

PENSION ADVISOR

POLICEMEN'S ANNUITY & BENEFIT FUND OF CHICAGO

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Autumn

RETRO ADJUSTMENTS UPDATE

As you may know, the Contract between the City and the FOP Lodge 7 has been settled.

The City completed raises and retro adjustments and the related data was submitted to the Pension Fund. All adjustments on pensions or disability benefits affected by the agreement are currently in the process of recalculation.

The process to adjust benefits requires several months of calculation work.

Recalculated disbursements to affected members are already underway. We will be proceeding from most recent retirement date back to the earliest in July 2007. The Fund's anticipated schedule of recalculations and disbursements are as follows:

Member	Effective Date of Retirement	Adjustments & Retro Payment Dates
Annuities	07/15/2010-06/16/2010	Annuity was calculated using new salaries
	06/15/2010-05/16/2010	New Base and Retro scheduled for September 2010
	05/15/2010-03/16/2010	New Base and Retro scheduled for October 2010
	03/15/2010-01/01/2010	New Base and Retro scheduled for October 2010
	12/31/2009-03/01/2009	New Base and Retro scheduled for November 2010
	02/28/2009-08/01/2008	New base and Retro scheduled for November 2010
	07/31/2008-07/01/2007	New base and Retro scheduled for December 2010
Widows	Effective Date of Benefit	
	06/30/2010-03/31/2009	New Monthly and Retro scheduled for January 2011
	03/30/2009-03/31/2008	New Monthly and Retro scheduled for February 2011
	03/30/2008-07/01/2007	New Monthly and Retro scheduled for March 2011
Refunds	Effective Date of Resignation	
	06/30/2010-07/01/2007	Retro payments scheduled for January 2011
Duty, Ordinary, Occupational, and Total & Permanent Disability Recipients		Base Adjustment was Paid in August 2010 Retro Payment was Paid in September 2010

A NEW WEBSITE

The Fund has a new and improved web page. We believe it is user-friendly with the ability to quickly obtain the information you are seeking. We appreciate any feed-back from our membership. You may visit us @ www.chipabf.org

UPDATE FROM THE COMPTROLLER

The Comprehensive Annual Financial Report and the Actuarial Valuation Report for the year ended December 31, 2009, are now posted on the Fund's website at chipabf.org under the heading "Financial Reports". The Annual Report for the year ended December 31, 2009, is being mailed to all retired officers to their address of record at the Fund. This 2009 Annual Report should be received by retired officers shortly. If you are an active officer and would like a copy of the Annual Report mailed to you, please contact the Fund and request a copy. Additionally, the 2009 Annual Report will be posted on the Fund's website for those officers that would like to review an electronic version.

MILITARY SERVICE 2ND SEMINAR

Recently enacted Senate Bill 3022, allows law enforcement officers in Illinois to purchase two years of military service towards their service credit in their respective pension fund. The Pension Fund will be conducting a seminar on Thursday - October 21st at 11:00 a.m. for any active member needing additional information.



TRUSTEES' CORNER

PENSION UPDATES BY P.O. MICHAEL SHIELDS

Police Pension Fund Challenges

It is no secret that the Chicago Police Pension Fund has, for decades, suffered from severe underfunding. The 2:1 employer to employee multiplier is nowhere near what the actuaries

recommend for contributions required to increase the funding levels.

Every year there is a negative cash flow. The dollars coming in are far less than the dollars paid out. Each year, we have a \$250 million shortfall (approximately). Our liabilities are \$8.90 billion. Our assets are \$3.88 billion (actuarial value). This leaves an unfunded portion of \$5.02 billion. The shortfall is being covered by liquidating investments as needed to pay the benefits. Our fund needs a cash injection or an alternate source of cash flow to sustain a solvent fund.

Pension Board Changes

I would like to congratulate Ken Hauser and James Maloney on their recent appointments by our fellow board members as President and Vice President of the Board, respectively. Additionally, Michael Conway has been appointed as a new trustee on the Board. Mr. Conway is the former CFO of AON insurance. We, as participants of this plan, are very lucky to have this highly skilled individual from the private sector serve our pension fund as a civic duty during his retirement. These are very challenging times for our pension fund. I am absolutely convinced that this Pension Board is well-equipped to navigate through the rough challenges ahead.

Retro Checks From the Pension Board

Any officers that have retired since July 2007 will have a retro check and a recalculation computed. Along with the retro, a letter will be sent out stating exactly what the retro check was for and what your newly calculated monthly benefit will be. All retirees' calculations will be completed between now and the end of the year.

Special Pension Seminar

On Thursday, October 21st at 1:00 p.m., the Pension Board will host a special pension meeting at the Chicago Police Academy. This meeting is for all participants of the plan. Topics that will be discussed include funding issues, retiree healthcare (Korshak), investments and numerous legislative issues concerning our pension fund. A Q&A session will be offered after the presentations. Save the date.



**Actuarial Information
by Sgt. Michael Lazzaro, Trustee**

**BIG JUMP IN NUMBER OF RETIREES
IN 2010**

After a very low number of retirees in 2009 (262), The Fund already has 415 retiring as of the end of September. A breakdown by rank:

P.O.s *	336
Sgts.	43
Lts.	24
Capt.	11
Exempt	1

*includes detectives

At the beginning of the year I predicted 450 active members would retire. That was too low; I now believe Approx. 550 will be a more accurate number. (Note: historically, November always sees a large number of retirements).

TAKE THE ACTUARY CHALLENGE!

(WARNING: This is a tough read and could cause fatigue, drowsiness, headache, dizziness...)

One of the toughest tasks I have encountered as a Trustee has been being exposed to the mysteries of actuarial science for the first time. An actuary is “a highly trained professional who uses mathematics, probability, statistics, and the principles of finance and business to analyze the financial consequences of risk in the future. The actuary helps to predict the cost of future benefits.”

This Fund employs Gabriel, Roder, Smith and Company as its’ actuarial firm and has for some time. For most people, actuarial studies are beyond our normal range of understanding, but hopefully this article will remove some of the mystery surrounding the work an actuary does.

Measuring assets of the Fund is usually quite easy. The Police Fund invests mostly in pub-

licly traded securities, which can be valued on a daily, weekly or monthly basis exactly at a point in time by the marketplace. But liabilities are quite difficult to value. There is no “market price” for life expectancy or future salary rates so we turn to the experts in liability projection and management, professional actuaries.

The purpose of an actuarial valuation is to develop the minimum actuarially determined contribution for the next plan year for the liabilities (benefits) incurred and to measure the funded status of the plan at that point in time. The most important actuarial concept is referred to as the **present value of a future sum**, which was developed in the late 17th century for the life insurance business. It is the cornerstone concept of valuation and the core value for the **time value of money**. To arrive at the normal cost and actuarial accrued liability numbers the actuary must make both demographic and economic assumptions. The demographic assumptions used are active service turnover, retirement, disability and post retirement mortality. Significant economic assumptions are investment return, pay increases for active personnel and inflation.

Actuarial science is not perfect. It relies on reasonable assumptions to statistically project liabilities to understand how much in assets a fund will need to be able to meet all of its obligations, current and future, at a point in time. Each year, the actuary determines the actuarial gain or loss, which helps the Fund determine if the actuarial assumptions are reasonably measuring liabilities. This valuation report is a snapshot of the plan as and is always done as of the 31st of December. So the last actuarial valuation was for 2009. You can review these reports on the Funds’ website, www.chipabf.org under financial reports.

FUN FACT – The first use of a pension plan

According to NCPERS (National Conference on Public Employee Retirement Systems):

“The Roman Emperor Augustus, to keep his troops happy after they finished conquering the world, established a plan whereby a legionnaire who served 16 years in active

duty and 5 years in the reserves would receive a lump-sum payment on his retirement—a true pension plan.”



CHINA, The Future by Ken Hauser, President

China continues to develop as an emerging market superpower, avoiding many of the negatives that have plagued other countries during the same period. They have managed to achieve consistent and uncorrelated growth. The European Central Bank refers to China as “A Titan for the New Millennium.” In examining China’s future potential, investors may enjoy more opportunities, providing an optimum balance of risk, reward and diversification. China appears to be an especially attractive play in 2010-2011.

The China story is one that unites three of the most prevalent themes in emerging markets: favorable demographics in the form of population size; consumption by a huge, growing middle class; strong commitment to investing for development, expansion and improvement. China’s continued emergence can be directly attributed to these top growth drivers: strong export activity and extensive investment in development, including roads, ports, utilities, other infrastructure projects and factories. China’s current economy is fueled by exports and domestic investment. As the most populous country in the world, China currently ranks #1, boasting more than 1.33 billion citizens. A recent UN population study indicates that China’s population and workforce will continue to swell over the next decade and potentially level off to zero population growth within 30 years. During the next two decades, China’s working population – those aged 15 to 64 – will reach approximately 1 billion people. China’s population is also becoming more affluent. The world’s third largest, China’s economy

expanded by almost 12% in the first quarter of 2010. China has delivered a strong 94.16% equity market growth in the past ten years. All of these factors are expected to lead to greater production of goods and services, additional disposable income, increased domestic demand for food and resources, as well as enhanced export activity. The middle class is also expanding at an astounding pace, fueling a wave of domestic consumption that has still not begun to decline. Adding to the positive outlook for continuing momentum, about half of the Chinese population is under age 45, presumably with many good “buying years” ahead of them.

In China, promotion of private consumption remains a high priority and a long list of government initiatives includes health care reforms and increased spending on education, pension programs and affordable housing. The youthfulness of the nation also represents a key source of low cost labor for business growth, industry expansion and infrastructure projects. China enjoyed strong 8.45% GDP increases in 2009. Over the next few years, this growth rate is predicted to pick up and reach 10%. These figures are even more impressive when compared to other emerging economies that have shrunk in response to recessionary forces, including Brazil and Eastern Europe. China has also been able to attract favorable attention through the recent 2008 Beijing Olympics Games, more than 4.7 billion viewers watched the Games worldwide according to Nielsen, making it the largest global TV audience in history.

China is the world’s largest Communist state and is a highly centralized nation with one ruling party, the Chinese Communist Party, which has been in power since its civil war victory in 1949. China also speaks one principal language (Mandarin). China has built on its solid product-manufacturing legacy to become a largely export driven economy. The European Central Bank concluded the following in describing China’s economy: First, considering trade in goods, the overall degree of China’s trade intensity is higher than fundamentals would suggest; Second, Chinese

goods exports seem to compete increasingly with those of mature economies; Third, exports of services tend to complement its exports of goods; Last, China's role in the global financial system is still relatively limited and often complementary to their role in global trade. In terms of China's sizable foreign exchange reserves (\$2.45 trillion), and in its essential infrastructure, such as roads, ports and trains, China needs to sell its goods globally. While it could be argued that the socialist underpinnings of Communism limit incentives for individual business ownership and expansion in China, the day-to-day decisions that can help a business succeed also tend to be more streamlined due to this highly efficient, centralized system. The downside, of course, is that this commitment to moving forward has also led to lax quality standards and human rights violations in the quest for economic progress and state unity. China can be defined as a mixture of opportunities and much needed improvements.

This article will be continued in the January, 2011 issue of Pension Advisor. The opinions 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.



CHANGES

Reminder, all changes concerning your benefits must be completed in person or by directing a signed written request to the Fund office. A signature is required for any changes in bank information, address, tax, insurance coverage and or beneficiary information.



! ATTENTION ANNUITANTS & ACTIVE MEMBERS !

2nd Annual Special Pension Meeting

The 2nd Annual Special Meeting of Pension Fund Trustees and Staff

Scheduled for

Thursday – October 21, 2010 at 1:00 PM

Police Academy

1300 West Jackson

There will be presentations addressing various pension topics: Investments, U.S. Equity, International Equity, Fixed Income, Hedge Funds, Private Equity, Real Estate, Infrastructure Managers and Everyone's Favorite; a Question & Answer Session

Pension Advisor is a publication of the Policemen's Annuity and Benefit Fund. You will be receiving a copy to update you on the matters that affect your pension and the concerns of active police officers, retirees and widows that make up our membership. If you have a question about your pension or the Fund, or, if there is a particular issue you would like to see addressed, please feel free to send a note to:

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Regina Tuczak
Comptroller

OFFICE HOURS:
8:30 A.M. – 4:30 P.M.
MONDAY – FRIDAY

Sonny Panaligan
Assistant Comptroller

Samuel Kunz
Chief Investment Officer

Visit our website
at: chipabf.org

RETIREMENT BOARD

Michael A. Conway, Trustee
(Appointed Member)

Kenneth Hauser, President
(Elected Member)

Michael Lazzaro, Recording
Secretary (Elected Member)

Stephanie D. Neely, Trustee
City Treasurer,
(Appointed Member)

Gene Saffold, Trustee
City Chief Financial Officer
(Appointed Member)

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(Appointed Member)

James P. Maloney, Vice-President
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