



**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, 2017. 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*

321 North Clark Street • 700
Chicago, Illinois 60654
312-236-4700 • 312-527-0192 (fax)
www.meabf.org

Board of Trustees

Jeffrey J. Johnson, President
IBEW Local 9
Term 2015-2018
johnsonj-trustee@meabf.org

Erin Keane, Vice-President
Comptroller, City of Chicago
Ex-Officio
keanee-trustee@meabf.org

Kurt A. Summers, Jr., Treasurer
Treasurer, City of Chicago
Ex-Officio
summersk-trustee@meabf.org

Thomas J. McMahon,
Recording Secretary
IUOE, Local 150
Term 2016-2019
mcmahont-trustee@meabf.org

Verna R. Thompson, Trustee
SEIU, Local 73
Term 2017-2020
thompsonv-trustee@meabf.org

Administrative Staff
Jim Mohler
Executive Director

Stacey Ruffolo
Deputy Executive Director

Kimberly Carroll
Benefits Manager

Sandra Shelby
Comptroller

Steve Yoon
Investment Manager

John Kim
*Information Technology
Manager*

**ABRIDGED STATEMENT OF FINANCIAL POSITION
December 31, 2017 and 2016
(\$000)**

	<u>2017</u>	<u>2016</u>
Employee Contributions	\$134,765	\$130,391
Employer Contributions	<u>261,764</u>	<u>157,444</u>
Total Contributions	396,529	287,835
Benefits & Refunds	(888,174)	(867,397)
Administrative	<u>(6,473)</u>	<u>(7,057)</u>
Total Deductions	(894,647)	(874,454)
Net Operating Deficit	(498,118)	(586,619)
Net Investment Income	<u>610,515</u>	<u>281,419</u>
Other Additions – OPEB Termination	<u>5,393</u>	
Net Assets – Beginning of Year	<u>4,436,228</u>	<u>4,741,428</u>
Net Assets – End of Year	<u>\$4,554,018</u>	<u>\$4,436,228</u>

The Asset Net position of the Fund was \$4,544.0 million as of December 31, 2017 compared to \$4,436.2 million as of December 31, 2016. During 2017, the Fund experienced an increase in its net assets of \$117.8 million. The increase was mainly attributed to unrealized appreciation in the value of investment assets and accrued employer contributions. The Fund had total additions of \$1,012.4 million and total deductions of (\$894.6 million). The Fund's investment portfolio net return for 2017 was 15.1%.

FUND MEMBER STATISTICS

	<u>Total</u>	<u>%</u>		<u>Total</u>	<u>%</u>
Active Members			Active Members		
City of Chicago	14,135	46%	Male	12,518	40%
Board of Education	16,721	54%	Female	18,404	60%
Other	<u>66</u>	0%	Average Salary		\$54,542
	30,922		Average Years of Service		11.4 Y
			Average Age		46.4 Y
Annuitants					
Female	13,021	62%			
Male	<u>8,116</u>	38%			
	21,137				
Average monthly annuity		\$3,198			
Average age		72.9 years			
Beneficiaries					
Spouse	4,007				
Child	114				

2017 SUMMARY INVESTMENT OVERVIEW

Since the Great Recession, the global markets have been steadily rising, and 2017 was no exception. Equity markets displayed strong returns (21.8% for S&P 500 and 27.2% for MSCI ACWI ex US) and this performance by the market was evident in the Fund's diversified portfolio.

The Fund's investment portfolio generated a 15.1% return net-of fees, compared to 14.5% for the policy benchmark. Major contributors to the return were; International Equity (32.2%), led by Emerging Markets, performed well above its benchmark MSCI ACWI ex US (27.2%). Fixed Income (4.0%) and Hedge Fund (10.7%) asset classes slightly outperformed their respective benchmarks, Barclays Aggregate Bond Index (3.5%) and HFRX Equity Hedge Index (10%), respectively.

The remaining asset classes trailed their respective benchmarks; Domestic Equity (19.8%) compared to Wilshire 5000 Total Market Index (21%), Real Estate (5.6%) compared to NCREIF Property Index (7%).

In 2017, the Fund initiated and/or completed several transitions to both opportunities to outperform and add some defensive positions to appropriately distribute the Fund's risk budget. The following actions were taken during the year:

Domestic Equity

- A Mid-Cap Growth manager and a Large-Cap Growth manager were terminated. The proceeds were invested in passively managed accounts to save on fees
- Initiated active Small-Cap Value manager search to replace a manager that had been underperforming

International Equity

- An International Small-Cap manager was funded to capture opportunities in the International Small-Cap market

Defensive Strategies

- Hedge Fund exposures were moved to more liquid strategies and defensive mandates. Parametric and Neuberger Berman's Defensive Equity Strategies were hired, and the Fund's remaining traditional Hedge Fund allocations have also transitioned into more liquid strategies

Fixed Income

- Initiated an active core fixed income mandate search to replace some underperforming mandates

Performance Returns by Asset Class

As of December 31, 2017

	Calendar Year Returns					Annualized Returns		
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>10 Yrs</u>
Total Plan								
The Plan - Net of Fees	15.1%	6.3%	2.1%	5.1%	16.1%	7.8%	8.9%	5.3%
Policy Benchmark	14.5%	6.3%	0.6%	5.8%	14.3%	7.0%	8.2%	4.4%
Traditional Asset Classes								
The Fund - Fixed Income	4.0%	6.5%	0.6%	4.3%	0.4%	3.7%	3.1%	4.3%
Barclays Cap Aggregate Bond Index	3.5%	2.6%	0.6%	6.0%	-2.0%	2.2%	2.1%	4.0%
The Fund - Domestic Equity	19.8%	11.3%	-0.7%	8.6%	33.6%	9.8%	13.9%	8.3%
S&P 500 Index	21.8%	12.0%	1.4%	13.7%	32.4%	11.4%	15.8%	8.5%
The Fund - International Equity	32.2%	2.6%	-1.1%	-2.9%	17.6%	10.3%	8.9%	4.9%
MSCI ACWI ex U.S. Index	27.2%	4.5%	-5.7%	-3.9%	15.3%	7.8%	6.8%	1.8%
Alternative Asset Classes								
The Fund - Real Estate	5.6%	7.6%	14.2%	11.7%	12.4%	9.4%	10.4%	3.3%
The Fund - Private Equity	8.8%	12.8%	9.2%	13.9%	10.9%	10.0%	11.0%	9.4%
The Fund - Hedged Equity	10.7%	-1.1%	3.4%	5.4%	17.6%	4.2%	7.0%	N/A

2017 SUMMARY LEGISLATIVE OVERVIEW¹

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 2017 and 2016, affected the operations of the Fund and the rights of its membership:

2017 Session

Public Act 100-0023 (SB 0042)

- Approved July 6, 2017 (effective date)
- Creates a new tier of benefit eligibility and contribution requirements for members (Tier 3) who first become members on or after the effective date of the Act. Benefit structure would be consistent with a Tier 2 member, except as reflected below:
 - Members would contribute 11.5%
 - Beginning January 1, 2018, members would contribute the lesser of 11.5% or the normal cost of the accrued benefit calculated on an annual basis; not less than 8.5%
 - Qualified members would be able to retire at 65 years of age undiscounted and 60-64 years of age discounted.
- A Tier 2 member would have from October 1, 2017 to November 15, 2017 to make an irrevocable election to become a Tier 3 member.
- Creates an optional benefit structure for certain Tier 2 members. Must be passed by resolution or ordinance by the governing body of the local government.
- Requires law department employees first hired after the effective date of the Act to be members of the Fund.
- The City of Chicago will increase contributions to the Fund from 2018 to 2022 (ramp period) and then begin paying a required contribution to achieve 90% funding in 40 years (2058).
- Allowed the Fund's to subrogate a disability injury that was caused by a third party .
- Closes the Alternate Annuity for City Officers Fund to officers who first become an elected officer after the effective date of the Act.
- Alters the Felony conviction provision to provide that any refund to a person, who is convicted of a felony that was in relation to their service as a municipal employee, shall be reduced by any benefit received by the person prior to the calculation of the refund. This change relates to persons who first become members after the effective date of the Act.

Public Act 100-0334 (HB 0350)

- Approved August 25, 2017 (effective date)
- Provides for the forfeiture of benefits for any person who otherwise would receive a survivor benefit who is convicted of any felony relating to or arising out of or in connection with the service of the member from whom the benefit results.
- Provides that this legislation will not affect any right to survivor benefits prior to the effective date of this Act.

Public Act 100-0542 (SB 1714)

- Approved November 8, 2017 (effective date)
- Amends the General provisions of Article 1 of the Illinois Pension Code
- Requires an investment consultant to annually disclose to the Board (of a retirement system, pension fund or investment board) the following:
 - Total searches conducted for investment services in the prior year
 - Total searches conducted for investment services in the prior year that include minority owned, female owned, or businesses owned, by a person with a disability (MWDBE), number of MWDBE recommendations made, and amounts awarded to the MWDBE
 - Requires a consultant to disclose any compensation or economic opportunity received in the last 24 months from any investment advisors recommended to or retained by the Board (of a retirement system, pension fund, or investment board).
 - Requires consideration of these disclosures before awarding any contract for consulting services

¹ Segal Consulting, *Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation and Review as of December 31, 2017 May 2018* (p.89-90). Retrieved from <https://www.meabf.org>.

2016 Session

Public Act 99-0683 (HB 6030)

- Approved July 29, 2016 (effective date)
- Requires every pension fund or retirement system under the Code to develop and implement, by no later than June 30, 2017, a process to identify annuitants who are deceased. The process shall require the pension fund or retirement system to check for any deceased annuitants at least once per month and shall include the use of commonly accepted methods to identify persons who are deceased, which include but are not limited to, the use of a third party entity that specializes in the identification of deceased persons, the use of data provided by the Social Security Administration, the use of data provided by the Department of Health's Office of Vital Records, or the use of any other method that is commonly used by other states to identify deceased persons.

2017 SUMMARY FUND ACTUARIAL VALUATION²

Summary of Key Valuation Results

	2018	2017
Contributions for Fund year beginning January 1:		
Actuarially determined contribution requirement	\$1,049,915,647	\$1,005,456,621
Expected employer contributions	344,000,000	266,000,000*
Actual employer contributions **	---	261,763,635
Funding elements for Fund year beginning January 1:		
Employer normal cost, including administrative expenses, adjusted for timing	\$ 96,931,103	\$ 119,373,624
Market value of assets	4,554,018,287	4,436,227,596
Actuarial value of assets	4,456,771,774	4,590,366,241
Actuarial accrued liability	16,282,396,195	15,055,348,696
Unfunded actuarial accrued liability on an actuarial value basis	11,825,624,451	10,464,982,455
Funded ratio on an actuarial value basis	27.37%	30.49%
GASB information as of December 31 of the prior year:		
Long-term expected rate of return	7.00%	7.50%
Municipal bond index	3.44%	3.78%
Single equivalent discount rate	7.00%	3.91%
Total pension liability	\$16,282,396,195	\$23,291,271,396
Fund fiduciary net position	4,554,018,287	4,436,227,596
Net pension liability	11,728,377,908	18,855,043,800
Fund fiduciary net position as a percentage of total pension liability	27.9%	19.05%

*Revised from prior year report pursuant to Public Act 100-0023

**Receivable amount to be paid the following year

Segal Consultants delivered the 2017 Actuarial Valuation ("Valuation") to the Board of Trustees ("Board") on May 17, 2018.

The 2017 Valuation establishes the net pension liability under the Government Accounting Standards Board (GASB) Statement No. 67 as of December 31, 2017, the pension expenses for the fiscal year ending December 31, 2017, under GASB Statement No. 68, and the actuarially determined contribution for the year ending December 31, 2018, 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 2017 Valuation:

MEABF is funded by employer and member contributions in accordance with 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 2018 through 2022, employer contributions are specified amounts: \$266 million in 2018, \$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 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 fixed-dollar contributions through 2022 leave the Fund vulnerable to adverse experience. Given the low funded ratio, the Fund is still at risk of potential insolvency if an economic recession or investment market downturn were to occur in the near term.**

² Segal Consulting, *Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation and Review as of December 31, 2017 May 2018* (p.vi). Retrieved from <https://www.meabf.org>.

2017 SUMMARY ADMINISTRATIVE ACCOMPLISHMENTS

The following services to members and administrative accomplishments occurred in 2017:

- 303,096 annuity benefit payments to retirees and beneficiaries totaling \$842.6 million. Of these, 93% were paid via electronic funds transfer with the remaining 7% by check.
- 25,383 annuitants at year-end 2017, 21,916 or 86% remained Illinois residents and 3,467 or 14% were out-of-state residents. Approximately 15,826 annuitants residing in the City of Chicago received benefit payments totaling \$541.7 million annually.
- 25,243 annual benefit statements showing new benefit amounts and deductions for 2017 were mailed to annuity benefit recipients.
- 1,449 new retirees, spouse/reversionary/child annuitants added to annuity payroll.
- 1,301 retirees, spouse/reversionary/child annuitants were removed from payroll due to death or termination.
- 5,290 benefit payments to disabled participants totaling \$11.7 million. At year-end, there were 162 disabled participants receiving ordinary disability benefits and 211 disabled participants were receiving duty disability benefits.
- 29,152 1099Rs issued for tax reporting purposes.
- 24,349 pension verification forms sent to benefit recipients to confirm that the intended recipients were still alive and therefore eligible to receive benefits.
- 27,239 printed statements of contributions to active participants.
- 2,994 individualized benefit counseling sessions conducted.
- 2,897 benefit estimates mailed.
- 116,393 phone calls received.
- Quarterly pre-retirement seminars held.
- 1,018 lump sum payments to members not eligible for retirement.
- 585 lump sum payments of spousal contributions.
- 29 lump sum payments in lieu of annuity.
- 79 lump sum payments to beneficiaries.
- 86,097 documents (169,914 pages) indexed and scanned during 2017.
- The Benefits Department promoted three staff members to supervisory positions and hired and trained two benefit counselors to fill vacancies created by staff promotions.
- The Benefits Department implemented a third benefit structure established by Public Act 100-0023, passed July 6, 2017, which added a third tier of membership to the Fund.
- Phase I of the Fund's Pension Benefit System was completed and Phase II system development was initiated, thus allowing for quicker processing of both disability and retirement benefits.
- Annuitant Services integrated newly available information from the Illinois Department of Public Health ("IDPH") potentially identifying deceased members in a timelier manner, thus limiting overpayments to members whose death was not reported to the Fund.
- The Annuitant Services department hired and trained a new member representative to fill a vacancy created by a staff departure.
- The Accounting department hired and trained two staff accountants to fill vacancies created by staff retirements and departures.
- Incorporated procedures and analyzed membership data to ensure that all current and future members are categorized properly due to the addition of the Tier 3 membership level.
- Completed data exchange with non-reciprocal, City Funds to identify any matches of member data.
- Cross-trained part-time personnel to support multiple departments of the Fund to assist annual high-volume projects.
- Fund staff responded to 39 requests made in accordance with the Illinois Freedom of Information Act.
- The Fund established a social media presence on Facebook to provide timely updates on Fund news and events.
- Investment staff successfully transitioned investment team personnel to fill vacancies created by the departure of senior staff members.
- Investment staff developed and implemented written procedures to enhance and streamline department functions.

A full version of the CAFR Report can be found on the Fund's website at www.meabf.org/publications/.
Information contained in this report is attributed to the Fund's Actuarial Report and the Audited Financial Report.