. Michael Shields**

News articles keep popping up discussing multiple pension recipients. I do not feel the intent of these recent articles is to undermine the significance of any officers receiving a pension after a long career of policing. There is much discussion about those that receive numerous pensions or those who may have used political affiliation to gain numerous pensions at the burden of the taxpayer and the pension plans. A

significant issue raised is the impact on pension plans done by the high salaries of political appointees whose salaries are far greater than the civil service ranks, such as our exempt members.

I believe that society agrees that Police Officers are unique because we put our lives on the line on a daily basis and are well deserving of a pension. A patrolman's pension is very modest considering the work that we do and the risks we encounter. Our work is done on the streets, not behind a desk. As the Illinois Legislature considers the direction of any future legislation that may affect our pension fund, hopefully it will not overlook the importance of our role in society.

**2Q Report**

Our pension fund had a difficult time recovering from the 30% drop in value we suffered in 2008. Poor market conditions continued throughout the first quarter of the year. Fortunately, our fund's second quarter showed very good returns. Overall, the fund had a 2Q earnings of \$250 million and earned an average of 9.7% returns. As we near the end of the third quarter, our pension fund continues to proceed with caution on our investments. Pension plans are weathering a very difficult storm. Funding ratios are at a very low point, yet the benefits we must pay out continue to increase. This Pension Fund will not get risky with *our* money. Pension plans cannot trade their way out of an underfunded plan.



## The Real Economy

By Annuitant Trustee, Ken Hauser

I've read some good news that was reported in the newspapers on Tuesday, September 15, 2009 pertaining to the economy. Federal Reserve Chairman Ben Bernanke was quoted as stating, "From a technical perspective, the recession is very likely over at this point." That's great, but before we jump to conclusions I have some real economic figures that I think will be of interest to you.

**Unemployment:** The June 2009 jobless rate reached 9.5%, the highest since 1983. Four million Americans have been looking for work for more than 26 weeks, representing 29% of the unemployed-the most since records began in 1948. During the last 30 years, Americans who lost their jobs took an average 15.8 weeks to find new positions. In June 2009, the average duration of unemployment was 24.5 weeks, the longest since records began in 1948. The number of people collecting unemployment benefits reached a record 6.88 million on June 27, 2009. Approximately six people are seeking work for every job opening. A year ago, the ratio was a little more than two-to-one.

**Retail Sales:** The International Council of Shopping Centers' (ICSC) same-store sales tally for June 2009 was down 5.1% from June 2008, a 4.5% decline. Privately held luxury department store Neiman Marcus posted a 20.8% drop in same-store sales. Abercrombie & Fitch same-store sales fell 32%, even more than the 26.6% decline Wall Street had projected.

## Government Tax Revenue Declining:

32 of the 46 states whose fiscal years ended midnight July 1, 2009 did not have budgets signed by their governors because their budgets were not balanced. These states are grappling with deficits totaling a collective \$121 billion. Personal income tax, which accounts for more than a third of state revenues, dropped by 26% in the first four months of 2009. The US government has spent \$2.67 trillion thus far in fiscal 2009, but has only collected \$1.59 trillion. The US government collected \$685.5 billion in individual income taxes so far this year, a 22% drop from the \$877.8 billion the government took in during the first nine months of 2008. US corporate income taxes plunged 57% to \$101.9 billion in 2009, down from \$236.5 billion in the first nine months of the fiscal year 2008.

**US Housing Market Failure:** The annual pace of new home sales is now 342,000, 32.8% below the rate in May 2008. At the current sales pace, there is 10.2 months worth of inventory overhang sitting on the market, dragging down prices and encouraging potential buyers to wait it out as prices deflate. New home sales are down 73% from the all time high of 1,283,000 new homes sold in 2005.

I just wanted to give you some food for thought. The big question now is what effect all this bad data will ultimately have on the stock market. Stock valuation can often be complex, but it ultimately rests on two main foundations: earnings and investor sentiment. The 'earnings' component is concrete; it is a stream of profits that companies expect to generate in the future for their shareholders. The

‘investor sentiment’ component, however, is not concrete. It dictates what investors are willing to pay to buy corporate earnings, and can fluctuate widely depending on perceptions of future growth. The relationship between these two components is vital in gauging market direction. There is the real economy which generates the earnings, and then there is the investor sentiment/perception which dictates the multiple they are willing to pay for those earnings. We already know that the real economy is in severe decline. What happens if the investor sentiment changes and turn their backs on stocks? You could assume one scenario where investors are nervous and need to sell stocks in order to pay for lost wages or retirement. You could assume another scenario where investors realize that earnings have been half of their current value three times over the last 30 years: in the late 1970’s, early 1980’s and early 1990’s. So it is entirely within the realm of possibility that they could be halved once again. And then there’s inflation. A stock price is based on pricing the future stream of a company’s profits. Over the long-term, inflation erodes the value of those earnings and with it the multiple that investors are willing to pay for them – ultimately lowering the value of the stocks.

Economists expect unemployment to remain high, and borrowing money is likely to remain difficult for small businesses and individuals. The nation

is in a deflationary period that will make it difficult for companies to grow profits or hire workers. The economy’s course is uncertain and the real economy is still struggling and the market has yet to reflect this. The only thing propping this market up is investor sentiment. Earnings have not improved. Investing is and has always been about the real economy, and this market is ignoring the hard data. I personally would rather sit back and watch the Real Economy. You can invest in sentiment if you want, but I prefer to invest in real things.

*The opinions and figures contained within this report are solely mine and information has been derived from sources believed to be reliable and accurate. I assume no responsibility for any losses or damages, whether direct or indirect, which arise out of this information. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell. Please contact your own personal advisor on your particular circumstances. I would like to thank Sprott Asset Management LP of Toronto Ontario, Canada for their July 2009 issue of Markets at a Glance .*



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MONDAY – FRIDAY

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