



**MUNICIPAL EMPLOYEES' ANNUITY AND BENEFIT FUND
OF CHICAGO
SUMMARY COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This is a summary of the Comprehensive Annual Financial Report ("CAFR") for the Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF" or the "Fund") as of December 31, 2018. MEABF is a Pension Trust Fund of the City of Chicago, and as such is included in their annual financial reporting.

*A Pension Trust Fund of the
City of Chicago*

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ABRIDGED STATEMENT OF FINANCIAL POSITION

December 31, 2018

(\$000)

	<u>2018</u>	<u>2017</u>
Employee Contributions	\$138,400	\$134,765
Employer Contributions	<u>349,574</u>	<u>261,764</u>
Total Contributions	487,974	396,529
Benefits, Refunds & Disability	(916,198)	(888,174)
Administrative	<u>(6,639)</u>	<u>(6,473)</u>
Total Deductions	(922,837)	(894,647)
Net Operating Deficit	(434,863)	(498,118)
Net Investment Income	(204,975)	610,515
Other Additions – OPEB Termination	-	5,393
Net Assets – Beginning of Year	<u>4,554,018</u>	<u>4,436,228</u>
Net Assets – End of Year	<u>\$ 3,914,180</u>	<u>\$4,554,018</u>

The value of Net position of the Fund was \$3,914.2 million as of December 31, 2018 compared to \$4,554.0 million as of December 31, 2017. During 2018, the Fund experienced a decrease in its net assets of \$639.8 million. The decrease was mainly attributed to investment losses and the continued liquidation of Fund assets in order to assist in paying monthly benefits. The Fund had total additions of \$283.0 million and total deductions of (\$922.8 million). The Fund's investment portfolio net rate of return for 2017 was - 5.7%.

FUND MEMBER STATISTICS

	<u>Total</u>	<u>%</u>		<u>Total</u>	<u>%</u>
Active Members			Active Members		
City of Chicago	14,058	45%	Male	12,424	
Board of Education	17,146	55%	Female	18,861	
Other	<u>81</u>	0%	Average Salary	\$55,445	
	31,285		Average Years of Service	11.2 Y	
			Average Age	46.2 Y	
Annuitants					
Female	13,141	60%			
Male	<u>8,252</u>	40%			
Total	21,393				
Average monthly annuity		\$3,297			
Average age		73 years			
Beneficiaries					
Spouse	3,963				
Child	102				
Reversionary	119				

2018 SUMMARY INVESTMENT OVERVIEW

The upward momentum of the 2017 market was carried forward into 2018. However, in the fourth quarter of 2018, the market experienced its worst decline since the financial crisis in '08/'09 and returned all the gains. The decline in equity markets was led by the emerging markets (-14.6%), followed by the international developed markets (-14.09%), and finally, the US Markets (-5.24%) experienced the least loss. The bond markets provided some protection in falling markets, with the US Bond Market at 0.01% and the Global Bond Market at (3.17%). Various factors attributed to this volatility: slowing economic growth, tightening monetary policy, the trade war, a dovish Federal Reserve, and concerns over a government shutdown.

The Fund's investment portfolio generated a -5.7% return net-of fees, compared to -3.9% for the policy benchmark. Major detractors to the return were: International Equity (-16.8%) which underperformed its benchmark MSCI ACWI ex US (-14.2%). Hedge Fund asset classes (-6.0%) outperformed the HFRX Equity Hedge Index (-9.4%), but still generated negative returns in an absolute term. Real Estate (5.8%) and Private Equity (5.1%) were the strongest performers for the portfolio for the year.

In 2018, the Fund initiated and completed several transitions to reallocate the Fund's risk and the following actions were taken during the year:

Domestic Equity

- Completed an actives Small Cap Value manager search to replace a manager that had been underperforming. Hired Kayne Anderson Rudnick's Small Cap Value strategy as a high octane manager paired with Nuveen Asset Management's diversified small cap value strategy.

Fixed Income

- Completed an active Core Fixed Income mandate search to replace managers that had been underperforming. Hired Garcia Hamilton and Associates and National Investment Services.

Infrastructure

- Initiated an open-ended Private Infrastructure Equity mandate search, a new asset class for the Fund with an attractive return profile and income component.

Performance Returns by Asset Class

As of December 31, 2018

	Calendar Year Returns					Annualized Returns		
	2018	2017	2016	2015	2014	3 Yrs	5 Yrs	10 Yrs
Total Plan								
The Plan - Net of Fees	-5.7%	15.2%	6.6%	2.1%	5.1%	5.0%	4.40%	8.30%
Policy Benchmark	-3.9%	14.8%	6.4%	0.6%	5.8%	5.5%	4.6%	7.3%
Traditional Asset Classes								
Fixed Income	-0.1%	4.0%	6.50%	0.60%	4.30%	3.4%	3.0%	4.8%
Barclays Cap Aggregate Bond Index	0.0%	3.5%	2.6%	0.6%	6.0%	2.1%	2.5%	3.5%
Domestic Equity	-8.5%	19.8%	11.3%	-0.7%	8.6%	6.8%	5.6%	12.7%
S&P 500 Index	-4.4%	21.8%	12.0%	1.4%	13.7%	9.3%	8.5%	13.1%
International Equity	-16.8%	32.1%	2.6%	-1.1%	-2.9%	4.1%	1.6%	7.8%
MSCI ACWI ex US Index	-14.2%	27.2%	4.5%	-5.7%	-3.9%	4.5%	0.7%	6.6%
Alternative Asset Classes								
Real Assets	6.4%	6.4%	7.6%	14.2%	11.7%	6.8%	9.2%	5.8%
Private Equity	5.1%	9.9%	12.3%	8.9%	14.0%	9.1%	10.0%	11.7%
Hedged Equity	-6.0%	10.9%	-1.1%	3.8%	5.4%	1.0%	2.4%	n/a

2018 SUMMARY LEGISLATIVE OVERVIEW

The MEABF of Chicago was created in 1921 by the Illinois General Assembly. MEABF is a pension trust fund of the City of Chicago and is administered under Chapter 40, Act 5, Article 1, 8 and 20 of the Illinois Compiled Statutes (Statutes). The Fund is a defined benefit single employer Fund that was established in 1921 by the Illinois State legislature, which is the governing body that sets benefit levels, as well as employee and employer contribution levels for financing the Fund.

The following legislative changes, enacted in 2018 affected the operations of the Fund and the rights of its membership:

2018 Session

Public Act 100-1166 (HB0166)

- Approved and effective 1/4/19
- Trailer bill to SB0042 (Public Act 100-0023)
- Clarifies what qualifies a participant as a Tier 3 member
- Clarifies the member contribution rate once the MEABF achieves 90% funding

2018 SUMMARY OPERATIONAL OVERVIEW

Operations:

The following quantifies some of the program services provided during fiscal year 2018:

Benefit Payment Services

- 304,136 annuity benefit payments to retirees and beneficiaries totaling \$878.7 million. Of these, 94% were paid via electronic funds transfer with the remaining 6% by check.
- 25,577 annuitants at year-end 2018, 22,025 or 86% remained Illinois residents and 3,552 or 14% were out-of state residents. About 15,864 annuitants residing in the City of Chicago received benefit payments totaling \$562.2 million annually.
- 25,526 annual benefit statements showing new benefit amounts and deductions for 2018 were mailed to annuity benefit recipients.
- 1,351 new retirees, spouse/reversionary/child annuitants added to annuity payroll. 1,174 retirees, spouse/reversionary/child annuitants removed from payroll due to death or termination.
- 4,356 disability benefit payments to disabled participants totaling \$10.4 million. At year-end, there were 158 disabled participants receiving ordinary disability benefits and 164 disabled participants were receiving duty disability benefits.
- 28,941 1099Rs issued for tax reporting purposes.
- 24,557 pension verification forms sent to benefit recipients to confirm that the intended recipients were still alive and therefore eligible to receive benefits.

Member Services

- 27,787 printed statements of contributions to active participants.
- 2,988 individualized benefit counseling sessions conducted.
- 2,477 benefit estimates mailed.
- 113,702 phone calls received.
- Responded to 51 requests made in accordance with Illinois Freedom of Information Act.

Withdrawals of Contributions

- 852 lump sum payments to members not eligible for retirement.
- 529 lump sum payments of spousal contributions.
- 27 lump sum payments in lieu of annuity.
- 101 lump sum payments to beneficiaries.

Document Management

- 77,830 documents (148,475 pages) indexed and scanned during 2018

Summary of Key Valuation Results

	2018	2017	
Funding ratios as of December 31:			
Actuarial accrued liability	\$16,808,614,316	\$16,282,396,195	
Market value of assets	3,914,180,476	4,554,018,287	
Unfunded actuarial accrued liability on a market value basis	12,894,433,840	11,728,377,908	
Funded ratio on a market value basis	23.29%	27.97%	
Actuarial value of assets	\$4,195,644,172	\$4,456,771,744	
Unfunded actuarial accrued liability on an actuarial value basis	12,612,970,144	11,825,624,451	
Funded ratio on an actuarial value basis	24.96%	27.37%	
Book value of assets	\$3,588,228,555	\$3,765,555,325	
Unfunded actuarial accrued liability on a book value basis	13,220,385,761	12,516,840,870	
Funded ratio on a book value basis	21.35%	23.13%	
Demographic data as of December 31:			
Number of retirees and beneficiaries	25,577	25,383	
Number of inactive members	17,575	17,549	
Number of active members	31,285	30,922	
Total pensionable salary supplied by the Fund	\$1,734,595,691	\$1,686,532,720	
Average pensionable salary	\$55,445	\$54,542	
Contribution requirement for Fiscal Year:			
	2020	2019	2018
Statutory City contribution*	\$499,000,000	\$421,000,000	\$344,000,000
Actuarially determined contribution requirement	N/A	1,117,387,759	1,049,915,647

*As established by Public Act 100-0023. City contributions are shown in the year that they will be booked. The contributions will be paid in the following year.

Segal Consultants delivered the 2018 Actuarial Valuation (“Valuation”) to the Board of Trustees (“Board”) on May 20, 2019.

The 2018 Valuation establishes the net pension liability under the Government Accounting Standards Board (GASB) Statement No. 67 as of December 31, 2018, the pension expense for the fiscal year ending December 31, 2018, under GASB Statement No. 68, and the actuarially determined contribution for the year ending December 31, 2019, and analyzes the preceding year’s expenses.

All data for the valuation was provided by the Fund. Assumptions made in order to develop the Valuation are based on experience data covering the five-year period ending December 31, 2016. Actuarial assumptions are set by the Fund’s Board based upon recommendations made by the Fund’s actuary.

The following statement regarding funding adequacy was included in the 2018 Valuation:

MEABF is funded by employer and member contributions in accordance with the funding policy specified under the Illinois Pension Code (40 ILCS 5/8), which was revised on July 6, 2017 by Public Act 100-0023. For 2019 through 2022, employer contributions are specified amounts: \$344 million in 2019, \$421 million in 2020, \$499 million in 2021, and \$576 million in 2022. Starting in 2023, employer contributions are calculated as the sum of the employer normal cost for that fiscal year plus an amount determined as a level percent of payroll sufficient to bring the total assets of the Fund up to 90% of the actuarial accrued liability by the end of 2058. **The risk of insolvency for MEABF has increased due to the 2018 investment return performance combined with fixed-dollar contributions through 2022, which do not change when the Fund experiences unfavorable investment performance. We strongly recommend an actuarial funding method that targets 100% funding where payments at least cover interest on the unfunded actuarial liability and a portion of the principal balance. If the Fund becomes insolvent, the employer will be required to make contributions on a “pay as you go” basis, which means the employer would have to pay all benefits as they become due.**