PENSION ADVISOR

POLICEMENS ANNUITY & BENEFIT FUND OF CHICAGO

April 2018, No. 61

Welcome Spring!

EXECUTIVE DIRECTOR'S REPORT

By Regina Tuczak

WELCOME TO TRUSTEE WODNICKI

On Friday, October 6, 2017, the Pension Fund Election for the position of Trustee representing the rank of all Lieutenants or ranks superior to Lieutenant, was held, and Lieutenant Wodnicki was the successful candidate, defeating Lieutenant Kelly by a narrow margin. Thank you to each Lieutenant Wodnicki, who was recently promoted to Commnader, and Lieutenant Kelly for their participation in this important process.

We very much look forward to Trustee Wodnicki's participation on the Retirement Board and welcome his dedication, energy and commitment to the membership.

In addition, on October 6, 2017, the Pension Fund Election for the position of Trustee representing the rank of all Sergeants was held, and Trustee Wright was unopposed in his candidacy. The Board approved the re-election of Sergeant Wright by acclamation. Congratulations to Sergeant Wright as he continues his position and dedication to the Retirement Board. We look forward to these additional years of service by Trustee Wright and welcome his passion, focus and devotion to the membership.

MINIMUM ANNUITY UPDATE

Public Act 099-0905 (PA 99-0905) which became law on November 29, 2016, increased the minimum benefit applicable to retired officers with over 20 years of service and to all widows. The minimum benefit afforded to this group shall be no less than 125% of the Federal Poverty Level. Effective January 31, 2017, the applicable poverty guideline was $12,060, with 125% of such amount equal to $15,075 annually or $1,256.25 monthly. Effective January 18, 2018, the applicable poverty guideline was $12,140, with 125% of such amount equal to $15,175 annually or $1,264.58 monthly. Consequently, those annuitants that were receiving a monthly benefit of $1,256.25, received an increase effective February 1, 2018, to a monthly benefit of $1,264.58. The Fund has completed all relevant calculations for the annuitants impacted.

A WORD ABOUT TRUSTS

Most active and retired members are eligible for a death benefit, of between $12,000 and $6,000, depending upon the member's status (active versus retired) and age, if an active member, at the time of passing. This death benefit is payable to the named beneficiary on a death benefit directive form completed by the member. The death benefit directive can be made payable to anyone desired by the member, including a spouse, significant other, family members and friends. On some occasions, the member has elected the death benefit be payable to a named trust, set-up to accumulate and distribute the deceased's assets, in the event of his/her passing. Please note that the Fund can pay a death benefit to a trust, but ONLY after a distinct tax identification number has been established for the trust. The member's social security number is NOT the same as a tax identification number for a trust. While establishing a tax identification number

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for a trust is not a long process, it can cause some distress to the surviving family members as they work to receive payment of the death benefit. Please ensure that if you leave a death benefit to a trust, that the parties that will be involved in the trust's distribution of assets understand the requirements and procedures that will be necessary for a trust to receive payment from the Fund, including set-up of the appropriate tax identification number.

TRUSTEE ELECTION

A Trustee Election is scheduled for Thursday – October 25, 2018, to fill the November 30, 2018, expiring terms as follows:

(a) One (1) member is to be elected from among active members of the Police Department of the Rank of Investigator, Patrolman, or equivalent rank. The term will be effective December 1, 2018, through November 30, 2021.

(b) One (1) member is to be elected from the Annuitants of the Policemen's Annuity and Benefit Fund. The term will be effective December 1, 2018, through November 30, 2021.

ADDITIONAL INFORMATION WILL BE FORTHCOMING.

ITEMS OF INTEREST

INCOME TAXES

Retired participants that are Illinois residents do not pay State income tax in the state of Illinois on Retirement Income from the Fund. Participants should consult their income tax professional to determine the taxability of benefits among different states.

If you wish to change your current withholdings, state or federal, <u>you must complete a new Tax Withholding Form</u>. The required form is available on the Fund's website or you may contact the Fund's office and a form will be mailed upon your request.

QUALIFIED DOMESTIC RELATIONS ORDERS

The Policemen's Annuity and Benefit Fund of Chicago (PABF) benefits may pay benefits to an alternate payee pursuant to a valid Qualified Illinois Domestic Relations Order (QILDRO).

In 1998 the Illinois legislature passed what is known as the QILDRO legislation. This legislation, with an effective date of July 1, 1999, amended the Illinois Pension Code by adding a new section 1-119 [40 ILCS 5/1-119], and by modifying portions of the Illinois Marriage and Dissolution of Marriage Act [750 ILCS 5/503]. A QILDRO may require PABF to pay all or a portion of a PABF member's retirement benefits to an "alternate payee". An alternate payee is usually the member's former spouse, but may also be a current spouse, child, or other dependent of the member.

In 2005, a revised QILDRO law was passed with an effective date of July 1, 2006. The only acceptable QILDRO must meet the criteria and format established legislatively with that effective date. Which means QILDROs previously filed and court issued, which have not yet been implemented, are void and required an Illinois court to reissue. This is in accordance with the Pension Act.

> 40 ILCS 5/Sec. 1 119. *Qualified Illinois Domestic Relations Orders.*
>
> (l) (2) <u>A domestic relations order directing payment of a benefit to a person other than the regular payee that was issued by a court but not implemented by a retirement system prior to the effective date of this Section shall be void</u>. However, a person who is the beneficiary or alternate payee of a domestic relations order that is rendered void under this subsection may petition the court that issued the order for an amended order that complies with this Section.

In order to have conformity, the Fund requires that members use the forms created by legislation, which may be downloaded from the PABF's website at <u>www.chipabf.org</u>.

In addition, if you have agreed to or have a QILDRO on file at the PABF, your payment of benefits may be delayed until final completion of all paperwork and Illinois Court approved Calculations. It is often in the best interest of the member to work with your attorney to get all open QILDRO issues resolved as quickly as possible.

TRUSTEE'S CORNER

by Sgt. Brian E. Wright #1575, Trustee, Recording Secretary

Chevrons – March 2018

As of now, we have roughly 1,000 more pension payments than active members. Those pension payments include regular annuities (9,901); widow's annuities (3,118); disability payments (279); and child's annuity and child's disability payments (318). The total number of payees from the fund is 13,616 as of February 28th, 2018. We have approximately 12,660 active officers paying into the fund through the February 15th, 2018 payroll. This means we are paying more people than are paying into the fund by 956. This is a trend that is most likely to continue going forward for a number of reasons.

As we are currently in contract negotiations, we should be mindful of our demands and how they affect the pension fund. Health care for those 55 years of age and older is a great individual benefit. But it may be harmful to the overall health of the fund. Those officers that leave at 55 may have stayed until 60. Thus, an officer making $100,000.00 would take an annuity of $75,000 five years earlier. That totals $375,000.00 over five years. Plus that same officer would have put into the fund another $9,000.00 per year, totaling another $45,000.00 over five years. The total cost to the fund would be $420,000 over five years. That is one officer, so you can see how those numbers can be harmful to the fund depending on how many officers leave at 55.

On the other hand, there are those officers that stay after age 50, when they are vested and can take an annuity, until age 55 because of the health care benefit. So those two elements can be argued as a wash. We keep more officers after age 50 that could retire, but lose those at 55 that would have stayed longer. However, a pension can be drawn at age 50. So if we are trying to lower the number to age 50 for health insurance benefits, we may want to think twice. There would be no incentive to stay after age 50 if an officer could collect an annuity AND have health insurance. This would result in even more officers leaving at age 50 than ever left at age 55.

There were a few bills introduced in Springfield that act as pension enhancements to our fund. One removes a birthdate restriction on the 3% COLA. One starts compounding COLAs for annuitants at age 75. And the last opens up prior service purchases on cases that have already been decided. Our fund is not in great financial shape as we know all too well. Thus, now is not the time to introduce bills that are going to cost us even more money. I think we can all agree that we just want the pension deal we signed up for when taking this job. To try and introduce pension enhancements when our funded ratio is hovering in the low 20% range seems a little reckless. Why don't we at least get our funded ratio up over 50% and then maybe we can talk about some enhancements to certain categories of annuitants.

Introducing pension enhancements also tends to jeopardize our position when seeking funding for the fund. It is hard to encourage politicians to support a casino bill saying we are in dire need of funding when there are bills being introduced to give us even more benefits. The number one priority right now is to grow the assets of this fund and not deplete them even more by early retirements and pension enhancements. We should all get on the same page before we negotiate ourselves into insolvency.

by P.O. Tom Beyna, Trustee

It was an outstanding year for the Fund on the investment side in 2017. The portfolio earned a rate of return of 17% and well exceeded our assumed rate of return of 7.25%. The assumed rate of return is the expected rate of return of our investments for actuarial valuation. The Fund grew by approximately $245 million, which represented strong investment results reduced by benefit payments, and the Fund currently has $2.7 billion in assets. On the downside, our Fund also has $10

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billion of unfunded liabilities and a funded ratio of 22%. The City made their required payment to the Fund in 2017 and is required to make payments of $500 million this year, $557 million for 2019, and $579 million for 2020. The Fund has received approximately $200 million so far this year and contributions continue to come in as tax receipts are collected. The strong performance of our portfolio certainly helps meet our cash flow needs but we will not be able to invest ourselves out of our problem of being so poorly underfunded.

There was legislation recently proposed in Springfield that is of interest to the Fund. House Bill 4659 proposes the removal of the birthdate restriction, those born after 1966, and allows for those to be eligible at age 55 for a 3% COLA. Senate Bill 2525 proposes for those officers who retired after September 1, 1967 with 20 years of service and attains the age of 75 shall receive a 3% compounded COLA. These bills were recently proposed and updates on their progress shall be expected.

In order to increase our funded ratio and get on the path to becoming a healthy pension plan it is essential that we receive the required contributions from the City. According to the present legislation that is to get us 90% funded by 2055, the City will have to make actuarial projected contributions reaching $800 million within 5 years, $900 million in 10 years, and $1 billion in 15 years. It would certainly be beneficial, to the City and our fund, to have a dedicated funding source in a casino, which we were to receive in Senate Bill 777.

I often hear inaccurate information regarding the difference between officers in Tier 1 and Tier 2. As part of pension reform legislation passed in 2010, a second tier of pension benefits were created for police officers that were hired on or after January 1, 2011. Every officer participates in the same defined benefits plan; the Fund does not have any officers in a defined contribution plan. (ie. 401(k), 457, IRAs). The following chart highlights the changes between Tier 1 and Tier 2.

	Tier 1 (hired before 01 JAN 2011)	**Tier 2 (hired on or after 01 Jan 2011)**
Full Retirement Eligibility: Age & Service	Age 50 with 20 years of service	Age 55 with 10 years of service
Early Retirement Eligibility: Age & Service	Age 50 with 10 years of service, with provisions	
Final Average Salary	Highest average monthly salary for any 48 consecutive months within the last 10 years of service	Highest average monthly salary for any 96 consecutive months within the last 10 years of service, capped at $106,800 with an adjustment for inflation
Annuity Formula	2.5% of final average salary for each year of service	
Early Retirement Formula	Accumulation of age and service annuity contributions plus 10% of City contributions for each year after 10 years of service	Reduced by 0.5% per month under age 55
Maximum Annuity	75% of final average salary	
Automatic COLA on Retiree Annuity	3% simple interest if born before 01 JAN 1966, starts at later of age 55 or one year after retirement. 1.5% simple interest if born after 01 JAN 1966, starts at later of age 60 or one year after retirement, with a limit of 30%	Lesser of 3% or ½ of the annual increase in CPI-U, not compounded, begins at the later of age 60 or the first anniversary of retirement

On a final note, please take the time to update your beneficiary information with the Fund as life changes occur such as marriage, children, divorce, etc. Be certain your benefits will be received by those you wish and keeping your file updated can alleviate additional stress and hardship for loved ones during difficult times. The Fund operates independently and does not share information with the City. There are files that haven't been updated since documents were filled out a long time ago while sitting in the academy as a recruit.

Thank you and be safe.

by Kenneth A. Hauser, President

The year 2017 was a great year for the Pension Fund. The Fund value was at $2,664,498,390 on December 31, 2017, representing growth of 10% from the Fund value on January 1, 2017, which was $2,408,559,227. The performance of the Fund was 17% net over the period ending December 31, 2017. This is a strong endorsement of the Fund's investment managers.

Actual tax receipts from the City of Chicago for 2017 were $453 million and the Fund will receive an anticipated amount of $500 million for 2018 which is in line with statutory requirements.

During 2017, the Pension Fund Trustees hired Seven Money Managers that will fit into the Fund's Portfolio. The Managers and classifications are: Ullico Investments, Infrastructure; Blueprint Capital Partners, Private Debt; Crestline Investors, a flexible corporate capital fund of Private Debt; Sound Mark Partners and Brookfield Real Estate Financial Fund, Real Estate Debt; Pluscios Management and UBS Asset Management, Long/Short Equity Fund of Funds. The Pension Fund hired Evercore as our Broker for the sale of the Policemen's Annuity and Benefit Fund Private Equity Portfolio. The Pension Fund sold the Private Equity Portfolio because the investments were closed ended funds and the Fund will use this liquidity to pay for future benefits. The Fund also invested additional funds with one of our present managers: Blueprint Capital Partners, Private Equity. The Fund liquidated the Holland Capital Large Capital Growth Fund due to their going out of business and then terminated the GMO Global Tactical Asset Allocation Fund for unacceptable performance.

The total number of active police officers making monthly contributions to the Pension Fund is 12,660 as of February 15, 2018 of which 2,864 are female and 9,796 are male. The breakdown of active officers (12,660) will not be exact because I am not listing every position. Totals of each rank/position are approximate: 9540 Patrolman, 991 Detectives, 1201 Sergeants, 267 Lieutenants, 34 Captains, 40 Commanders, 6 Chiefs, 17 Deputy Chiefs, 28 Canine Handlers, 103 Evidence Technicians, 259 Field Training Officers, 11 Explosives Technicians, 44 Explosives Detection P/O's, 31 Marine Officers, 17 Mounted Officers, 16 Security Specialists and 13 Traffic Specialists.

The total number of police officers hired during 2017 was 1067 of which 276 were female and 791 were male. The total number of police officers who left the Police Department during 2017 was 621 police officers, 0 officers died while on the job, 5 officers were discharged, 5 probationary officers were discharged, 36 police officers chose to resign without a pension, and 575 officers completed their careers and retired with a pension. The rank breakdown of the 575 officers is 501 under the rank of Sergeant, 58 Sergeants, 10 Lieutenants, 4 Captains and 2 Exempt rank. For the month of February, 2018, the average retiree was 55 years of age with 25 years and 2 months of service.

A total of 13,616 annuitants are receiving approximately $62 million in benefits monthly from the Pension Fund as of February 28, 2018. 9901 are retired police officers, 3118 are widow/widowers and 184 are children. The total number of officers on disability is 257 which breaks down to 177 on duty disability, 36 on ordinary disability, 30 on occupational heart disability, 14 on total and permanent disability and 156 children of disabled police officers. As of February 28, 2018, there are

4566 annuitants between 70-79 yoa, 1843 annuitants between 80-89 yoa, 464 annuitants between 90-99 yoa and 7 annuitants over 100 yoa.

RETIREE BREAKFAST

There will be no Northside breakfast at the Lone Tree Manor. They will be remodeling.

The breakfast is relocated and will be held at the Blossom Café until further notice.

Blossom Café is located at 8349 West Lawrence (Lawrence & Cumberland) formerly known as the Phoenix.

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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Visit our website at: **chipabf.org**

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

RETIREMENT BOARD

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