MEABF CHICAGO

PENSION Matters

WINTER 2018, v47

FROM THE PRESIDENT

Let me begin by saying what an honor it has been being elected Trustee to the Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF"). As I finish my second year I am truly humbled to become President of MEABF for 2018 and look forward to fighting for what you have earned. This past year saw the passage of a funding bill that begins to heal twenty years of woefully inadequate funding. Starting next year, the City of Chicago will contribute 60% more than the previous year. Funded partially by the "water & sewer tax" that is collected by the City for use in paying the required contributions to the MEABF, it increases for five straight years till 2023 when the City of Chicago will begin to contribute an actuarially calculated contribution to achieve a 90% funding ratio by 2058.

What was needed was a long- term plan to ensure the solvency of MEABF. Increased employer contributions over five straight years and, most important, ensuring that the actuarial calculated payments beginning in 2023 are made and in full. I challenge every elected City of Chicago official (who ARE MEMBERS of MEABF and get this newsletter) to begin discussing the funding sources that will be required in the near future to ensure the solvency of MEABF. As MEABF is larger than the other three City of Chicago pension funds combined, the City of Chicago must plan for the future to ensure that the people that gave their lives to the City of Chicago have retirement security.

Next item is the number one thing I hear when I visit city work sites, "What about retiree healthcare?!?!" I will start by saying I personally feel that this could and should have been handled differently from the start being that not only is it a "diminishment and impairment" but it's just wrong what has happened. During ongoing litigation that has often painted pension funds in a negative light I want to make a few things clear. MEABF has always acted as a clearinghouse, deducting your retiree healthcare payment and distributing it to the City of Chicago, while contributing a statutory flat dollar amount, which concluded at the end of 2016. The pension funds did what was required by Illinois law and were NOT the ones who began the sad road of ending retiree healthcare. I await the ongoing litigation and hope that retirees end up paying "modest cost levels" for healthcare as they have dedicated their lives to the City of Chicago.

As President I plan to improve member communication during my tenure via social media, emails and regular mailings. I feel that members should hear from the pension fund more often. Look for communications regarding upcoming City of Chicago retirement seminars, pension legislation or even retirement tips like when is the best time of the year to retire or upcoming changes. I am proud to say the new MEABF Facebook page is up and running providing easy to follow updates of the on-goings with MEABF. Make sure you go to the MEABF website and submit your email address as we plan on developing platforms that are easy to follow that are long overdue so ALL members know what is going on with THEIR retirement. Another idea I hope to finalize during my tenure as President is expanding on Trustee election voting opportunities. I feel it's hard for roughly 94% of active membership to get to our current office location, where annual elections have occurred. This should help active members to participate in the voting process. I also believe there should be a retired trustee on the MEABF Board as we are the only Chicago pension fund without one. It's an easy fix but one that has to come through the Illinois Legislature and anyone that remotely follows Springfield, knows that's easier said than done, but is on my agenda for 2018.

Whether active or retired this is YOUR pension fund. From the five members of the MEABF Board to the entire staff at MEABF, we work to ensure what you dedicated your lives to is there when you need it. Things such as sound investments, showing fiduciary prudence, and making sure contributions arrive on time; the staff of MEABF is here to serve you.

If you take care of your City, your City should take care of you.

Jeff Johnson
MEABF President, IBEW Local 9

FROM THE EXECUTIVE DIRECTOR

Dear Members,

I hope this newsletter finds you and your family well. On behalf of the Fund Staff, we would like to update you on the status of the Fund.

The Fund, since inception, has been funded by utilizing a static multiple of employee contributions. This structure has never been a proper funding mechanism for funding a pension plan. It has led to significant underfunding of the Fund, which continues to reduce assets as benefits paid far exceed contributions received.

Over the last few years, attempts to change the funding mechanism for the Fund to ensure the long-term solvency have been declared unconstitutional due to changes made to the existing benefit structure. The most recent funding structure, which was included in Public Act 100-0023 and became law on July 6, 2017, has increased employer contributions for 2018 to 2022, and begins an actuarial based funding plan projected to bring the Fund to 90% funding in 40 years.

The positives: The new law is the first time that the employer has recognized that they are responsible for the solvency of the Fund. This additional funding will begin to reduce the annual operating cash flow deficit that the Fund faces; currently $3 in benefits goes out for every $1 of contributions received.

The concerns: Any funding mechanism that freezes annual payments for a period of time continues to put stress on the balance of Fund assets, as market downswings and changes in assumption, can put negative pressure on the Fund's asset reserves. In addition, future employer contributions that will be required after this “ramp” period will grow significantly compared to the payments made during the ramp.

We realize that the Fund has a better financial future than it did prior to the new law, however, we remain concerned regarding the level of funding for years to come - before contributions reach a level much closer to benefits being paid out.

On behalf of the Retirement Board and Fund staff, I would like to congratulate Verna R. Thompson on her election to the Retirement Board for the term December 1, 2017 through November 30, 2020. Trustee Thompson is a Supervising Traffic Control Aide at Midway Airport and a member of SEIU. Ms. Thompson has been a member of the Fund since 2005.

I would be remiss if I did not recognize Timothy G. Guest. Mr. Guest began his service on the Retirement Board in July of 2010 and was instrumental in many of the changes in the Fund over the past seven years. It is with gratitude that we wish him well in his future endeavors.

Finally, members who signed up on the Fund's website will receive an electronic version of this newsletter through their email. Be sure to visit our website, meabf.org and the Fund's Facebook page for the most recent news and information regarding the MEABF.

Thank you for your support and we wish you good health and happiness going forward.

Jim Mohler, Executive Director

MEABF
CHICAGO

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

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
Ext. 2109

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

CPS Retiree Healthcare
(773) 553-4748

Social Security Administration
(800) 772-1213

MEABF.ORG

"TIER 2" BENEFITS

Illinois Public Act 96-0889 Enacted April 14, 2010

Members Impacted

• Any person who first became a contributing member under any Designated Reciprocal Fund[1] on or after January 1, 2011, but prior to July 6, 2017

Benefits

Eligibility for Employee Annuity

• Member is eligible for unreduced minimum formula annuity at age 67 with 10 years of service
• Member is eligible for reduced minimum formula annuity at age 62 with 10 years of service; reduction for early retirement equal to ½ of 1% per month for each full month below age 67

Employee Annuity Amount

• Annuity is 2.4% for each year of service multiplied by final average salary
• Final average salary is based on an 8-year average salary which is capped at $112,408.42 in 2017, increased annually at the lesser of 3% or 50% of CPI-U for the 12 months ending with the September preceding each November 1
• Annual increase in annuity (commonly referred to as the "COLA") is to be determined by statute (not compounded) [2]

Eligibility for Annual Increase in Employee Annuity

• Annual increase in employee annuity starts on the January 1 occurring on or after the later of:
– attainment of age 67, or
– the first anniversary of the annuity start date

Survivor Annuity Amounts (subject to eligibility):

• Spouse annuity
– Annuity is equal to 66⅔% of member's earned annuity at time of death
• Annual increase in annuity (commonly referred to as the "COLA") is to be determined by statute (not compounded) [2]
• Child Annuity
– Annuity is $220/month if a spouse annuity is payable or $250 per month if no spouse annuity is payable. This benefit is payable until the child turns age 18.

Employee Contributions

(as percentage of capped salary)
• 8.5%

"TIER 3" BENEFITS

Illinois Public Act 100-0023 Enacted July 6, 2017

Members Impacted

• Any person who first becomes a contributing member under any Designated Reciprocal Fund[1] on or after July 6, 2017 ; or
• Any Tier 2 Member who, subject to PA 100-0023, irrevocably elected, between October 1, 2017 and November 15, 2017, to be subject to the Tier 3 benefit structure (an "Elective Tier 3 Member*)

Benefits

Eligibility for Employee Annuity

• Member is eligible for unreduced minimum formula annuity at age 65 with 10 years of service
• Member is eligible for reduced minimum formula annuity at age 60 with 10 years of service; reduction for early retirement equal to ½ of 1% per month for each full month below age 65

Employee Annuity Amount

• Same as Tier 2

Eligibility for Annual Increase in Employee Annuity

• Annual increase in employee annuity starts on the January 1 occurring on or after the later of:
– attainment of age 65, or
– the first anniversary of the annuity start date

Survivor Annuity Amounts (subject to eligibility):

• Same as Tier 2

Employee Contributions

(as percentage of capped salary)
• Required Tier 3 Member
– 11.5% beginning immediately
• Tier 2 member who makes an irrevocable conversion into Tier 3:
– 9.5% beginning July 6, 2017;
– 10.5% beginning January 1, 2018; and then
– 11.5% or normal cost (subject to 8.5% floor), whichever is less, beginning January 1, 2019

Note: When 90% funded status is reached, employee contributions drop from 11.5% to 7.5% and remain at 7.5% unless the funded ratio falls below 75%

1. Designated Reciprocal Fund shall refer to any of the following pension funds or retirement systems: (1) Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, (2) Municipal Employees' Annuity and Benefit Fund of Chicago, (3) Illinois Municipal Retirement Fund, (4) County Employees' and Officers' Annuity and Benefit Fund, (5) Forest Preserve District Employees' Annuity and Benefit Fund, (6) Park Employees' and Retirement Board Employees' Annuity and Benefit Fund, (7) Metropolitan Water Reclamation District Retirement Fund, (8) State Employees' Retirement System of Illinois, (9) State Universities Retirement System, (10) Teachers Retirement System of the State of Illinois, and (11) Public School Teachers' Pension and Retirement Fund of Chicago

2. The Statutory increase is the lesser of 3% or 50% of CPI-U for the 12 months ending each preceding September applied to the original annuity amount.

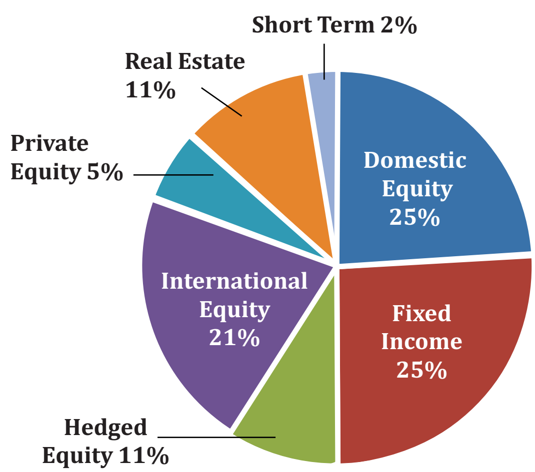
2016 INVESTMENT PERFORMANCE

For the year ended December 31, 2016, MEABF's portfolio returned 6.3% net of fees, which was on par with the policy benchmark and returned 8.4% net of fees annualized over five-years versus 7.6% for the policy benchmark. Global markets experienced strong returns throughout 2016 from several unexpected factors that occurred during the year, such as slow interest rate growth, declining unemployment rate, BREXIT and the Presidential election. Fixed income experienced modest growth with help from strong performance by high yield and bank loan sectors. U.S. equity had strong returns with small cap stocks outperforming large cap stocks for the year. International equity and hedged equity underperformed for the year. Given these market conditions, it was a difficult year for active managers to outperform the major indices. Investment managers that rely on high quality stocks also suffered due to lower quality stocks rallying with the stimulating policy proposals from the new administration.

Compared to peers with similar asset size, the Fund's annualized composite return ranked 82nd for 2016 mainly attributed to the Fund's higher international exposure compared to peers. Over five years the Fund ranked 32nd for the five-year time period. The strongest performing asset class compared to its respective benchmark in 2016 was fixed income which generated an annual return of 6.5% outperforming the Barclays US Aggregate by 3.9%. Our allocations to high yield strategies along with bank loans, helped drive up the total fixed income returns.

Nevertheless, 2016 was a difficult year for a portfolio that is defensively positioned to outperform portfolios with more aggressive asset allocations. As a long-term investor, MEABF maintains a plan to achieve investment goals and objectives through our Investment Policies and a diversified asset allocation, which is not always evident over shorter time periods.

Asset Allocation as of 12/31/2016



CPS ANNUITANT HEALTHCARE COVERAGE

Chicago Public Schools (CPS) annuitants who retired from service with the CPS and are participating in the CPS annuitant healthcare program must contact the Fund when the any of the following occur:

Medicare eligibility – notify MEABF within 60 days of eligibility

Death or divorce of a spouse or dependent - notify MEABF within 90 days of event

Dependent reaches the age limit of the plan – notify MEABF within 90 days of the event

Annuitants with questions regarding their current healthcare coverage should contact the following numbers for assistance:

Chicago Public Schools
Retiree Healthcare
(773) 553-4748

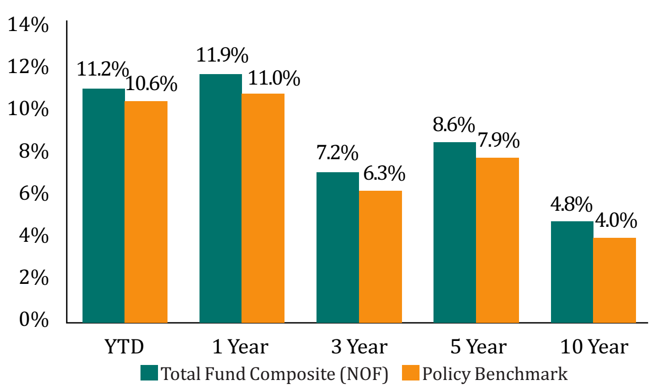
YEAR-TO-DATE SUMMARY As of 9/30/17

As of September 30, 2017, international equity outpaced all the other asset classes aided by strong performance by emerging markets. U.S. equity continues to perform well with active managers finally finding a groove but the indices continue to soar higher. Fixed Income asset class had a moderate return led by High Yield. Traditional long-short hedge funds also performed well year-to-date despite the lag in 2016. Over the first nine months of the year, MEABF's total portfolio returned 11.2% versus 10.6% for the Policy benchmark aided by the strong global equity market.

Return on Investments

as of September 30, 2017

	YTD	1 Year	3 Year	5 Year	10 Year
Total Fund Composite (NOF)	11.2%	11.9%	7.2%	8.6%	4.8%
Policy Benchmark	10.6%	11.0%	6.3%	7.9%	4.0%



The Board approved modifications to its target asset allocation mix in 2016 to realign the Fund's hedged equity asset class with more liquid, less expensive strategies. With the receipt of the actuarial valuation Report for 2016, MEABF will be reviewing its current asset allocation. MEABF staff, together with the investment consultant, continue to analyze the appropriateness of the portfolio to provide growth opportunities for Plan assets in the years to come.

2017 MEABF PROJECTED INVESTMENT ACCOUNT SUMMARY

Investment Account Summary
as of December 31, 2017
(in millions/rounded)

Beginning Asset Value	
January 1, 2017	**$ 4,293**
Employer Contribution	157
Employee Contribution	131
Total Contributions	288
Total Deductions	(900)
Net Operating Deficit	**(612)**
Investment Return 2017	607
Ending Asset Value, Dec. 31, 2017	$ 4,288

*These represent unaudited figures.
Audited Financial Statements for 2017
will be available on our website by mid-April.

MEABF is now on Facebook!
Follow our page
for up-to-date information
regarding Fund News.

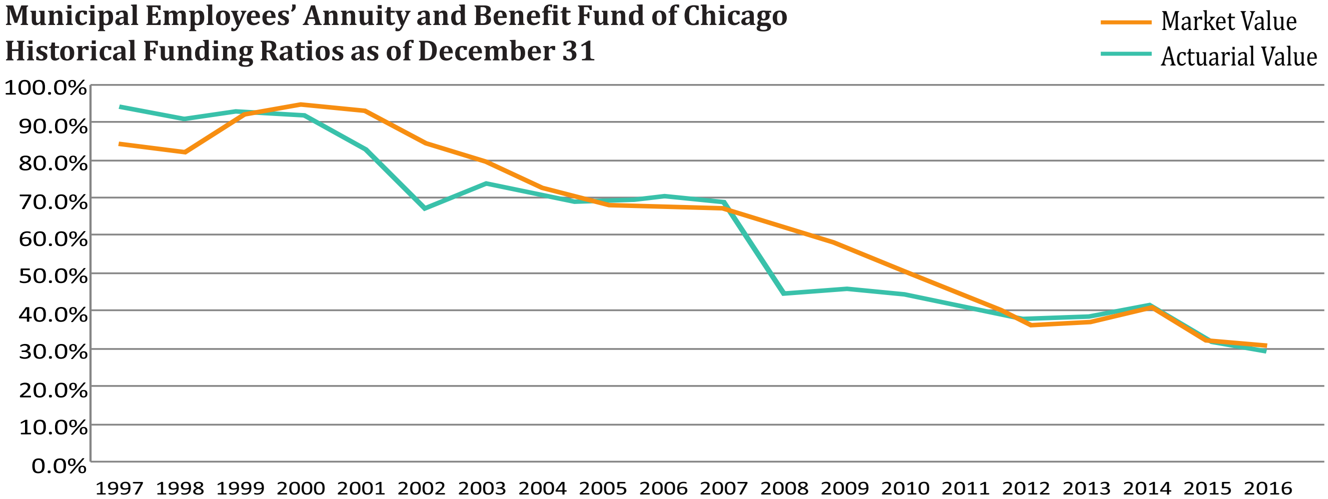
chimunipension

ACTUARIAL ANALYSIS

The health of the pension plan is often measured by its funding ratio. The funding ratio compares a plan's asset to its liabilities. When a plan's funding ratio is at 100%, the plan is considered fully funded. A funding ratio above 100% indicates a funding surplus, while a funding ratio below 100% indicates a funding deficit.

MEABF's ratio as of December 31, 2016 was 30.5% computed on an actuarial basis and 19.05% based on the requirements of GASB 67 (Government Accounting Standards Board). The dangerously low funding levels are attributed to receiving insufficient contributions from the employer which contributes only a fraction of the required contributions, by law, necessary to keep MEABF solvent.

Municipal Employees' Annuity and Benefit Fund of Chicago
Historical Funding Ratios as of December 31



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.

MEABF.ORG

Municipal Employees' Annuity
and Benefit Fund of Chicago
A Pension Trust Fund of the City of Chicago
321 North Clark Street, Suite 700
Chicago, Illinois 60654-4767

PRESORTED
FIRST CLASS
U.S. POSTAGE
PAID
Chicago, IL
Permit No. 6499