PENSION ADVISOR

POLICEMEN'S ANNUITY & BENEFIT FUND OF CHICAGO

April 2013, No. 50

Spring

NEW BOARD MEMBERS

The Retirement Board of the Policemen's Annuity and Benefit Fund of Chicago congratulates and welcomes Police Officer Michael Lappe to the Retirement Board. Trustee Elect Lappe represents the rank of Patrolman and he began to serve as Trustee for a three year term effective December 1, 2012.

Mike, a sworn member of the Chicago Police Department since February 1980, brings a positive impact to his peers after an on duty gunshot wound left him critically wounded in 1988. Mike has spent the last 25 years working tirelessly on disability and pension issues. Mike has served members of the FOP in various rolls over the past two decades. Lastly, Mike earned a Masters Degree in Public Safety Administration. He now serves as an Adjunct Professor for Lewis University teaching Criminal Justice courses for officers continuing in their studies. Congratulations Officer Mike Lappe.

Effective January 2013, the mayor appointed Juan C. Avila as a Board member, replacing outgoing Michael Conway. Thank you Mr. Conway for your numerous contributions to the Fund, we will miss you. Juan Avila comes to the Fund with 22 years of financial service industry experience. Prior to joining Toroso, he spent 3 years as a Senior Vice President with Mesirow Financial where he co-led an investment advisory practice. Prior to joining Mesirow Financial, Juan spent 19 years at Merrill Lynch where he was a Senior Financial Advisor, Vice President, with their Private Client Wealth Management Group. Juan serves as Board Chair for the Hispanic Alliance for Career Enhancement (HACE). He received his bachelor of science degree in economics from the University of Wisconsin at Madison, and his masters in business administration degree from Northwestern University Kellogg School of Management. For Juan Avila's full biography, visit our website at www.chipabf.org

RETIREMENT BOARD OFFICERS

At its regular February meeting the Trustees voted the officer positions on the Retirement Board. Kenneth A. Hauser was re-elected as Board President; Stephanie Neely was elected as Board Vice President; Lieutenant James P. Maloney was re-elected Recording Secretary. The trustees serve in their officer positions on the Retirement Board until the December meeting of the Board.

MILITARY CREDIT

Sworn Police members are eligible to purchase up to 2 years pension credit for prior Active Military service. The application is on our website which must be accompanied with a copy of your DD214. If the qualifications are met, this provision allows a member to purchase in monthly increments up to 2 years and must be applied for and paid prior to retirement.

REGISTER FOR THE 9TH ANNUAL RUN/WALK TO REMEMBER

More than 560 Chicago police officers have made the ultimate sacrifice, giving their lives in the line and performance of duty. The Chicago Police Memorial Foundation hosts the Run/Walk to Remember every year to honor these brave men and women who have dedicated their lives to protecting the citizens of Chicago and to raise funds to support the Mission Beyond the Memorial, which provides assistance to the families of our fallen and catastrophically injured officers.

The 9th annual Run/Walk to Remember is a 5K USATF chip-timed run/5K non-competitive walk which takes place on **May 4, 2013 at 8:00 a.m. at Gold Star Families Memorial and Park.** To obtain

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more information and register contact the Memorial Foundation at www.cpdmemorial.org or call (312) 499-8899.

GROUP DENTAL/VISION COVERAGE

Effective January 1, 2013, the Fraternal Order of Police Lodge #7 contracted with a new provider for retiree group dental/vision coverage. The new provider is Delta Dental of Illinois. The Fund does not contract with any agencies to provide insurance coverage for retirees; this service is performed by the Fraternal Order of Police or the City of Chicago (in the case of group medical coverage). However, upon approval by the Board of Trustees at the January 31, 2013, meeting, the Fund is now forwarding all pension deductions for dental and vision benefits to Delta Dental. The Fund does not administer this benefit. The administrator of all dental and vision benefits is now Delta Dental and any changes desired to coverage levels must be made through Delta Dental. Their phone number is 1-800-323-1743. Any changes made with Delta Dental are then communicated to the Fund in a monthly data file, so that the appropriate deductions are made from each retiree's pension payments. Should there be any questions on dental or vision coverages, premiums, explanation of benefits, etc, please contact Delta Dental, the administrator of the coverage.

TRUSTEES' CORNER

By Lieutenant James P. Maloney, Trustee

I would like to congratulate all the recent retirees. In 2012 there were 570 retirees from the Chicago Police Department. That compares to 475 for 2011. I certainly have to thank the staff of the Pension Fund for all their work, patience and understanding in assisting our retirees.

Everyone, both active and retired should keep up to date on legislation in Springfield. Monitor your association and bargaining unit websites for important updates. It is very important to know your state representatives, meet them and voice your opinions. Your voice and the voice of your friends and relatives do make a difference in their decisions in Springfield.

Many market analysts have a positive outlook for the rest of 2013. The equity markets have certainly performed well so far this year. Even though stocks have soared in 2013, many analysts still see stocks as fairly cheap. With interest rates remaining low, fixed income investments can be challenging.

The issues are the potential impact of the US budget negotiations and the Federal Reserve plans in continuing its massive monetary stimulus. Many analysts still see potential for more gains in the US stock market, based upon metrics like earning prospects and valuations. Interest rates remain near record lows, however, stock dividends are growing.

Thank you all for your service.

SERGEANT'S UNION CONTRACT VOTE AND "PENSION REFORM"

by Sgt. Brian E. Wright, Trustee

As I am sure many of you are aware, the Chicago Police Sergeant's Association (CPSA) negotiated a contract that was recently voted down 876 to 134. In that contract, many of the work issues that are mandatory subjects of collective bargaining were either status quo or had slight changes along with a 9% raise over 4 years. The sticking point, and the reason it was defeated as far as I am concerned, was that it was intrinsically connected with "pension reform." I put "pension reform" in quotes because reform means "the improvement or amendment of what is wrong, corrupt or unsatisfactory" (see dictionary.com definition). I do not think that the pension code or our pension fund is "wrong, corrupt or unsatisfactory." What is wrong, corrupt and unsatisfactory are the politicians who have not owned up to their end of the bargain by making the appropriate payments into the fund resulting in the state of the fund today. So, "pension reform" is actually a misnomer and inaccurate but we will use it because it is the buzzword used in the media and legislation. What would be more beneficial would be "politician reform," but I digress.

The "pension reform" that the CPSA negotiated with the City, and was ultimately defeated by the membership, had the following provisions:

1) Minimum Retirement Age would increase to 53.
2) Active employee contribution would increase by 3%, 1% in each of the next three years, for a total of 12%, which would reduce to 10% when the fund is 80% funded.
3) A maximum annuity of 80% could be reached at 31 years and a day, but it would not be paid until age 64.
4) Future retirees would have a non-compounded 2.5% COLA in every other year until the fund is 60% funded, then it would be 2.5% in

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two out of every three years and finally every year at 3.0% if the pension is funded at 80%.

5) Current retirees would have their 3.0% non-compounded COLA reduced to 2.5% and suspended in 3 out of the next 10 years which would only resume at 3.0% when the pension is funded at 80%.

6) There was also a funding "guarantee" that would amend the Pension Code to allow the City to delay its Actuarial Required Funding payment for 5 years, until 2021, in exchange for the City being obligated to "pay into the Pension Fund sufficient moneys to ensure payment of pension benefits for retirees from the Sergeant's bargaining unit during that time and to enable the City to assume an appropriate actuarial funding obligation with respect to pension benefits for current and future retiree's of the Sergeant's bargaining unit." The Pension Code would also be amended to extend the requirement of the funding level 15 more years, until 2055.

I would like to respond to each proposed change above.

1) I think it is wrong to increase the minimum retirement age to 53 as many members have planned their lives according to the terms of the pension code in effect at the time they were hired.

2) An increase in active employee contributions would, in my opinion, be the easiest change that could be made. The Illinois Constitution states that pensions "shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired" (Article 13, Section 5, emphasis added). The active employee's contributions are not pension benefits but rather a pension contribution. Thus, I believe this change would pass constitutional muster. Although, I have many doubts about whether the fund will ever be 80% funded that would allow a reduction of the contribution to 10%, more on that later.

3) This is a benefit that is more fluff than actual benefit. Without going into all of the numbers of it, you would have to work 2 years longer and will not see the extra 5% until age 64.

4) Under the current law, anyone born after January 1, 1955 receives a non-compounded 1.5% COLA every year after reaching 60 years of age. This would be a reduction in that even though it is an increase to 2.5%, it is given every other year, reducing the benefit to 1.25% a year, which comes to a .25% reduction. Also, the funding levels that would increase the frequency of the COLA for future retirees is unrealistic at this time. See below paragraph 6.

5) There should NEVER be a change in active retirees' benefits. The "contractual relationship" mentioned in the Illinois Constitution has moved into payment status for the retiree. He did everything that was asked of him and now should be allowed to reap the benefits of his career. He should not be worried about his benefits ever changing once he is in receipt of them.

6) This is the biggest sham of the bunch and the real reason the City wanted this contract to pass. I was given the Actuarial Funding Report at the Pension Board Investment Meeting on 26 Feb 13. It projects, among other things, the Funded Ratio and the Statutory Contribution of our Fund for the next 30 years under the current law. In my opinion, the main thing to note is that the Funded Ratio is reduced to 25.32% in 2015. The Funded Ratio then begins to rise because, AND ONLY BECAUSE, the City is required to more than triple their contribution, from $197 million in 2015 to $632 million in 2016. The City is then required every year thereafter to keep paying the actual annual cost of the Fund and only when it is 90% funded will their payment be reduced, projected to occur in 2040. Relying on the numbers given by our actuary, if we allow the current system to stay in place, we lose over 2% a year in the Funded Ratio. Extending the actuarial required payment until 2021 would result in at least another 10% reduction in the Funded Ratio, to around 15% by 2021. Which brings me back to the point mentioned above about all of the provisions that depend on an 80% funding ratio. The fund has not been 80% funded in at least the last 25 years. Even during the bull markets and hiring binges of the 1990's we rose to a level of 59.7% funded, according to the figures provided to me by the Pension Fund staff. "Kicking the can down the road" has put us in the position we are in today. The City has been told for years that they need to make higher payments into the Fund to keep it funded properly, but they chose to only make their statutorily required contribution of the 2 to 1 multiplier. Now that the statute requires actuarial funding, they need to make those payments as well. Giving the City more time is NOT the answer. The City wants to be able to delay the ARC payment because those in power want to spend that money on what they want now and when the ARC would have come into effect after the delay, in 2021, they would be out of office and not have to worry about it. That is wrong and the mode of thinking that has put us in this position today. The ARC payment has to be paid at some time, and now is the time before there is not a fund left to pay into. It is also worth noting that the

> Sergeants do not have a separate pension fund. The language offered by the City to "ensure payment of pension benefits for retirees from the Sergeant's bargaining unit during that time" is a falsehood. Annuities for ALL members are paid out of one fund and to attempt to bifurcate the Sergeants from the rest of the members is another demonstration of the City trying to pit us against one another.

Just so the members of this Fund are aware: I am a non-voting ex-officio member of CPSA board. I attend the board meetings every month and give my Pension Board Trustee report but do not have a vote. I do have input in the meetings on non-pension issues, but my role is to bring accurate information and updates to the CPSA board regarding the pension fund. I was not consulted before negotiations on the contract and "pension reform" provisions began. I was not on the negotiating committee that met with the City and thus not in the room during negotiations. I was not consulted during the course of negotiations. The first time I saw the information provided above was at the special meeting with the unit reps on February 12, 2013 at 9:00 a.m.

I voted No on this contract. Not because of the actual subjects of collective bargaining, i.e. wages, work rules, discipline, etc., but entirely because of the "pension reform" provisions contained along with it. I do not think it is wise to mix pension issues, which are legislative, with contractual issues, which are contract. I believe it is a bad precedent to set and is a "slippery slope." They should be kept separate, akin to Church and State. Members of this Fund should not have to wonder and guess what they will be entitled to and when they will get it. They make their contributions persistently for 30 years and should be rewarded with what they were promised the day they were hired.

Please stay diligent on pension legislation and call your elected representatives to let them know your feelings.

by P.O. Michael K. Lappe, Trustee

Hello to All,

First, let me offer to you my gratitude for electing me as your Pension Board Trustee for the next three years. I would also at this time publically acknowledge our former Trustee, Michael Shields who served our membership unselfishly in a very spirited manner during his three year term.

As your newly elected representative, I have been on the fast tract learning what my responsibilities are. First and foremost, having to execute the fiduciary duties in respect to investing pension funds assets, disbursing pension fund assets, adjudication of disability, retirement and survivorship claims and continuing education in pension and investment matters can be very time consuming. No doubt about it, this is one full time adventure here at the Board.

Each and every day when you pick up a news paper, turn the TV on or talk with your peers, the one topic that has everyone on edge is "pension reform." "Pension reform" is a nice way to say. "We the politicians in Illinois and Chicago ignored and underfunded the pension funds from years past and now we have to replenish these funds." However, this does not stop the political media jabs some have taken by blaming public servants for this mess. At our Pension Fund we closely monitor by what means our state lawmakers are proposing to fill a 96 billion dollar gap in the state's pension system. Make no mistake readers, all these Pension Funds are connected like first and second cousins. Having worked at the Pension Fund now for several months, I can state that the Police Pension Fund is very unique. The office staff is very familiar with police pension law, procedures and historical facts. I feel very comfortable when I need to pass on information to the members. The administrative work these employees perform here at the Board goes grossly unnoticed. In most cases, these employees usually are your first form of contact to begin the disability or retirement process. Listen to them; they are all experienced and very knowledgeable.

Readers, keep in mind that the Retirement Board Policemen's Annuity and Benefit Fund does not create pension law. The fund board members must follow the rules and laws that are written by and passed by Illinois State Legislators. If you at any time need to read this or any article that may

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apply to your case, Google Chapter 40, Article 5 of the Illinois Pension Code.

Next hot topic: Disability claims. In some cases there has been a significant delay for a hearing date. What comes to mind is an officer waits until his/her 365 medical days are just about exhausted before a PAR form is submitted. This delay on your part by not signing the PAR Form earlier, can negatively affect the application process. It is incumbent by you to take charge of your claim and yes, you just might have to make a trip or two to the medical section to keep your case moving. Either way, just as all the retiree's know, you also will be in a six to eight week no pay status. By planning ahead, you can be prepared for this financial hardship. I have said this before; if you know you are applying for disability benefits, please get that PAR Form in two to three months ahead of time.

by Kenneth A. Hauser, President

Since 1990, American manufacturing employment fell from about 17 million jobs to the low in 2010 of about 12 million. This trend is reversing. Over the last three years, job growth in the U.S. manufacturing sector has exceeded the pace of growth elsewhere in the U.S. economy. This is the first time since the 1980s that manufacturing employment has grown faster than non-manufacturing. This is expected to continue. The U.S., with its flexible and educated workforce, lower energy and transportation costs, resilient corporate sector and highly reliable quality controls, has become the most attractive place in the world to manufacture many high-end products. Here are several newspaper headlines of this trend from 2012: a) A new Caterpillar Inc. factory in Georgia will employ about 1,400 people and make construction equipment that was previously produced in Japan; b) Toyota will move production of its Highlander crossover SUV to Indiana for export; c) Starbucks tapped a U.S. factory, not China, to make its coffee cups; d) Otis Elevator is moving production from Mexico to South Carolina; e) NCR is making automated teller machines in Georgia that had previously been made overseas; f) Whirlpool brought production of KitchenAid mixers back to the U.S. from China; g) Electrolux plans to close its Quebec plant and move to a new plant in Memphis to lower costs and h) General Electric announced it will bring 800 jobs back from Mexico to Kentucky. The confluence of these favorable products will provide long-term and short-term jobs to world class manufacturing and design companies based in the U.S. Source: Bureau of Labor Statistics, Current Employment Survey, and Federal Reserve Board, Industrial Production Index. The total number of police officers hired during 2012 was 443 of which 92 were female and 351 were male. The total number of police officers hired during 2011 was 49, during 2010 it was 192 and during 2009 it was 136 which is a total of 820 over four years. The total number of police officers who left the Police Department during 2012 was 641, during 2011 it was 541, during 2010 it was 649 and during 2009 it was 376 which is a total of 2,207 over four years. Simple math shows us that the Chicago Police Department is down 1,387 police officers just through attrition. As a result, the Pension Fund is receiving 1,387 less contributions from the officers that haven't been replaced, just one example as to why the Pension Fund is underfunded. Of the 641 police officers who left the CPD in 2012, 11 officers died while on the job, 9 officers were discharged, 1 probationary officer was discharged, 50 officers chose to resign without a pension and 570 officers completed their career and retired with a pension. The rank breakdown of the 570 officers is 442 the rank of police officer, 78 Sergeants, 26 Lieutenants, 16 Captains and 8 Exempt Rank. The total number of officers on disability is 413, which breaks down to 298 on duty disability, 60 on ordinary disability, 36 on occupational heart disability and 19 on total and permanent disability. The total number of active police officers making monthly annuity contributions to the Pension Fund is 12,029 as of February 28, 2013. The breakdown of this number will not be exact because I am not listing every position. Totals of each rank/position are approximate: 9,698 Patrolman, 861 Detectives, 1,113 Sergeants, 194 Lieutenants, 25 Captains and 61 Exempt. The total number of annuitants receiving an annuity as of February 28, 2013 is 12,312. 9,120 are retired police officers and 3,192 are widows/widowers. For the month of February, 2013, the average retiree was 57 years of age with 26 years and 3 months of service.

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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