MEABF CHICAGO PENSION Matters

FALL 2014 v45

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2013 FINANCIAL REPORT

Municipal Employees' Annuity and Benefit Fund: A Pension Trust Fund of the City of Chicago

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Important Phone Numbers

MEABF Offices (312) 236-4700
Appointments, Ext.7392

Disability Benefit Information
Last Name: A-J, Ext. 2123,
K-R, Ext. 2131, S-Z, Ext. 2122

Insurance Information
Last Name: A-K, Ext. 2109
L-Z, Ext. 2108

Annuity Payment Information
Last Name: A-H, Ext. 2136,
I-N, Ext. 2126, O-Z, Ext. 2128

CPS Retiree Healthcare
(773) 553-4748

City Benefits Administrator
(877) 299-5111

Social Security Administration
(800) 772-1213

Trustee Election
October 24, 6:00am–6:00pm
Please check the Fund website for election information.

MEABF.ORG

Dear Plan Members & Beneficiaries:

On June 9, 2014, Governor Quinn signed Public Act 98-0641 into law. This Act affects the Municipal Employees' Annuity and Benefit Fund of Chicago (the "Plan"). You will find a summary of the Act in this publication as well as a link to the full text on our website. The objective of the City of Chicago (Plan Sponsor) with this Act is for the Plan to reach 90% funding by 2055. To do this, future increases in benefits will be reduced, employees will be required to contribute more to the Plan, and the Plan Sponsor will contribute more into the Plan and begin contributing the Actuarial Required Contribution in 2021. We welcome that the Plan will finally be funded based on actuarial requirements instead of a static multiple of contributions made by the employee, which has no correlation to the long-term solvency of the Plan.

On a separate note, I am pleased to report that the Plan's investment portfolio generated a 16.1% return in 2013, net of all fees. Strong returns achieved over the past five years have resulted in a five-year annualized return of 12.3%, net of all fees. In 2013, the Plan earned over $735 million, but Plan assets only grew by $239 million; this means that $496 million had to be liquidated to pay benefits in 2013. This operating deficit represented over 9% of Plan assets in 2013. In the first half of 2014, the Plan generated $225 million in investment earnings, however, approximately $264 million had to be liquidated to cover the operating deficit causing the Plan's assets to fall by 0.7%.

Employee retirements continue to exceed historical averages. There were 1,242 new employee annuitants in 2013. This was less than in 2012 where there were 1,559, but retirements in each of the last two years exceeded the average over the last ten years, adjusted for the 2004 Early Retirement Program, of 969 per year. Like 2012, this was another year of reductions in contributing members and an increase in employee annuitants.

In our attempt to keep the Plan members informed while at the same time keeping administration cost low, we will continue to utilize the Plan's website as a cost efficient way to inform our members of important issues relating to the Plan. We strongly encourage that you periodically review the website to stay informed on Plan news.

On behalf of the Retirement Board, we thank you for the opportunity to update you about the Plan. We wish you good health and happiness in 2014 and beyond.

Sincerely,

Timothy G. Guest
Board President

New State Law Affecting Your Retirement Benefits

On June 9, 2014, Governor Quinn signed Senate Bill 1922 into law. The Bill, which became Public Act 98-0641, was an initiative of the City of Chicago (the "Plan Sponsor") and it makes several changes to the benefits administered by the Municipal Employees' Annuity and Benefit Fund of Chicago (the "Plan").

BENEFIT CHANGES

Retirement Age: Decreases the retirement age for Tier 2 employees from 67 to 65, and from 62 to 60 for early retirement. No change for Tier 1 employees undiscounted (currently, age 50 with 30 years of service, 55 with 25 years, and 60 with 10 years).

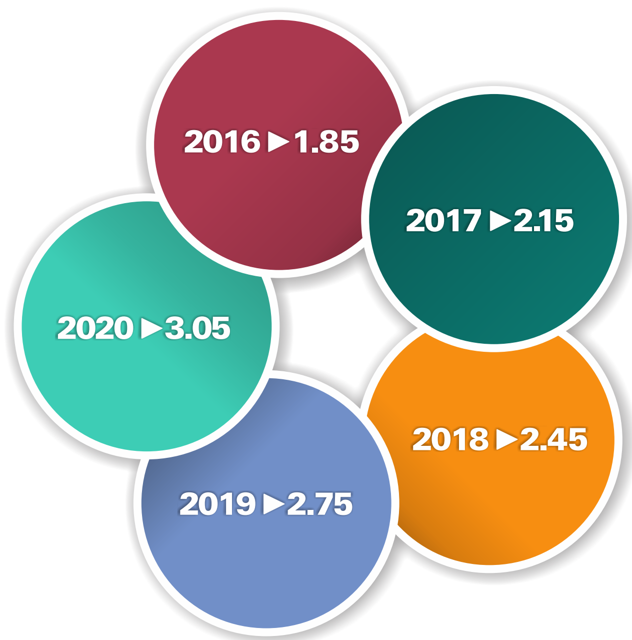
Annual Adjustment Calculation: Changes the annual annuity increase (AAI) for Tier 1 members (including current retirees) to ½ of the annual unadjusted percentage increase in the Consumer Price Index-Urban (CPI) or 3%, whichever is less, utilizing simple interest. The Tier 1 AAI will now be equal to the Tier 2 AAI.

Skipped Annual Adjustments: All Tier 1 retirees (current and future) will skip AAIs in 2017, 2019, and 2025. Tier 2 retirees will skip an AAI in 2025. Further, all members will have a 1 year AAI delay after the date the member would otherwise receive his or her first AAI.

Exception for Annuities Under $22,000: Retirees with an annual annuity of less than $22,000 will receive at least 1% AAI every year, including the skipped years.

CONTRIBUTION INCREASES

Employer Contribution Increase: The Plan Sponsor currently contributes an amount equal to 1.25 times the total contribution by employees 2 years earlier to the Plan. Beginning in payment year 2016, the multiplier for employer contributions will increase at the following schedule:



Employer Contribution Increase

From 2016-2020, the Plan Sponsor will contribute based on the increased multiplier, or an actuarial schedule, whichever is less. Beginning in 2021, the Plan Sponsor will make contributions based on an actuarial funding schedule to reach 90% funded by 2055.

Employee Contribution Increase: Currently, employee contributions are equal to 8.5% of salary. Under the new law, contributions will increase to 9% in 2015, 9.5% in 2016, 10% in 2017, 10.5% in 2018 and finally 11% in 2019 and going forward. When the Plan reaches 90% funded, employee contributions would decrease to 9.75% and remain 9.75% as long as the Plan is at least 90% funded.

2013 MEABF Financial Report

The contents of this section are largely derived from the Plan's 2013 Comprehensive Annual Financial Report and Actuarial Report, both of which contain additional detail and are available at meabf.org.

ACCOUNTING SUMMARY

CHANGES IN PLAN NET ASSETS
as of December 31, 2013
(in thousands)

	2013	2012
Employee Contributions	$ 131,532	$ 130,266
Employer Contributions	157,705	158,381
Total Contributions	289,237	288,647
Benefits & Refunds	(779,004)	(741,583)
Administrative	(6,499)	(6,841)
Total Deductions	(785,503)	(748,424)
Net Increase/(Decrease) before Investment Income	**(496,266)**	**(459,777)**
Net Investment Income	735,272	589,198
Net Assets - Beginning of Year	5,182,670	5,053,249
Net Assets - End of Year	**$ 5,421,676**	**$ 5,182,670**

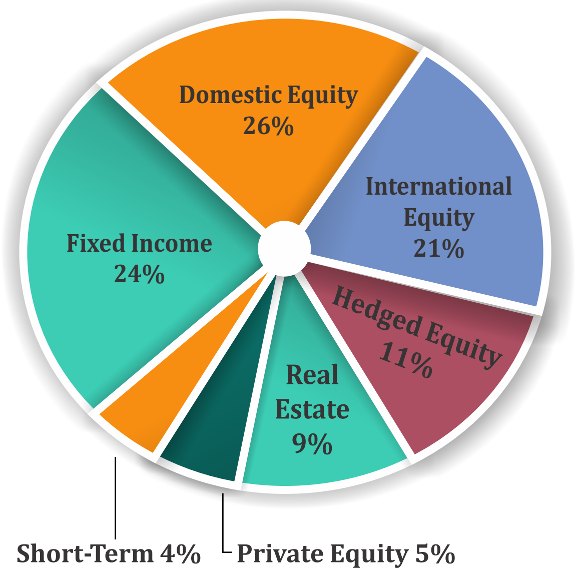
The Plan ended the year with $5.4 billion in assets, an increase of approximately 4.6% from 2012. Thankfully, the Plan's investments generated a 16.1% annual return, amounting to $735 million, and were sufficient to offset the $496 million operating cash flow deficit in 2013. This deficit represented approximately 9% of Plan assets in 2013 and, despite the pension legislation that was enacted, will grow over the next few years before it begins to slowly improve.

Benefit and refund payments continue to comprise the vast majority of Plan expenditures on an annual basis, representing over 99% of total Plan expenditures. Administrative expenses, less than 1% of overall expenditures, represent the remainder.

INVESTMENT PERFORMANCE

The Plan's portfolio returned 16.1%, net of fees, in 2013 and 12.3% annually over the five-year period ended December 31, 2013. The strongest performing asset class in 2013 was Domestic Equity which generated an annual return of 33.6%. The worst performing asset class was Fixed Income which generated a 0.4% return. Although short-term performance does provide some important insights, maintaining a long-term plan to achieve investment goals and objectives is imperative for long-term investors.

Allocation by Asset Type
(as of December 31, 2013)

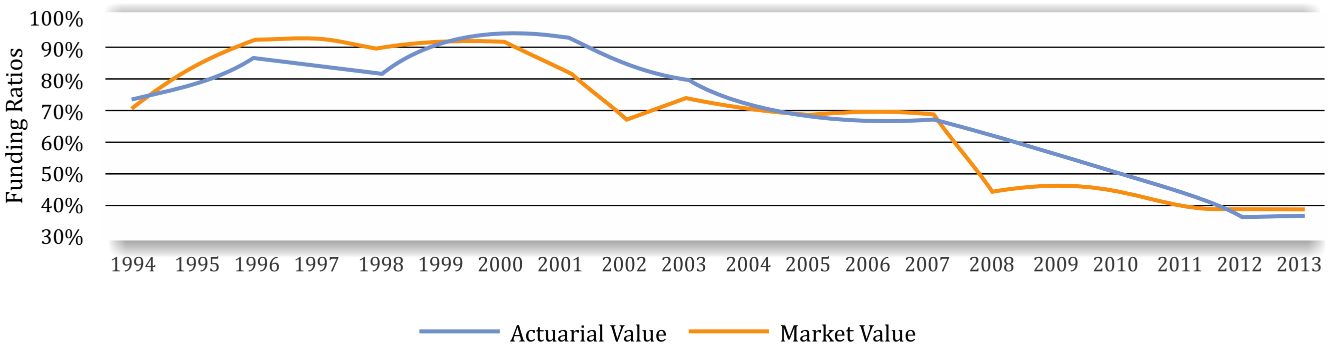


The Board modified its target asset allocation mix in 2013. The new mix differs only slightly from the mix that was adopted in 2008. The mix continues to focus on gaining a global market footprint, reducing exposure to downside equity risk, and increasing diversification within the fixed-income allocation.

ACTUARIAL ANALYSIS

The health of a pension plan is often measured by its funding ratio. The funding ratio compares a plan's assets to its liabilities. When a plan's funding ratio is at 100%, the plan is considered fully funded. A funding ratio of above 100% indicates a funding surplus, while a funding ratio of below 100% indicates a funding deficit. While funding ratios will fluctuate over time, healthy plans have ratios that hover around 100%. The Plan's ratio as of December 31, 2013 was 36.9% computed on an actuarial basis. In other words, there are only enough assets to cover 36.9% of actuarial liabilities.

Historical Funding Ratios: 20-Year Trend



Please contact the Fund:

- ▶To apply for a benefit.
- ▶To report an annuitant's death.
- ▶When you or your spouse turn 65 and are Medicare eligible AND receive healthcare benefits from one of the plan sponsors.

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Municipal Employees' Annuity
and Benefit Fund of Chicago
A Pension Trust Fund of the City of Chicago

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