

**POLICEMEN'S ANNUITY AND BENEFIT
FUND OF CHICAGO
(A Component Unit of the City of Chicago)**

**Financial Statements and Supplementary Information
For the Years Ended December 31, 2025 and 2024
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Years Ended December 31, 2025 and 2024

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of the Policemen's Annuity and Benefit Fund of Chicago (the Fund), a component unit of the City of Chicago (City) as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the fiduciary net position of the Fund as of December 31, 2025 and 2024, and the changes in its fiduciary net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section in our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Fund's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Management is also responsible for maintaining a current Fund instrument, including all Fund amendments, administering the Fund, and determining that the Fund's transactions as presented and disclosed in the financial statements are in conformity with the Fund's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but it is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.



We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Mitchell Titus, LLP

June 26, 2026

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Management's Discussion and Analysis (Unaudited)

December 31, 2025 and 2024

INTRODUCTION

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 accounting principles generally accepted in the United States of America, as established by the Governmental Accounting Standards Board (GASB), and are described below:

- **Statements of Fiduciary Net Position** report the Fund's assets, liabilities, deferred outflows and inflows of resources and the resultant net position where assets and deferred outflows minus liabilities and deferred inflows equal net position held in trust for pension benefits at the end of the year.
- **Statements of Changes in Fiduciary Net Position** show the sources and uses of funds during the calendar year, where additions minus deductions equal the net increase or decrease in net position held in trust for pension benefits for the year.
- **Notes to the Financial Statements** are an integral part of the financial statements and include important information and schedules to provide a more comprehensive understanding of the data provided in the financial statements. Information contained in the note disclosures includes the Fund's accounting policies, descriptions of pension and health benefits and related liabilities, detail of investments and related risks, fund reserves, and various other relevant topics.
- **Required Supplementary Information** presents detailed required historical information, and it is presented after the Notes to the Financial Statements. This required supplementary information includes data on the employer's net pension liability and changes thereof, employer's contribution and money-weighted rate of return for the pension plan; and information on total OPEB liability for the Staff Retiree Health Plan; along with the other information useful in evaluating the fiduciary net position of the Fund.
- **Supplementary Information** presents the details on administrative costs of maintaining a defined benefit pension plan.

FINANCIAL HIGHLIGHTS

- The fiduciary net position of the Fund increased by \$668 million, or 15.4%, to \$4,993.4 million at December 31, 2025. At December 31, 2024, the fiduciary net position of the Fund increased by \$455.5 million, or 11.8%, to \$4,325.4 million.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Management's Discussion and Analysis (Unaudited)

December 31, 2025 and 2024

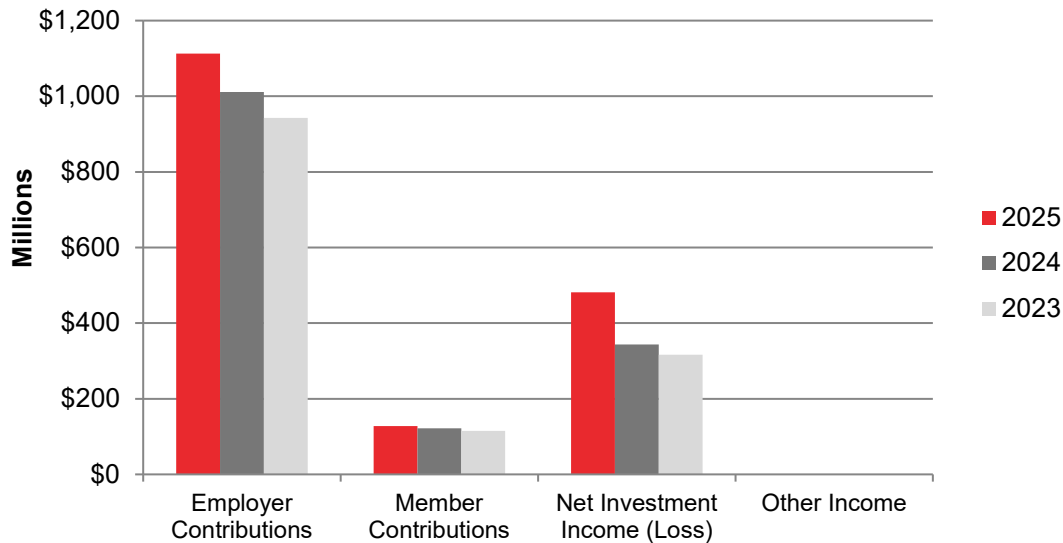
FINANCIAL HIGHLIGHTS *(continued)*

- Additions to the Fund are received from investment income and contributions from the employer and plan members. These are the primary funding sources for benefit payments. In 2025, these additions totaled \$1,722.5 million versus \$1,476.2 million in 2024, which is a 16.7% increase. The Fund experienced a net gain on investment activity in calendar year 2025 of \$481.6 million, or 13.85%, which compares to the net gain on investment activity of \$342.9 million, or 10.72%, in 2024.
- U.S. equities delivered strong results for the one-year period ended December 31, 2025, with the S&P 500 Index returning 17.9%. Markets finished the year on solid footing despite the longest government shutdown in U.S. history, and value stocks outperformed growth equities late in the year amid heightened scrutiny around the valuations of AI companies. International equities outpaced their U.S. counterparts for the year, supported by a weakening U.S. dollar. The MSCI ACWI ex-U.S. Index returned 32.4% for the one-year period. The MSCI EAFE Index gained 31.2%, its best calendar year since 2009, while the MSCI Emerging Markets Index returned 33.6%, its strongest year since 2017, led by Korea and Taiwan capitalizing on the AI theme. Fixed-income markets also generated solid returns, with Bloomberg U.S. Aggregate Bond Index returning 7.3% for the calendar year. Returns benefited from the Federal Reserve lowering the Federal Reserve fund rate three times in 2025, ending the year in the 3.50% to 3.75% range. The yield curve steepened over the year, with the two-year Treasury yield falling to 3.48% at year end from roughly 4.24% a year earlier, while the 10-year Treasury yield declined to 4.18% from 4.58% at the close of 2024. Private real estate returns were modest for the year. The NFI-ODCE Index generated a preliminary total net return of 2.90% for the year ending December 31, 2025 inclusive of slightly negative (-0.31%) appreciation, according to NCREIF. The recovery in core real estate flattened out in the second half of the year, with the Index posting negative appreciation in each of the final two quarters of 2025; the fourth-quarter net return of 0.68% (preliminary) was a slight improvement over 0.52% in the third quarter.
- Employer contributions were a major factor in the additions to the Fund. Effective May 30, 2016, with the passing of Public Act 099-0506 (PA 99-0506), the contributions were adjusted in accordance with the Illinois Pension Statutes. For financial reporting purposes, 2025 employer contributions increased by \$101.1 million. In 2024, employer contributions increased by \$68.5 million.

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FINANCIAL HIGHLIGHTS *(continued)*

Additions 2023-2025



- Deductions from the Fund are incurred primarily for the purpose for which the Fund was created, to provide benefits to the police officers of the City and their surviving spouses and children. Deductions consist primarily of pension and disability benefits, death benefits, refunds of employee deductions, and administrative expenses. In 2025, these deductions totaled \$1,054.5 million and were \$1,020.7 million in 2024, which is a 3.3% increase. This increase is attributable primarily to the number of retirees and beneficiaries receiving higher benefit payments. The net number of benefit recipients increased in 2025 by 101 members to 14,895, the highest beneficiary count in Fund history.
- Also contributing to the increase in deductions and benefit payments is the enactment of Public Act 99-0905 (PA 99-0905) on November 29, 2016, which provided a statutory 3% automatic increase annually to members born between January 1, 1955, and January 1, 1966. The legislature also provided increased benefits to qualifying annuitants such that the minimum annuity paid cannot be less than 125% of the Federal poverty level.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

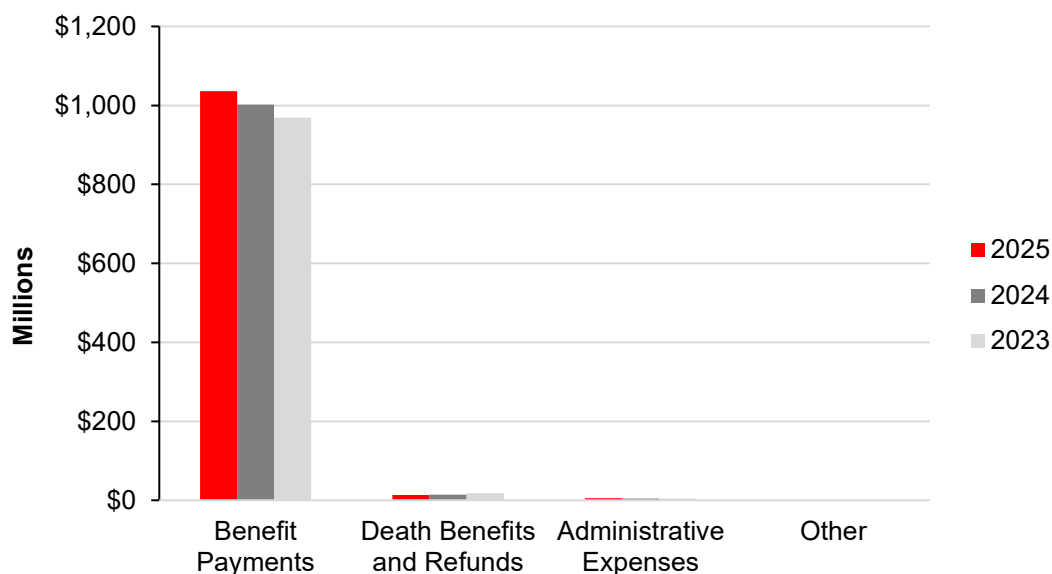
(A Component Unit of the City of Chicago)

Management's Discussion and Analysis (Unaudited)

December 31, 2025 and 2024

FINANCIAL HIGHLIGHTS *(continued)*

Deductions 2023-2025



- Benefit payments, excluding death benefits and refunds, increased by approximately \$33.8 million in 2025 to \$1,035.9 million from \$1,002.2 million in 2024. Death benefits and refunds of employee deductions decreased 2.14% from 2024 to 2025 by approximately \$0.3 million, from \$14.0 million to \$13.7 million, respectively.
- Administrative expenses increased by approximately \$0.3 million, or 6.5%, to \$4.9 million in 2025 from \$4.6 million in 2024.
- The primary 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, for purposes of statutory funding, was 26.66% at December 31, 2025, and 24.10% at December 31, 2024. The increase reflects a higher-than-expected investment return. For the year ended December 31, 2025, the Fund's 13.85% investment return was significantly higher than the Fund's underlying investment return assumption of 6.75%. The Fund experienced a favorable actuarial gain due to less-than-expected new disabled participants during 2025. Additionally, there were more-than-expected active members and annuitant deaths during 2025, resulting in a net actuarial gain to the Fund. Offsetting these items, the liabilities for new retirees from active were higher than assumed, resulting in an actuarial loss. In addition, for continuing active members in the 2024 and 2025 actuarial valuations, average salaries increased greater than the expected increase, resulting in an actuarial loss.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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Management's Discussion and Analysis (Unaudited)

December 31, 2025 and 2024

FINANCIAL HIGHLIGHTS *(continued)*

- For accounting and financial reporting pursuant to GASB Nos. 67 and 68, which use a Single Discount Rate that reflects: (1) a long-term expected rate of return on pension plan investments (to the extent that the Fund's fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met), the Fund's net pension liability increased by \$88,614,143 to \$13,893,194,386 at December 31, 2025, from \$13,804,580,243 as of December 31, 2024. Changes in the actuarial assumptions and methods led to the change in the Single Discount Rate to 6.65% from 6.66% (based on the long-term expected rate of return on investments of 6.75% used in both the December 31, 2025 and 2024, actuarial valuations and the long-term municipal bond rate of 4.83% as of December 31, 2025, and 4.08% as of December 31, 2024).
- In compliance with GASB No. 75, the Fund is required to recognize a liability for other postemployment benefits (OPEB), which represents health insurance coverage for retired Fund employees. Expenses of \$.004 million and \$(0.02) million were recognized in 2025 and 2024, respectively, resulting in a total accrued liability of \$1.0 million and \$0.7 million as of December 31, 2025 and 2024, respectively.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Management's Discussion and Analysis (Unaudited)
December 31, 2025 and 2024

FIDUCIARY NET POSITION

A summary of fiduciary net position is presented below:

Fiduciary Net Position
(In millions)

As of December 31, 2025, 2024 and 2023

	2025	2024	2023	2025–2024	
				Change	
				\$	%
Cash	\$ 54.8	\$ 3.6	\$ (0.1)	\$ 51.2	1,422.2%
Receivables	1,057.6	943.3	864.0	114.3	12.1%
Brokers—unsettled trades	91.9	81.5	74.9	10.4	12.8%
Investments, at fair value	3,909.1	3,411.9	3,035.0	497.2	14.6%
Invested securities lending cash collateral	132.5	120.6	92.8	11.9	9.9%
Right-to-use lease assets, net of accumulated amortization of \$1.34, \$1.12 and \$0.89, respectively	1.5	1.7	1.9	(0.2)	(11.8)%
Total assets	5,247.4	4,562.6	4,068.5	684.8	15.0%
Deferred outflows of resources	0.5	0.3	0.3	0.2	66.7%
Total assets and deferred outflows of resources	5,247.9	4,562.9	4,068.8	685.0	15.0%
Brokers—unsettled trades	112.7	107.7	97.2	5.0	4.6%
Securities lending payable	132.5	120.6	92.8	11.9	9.9%
OPEB liability	1.0	0.7	0.7	0.3	42.9%
Refunds and accounts payable	5.3	5.1	4.5	0.2	3.9%
Long-term lease liability	2.2	2.5	2.8	(0.3)	(12.0)%
Total liabilities	253.7	236.6	198.0	17.1	7.2%
Deferred inflows of resources	0.8	0.9	1.0	(0.1)	(11.1)%
Total liabilities and deferred inflows of resources	254.5	237.5	199.0	17.0	7.2%
Net position	\$ 4,993.4	\$ 4,325.4	\$ 3,869.8	\$ 668.0	15.4%

Overall, the fiduciary net position increased by \$668.0 million in 2025, primarily due to the positive investment performance of the Fund's portfolio. The Fund's investment portfolio earned an investment return of 13.85% in 2025. The fiduciary net position increased by \$455.5 million in 2024, primarily due to the positive investment performance of the Fund's portfolio. The Fund's investment portfolio earned an investment return of 10.72% in 2024.

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FIDUCIARY NET POSITION *(continued)*

As of December 31, 2025 and 2024, the amount recorded as receivables includes the employer contributions receivable under the provisions of PA 99-0506. The funding provisions of PA 99-0506 are significantly different than Public Act-1495, which was in effect at December 31, 2015. Pursuant to PA 99-0506, the funding policy requires City contributions to be equal to \$928.84 million in payment year 2025. Required funding in the 2026 payment year is \$1.043 billion. For the payment years 2026 through 2055, the employer is required to make level percent of pay contributions that, along with member contributions and investment earnings, are expected to generate a projected funded ratio of 90% by plan year-end 2055.

CHANGES IN FIDUCIARY NET POSITION

The following table reflects a comparative summary of various changes in fiduciary net position:

Changes in Fiduciary Net Position

(In millions)

Years Ended December 31, 2025, 2024 and 2023

	2025	2024	2023	2025–2024	
				Change	
				\$	%
ADDITIONS					
Member contributions	\$ 127.6	\$ 121.4	\$ 115.2	\$ 6.2	5.1%
Employer contributions	1,112.5	1,011.4	942.9	101.1	10.0%
Net investment gain and investment income	481.6	342.9	316.0	138.7	40.4%
Securities lending income	0.7	0.4	0.4	0.3	75.0%
Miscellaneous income	0.1	0.1	0.1	-	0.0%
Total additions	1,722.5	1,476.2	1,374.6	246.3	16.7%
DEDUCTIONS					
Annuity, disability, and death benefits	1,037.9	1,004.3	970.7	33.6	3.3%
Refunds of contributions	11.7	11.8	16.5	(0.1)	(0.8)%
Administrative expenses	4.9	4.6	4.3	0.3	6.5%
Total deductions	1,054.5	1,020.7	991.5	33.8	3.3%
Net increase	668.0	455.5	383.1	212.5	46.7%
<i>Net position restricted for pension benefits</i>					
Beginning of year	4,325.4	3,869.9	3,486.8	455.5	11.8%
End of year	\$ 4,993.4	\$ 4,325.4	\$ 3,869.9	\$ 668.0	15.4%

The Fund experienced an increase in fiduciary net position of \$668.0 million in 2025. The overall increase in fiduciary net position was accompanied by a continuing increase in benefit payments each year. The Fund experienced an increase in retirements of active members in 2025.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Management's Discussion and Analysis (Unaudited)

December 31, 2025 and 2024

CHANGES IN FIDUCIARY NET POSITION *(continued)*

Contractual terms between the employer and the Fraternal Order of Police, Chicago Lodge No. 7, provided that police officers of at least 60 years of age, with over 20 years of service, receive free healthcare in the City-sponsored healthcare program until the age of Medicare eligibility. Police officers of at least 55 years of age, who have indicated their intent to retire prior to October 1, 2023, with over 20 years of service, can participate in the City-sponsored healthcare program at a cost of 2% of their retirement annuity until their age of Medicare eligibility.

INVESTMENT ACTIVITIES

The Fund's investment allocation policy was changed in March 2025. The Fund continues to prudently implement the strategic allocation approved by the Board of Trustees.

Investment Returns

Years Ended December 31, 2025, 2024 and 2023

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Total fund	13.85 %	10.72 %	11.72 %
Equities	20.73	16.08	18.89
Fixed income	7.21	2.58	7.22
Real estate	(1.39)	3.11	(7.43)
Infrastructure	5.68	6.69	8.47
Private equity	5.55	6.72	2.28
Private debt	1.60	2.77	5.90
Opportunistic debt	3.55	10.60	15.80
Hedge fund	9.60	8.30	4.88
Cash and cash equivalents	5.53	6.15	6.04

PLAN MEMBERSHIP

The following table reflects the plan's membership as of December 31, 2025, 2024 and 2023.

Plan Membership

As of December 31, 2025, 2024 and 2023

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2025-2024</u>	
				<u>Change</u>	<u>%</u>
Retirees and beneficiaries receiving benefits	14,895	14,794	14,762	101	0.68%
Active employees	11,639	11,769	11,850	(130)	(1.10)%
Terminated (inactive members) employees entitled to benefits or refunds of contributions	1,214	1,204	1,162	10	0.83%
Total	<u>27,748</u>	<u>27,767</u>	<u>27,774</u>	<u>(19)</u>	<u>(0.07)%</u>

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Management's Discussion and Analysis (Unaudited)

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FUNDING STATUS

The funding ratio of the Fund on a fair value basis, for purposes of market value funding, experienced an increase to 26.66% at December 31, 2025, from 24.10% at December 31, 2024. During 2014, the Fund adopted GASB No. 67, which requires that projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average credit quality roughly equivalent to Moody's Investors Service's Aa2 rating and S&P Global Ratings' AA rating. Using this methodology, the funding ratios of the Fund at December 31, 2025 and 2024, were 26.44% and 23.86%, respectively. Discount rates used in the GASB No. 67 valuation were 6.65% and 6.66% as of December 31, 2025 and 2024, respectively.

In 2025, certain assumptions were changed, which included the salary increase assumption, retirement rate assumption, and the termination rate assumption. Actuarial information presented as of December 31, 2025 and 2024 reflects these assumption changes.

Effective May 30, 2016, the Illinois Pension Statutes regarding employer contributions to the Fund were changed by PA 099-0506. In accordance with PA 099-0506, the funding policy requires that contributions from the City, as employer, be equal to \$420 million in payment year 2016, \$464 million in payment year 2017, \$500 million in payment year 2018, \$557 million in payment year 2019, and \$579 million in payment year 2020. For payment years after 2020, the City is required to make level percent of pay contributions each year through 2055 that, along with member contributions and investment earnings, are expected to generate a projected funded ratio of 90% by plan year-end 2055.

As currently provided in the applicable provisions of PA 099-0506, the funded ratio of the Fund is projected to increase slowly in future years, with required increases from the employer in future years in accordance with the current legislation. The Fund continues to be heavily dependent upon employer contributions to fund benefit payments to members now and in future years.

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:

Mr. Kevin Reichart
Executive Director
Policemen's Annuity and Benefit Fund of Chicago
221 North LaSalle Street
Suite 1626
Chicago, Illinois 60601

FINANCIAL STATEMENTS

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Statements of Fiduciary Net Position
As of December 31, 2024 and 2023

	<u>2025</u>	<u>2024</u>
ASSETS		
Cash	\$ 54,825,261	\$ 3,570,517
<i>Receivables</i>		
Employer - Tax levies, net of allowance for loss of \$0 in 2025, \$0 in 2024	1,042,582,135	930,344,933
Member contributions - December 31, 2025 payroll due in January 2026	6,027,390	5,899,588
Interest and dividends	9,004,246	7,126,211
Accounts receivable - due from brokers	91,970,136	81,544,545
	<u>1,149,583,907</u>	<u>1,024,915,277</u>
<i>Investments at fair value</i>		
U.S. common stock and other equity	456,780,060	399,556,443
Collective investment funds, stock	998,939,419	851,155,764
Collective investment funds, international equities	27,763,279	16,755,923
Collective investment funds, fixed income	259,942,493	254,651,141
Collective investment funds, international fixed income	16,413,064	42,064,371
International equity	627,953,710	485,919,327
U.S. bonds and notes	313,096,618	268,762,577
International bonds and notes	6,646,583	9,182,962
Short-term instruments	349,093,423	291,470,734
Infrastructure	136,718,834	128,013,642
Forward contracts and swaps	250,456	217,057
Hedge fund-of-funds	275,815,042	250,032,813
Real estate	169,344,813	181,129,192
Venture capital and private equity	270,301,114	232,962,865
	3,909,058,908	3,411,874,811
Invested securities lending cash collateral	132,516,640	120,596,385
Right-to-use lease assets, net of accumulated amortization of \$1,340,190 and \$1,116,825 in 2025 and 2024, respectively	1,451,873	1,675,238
Total assets	<u>5,247,436,589</u>	<u>4,562,632,228</u>
Deferred outflows of resources	446,301	266,499
Total assets and deferred outflows of resources	<u>5,247,882,890</u>	<u>4,562,898,727</u>
LIABILITIES		
Refunds and accounts payable	5,301,935	5,072,197
Trade accounts payable - due to brokers	112,663,422	107,648,835
Security lending cash collateral	132,516,640	120,596,385
OPEB obligation	960,534	735,107
Long-term lease liability	2,237,818	2,503,278
Total liabilities	<u>253,680,349</u>	<u>236,555,802</u>
Deferred inflows of resources	777,840	886,679
Total liabilities and deferred inflows of resources	<u>254,458,189</u>	<u>237,442,481</u>
Net position held in trust for pension benefits	<u>\$ 4,993,424,701</u>	<u>\$ 4,325,456,246</u>

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 Fiduciary Net Position

As of December 31, 2024 and 2023

	<u>2025</u>	<u>2024</u>
ADDITIONS		
<i>Contributions</i>		
Employer	\$ 1,112,515,437	\$ 1,011,371,037
Plan member salary deductions	<u>127,555,767</u>	<u>121,412,305</u>
Total contributions	<u>1,240,071,204</u>	<u>1,132,783,342</u>
<i>Investment income</i>		
Net appreciation in fair value of investments	418,178,070	277,995,322
Interest	20,769,346	22,681,409
Dividends	50,700,215	48,541,059
Real estate income	<u>1,483,391</u>	<u>2,443,783</u>
	<u>491,131,022</u>	<u>351,661,573</u>
<i>Investment activity expenses</i>		
Investment management fees	(8,705,263)	(8,034,176)
Custodial fees	(368,380)	(225,871)
Investment consulting fees	<u>(429,806)</u>	<u>(419,323)</u>
Total investment activity expenses	<u>(9,503,449)</u>	<u>(8,679,370)</u>
Net income from investing activities	<u>481,627,573</u>	<u>342,982,203</u>
<i>From securities lending activities</i>		
Securities lending income	6,386,171	5,944,882
Borrower rebates	(5,643,382)	(5,460,617)
Bank fees	<u>(89,135)</u>	<u>(66,605)</u>
Net income from securities lending activities	<u>653,654</u>	<u>417,660</u>
Total net investment income	<u>482,281,227</u>	<u>343,399,863</u>
Miscellaneous income	<u>145,661</u>	<u>84,714</u>
Total additions	<u>1,722,498,092</u>	<u>1,476,267,919</u>
DEDUCTIONS		
Pension and disability benefits	1,035,953,513	1,002,174,387
Death benefits	1,991,600	2,118,800
Refunds of employee deductions	<u>11,718,221</u>	<u>11,826,763</u>
	1,049,663,334	1,016,119,950
Administrative expenses	<u>4,866,303</u>	<u>4,625,941</u>
Total deductions	<u>1,054,529,637</u>	<u>1,020,745,891</u>
Net increase in fiduciary net position	667,968,455	455,522,028
<i>Net position held in trust for pension benefits</i>		
Beginning of year	<u>4,325,456,246</u>	<u>3,869,934,218</u>
End of year	<u>\$ 4,993,424,701</u>	<u>\$ 4,325,456,246</u>

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)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Accounting principles generally accepted in the United States of America (U.S. GAAP), 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 statements of net position as a pension trust fund.

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 U.S. GAAP 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; limited partnerships; real estate; derivatives; currencies and other types of investment vehicles as set forth in the Fund's Statement of Investment Policy and in compliance with the Illinois Compiled Statutes.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

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 fair value, which approximates costs. 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 (NAV) is determined and certified by the investment managers as of the reporting date. Real estate investments are valued at their estimated fair values as determined by the general partner based upon appraisals provided by the investment manager. Hedge funds, venture capital, private equity, infrastructure, and certain opportunistic investments are reported at their estimated fair values 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 charged to expenses in the year of purchase.

Administrative Expenses

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

Income Taxes

The Fund is a tax-exempt retirement plan as determined by the Internal Revenue Service. As such, income earned by the Fund is not subject to federal income taxes.

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 fiduciary net position at fair value. Securities received as collateral are reported as assets only if the Fund is able to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statements of fiduciary net position.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

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

Recent Accounting Pronouncements

GASB Statement No. 102, *Certain Risk Disclosures*, was issued in December 2023. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. Statement No. 102 is effective for the Fund's fiscal year ended December 31, 2025. Fund staff evaluated Statement No. 102 and have concluded that the requirements of the Statement do not materially impact the Fund's financial statements and related disclosures.

Other accounting standards that the Fund is currently reviewing for applicability and potential impact on the financial statements include:

GASB Statement No. 103, *Financial Reporting Model Improvements*, was issued in April 2024. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. Statement No. 103 is effective for the Fund's fiscal year ending December 31, 2026.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, was issued in September 2024. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. Statement No. 104 is effective for the Fund's fiscal year ending December 31, 2026.

GASB Statement No. 105, *Subsequent Events*, was issued in December 2025. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. Statement No. 105 is effective for the Fund's fiscal year ending December 31, 2027.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 2 PENSION PLAN

Plan Description and Contribution Information

PABF 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 and their widows and children. Any City employee 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 police officers, and one elected by the annuitants) whose duties are to administer the Fund under the Illinois Pension Code. The City's payrolls for employees covered by the Fund for the years ended December 31, 2025 and 2024, were \$1,395,916,595 and \$1,337,506,724, respectively. At December 31, 2025 and 2024, the Fund's membership consisted of the following:

	<u>2025</u>	<u>2024</u>
Active employees	\$ 11,639	\$ 11,769
Retirees and beneficiaries		
currently receiving benefits	14,895	14,794
Terminated employees entitled to		
benefits or a refund of contributions,		
but not yet receiving them	1,214	1,204
	<u>\$ 27,748</u>	<u>\$ 27,767</u>

The Fund provides retirement benefits as well as death, survivor, and disability benefits. Employees age 50 or older with at least 10 years of service are entitled to receive a money purchase annuity if they have completed less than 20 years of service. The mandatory retirement age for a participant is 65. 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 their final average salary (highest average annual salary for any four consecutive years within the last 10 years of service immediately preceding the date of retirement). The annuity will not exceed 75% of the highest average annual salary.

For members with at least 20 years of service, 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% of the original annuity on each January 1 thereafter. The minimum benefit for widows cannot be less than 150% of the Federal poverty level.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 2 PENSION PLAN *(continued)*

Plan Description and Contribution Information *(continued)*

Members first hired after January 1, 2011, are subject to different provisions within their defined benefit pension plan. The new provisions include a minimum retirement age of 55, a final average salary calculation based upon 96 consecutive months within the last 120 months of employment, an annual salary cap for purposes of calculating a pension benefit, and cost-of-living increases for a pension benefit that include considerations related to the Consumer Price Index for urban consumers.

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.

Commencing with the City tax levy year beginning in 2016, legislation in place at December 31, 2016, provides for fixed dollar City contributions for payment years 2016 to 2020, and level percent of pay contributions for years after 2020 to 2055. Beginning with payment year 2021, the funding policy requires that future employer contributions, employee contributions and other Fund income are sufficient to produce a funding goal of 90% by the fiscal year-end 2055, based upon the actuarial value of Fund assets and the application of certain required actuarial assumptions and methodologies.

The total pension liability at December 31, 2025 and 2024, was \$18,886,619,087 and \$18,130,036,559, respectively. The plan fiduciary net position at December 31, 2025 and 2024, was \$4,993,424,701 and \$4,325,456,316, respectively. The net pension liability at December 31, 2025 and 2024, was \$13,893,194,386 and \$13,804,580,243, respectively. The Single Discount Rate of 6.65% required by GASB Statement No. 67 as of December 31, 2025, was based on a long-term expected rate of return on pension plan investments of 6.75% and a long-term municipal bond rate of 4.83%. The Single Discount Rate of 6.66% required by GASB Statement No. 67 as of December 31, 2024, was based on a long-term expected rate of return on pension plan investments of 6.75% and a long-term municipal bond rate of 4.08%.

NOTE 3 HEALTH INSURANCE SUPPLEMENT

Plan Description and Contribution Information

The City offered group health benefits, as was provided, to annuitants and their eligible dependents, which expired on December 31, 2016.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Plan Description and Contribution Information *(continued)*

Effective January 1, 2017 and thereafter, certain eligible annuitants in the Appellate Court expanded class, as defined in its June 29, 2017 order, and as further defined after remand in the Circuit Court's February 28, 2019 order, are entitled to continue to receive the 1983 statutory provided subsidies (related to the police and fire funds) of \$55 per month if non-Medicare eligible and \$21 per month if Medicare eligible. Therefore, this obligation is reflected as an actuarial accrued liability as of December 31, 2025 and 2024. There are currently no assets accumulated in a trust that meet the criteria of GASB codification P22.101 or P52.101 to pay related benefits for the health insurance supplement plan.

NOTE 4 CASH AND INVESTMENT RISK

Cash

The bank balance and carrying amount of the Fund's deposits at December 31, 2025, were \$55,336,842 and \$54,825,011, respectively. The bank balance and carrying amount of the Fund's deposits at December 31, 2024, were \$3,808,161 and \$3,570,267, respectively. These balances excluded \$250 of petty cash.

Investment Policy

The Trustees assume the responsibility for establishing the Fund's 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
- Diversify investments across several asset classes

The Trustees have indicated interest in developing a risk policy statement in parallel to the Fund's investment policy. The policy would highlight those risks managed at the Fund level and those managed by external managers. The risk policy would also state the types of risks that are monitored and how they are measured. Until such policy is developed by PABF staff and adopted by the Board, there is no formal policy relating to specific investment-related risks.

Money-Weighted Rate of Return

For the years ended December 31, 2025 and 2024, the annual money-weighted rate of return on the Fund's investments, net of investment expense, was 13.85% and 10.72%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Summary

The following table presents a summary of the Fund's investments by type at December 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
U.S. Government and agency fixed income	\$ 215,310,606	\$ 176,936,878
Corporate fixed income	104,432,595	101,008,661
U.S. common collective fixed-income funds	259,942,493	254,651,141
Global common collective fixed-income funds	16,413,064	42,064,371
U.S. equities	456,780,060	399,556,443
U.S. common collective stock funds	998,939,419	851,155,764
International equity common collective funds	27,763,279	16,755,923
Foreign equities	627,953,710	485,919,327
Pooled short-term investment funds	308,742,875	141,872,667
Infrastructure	136,718,834	128,013,642
Real estate	169,344,813	181,129,192
Venture capital	270,301,114	232,962,865
Forward contracts and swaps	250,456	217,057
Hedge fund-of-funds	275,815,042	250,032,813
Cash and cash equivalents	40,350,548	149,598,067
Total investments at fair value	<u>\$ 3,909,058,908</u>	<u>\$ 3,411,874,811</u>

None of the Fund's individual investments as of December 31, 2025 or 2024, represented 5% or more of net position held in trust for pension benefits.

The Fund's investments were managed by 70 external investment managers who managed 81 investment funds/products during 2025, with additional services provided by an external investment consultant. The Fund does not employ any internal investment managers; therefore, its investments are not managed internally. The Fund does not have a formal policy regarding the credit risk of its external managers or investment consultant.

Fair Value Measurements

The Fund categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset's fair value. Fair value is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (*i.e.*, exit price). The fair value measurements are determined within a framework that utilizes a three-tier hierarchy, which maximizes the use of observable inputs and minimizes the use of unobservable inputs. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 4 CASH AND INVESTMENT RISK (continued)

Fair Value Measurements (continued)

Level 1: Unadjusted quoted prices in active markets for identical assets.

Level 2: Inputs other than Level 1 quoted prices that are observable for the asset, either directly or indirectly. These inputs include:

- a. quoted prices for similar assets in active markets;
- b. quoted prices for identical or similar assets in markets that are not active;
- c. inputs other than quoted prices that are observable for the asset;
- d. inputs that are derived principally from or corroborated by observable market data.

Level 3: Inputs that are unobservable for the asset. The valuation of these investments requires significant judgment due to the absence of quoted market values, inherent lack of liquidity, and changes in market conditions.

The Fund's investments that are valued using the NAV per share (or its equivalent) are not classified in the fair value hierarchy. These investments do not have a readily determinable fair value.

The recurring fair value measurements as of December 31, 2025, are as follows:

	Totals	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
<i>Equities</i>				
U.S. common stock and other equity	\$ 456,780,060	\$ 456,766,939	\$ -	\$ 13,121
Collective investment funds, stock	998,939,419	998,939,419	-	-
International equity	627,949,699	627,949,699	-	-
<i>Fixed income</i>				
U.S. bonds and notes	313,096,613	-	312,996,534	100,079
International bonds and notes	6,646,583	-	6,646,583	-
Collective investment funds, fixed	29,000,831	-	-	29,000,831
Cash equivalents and short-term instruments	349,093,423	-	349,093,423	-
Forward contracts and swaps	250,456	-	250,456	-
Venture capital and private equity	87,308,935	-	-	87,308,935
Subtotal	2,869,066,019	\$ 2,083,656,057	\$ 668,986,996	\$ 116,422,966
Investments measured at net asset value				
U.S. bonds and notes	5			
Collective investment funds, international equities	27,763,279			
Collective investment funds, fixed	230,941,662			
Collective investment funds, international fixed	16,413,064			
Infrastructure	136,718,834			
Hedge fund-of-funds	275,815,042			
Real estate	169,344,813			
Venture capital and private equity	182,992,179			
International equity	4,011			
Subtotal	1,039,992,889			
Total	\$ 3,909,058,908			

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 4 CASH AND INVESTMENT RISK (continued)

Fair Value Measurements (continued)

The recurring fair value measurements as of December 31, 2024, are as follows:

	Totals	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
<i>Equities</i>				
U.S. common stock and other equity	\$ 399,556,443	\$ 399,543,321	\$ -	\$ 13,122
Collective investment funds, stock	851,155,764	851,155,764	-	-
International equity	485,915,316	485,915,316	-	-
<i>Fixed income</i>				
U.S. bonds and notes	269,669,574	-	269,669,574	-
International bonds and notes	8,275,960	-	8,275,960	-
Collective investment funds, fixed	47,479,036	-	-	47,479,036
Cash equivalents and short-term instruments	291,470,734	-	291,470,734	-
Forward contracts and swaps	217,057	-	217,057	-
Venture capital and private equity	78,960,884	-	-	78,960,884
Subtotal	2,432,700,768	\$ 1,736,614,401	\$ 569,633,325	\$ 126,453,042
Investments measured at net asset value				
U.S. bonds and notes	5			
Collective investment funds, international equities	16,755,923			
Collective investment funds, fixed	207,172,105			
Collective investment funds, international fixed	42,064,371			
Infrastructure	128,013,642			
Hedge fund-of-funds	250,032,813			
Real estate	181,129,192			
Venture capital and private equity	154,001,981			
International equity	4,011			
Subtotal	979,174,043			
Total	\$ 3,411,874,811			

Equity investments, and cash equivalents and short-term instruments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors.

Equity investments, fixed-income securities, cash equivalents and short-term instruments, and investment derivative instruments classified in Level 2 of the fair market hierarchy are valued using either a bid evaluation or a matrix-pricing technique maintained by various pricing vendors. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Equity investments, fixed-income securities, and venture capital and private equity investments classified in Level 3 of the fair value hierarchy are securities whose stated market price is unobservable by the marketplace. Many of these securities are priced by the issuers of industry groups. These prices are obtained from various pricing sources by the Fund's custodian bank.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Fair Value Measurements *(continued)*

Investments measured at NAV for fair value are not subject to level classification. The following tables summarize the Fund's investments in certain entities that measure NAV per share as fair value measurement as of December 31, 2025 and 2024:

<u>2025</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Collective investment funds, stock	\$ 5	\$ -	Daily	5 days
Collective investment funds, international equities	27,763,279	-	Daily	5 days
Collective investment funds, fixed	230,941,662	21,967,755	Daily	5 days
Collective investment funds, international fixed	16,413,064	14,097,378	Daily	5 days
Infrastructure	136,718,834	42,947,568	Illiquid	N/A
Hedge fund-of-funds	275,815,042	2,312,777	Quarterly	90 days
Venture capital and private equity	182,992,179	111,742,676	Illiquid	N/A
Real estate	169,344,813	34,137,246	Illiquid	N/A
International equity	4,011	-	Illiquid	N/A
	<u>\$ 1,039,992,889</u>			

<u>2024</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Collective investment funds, stock	\$ 5	\$ -	Daily	5 days
Collective investment funds, international equities	16,755,923	-	Daily	5 days
Collective investment funds, fixed	207,172,105	43,264,007	Daily	5 days
Collective investment funds, international fixed	42,064,371	12,391,301	Daily	5 days
Infrastructure	128,013,642	48,429,098	Illiquid	N/A
Hedge fund-of-funds	250,032,813	2,331,984	Quarterly	90 days
Venture capital and private equity	154,001,981	130,788,826	Illiquid	N/A
Real estate	181,129,192	33,734,687	Illiquid	N/A
International equity	4,011	-	Illiquid	N/A
	<u>\$ 979,174,043</u>			

Collective investment funds, stock and international equities: There are two funds at December 31, 2025 and 2024, which invest in equities diversified across all geographies, sectors, and capitalization.

Collective investment funds, fixed and international fixed: There are six funds at December 31, 2025 and 2024, which invest in a variety of fixed-income markets through various investments.

Infrastructure: There are six funds at December 31, 2025 and 2024, which invest in a variety of infrastructure assets through various investments. These funds are not eligible for redemption.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Fair Value Measurements *(continued)*

Hedge fund-of-funds: There are five funds at December 31, 2025 and 2024, which invest in a select group of underlying managers that implement a number of different alternative investment strategies and invest in a variety of markets through limited partnerships, limited liability companies and other investment entities. None of the funds were eligible for redemption as of December 31, 2025 or 2024.

Real estate, venture capital and private equity: The real estate investments consist of nine and 15 real estate funds as of December 31, 2025 and 2024, respectively. As of December 31, 2025, the Fund held investments in three core funds, two debt funds, two opportunistic funds, and two value-add funds. As of December 31, 2024, the Fund held investments in three core funds, one core plus fund, two debt funds, five opportunistic funds, and four value-add funds. The private equity partnerships consist of 13 limited partnership interests as of December 31, 2025 and 2024, respectively. The private debt partnerships consist of five limited partnership interests as of December 31, 2025, and nine limited partnership interests as of December 31, 2024. These funds invest in equity or debt securities of privately held companies. Private equity and debt closed-end funds are not eligible for redemption.

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. The changes could materially affect the amounts reported in the statements of fiduciary net position.

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 does not have a formal policy regarding interest rate risk. The Fund attempts to mitigate its exposure to fair value loss arising from increasing interest rates by diversifying its fixed-income investment strategy and by allocation to several investment managers. 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, including a target duration range that is consistent with each investment manager's respective strategy.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

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, 2025, the Fund had the following investments and maturities related to certain fixed-income securities (bonds and notes):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less than 1 Year</u>	<u>1 to 6 Years</u>	<u>7 to 10 Years</u>	<u>More than 10 Years</u>
Asset-backed securities	\$ 20,464,461	\$ -	\$ 2,146,703	\$ 2,756,567	\$ 15,561,191
Bank loans	1,427,258	-	1,076,867	350,391	-
Commercial mortgage-backed securities	17,816,924	-	303,373	739,883	16,773,668
Corporate bonds	58,697,435	1,064,357	23,732,686	14,487,133	19,413,259
Corporate convertible bonds	402,845	27,338	226,085	-	149,422
Government agency securities	13,007,597	13,806	493,298	1,739,648	10,760,845
Government bonds	96,658,281	576,596	14,331,367	43,930,159	37,820,159
Government mortgage-backed securities	96,106,063	1,237,814	5,288,856	1,196,949	88,382,444
Index-linked bonds	3,409,758	-	-	1,170,634	2,239,124
Municipal/provincial bonds	5,412,648	-	556,694	1,241,359	3,614,595
Non-government-backed collateralized mortgage obligations	6,339,931	966,730	500,940	50,076	4,822,185
	<u>\$ 319,743,201</u>	<u>\$ 3,886,641</u>	<u>\$ 48,656,869</u>	<u>\$ 67,662,799</u>	<u>\$ 199,536,892</u>

At December 31, 2024, the Fund had the following investments and maturities related to certain fixed-income securities (bonds and notes):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less than 1 Year</u>	<u>1 to 6 Years</u>	<u>7 to 10 Years</u>	<u>More than 10 Years</u>
Asset-backed securities	\$ 17,612,950	\$ 137,452	\$ 2,488,956	\$ 2,648,129	\$ 12,338,413
Bank loans	1,137,137	-	540,358	596,779	-
Commercial mortgage-backed securities	14,863,970	-	467,756	1,508,226	12,887,988
Corporate bonds	58,932,473	1,558,212	27,146,104	13,883,099	16,345,058
Corporate convertible bonds	532,599	143,365	308,275	-	80,959
Government agency securities	14,207,973	898,860	894,891	2,864,172	9,550,050
Government bonds	70,141,896	712,538	4,554,667	36,878,007	27,996,684
Government mortgage-backed securities	86,777,958	91,437	4,514,421	3,156,210	79,015,890
Index-linked bonds	1,887,570	-	-	1,093,005	794,565
Municipal/provincial bonds	6,505,494	276,226	672,895	962,524	4,593,849
Non-government-backed collateralized mortgage obligations	5,345,519	-	1,165,251	4,302	4,175,966
	<u>\$ 277,945,539</u>	<u>\$ 3,818,090</u>	<u>\$ 42,753,574</u>	<u>\$ 63,594,453</u>	<u>\$ 167,779,422</u>

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 4 CASH AND INVESTMENT RISK *(continued)*Investment Risks *(continued)*

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 (Moody's) and S&P Global Ratings. The Fund does not have a formal policy in regard to aggregate credit quality of fixed-income holdings. The Fund utilizes external investment management firms to invest in fixed-income securities and credit quality is addressed within the guidelines of the mandate for each of the managers. If a holding falls below specific guideline requirements, the manager will either sell the security or will inform the Fund of the lower rating and why the manager believes that it is prudent to continue to hold the security as they believe that the security will return to minimum constraints.

The following table provides information on the credit ratings associated with the Fund's investments in debt securities. Ratings were obtained from Moody's:

	Fair Value	
	2025	2024
<i>Quality rating</i>		
Aaa	\$ 10,781,313	\$ 77,060,689
Aa	98,678,441	9,641,682
A	22,579,107	24,398,470
Baa	23,347,221	20,538,718
Ba	5,498,542	8,557,547
B	1,934,707	623,396
Not rated	26,080,759	25,875,559
Caa through C	284,458	417,917
	<hr/>	<hr/>
Total credit risk of U.S. corporate fixed income	189,184,548	167,113,978
U.S. Government fixed-income securities - explicitly guaranteed	129,579,321	109,617,156
U.S. Government agency securities - not rated	979,332	1,214,405
	<hr/>	<hr/>
	\$ 319,743,201	\$ 277,945,539

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Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

Custodial credit 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, 2025 and 2024, cash deposits of \$1,701,215 and \$1,076,934, 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.

The Fund does not have a formal investment policy governing foreign currency risk, but manages 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, non-U.S. Government bonds, corporate bonds, and derivative instruments. Additionally, some of the Fund's investment managers at least partially hedge foreign currency exchange risk. The Fund's exposure to foreign currency risk is as follows:

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Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 4 CASH AND INVESTMENT RISK *(continued)*Investment Risks *(continued)*

	Fair Value	
	2025	2024
<i>Currency</i>		
Australian Dollar	\$ 18,234,108	\$ 14,265,507
Brazilian Real	12,000,301	9,176,735
British Pound Sterling	52,081,816	41,459,471
Canadian Dollar	10,506,319	10,860,517
Chilean Peso	1,310,319	1,071,554
Chinese Yuan Renminbi	(6,726,434)	(5,513,678)
Colombian Peso	713,651	567,763
Czech Koruna	3,553,914	2,144,353
Danish Krone	9,415,416	9,569,367
Egyptian Pound	44,082	26,509
Euro Currency Unit	113,198,484	74,073,274
Hong Kong Dollar	71,121,230	43,809,296
Hungarian Forint	128	1,160,733
Indian Rupee	13,452,358	10,705,860
Indonesian Rupiah	6,839,244	8,330,949
Japanese Yen	84,090,959	69,468,265
Kuwaiti Dinar	986,397	496,485
Malaysian Ringgit	491,001	1,160,779
Mexican Peso	5,799,610	4,748,499
New Israeli Shekel	4,087,961	788,860
New Taiwan Dollar	58,459,168	44,096,404
New Zealand Dollar	952,613	592,973
Norwegian Krone	7,955,807	6,420,841
Philippine Peso	1,672,738	2,785,722
Polish Zloty	2,665,032	456,458
Russian Ruble	-	5,104
Singapore Dollar	3,319,676	3,178,555
South African Rand	15,012,406	11,166,293
South Korean Won	42,344,408	17,087,519
Swedish Krona	9,710,315	10,246,103
Swiss Franc	22,096,816	21,130,161
Thai Baht	4,125,312	3,314,732
Turkish Lira	1,021,570	752,734
United Arab Emirates Dirham	769,916	336,840
Total investments in foreign currency	\$ 571,306,641	\$ 419,941,537

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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. Most of the derivative transactions executed by the Fund's investment managers are related to currency through foreign exchange contracts, the vast majority of which is for hedging purposes, and interest rates through interest rate futures and forward contracts, the purpose of which is mostly duration management. In addition to derivative transactions executed directly by the Fund's investment managers, the Fund also holds interests in collective funds, hedge funds, and private equity funds, which may engage in derivative transactions. The Fund does not directly 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 fiduciary net position. The credit risk associated with these contracts is minimal, as they are traded on organized exchanges and settled daily.

At December 31, 2025, the Fund had interest rate futures contracts to (sell) a German bond, a U.K. bond, and a French bond with notional costs of \$(2,684,761), \$(1,565,630), and \$(140,682), respectively. At December 31, 2025, the Fund also had interest rate futures contracts to purchase U.S. Treasury notes and bonds, an Australian bond, and a German bond with notional amounts of \$3,553,637, \$2,726,126, \$3,549,129, and \$260,055, respectively. At December 31, 2024, the Fund had interest rate futures contracts to (sell) U.S. Treasury bonds and notes, a Canadian bond, a French bond, and German bonds with notional costs of \$(465,813), \$(6,990,645), \$(1,205,772), \$(1,067,512), and \$(1,020,427), respectively. At December 31, 2024, the Fund also had interest rate futures contracts to purchase U.S. Treasury bonds and notes and an Australian bond with notional amounts of \$2,055,333, and \$3,499,221, respectively.

The fair value of futures contracts in the statements of fiduciary net position was zero at December 31, 2025 and 2024, as settlements are by cash daily.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

The Fund had net investment (losses) earnings of \$(203,807) and \$153,723 on futures contracts in 2025 and 2024, respectively. These earnings are accounted for as net appreciation 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. The holder is exposed to credit risk for nonperformance and market risk for changes in interest rates. Gains on swaps are determined based on fair values and are recorded in the statements of changes in fiduciary net position. The notional value of credit default swaps was \$0 and \$5,900 as of December 31, 2025 and 2024, respectively. The notional value of interest rate swaps was \$3,125,000 and \$1,510,000 as of December 31, 2025 and 2024, respectively. The fair value of swaps outstanding at December 31, 2025 and 2024, was a net asset of \$2,405 and \$14,607, respectively. Investment gain from holdings and sales of interest rate and credit default swaps was \$73,169 and \$127,182 in 2025 and 2024, respectively. These gains are included in net appreciation in the fair value of investments in the statements of changes in fiduciary net position.

Foreign exchange contracts—The Fund's external investment managers utilize foreign currency forward contracts, primarily for hedging purposes. Foreign currency forward contracts are contractual agreements to buy or sell a specific amount of a foreign currency at a certain date for an agreed price. As the fair value of the underlying foreign currency varies from the contractual agreed price, the Fund records an unrealized gain or loss. The holder is exposed to credit risk for nonperformance and to market risk for changes in exchange rates. The Fund had pending foreign currency purchases and sales that included positions with various currencies, primarily including Australian dollar, Brazilian real, British pound sterling, Canadian dollar, Chilean peso, Chinese yuan renminbi, Danish krone, Euro currency unit, Hong Kong dollar, Indian rupee, Indonesian rupiah, Japanese yen, Mexican peso, New Israeli shekel, New Taiwan dollar, New Zealand dollar, Norwegian krone, Philippine peso, Singapore dollar, South African rand, South Korean won, Swedish krona, Swiss franc, Thai baht, and United States dollar at December 31, 2025 and 2024. Total pending foreign currency forward purchases and (sales) had notional values of \$86,600,569 and \$(86,720,534), respectively, at December 31, 2025, and \$79,258,342 and \$(79,107,155), respectively, at December 31, 2024.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

The Fund had a net unrealized gain (loss) on pending foreign currency forward contracts of \$(119,965) and \$151,187 at December 31, 2025 and 2024, respectively, which is reflected in the fair value of the investments on the statements of fiduciary net position. Investment gain (loss) from holdings and sales of foreign currency forward contracts was \$(563,111) and \$(500,958) in 2025 and 2024, respectively.

Forward interest rate contracts—The Fund's external investment managers entered into forward contracts to purchase or sell bond securities during 2025 and 2024. 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 fiduciary net position. The Fund's external investment managers attempt to mitigate this credit risk through structured trading with reputable parties.

At December 31, 2025 and 2024, the Fund did not hold forward interest rate contracts.

Investment Management Fees

Investment management fees from equity and fixed-income managers, including one of the collective funds, one of the private equity managers, and the cash manager, are included in investment management fees on the statements of changes in fiduciary net position. Investment management fees from all other collective funds, short-term investments, infrastructure, hedge, real estate, venture capital and private equity are reflected in the net investment income from such investment products. Such investment management fees are not significant to the financial statements.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 5 SECURITIES LENDING PROGRAM

State statutes and the Fund's Statement of Investment Policy permit the Fund to lend certain of its liquid 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 securities lending agent, Deutsche Bank AG, New York Branch (Deutsche Bank), lends securities of the type on loan at year end for collateral in the form of U.S. dollars cash, securities issued by or guaranteed as to principal and interest by the U.S. Government, its agencies, instrumentalities and establishment, and non-U.S. sovereign debt securities representing obligations of an Organization for Economic Cooperation and Development country having a fair value equal to or exceeding 102% of the value of the loaned securities and 105% for non-U.S. securities. The contract with Deutsche Bank provides for indemnification for the Fund with respect to any shortfall between liquidation proceeds and the fair market value of: (1) in respect to lending transactions, the securities subject to such transaction, or (2) in the case of reverse transactions, the amount of cash deposited with a counterparty with respect to such transaction. The terms of liquidation proceeds, fair market value and reverse transactions are more specifically defined in the agency securities lending agreement.

Any of the loans of the Fund's securities can be terminated on demand by either the Fund or the borrower. The average terms of the Fund's loans were approximately 5.32 days and 3.79 days as of December 31, 2025 and 2024, respectively. At December 31, 2025 and 2024, cash collateral was reinvested in indemnified repurchase agreements, which had an interest sensitivity of one day. The Fund cannot pledge or sell collateral securities received unless the borrower defaults.

Loans outstanding as of December 31, 2025 and 2024, were as follows:

	<u>2025</u>	<u>2024</u>
Fair value of securities loaned	\$ 129,881,344	\$ 118,216,612
Fair value reinvested of cash collateral from borrowers	132,516,640	120,596,385
Fair value of non-cash collateral from borrowers	4,872,344	5,162,825

As of December 31, 2025 and 2024, the Fund had limited credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Fund.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 6 UNFUNDED INVESTMENT COMMITMENTS

The Fund had unfunded commitments of approximately \$227 million and \$271 million at December 31, 2025 and 2024, respectively, in connection with real estate, infrastructure, private equity and collective commingled fund investments.

NOTE 7 POSTEMPLOYMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTHCARE PLAN

Plan Description

PABF, as an employer, administers a single-employer defined benefit postemployment healthcare plan (Staff Retiree Healthcare Plan). The Staff Retiree Healthcare Plan provides health and dental insurance to eligible retirees and their spouses through PABF's group health insurance plan, which covers both active and retired members. As of December 31, 2025, 13 retirees were in the Staff Retiree Healthcare Plan and 17 active employees could be eligible at retirement. As of December 31, 2024, 11 retirees were in the Staff Retiree Healthcare Plan and 14 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 and the coverages elected. These benefit subsidy provisions can be modified or terminated at the sole discretion of the PABF Board.

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. Accordingly, the plan does not accumulate assets in a trust for OPEB. For 2025 and 2024, PABF contributed approximately \$67,728 and \$48,229, respectively, to the Staff Retiree Healthcare Plan for current premiums, including an implicit subsidy of \$4,691 and \$1,354, for 2025 and 2024, respectively. For 2025 and 2024, members receiving benefits contributed approximately \$117,108 and \$84,509, respectively, to the Staff Retiree Healthcare Plan for current premiums.

GASB Statement No. 75 Valuation

As of December 31, 2025 and 2024, the Fund's total OPEB liability was \$960,534 and \$735,107, respectively. Total OPEB liability as of December 31, 2025 and 2024, was based on the requirements of GASB Statement No. 75, using census, plan provisions, methods and assumptions included in an actuarial valuation as of December 31, 2025 and 2024, respectively.

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

**NOTE 7 POSTEMPLOYMENT BENEFITS OF THE FUND—STAFF RETIREE
HEALTHCARE PLAN** *(continued)*

GASB Statement No. 75 Valuation *(continued)*

The following methods and assumptions were used in the OPEB valuation for 2025:

Actuarial valuation date	December 31, 2025
Measurement date	December 31, 2025
Fiscal year-end date	December 31, 2025

Methods and actuarial assumptions used to measure total OPEB liability:

Actuarial cost method	Entry-age normal
GASB Statement No. 75 discount rate, beginning of year	4.08% per year
GASB Statement No. 75 discount rate, end of year	4.83% per year
Wage inflation	3.00% per year
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Post-retirement mortality	The mortality rates are from the PUB-2010 Amount-weighted Below-median income Healthy Retiree Mortality Table with two-dimensional, fully generational improvements using the MP-2020 Mortality Improvement Scale.
Healthcare trend rates	Medical trend rates for plan years beginning on and after January 1, 2027, based on 7.00% per year graded down in 0.25% increments to an ultimate trend rate of 4.25% per year. Prescription drug plan trend rates for plan years beginning on and after January 1, 2027, based on 8.00% per year graded down in 0.25% increments to an ultimate trend rate of 4.25% per year. Dental and vision trend rate of 4.25% per year beginning on January 1, 2027.

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

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For the Years Ended December 31, 2025 and 2024

NOTE 7 POSTEMPLOYMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTHCARE PLAN *(continued)*

GASB Statement No. 75 Valuation *(continued)*

The following methods and assumptions were used in the OPEB valuation for 2024:

Actuarial valuation date	December 31, 2024
Measurement date	December 31, 2024
Fiscal year-end date	December 31, 2024

Methods and actuarial assumptions used to measure total OPEB liability:

Actuarial cost method	Entry-age normal
GASB Statement No. 75 discount rate, beginning of year	3.77% per year
GASB Statement No. 75 discount rate, end of year	4.08% per year
Wage inflation	3.00% per year
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Post-retirement mortality	The mortality rates are from the PUB-2010 Amount-weighted Below-median income Healthy Retiree Mortality Table with two-dimensional, fully generational improvements using the MP-2020 Mortality Improvement Scale.
Healthcare trend rates	Medical trend rates for plan years beginning on and after January 1, 2025, based on 7.00% per year graded down in 0.25% increments to an ultimate trend rate of 4.25% per year. Prescription drug plan trend rates for plan years beginning on and after January 1, 2025, based on 8.00% per year graded down in 0.25% increments to an ultimate trend rate of 4.25% per year. Dental and vision trend rate of 4.25% per year beginning on January 1, 2025.

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 7 POSTEMPLOYMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTHCARE PLAN *(continued)*

Total OPEB Liability and Sensitivity to Changes in the Discount and Healthcare Cost Trend Rates

	<u>2025</u>	<u>2024</u>
Total OPEB liability		
1 Service cost	\$ 36,603	\$ 38,126
2 Interest on the total OPEB liability	29,475	27,164
3 Changes in benefit terms	-	-
4 Difference between expected and actual experience of the total OPEB liability	270,199	12,997
5 Changes of assumptions	(48,622)	(23,268)
6 Benefit payments	(62,228)	(42,729)
7 Net change in total OPEB liability	225,427	12,290
8 Total OPEB liability – beginning of year	735,107	722,817
9 Total OPEB liability – end of year	<u>\$ 960,534</u>	<u>\$ 735,107</u>
Covered-employee payroll	<u>\$ 1,523,496</u>	<u>\$ 1,449,780</u>
Total OPEB liability as a percentage of Covered-employee payroll	<u>63.05%</u>	<u>50.70%</u>

Discount Rate

The following presents the Fund’s total OPEB liability, calculated using a discount rate of 4.83% and 4.08% as of December 31, 2025 and 2024, respectively, as well as what the Fund’s total OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher:

<u>Net OPEB Liability for Year Ended</u>	<u>1% Decrease</u>	<u>Current Assumption</u>	<u>1% Increase</u>
December 31, 2025	\$ 1,061,705	\$ 960,534	\$ 873,988
December 31, 2024	814,381	735,107	667,122

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 7 POSTEMPLOYMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTHCARE PLAN *(continued)*

Healthcare Cost Trend Rate

The following presents the Fund’s OPEB liability, calculated using the assumed trend rates as well as what the Fund’s total OPEB liability would be if it were calculated using a trend rate that is 1% lower or 1% higher:

<u>Net OPEB Liability for Year Ended</u>	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate Assumption</u>	<u>1% Increase</u>
December 31, 2025	\$ 899,510	\$ 960,534	\$ 1,032,624
December 31, 2024	682,868	735,107	797,150

Statement of OPEB Expense

	<u>2025</u>	<u>2024</u>
Expense		
1 Service cost	\$ 36,603	\$ 38,126
2 Interest on the total OPEB liability	29,475	27,164
3 Current-period benefit changes	-	-
4 OPEB plan administrative expense	5,500	5,500
5 Recognition of outflow (inflow) of resources due to non-investment experience	(44,470)	(79,091)
6 Recognition of outflow (inflow) of resources due to assumption changes	(22,594)	(16,364)
7 Total OPEB expense	<u>\$ 4,514</u>	<u>\$ (24,665)</u>
Reconciliation of total OPEB liability		
1 Net OPEB liability, beginning of year	\$ 735,107	\$ 722,817
2 OPEB expense	4,514	(24,665)
3 Employer contributions	(67,728)	(48,229)
4 Change in deferred outflow/(inflow) due to non-investment experience	314,669	92,088
5 Change in deferred outflow/(inflow) due to assumption changes	(26,028)	(6,904)
6 Net OPEB liability, end of year	<u>\$ 960,534</u>	<u>\$ 735,107</u>

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

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Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 7 POSTEMPLOYMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTHCARE PLAN *(continued)*

The following table presents the components of total deferred outflows and inflows of resources related to OPEB at December 31:

<u>Deferred Outflows of Resources</u>	<u>2025</u>	<u>2024</u>
Differences between expected and actual non-investment experience	\$ 328,856	\$ 112,200
Assumption changes	<u>117,445</u>	<u>154,299</u>
Total deferred outflows of resources	<u>\$ 446,301</u>	<u>\$ 266,499</u>
<u>Deferred Inflows of Resources</u>	<u>2025</u>	<u>2024</u>
Differences between expected and actual non-investment experience	\$ 506,325	\$ 604,338
Assumption changes	<u>271,515</u>	<u>282,341</u>
Total deferred inflows of resources	<u>\$ 777,840</u>	<u>\$ 886,679</u>

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense over 7.805 years as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2026	\$ 90,397	\$ (157,461)	\$ (67,064)
2027	90,397	(155,108)	(64,711)
2028	77,126	(146,497)	(69,371)
2029	62,441	(145,867)	(83,426)
2030	59,241	(112,070)	(52,829)
Thereafter	<u>66,699</u>	<u>(60,837)</u>	<u>5,862</u>
	<u>\$ 446,301</u>	<u>\$ (777,840)</u>	<u>\$ (331,539)</u>

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

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

	<u>2025</u>	<u>2024</u>
Balance, at December 31	\$ 2,669,130,604	\$ 2,339,236,453

The City’s 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 the annuity for a policeman or widow is fixed, the City’s 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’s 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.

Salary Deduction Reserve

	<u>2025</u>	<u>2024</u>
Balance, at December 31	\$ 1,715,713,632	\$ 1,675,931,245

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 or her salary deductions are refunded and charged to the salary deduction reserve. This reserve is fully funded.

Annuity Payment Reserve

	<u>2025</u>	<u>2024</u>
Balance, at December 31	\$ 3,785,957,789	\$ 3,666,745,928

When the amount of annuity has been fixed, the present value of the expected benefit is transferred from the City’s contribution reserve and the salary deduction reserve to the annuity payment reserve for the payment of the annuity. All age and service annuities, widows’ annuities, and refunds are charged to this reserve.

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 8 RESERVES *(continued)*

Annuity Payment Reserve *(continued)*

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

	<u>2025</u>	<u>2024</u>
Balance, at December 31	<u>\$ 593,784,559</u>	<u>\$ 101,461,601</u>

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 \$13,845,585,438 and \$13,526,943,094 as of December 31, 2025 and 2024, respectively.

Gift Reserve

	<u>2025</u>	<u>2024</u>
Balance, at December 31	<u>\$ 14,179,484</u>	<u>\$ 14,825,124</u>

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.

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’s 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.

Ordinary Death Benefit Reserve

	<u>2025</u>	<u>2024</u>
Balance, at December 31	<u>\$ (71,925,357)</u>	<u>\$ (66,514,271)</u>

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 8 RESERVES *(continued)*

Ordinary Death Benefit Reserve *(continued)*

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. At December 31, 2025 and 2024, the ordinary death benefit reserve had a deficit.

Automatic Increase Reserve

	<u>2025</u>	<u>2024</u>
Balance, at December 31	\$ <u>(3,713,863,412)</u>	\$ <u>(3,406,677,165)</u>

The automatic increase reserve is credited with amounts deducted from the salaries of police officers and matching contributions by the City for automatic increase in annuity. Payments of increased annuities and salary deduction refunds, for increase in annuity, are charged to this reserve. At December 31, 2025 and 2024, the automatic increase reserve had a deficit.

Supplementary Payment Reserve

	<u>2025</u>	<u>2024</u>
Balance, at December 31	\$ <u>447,402</u>	\$ <u>447,402</u>

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.

Additional Reserves

The following reserves - child’s annuity reserve, duty disability reserve, ordinary disability reserve and expense reserve - have a \$0 balance at December 31, 2025 and 2024. City contributions are allocated to these reserve accounts in amounts equal to payments made on an annual basis.

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.

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 8 RESERVES *(continued)*

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.

Expense Reserve

Amounts contributed toward the cost of administration are credited to the expense reserve. Expenses of administration are also charged to this reserve.

NOTE 9 NET PENSION LIABILITY OF THE FUND

The components of the net pension liability at December 31, 2025 and 2024, were as follows:

	<u>2025</u>	<u>2024</u>
Total pension liability	\$ 18,886,619,087	\$ 18,130,036,559
Less: Plan fiduciary net position	<u>4,993,424,701</u>	<u>4,325,456,316</u>
Fund net pension liability	<u>\$ 13,893,194,386</u>	<u>\$ 13,804,580,243</u>
Fund fiduciary net position as a percentage of total pension liability	<u>26.44%</u>	<u>23.86%</u>

Actuarial Assumptions

In 2025, the actuarial assumptions were changed from the prior actuarial valuation to reflect the results of an experience study performed for the period January 1, 2019 through December 31, 2023. The total pension liability was determined by an actuarial valuation as of December 31, 2025 and 2024, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% per year, plus additional percentage related to service
Investment rate of return	6.75%

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 9 NET PENSION LIABILITY OF THE FUND *(continued)*Actuarial Assumptions *(continued)*

Cost-of-living adjustments A retiree with at least 20 years of service or receiving a mandatory retirement minimum annuity; for members hired before January 1, 2011: 3.0%.

For members hired on or after January 1, 2011: 1/2 of CPI-U, maximum 3.0%, to begin no earlier than age 60.

Post-Retirement Healthy Mortality rates were based on the Sex Distinct Pub-2010 amount weighted safety healthy retiree mortality tables weighted 119% for post-retirement males and 102% for females, respectively. Pre-Retirement mortality rates were based on the Sex Distinct Pub-2010 amount-weighted safety employee mortality tables weighted 100% for males and females, respectively. Disability Mortality rates were based on the Sex Distinct Pub-2010 amount-weighted safety healthy retiree mortality tables weighted 129% for males and 112% for females, set forward one year for males. Future mortality improvements are reflected by projecting the base mortality tables forward using the MP-2021 projection scale.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate arithmetic expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These assumptions are converted into nominal assumptions by adding inflation, then combined by weighing them by the target asset allocation percentages. Finally, the arithmetic portfolio expected return is converted into a geometric expected return using assumed asset class standard deviations and correlations. The pension plan's target allocation as of December 31, 2025 and 2024, is summarized in the following tables:

December 31, 2025

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equity	32.0%	5.42%
Non-U.S. equity	17.0	6.44
Fixed income	15.0	2.72
Private markets	26.0	7.61
Hedge funds	3.0	4.13
Real estate	<u>7.0</u>	7.18
Total	<u>100.0%</u>	

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 9 NET PENSION LIABILITY OF THE FUND *(continued)*

Actuarial Assumptions *(continued)*

December 31, 2024

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equity	29.5%	5.43%
Non-U.S. equity	19.5	6.36
Fixed income	15.0	2.49
Private markets	24.0	9.84
Hedge funds	5.0	4.50
Real estate	<u>7.0</u>	6.14
Total	<u>100.0%</u>	

Single Discount Rate

A Single Discount Rate of 6.65% and 6.66% as of December 31, 2025 and 2024, respectively, was used to measure the total pension liability. These Single Discount Rates were based on an expected rate of return on pension plan investments of 6.75% for 2025 and 2024, and a municipal bond rate of 4.83% and 4.08%, respectively. The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made under the statutory funding policy. Based on these assumptions, the pension plan’s fiduciary net position and future contributions were sufficient to finance the benefit payments only through the year 2078. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2078, and the municipal bond rate was applied to all benefit payments after that date.

Regarding the sensitivity of the net pension liability to changes in the Single Discount Rate, the following presents the plan’s net pension liability, calculated using a Single Discount Rate of 6.65% and 6.66% as of December 31, 2025 and 2024, respectively, as well as what the plan’s net pension liability would be if it were calculated using a Single Discount Rate that is 1-percentage-point lower or 1-percentage-point higher:

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 9 NET PENSION LIABILITY OF THE FUND *(continued)*

Single Discount Rate *(continued)*

Sensitivity of net pension liability to the Single Discount Rate assumption as of December 31, 2025, is as follows:

1% Decrease 5.65%	Single Discount Rate Assumption 6.65%	1% Increase 7.65%
\$ 16,236,799,455	\$ 13,893,194,386	\$ 11,945,099,797

Sensitivity of net pension liability to the single discount rate assumption as of December 31, 2024 is as follows:

1% Decrease 5.66%	Single Discount Rate Assumption 6.66%	1% Increase 7.66%
\$ 16,046,800,707	\$ 13,804,580,243	\$ 11,940,359,303

NOTE 10 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. Accumulated balances within deferred compensation accounts are 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 are deposited 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 11 LEASE AGREEMENT

The Fund leases its office facilities under a non-cancelable agreement. The current lease commenced on July 1, 2016, and was renewed for 16 years through 2032. The new lease agreement includes an abatement clause during the term of the new lease.

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 11 LEASE AGREEMENT *(continued)*

GASB Statement No. 87, *Leases*, requires that the Fund, as a lessee, recognize a lease liability and an intangible right-to-use lease asset (lease asset). The lease liability is measured at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured at the initial amount of the lease liability, adjusted for any lease incentives at or before commencement of the lease. Subsequently, the lease asset is amortized on a straight-line basis over the term of the lease.

The amount of lease asset by major class of underlying assets at December 31, 2025 and 2024, respectively, is as follows:

<u>Right-to-use Lease Asset</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
2025				
Office	\$ 2,792,063	\$ -	\$ -	\$ 2,792,063
Less: Accumulated amortization	<u>1,116,825</u>	<u>223,365</u>	<u>-</u>	<u>1,340,190</u>
	<u>\$ 1,675,238</u>	<u>\$ 223,365</u>	<u>\$ -</u>	<u>\$ 1,451,873</u>
2024				
Office	\$ 2,792,063	\$ -	\$ -	\$ 2,792,063
Less: Accumulated amortization	<u>893,460</u>	<u>223,365</u>	<u>-</u>	<u>1,116,825</u>
	<u>\$ 1,898,603</u>	<u>\$ 223,365</u>	<u>\$ -</u>	<u>\$ 1,675,238</u>
Long-Term Lease Liability				
2025	\$ 2,503,278	\$ 118,906	\$ 384,367	\$ 2,237,817
2024	2,749,507	130,601	376,830	2,503,278

The scheduled fiscal year maturities of the lease liability and related interest expense at December 31, 2025 and 2024, are as follows:

Lease Liability Principal and Interest Requirements to Maturity December 31, 2025			
<u>Fiscal Year Ending</u>	<u>Cash</u>	<u>Interest Expense</u>	<u>Liability Reduction</u>
2026	\$ 392,054	\$ 106,296	\$ 285,758
2027	399,895	92,723	307,172
2028	407,893	78,132	329,761
2029	416,051	62,469	353,582
2030	424,372	45,673	378,699
2031-2032	<u>614,703</u>	<u>31,856</u>	<u>582,847</u>
Total	<u>\$ 2,654,968</u>	<u>\$ 417,149</u>	<u>\$ 2,237,819</u>

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Notes to Financial Statements

For the Years Ended December 31, 2025 and 2024

NOTE 11 LEASE AGREEMENT *(continued)***Lease Liability Principal and Interest
Requirements to Maturity December 31, 2024**

Fiscal Year Ending	Cash	Interest Expense	Liability Reduction
2025	\$ 384,367	\$ 118,906	\$ 265,461
2026	392,054	106,296	285,758
2027	399,895	92,723	307,172
2028	407,893	78,132	329,761
2029	416,050	62,469	353,581
2030-2032	1,039,074	77,529	961,545
Total	\$ 3,039,333	\$ 536,055	\$ 2,503,278

NOTE 12 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 the risk of loss. There was no significant change 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.

NOTE 13 CONTINGENCIES

In July 2013, a group of plaintiffs purporting to represent annuitants in four Chicago public pension funds filed a civil action, *Underwood v. City of Chicago et. al.* (13-CH-17450; 1-17-162356), seeking class certification and an order requiring the City and the defendant pension funds to continue subsidizing annuitant healthcare insurance premiums past the June 30, 2013, statutory expiration date. Following years of litigation, on June 29, 2017, the Illinois Appellate Court issued an order which, in part, affirmed the Circuit Court's dismissal order and held: (i) annuitants did not have a right to lifetime healthcare coverage; and (ii) the subsidies pursuant to the 1983 and 1985 amendments is the sole benefit protected under the pension protection clause of the Illinois Constitution. Accordingly, those eligible annuitants in the Appellate Court expanded class, and as further defined after remand in the Circuit Court's February 28, 2019 order, are entitled to continue to receive the 1983 provided subsidies (related to the police and fire funds) of \$55 per month if non-Medicare eligible and \$21 per month if Medicare eligible. While the plaintiffs continue to raise certain objections, the pension funds nevertheless, in accordance with the rulings made, have commenced payment of the subsidies to those defined eligible annuitants as of January 1, 2017 and thereafter.

REQUIRED SUPPLEMENTARY INFORMATION

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Schedule of Changes in Net Pension Liability

For The Years Ended December 31 - Last 10 Years

(Unaudited)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
<i>Total pension liability</i>										
Service cost, including pension plan administrative expense	\$ 314,750,903	\$ 302,649,657	\$ 267,381,937	\$ 294,469,959	\$ 284,707,281	\$ 286,536,580	\$ 240,383,419	\$ 242,998,341	\$ 237,333,255	\$ 220,569,553
Interest on the total pension liability	1,193,137,687	1,162,637,595	1,062,690,214	1,011,974,984	963,417,573	942,623,431	944,738,703	931,731,201	917,720,267	851,098,457
Benefit changes	157,934,802	(19,007,819)	1,060,152,086	40,209,941	-	-	24,216,420	-	-	606,249,791
Difference between expected and actual experience	124,000,951	(126,016,466)	107,954,996	179,968,529	450,528,053	61,913,883	(68,010,227)	(281,150,986)	(299,923,560)	1,801,353
Assumption changes	21,287,823	68,472,863	40,696,540	(700,064,974)	37,028,703	260,021,116	1,140,418,080	(259,051,713)	238,975,508	112,585,241
Benefit payments	(1,037,945,113)	(1,004,293,187)	(970,707,738)	(926,493,466)	(869,310,502)	(828,901,654)	(791,839,040)	(764,367,368)	(737,873,928)	(696,491,103)
Refunds	(11,718,221)	(11,826,763)	(16,490,937)	(21,096,110)	(17,766,049)	(12,696,058)	(8,828,904)	(6,737,073)	(10,017,655)	(10,704,842)
Pension plan administrative expense	(4,866,304)	(4,625,871)	(4,260,337)	(4,347,951)	(3,384,892)	(4,310,938)	(4,734,467)	(4,626,599)	(4,843,012)	(4,749,762)
Net change in total pension liability	756,582,528	367,990,009	1,547,416,761	(125,379,088)	845,220,167	705,186,360	1,476,343,984	(141,204,197)	341,370,875	1,080,358,688
Total pension liability – beginning	18,130,036,559	17,762,046,550	16,214,629,789	16,340,008,877	15,494,788,710	14,789,602,350	13,313,258,366	13,454,462,563	13,113,091,688	12,032,733,000
Total pension liability – ending (a)	18,886,619,087	18,130,036,559	17,762,046,550	16,214,629,789	16,340,008,877	15,494,788,710	14,789,602,350	13,313,258,366	13,454,462,563	13,113,091,688
<i>Plan fiduciary net position</i>										
Employer contributions	1,112,515,437	1,011,371,037	942,952,523	801,706,005	788,769,979	739,440,979	581,936,012	588,034,930	494,483,191	272,427,716
Employee contributions	127,555,767	121,412,305	115,161,795	114,403,212	136,225,041	113,621,747	110,791,663	107,186,492	103,011,250	101,475,864
Pension plan net investment (loss) income	482,281,228	343,399,862	316,389,490	(324,258,867)	370,141,406	271,890,867	369,982,655	(137,977,182)	412,190,404	142,699,124
Benefit payments	(1,037,945,113)	(1,004,293,187)	(970,707,738)	(926,493,466)	(869,310,502)	(828,901,654)	(791,839,040)	(764,367,368)	(737,873,928)	(696,491,103)
Refunds	(11,718,221)	(11,826,763)	(16,490,937)	(21,096,110)	(17,766,049)	(12,696,058)	(8,828,904)	(6,737,073)	(10,017,655)	(10,704,842)
Pension plan administrative expense	(4,866,304)	(4,625,871)	(4,260,337)	(4,394,051)	(3,384,892)	(4,310,938)	(4,734,467)	(4,626,599)	(4,843,012)	(4,749,762)
Other	145,661	84,714	109,639	367,777	91,594	472,449	32,359	1,600,348	97,239	1,412,770
Net change in plan fiduciary net position	667,968,455	455,522,097	383,154,435	(359,765,500)	404,766,577	279,517,392	257,340,278	(216,886,452)	257,047,489	(193,930,233)
Plan fiduciary net position – beginning	4,325,456,316	3,869,934,220	3,486,779,785	3,846,545,285	3,441,834,044	3,162,428,863	2,905,179,841	3,122,066,293	2,865,018,804	3,058,949,037
Adjustment as of January 1,	(70)	(1)	-	-	(55,336)	(112,211)	(91,256)	-	-	-
Plan fiduciary net position – ending (b)	4,993,424,701	4,325,456,316	3,869,934,220	3,486,779,785	3,846,545,285	3,441,834,044	3,162,428,863	2,905,179,841	3,122,066,293	2,865,018,804
Net pension liability – ending (a)-(b)	\$ 13,893,194,386	\$ 13,804,580,243	\$ 13,892,112,330	\$ 12,727,850,004	\$ 12,493,463,592	\$ 12,052,954,666	\$ 11,627,173,487	\$ 10,408,078,525	\$ 10,332,396,270	\$ 10,248,072,884

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Notes to Schedule of Changes in Net Pension Liability

For the Years Ended December 31, 2025 and 2024

(Unaudited)

Beginning of year total pension liability for 2025 used a Single Discount Rate of 6.66% and the benefit provisions, actuarial assumptions and funding policy in effect as of the December 31, 2024 funding actuarial valuation. The Single Discount Rate of 6.66% was based on a long-term expected rate of return on pension plan investments of 6.75% used in the December 31, 2024, funding actuarial valuation for the years 2024 through 2080 and a long-term municipal bond rate as of December 31, 2024, of 4.08% for subsequent years.

End of year total pension liability for 2025 used a Single Discount Rate of 6.65% and the benefit provisions, actuarial assumptions and funding policy in effect as of the December 31, 2025, funding actuarial valuation. The Single Discount Rate of 6.65% was based on a long-term expected rate of return on pension plan investments of 6.75% used in the December 31, 2025, funding actuarial valuation for the years 2025 through 2078 and a long-term municipal bond rate as of December 31, 2025, of 4.83% for subsequent years.

The increase in the total pension liability for 2025 due to assumption changes and methods includes the impact of changing the actuarial assumptions used in the actuarial valuation, to reflect the results of the experience study performed for the period January 1, 2019 through December 31, 2023, that became effective December 31, 2024, and the change in the municipal bond rate from December 31, 2024 to December 31, 2025. Changes in actuarial assumptions and methods led to the change in the Single Discount Rate to 6.65% from 6.66% (based on the long-term expected rate of return on pension plan investments of 6.75% used in the December 31, 2025 and 2024 funding valuations and the long-term municipal bond rate of 4.83% as of December 31, 2025, and 4.08% as of December 31, 2024). This change was measured at the end of the year using the benefit provisions in effect as of December 31, 2025.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Net Pension Liability
As of December 31 - Last 10 Years
(Unaudited)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability	\$ 18,886,619,087	\$ 18,130,036,559	\$ 17,762,046,550	\$ 16,214,629,789	\$ 16,340,008,877	\$ 15,494,788,710	\$ 14,789,602,350	\$ 13,313,258,366	\$ 13,454,462,563	\$ 13,113,091,688
Plan fiduciary net position	4,993,424,701	4,325,456,316	3,869,934,220	3,486,779,785	3,846,664,456	3,441,946,255	3,162,428,863	2,905,179,841	3,122,066,293	2,865,018,804
Net pension liability	\$ 13,893,194,386	\$ 13,804,580,243	\$ 13,892,112,330	\$ 12,727,850,004	\$ 12,493,344,421	\$ 12,052,842,455	\$ 11,627,173,487	\$ 10,408,078,525	\$ 10,332,396,270	\$ 10,248,072,884
Plan fiduciary net position as a percentage of total pension liability	26.44%	23.86%	21.79%	21.50%	23.54%	22.21%	21.38%	21.82%	23.20%	21.85%
Covered employee payroll	\$ 1,395,916,595	\$ 1,337,506,724	\$ 1,339,703,857	\$ 1,274,049,642	\$ 1,258,338,033	\$ 1,195,980,486	\$ 1,228,986,864	\$ 1,205,324,445	\$ 1,150,406,094	\$ 1,119,526,987
Net pension liability as a percentage of covered employee payroll	995.27%	1032.11%	1036.95%	999.01%	992.84%	1007.78%	946.08%	863.51%	898.15%	915.39%

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Schedule of Contributions—Pension

Last 10 Years

(Unaudited)

<u>Year Ended</u>	<u>Actuarially Determined Contribution (a)*</u>	<u>Actual Contribution (b)</u>	<u>Contribution Deficiency (Excess) (c) = (b)-(a)</u>	<u>Covered Payroll (d)**</u>	<u>Actual Contribution as a % of Covered Payroll (e) = (b)/(d)</u>	<u>Statutory Contribution (f)</u>	<u>Statutory Contribution Deficiency/ (Excess) (g) = (f)-(b)*</u>
12/31/2016	\$ 785,695,084	\$ 273,840,486	\$ 511,854,598	\$ 1,119,526,987	24.46%	\$ 454,844,486	\$ 181,004,000
12/31/2017	910,938,497	494,580,430	416,358,067	1,150,406,094	42.99%	500,000,000	(5,419,570)
12/31/2018	924,653,899	589,635,278	335,018,621	1,205,324,445	48.92%	557,000,000	(32,635,278)
12/31/2019	933,769,914	581,968,371	351,801,543	1,228,986,864	47.35%	579,000,000	(2,968,371)
12/31/2020	1,037,582,236	739,913,428	297,668,808	1,195,980,486	61.87%	737,527,285	(2,386,143)
12/31/2021	1,047,839,052	788,861,573	258,977,479	1,258,338,033	62.89%	786,792,834	(2,068,739)
12/31/2022	1,085,158,790	802,073,782	283,085,008	1,274,049,642	62.95%	799,446,710	(2,627,072)
12/31/2023	1,118,719,268	943,062,162	175,657,106	1,339,703,857	70.39%	851,100,156	(91,962,006)
12/31/2024	1,242,009,627	1,011,455,751	230,553,876	1,337,506,724	75.62%	928,841,536	(82,614,215)
12/31/2025	1,339,134,156	1,112,661,098	226,473,058	1,395,916,595	79.71%	1,042,582,135	(70,078,963)

* The Fund’s Statutory Funding Policy does not conform to Actuarial Standards of Practice; therefore, for fiscal years 2025 and after, the actuarially determined contribution is equal to the normal cost plus unfunded liability amortized over a 25-year closed level dollar period. 25 years were remaining in the amortization period for fiscal year 2025. Prior to 2025, the actuarially determined contribution is equal to the normal cost plus a 30-year level dollar amortization of the unfunded actuarial liability. Prior to 2015, the actuarially determined contribution was equal to the “ARC,” which was equal to the normal cost plus a 30-year open level percent amortization of the unfunded actuarial liability.

** Covered payroll shown is the amount in force as of the actuarial valuation date and likely differs from actual payroll paid during the fiscal year.

POLICEMEN’S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Notes to Schedule of Contributions—Pension

(Unaudited)

Valuation date December 31, 2024

Methods and Assumptions Used for Actuarially Determined Contribution for Fiscal Year 2025

Actuarial cost method	Entry-age normal
Amortization method	Level dollar amount
Amortization period	25-year closed period
Asset valuation method	Five-year smoothed market
Inflation	2.25%
Salary increases	Salary increase rates based on wage inflation rate of 3.5% plus service based increases consistent with bargaining contracts
Postretirement benefit increases	A retiree with at least 20 years of service or receiving a mandatory retirement minimum annuity, receives an increase of 3% of the original annuity, starting on the first of the month following the first anniversary of his retirement or the first of the month following attainment of age 55, whichever is later, and shall not be subject to a maximum increase. For participants who first became members on or after January 1, 2011, increases are equal to the lesser of 3% and 50% of CPI-U of the original benefit, commencing at age 60.
Investment rate of return	6.75%

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Notes to Schedule of Contributions—Pension (*continued*)

(Unaudited)

Methods and Assumptions Used for Actuarially Determined Contribution for Fiscal Year 2025 (*continued*)

Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2024, actuarial valuation pursuant to an experience study for the period January 1, 2019 through December 31, 2023.
Mortality	<p>Post-Retirement Healthy Mortality Rates: Sex Distinct Pub-2010 Amount-weighted Safety Healthy Retiree Mortality Tables weighted 119% for males and 102% for females, set forward one year for males.</p> <p>Pre-Retirement Mortality Rates: Sex Distinct Pub-2010 Amount-Weighted Safety Employee Mortality Tables weighted 100% for males and 100% for females.</p> <p>Disabled Mortality: Sex Distinct Pub-2010 Amount-Weighted Safety Healthy Retiree Mortality Tables weighted 129% for males and 112% for females, set forward one year for males.</p> <p>Future mortality improvements are reflected by projecting the base mortality tables forward using the MP-2021 projection scale.</p>
Other	The actuarially determined contribution for fiscal year ended December 31, 2025, was determined in the funding actuarial valuation as of December 31, 2024, and the statutory contribution (upon which the actual contribution was based) for fiscal year ended December 31, 2025, was determined in the funding actuarial valuation as of December 31, 2023 using the actuarial assumptions and provisions in effect as of December 31, 2023.

Methods and Assumptions Used for Accounting Purposes as of the Valuation Date

Actuarial cost method	Entry-age normal
Asset method	Market value
Discount rate	6.65% as of the December 31, 2025, actuarial valuation 6.66% as of the December 31, 2024, actuarial valuation

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Money-Weighted Rate of Return—Pension
(Unaudited)

<u>Year Ended</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
12/31/16	6.6%
12/31/17	16.7
12/31/18	(5.7)
12/31/19	16.31
12/31/20	12.29
12/31/21	13.80
12/31/22	(10.61)
12/31/23	11.72
12/31/24	10.72
12/31/25	13.85

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Schedule of Changes in Total OPEB Liability – Staff Retiree Healthcare Plan

As of December 31 – Last Eight Years

(Unaudited)

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>Total OPEB liability</i>								
Service cost	\$ 36,603	\$ 38,126	\$ 46,023	\$ 77,143	\$ 95,032	\$ 101,259	\$ 83,294	\$ 93,951
Interest on the total pension liability	29,475	27,164	49,207	27,412	45,221	70,229	82,713	75,485
Changes of benefit terms	-	-	-	-	(1,040,799)	-	-	-
Difference between expected and actual experience of the total OPEB liability	270,199	12,997	(576,267)	(4,155)	169,830	(304,583)	(11,367)	-
Changes of assumption	(48,622)	(23,268)	36,886	(309,594)	45,990	(53,712)	266,289	(101,657)
Benefits payments	<u>(62,228)</u>	<u>(42,729)</u>	<u>(49,974)</u>	<u>(50,250)</u>	<u>(104,769)</u>	<u>(100,933)</u>	<u>(109,992)</u>	<u>(117,063)</u>
Net change in total OPEB liability	<u>\$ 225,427</u>	<u>\$ 12,290</u>	<u>\$ (494,125)</u>	<u>\$ (259,444)</u>	<u>\$ (789,495)</u>	<u>\$ (287,740)</u>	<u>\$ 310,937</u>	<u>\$ (49,284)</u>
Total plan assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total OPEB liability - beginning	<u>\$ 735,107</u>	<u>\$ 722,817</u>	<u>\$ 1,216,942</u>	<u>\$ 1,476,386</u>	<u>\$ 2,265,881</u>	<u>\$ 2,553,621</u>	<u>\$ 2,242,684</u>	<u>\$ 2,291,968</u>
Total OPEB liability - ending	<u>\$ 960,534</u>	<u>\$ 735,107</u>	<u>\$ 722,817</u>	<u>\$ 1,216,942</u>	<u>\$ 1,476,386</u>	<u>\$ 2,265,881</u>	<u>\$ 2,553,621</u>	<u>\$ 2,242,684</u>
Covered-employee payroll	<u>\$ 1,523,496</u>	<u>\$ 1,449,780</u>	<u>\$ 1,341,633</u>	<u>\$ 1,562,786</u>	<u>\$ 1,690,071</u>	<u>\$ 1,639,092</u>	<u>\$ 1,492,077</u>	<u>\$ 1,630,338</u>
Total OPEB liability as a percentage of covered-employee payroll	63.05%	50.70%	53.88%	77.87%	87.36%	138.24%	171.15%	137.56%

The above information is required beginning in 2018. Information for the next two years will be presented in future years.

There are no assets accumulated in a trust to pay related OPEB benefits.

SUPPLEMENTARY INFORMATION

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Schedule of Administrative Expenses

For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<i>Administrative expenses</i>		
Actuary services	\$ 95,450	\$ 115,750
Benefits disbursement	370,906	241,382
Equipment service and rent	90,956	73,438
External auditors	69,525	123,640
Fiduciary insurance	209,117	202,658
Legal services	714,697	543,854
Medical consultants	331,582	422,526
Miscellaneous	132,738	144,495
Pension administration	179,200	148,320
Occupancy and utilities	414,054	454,507
Personnel salaries and benefits	2,252,640	2,103,236
Postage	-	7,500
Supplies	5,438	3,602
Trustee election	-	41,033
Total administrative expenses	<u>\$ 4,866,303</u>	<u>\$ 4,625,941</u>

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Schedule of Consulting Costs

For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<i>Payments to consultants</i>		
External auditors	\$ 69,525	\$ 123,640
Medical consultants	331,582	422,526
Legal services	714,697	543,854
Actuary service	95,450	115,750
Investment management fees	8,705,263	8,034,176
Custodial fees	368,380	225,871
Investment consulting and other fees	429,806	419,323
Total consulting costs	<u>\$ 10,714,703</u>	<u>\$ 9,885,140</u>

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Schedule of Investment Fees

For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<i>Investment managers</i>		
Acadian Asset Manager	\$ 838,834	\$ 736,955
Ariel Capital Management	481,292	463,389
Artisan Partners	708,195	593,039
Blackrock	56,416	91,295
BMO Asset Management	662,748	570,989
Earnest Partners	873,732	775,400
Garcia Hamilton	170,618	154,938
Great Lakes Advisors	426,048	388,625
Hudson/HGK Asset Management	178,746	203,939
Lazard Asset Management	455,492	402,189
Manulife Asset Management	83,431	82,312
National Investment Services	519,988	490,718
Pluscios Management, LLC	320,620	290,523
UBS Global Asset Management	492,864	431,164
UBS Realty Investors	64,210	72,550
Ullico Infrastructure Fund	1,004,195	919,552
Voya Collective Trust	67,143	57,375
Wellington Management	222,490	219,931
William Blair & Co.	967,132	990,129
Xponance	111,069	99,164
Total investment manager fees	<u>8,705,263</u>	<u>8,034,176</u>
<i>Investment consultants and other</i>		
NEPC LLC	429,806	419,323
Total investment consultants and other	<u>429,806</u>	<u>419,323</u>
<i>Master custodian</i>		
The Northern Trust Company	368,380	225,871
Total investment fees	<u><u>\$ 9,503,449</u></u>	<u><u>\$ 8,679,370</u></u>

