

MUNICIPAL EMPLOYEES' ANNUITY  
& BENEFIT FUND OF CHICAGO

(A Component Unit of the  
City of Chicago)

FINANCIAL REPORT

DECEMBER 31, 2010 AND 2009

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO  
(A Component Unit of the City of Chicago)

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# BANSLEY AND KIENER, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

The Retirement Board  
Municipal Employees' Annuity & Benefit Fund  
of Chicago  
Chicago, Illinois

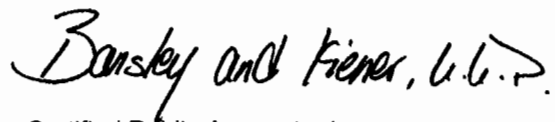
We have audited the statements of plan net assets of Municipal Employees' Annuity & Benefit Fund of Chicago (the Plan), a Component Unit of the City of Chicago, as of December 31, 2010 and 2009, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Municipal Employees' Annuity & Benefit Fund of Chicago as of December 31, 2010 and 2009, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the schedules of funding progress and employer contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of administrative expenses, investment management compensation, and professional and consulting costs are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

April 15, 2011

## Management's Discussion and Analysis as of December 31, 2010

This Management Discussion and Analysis (MD&A) of the Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF" or the "Plan") provides a narrative overview and analysis of the financial activities of MEABF for the year ended December 31, 2010. Readers are encouraged to read the MD&A in conjunction with the financial statements to better understand the financial condition and performance of MEABF during the year ended December 31, 2010.

### Financial Highlights

- MEABF's investment portfolio returned, net of fees, 13.7 percent for 2010 (benchmark return of 13.3 percent) compared to a 19.4 percent return in 2009 (benchmark return of 18.4 percent) and -28.7 percent return in 2008 (benchmark return of -23.8 percent). Total return for the portfolio in 2010 exceeded the 8.0 percent actuarial assumed investment rate of return.
- Plan net assets held in trust reported in the Statement of Plan Net Assets total \$5,435.6 million, an increase of \$269.4 million or 5.2 percent from the prior year.
- Total additions as reported in the Statement of Changes in Plan Net Assets total \$936.1 million.
- Total deductions as reported in the Statement of Changes in Plan Net Assets total \$666.8 million, an increase of \$26.1 million.
- As of the December 31, 2010 actuarial valuation, the total Plan's Unfunded Actuarial Accrued Liability (UAAL) for both pension plan and post-employment healthcare subsidy increased to \$6.049 billion in 2010 from \$4.759 billion in the prior year. The increase in the UAAL is mainly attributable to an increase in the Actuarial Accrued Liability due to implementing updated assumptions that were recommended in the most recent experience study, deferred recognition of investment losses from 2007 and 2008, and continued contribution shortfalls relative to the actuarially determined contribution requirement.
- The net annual required contribution (ARC) for pension benefits only under Governmental Accounting Standards Board (GASB) Statement #25 for 2010 was \$483.9 million, and the employer contributed 32.0 percent or \$154.8 million in 2010. A calculation of a separate ARC for post-employment healthcare supplement is mandated by GASB #43 beginning in fiscal year 2006. The ARC for post-employment healthcare subsidy for 2010 was \$23.0 million, and the employer contributed 41.6 percent or \$9.5 million in 2010. State statutes limit employer contributions.
- On an actuarial value of assets basis, which smoothes gains and losses over a five-year period, the funding ratio for defined pension and post-employment healthcare subsidy decreased to 49.8 percent in 2010 from 57.0 percent in 2009 and 62.9 percent in 2008. The decrease in 2010 is mainly attributable to the same influences noted above for UAAL.

### Overview of the Financial Statements

This discussion and analysis serves as an introduction to the financial statements that consists of the following components:

The statement of plan net assets reports MEABF's assets at fair value or cost. Liabilities are reported at amounts owed as of the statement date; and the resulting net plan assets (assets less liabilities = net plan assets) at the calendar year end held in trust to pay future benefits to retirees and beneficiaries.

The statement of changes in plan net assets shows the results of financial activities that occurred during the calendar year. It discloses the additions to plan net assets such as contributions and net investment income, and deductions from plan net assets such as benefit payments and administrative expenses. The resulting net increase (or decrease) in plan assets (additions less deductions = net increase (or decrease) in plan assets) reflects the change in the value of plan net assets reported in the statements of plan net assets from the prior year to the current year.

The notes to the financial statements are an integral part of the financial statements and include additional information and schedules to provide a better understanding of the data provided in the financial statements.

The required supplementary information that follows the notes to the financial statements is required by GASB. It includes required schedule of funding progress and schedule of employer contributions as well as related disclosures. These schedules are based on the actuarial valuations and contribute to an understanding of the funding progress over the last six years. Additional supplemental schedules include information regarding administrative expenses, consulting costs and investment management fees incurred by MEABF.

## Financial Analysis

### Plan Net Assets

Plan net assets as of December 31, 2010 showed a total plan net assets held in trust for pension and healthcare subsidy benefits of \$5,435.6 million, compared to \$5,166.2 million in 2009 and \$4,739.6 million in 2008. Plan net assets increased by \$269.4 million or 5.2 percent from 2009 mainly due to the appreciation in the fair value of investments in 2010. The value of securities on loan, shown both as assets and liabilities at year-end, decreased to \$638.4 million in 2010 from \$660.7 million in 2009 and were \$543.2 million in 2008.

### Plan Net Assets (\$ in millions) (as of December 31, 2010, 2009 and 2008)

	2010	2009	2008	Increase (Decrease) From 2009 to 2010	
				\$ Change	% Change
Cash, receivables and other assets	\$ 234.3	\$ 241.3	\$ 234.6	\$ (7.0)	-2.9%
Investments, at fair value	5,292.2	5,042.5	4,673.5	249.7	5.0%
Invested securities lending collateral	638.4	660.7	543.2	(22.3)	-3.4%
<i>Total assets</i>	6,164.9	5,944.5	5,451.3	220.4	3.7%
Liabilities	729.3	778.3	711.7	(49.0)	-6.3%
<b>Total plan net assets</b>	<b>\$5,435.6</b>	<b>\$5,166.2</b>	<b>\$4,739.6</b>	<b>\$ 269.4</b>	<b>5.2%</b>

### Summary of Investments as of December 31 (\$ in millions)

	FY 2010	FY 2009	FY 2008	Increase/(Decrease) From 2009 to 2010	
				\$ Change	% Change
Bonds	\$ 1,261.0	\$ 1,140.2	\$ 1,360.4	\$ 120.1	10.5%
Domestics equity	1,684.7	1,620.2	1,814.0	64.5	4.0%
International equity	1,188.5	1,119.0	722.5	69.5	6.2%
Hedged equity	500.4	474.3	-	26.1	5.5%
Real estate	262.9	212.0	318.4	50.9	24.0%
Private equity	166.7	130.4	131.2	36.3	27.8%
Short-term investments	228.0	346.4	327.0	(118.4)	-34.2%
	<b>\$ 5,292.2</b>	<b>\$ 5,042.5</b>	<b>\$ 4,673.5</b>	<b>\$ 249.7</b>	<b>5.0%</b>

Due to positive investment performance, MEABF's investment portfolio increased by 249.7 million in 2010, closing the year at \$5,292.2 million compared to \$5,042.5 million in 2009 and \$4,673.5 million in 2008. The growth in assets would have been significantly higher if approximately \$375.0 million in portfolio assets were not liquidated to supplement the benefit payments during the year. Per asset class, domestic equity reflected strong returns, increasing by \$63.8 million in 2010. International equity increased by \$69.5 million due to strong performance, especially in emerging markets. Early in 2009, MEABF allocated a 10% position to hedged equity, a new asset class, to help reduce downside risk within the portfolio. Fixed income securities increased by \$121.5 million due to performance and additional monies added to the asset class to remain consistent with targets. Holdings in real estate increased by \$50.9 million due to increases in property appraisals and additional funding during the year.

**Additions and Deductions to Plan Net Assets** (\$ in millions)  
(Years ended December 31, 2010, 2009 and 2008)

	2010	2009	2008	Increase (Decrease) From 2009 to 2010	
				\$ Change	% Change
<b>Additions:</b>					
Employer contributions	\$ 164.3	\$ 157.7	\$ 155.8	\$ 6.6	4.2%
Member contributions	<u>133.3</u>	<u>131.0</u>	<u>137.7</u>	<u>2.3</u>	1.8%
Total contributions	297.6	288.7	293.5	8.9	3.1%
Net investment income (loss)	631.3	750.5	(1,900.1)	(119.2)	-15.9%
Net security lending income (loss)	<u>7.3</u>	<u>28.0</u>	<u>(47.4)</u>	<u>(20.8)</u>	-74.3%
<b>Total additions</b>	<b><u>936.2</u></b>	<b><u>1,067.2</u></b>	<b><u>(1,654.0)</u></b>	<b><u>(131.1)</u></b>	<b>-12.3%</b>
<b>Deductions:</b>					
Annuity and disability benefits	620.6	595.1	573.7	25.5	4.3%
Healthcare subsidy for City and BE retirees	9.5	9.7	9.0	(0.2)	-2.1%
Refunds of contributions	29.9	28.1	25.5	1.8	6.4%
Administrative and OPEB expense	<u>6.8</u>	<u>7.7</u>	<u>7.7</u>	<u>(1.0)</u>	-13.0%
<b>Total deductions</b>	<b><u>666.8</u></b>	<b><u>640.6</u></b>	<b><u>615.9</u></b>	<b><u>26.1</u></b>	<b>4.1%</b>
<b>Net increase (decrease)</b>	<b>269.4</b>	<b>426.6</b>	<b>(2,269.9)</b>	<b>(157.2)</b>	<b>-36.8%</b>
Net assets at beginning of year	<u>5,166.2</u>	<u>4,739.6</u>	<u>7,009.5</u>	<u>426.6</u>	9.0%
<b>Ending net assets</b>	<b><u>\$5,435.6</u></b>	<b><u>\$5,166.2</u></b>	<b><u>\$4,739.6</u></b>	<b><u>\$ 269.4</u></b>	<b>5.2%</b>

### Additions

Employer contributions increased by \$6.6 million in 2010 to \$164.3 million from \$157.7 million in 2009 and \$155.8 million in 2008. Employer contributions are statutorily set at 1.25 times the employee contribution level in the second prior fiscal year.

Active members are required to contribute 8.5% of their salary, which is remitted to MEABF semi-monthly or bi-weekly. Member contributions totaled \$133.3 million in 2010, compared to \$131.0 million in 2009 and \$137.7 million in 2008. The increase is primarily attributable to purchases of permissive service credits totaling \$7.4 million in 2010, compared to \$4.8 million in 2009. While member contributions from City payroll decreased by \$1.9 million due to resignations, layoffs and furloughs, contributions from the Board of Education increased by \$1.3 million due to salary increases.

The economy continued to rebound in 2010, and MEABF investment portfolio yielded investment income of \$631.3 million, from \$750.5 million in 2009 and a -\$1,900.1 million loss in 2008. Investment income is presented net of investment fees and is comprised of realized and unrealized investment gains and losses, interest and dividends. Income from interest and dividends slightly decreased to \$108.7 million in 2010 as interest rates remained low and quarterly dividends were cut. The investment portfolio is managed by external investment managers whose fees are based on asset performance. Direct investment fees increased to \$24.0 million in 2010 from \$20.8 million in 2009 and \$22.4 million in 2008.

MEABF can earn additional investment income by allowing a provider to lend their securities to borrowers on their behalf. The borrower provides collateral on borrowed securities, which is invested in order to earn interest. Securities lending activities reflected a net gain of \$7.2 million in 2010 compared to a gain of \$28.1 million in 2009 and a loss of -\$47.4 million in 2008.

### Deductions

MEABF's assets are primarily used to pay annuity, postemployment healthcare subsidies, disability benefits, refunds of contributions to terminated employees and the costs of administering the Plan. Annuity and disability benefits increased by 4.3% to \$620.6 million from \$595.1 million in 2009 and \$573.7 million in 2008 primarily due to annual cost

of living increases for annuities, increase in the number of new retirees, and slightly higher disability and survivor benefits. Post-employment healthcare subsidy benefits slightly decreased to \$9.5 million in 2010 from \$9.7 million in 2009 and \$9.0 million in 2008. Refunds of contributions increased to \$29.9 million, \$1.8 million increase or 6.4 percent from \$28.1 million in 2009 and \$25.5 million in 2008.

Administrative expenses decreased by \$ 1.0 million to \$6.7 million in 2010, from \$7.7 million in 2009 and \$7.7 million in 2008. The decrease is primarily due to higher depreciation in 2009 for an asset that was retired in 2009, the Pension Administration system developed by Watson Wyatt.

### ***Securities Lending***

The Plan's custodian is utilized for securities lending services and is authorized by contract to invest the collateral received on loaned securities in approved commingled short-term investment funds. After a tumultuous credit market in 2008 and into 2009, collateral exposed to severely depressed securities began to dissipate. As of the end of 2010, the Plan's liability based on collateral pool losses were reduced significantly from 2008, \$10.7 million compared to \$47.4 million. In early 2011, the Retirement Board voted to cap the Plan's utilization of securities lending by incorporating a 20% cap of lendable securities exposed to cash collateral, and a 30% cap of lendable securities exposed to cash and non-cash collateral.

### ***Economic Factors and Rates of Return***

After historic market declines in 2008 and the first part of 2009, markets began to turnaround, achieving a strong annual return for 2009. FY 2010 was a year of volatile equity returns, but finished strongly in the fourth quarter, helping provide double-digit returns for most diversified investors. The year was led by small and mid-cap domestic stocks and the international emerging markets, whose indexes achieved returns in the mid twenties and high teens, respectively. Overall, domestic markets outperformed international markets, achieving returns in the high teens compared to high single digits. Fixed income investments, represented by a domestic aggregate index, returned a respectable 6.5% for the year.

### ***Actuary Valuation and Funding Status Information***

The funding status of MEABF determines whether Plan Net Assets will be sufficient to meet future obligations. The funding status of MEABF is measured by a comparison of MEABF's actuarial liabilities to assets expressed as either unfunded liability or as a ratio of assets to liabilities. Actuarial liabilities represent the present value of future benefit payments to retirees and beneficiaries currently receiving payments and the value of future payments for active employees who will receive benefits in the future, calculated based on actuarial assumptions. Plan assets can be measured at market value, book value or some variation to smooth the fluctuations that occur from year to year. One method of valuing assets is the Actuarial Value of Assets, a method used by MEABF's independent actuary in performing their annual valuation of MEABF. This measurement smoothes actuarial gains and losses over a period of time and volatile market conditions are recognized over several years. The amount by which the value of future benefit payments for active and retired lives (actuarial liabilities) exceeds the actuarial values of assets is called the "Unfunded Actuarial Accrued Liability", which can be thought of as the amount of additional assets needed to provide for all future benefit obligations.

MEABF's independent actuary, Gabriel Roeder Smith & Company, performed an actuarial valuation as of December 31, 2010. The latest actuarial valuation shows a \$1,290.3 million increase in the Unfunded Accrued Actuarial Liability (UAAL) for the Plan to \$6,048.8 million from \$4,758.5 million in 2009 and \$3,936.3 million in 2008. The funded ratio of the actuarial assets to the actuarial accrued liability decreased to 49.8 percent from 57.0 percent in 2009 and 62.9 percent in 2008. The decrease in the funded ratio is mainly attributable to an increase in the Actuarial Accrued Liability due to implementing updated assumptions that were recommended in the most recent experience study, including reductions to the net plan assets primarily due to the recognition of deferred investment losses from 2007 and 2008, and a shortfall in contributions relative to the actuarially determined contribution requirement. Future decreases in the funded ratio are expected if contributions continue to fall short of the actual requirements for financing the Plan.

State law sets employer and member contribution rates. Members are required to contribute 8.5 percent of their salary. The employer is required to contribute the remaining amount necessary to finance MEABF's funding requirements. However, state law mandates the employer contribution to be 1.25 times the employee contributions level in the second prior fiscal year. The most recent actuarial valuation of MEABF shows a multiple of 4.92 current contributions is needed to adequately finance the Plan. We expect the Illinois General Assembly to address funding issues in 2011.

***Subsequent Events***

The markets have been stable overall during the first quarter of 2011. The Plan has returned approximately 3.5% for the first quarter of 2011.

**Request for Information**

Additional information is available upon request. Please direct your request to Mr. Terrance R. Stefanski, Executive Director, Municipal Employees' Annuity and Benefit Fund of Chicago, 321 N. Clark Street, Suite 700, Chicago, IL 60654.

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MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO  
(A Component Unit of the City of Chicago)

STATEMENTS OF PLAN NET ASSETS  
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 1,627,516	\$ 1,626,601
Receivables		
Contributions from the City of Chicago, net of allowance for loss of \$17,478,246 in 2010 and \$16,653,240 in 2009	180,160,852	163,372,905
Member contributions	8,756,655	9,133,718
Interest and dividends	15,509,213	14,573,930
Receivables for investments sold	26,341,053	50,975,416
Miscellaneous	286,805	200,264
Total receivables	<u>231,054,578</u>	<u>238,256,233</u>
Investments, at fair value		
Bonds	1,261,024,447	1,140,211,398
Hedged equity	500,381,049	474,261,684
Domestic and international equity	2,873,117,430	2,739,253,825
Real estate	262,935,715	211,954,175
Other investments	166,742,727	130,410,012
Short-term investments	227,974,582	346,362,717
Total investments	<u>5,292,175,950</u>	<u>5,042,453,811</u>
Invested securities lending collateral	<u>638,411,775</u>	<u>660,716,314</u>
Property and equipment, net of accumulated depreciation and amortization of \$1,387,799 in 2010 and \$942,596 in 2009	<u>1,628,050</u>	<u>1,422,398</u>
Total assets	<u>6,164,897,869</u>	<u>5,944,475,357</u>
LIABILITIES		
Payables for investments purchased	71,720,841	90,859,598
Accounts payable and accrued expenses	6,397,006	5,963,238
Securities lending collateral	638,411,775	660,716,314
Securities lending earnings shortfall	10,729,730	19,271,050
OPEB liability	2,045,095	1,440,663
Total liabilities	<u>729,304,447</u>	<u>778,250,863</u>
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 29)	<u>\$ 5,435,593,422</u>	<u>\$ 5,166,224,494</u>

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

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO  
(A Component Unit of the City of Chicago)

STATEMENTS OF CHANGES IN PLAN NET ASSETS  
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Additions		
Contributions from the City of Chicago	\$ 164,302,005	\$ 157,697,608
Member contributions	<u>133,299,542</u>	<u>130,980,605</u>
Total contributions	<u>297,601,547</u>	<u>288,678,213</u>
Investment income		
Net appreciation in fair value of investments	537,395,238	654,949,936
Interest	51,084,149	51,623,726
Dividends	57,590,111	57,397,754
Income from real estate investments	<u>9,254,856</u>	<u>7,301,596</u>
	655,324,354	771,273,012
Less investment expenses	<u>23,998,001</u>	<u>20,798,656</u>
Net income from investing activities	<u>631,326,353</u>	<u>750,474,356</u>
Security lending activities		
Securities lending income	9,537,856	34,638,880
Borrower rebates	(519,647)	468,466
Bank fees	<u>(1,775,571)</u>	<u>(7,019,082)</u>
Net income from securities lending activities	<u>7,242,638</u>	<u>28,088,264</u>
Other income	<u>24,435</u>	<u>-</u>
Total additions	<u>936,194,973</u>	<u>1,067,240,833</u>
Deductions		
Benefits		
Annuity payments	607,540,457	583,436,041
Disability benefits	13,041,253	11,682,652
Contribution of insurance premiums	<u>9,549,685</u>	<u>9,651,118</u>
Total benefits	630,131,395	604,769,811
Refund of member contributions	29,949,703	28,094,365
Administrative and OPEB expenses	<u>6,744,947</u>	<u>7,765,918</u>
Total deductions	<u>666,826,045</u>	<u>640,630,094</u>
Net increase	269,368,928	426,610,739
Net assets held in trust for pension benefits		
Beginning of year	<u>5,166,224,494</u>	<u>4,739,613,755</u>
End of year	<u>\$ 5,435,593,422</u>	<u>\$ 5,166,224,494</u>

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

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

NOTES TO FINANCIAL STATEMENTS

## Note 1 – Summary of Significant Accounting Policies

*Reporting Entity*

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based upon the required criteria, the Plan has no component units. The Plan is considered a component unit fund of the City of Chicago and, as such, is included in the City of Chicago's financial statements. Accordingly, these financial statements present only Municipal Employees' Annuity & Benefit Fund of Chicago and are not intended to present fairly the financial position of the City of Chicago and the result of its operations in conformity with generally accepted accounting principles.

*Basis of Accounting*

The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized in the period when due, pursuant to formal commitments as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

*Investments*

The Plan is authorized to invest in bonds, notes, and other obligations of the U.S. Government; corporate debentures and obligations; insured mortgage notes and loans; common and preferred stocks; stock options; real estate; and other investment vehicles as set forth in the Illinois Compiled Statutes. Income on all investments is recognized on the accrual basis. Gains and losses on sales and exchanges of investments are recognized on the transaction date of such sale or exchange. Dividend income is recognized based on dividends declared.

Investments are reported at fair value. Fair values of securities are based primarily on quotations from national security exchanges. Investments in short-term obligations are carried at cost which approximates fair value. Certain short-term obligations, such as United States Treasury Bills and discount paper, are carried at fair value. Fair values for bonds and stocks are determined by quoted market prices. Fair values of hedged equity investments are determined using quoted market prices of underlying funds, when available. If quoted market prices are not available, then fair value is determined by underlying fund managers. Fair values of real estate and commingled real estate are based upon annual independent appraisals. Fair value of Private Equity investments are primarily based on the lesser of cost or the general partner determined fair value.

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

NOTES TO FINANCIAL STATEMENTS

## Note 1 – Summary of Significant Accounting Policies (continued)

*Derivatives*

During the year ended December 31, 2010, the Plan adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The objective of this pronouncement is to enhance the usefulness and comparability of derivative information reported in the financial statements.

The implementation of GASB 53 had no impact on the Plan's financial statements for the years ended December 31, 2010 and 2009, as the change in the fair value of derivative instruments were recorded in the accompanying financial statements.

*Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand and on deposit with the Treasurer of the City of Chicago as well as investments held by the City Treasurer on behalf of the Plan with original maturities of 90 days.

*Administrative Expenses*

Administrative expenses are budgeted and approved by MEABF's Board of Trustees. Funding for these expenses is included in the employer contributions as mandated in the Illinois State Statutes Chapter 40, Pension Article 5/8-190.

*Evaluation of Subsequent Events*

Management has evaluated subsequent events through April 15, 2011, the date the financial statements were available to be issued.

*Recently Issued Accounting Pronouncements*

During the year ended December 31, 2010, the Plan adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These pronouncements have no impact on the Plan's net assets.

## Note 2 – Deposits and Investments

Deposits that are held locally in the Plan's name are held by the Treasurer of the City Chicago, ex-officio Treasurer of the Plan. At December 31, 2010 and 2009, the Plan's book balances of cash are \$1,627,516 and \$1,626,601 respectively. The actual bank balances at December 31, 2010 and 2009 are \$1,627,116 and \$1,626,301 respectively. All non-investment related bank balances at year end are insured or collateralized at 110% of the principal amount.

Custodial credit risk is the risk that, in the event of a financial institution failure, the Plan will not be able to recover deposits or collateral securities that are in possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by deposit insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Plan's name. The Plan does not have a formal policy relating to custodial risk. As of December 31, 2010 and 2009, \$18,470,332 and \$9,676,148 of the Plan's deposits with its custodian Northern Trust was exposed to custodial credit risk.

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO  
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NOTES TO FINANCIAL STATEMENTS

Note 2 – Deposits and Investments (continued)

Certain Plan investments are held by a bank administered trust fund. There were no investments representing 5% or more of the Plan's net assets as of December 31, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Investments At Fair Value As Determined		
By Quoted Price		
Bonds	\$1,261,024,447	\$1,140,211,398
Domestic and international equity	<u>2,873,117,430</u>	<u>2,739,253,825</u>
	<u>4,134,141,877</u>	<u>3,879,465,223</u>
Investments at Fair Value As Determined		
By Plan Administrator		
Hedged equity	500,381,049	474,261,684
Real estate	262,935,715	211,954,175
Private equity	166,742,727	130,410,012
Short-term investments	<u>227,974,582</u>	<u>346,362,717</u>
	<u>1,158,034,073</u>	<u>1,162,988,588</u>
Total investments	<u>\$5,292,175,950</u>	<u>\$5,042,453,811</u>

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO  
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NOTES TO FINANCIAL STATEMENTS

Note 2 – Deposits and Investments (continued)

*Foreign Currency Risk*

The Plan's exposure to foreign currency risk at December 31, 2010 was as follows:

<u>Currency</u>	<u>Market Value</u>	<u>Percentage</u>
Australian Dollar	\$ 70,206,659	6.02%
Brazilian Real	34,091,038	2.92%
Canadian Dollar	77,604,823	6.66%
Swiss Franc	62,418,553	5.35%
Chilean Peso	2,903,690	0.25%
Columbian Peso	723,766	0.06%
Czech Koruna	383,162	0.03%
Danish Krone	13,862,938	1.19%
Egyptian Pound	1,426,866	0.12%
Euro	227,532,868	19.51%
British Pound Sterling	174,991,031	15.01%
Hong Kong Dollar	73,988,447	6.35%
Hungarian Forint	346,148	0.03%
Indonesian Rupiah	11,866,381	1.02%
New Israeli Shekel	6,238,207	0.53%
Indian Rupee	25,979,309	2.23%
Japanese Yen	221,668,806	19.01%
South Korean Won	25,865,271	2.22%
Mexican Peso	18,556,736	1.59%
Malaysian Ringgit	8,469,908	0.73%
Moroccan Dirham	192,042	0.02%
New Zealand Dollar	1,852,157	0.16%
Norwegian Krone	12,164,667	1.04%
Philippine Peso	476,908	0.04%
Polish Zloty	1,474,415	0.13%
Swedish Krona	27,898,256	2.39%
Singapore Dollar	17,730,876	1.52%
Thai Baht	5,025,086	0.43%
Turkish Lira	4,701,192	0.40%
New Taiwan Dollar	17,840,946	1.53%
South African Rand	<u>17,579,289</u>	<u>1.51%</u>
Total	<u>\$1,166,060,443</u>	<u>100.00%</u>

All foreign currency-denominated investments are in equities and foreign cash. The Plan does not have a formal policy relating to foreign currency risk.

**MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO**  
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**NOTES TO FINANCIAL STATEMENTS**

Note 3— Deposits and Investments (continued)

*Interest Rate Risk*

As of December 31, 2010, the Plan had the following investments and maturities:

Security Type	Total Fair Value	Less than 1 year	1-6 years	6-10 years	10 or more years	Maturity Not Determined
Asset backed	\$ 43,905,144	\$ -	\$ 2,557,106	\$ 703,928	\$ 40,644,110	\$ -
Bank loans	86,925,640	1,012,331	73,356,349	12,556,960	-	-
Collateralized bonds	35,593	-	-	-	35,593	-
Commercial mortgage backed	31,410,224	-	-	-	31,410,224	-
Corporate bonds	414,082,951	5,085,625	202,256,857	164,518,162	42,222,307	-
Corporate convertible bonds	1,136,588	-	895,388	-	241,200	-
Government agencies	123,183,066	2,297,608	103,752,869	15,596,854	1,535,735	-
Government bonds	261,668,099	14,235,899	145,993,507	82,659,593	18,779,100	-
Government mortgage backed	229,738,364	-	346,132	15,569,505	198,516,675	15,306,052
Guaranteed Fixed Income	6,923,280	-	6,923,280	-	-	-
Index linked government bonds	10,747,946	-	-	10,747,946	-	-
Municipal / provincial bonds	24,753,685	-	-	15,973,337	8,780,348	-
Non-government backed CMO's	27,650,456	-	-	-	27,650,456	-
Short term bills and notes	29,998,890	29,998,890	-	-	-	-
Short term investment funds	<u>167,496,052</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,496,052</u>
<b>Total</b>	<b><u>\$1,459,655,978</u></b>	<b><u>\$52,630,353</u></b>	<b><u>\$536,081,488</u></b>	<b><u>\$318,326,285</u></b>	<b><u>\$369,815,748</u></b>	<b><u>\$182,802,104</u></b>

The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rate risk.

**MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO**

(A Component Unit of the City of Chicago)

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

Note 2- Deposits and Investments (Continued)

Credit Risk

The following table reflects credits ratings of fixed income securities held by the Plan as of December 31, 2010:

S&P Credit Rating	Fair Value	Asset Backed Securities	Bank Loans	Collateralized Bonds	Comm'l Mortgage Backed	Corporate Bonds	Corporate Convertible Bonds*	Gov't Agencies	Gov't Bonds	Gov't Mortgage Backed	Guaranteed Fixed Income	Index Linked Gov't Bonds	Municipal/ Provincial Bonds	Non- Gov't Backed CMOs
TSY	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
AGY	234,101	-	-	-	-	-	-	5,243	16,985	-	-	-	-	-
AAA	394,826	2,784	-	-	4,438	-	-	117,690	243,683	228,858	6,923	10,748	8,026	413
AA+	12,997	6,920	-	-	92	4,718	-	-	-	-	-	-	1,267	-
AA	17,057	7,188	-	-	439	7,082	-	-	-	-	-	-	125	2,223
AA-	30,071	4,505	-	-	527	19,549	-	-	-	-	-	-	5,285	205
A+	14,751	2	-	-	6,034	8,489	-	-	-	-	-	-	226	-
A	80,033	151	-	-	2,843	75,840	-	-	-	-	-	-	-	1,199
A-	54,588	-	-	-	4,955	48,853	-	-	-	-	-	-	780	-
BBB+	70,447	3,301	-	-	3,943	62,648	-	-	-	-	-	-	-	555
BBB	45,949	2,584	-	-	311	43,054	-	-	-	-	-	-	-	-
BBB-	50,663	-	-	-	3,007	47,580	-	-	-	-	-	-	-	96
BB+	15,214	3,833	632	-	-	10,749	-	-	-	-	-	-	-	-
BB	18,012	-	3,053	-	-	14,712	-	-	-	-	-	-	-	247
BB-	17,191	1,034	3,044	-	197	12,916	-	-	-	-	-	-	-	-
B+	26,509	-	5,725	-	-	19,246	-	-	-	-	-	-	-	1,538
B	28,660	152	8,261	-	-	19,136	-	-	-	-	-	-	-	1,111
B-	11,939	313	470	-	46	7,176	500	-	-	-	-	-	-	3,434
CCC+	4,277	-	-	36	-	4,241	-	-	-	-	-	-	-	-
CCC	13,419	5,220	-	-	-	1,366	-	-	-	-	-	-	-	6,833
CCC-	1,007	-	940	-	-	67	-	-	-	-	-	-	-	-
CC	6,614	881	-	-	-	179	-	-	-	-	-	-	-	5,554
D	6,484	5,035	-	-	-	-	-	-	-	-	-	-	-	1,449
NR	90,347	2	64,801	-	4,578	6,482	637	250	1,000	759	-	-	9,045	2,793
<b>Total</b>	<b>\$1,262,161</b>	<b>\$ 43,905</b>	<b>\$ 86,926</b>	<b>\$ 36</b>	<b>\$ 31,410</b>	<b>\$414,083</b>	<b>\$ 1,137</b>	<b>\$123,183</b>	<b>\$261,668</b>	<b>\$ 229,738</b>	<b>\$ 6,923</b>	<b>\$10,748</b>	<b>\$ 24,754</b>	<b>\$27,650</b>

TSY = Treasury Issue

AGY = Agency Issue

NR = Not Rated

\* Included in Domestic and International Equity

The Plan does not have a formal policy in regards to aggregate credit quality of fixed income holdings. The Plan utilizes external investment management firms to invest in fixed income securities and credit quality is addressed within the guidelines of the mandate. Unless allowed by the mutually agreed upon guidelines of the mandate, all securities invested in are investment grade. If a holding falls below investment grade, the manager will either sell the security or will inform the Plan of the lower rating and why they believe that it is prudent to continue to hold the security as they believe that the security will return to investment grade.

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO

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NOTES TO FINANCIAL STATEMENTS

## Note 3 – Derivatives

The derivative instruments were recorded at fair value as of December 31, 2010 and 2009. Derivative instruments include forward foreign exchange contracts. Derivative transactions 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 market prices or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The Plan's investment managers may invest in derivatives if permitted by the guidelines of their mandate. To date, derivative utilization has been limited to securities utilized by certain investment managers investing in foreign markets for the purpose of hedging against fluctuations in the exchange rate.

*Forward Foreign Exchange Contracts*

A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counter parties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. Forwards are usually traded over-the-counter. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuation and to facilitate trade settlement of foreign security transactions. Forwards carry market risk resulting from adverse fluctuations in foreign exchange rates. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorable or unfavorable to the contract holder upon termination of the contract. Prior to termination of the contract, the Plan records the unrealized currency translation gain or loss based on the applicable forward exchange rates. The fair value of forward foreign exchange contracts as of December 31 are as follows:

	<u>2010</u>	<u>2009</u>
FX Forwards	\$8,695,744	\$9,830,384
FX Forward offsets	8,695,744	9,830,384

Realized gains on forward foreign exchange contracts were \$318,439 and \$2,589,937 in 2010 and 2009, respectively.

Certain alternative investment funds and partnerships may use derivatives hedge against market risk and to enhance investment returns. The Plan's investments in hedged equity funds are stated at fair value and gains or losses are recognized in earnings.

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO

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NOTES TO FINANCIAL STATEMENTS

## Note 4 – Securities Lending

Under the provisions of state statutes, the Plan lends securities (both equity and fixed income) to qualified and Plan approved brokerage firms for collateral that will be returned for the same securities in the future. The Plan's custodian, the Northern Trust Co., manages the securities lending program, which includes the securities of the Plan as well as other lenders, and receives cash, U.S. Treasury securities or letters of credit as collateral. The collateral received cannot be pledged or sold by the Plan unless the borrower defaults. All securities loans can be terminated on demand by either the Plan or the borrower. At December 31, 2010 the average term of the loan was 99 days (87 days in 2009). All security loan agreements are initially collateralized at 102% of the loaned securities. Whenever adjustments are needed to reflect changes in the fair value of the securities loaned, the collateral is adjusted accordingly. Cash collateral is invested in the short-term investment pool, which at December 31, 2010 had a weighted average maturity of 50 days (67 days in 2009). As of December 31, 2010 and 2009, the Plan had loaned to borrowers securities with a fair value of \$626,047,326 and \$641,864,077 respectively. As of December 31, 2010 and 2009, the Plan received from borrower's cash collateral of \$638,411,775 and \$660,716,314 and non-cash collateral of \$2,582,467 and \$1,114,100 respectively. Securities lending net income for the years ended December 31, 2010 and 2009 was \$7,242,638 and \$28,088,264 respectively.

Due to market events of 2008 and going into 2009, one of the collateral pools utilized to invest collateral received dropped below par value, causing the Plan to incur a liability. The custodian agreed to carry forward the losses and reduce them with future securities lending earnings. In 2010 the collateral pool was fully liquidated. The liability balance for the losses incurred was \$10,729,730 and \$19,271,050 as of December 31, 2010 and 2009, respectively. At year end, the Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan.

A summary of securities loaned at fair value as of December 31:

	<u>2010</u>	<u>2009</u>
Securities loaned – cash collateral		
Domestic bonds	\$299,141,213	\$249,568,701
Domestic equities	305,761,815	348,846,803
International equities	<u>18,648,414</u>	<u>42,399,034</u>
Total securities loaned – cash collateral	<u>623,551,442</u>	<u>640,814,538</u>
Securities loaned – non-cash collateral		
Domestic equities	458,351	39,286
International equities	<u>2,037,533</u>	<u>1,010,253</u>
Total securities loaned – non-cash collateral	<u>2,495,884</u>	<u>1,049,539</u>
 Total	 <u>\$626,047,326</u>	 <u>\$641,864,077</u>

**MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO**  
 (A Component Unit of the City of Chicago)

**NOTES TO FINANCIAL STATEMENTS**

**Note 5 – Property and Equipment**

Property and equipment are stated at cost. Depreciation has been provided using the straight-line methods over periods ranging from 5-8 years. Leasehold improvements are amortized using the straight-line method over the remaining term of the lease. Major outlays for additions and improvements are capitalized if equal to or greater than \$4,000. Maintenance and repairs are charged to expense. A summary of property and equipment at December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Pension benefit system	\$1,896,140	\$1,379,910
Furniture	43,883	50,660
Equipment	20,792	31,707
Computers	1,050,724	844,497
Leasehold improvements	<u>4,310</u>	<u>58,220</u>
	3,015,849	2,364,994
Less accumulated depreciation and amortization	<u>1,387,799</u>	<u>942,596</u>
Net property and equipment	<u>\$1,628,050</u>	<u>\$1,422,398</u>

Depreciation and amortization expense was \$596,024 and \$1,894,805 for 2010 and 2009, respectively.

**Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures**

**A. Pension Plan Description**

*General*

Municipal Employees' Annuity and Benefit Fund of Chicago (MEABF, or the Plan) is the administrator of a single employer defined benefit plan that was established in 1921 to provide retirement annuities and disability benefits for covered employees and for survivors and other beneficiaries of such employees. The Plan is administered under Chapter 40, Act 5, Article 8 of the Illinois Compiled Statutes. Benefit and contribution provisions are established by the Statutes and may be amended only by the Illinois state legislature. The Retirement Board, comprised of two ex-officio members (the City Comptroller and the City Treasurer) and three elected members, is authorized to carry out the provisions of Chapter 40, Act 5, Article 8 of the Illinois Compiled Statutes. The Retirement Board appoints the executive director, an actuary, an auditor, consultants and employees necessary for the transaction of business. The Retirement Board meets monthly and receives no compensation, but is reimbursed for necessary expenses. The Plan is included in the City of Chicago's financial reports as a component unit.

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO  
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NOTES TO FINANCIAL STATEMENTS

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

*Membership*

Any employee of the City of Chicago or the Board of Education employed under the provisions of the municipal personnel ordinance except for policemen, firemen, teachers, and those classified by the municipal personnel ordinance as labor service or any person employed by the Municipal Employees' Annuity and Benefit Fund of Chicago (Plan) who is not participating in any other pension fund or retirement system is also covered by the Plan. The payroll for employees covered by the Plan for the years ended December 31, 2010 and 2009 were \$1,541,388,065 and \$1,551,973,348, respectively.

Plan membership at December 31 is as follows:

	<u>2010</u>	<u>2009</u>
Active employees (includes members currently receiving disability benefits):		
Vested	17,531	17,391
Non-vested	<u>13,195</u>	<u>14,195</u>
	30,726	31,586
Retirees and beneficiaries currently receiving benefits	22,960	22,782
Terminated employees entitled to benefits but not yet receiving them	2,167	1,964
Terminated employees entitled to a refund of contributions	<u>11,699</u>	<u>10,955</u>
Total	<u>67,552</u>	<u>67,287</u>

Pension legislation (Public Act 96-0889) was approved during 2010 and establishes two distinct classes of membership with different retirement eligibility conditions and benefit provisions. For convenience, the Plan uses a tier concept to distinguish these groups, generally:

Tier 1 – Participants that became members before January 1, 2011.

Tier 2 – Participants that first became members on or after January 1, 2011.

*Refunds of Employee Contributions*

If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest at 3% per annum, subject to certain exceptions. Certain disability pension credits are not refundable.

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NOTES TO FINANCIAL STATEMENTS

## Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

*Employee Pension*

Tier 1 employees age 55 or more with at least 10 years of service are entitled to receive a money purchase annuity with partial City contributions if under age 60 with less than 20 years of service. Employees age 60 or more with at least 10 years of service or age 55 or more with at least 20 years of service or age 50 or more with at least 30 years of service are entitled to receive a minimum formula annuity of 2.4% per year of service times the final average salary (highest average annual salary for any 4 consecutive years within the last 10 years of service immediately preceding the date of retirement). If the employee retires prior to age 60, the annuity shall be reduced by  $\frac{1}{4}$  of 1% for each month the employee is under age 60 if the employee has less than 25 years of service. The annuity is not discounted if the employee is age 50 with at least 30 years of service. An employee with at least 10, 20, or 30 years of service can withdraw and receive a minimum annuity formula at 60, 55, or 50, respectively. The original annuity is limited to 80% of the highest average annual salary, adjusted for annual Internal Revenue Code (IRC) §401(a) (17) and §415 limitations. Employees withdrawing from service at age 60 or older with at least 10 years of service are entitled to a minimum annuity of \$850 per month.

Tier 2 employees age 67 or more with at least 10 years of service are entitled to receive an unreduced annuity benefit or a reduced annuity benefit at age 62 with 10 years of service. The annuity is discounted 1/2 percent for each full month the employee is under age 67. Final average salary is calculated using salary from the eight highest consecutive years within the last 10 years of service prior to retirement. Pensionable salary is limited to \$106,800 in 2011, increased by the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12 month period ending with the September preceding the November 1, which is the date that the new amount will be calculated and made available to the pension funds.

*Post-Retirement Increase*

Tier 1: An employee annuitant under Tier 1 is eligible to receive an increase of 3.0 percent of the currently payable annuity (compound). This increase begins in January of the year of the first payment date following the earlier of:

- 1) the later of the third anniversary of retirement and age 53, or
- 2) the later the first anniversary of retirement and age 60

Tier 2: An employee annuitant under Tier 2 that is eligible to receive an increase in annuity benefit, shall receive an annual increase equal to the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12 month period ending with the September preceding the increase. The increase is based on the amount of the originally granted benefit (simple). This increase begins in January of the year of the first payment date following the later of:

1. the attainment of age 67, and
2. the first anniversary of the annuity start date.

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NOTES TO FINANCIAL STATEMENTS

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

*Surviving Spouse Pension*

Tier 1: Upon the death of an employee under Tier 1, the surviving spouse meeting certain eligibility requirements, is entitled to a spouse annuity. There are three basic methods (“money purchase method”, “minimum formula annuity method” or the “minimum annuity method”) used to determine the amount of spouse’s annuity for an ordinary death (not duty-related death). The surviving spouse is entitled to the largest benefit but the annuity cannot exceed an amount equal to 50% of the highest salary earned by the employee.

Tier 2: The annuity payable to the surviving spouse of an employee under Tier 2 is equal to 66 2/3 of the participant’s earned retirement annuity at the date of death without a reduction due to age.

*Automatic Increase in Spouse Annuity*

The widow or survivor of an employee under Tier 2 shall receive an annual increase equal to the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12 month period ending with the September preceding the date of the increase. This increase is based on the amount of the originally granted survivor’s benefit (simple). This annual increase begins on January 1 following the commencement of the widow’s or survivor’s annuity if the deceased member died while receiving an annuity benefit and on January 1 following the first anniversary of the commencement of the annuity otherwise.

*Child Annuity*

Under Tier 1 and Tier 2, annuities are provided for unmarried children of a deceased employee who are under the age of 18, if the child was conceived or born before withdrawal from service. The employee’s death must occur while the employee is in service or in receipt of an annuity. The child’s annuity is an amount equal to \$220 a month when there is a surviving spouse and \$250 when there is no surviving spouse, subject to maximum limitations.

*Ordinary Disability*

Under Tier 1 and Tier 2, an employee who becomes disabled as the result of any cause other than an accidental injury incurred while in the performance of an act of duty is entitled to an ordinary disability benefit at the amount equal to 50% of the employee’s annual salary at the time of disablement. An employee can receive ordinary disability for a period equal to one fourth of his service credits up to a maximum of 5 years.

*Duty Disability*

Under Tier 1 and Tier 2, an employee who becomes disabled as the result of an accidental injury incurred while in the performance of an act of duty is entitled to a duty disability benefit in the amount equal to 75% of the employee’s annual salary at the time of injury, reduced by any benefits received by the employee under the provisions of the Workers’ Compensation Act.

*Funding Policy*

The funding objective is to meet all expected future obligations to its participants through its Plan assets and contributions from employee and employer. Member and employer contribution rates are established by state law and may be amended only by the Illinois state legislature.

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NOTES TO FINANCIAL STATEMENTS

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

*Member Contributions*

Active members under Tier 1 and Tier 2 are required to contribute to MEABF 8.5% of their salary (6.5% to provide employee annuity, 1.5% to provide a surviving spouse annuity and .5% to provide post-retirement increases in annuity) in accordance with the statutes. The employer deducts or picks up the employee's contributions before federal income tax is withheld and remits the contributions collected to the Plan. Member contributions earn interest at the rate of 3% per annum and are refundable. Employees receiving ordinary or duty disability benefits are credited with 8.5% of salary for pension purposes just as though the employee were working but these credits are not refundable.

While the amount of pensionable salary under upon which member contributions are made under Tier 1 has no limitation, pensionable salary of active employees under Tier 2 is limited to \$106,800 in 2011, increased by the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12 month period ending with the September preceding the November 1, which is the date the new amount will be calculated and made available to the pension funds.

*Employer Contributions*

The City of Chicago is required by state statutes to contribute the remaining amounts necessary to finance the requirements of MEABF. It is required to levy a tax at a rate not more than an amount equal to the total amount of contributions by the employees to the Plan made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 1.25 annually. Annual required contribution (ARC) rates are determined using the entry age normal actuarial funding method. MEABF uses the level dollar open method to amortize the unfunded liability over a thirty year period. The actuarial valuation of the Plan shows that a ratio of 4.92 is needed to adequately finance MEABF. The statutory employer contributions have been less than the ARC for the past eight years. Contribution rates may be increased only by an amendment by the State legislature to the statutes.

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

NOTES TO FINANCIAL STATEMENTS

## Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

*Funding Status and Funding Progress – Pension Plan*

The following table shows the funded status and funding progress as of December, 31, 2010, the most recent actuarial valuation:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
\$6,003,389,605	\$11,828,665,658	\$5,825,276,053	50.8%	\$1,541,388,065	377.9%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Additional information as of the latest actuarial valuations follows:

Valuation Date	December 31, 2010
Actuarial Cost Method	Entry Age Normal
Actuarial Value of Assets	5-year smoothed market
Amortization Method	Level dollar open
Amortization Period	30 years
Actuarial Assumptions:	
Pension Investment Rate of Return	8.0 percent per year
Projected Base Salary Increases	4.5 percent per year
Includes inflation at	3.0 percent per year
Post Retirement Benefit Increases	3.0 percent per year beginning at the earlier of
	1) the later of the 1 <sup>st</sup> of January of the year
	after retirement and age 60, or
	2) the later of the 1 <sup>st</sup> of January of the year
	after the second anniversary of
	retirement and age 53.

**B. Post-employment Healthcare Subsidy – City of Chicago and Board of Education Retirees**

MEABF and the City of Chicago agreed to share in the cost of the Settlement Health Care Plan, a single employer defined benefit plan for city retirees administered by the City of Chicago. This agreement is in effect through June 30, 2013 and does not require an extension or continuation of the health care plan. In accordance with the provisions of Illinois Compiled Statutes (ILCS) Chapter 40, Act 5, Article 8, Section 164.1 and Section 164.2, the Pension Plan is required to subsidize the healthcare costs of its annuitants participating in health care plans sponsored by the City of Chicago or the Board of Education. The supplemental benefit payments are remitted monthly to the City of Chicago or the insurance carrier designated by the Board of Education in the following amounts:

1. From July 1, 2003 through June 30, 2008, \$85 per month for each such annuitant who is not eligible to receive Medicare benefits and \$55 per month for each such annuitant who is eligible to receive Medicare benefits.
2. From July 1, 2008 through June 30, 2013, \$95 per month for each such annuitant who is not eligible to receive Medicare benefits and \$65 per month for each such annuitant who is eligible to receive Medicare benefits.

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO  
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NOTES TO FINANCIAL STATEMENTS

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

The payments described above are funded on a pay-as-you-go basis by the tax levy authorized under Section 8-173.

As of December 31, 2010, there are 9,192 (9,146 as of December 31, 2009) City annuitants enrolled in the City's health care plan and 1,628 (1,761 as of December 31, 2009) Board of Education annuitants enrolled in the Board of Education retiree health care plan receiving this subsidy benefit.

The annual required contribution represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over thirty years. The estimated City contribution represents the expected benefit payments for the health insurance supplement. In 2010 and 2009, the Pension Plan received contributions of \$9,549,685 and \$9,651,118 and remitted contributions of \$9,549,685 and \$9,651,118 respectively.

*Funding Status and Funding Progress – Post-employment Healthcare Subsidy for City of Chicago and Board of Education Retirees*

The following table shows the funded status and funding progress as of December 31, 2010, the most recent actuarial valuation:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
N/A	\$223,564,218	\$223,564,218	.0%	\$1,541,388,065	14.5%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 2010
Actuarial Cost Method	Entry Age Normal
Actuarial Value of Assets	No Assets (Pay-as-you-go)
Amortization Method	Level dollar open
Remaining Amortization Period	30 years
Actuarial Assumptions:	
OPEB Investment Rate of Return	4.5 percent per year
Projected Base Salary Increases	4.5 percent per year
Includes inflation at	3.0 percent per year
Healthcare Cost Trend Rate	0.0 percent (Trend not applicable – Fixed dollar subsidy)

**MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO**  
(A Component Unit of the City of Chicago)

**NOTES TO FINANCIAL STATEMENTS**

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

**C. Post-employment Healthcare Benefits – MEABF as Employer**

Staff members or employees of the Municipal Employees' Annuity and Benefit Fund of Chicago are contributing members of the Plan. When the staff members of the Plan eventually retire, if eligible, pension benefits are provided under the provisions of the Illinois Compiled Statutes (ILCS) Chapter 5, Article 8. Retired staff members of the Plan are not eligible to participate in the City of Chicago group health plan nor the Board of Education group health plan; hence not eligible to receive health insurance subsidy, a post-employment benefit other than pension (OPEB) under the ILCS Chapter 5, Art. 8.

MEABF, as an employer, provides health insurance coverage for its retired staff members, or survivors of former staff members and eligible dependents receiving an annuity under a healthcare plan. The MEABF Staff Retiree Healthcare Plan is separate from the Settlement Health Care Plan administered by the City of Chicago and the group health insurance plan administered by the Board of Education for its retirees.

*Funding*

Post-employment healthcare benefits are funded on a pay-as-you-go basis. No assets are accumulated to pre-fund the healthcare benefits. MEABF and the annuitant share the total cost of the Staff Retiree Healthcare. For 2010 and 2009, MEABF, as employer contributed \$146,434 and \$111,840 respectively. The healthcare premium rates paid by the retirees are the same rates as those paid by the City of Chicago retirees. Retirees may elect dental and vision coverage on a self-paid basis.

*Annual OPEB Cost and Net OPEB Obligation – MEABF Staff Retiree Healthcare*

The OPEB cost for the staff retiree healthcare benefits is calculated based on the annual required contribution of the Plan as employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The components of MEABF's annual OPEB cost for the staff retiree healthcare benefits are shown in the following table:

	<u>2010</u>	<u>2009</u>
<b>Annual OPEB Cost</b>		
Annual Required Contribution (ARC)	\$ 770,673	\$ 611,526
Interest on Net OPEB Obligation	64,830	42,892
Adjustment to ARC	(84,636)	(55,995)
Annual OPEB Cost	750,867	598,423
Employer Contributions	146,434	111,840
<b>Net OPEB Obligations (NOO)</b>		
Net OPEB Obligation at Beginning of Year	1,440,663	954,080
Increase in NOO	604,432	486,583
Net OPEB Obligation at End of Year	\$2,045,095	\$1,440,663

The Net OPEB Obligation is the amount recorded in the MEABF's Statement of Plan Net Assets as of year-end as the net liability for MEABF Staff Retiree Healthcare OPEB Liability. The employer contributions consist of \$86,061 explicit subsidy and \$60,373 implicit subsidy and treated as administrative expense of the defined benefit plan. The Annual OPEB Cost recorded in the Statement of Changes in Plan Net Assets for 2010 as the MEABF Staff Retiree OPEB expense is net of employer implicit and explicit subsidy.

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**NOTES TO FINANCIAL STATEMENTS**

Note 6 – Pension and Other Postemployment Benefit-Related Note Disclosures (continued)

The following table shows the MEABF Staff Retiree Healthcare plan's annual OPEB cost and actual employer contributions as a percentage contributed for the current year and two preceding years.

<u>Year ended December 31</u>	<u>Annual OPEB Cost</u>	<u>Amount Contributed</u>	<u>Percentage Contributed</u>
2010	\$750,867 <sup>1</sup>	\$146,434	19.5%
2009	\$598,423	\$111,840	18.7%
2008	\$567,160	\$ 96,670	17.0%

<sup>1</sup> Estimated

*Funding Status and Funding Progress – Post-employment Benefit for MEABF Staff Retiree Healthcare*

The following table shows funded status and funding progress as of December 31, 2009.

<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) – Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (c)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
N/A	\$7,101,870	\$7,101,870	0.0%	\$2,649,696	268.0%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

For a plan the size of the MEABF Staff Retiree Healthcare plan, GASB allows a valuation report to be used for up to 3 years if there are no significant changes in plan design, premiums/claims, or demographics that would materially change the results. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 2009
Actuarial Cost Method	Entry Age Normal
Actuarial Value of Assets	No Assets (Pay-as-you-go)
Amortization Method	Level dollar open
Remaining Amortization Period	30 years
Actuarial assumptions:	
	Discount Rate 4.5%
	Projected Salary Increases 4.5%
	Ultimate Trend 5.0%
	Wage inflation 4.5%

**Disclosure of Information about Actuarial Methods and Assumptions**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO  
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NOTES TO FINANCIAL STATEMENTS

Note 7 – Net Assets Held in Trust for Pension Benefits

Reserves represent the components of the Plan's net assets. Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses. At least once a year, before any transfer is made from these reserves, interest at 3% is credited to these reserves, except for the Supplementary Payment Reserves. The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirement and other benefits as they become due. The Plan's major classes of reserves are as follows:

	<u>2010</u>	<u>2009</u>
City Contribution Reserves	\$1,603,969,092	\$1,542,687,317
Salary Deduction Reserves	1,603,597,584	1,542,299,902
Prior Services Reserves	7,032,366,449	6,222,280,574
Annuity Payment Reserves	1,810,930,326	1,745,878,782
Optional Reserve Account	<u>1,366,425</u>	<u>1,146,026</u>
	12,052,229,876	11,054,292,601
Unreserved Net Assets	<u>(6,616,636,454)</u>	<u>(5,888,068,107)</u>
Net assets held in trust for pension benefits	<u>\$ 5,435,593,422</u>	<u>\$ 5,166,224,494</u>

*City Contribution Reserves*

Amounts contributed by the City for age and service annuity, surviving spouse annuity and supplemental annuity shall be credited to this reserve. When the employee annuity or surviving spouse annuity is granted the amount in this reserve for such annuity will be transferred to the annuity payment fund reserves.

*Salary Deduction Reserves*

Amounts contributed by the employee or amounts credited for the employee for age and service annuity and surviving spouse annuity shall be credited to this reserve. When the employee annuity or surviving spouse annuity is granted the amount in this reserve for such annuity will be transferred to the annuity payment fund reserves.

*Annuity Payment Reserves*

Amounts transferred from the City contribution reserves and the salary deduction reserves for annuities which have been granted will be credited to this reserve.

*Prior Service Reserves*

Amounts contributed by the City for minimum annuities shall be credited to this reserve.

*Optional Reserves*

Amounts contributed by the aldermen for the alternative plan.

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago).

NOTES TO FINANCIAL STATEMENTS

## Note 8 – Operating Lease

*Office Lease*

MEABF leases its administrative office and storage facilities under a fifteen-year agreement that has been amended to extend the lease through February 28, 2011. At the expiration of the current lease, MEABF will be moving to a new office location. The lease currently requires monthly payments of \$35,000. Monthly lease payments are subject to an escalation clause for increases in real estate taxes and maintenance expenses.

On September 1, 2010, MEABF signed a fifteen-year, non-cancelable office lease agreement with Hines REIT 321 North Clark Street LLC with a commencement date of March 1, 2011. The lease currently requires monthly payments of \$21,800. Monthly lease payments are subject to an escalation clause for increases in real estate taxes and maintenance expenses.

*Disaster Recovery (DR) site*

MEABF is party to an agreement participated by four other pension funds (Laborer's, Police, Fire and Cook County) to lease an offsite office and storage facilities under an extended non-cancelable lease agreement in effect through August 31, 2016.

Following is a summary of estimated future lease payments under the Plan's operating leases as of December 31, 2010:

Year Ending December 31,	Amount
2011	\$ 167,321
2012	279,052
2013	287,575
2014	296,138
2015	304,684
2016-2020	1,637,312
2021-2025	1,834,468
Years thereafter	<u>64,104</u>
Total	<u>\$4,870,654</u>

Total rent expense was \$397,042 and \$392,277 for 2010 and 2009, respectively.

## Note 9 – Risk Management

MEABF carries liability insurance coverage provided by private insurance carriers. In order to limit the risk of asset loss from theft, fraud, robbery or burglary, the Plan carries a government crime policy. The Plan also carries fiduciary liability insurance that limits the risk of loss arising from court challenges to fiduciary decisions. There have been no claims in the last five years.

MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO  
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NOTES TO FINANCIAL STATEMENTS

Note 10 – Commitments and Contingencies

*Investment Commitments*

As of December 31, 2010 approximately \$214 million of capital committed to investments in real estate and private equity funds were undrawn. The Plan believes that the capital will be requested within four years. The Plan also has approved commitments of \$72.5 million that were under contract negotiations at year-end. The Plan believes that the contracts will be finalized in the first half of 2011.

*Irrevocable Letter of Credit Security Deposit*

MEABF executed an irrevocable letter of credit in the amount of \$300,000 as security deposit in accordance with the terms of the new lease agreement (See Note 8).

*Litigation*

The Plan is a defendant in a lawsuit arising in the ordinary course of its operations. Although the outcome of this lawsuit is not presently determinable, in the opinion of the Plan's management and legal counsel, the resolution of this matter will not have a material adverse effect on the Plan's financial statements.

REQUIRED SUPPLEMENTARY INFORMATIONSCHEDULE OF FUNDING PROGRESS  
(PENSION)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/10	\$6,003,389,605	\$11,828,665,658	\$5,825,276,053	50.8%	\$1,541,388,065	377.9%
12/31/09	\$6,295,788,191	\$10,830,119,369	\$4,534,331,178	58.1%	\$1,551,973,348	292.2%
12/31/08	\$6,669,501,770	\$10,383,157,695	\$3,713,655,925	64.2%	\$1,543,976,553	240.5%
12/31/07	\$6,890,462,918	\$ 9,968,746,844	\$3,078,283,926	69.1%	\$1,564,458,835	196.8%
12/31/06	\$6,509,145,626	\$ 9,476,118,446	\$2,966,972,820	68.7%	\$1,475,877,378	201.0%
12/31/05	\$6,332,378,676	\$ 9,250,211,817	\$2,917,833,141	68.5%	\$1,407,323,058	207.3%

SCHEDULE OF EMPLOYER CONTRIBUTIONS  
(PENSION)

Year Ended December 31,	Employer Contributions		
	Annual Required Contribution	Amount Contributed	Percentage Contributed
2010	\$483,948,339	\$154,752,320	32.0%
2009	\$413,508,622	\$148,046,490	35.8%
2008	\$360,387,176	\$146,803,250	40.7%
2007	\$343,123,106	\$139,606,140	40.7%
2006	\$303,271,824	\$157,062,769	51.8%
2005	\$285,291,350	\$155,057,116	54.4%

Beginning in 2006, the Annual Required Contribution does not include contributions for health insurance supplement.

NOTE TO SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS  
(PENSION)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	December 31, 2010
Actuarial cost method	Entry age normal
Amortization method	Level dollar open
Amortization period	30 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Pension Investment rate of return	8.0%
Projected salary increases	4.5%
Includes inflation at	3.0%
Post retirement benefit increases	3.0% per year beginning at the earlier of:
	1) the later of the first of January of the year after retirement and age 60, or
	2) the later of the first of January of the year after the second anniversary of retirement and age 53

OPEB liabilities are excluded beginning in 2006.  
OPEB liabilities are discounted at a rate of 4.5% in 2005.

**SCHEDULE OF FUNDING PROGRESS**  
**(POST- EMPLOYMENT HEALTHCARE)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/10	\$ -	\$223,564,218	\$223,564,218	00.0%	\$1,541,388,065	14.5%
12/31/09	\$ -	\$224,173,231	\$224,173,231	00.0%	\$1,551,973,348	14.4%
12/31/08	\$ -	\$222,691,036	\$222,691,036	00.0%	\$1,543,976,553	14.4%
12/31/07	\$ -	\$217,868,343	\$217,868,343	00.0%	\$1,564,458,835	13.9%
12/31/06	\$ -	\$216,201,037	\$216,201,037	00.0%	\$1,475,877,378	14.7%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**(POST - EMPLOYMENT HEALTHCARE)**

Year Ended December 31,	Employer Contributions		
	Annual Required Contribution	Amount Contributed	Percentage Contributed
2010	\$22,954,501	\$9,549,685	41.6%
2009	\$22,966,965	\$9,651,118	42.0%
2008	\$23,782,660	\$9,029,362	38.0%
2007	\$23,287,106	\$8,530,910	36.6%
2006	\$22,642,162	\$8,730,476	38.6%

**NOTE TO SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**  
**(POST - EMPLOYMENT HEALTHCARE)**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	December 31, 2010
Actuarial cost method	Entry age normal
Amortization method	Level dollar open
Amortization period	30 years
Asset valuation method	No Assets (Pay-as-you-go)
Actuarial assumptions:	
OPEB investment rate of return	4.5%
Projected salary increases	4.5%
Includes inflation at	3.0%
Healthcare Cost Trend Rate	0.0%
Healthcare cost trend not applicable-fixed dollar subsidy	

**SCHEDULE OF FUNDING PROGRESS**  
(POST-EMPLOYMENT HEALTHCARE-STAFF RETIREE HEALTHCARE)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	\$ -	\$7,101,870	\$7,101,870	00.0%	\$2,649,696	274.7%
12/31/06	\$ -	\$4,435,400	\$4,435,400	00.0%	\$2,497,700	177.6%

Note: the first Staff Retiree Healthcare OPEB actuarial valuation was performed as of December 31, 2006 and the most recent OPEB actuarial valuation was conducted as of December 31, 2009. Assuming there is no major change in the next three years, the next OPEB actuarial valuation will be as of December 31, 2012.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(POST-EMPLOYMENT HEALTHCARE-STAFF RETIREE HEALTHCARE)

Year Ended December 31,	Employer Contributions		
	Annual Required Contribution	Amount Contributed	Percentage Contributed
2010	\$770,673 <sup>1</sup>	\$146,434	19.0%
2009	\$611,526	\$111,840	18.3%
2008	\$573,808	\$ 96,670	16.8%
2007	\$537,400	\$ 53,810	10.0%

<sup>1</sup> Projected for plan year ended December 31, 2010 based on most recent actuarial valuation as of December 31, 2009.

**NOTE TO SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**  
(POST-EMPLOYMENT HEALTHCARE-STAFF RETIREE HEALTHCARE)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	December 31, 2009
Actuarial cost method	Entry age normal
Asset valuation method	No Assets (Pay-as-you-go)
Amortization method	Level dollar open
Amortization period	30 years
Actuarial assumptions:	
Discount Rate	4.5%
Projected Salary Increases	4.5%
Ultimate Trend	5.0%
Wage inflation	4.5%

SCHEDULE OF ADMINISTRATIVE AND OPEB EXPENSES  
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Personnel		
Administrative Salaries	\$ 2,820,834	\$ 2,937,230
Payroll taxes	33,763	36,004
Employee Benefits	942,930	822,201
OPEB expense	664,806	486,583
	<u>4,462,333</u>	<u>4,282,018</u>
Professional Services		
Actuarial valuation	82,509	82,206
Staff actuary	68,218	66,445
Actuarial consulting	38,500	10,000
Legal services	57,192	61,178
Litigation expense	115,806	24,269
Medical	47,968	47,968
Audit	34,000	32,000
Lobbying	16,700	11,133
Payroll services	355,131	368,958
IT consulting	15,016	11,624
Healthcare benefit consulting	-	14,680
Tax consulting	-	1,986
Other consulting	8,486	2,550
	<u>839,526</u>	<u>734,997</u>
Communication		
Printing & Publications	61,675	48,029
Postage	77,844	63,144
Telephone and Communications	56,516	56,065
	<u>196,035</u>	<u>167,238</u>
Occupancy and utilities		
Office rent	397,042	392,277
Utilities	23,034	22,037
Office maintenance	5,892	3,305
	<u>425,968</u>	<u>417,619</u>
Other operating expense		
Fiduciary and insurance	125,192	145,576
Office supplies and equipment	28,382	43,376
Depreciation	596,024	1,894,805
Equipment rental and maintenance	14,837	17,263
Training and travel	17,188	21,826
Contractual services	15,378	17,023
Dues and subscriptions	14,982	14,989
Court reporting	2,699	4,295
Miscellaneous	6,403	4,893
	<u>821,085</u>	<u>2,164,046</u>
 Total Administrative and OPEB expense	 <u>\$ 6,744,947</u>	 <u>\$ 7,765,918</u>

SCHEDULE OF INVESTMENT MANAGEMENT COMPENSATION  
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
<b>Equity Managers</b>		
Ariel Capital	\$ 499,841	\$ 474,430
Castle Ark	462,896	321,113
Earnest Partners	413,408	315,209
FIS Group	765,993	34,015
Geneva Capital Management	417,679	44,787
Great Lakes Advisors	376,497	390,325
Harris Investment Mgmt.	-	119,525
Holland Capital	458,259	441,690
Keeley Asset Mgmt.	737,544	582,064
MacKay Shields	-	92,725
Rhumblin Advisors Large Cap Core	74,821	72,205
Rhumblin Advisors Mid Cap Growth	6,634	4,908
TCW	-	125,272
United Investment Managers	-	599,551
Voyageur Asset Management	-	97,714
Wellington Capital	513,390	655,689
William Blair Large Cap	-	126,479
William Blair Small/Mid Cap	538,180	400,638
Total Equity	<u>5,265,142</u>	<u>4,898,339</u>
<b>Bond Managers</b>		
Alliance Bernstein	-	10,964
LM Capital	475,930	416,820
MacKay Shields	449,314	263,066
NTGI Bond Index	42,442	71,067
Neuberger Berman	166,768	191,690
RBC Global Asset Management	175,648	61,184
Segall Bryant & Hamill	287,927	180,959
Symphony Asset Management	337,470	123,288
UBS AM Bonds	106,994	62,500
Total Bond	<u>2,042,493</u>	<u>1,381,538</u>
<b>International Equity Managers</b>		
LSV Asset Management	587,613	507,848
MacKay Shields	686,508	582,529
NTGI All Country World Ex-US Index	237,228	144,414
NTGI International Small Cap Index	229,086	134,948
Walter Scott	905,009	758,685
William Blair	1,274,924	944,841
Total International Equity	<u>3,920,368</u>	<u>3,073,265</u>

SCHEDULE OF INVESTMENT MANAGEMENT COMPENSATION  
YEARS ENDED DECEMBER 31, 2010 AND 2009  
(Continued)

	<u>2010</u>	<u>2009</u>
Hedge Fund of Funds		
K2 Advisors	2,041,151	1,582,404
The Rock Creek Group	1,950,914	1,358,644
Total Hedge Fund of Funds	<u>3,992,065</u>	<u>2,941,048</u>
Real Estate Managers		
AFL-CIO Building Trust	291,793	190,777
American Realty	132,000	148,871
Capri Capital	690,915	687,192
DV Urban	225,000	200,414
J P Morgan	580,000	608,609
John Buck Company	265,000	290,584
Prudential Asset Mgmt.	338,200	466,613
Shamrock-Hostmark Hotel Fund	75,000	72,500
Tishman Speyer	250,000	211,405
UBS Realty Advisors	63,170	63,170
Walton Street Partners	387,848	414,307
Total Real Estate	<u>3,298,926</u>	<u>3,354,442</u>
Private Equity Managers		
Adams Street Partners	550,000	528,984
Carpenter Bancorp Fund	200,000	391,803
Citigroup International PE Fund	225,000	225,000
First Analysis	532,000	532,361
Hispania Partners	325,000	344,388
Hopewell Ventures	112,500	112,500
Invesco	4,943	6,649
Levine Leichtman	496,094	437,500
MK Capital	100,000	100,000
Mesirow Financial	919,695	919,695
Midwest Mezzanine Fund	437,500	242,100
Morgan Stanley Secondary	150,000	-
Muller & Monroe	300,000	300,000
Nogales Investors	263,170	263,170
RCP Advisors	150,000	-
SB Partners	84,500	84,500
Total Private Equity	<u>4,850,402</u>	<u>4,488,650</u>
Total Investment Management Fees	<u>23,369,396</u>	<u>20,137,282</u>
Other Investment Expenses		
Investment Consultant	290,000	362,500
Master Custodian	181,893	134,450
Negotiation fee: Custody Reduction	148,212	148,212
Investment Legal Services	-	7,712
Miscellaneous Investment Expense	8,500	8,500
Total Investment Management Fees	<u>628,605</u>	<u>661,374</u>
Total Investment Expenses	<u>\$ 23,998,001</u>	<u>\$ 20,798,656</u>

SCHEDULE OF PROFESSIONAL AND CONSULTING COSTS  
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Legal Advisors	\$ 172,998	\$ 85,448
Medical Advisors	47,968	47,968
Consulting Actuary	189,227	158,651
Other Consulting	40,202	41,973
Auditor	34,000	32,000
Payroll Services	<u>355,131</u>	<u>368,958</u>
Total	<u>\$ 839,526</u>	<u>\$ 734,998</u>