



Summer

A perfect summer day is when the sun is shining, the breeze is blowing, the birds are singing, and the lawn mower is broken. ~James Dent

UPDATE FROM THE FUND COMPTROLLER

The audit of the Fund's financial statements as of and for the year ended December 31, 2011, is now complete! The Fund's management is very happy to report that the Fund received an unqualified audit opinion from the Fund's auditors on the 2011 financial statements (An unqualified opinion means that the Fund's financial statements and financial position are presented fairly in all material respects. An unqualified opinion is often referred to as a "clean" opinion). Please see visit the Fund's website at www.chipabf.org and click-on the "Financial Reports" link to view the most current Audited Financial Statements, Actuarial Reports, and CAFR Reports (CAFR stands for Comprehensive Annual Report).

ELECTION

A Reminder...this year there will be a Trustee election to fill the expiring positions of the rank of police officer or rank equivalent thereto and for the retired member on the Retirement Board. The Election Day, counting of ballots, will be Thursday, October 25, 2012. Prior to that date affected members

will receive their ballot in the U.S. Mail. Watch further newsletters for additional information.

HAPPY BIRTHDAY!

The Fund has close to 400 retirees celebrating birthdays of 90+ years of age this year. We are also proud to announce and to recognize our retirees who are in the "Centennial Club" or will be joining this year:

KATHERINE BAIR; 9/1904

DOROTHY G. AMSTEIN; 10/1908

MILDRED SPINELL; 5/1909

MAX FABIAN; 3/1910

SOPHIA MICHALSKI; 7/1910

MARY E. RICHTER; 8/1910

WILLIAM T. PAYNE; 10/1910

VIOLET M. DOUGLAS; 5/1911

ALFRED G. FRIEDL; 11/1911

HAZEL C. MADARY; 2/1912

MARGARET M. LANNON; 6/1912

ANNE SCHUPOLSKY; 7/1912

An amazing milestone, Many happy returns!

TRUSTEES' CORNER

PENSION REFORM

by **Sgt. Brian E. Wright, Trustee**

Mayor Rahm Emanuel recently testified before the Illinois General Assembly regarding sweeping pension reform and the state of the City of Chicago pension funds. The changes proposed by Mayor Emanuel are the following: 1) Freeze the Cost of Living (COLA) increases for retirees for ten years. 2) 1% increase per year in employee contributions for five years, for a total of 5%. This would push our contribution to 14% from 9% after five years. 3) Increase the retirement age by five years. 4) Set up "choices" in retirement plans for employees.

After talking with many of you, I have been told that most of you do not mind contributing more to the pension from your paycheck. I doubt any of you meant to double your contribution, but you would be willing to give more. However, as most of you stated, you would agree to this only if there is a guarantee that your benefits will not be diminished and the pension will be there for you when you retire. This is a very reasonable response from hard-working reasonable people. The trouble is that we are in this mess not because of what we did not do but rather what the politicians did not do. We have continually lived up to our end of the bargain since the inception of this Fund. Those in power have not lived up to theirs.

On Monday, June 25, 2012 the Chicago Sun-Times had an article about pension reform that quotes a report by the Civic Federation. In that article, the report stated "The 10 pension funds had an average funding level of 56.2 percent in 2010, down from 88 percent in 2001...**Government employees did their part by contributing the required portion of their paychecks to their future pensions.** But the government contribution fell \$1.2 billion short of the \$2.1 billion required to cover costs and reduce a portion of unfunded

liabilities over a 30-year timeframe, the report concludes. To reach an "actuarially sound level," government agencies should have made contributions equal to 27.8 percent of payroll in 2010. Instead, the employer contribution was 12.6 percent." The article summed up the report this way: "Chicago's pension crisis has ballooned to \$27.4 billion – a six-fold increase since 2001 – because of inadequate employer contributions, declining investment income and a shrinking base of active employees, a taxpayers' watchdog group has concluded." Did you notice what was missing? Answer: any liability for this crisis lying with the employee. Two of the criteria are entirely within the control of the employer: their contribution and the amount of active employees contributing to the system. Investment returns are harder to control and predict. But the employer contributions and hiring are not. The City knows what they should have been doing the entire time in regard to contributions and hiring and chose not to. Now, we are being asked to bail them out.

Mayor Emanuel is taking an extreme negotiation position with pension reform, as I am sure he will take with the Contract negotiations as well. Thus, we have to be strong and vigilant in our positions that we have done what we promised and will not be denied the benefits guaranteed to us by state statute and the Illinois Constitution. As stated above, many of you are willing to help out the City with a higher contribution but they have to come to the middle as well. The City will have to up the ante on their contributions. The City finds money for their "pet projects" and unnecessary expenses. It is time they find the money to fix the pension system they broke.

We are in for the fight of our pension lives, we all need to stick together and do whatever we can to help.



NCPERS STUDY FINDS PUBLIC PENSIONS REMAIN SOLIDLY FUNDED

by **Kenneth A. Hauser, President**

The 2012 NCPERS Fund Membership Study, conducted by the National Conference on Public Employee Retirement Systems (NCPERS) and Cobalt Community Research, surveyed no less than 147 public pensions' funds in April and May. The vast majority – 84 percent – were local pension funds, while the remaining 16 percent were State pension funds. Those funds cover more than 7.5 million active and retired public employees and have assets exceeding \$1.2 trillion.

“The data that was collected – the most current data available – shows public pension funds are continuing their strong recovery from the historic market downturn of 2008-2009,” said Hank Kim, Esq., NCPERS' Executive Director. “The survey shows public pensions are managing their assets efficiently and effectively, making plan design changes to ensure sustainability, continuing to implement sound operational controls and are expressing strong and growing confidence about their readiness to address the challenges ahead.”

Among the studies key findings:

- (1). Participating funds reported a solid average funded level of 74.9 percent, only slightly below the 2011 average of 76.1 percent. According to its February 2011 report Enhancing the Analysis of U.S. State and Local Government Pension Obligations, Fitch Ratings considers a funded ratio of 70 percent or above to be adequate.
- (2). Both one-year and 20-year returns reported by participating funds point to continuing long-term improvement in funded status. While one-year returns were slightly lower than 2011's (12.5 percent compared to 13.5 percent), all longer-term returns were higher: three-year returns jumped from negative one

percent to 4.4 percent; five-year returns grew from 3.6 percent to 4.4 percent; 10-year returns increased from 4.0 percent to 5.3 percent and 15-year returns grew from 8 percent to 8.7 percent.

- (3). Pension funds are designed to pay off liabilities over an extended period of time (the amortization period), to ensure long-term stability and to make annual budgeting easier through more predictable contribution levels. This year's survey found that amortization period averages 24.6 years – down from 25.8 years in 2011.
- (4). Asked about readiness to address retirement trends and issues, respondents provided an overall confidence rating of 7.7 on a 10-point scale – up from 7.4 in 2011.
- (5). Market returns remained the largest source of fund income – 73 percent, while employer contributions accounted for 17 percent and member contributions amounted to 10 percent.

The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 550 funds throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials and investment professionals who collectively manage nearly \$3 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders. NCPERS is headquartered in Washington, D.C. Cobalt Community Research is a non-profit research coalition created to help governments, schools and other non-profit organizations measure benchmarks and manage their efforts through high quality and affordable surveys, focus groups and facilitated meetings. Cobalt is headquartered in Lansing, MI.

Other cities and states in the U.S. are not in the predicament as Chicago and Illinois. The full text of the 2012 NCPERS Public Fund Study is available at www.ncpers.org.



By P.O. Michael Shields

The turbulent economic environment has really exposed the unfunded status of our Fund and shown a spotlight on the employer’s chronic refusal to properly support the Fund. Our steady contribution of 9% of our paycheck has not been matched by an actuarially based employer contribution. Thus, today the funded status of the Fund is 35.6% – a dangerously low level.

Our employer, like the State of Illinois, now maintains that our benefits structure is too high and contribution level too low. It seeks a legislative “roll back” in our benefits (i.e. decrease the COLA, Extend the age for eligibility for retirement, etc.), while asking that the cost of the reduced benefits be borne disproportionately by the employee. Increasing funding solely on the backs of the employees is not only inequitable, it is also constitutionally prohibited.

Article XIII, section 5 of the Illinois Constitution provides that:

“Membership in any pension or retirement system of the state, any unit of local government or school district, or any agency instrumentality thereof, shall be an enforceable contractual relationship, the benefits which shall **not be diminished or impaired**”

Accordingly, an employee’s participation in a pension system is an enforceable contractual relationship under the the Illinois Pension Code and is protected by the Illinois Consti-

tution. The protection starts when the employee joins the pension system. (See “*Is Welching on Public Pension Promises an Option for Illinois?*” written by Eric Madiar, chief legal counsel to Illinois Senate President John J. Cullerton.)

The Madiar article presents a thorough review of the issue and reaches the obvious conclusion that the framers of the 1970 Illinois constitution were acting to specifically ensure that Illinois municipal employers would not renege on the contractual benefit promises it makes to its employees.

Since the benefits are contractual in nature, it stands to reason that the contract, theoretically, could be altered by agreement of the parties. It cannot, however, be done unilaterally, as the City is suggesting today. Asking the legislature to reduce benefits without any contractual consideration – only a threat of reduced healthcare benefits – is simply wrong. If the City proceeds with its legislative plans, the participants will have little choice but to seek protection of our contractual rights in court.



5th Annual
Blackhawks Alumni & Friends



Supporting Chicago Police and Fire Charities
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Chicago Police and Fire Teams
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Sunday, September 16, 2012
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3700 W. 103rd Street

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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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MONDAY – FRIDAY

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Comptroller
Sonny Panaligan
Assistant Comptroller
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at: chipabf.org

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