POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(Component Unit of the City of Chicago)
Financial Statements
For the Years Ended December 31, 2009 and 2008

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(Component Unit of the City of Chicago)
December 31, 2009 and 2008

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Policemen's Annuity and Benefit Fund of Chicago

We have audited the accompanying statement of plan net assets of the Policemen's Annuity and Benefit Fund of Chicago (the Fund) as of December 31, 2009 and 2008, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Policemen's Annuity and Benefit Fund of Chicago as of December 31, 2009 and 2008, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States.

The accompanying management's discussion and analysis and the required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary schedules of administrative expenses, consulting costs, and investment fees are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These other supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mitchell & Titus, LLP

June 18, 2010

The Management's Discussion and Analysis section of this report is intended to serve as an introduction to the financial statements of the Policemen's Annuity and Benefit Fund of Chicago (the Fund) and to supplement the information contained therein.

Overview of Financial Statements and Accompanying Information

The basic financial statements are prepared in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB) and are described below:

- **The Statements of Plan Net Assets** report the Fund's assets, liabilities, and the resultant net assets where assets minus liabilities equal net assets available at the end of the year.

- **The Statements of Changes in Plan Net Assets** show the sources and uses of funds during the calendar year, where additions minus deductions equal the net increase (or decrease) in net assets available for the year.

- **The Notes to the Financial Statements** are an integral part of the financial statements and include important information and schedules to provide a better understanding of the data provided in the financial statements. Information contained in the note disclosures includes the Fund's accounting policies, benefits, contributions, investments, fund reserves, and various other relevant topics.

- **Required Supplementary Information** presents detailed required historical information and is presented after the Notes to the Financial Statements. This supplementary information includes data on funding progress and employer contributions, along with other information useful in evaluating the financial condition of the Fund.

Financial Highlights

- The net assets of the Fund increased by $325 million, or 10.8%, to $3.326 billion during 2009; increasing from $3.001 billion at December 31, 2008.

- Fund investments earned, prior to consideration of investment-related expenses, approximately $576 million during 2009 compared to a loss of approximately ($1,093) million during 2008. The positive return reflects the improvement in global capital markets, which delivered positive returns, as economic indicators hinted at stabilization. The main positive contributors to absolute performance were U.S. and International Equity. On a relative basis, U.S. Equity, Fixed Income, and to a lesser extent Real Estate compared favorably to their respective benchmarks. Private Equity was the weakest performer in the investment asset allocation, with negative returns on both a relative and absolute basis.

- The Fund received contributions of $95.6 million from members and $180.5 million from the City of Chicago in 2009, compared to contributions of $93.2 million from members and $181.5 million from the City of Chicago in 2008. The number of active members declined by 1.6% from 2008 to 2009; however, active member purchases of prior service credit from prior law enforcement positions resulted in an increase in member contributions in 2009. Employer contributions from the City of Chicago decreased by 0.6%. Employer contributions are mandated by a statutorily set multiplier of 2.0 times member contributions collected two years prior. The reduction in contributions is due to a special receipt of proceeds from a bond sale conducted by the City of Chicago, which was included in 2008 contributions. Such contributions were in addition to the statutory requirement. Thus, although active membership increased two years prior, employer contributions declined from 2008 to 2009.

- Investment Activity Expenses declined by approximately $1.7 million in 2009, from $11.5 million in 2008 to $9.8 million in 2009. The Fund's investment management fees are based on the fair value of those assets. This decline of 14.8% was primarily the result of a lower level of assets under management by active managers, due to the deterioration of the financial global markets in 2008.

- Benefit payments, excluding death benefits and refunds, increased by approximately $17.1 million in 2009, from $489.8 million in 2008 to $506.9 million in 2009. Although benefit payments increased, the number of retirees and beneficiaries receiving benefit payments actually declined by .2%. The increase in benefit payments is due to annual cost of living increases provided to retirees born prior to January 1, 1955. Death benefits and refunds of employee deductions remained consistent from 2008 to 2009 and accounted for approximately $7.9 million of benefit payments in each year.

- Administrative expenses increased by approximately $.15 million, or 3.6%, from $4.154 million in 2008 to $4.304 million in 2009. The increased administrative expense is primarily due to increased consulting fees related to actuarial, medical, and legal services. Additionally, health insurance expense for the Fund's staff increased by $.102 million during 2009, due to rising premium costs.

- The funding objective of the Fund is to meet its long-term defined pension benefit obligations. The funding ratio of the Fund on a fair value basis experienced an insignificant increase, from 34.7% at December 31, 2008 to 37.4% at December 31, 2009.

- Under Government Accounting Standard Board (GASB) numbers 25 and 43, the Fund uses a five-year actuarial smoothing method in valuing its assets to determine its funded status and the contributions required to fund the plan going forward. This actuarial valuation method reduces the effect of short-term market volatility and provides a more stable trend valuation for the Fund's long-term planning needs. The funding ratio of the Fund using an actuarial value of assets experienced an insignificant decrease, from 47.3% at December 31, 2008 to 43.7% at December 31, 2009.

- In compliance with GASB No. 45, the Fund recognizes a liability for other post-employment benefits (OPEB), which represent health insurance coverage for active and retired employees of the Fund. This obligation was first accrued as an expense in the 2008 financial statements in the amount of $344,600 at December 31, 2008; expense of $173,600 was recognized in 2009, resulting in a total accrued liability of $518,200 as of December 31, 2009.

Plan Net Assets

A summary of plan net assets is presented below:

Plan Net Assets
(In millions)
As of December 31, 2009 and 2008

			2009–2008 Change	
	2009	**2008**	**$**	**%**
Cash and cash equivalents	$ 113.0	$ 165.9	$ (52.9)	(31.9)
Receivables	204.9	197.9	7.0	3.5
Brokers – unsettled trades	121.3	359.4	(238.1)	(66.2)
Investments, at fair value	3,037.0	2,681.4	355.6	13.3
Invested securities lending collateral	375.1	287.6	87.5	30.4
Total assets	3,851.3	3,692.2	159.1	
Brokers – unsettled trades	144.1	393.2	(249.1)	(63.3)
Securities lending payable	376.1	292.6	83.5	28.5
OPEB obligation	0.5	0.3	0.2	66.7
Accounts payable and accrued expenses	4.5	5.1	(.6)	(11.8)
Total liabilities	525.3	691.2	(165.9)	
Net assets	$ 3,326.1	$ 3,001.0	$ 325.1	

The increase in net assets of $325 million in 2009 was primarily due to improvement in the equity markets, which experienced the highest gaining year since the 1930s. The improvement comes after widespread dislocation in the U.S. and global financial markets during 2008, which led to a significant loss in investment value during that year.

Changes in Plan Net Assets

The following table reflects a comparative summary of various changes in plan net assets.

Changes in Plan Net Assets
(In millions)
Years Ended December 31, 2009 and 2008

			2009–2008 Change	
	2009	2008	$	%
Additions:				
Member contributions	$ 95.6	$ 93.2	$ 2.4	2.6
Employer contributions	180.5	181.5	(1.0)	(.6)
Net investment gains (losses) and investment income	566.0	(1,104.4)	1,670.4	151.2
Securities lending income (loss)	1.3	(0.5)	1.8	360.0
Miscellaneous income	0.8	0.2	0.6	300.0
Total additions	844.2	(830.0)	1,674.2	
Deductions:				
Annuity, disability, and death benefits	$ 508.5	$ 491.6	$ 16.9	3.4
Refunds of contributions	6.2	6.1	0.1	1.6
OPEB expense	0.2	0.3	(0.1)	(33.3)
Administrative expenses	4.3	4.2	0.2	4.8
Total deductions	519.2	502.2	17.1	
Net increase	$ 325.1	$ (1,332.2)	$ 1,657.1	

The significant increase in additions of net assets in 2009 was driven by the large improvement in investment income. The Fund's assets available for investment earned 21.5% in 2009, compared to an investment loss of (27.8%) in 2008. The strong performance in the financial markets, assisted by government programs such as Term Asset-Backed Loan Facility (TALF), Troubled Asset Relief Program (TARP), Cash for Clunkers, and tax credits for first-time home buyers, have played a crucial role in the economic recovery. This recovery has enabled the Fund to recover a significant portion of the severe losses experienced in 2008.

Investment Activities

The Fund continues to move cautiously toward alternative investments and the Board of Trustees approved a slightly revised strategic allocation from 2008. Overall, rebalancing activity was marginal during 2009. One U.S. equity manager was terminated in July for performance and organizational reasons. Proceeds from such terminations were used immediately for benefit funding requirements. Because of exceptional returns in U.S. equities in 2009, tactical allocations made in Real Estate Investment Trusts (REITs) during the first half of the year were trimmed substantially during the fourth quarter of 2009. Finally, an opportunistic allocation to distressed residential mortgage backed securities made during the last quarter of 2008 was returned with more than a 48% net internal rate of return to the Fund toward the end of the year. These proceeds were also used for immediate benefit funding requirements.

By year-end 2009, the Board of Trustees, working closely with its investment consultant, had established target allocations of: U.S. equities, 30%; international equities, 18%; fixed income, 25%; real estate, 7%; private equity, 7%; opportunistic strategies; 9%; and infrastructure; 4%. The established target asset allocation at the end of 2008 was: U.S. equities, 33%; international equities, 18%; fixed income, 20%; real estate, 7%; private equity, 7%; opportunistic strategies, 10%, and infrastructure, 5%.

Investment Returns
Years Ended December 31, 2009 and 2008

	2009	2008
Total Fund	21.5%	(27.8)%
Benchmark portfolio	21.6	(25.7)
@EKA Public Fund Index	19.8	(25.5)
Domestic equities	32.9	(37.7)
Benchmark (DJ Wilshire 5000)	28.6	(37.2)
International equities	40.1	(46.3)
Benchmark (MSCI All-Country)	41.4	(45.5)
Fixed income	11.7	(4.1)
Benchmark (Barclays Capital Aggregate)	5.9	5.2
Alternatives	(10.9)	(8.0)
Benchmark	10.2	(27.5)

The alternatives performance benchmark used by the Fund is a weighted average of the NCREIF Index, Consumer Price Index +5%, Credit Suisse Leveraged Loan Index, Hedge Fund Research Fund of Funds Index, and the Dow Jones U.S. Total Stock Market Index based on the historical market values of real estate, infrastructure, short term opportunistic strategies, opportunistic strategies, and private equity.

Plan Membership

The following table reflects the plan membership as of December 31, 2009 and 2008.

Changes in Plan Membership
As of December 31, 2009 and 2008

	2009	2008	Change	%
Retirees and beneficiaries receiving benefits	12,154	12,183	(29)	(.2)
Active employees	13,154	13,373	(219)	(1.6)
Terminated (inactive members) employees entitled to benefits or refunds of contributions	634	636	(2)	(0.3)
Total	25,942	26,192	(250)	(1.0)

Funding Status

The actuarial value of assets, using the GASB 25 and 43 methods, for the December 31, 2009 valuation was $3.88 billion and the actuarial liability was $8.90 billion. The actuarial liability increased by approximately $250 million in 2009, from $8.65 billion in 2008 to $8.90 billion in 2009. The assets currently fund 43.7% of this liability, a decrease from the 47.3% funded ratio in 2008. The decrease in the funded ratio resulted largely from the collapse in U.S. and global financial markets in 2008. As the Fund uses a five-year actuarial smoothing method in valuing its assets to determine its funded status, investment losses experienced in 2008 will be reflected in the actuarial value of assets over a five-year period, concluding in 2012.

The Board of Trustees is very concerned with the funded level of actuarial liabilities. The unfunded accrued actuarial liability for pension benefits and for the health insurance supplement increased from 2008 to 2009. Additionally, the annual required contribution for these benefits, as computed under GASB 25 and 43, was not reached in 2009 or 2008. However, the Board has taken steps to ensure a sufficient level of liquidity within the portfolio to fund monthly benefits, while pursuing its long-term goal of maximum investment performance.

Contact Information

This financial report is designed to provide the employer, plan participants, and others with a general overview of the Fund's finances and to show accountability for the monies received. Questions concerning any data provided in this report can be submitted to:

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POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Statements of Plan Net Assets
As of December 31, 2009 and 2008

	2009	2008
ASSETS		
Cash	$ 250	$ 250
Receivables		
Employer tax levies, net of allowance for loss of $17,476,339 in 2009 and $16,071,614 in 2008	191,450,555	184,583,494
Member contributions	4,511,386	4,568,185
Interest and dividends	8,933,655	8,705,209
Accounts receivable—due from brokers	121,339,956	359,458,397
	326,235,552	557,315,285
Investments at fair value		
U.S. Common stock and other equity	1,134,330,611	958,142,235
Collective investment funds, stock	243,475,859	186,929,884
Collective investment funds, fixed income	219,399,032	297,275,551
International equity	547,973,699	445,987,186
Bonds and notes	472,823,948	469,517,596
Short-term instruments	112,012,093	165,898,425
Infrastructure	31,501,982	17,378,111
Forward contracts and swaps	8,105,495	-
Hedge fund-of-funds	104,425,380	69,937,800
Real estate	90,428,931	86,035,448
Venture capital	185,516,853	150,183,393
	3,149,993,883	2,847,285,629
Invested securities lending cash collateral	375,111,985	287,600,269
Total Assets	3,851,341,670	3,692,201,433
LIABILITIES		
Refunds and accounts payable	4,550,594	5,075,246
Trade accounts payable—due to brokers	144,123,721	393,161,289
Securities lending cash collateral	376,098,401	292,621,917
OPEB obligation	518,200	344,600
Total Liabilities	525,290,916	691,203,052
Net assets held in trust for pension benefits	$ 3,326,050,754	$ 3,000,998,381

The accompanying notes are an integral part of these financial statements.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Statements of Changes in Plan Net Assets
For the Years Ended December 31, 2009 with and 2008

	2009	2008
ADDITIONS		
Contributions		
Employer	$ 180,510,851	$ 181,526,448
Plan member salary deductions	95,614,390	93,207,408
Total contributions	276,125,241	274,733,856
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	512,929,419	(1,187,618,379)
Interest	30,186,909	36,659,393
Dividends	30,177,953	54,994,319
Real estate income	2,561,835	3,006,892
	575,856,116	(1,092,957,775)
Investment activity expenses		
Investment management fees	(8,987,507)	(10,695,551)
Custodial fees	(197,804)	(217,885)
Investment consulting fees	(616,179)	(563,110)
Total investment activity expenses	(9,801,490)	(11,476,546)
Net income (loss) from investing activities	566,054,626	(1,104,434,321)
From securities lending activities		
Net depreciation in fair value of investments	(986,416)	(5,080,033)
Securities lending income	1,513,641	13,376,393
Borrower rebates	1,145,050	(7,840,877)
Bank fees	(412,078)	(930,628)
Net income (loss) from securities lending activities	1,260,197	(475,145)
Total net investment income (loss)	567,314,823	(1,104,909,466)
Miscellaneous income	799,364	159,543
Total additions	844,239,428	(830,016,067)
DEDUCTIONS		
Pension and disability benefits	506,853,184	489,823,660
Death benefits	1,662,800	1,779,200
Refunds of employee deductions	6,193,872	6,118,449
	514,709,856	497,721,309
Administrative expenses	4,303,599	4,153,570
OPEB expense	173,600	344,600
Total deductions	519,187,055	502,219,479
Net increase (decrease)	325,052,373	(1,332,235,546)
Net assets held in trust for pension benefits:		
Beginning of year	3,000,998,381	4,333,233,927
End of year	$ 3,326,050,754	$ 3,000,998,381

The accompanying notes are an integral part of these financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Accounting principles generally accepted in the United States as established by the Governmental Accounting Standards Board (GASB) define a financial reporting entity as consisting of the primary government and its component units, for which the primary government is financially accountable. Financial accountability includes appointing a voting majority of a component unit's governing board, the ability of the primary government to impose its will on the component unit, or a potential for the component unit to provide specific financial benefits to or impose specific financial burdens on the primary government. A primary government may also be financially accountable for its component units.

Based on the above criteria, the Policemen's Annuity and Benefit Fund of Chicago (the Fund, or PABF) is considered to be a component unit of the City of Chicago (the City). The Fund is part of the City's financial reporting entity and is included in the City's fiduciary statement of net assets as pension trust funds.

Basis of Accounting

The Fund's financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized as additions in the period in which employee services are performed. Benefits and refunds are recognized as deductions when payable. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Investments

The Fund is authorized to invest in bonds, notes, and other direct obligations of the U.S. Government and U.S. Government agencies; corporate bonds, debentures, and notes; certain notes secured by mortgages, including pass-through securities; common and preferred stocks; certain pooled funds; and other types of investment vehicles as set forth in the Illinois Compiled Statutes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed-income securities are valued principally using quoted market prices provided by independent pricing services. For collective investments, net asset value is determined and certified by the investment managers as of the reporting date. Real estate investments are valued by appraisals provided by the investment manager. Hedge fund, venture capital, infrastructure, and certain opportunistic investments are reported at estimated fair value as determined by the general partner of the investment vehicle.

Furniture and Office Equipment

Furniture and office equipment are not capitalized as they are immaterial and are charged to expenses in the year of purchase.

Administrative Expenses

Administrative expenses are recorded as incurred and are budgeted and approved by the Fund's Board of Trustees. Administrative expenses are funded by the employer contributions.

Income Taxes

Income earned by the Fund is not subject to federal income tax.

Securities Lending Transactions

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets in the statements of plan net assets at fair value. Securities received as collateral are reported as assets only if the Fund has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statements of plan net assets.

New Accounting Pronouncements

In June of 2008, GASB issued Statement Number 53, "*Accounting and Financial Reporting for Derivative Instruments*," which requires that the fair value of derivative instruments be reported in the financial statements of government entities. Since the Fund's financial statements already accounts for derivative instruments at fair value, the impact of this statement on the Fund will be limited to disclosure. The provisions of this statement are effective for financial statements beginning after June 15, 2009.

NOTE 2 PENSION PLAN

Plan Description and Contribution Information

The Policemen's Annuity and Benefit Fund of Chicago is the administrator of a defined benefit, single-employer pension plan with a defined contribution minimum for the purpose of providing benefits to the police officers of the City of Chicago, their widows, and their children. Any employee of the City employed under the provisions of the municipal personnel ordinance as police service is covered by the Fund. The defined benefits as well as the employer and employee contribution levels are mandated in Illinois Compiled Statutes (40 ILCS Act 5, Article 5) and may be amended only by the Illinois State Legislature. The Fund is governed by an eight-member Board of Trustees (four appointed by the City, three elected by the policemen, and one elected by the annuitants), whose duties are to administer the Fund under the Illinois Pension Code.

The City of Chicago payrolls for employees covered by the Fund for the years ended December 31, 2009 and 2008 were $1,011,205,359 and $1,023,580,667, respectively. At December 31, 2009 and 2008, the Fund membership consisted of the following:

	2009	2008
Active employees	13,154	13,373
Retirees and beneficiaries currently receiving benefits	12,154	12,183
Terminated employees entitled to benefits or a refund of contributions but not yet receiving them	634	636
	25,942	26,192

The Fund provides retirement benefits as well as death and disability benefits. Employees age 50 or older with at least 10 years of service are entitled to receive a money purchase annuity and partial City contributions if less than 20 years of service have been completed. Effective 2003, the mandatory retirement age for a participant is 63. Employees age 50 or older with at least 20 years of service are entitled to receive a minimum formula annuity of 2.5% per year for the first 20 years of service, plus 2.5% per year for each following year or fraction thereof times the final average salary (highest average annual salary for any four consecutive years within the last ten years of service immediately preceding the date of retirement). The annuity shall not exceed 75% of the highest average annual salary.

NOTE 2 PENSION PLAN *(continued)*

The monthly annuity increases by 3% of the original annuity at the first of the month following the later of the attainment of age 55 or the first anniversary of retirement, and by 3% on each January 1 thereafter, if the recipient was born before January 1, 1955.

If the recipient was born after January 1, 1955, the monthly annuity increases by 1.5% of the original annuity at the first of the month following the later of the attainment of age 60 or the first anniversary of retirement, and 1.5% on each January 1 thereafter, but will not exceed a total of 30%.

Covered employees are required to contribute 9.0% of their salary to the Fund. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest. The City is required by state statutes to contribute the remaining amounts necessary to finance the requirements of the Fund. It is required to levy a tax at a rate not more than an amount equal to the total amount of contributions by the employees to the Fund made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 2.00 annually.

The total annual actuarial required contribution to the Fund (financed by the employees and the City) is equal to the normal cost plus interest only on the unfunded actuarial accrued liabilities determined using the entry age normal method. This actuarial cost method amortizes the costs of the participants' benefits over the entire career of each member as a level of percentage of compensation. The employer contribution required for interest only on the unfunded actuarial accrued liabilities results in a decreasing annual employer cost expressed as a percentage of payroll as future payrolls increase. Since the tax levy is expressed as a multiple of the total salary deductions made two years prior, the City is effectively contributing a level annual percentage of payrolls.

NOTE 2 PENSION PLAN *(continued)*

Funded Status and Funding Progress

The funded status of the Fund as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	$3,884,978,241	$8,736,101,666	$4,851,123,425	44.47%	$1,011,205,359	479.74%
12/31/08	4,093,719,894	8,482,574,033	4,388,854,139	48.26	1,023,580,667	428.77

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information regarding the actuarial values of Fund assets and the ratio to the AAL for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2009
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	4.0% per year, plus additional percentage related to service
Cost of living allowance	3.0% (1.50% for retirees born after January 1, 1955)

NOTE 3 HEALTH INSURANCE SUPPLEMENT

Plan Description and Contribution Information

The City offers group health benefits to annuitants and their eligible dependents through the City's health care plans.

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Premiums are established by the City, with the City paying 50% of the claims or premiums, whichever are applicable, with the remaining amount to be paid by all annuitants participating in the City's health care plans. Currently, the Fund pays to the City on behalf of each of the annuitants who chooses to participate in any of the City's health care plans, up to a maximum of $85 per month from July 1, 2003 through June 30, 2008, and $95 per month from July 1, 2009 through June 30, 2013 for each annuitant who is not qualified to receive Medicare benefits; and up to a maximum of $55 per month from July 1, 2003 through June 30, 2008, and $65 per month from July 1, 2009 through June 30, 2013 for each annuitant who is qualified to receive Medicare benefits.

The health insurance supplement is financed with current contributions on a pay-as-you-go basis. There is no separate healthcare account to pay the health insurance supplement.

At December 31, 2009 and 2008, the number of annuitants or surviving spouses who had subsidized health insurance totaled 10,048 and 10,017, respectively. Of the remaining annuitants or surviving spouses, all were eligible for subsidized health insurance, subject to their election of such benefits at a future date, and successful completion of the City's enrollment procedures. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The estimated City contribution represents the expected benefit payments for the health insurance supplement. In 2009 and 2008, the Fund received contributions of $9,266,431 and $8,850,186 from the City, and remitted contributions of insurance premiums to the City of $9,266,431 and $8,850,186, respectively. Contributions to the health insurance supplement are equal to insurance premium payments to the City. There were no net assets to report for the health insurance supplement at December 31, 2009 or 2008.

Funded Status and Funding Progress

The funded status of Fund's health care plans as offered by the City as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	$ -	$ 164,799,819	$ 164,799,819	0.00%	$1,011,205,359	16.30%
12/31/08	-	169,972,156	169,972,156	0.00	1,023,580,667	16..61

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information regarding the actuarial values of Fund assets and the ratios to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2009
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	No assets (Pay-as-you-go)
Actuarial assumptions:	
OPEB investment rate of return	4.5%
Projected salary increases	4.0% per year, plus additional percentage related to service
Health cost trend rate	0.0%

NOTE 4 CASH AND INVESTMENT RISK

Cash

The bank balance and carrying amount of the Fund's deposits, excluding $250 of petty cash, at December 31, 2009 were $804,310 and ($917,989), respectively; and $863,116 and ($828,761) at December 31, 2008, respectively. The bank balance at December 31, 2009 and 2008 is on deposit with the City Treasurer and is insured or collateralized by securities held by the City Treasurer in the Fund's name

Investment Policy

The Fund's overall investment policy is based on the following principles established by the Trustees:

- Maintain a long-term investment horizon for the Fund
- Emphasize equity investments to enhance long-term return
- Diversify investments across several asset classes
- Avoid market-timing strategies

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

In order to minimize the impact of large losses and reduce annual variability of returns, the Fund's assets are allocated across several different asset classes and diversified broadly within each asset class.

Investment Summary

The following table presents a summary of the Fund's investments by type at December 31, 2009 and 2008.

	2009	2008
U.S. Government and agency fixed income	$ 214,424,267	$ 226,332,190
U.S. corporate fixed income	258,399,681	243,185,406
U.S. common collective fixed income funds	219,399,032	297,275,551
U.S. equities	1,134,330,611	958,142,235
U.S. common collective stock funds	243,475,859	186,929,884
Foreign equities	547,973,699	445,987,186
Pooled short-term investment funds	50,909,140	73,208,119
Infrastructure	31,501,982	17,378,111
Real estate	90,428,931	86,035,448
Venture capital	185,516,853	150,183,393
Forward contracts and swaps	8,105,495	701,587
Hedge fund-of-funds	104,425,380	69,937,800
Cash and cash equivalents	61,102,953	91,988,719
Total investments at fair value	$ 3,149,993,883	$ 2,847,285,629

There are no individual investments held by the Fund that represent 5% or more of net assets held in trust for pension benefits, except for the Fund's investment in the Northern Trust Collective Daily U.S. Market Cap Equity Index Fund, which amounted to $243,475,859 and $186,929,884 at December 31, 2009 and 2008, respectively.

Investment Risks

The Fund's investments are subject to certain types of risks, including interest rate risk, credit risk, custodial credit risk, and foreign currency risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of plan net assets.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Interest Rate Risk—Interest rate risk is the risk that the fair value of debt securities decreases due to increases in the prevailing market interest rate. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Fund manages its exposure to fair value loss arising from increasing interest rates in several ways. All fixed-income investments are managed by external investment managers. The Fund employed six such managers in 2009 and 2008. Each investment manager is required to determine the maturities of all fixed-income securities in their portfolio. Additionally, guidelines are provided to the external investment managers, given the level of risk within the investment manager's portfolio. These guidelines include a target duration range that is consistent with each investment manager's respective strategy.

The following tables show the segmented time distribution of the Fund's investments into time periods of maturities based on the investments' cash flows.

At December 31, 2009, the Fund had the following investments and maturities related to certain fixed-income securities (bonds and notes):

		Investment Maturities			
Investment Type	**Fair Value**	**Less than 1 Year**	**1 to 6 Years**	**7 to 10 Years**	**More than 10 Years**
Asset backed securities	$ 22,602,827	$ -	$ 12,213,394	$ 3,942,795	$ 6,446,638
Commercial mortgage backed securities	44,894,255	-	661,503	622,956	43,609,796
Corporate bonds	181,709,894	4,013,217	62,205,179	68,199,262	47,292,236
Government agency securities	7,872,709	422,000	6,826,078	624,631	-
Government bonds	57,082,993	764,531	10,745,531	20,486,218	25,086,713
Government mortgage backed securities	135,226,796	-	-	15,176,107	120,050,689
Government issued commercial mortgage backed securities	2,122,677	-	-	2,122,677	-
Guaranteed fixed income	777,053	-	777,053	-	-
Index linked government funds	6,739,265	-	3,073,584	3,665,681	-
Municipal principal bonds	5,379,827	-	2,471,827	487,558	2,420,442
Non-government backed collateralized mortgage obligations	8,415,652	-	259,444	2,277,706	5,878,502
	$ 472,823,948	$ 5,199,748	$ 99,233,593	$ 117,605,591	$ 250,785,016

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

At December 31, 2008, the Fund had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities: Less than 1 Year	1 to 6 Years	7 to 10 Years	More than 10 Years
Asset-backed securities	$ 41,488,871	$ 203,453	$ 23,949,417	$ 5,996,521	$ 11,339,480
Commercial mortgage-backed securities	39,671,716	-	-	751,797	38,919,919
Corporate bonds	141,400,932	2,266,531	52,164,270	49,394,497	37,575,634
Government agency securities	15,699,981	-	8,594,980	1,659,303	5,445,698
Government bonds	39,311,798	2,001,771	3,261,405	11,152,109	22,896,513
Government mortgage-backed securities	170,985,707	-	709,798	15,664,365	154,611,544
Guaranteed fixed income	1,961,176	-	1,961,176	-	-
Municipal principal bonds	334,704	-	-	-	334,704
Non-government-backed collateralized mortgage obligations	18,662,711	-	758,863	3,811,578	14,092,270
Total	$ 469,517,596	$ 4,471,755	$ 91,399,909	$ 88,430,170	$ 285,215,762

Credit Risk—Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. One measure of credit risk is the quality ratings issued by national ratings agencies such as Moody's Investors Services and Standard & Poor's Financial Services (S&P). The Fund's investment policy establishes guidelines for diversification and credit quality of investment portfolios for each investment manager. Suggested levels of credit quality ratings less than investment grade are provided to the external investment managers.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

The following table provides information on the credit ratings associated with the Fund's investments in debt securities. Rates were obtained from S&P:

	Fair Value	
	2009	**2008**
Quality Rating:		
AAA	$ 55,095,266	$ 70,656,569
AA	16,198,738	5,541,401
A	67,074,877	68,466,924
BBB	87,518,343	62,636,066
BB	6,381,400	4,240,319
B	2,534,624	2,405,289
Not rated	19,863,946	26,573,859
Other	3,732,487	2,664,979
Total credit risk of U.S. corporate fixed income	258,399,681	243,185,406
U.S. Government and agency fixed income securities	214,424,267	226,332,190
	$ 472,823,948	$ 469,517,596

Custodial Credit Rate Risk: Custodial credit risk applies to investments, cash and certificates of deposit. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For cash and certificates of deposit, custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned. As of December 31, 2009 and 2008 deposits of $1,236,478 and $517,839, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. The Fund does not have a formal policy regarding custodial credit risk.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

The Fund does not have a formal investment policy governing foreign currency risk, but does manage its exposure to loss in the fair value of investments by requiring managers of foreign investments to maintain diversified portfolios. The Fund's equity and fixed-income portfolios include investments that are subject to foreign currency risk. Such investments include non-U.S. equities, government bonds, corporate bonds, and derivative instruments. The fund's exposure to foreign currency risk is as follows:

	Fair Value	
	2009	**2008**
Currency		
Australian Dollar	$ 14,334,054	$ 12,062,499
Brazilian Real	9,363,148	1,188,161
British Pound Sterling	84,107,739	57,807,165
Canadian Dollar	15,818,307	13,899,826
Czech Koruna	243,455	(2,103,706)
Danish Krone	4,130,053	4,219,171
Egyptian Pound	274,658	276,976
Euro Currency Unit	133,425,125	104,078,408
Hong Kong Dollar	36,604,250	18,969,862
Hungarian Forint	221	32,190
Indian Rupee	8,485,379	1,904,608
Indonesian Rupiah	3,096,460	1,504,286
Japanese Yen	60,586,454	63,409,406
Malaysian Ringgit	1,187,530	481,555
Mexican Peso	5,072,079	1,449,749
New Israeli Shekel	1,900,758	543,900
New Taiwan Dollar	10,502,828	-
Norwegian Krone	4,337,136	1,221,275
Polish Zloty	380,222	133,450
Singapore Dollar	11,717,775	3,168,558
South African Rand	5,121,557	1,580,239
South Korean Won	6,566,762	2,623,045
Swedish Krona	7,873,577	6,197,952
Swiss Franc	43,671,940	43,906,396
Taiwan Dollar	-	4,404,600
Thai Baht	664,631	263,839
Turkish Lira	1,061,630	1
Total investments in foreign currency	$ 470,527,728	$ 343,223,411

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives

The Fund's investment managers may enter into derivative transactions as permitted by their guidelines. A derivative financial instrument is an investment whose payoff depends on the value of an underlying instrument such as bond or stock prices, a market index, or commodity prices. Derivative financial instruments involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in the underlying element of the derivative will cause the value of a financial instrument to decrease or become more costly to settle. In addition to derivative transactions executed directly by the Fund's investment managers, the Fund holds interests in collective funds, hedge funds, and private equity funds, which may engage in derivative transactions. The Fund does not purchase derivatives with borrowed funds.

Futures Contracts: The Fund's external investment managers enter into futures contracts in the normal course of investing activities to manage market risk associated with the Fund's fixed-income investments and to achieve overall investment portfolio objectives. These contracts involve elements of market risk in excess of amounts recognized in the statements of plan net assets. The credit risk associated with these contracts is minimal, as they are traded on organized exchanges and settled daily.

The Fund had interest rate futures contracts to purchase (sell) Australian Treasury bonds, Euro dollars and United Kingdom Treasury bonds with notional amounts of $9,859,187, ($45,425,321), and (9,144,441), respectively. Additionally, the Fund had interest rate futures contracts to purchase (sell) U.S. Treasury securities with notional amounts of $5,408,862 and ($5,307,200), respectively. Notional amounts do not quantify risk or represent assets or liabilities of the Fund, but are used in the calculation of cash settlements under the contracts. The fair value of futures contracts in the statements of plan net assets was zero at December 31, 2009, as settlements are by cash daily. Changes in fair value are accounted for as net appreciation (depreciation) in fair value of investments.

Interest Rate and Credit Default Swaps: The Fund's external investment managers utilize interest rate and credit default swaps in the management of the Fund's fixed-income portfolio. Swap agreements are contractual agreements between two or more parties in which each party agrees to exchange sets of cash flows based on certain agreed-upon parameters. Gains and losses on swaps are determined based on market values and are recorded in the statements of changes in plan net assets. The market value of swaps outstanding at December 31, 2009 was a net unrealized loss of $2,534,915.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Forward Interest Rate Contracts: The Fund's external investment managers entered into a forward contract to purchase U.S. Treasury strips during 2009. Forward contracts are contracts for delayed delivery of securities in which the seller agrees to make delivery at a specified future date of a specified instrument, at a specified price or yield. The holder is exposed to credit risk for nonperformance and to market risk for changes in interest rates. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statements of plan net assets. The Fund's external investment managers attempt to mitigate this credit risk through structured trading with reputable parties. The fair value of the forward contract was $7,098,810 as of December 31, 2009. The unrealized loss on the contract was $516,467 during 2009 and is included in net appreciation (depreciation) in the fair value of investments on the statements of changes in plan net assets.

NOTE 5 SECURITIES LENDING PROGRAM

State statutes and Board of Trustees policies permit the Fund to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Fund's master custodian, Northern Trust Bank, lends securities of the type on loan at year-end for collateral in the form of cash, irrevocable letters of credit, or other securities to a minimum of 102% for U.S. securities and 105% for non-U.S. securities. The contract with the Fund's master custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Fund for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is 81 days. Cash collateral is invested in the lending agent's Core USA Collateral Pool, which at December 31, 2009, had a weighted-average life, as measured by interest sensitivity, of 41 days. The relationship between the maturities of the investment pool and the Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine. The Fund cannot pledge or sell collateral securities received unless the borrower defaults.

NOTE 5 SECURITIES LENDING PROGRAM *(continued)*

Loans outstanding as of December 31, 2009 and 2008 were as follows:

	2009	2008
Market value of securities loaned	$ 363,732,687	$ 282,849,401
Market value of cash collateral from Borrowers	375,111,985	287,600,269
Market value of non-cash collateral from borrowers	731,857	821,204

As of December 31, 2009 and 2008, the Fund had limited credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Fund.

There were unrealized losses of $986,416 and $5,021,648 recorded in the financial statements as of December 31, 2009 and 2008, respectively, calculated based on the difference between book value of cash collateral due to borrowers under the securities lending program and the fair value of invested cash collateral under the securities lending program.

NOTE 6 UNFUNDED INVESTMENT COMMITMENTS

The Fund had unfunded commitments of approximately $168 million and $300 million at December 31, 2009 and 2008, respectively, in connection with real estate, infrastructure, and private equity investments.

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN

(a) Plan Description

The Policemen's Annuity and Benefit Fund of Chicago (PABF), as an employer, administers a single-employer defined benefit post-retirement healthcare plan (Staff Retiree Health Plan). The Staff Retiree Health Plan provides lifetime health and dental insurance for eligible retirees and their spouses through PABF's group health insurance plan, which covers both active and retired members. As of December 31, 2009 and 2008, seven retirees were in the Staff Retiree Health Plan and 20 active employees could be eligible at retirement. Benefit subsidy provisions have been established by PABF's Board of Trustees. The amount of the subsidy varies according to a retiree's years of service with PABF. These benefit subsidy provisions can be modified or terminated at the sole discretion of the PABF Board.

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN *(continued)*

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. For 2009 and 2008, PABF contributed approximately $101,400 and $86,000, respectively, to the Staff Retiree Health Plan for current premiums, with an implicit subsidy of $19,600 and $18,700, for 2009 and 2008, respectively. Members receiving benefits contributed approximately $25,000, or 20% of the total premiums, for 2009, and approximately $27,000, or 24% of the total premiums, for 2008.

Annual OPEB Cost and Net OPEB Obligation

PABF's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The amortization period is open. The following table shows the components of PABF's annual OPEB cost for 2009 and 2008, the amount actually contributed to the Staff Retiree Health Plan, and changes in PABF's net OPEB obligation to the Staff Retiree Health Plan:

	2009	2008
Annual required contribution	$ 290,600	$ 274,600
Interest on net OPEB obligation	15,500	7,800
Adjustment to annual required contribution	(11,500)	(5,800)
Annual OPEB expense	294,600	276,600
Employer contributions made	121,000	104,700
Increase in net OPEB obligation	173,600	171,900
Net OPEB obligation at beginning of year	344,600	172,700
Net OPEB obligation at end of year	$ 518,200	$ 344,600

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN *(continued)*

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Staff Retiree Health Plan, and the net OPEB obligation for 2009 and 2008 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2009	$ 290,600	41.6%	$ 518,200
12/31/2008	274,600	38.1	344,600

Funded Status and Funding Progress (unaudited)

The funded status of PABF's Staff Retiree Health Plan as of December 31, 2009, and 2008, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	$ -	$ 3,474,800	$ 3,474,800	0.00%	$ 1,256,800	276.5%
12/31/08	-	3,239,700	3,239,700	0.00	1,202,700	269.4

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Staff Retiree Health Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information on the actuarial values of assets of the Staff Retiree Health Plan and its ratio to the AAL for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and members to that point. The actuarial methods and assumptions used include techniques that

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN *(continued)*

are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

For the December 31, 2009 and 2008 actuarial valuations the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return based on the employer's assumed return on its assets and an annual healthcare cost trend rate of 9.0% initially, reduced by increments of 1.0 percentage point per year to an ultimate rate of 5.0% after four years. Both rates include a 4.5% general inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a period of 30 years. The projected salary increase assumption was 4.5%.

NOTE 8 RESERVES

The Fund maintains several reserves, as required by the Illinois Pension Code and Board policy. The following are brief descriptions of the reserves:

City Contribution Reserve

	2009	2008
Balances at December 31	$ 1,729,155,112	$ 1,020,868,413

The City Contribution Reserve is maintained for the payment of the City's portion of future retirement benefits for active and inactive participants. Interest at 3% is credited to this reserve annually. When the amount of annuity for a policeman or widow is fixed, the City Contribution Reserve is charged with the amount of the present value of retirement benefit and the Annuity Payment Reserve is credited with such amount.

The City Contribution Reserve does not equal the present value of expected retirement benefits. The reserve is maintained on a cost basis, in accordance with the Illinois Pension Code.

NOTE 8 RESERVES *(continued)*

Salary Deduction Reserve

	2009	2008
Balances at December 31	$ 1,190,282,943	$ 1,118,778,431

The Illinois Pension Code requires the Fund to maintain separate accounts for each policeman for the amounts of salary deductions with interest at 3% per year. When a policeman retires, the amount of his annuity is charged to the Salary Deduction Reserve and credited to the Annuity Payment Reserve. If a policeman takes a separation refund, his salary deductions are refunded to him and charged to the Salary Deduction Reserve. This reserve is fully funded.

Annuity Payment Reserve

	2009	2008
Balances at December 31	$ 1,669,671,740	$ 588,854,748

When the amount of annuity has been fixed, the present value of expected benefit is transferred from the City Contribution Reserve and the Salary Deduction Reserve to the Annuity Payment Reserve for the payment of annuity. All age and service annuities, widow's annuities, and refunds are charged to this reserve.

Annually, the actuary calculates the present value of all annuities. The Investment and Interest Reserve will transfer amounts to the Annuity Payment Reserve to ensure that the balance in the Annuity Payment Reserve equals the present value of annuities. This reserve is fully funded.

Prior Service Annuity Reserve

	2009	2008
Balances at December 31	$ (622,643,823)	$ 822,176,168

The Prior Service Annuity Reserve is increased by the City's contributions for policemen and widows' prior service annuities and all prior service annuities payable to policemen and widows are charged to this reserve. This reserve included an unfunded liability of $5,683,524,900 and $5,146,778,037 as of December 31, 2009 and 2008, respectively.

NOTE 8 RESERVES *(continued)*

Gift Reserve

	2009	**2008**
Balances at December 31	$ 13,911,648	$ 13,835,549

The Gift Reserve is maintained for gifts, grants, bequests, or other amounts received by the Fund. The Board of Trustees determines the use of these funds. Interest is credited to the Gift Reserve annually.

(f) Investment and Interest Reserve

All gains and losses from investments and investment earnings are recorded in the Investment and Interest Reserve. Interest due to the City Contribution Reserve, Salary Deduction Reserve, Prior Service Annuity Reserve, Gift Reserve, and Supplementary Payment Reserve is transferred from the Investment and Interest Reserve to those reserves.

(g) Ordinary Death Benefit Reserve

	2009	**2008**
Balances at December 31	$ (16,017,798)	$ (14,164,303)

Amounts contributed by policemen and the City for death benefits are credited to the Ordinary Death Benefit Reserve. Death benefit payments are charged to this reserve. The Ordinary Death Benefit Reserve had a deficit of $16,017,798 at December 31, 2009 and $14,164,303 at December 31, 2008, respectively.

Automatic Increase Reserve

	2009	**2008**
Balances at December 31	$ (638,756,470)	$ (549,798,027)

The Automatic Increase Reserve is credited with amounts deducted from the salaries of policemen and matching contributions by the City for automatic increase in annuity with interest thereon. Payments of increased annuities and salary deduction refunds for increase in annuity are charged to this reserve. At December 31, 2009 and 2008, the Automatic Increase Reserve had a deficit of $638,756,470 and $549,798,027, respectively.

NOTE 8 RESERVES *(continued)*

Supplementary Payment Reserve

	2009	2008
Balances at December 31	$ 447,402	$ 447,402

The Supplementary Payment Reserve receives amounts transferred from the Investment and Interest Reserve for supplemental increases in annuity for certain eligible retirees. This reserve is fully funded.

Child's Annuity Reserve

Amounts contributed by the City for child's annuity are credited to the Child's Annuity Reserve, and payments of child's annuity are charged to this reserve.

Duty Disability Reserve

The Duty Disability Reserve is increased by the City's contributions for duty disability benefits, child's disability benefits, and compensation annuities and is decreased by the payments of these benefits.

Ordinary Disability Reserve

Amounts contributed by the City for ordinary disability benefits are credited to the Ordinary Disability Reserve. Payments of ordinary disability benefits are charged to this reserve.

Hospitalization Fund Reserve

The health care premiums are paid from the tax levies and are credited to the reserve for Group Hospitalization Fund. Premium payments to the City are charged against this reserve.

Expense Reserve

Amounts contributed toward the cost of administration are credited to the Expense Reserve, while expenses of administration are charged to this reserve.

NOTE 9 DEFERRED COMPENSATION PLAN

The Fund offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Fund, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is managed by a third-party administrator.

The assets of the plan were placed in trust accounts with the plan administrator for the exclusive benefit of participants and their beneficiaries and are not considered assets of the Fund.

NOTE 10 LEASE AGREEMENT

The Fund leases its office facilities under a noncancellable agreement that expires in 2015. Office rental expense amounted to $229,294 and $225,355 for the years ended December 31, 2009 and 2008, respectively.

Future minimum rental payments under the office lease at December 31, 2009 are as follows:

Year	Amount
2010	$ 233,234
2011	239,258
2012	244,687
2013	248,626
2014	252,562
Thereafter	256,502
	$ 1,474,869

NOTE 11 RISK MANAGEMENT

The Fund is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund carries commercial insurance to reduce its exposure to risk of loss. There is no significant reduction in insurance coverage from year to year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Funding Progress—Pension
For the Years Ended December 31, 2009 and 2008
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/04	$ 3,933,031,342	$ 7,034,271,474	$ 3,101,240,132	55.91%	$ 874,301,958	354.71%
12/31/05	3,914,431,654	7,722,737,147	3,808,305,493	50.69	948,973,732	401.31
12/31/06	3,997,990,919	7,939,561,277	3,941,570,358	50.36	1,012,983,634	389.11
12/31/07	4,231,681,817	8,220,352,638	3,988,670,821	51.48	1,038,957,026	383.91
12/31/08	4,093,719,894	8,482,574,033	4,388,854,139	48.26	1,023,580,667	428.77
12/31/09	3,884,978,241	8,736,101,666	4,851,123,425	44.47	1,011,205,359	479.74

The accompanying notes are an integral part of this schedule.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Employer Contributions—Pension
For the Years Ended December 31, 2009 and 2008
(Unaudited)

Year Ended December 31	Contributions			Percentage Contributed
	Annual Required	Actual Employee	Actual Employer	
2004	$ 203,757,534	$ 78,800,816	$ 135,744,173	66.62%
2005	238,423,459	89,109,811	178,278,371	74.77
2006	262,657,025	91,965,685	150,717,705	57.38
2007	312,726,608	93,299,996	170,598,268	54.55
2008	318,234,870	93,207,408	172,835,805	54.31
2009	339,488,187	95,614,390	172,043,785	50.68

The accompanying notes are an integral part of this schedule.

Valuation date	December 31, 2009 and 2008, respectively
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	30 years
Actuarial value of assets	5-year smoothed market
Actuarial assumptions:	
Pension investment rate of return	8.0%
Projected salary increases	4.0% per year, plus additional percentage related to service
Cost of living allowance	3.0% (1.5% for retirees born after January 1, 1955)

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Funding Progress—Health Insurance Supplement
For the Years Ended December 31, 2009 and 2008
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/05	$ -	$ 176,117,539	$ 176,117,539	0.00%	$ 948,973,732	18.56%
12/31/06	-	176,981,897	176,981,897	0.00	1,012,983,634	17.47
12/31/07	-	179,039,841	179,039,841	0.00	1,038,957,026	17.23
12/31/08	-	169,972,156	169,972,156	0.00	1,023,580,667	16.61
12/31/09	-	164,799,819	164,799,819	0.00	1,011,205,359	16.30

The accompanying notes are an integral part of this schedule.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Employer Contributions—Health Insurance Supplement
For the Years Ended December 31, 2009 and 2008
(Unaudited)

Year Ended December 31	Contributions Annual Required	Contributions Actual Employee	Contributions Actual Employer	Percentage Contributed
2006	$ 11,076,022	$ -	$ 8,041,573	72.60%
2007	11,220,081	-	8,107,708	72.26
2008	11,348,959	-	8,850,186	77.98
2009	11,810,766	-	9,266,431	78.46

The accompanying notes are an integral part of this schedule.

Valuation date	December 31, 2009 and 2008, respectively
Actuarial cost method	Entry age normal
Actuarial value of assets	No assets (pay-as-you-go)
Amortization method	Level percent open
Remaining amortization period	30 years
Actuarial assumptions:	
OPEB investment rate of return	4.5%
Projected salary increases	4.0% per year, plus additional percentage related to service
Healthcare Cost Trend Rate	0.00% (fixed dollar subsidy)

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Funding Progress—Staff Retiree Health Plan
For the Years ended December 31, 2009 and 2008

(Unaudited)

Actuarial Valuation Date	GASB Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/07	$ -	$ 3,021,300	$ 3,021,300	0.00%	$ 1,150,900	262.5%
12/31/08	-	3,239,700	3,239,700	0.00	1,202,700	269.4
12/31/09	-	3,474,800	3,474,800	0.00	1,256,800	276.5

The accompanying notes are an integral part of this schedule.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Employer Contributions—Staff Retiree Health Plan
For the Years Ended December 31, 2009 and 2008
(Unaudited)

Year Ended December 31	Contributions Annual Required	Actual Employee	Actual Employer	Percentage Contributed
2007	$ 261,500	$ -	$ 88,800	34%
2008	274,600	-	104,700	38
2009	290,600	-	121,000	42

The accompanying notes are an integral part of this schedule.

Valuation date	December 31, 2009 and 2008, respectively
Actuarial cost method	Entry age normal
Actuarial value of assets	No assets (pay-as-you-go)
Amortization method	Level percent open
Remaining amortization period	30 years
Actuarial assumptions:	
OPEB investment rate of return	4.5% per year
Wage inflation	4.5% per year
Healthcare trend	9.0% per year, graded down to 5.0% per year ultimate trend in 1.0% increments

OTHER SUPPLEMENTARY INFORMATION

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Other Supplementary Information
Schedule of Administrative Expenses
For the Years Ended December 31, 2009 and 2008

	2009	2008
Administrative expenses		
Actuary services	$ 265,200	$ 101,407
Benefits disbursement	189,755	233,681
Equipment service and rent	53,016	62,272
External auditors	58,805	45,925
Fiduciary insurance	110,343	111,766
Legal services	291,210	240,450
Medical consultant	240,341	217,251
Miscellaneous	855,623	1,152,249
Occupancy and utilities	240,843	230,468
Personnel salaries and benefits	1,978,905	1,738,916
Postage	6,000	6,000
Supplies	13,558	13,185
	$ 4,303,599	$ 4,153,570

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Other Supplementary Information
Schedule of Consulting Costs
For the Years Ended December 31, 2009 and 2008

	2009	2008
Payment to consultants		
External auditors	$ 58,805	$ 45,925
Medical consultant	240,341	217,251
Legal services	291,210	240,450
Actuary service	265,200	101,407
Investment manager fees	8,987,507	10,695,551
Master trustee fees	197,804	217,885
Consulting fees	616,179	563,110
	$ 10,657,046	$ 12,081,579

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Other Supplementary Information
Schedule of Investment Fees
For the Years Ended December 31, 2009 and 2008

	2009	2008
Investment managers		
Ariel Capital Management	$ 227,946	$ 253,697
Artisan Partners	433,358	680,013
Attucks Asset Management	35,077	42,053
Capital Guardian Trust Co.	482,652	580,627
Channing Capital	132,732	148,667
Chicago Equity Partners	393,057	492,410
Cordillera Asset Management	64,442	144,770
Dearborn Partners LLC	169,346	171,345
Denali Advisors	86,315	135,582
European Investors	122,723	678
Great Lakes Advisors	465,186	595,058
Harris Investments	-	19,039
Holland Capital Management	187,463	269,124
ING Clarion	82,136	-
Invesco Capital Management	385,546	383,197
JP Morgan Fleming Asset Management	501,214	388,016
LM Capital Group	74,242	71,065
McKinley Capital	318,397	432,141
Montag & Caldwell	633,410	794,282
Northern Trust Global Investments - Index Funds	88,679	133,351
Piedmont Investment Advisors	138,925	189,043
Piedra Capital Ltd.	-	77,932
Taplin, Canida, & Habacht	112,567	118,768
UBS Global Asset Management	1,509,302	1,692,687
Wellington Management	407,513	416,630
Wells Capital Management	377,781	355,190
William Blair & Co.	1,557,498	2,110,186
Total investment managers fees	8,987,507	10,695,551
Investment consultants		
Elkins McSherry Inc	25,000	-
Ennis Knupp & Associates	350,810	350,375
Courtland Partners	107,824	133,208
Kolhberg & Associates	132,545	79,527
Total investment consultants fees	616,179	563,110
Master custodian		
The Northern Trust Company	197,804	217,885
Total investment fees	$ 9,801,490	$ 11,476,546