MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

FINANCIAL REPORT

DECEMBER 31, 2012 AND 2011

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

CONTENTS

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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 position of Municipal Employees' Annuity & Benefit Fund of Chicago (the Plan), a Component Unit of the City of Chicago, as of December 31, 2012 and 2011, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of Municipal Employees' Annuity & Benefit Fund of Chicago as of December 31, 2012 and 2011, and the changes in its plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions on pages 3 through 9 and pages 32 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of administrative and OPEB expenses, investment management compensation, and professional and consulting costs are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of administrative and OPEB expenses, investment management compensation, and professional and consulting costs are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Bansley and Kiener, L.L.P.
Certified Public Accountants

April 16, 2013

Management's Discussion and Analysis

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, 2012. 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, 2012.

Overview of the Financial Statements

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

The Statements of Plan Net Position reports MEABF assets at fair value, liabilities at amounts owed as of the statement date and the resulting net plan position (assets less liabilities = net plan position) at the calendar year end reserved to pay future benefits to retirees and beneficiaries.

The Statements of Changes in Plan Net Position shows the results of financial activities that occurred during the calendar year. It discloses the additions to plan net position, such as contributions and net investment income, and deductions from plan net position such as benefit payments and administrative expenses. The resulting net increase (or decrease) in plan position (additions less deductions = net increase (or decrease) in plan position) reflects the change in plan position reported in the Statements of Plan Net Position.

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 the required Schedule of Funding Progress and Schedule of Employer Contributions as well as related disclosures. The Schedule of Funding Progress compares the actuarial value of assets to actuarial liabilities, as of actuarial valuation dates over a period of six years, and reports the unfunded actuarial accrued liability (UAAL). The schedule also presents the actuarial funded ratio and the UAAL as a percentage of the covered payroll of all members. The Schedule of Employer Contributions presents the Annual Required Contributions (ARC) as defined by GASB for the employer and compares them to actual employer contributions over a period of six years. The schedule also provides the percentage of the ARC that was actually contributed each year.

Additional supplemental schedules include information regarding administrative expenses, consulting costs and investment management fees incurred by MEABF.

Financial Highlights

- MEABF's total investment portfolio generated a return of 12.6 percent in 2012 on a net-of-fees basis. The net returns in 2011 and 2010 were 0.1 percent and 14.2 percent, respectively. The total portfolio return in 2012 far exceeded the 7.5 percent actuarial investment return assumption.

- Plan net position reported in the Statements of Plan Net Position total $5,182.7 million, an increase of $129.5 million or 2.6 percent from the prior year. The growth in assets would have been significantly higher if approximately $459.8 million in portfolio assets were not liquidated to supplement the disbursement of benefit payments during the year.

- Total additions as reported in the Statements of Changes in Plan Net Position total $877.9 million, an increase of $557.2 million or 173.7 percent from the prior year.

- Total deductions as reported in the Statements of Changes in Plan Net Position total $748.4 million, an increase of $45.3 million or 6.4 percent from the prior year.

- As of the December 31, 2012 actuarial valuation, the total Plan's Unfunded Actuarial Accrued Liability (UAAL) for both pension plan and post-employment healthcare subsidy based on the Actuarial Value of Assets increased to $8,564.1 million in 2012 from $6,903.9 million in 2011, an increase of $1,660.2 million from the prior year. The increase in the UAAL is mainly attributable to lowering the investment return assumption from 8.0 percent per year to 7.5 percent per year, the recognition of deferred investment losses from 2008 and 2011, and continued contribution shortfalls relative to the actuarially determined contribution requirement.

- 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 37.2 percent in 2012 from 44.6 percent in 2011 and 49.8 percent in 2010. The decrease in 2012 is mainly attributable to the same influences noted above for UAAL.

- The net annual required contribution (ARC) for pension benefits only under Governmental Accounting Standards Board (GASB) Statement #25 for 2012 was $690.8 million, and the employer contributed only 21.5 percent or $148.9 million in 2012. The ARC for post-employment healthcare subsidy for 2012 was $14.6 million, and the employer contributed 65.1 percent or $9.5 million in 2012. State statutes limit employer contributions to 1.25 times employee contributions two years prior.

Financial Analysis

Plan Net Position (in millions)
(As of December 31, 2012, 2011 and 2010)

				Increase (Decrease) From 2011 to 2012	
	FY 2012	**FY 2011**	**FY 2010**	$ Change	% Change
Cash, receivables and other assets	$ 227.1	$ 216.3	$ 234.3	$ 10.8	5.0%
Investments, at fair value	5,057.9	4,938.8	5,292.2	119.1	2.4%
Invested securities lending collateral	540.0	593.3	638.4	(53.3)	-9.0%
Total assets	5,825.0	5,748.4	6,164.9	76.6	1.3%
Liabilities	102.3	101.9	90.9	0.4	0.4%
Securities lending collateral	540.0	593.3	638.4	(53.3)	-9.0%
Total liabilities	642.3	695.2	729.3	(52.9)	-7.6%
Total plan net position	**$ 5,182.7**	**$ 5,053.2**	**$ 5,435.6**	**$129.5**	**2.6%**

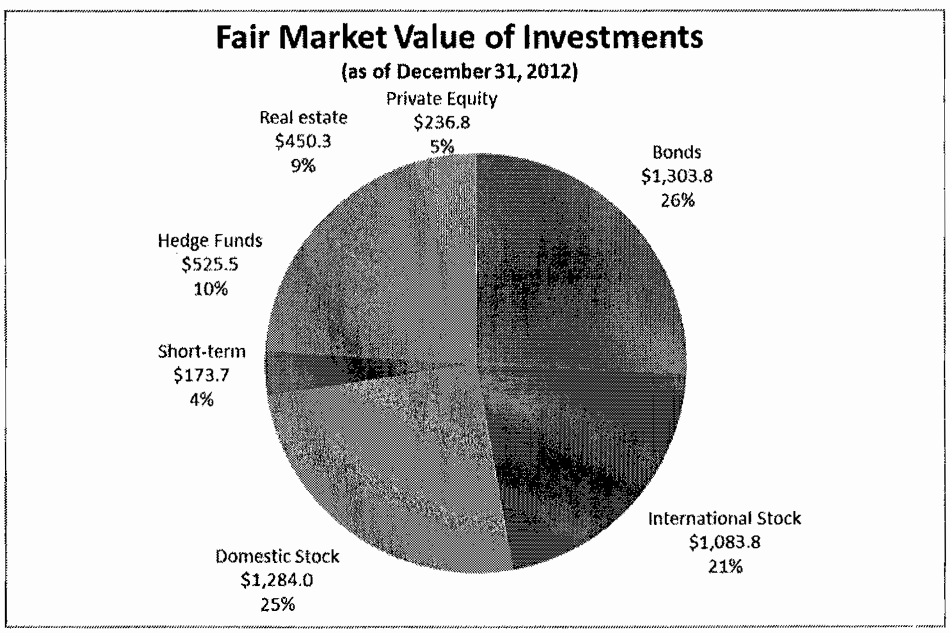
Plan net position as of December 31, 2012 showed a total plan net position restricted for pension and healthcare subsidy benefits of $5,182.7 million, compared to $5,053.2 million in 2011. Plan net position increased by $129.5 million or 2.6 percent from 2011 mainly due to the appreciation in the fair value of investments in 2012. The growth in assets would have been significantly higher if approximately $459.8 million in portfolio assets were not liquidated to supplement the disbursement of benefit payments during the year. The value of cash collateral received in exchange for the securities on loan, shown both as assets and liabilities at year-end, decreased to $540.0 million in 2012 from $593.3 million in 2011.

Summary of Investments (in millions)
(As of December 31, 2012, 2011 and 2010)

	FY 2012	FY 2011	FY 2010
Bonds	$ 1,303.8	$ 1,268.8	$ 1,261.0
Domestics equity	1,284.0	1,423.8	1,684.7
International equity	1,083.8	923.5	1,188.5
Hedged equity	525.5	483.1	500.4
Real estate	450.3	405.6	262.9
Private equity	236.8	209.9	166.7
Short-term investments	173.7	224.1	228.0
	$ 5,057.9	**$ 4,938.8**	**$ 5,292.2**

The asset values reflected above fluctuate from year-to-year, both in aggregate and by asset class, based on factors such as investment performance, liquidations within certain asset classes, and rebalancing of assets within the overall portfolio.

Investment performance had a positive impact on asset values in 2012 both in aggregate and in terms of individual asset classes. In aggregate, the investment portfolio generated a 12.6 percent return in 2012 on a net-of-fees basis. The best-performing individual asset classes were international equities and domestic equities, which returned 18.3 and 16.2 percent, respectively. Even bonds, which were the worst-performing asset class on an absolute return basis, generated a 7.0 percent return in 2012 and had a significantly positive impact on asset values. Having a negative impact on asset values was the need to liquidate investments to pay benefits on a monthly basis. In all, MEABF liquidated $459.8 million of investments to meet the Plan's cash flow needs. All liquidity came from the traditional asset classes—bonds, domestic equity and international equity. Aside from the regular sale of assets to meet the funds cash flow needs, there was no significant portfolio-rebalancing event that impacted individual asset class values in 2012. Also, because of the significant liquidity requirement annually to supplement benefit payments, new investments in real estate and private equity have been limited.



Additions and Deductions to Plan Net Position (in millions)

(Years ended December 31, 2012, 2011 and 2010)

	2012	2011	2010	Increase (Decrease) 2011 to 2012 $ Change
Additions:				
Employer contributions	$ 158.4	$ 156.5	$ 164.3	$ 1.9
Member contributions	130.3	132.6	133.3	(2.3)
Total contributions	288.7	289.1	297.6	(0.4)
Net investment income	586.8	29.7	631.3	557.1
Net securities lending income	2.4	1.9	7.3	0.5
Total additions	**877.9**	**320.7**	**936.2**	**557.2**
Deductions:				
Annuity benefits	681.5	640.1	607.5	41.4
Disability benefits	13.7	14.0	13.1	(0.3)
Healthcare subsidy for City and BE retirees	9.5	9.5	9.5	-
Refunds of contributions	36.9	32.1	29.9	4.8
Administrative and OPEB expense	6.8	7.4	6.8	(0.6)
Total deductions	**748.4**	**703.1**	**666.8**	**45.3**
Net increase (decrease)	129.5	(382.4)	269.4	511.9
Net position at beginning of year	5,053.2	5,435.6	5,166.2	(382.4)
End of year	**$ 5,182.7**	**$ 5,053.2**	**$ 5,435.6**	**$ 129.5**

Additions to Plan Net Position

The primary sources of revenues come from the collection of contributions and net earnings on investments. The revenues consisted of employer and member contributions totaling $288.7 million, net investment income of $586.8 million and net securities lending income of $2.4 million.

Employer contributions increased by $1.9 million in 2012 to $158.4 million compared to $156.5 million in 2011. 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 $130.3 million in 2012, compared to $132.6 million in 2011. The decrease is primarily attributable to the reduction in the workforce implemented by the City of Chicago and the Board of Education and decrease in purchases of permissive service credits.

Investment income is presented net of investment fees and is comprised of realized and unrealized investment gains and losses, interest and dividends. MEABF's investment portfolio yielded investment income of $586.8 million in 2012, up from $29.7 million in 2011. The increase is mainly attributable to the investment gains (losses), which were $495.9 million in 2012 compared to ($60.3) million in 2011. The Plan utilizes external investment managers to manage specific investment allocations. Direct investment fees decreased slightly to $25.4 million in 2012 from $25.7 million in 2011.

MEABF can earn additional investment income by allowing a provider to lend its securities to borrowers on its behalf. The borrower provides collateral on borrowed securities, which is invested in order to earn interest. Securities lending activities generated net income of $2.4 million in 2012 compared to net income of $1.9 million in 2011.

Deductions from Plan Net Position

MEABF's assets are primarily used to pay annuity benefits, post-employment healthcare subsidies, disability benefits, refunds of contributions and the costs of administering the Plan. Deductions from plan net position totaled $748.4 million in 2012, compared to $703.1 million in 2011.

Annuity benefit payments totaled $681.5 million in 2012 compared to $640.1 million in 2011. The increase of $41.4 million in 2012 from 2011 is primarily due to the compounded annual 3 percent adjustment for eligible annuitants and an increase in the number of retirees and beneficiaries receiving benefits. There were 24,120 participants receiving annuity payments at year-end December 31, 2012 compared to 23,382 at the beginning of the year.

Disability benefits paid in 2012 totaled $13.7 million compared to $14.0 million in 2011. The small decrease in 2012 from 2011 is primarily due to a decrease in the number of participants receiving disability benefits. There were 530 participants on disability at year-end December 31, 2012 compared to 610 at the beginning of the year.

Refunds of contributions totaled $36.9 million in 2012 compared to $32.1 million in 2011. The increase of $4.8 million in 2012 from 2011 is mainly due to the increase in the number of new retirees eligible for refunds of spousal contributions and an increase in the number of participants leaving their employment who had taken lump sum distributions. There were 1,041 new retirees that were granted refund of spousal contributions in 2012 compared to 731 new retirees in 2011. Full refund of contributions totaling $22.1 million were distributed to 1,230 participants in 2012 compared to $19.5 million distributed to 1,107 participants in 2011.

Administrative expenses slightly decreased by $0.6 million in 2012, from $7.4 million in 2011 mainly due to:

- $0.3 million decrease in salaries due to reduction in personnel.
- $0.2 million decrease in the cost of staff employees' group health insurance attributable to higher employee deductibles and co-pay.
- $0.1 million net decrease in other administrative expenses.

Detail relating to administrative expenses can be found in the Schedule of Administrative and OPEB Expenses located under Supporting Schedules.

Securities Lending

The Plan's custodian is utilized as its securities lending agent. The custodian is authorized by contract to lend certain securities in the investment portfolio to third parties and invest the collateral received on loaned securities in approved commingled short-term investment funds. Throughout the tumultuous credit market of 2008 and into 2009, collateral declined in value due to exposure to severely depressed securities creating a liability. With $2.4 million in securities lending income earned in 2012, the Plan's liability based on collateral pool losses was further reduced from the 2008 high of $47.4 million to $6.4 million as of December 31, 2012. In an effort to further limit risk, the Retirement Board voted in early 2011 to cap the Plan's utilization of securities lending by incorporating a 20% cap on lendable securities exposed to cash collateral, and a 30% cap on lendable securities exposed to both cash and non-cash collateral.

Economic Factors and Rates of Return

This past year was an eventful year for markets across the globe. In the U.S., the markets seemed focused on the presidential election and the fiscal and monetary policies that would result based on the outcome. In particular, investors wanted to know what, if any, additional quantitative easing measures the Federal Reserve would take and whether the U.S. would go over the "fiscal cliff". Immediately following President Obama's win, investors, whom it was believed generally favored a Romney presidency, saw the market drop dramatically. The S&P 500 fell by approximately 2.4 percent on the day following the November 6th election and by November 15th was down approximately 5.3 percent since Election Day. Luckily, positive data coming out of the housing sector reversed the short-term trajectory of the market following the election and the equity markets quickly recovered ending the year on solid ground. The S&P 500 was up 16 percent in 2012. Outside the U.S., some progress was made in 2012 in containing the European economic crisis while economic growth in China was better than expected. Despite the economic and political uncertainty that persisted throughout much of 2012, the financial markets generally showed resilience and strength.

MEABF's investment portfolio performed well in 2012. Overall, the Plan's investments generated a net-of-fees return of approximately 12.6 percent for the year. All of the major asset classes generated positive absolute returns as evidenced in the table below and generally performed well relative to their respective benchmarks.

Asset Class	Portfolio Returns (Net of Fees)
Bonds	7.0%
Domestic Equity	16.2%
International Equity	18.3%
Hedged Equity	9.4%
Open-Ended Real Estate	10.7%

Actuarial 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, 2012. The latest actuarial valuation shows a $1,660.2 million increase in the Unfunded Accrued Actuarial Liability (UAAL) for the Plan to $8,564.1 million from $6,903.9 million in 2011. The funded ratio of the actuarial assets to the actuarial accrued liability decreased to 37.2 percent from 44.6 percent in 2011. The decrease in the funded ratio is mainly attributable to lowering the investment return assumption from 8.0 percent per year to 7.5 percent per year, the recognition of deferred investment losses from 2008 and 2011 and continued contribution shortfalls relative to the actuarially determined contribution requirement. Future decreases in the funded ratio are expected to occur as a result of contributions that are insufficient to adequately finance 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, the state law constrains 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 on the State reporting basis shows a ratio of 6.41 is needed to adequately finance the Plan in fiscal year 2013. The current statutory funding mechanism impacts the ability to grow assets because in order to pay benefits, assets have and will continue to be liquidated.

Currently Known Facts, Decisions, or Conditions

The financial markets rallied throughout the beginning of 2013. For the fourth time in as many years, the Plan's portfolio has produced strong first quarter results. The estimated total return was 4.9%, unannualized.

Request for Information

Additional information is available on our website www.meabf.org or by request. Please direct your request to Mr. Jim Mohler, Executive Director, Municipal Employees' Annuity and Benefit Fund of Chicago, 321 N. Clark Street, Suite 700, Chicago, IL 60654.

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

STATEMENTS OF PLAN NET POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
Cash and cash equivalents	$ 489,086	$ 527,877
Receivables		
Contributions from the City of Chicago, net of allowance for loss of $17,011,104 in 2012 and $16,424,031 in 2011	162,638,845	159,646,424
Member contributions	8,322,212	8,855,754
Interest and dividends	14,183,655	15,554,266
Receivables for investments sold	40,818,554	30,431,163
Miscellaneous	154,316	305,168
Total receivables	226,117,582	214,792,775
Investments, at fair value		
Fixed income	1,303,764,343	1,268,830,397
Hedged equity	525,532,482	483,125,786
Domestic and international equity	2,367,715,558	2,347,257,595
Real estate	450,296,070	405,561,171
Private equity	236,847,155	209,931,492
Short-term investments	173,704,217	224,090,637
Total investments	5,057,859,825	4,938,797,078
Invested securities lending collateral	539,981,282	593,296,080
Property and equipment, net of accumulated depreciation and amortization of $2,391,804 in 2012 and $1,945,671 in 2011	470,313	1,040,642
Total assets	5,824,918,088	5,748,454,452
LIABILITIES		
Payables for investments purchased	85,647,967	83,748,358
Accounts payable and accrued expenses	6,868,517	6,626,263
Securities lending collateral	539,981,282	593,296,080
Securities lending earnings shortfall	6,436,572	8,875,719
OPEB liability	3,314,091	2,659,163
Total liabilities	642,248,429	695,205,583
Net position restricted for pension benefits	$ 5,182,669,659	$ 5,053,248,869

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 POSITION
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Additions		
Contributions from the City of Chicago	$ 158,380,709	$ 156,525,374
Member contributions	130,266,293	132,596,417
Total contributions	288,647,002	289,121,791
Investment income		
Net appreciation (depreciation) in fair value of investments	483,082,569	(68,464,890)
Interest	52,084,718	53,510,728
Dividends	64,197,961	62,235,840
Income from real estate investments	12,767,601	8,168,851
	612,132,849	55,450,529
Less investment expenses	25,373,528	25,721,614
Net income from investing activities	586,759,321	29,728,915
Security lending activities		
Securities lending income	1,382,201	1,778,340
Borrower rebates	1,486,890	423,654
Bank fees	(429,944)	(347,683)
Net income from securities lending activities	2,439,147	1,854,311
Total additions	877,845,470	320,705,017
Deductions		
Benefits		
Annuity payments	681,508,540	640,090,207
Disability benefits	13,643,816	13,963,941
Post-employment healthcare subsidies	9,522,054	9,516,053
Total benefits	704,674,410	663,570,201
Refund of member contributions	36,908,784	32,104,031
Administrative and OPEB expenses	6,841,486	7,375,338
Total deductions	748,424,680	703,049,570
Net increase (decrease)	129,420,790	(382,344,553)
Net position restricted for pension benefits		
Beginning of year	5,053,248,869	5,435,593,422
End of year	$ 5,182,669,659	$ 5,053,248,869

The accompanying notes are an integral part of the 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 ("MEABF") 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 values of private equity investments are primarily based on the lesser of cost or the general partner determined fair value.

Note 1 – Summary of Significant Accounting Policies (continued)

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 less than 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 16, 2013, the date the financial statements were available to be issued.

Recently Issued Accounting Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was established to provide guidance on the reporting of deferred outflows of resources, and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of GASB 63 are effective for financial statement periods beginning after December 15, 2011.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was established to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. The provisions of GASB 65 are effective for financial statement periods beginning after December 15, 2012.

GASB Statement No. 67, *Financial Reporting for Pension Plans* was established to improve financial reporting by state and local governmental pension plans through enhanced note disclosures and schedules of required supplementary information. The provisions of GASB 67 are effective for fiscal years beginning after June 15, 2013. GASB No. 68, *Accounting and Financial Reporting for Pensions*, was established to improve the standards for measurement, recognition and display of pension expense, liabilities and assets of employers of the plan. The provisions of GASB 68 are effective for fiscal years beginning after June 15, 2014.

MEABF's management is currently evaluating the effect of all GASB statements referenced above on the Plan's financial statements.

Note 2 – Deposits and Investments

Deposits that are held locally in the Plan's name are held by the Treasurer of the City of Chicago, ex-officio Treasurer of the Plan. At December 31, 2012 and 2011, the Plan's book balances of cash are $489,086 and $527,877, respectively. The actual bank balances at December 31, 2012 and 2011 are $488,686 and $527,477, respectively. All non-investment related bank balances at year end are insured or collateralized at 102% 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, 2012 and 2011, $9,121,053 and $7,847,152 of the Plan's deposits with its custodian Northern Trust were exposed to custodial credit risk.

Certain Plan investments are held by a bank administered trust fund. There were no individual investments representing 5% or more of the Plan's net assets as of December 31, 2012 or 2011.

	2012	2011
Investments At Fair Value As Determined By Quoted Price		
Fixed income	$1,303,764,343	$1,268,830,397
Domestic equity	1,283,930,189	1,423,798,841
International equity	1,083,785,369	923,458,754
	3,671,479,901	3,616,087,992
Investments At Fair Value As Determined By Plan Administrator		
Hedged equity	525,532,482	483,125,786
Real estate	450,296,070	405,561,171
Private equity	236,847,155	209,931,492
Short-term investments	173,704,217	224,090,637
	1,386,379,924	1,322,709,086
Total investments	$5,057,859,825	$4,938,797,078

Note 2 – Deposits and Investments (continued)

Foreign Currency Risk

The Plan's exposure to foreign currency risk at December 31, 2012 was as follows:

Currency	*Market Value*	*Percentage*
Australian Dollar	$ 65,212,297	6.18%
Brazilian Real	21,258,228	2.02%
Canadian Dollar	64,538,479	6.12%
Swiss Franc	48,431,908	4.59%
Chilean Peso	4,195,991	0.40%
Columbian Peso	3,959,600	0.38%
Czech Koruna	1,295,174	0.12%
Danish Krone	15,937,413	1.51%
Egyptian Pound	223,135	0.02%
Euro	210,435,789	19.95%
British Pound Sterling	173,674,311	16.47%
Hong Kong Dollar	81,467,278	7.73%
Hungarian Forint	168,309	0.02%
Indonesian Rupiah	9,544,360	.91%
New Israeli Shekel	5,853,675	0.56%
Indian Rupee	21,223,009	2.01%
Japanese Yen	174,231,094	16.52%
South Korean Won	21,957,829	2.08%
Mexican Peso	11,053,876	1.05%
Malaysian Ringgit	5,698,304	0.54%
Moroccan Dirham	142,680	0.01%
New Zealand Dollar	2,014,773	0.19%
Nigeria Naira	1,040,511	0.10%
Norwegian Krone	10,542,148	1.00%
Peruvian Neuvo Sol	879	0.00%
Philippine Peso	1,270,599	0.12%
Polish Zloty	1,459,021	0.14%
Qatari Rial	2,258,811	0.21%
Swedish Krona	25,224,185	2.39%
Singapore Dollar	15,757,343	1.49%
Thai Baht	11,171,099	1.06%
Turkish Lira	7,291,369	0.69%
New Taiwan Dollar	16,400,687	1.56%
South African Rand	18,593,739	2.04%
United Arab Emirates Dirham	1,038,519	0.10%
Total	$1,054,566,422	100.00%

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2– Deposits and Investments (continued)

Interest Rate Risk

As of December 31, 2012, the Plan had the following investments and maturities:

Security Type	Total Fair Value	1 year or less	1-6 years	6-10 years	10 or more years	Maturity Not Determined
Asset backed	$ 3,566,664	$ -	$ 2,434,480	$ -	$ 1,132,184	$ -
Bank loans	127,511,478	1,253,125	82,136,805	44,21,548	-	-
Collateralized bonds	156,907	-	-	-	156,907	-
Commercial mortgage backed	25,710,328	-	-	122,063	25,588,265	-
Corporate bonds	505,759,342	20,472,898	238,700,258	196,724,239	49,861,947	-
Corporate convertible bonds	899,418	808,000	91,418	-	-	-
Government agencies	86,489,547	2,008,606	63,798,840	19,669,867	1,021,235	-
Government bonds	283,371,766	34,046,940	162,817,558	64,599,422	21,904,846	-
Government mortgage backed	231,588,041	1,155	1,622,233	7,794,049	177,297,361	44,873,242
Index linked government bonds	7,721,501	-	-	7,721,501	-	-
Municipal / provincial bonds	22,916,439	-	12,210,188	8,738,772	1,967,479	-
Non-government backed CMO's	8,072,912	-	-	-	8,072,912	-
Short term investment funds	147,628,031	-	-	-	-	147,628,031
Total	$1,451,392,374	$58,590,725	$563,811,780	$349,491,460	$286,997,137	$197,501,272

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.

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, 2012:
(in thousands)

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*	*Index Linked Gov't Bonds*	*Municipal/ Provincial Bonds*	*Non-Gov't Backed CMO's*
US Govt	$ 521,773	$ -	$ -	$ -	$ -	$ -	$ -	$ 190	$283,372	$230,489	$7,722	$ -	$ -
AAA	22,783	155	-	-	3,333	5,782	-	599	-	-	-	12,901	13
AA	115,211	91	-	-	3,766	17,642	-	85,701	-	62	-	7,949	-
A	188,291	1	-	-	8,242	177,982	-	-	-	-	-	2,066	-
BBB	154,658	503	6,901	-	7,396	139,789	-	-	-	-	-	-	69
BB	95,991	58	26,152	-	1,305	67,603	-	-	-	-	-	-	873
B	130,998	613	47,603	-	535	82,170	-	-	-	-	-	-	77
CCC	12,714	213	3,409	157	54	8,495	-	-	-	-	-	-	386
CC	478	-	-	-	-	-	-	-	-	-	-	-	478
C	521	-	-	-	-	521	-	-	-	-	-	-	-
D	2,759	-	-	-	-	-	-	-	-	-	-	-	2,759
NR	57,587	1,933	43,446	-	1,079	5,775	899	-	-	1,037	-	-	3,418
Total	$1,303,764	$ 3,567	$127,511	$ 157	$ 25,710	$505,759	$ 899	$ 86,490	$283,372	$231,588	$7,722	$ 22,916	$8,073

US Govt = Guaranteed by US Government
NR = Not Rated

The Plan does not have a formal policy in regard 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.

Note 3 – Derivatives

The derivative instruments were recorded at fair value as of December 31, 2012. Derivative instruments include forward foreign exchange contracts, futures contracts, rights and warrants. 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.

Foreign Currency Forward Contracts

Foreign currency forward contracts are used by certain investment managers to protect against the currency risk in the Plan's international equity portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Foreign currency forward contracts are marked-to-market on a daily basis. The gains or losses resulting from changes in contract values are included in investment income in the Statement of Changes in Plan Net Position. The Plan experienced a realized loss of $176,874 on foreign currency forward contracts in 2012. As of December 31, 2012, the Plan's outstanding foreign currency forward contracts were as follows:

	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Fair Value	Change in Unrealized Gain/Loss
Australian Dollar	$ 110,164	$ -	$ (1,836)	$ 481
Canadian Dollar	247,007	-	(2,993)	(3,261)
Swiss Franc	-	(72,813)	(813)	(333)
Euro	423,948	(3,671,035)	7,977	12,340
British Pound Sterling	341,503	(3,648,732)	(37,279)	(37,488)
Hong Kong Dollar	338,680	(1,000,310)	(89)	(431)
Japanese Yen	350,175	(302,744)	(8,072)	(15,240)
Singapore Dollar	-	(31,386)	(50)	(50)
Swedish Krona	-	(1,057,129)	(1,938)	(1,938))
Thai Baht	-	(100,252)	(191)	(335)
US Dollar	9,848,368	(1,820,726)	-	-
South African Rand	-	-	-	9,055
	$11,659,845	$(11,705,127)	$(45,284)	$(37,200)

Futures Contracts

Certain international investment managers utilize equity futures contracts to replicate underlying securities they wish to gain exposure to in the portfolio. A financial futures contract is an agreement to buy or sell a specific amount of something at a specified delivery or maturity date for an agreed-upon price. Futures contracts are traded on organized exchanges, thereby minimizing credit risk. The net change in the futures contract value is settled daily in cash with the exchanges which results in the contract having a fair value of zero at the end of each trading day. The cash or securities to fulfill these obligations are held in the investment portfolio. As the market value of the futures contract varies from the original contract price, a gain or loss is paid to or received from the clearinghouse and recognized in the Statement of Changes in Plan Net Position. The realized gain on equity futures contracts in 2012 was $1,252,727.

Note 3 – Derivatives (continued)

Futures Contracts (Continued)

As of December 31, 2012, open futures contracts had the following values:

	Notional Value
Total Futures	$8,155,408

Rights and Warrants

Rights and warrants provide investment managers the right, but not the obligation, to purchase or sell a company's stock at a fixed price until a specified expiration date. Rights are normally issued with common stock and expire after two to four weeks. Warrants typically are issued together with a bond or preferred stock and may not expire for several years. The fair value of rights and warrants is reported in the investments in the Statement of Plan Net Position. The gain or loss from rights and warrants is included in the investment income in the Statement of Changes in Plan Net Position. As of December 31, 2012, MEABF's investments in rights and warrants were as follows:

	Notional Value	Fair Value	Change in Fair Value
Total Rights and Warrants	372,356 shares	$65,368	$48,207

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 in exchange 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, and receives cash, securities or letters of credit as collateral. The collateral received cannot be pledged or sold by the Plan unless the borrower defaults. All loans can be terminated on demand by either the Plan or the borrower. At December 31, 2012 the average term of the loans was 80 days (117 days in 2011). Marking to market is performed every business day and the borrower is required to deliver additional collateral when necessary so that the collateral held for all loans to the borrower will at least equal the market value of all borrowed securities. U.S. security loan agreements are initially collateralized at 102% of the market value of loaned securities. International securities are initially collateralized at 105% of the market value of loaned securities. Cash collateral is invested in the short-term investment pool, which at December 31, 2012 had a weighted average maturity of 34 days (38 days in 2011). As of December 31, 2012 and 2011, the Plan had loaned to borrowers securities with a fair value of $535,747,729 and $581,460,653, respectively. As of December 31, 2012 and 2011, the Plan received from borrower's cash collateral of $539,981,282 and $593,296,080 and non-cash collateral of $6,961,213 and $4,102,016, respectively. Securities lending net income for the years ended December 31, 2012 and 2011 was $2,439,147 and $1,854,311, respectively.

Due to market events in 2008 and the beginning of 2009, one of the collateral pools utilized to invest collateral 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 $6,436,572 and $8,875,719 as of December 31, 2012 and 2011, 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.

Note 4 – Securities Lending (continued)

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

	2012	2011
Securities loaned – cash collateral		
Fixed income		
Domestic corporate fixed income	$ 73,504,655	$ 35,090,640
US Government agencies	36,226,223	29,708,847
US Government bonds	61,122,701	200,320,509
Equity		
Domestic equities	280,497,112	235,918,897
International equities	77,649,882	76,480,467
Total securities loaned – cash collateral	529,000,573	577,519,360
Securities loaned – non-cash collateral		
Fixed income		
Domestic corporate fixed income	-	65,929
US Government bonds	3,955,991	-
Equity		
Domestic equities	310,740	1,181,458
International equities	2,480,425	2,693,906
Total securities loaned – non-cash collateral	6,747,156	3,941,293
Total	$535,747,729	$581,460,653

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, 2012 and 2011 is as follows:

	2012	2011
Pension benefit system	$1,865,193	$1,896,140
Furniture	25,768	43,883
Equipment	15,842	15,842
Computers	951,004	1,026,138
Leasehold improvements	4,310	4,310
	2,862,117	2,986,313
Less accumulated depreciation and amortization	2,391,804	1,945,671
Net property and equipment	$ 470,313	$1,040,642

Depreciation and amortization expense was $531,197 and $587,408 for 2012 and 2011, 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.

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, 2012 and 2011 were $1,590,793,702 and $1,605,993,339, respectively.

Plan membership at December 31 is as follows:

	2012	2011
Active employees (includes members currently receiving disability benefits):		
Vested	17,037	17,938
Non-vested	14,289	14,038
	31,326	31,976
Retirees and beneficiaries currently receiving benefits	24,120*	23,382*
Terminated employees entitled to benefits but not yet receiving them	1,737	1,679
Terminated employees entitled to a refund of contributions	11,728	11,083
Total	68,911	68,120

*Beginning in 2011 reversionary annuitants are included in a separate benefit.

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

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.

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 ¼ 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 beginning 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.

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

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 or age 53, or
2) the later of the first anniversary of retirement or 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, or
2. the first anniversary of the annuity start date.

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" and 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 surviving spouse 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 surviving spouse'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, an annuity is provided for any unmarried child of a deceased employee who is 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.

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

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 Plan 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.

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 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 beginning in 2011, increased by the lesser of 3 percent or 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 1.25 times (current multiple) 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. 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 multiple of 6.41 is needed to adequately finance MEABF. The statutory employer contributions have been less than the ARC for the past ten years. Contribution rates may be increased only by an amendment by the State legislature to the statues.

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, 2012, the most recent actuarial valuation:

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)
$5,073,320,275	$13,475,376,963	$8,402,056,688	37.7%	$1,590,793,702	528.2%

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, 2012
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	7.5 percent per year
Projected Base Salary Increases	4.5 - 8.25 percent per year, tiered based on years of service
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 1st of January of the year after retirement and age 60, or 2) the later of the 1st 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:

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.

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, 2012, there are 9,435 (9,294 as of December 31, 2011) City annuitants enrolled in the City's health care plan and 1,430 (1,516 as of December 31, 2011) 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 2012 and 2011, the Pension Plan received contributions of $9,522,054 and $9,516,053 and remitted contributions of $9,522,054 and $9,516,053 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, 2012, the most recent actuarial valuation:

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)
N/A	$162,083,083	$162,083,083	.0%	$1,590,793,702	10.2%

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, 2012
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 -8.25 percent per year, tiered based on years of service
Includes inflation at	3.0 percent per year
Healthcare Cost Trend Rate	0.0 percent (Trend not applicable – Fixed dollar subsidy)

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 2012 and 2011, MEABF, as employer contributed $173,544 and $174,439 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:

	2012	2011
Annual OPEB Cost		
Annual Required Contribution (ARC)	$ 864,676	$ 816,278
Interest on Net OPEB Obligation	118,503	90,900
Adjustment to ARC	(154,707)	(118,671)
Annual OPEB Cost	828,472	788,507
Employer Contributions	173,544	174,439
Increase in NOO	654,928	614,068
Net OPEB Obligations (NOO)		
Net OPEB Obligation at Beginning of Year	2,659,163	2,045,095
Increase in NOO	654,928	614,068
Net OPEB Obligation at End of Year	$3,314,091	$2,659,163

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

The Net OPEB Obligation is the amount recorded in the MEABF's Statement of Plan net position as of year-end as the net liability for MEABF Staff Retiree Healthcare OPEB Liability. The employer contributions for 2012 consist of $120,194 explicit subsidy and $53,350 implicit subsidy and treated as administrative expense of the defined benefit plan. In 2012 and 2011, MEABF contributed 20.1% and 21.4%, respectively, of the annual required OPEB contribution to the plan. The Annual *OPEB Cost* recorded in the Statement of Changes in Plan net position for 2012 as the MEABF Staff Retiree OPEB expense is net of employer implicit and explicit subsidies.

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, per the latest actuarial valuation available.

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)
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. The latest actuarial valuation included projections through the year ended December 31, 2012. 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.

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:

	2012	2011
City Contribution Reserves	$ 1,643,967,628	$ 1,644,727,736
Salary Deduction Reserves	1,643,584,837	1,644,356,798
Prior Services Reserves	8,353,375,233	7,257,722,661
Annuity Payment Reserves	1,995,365,493	1,908,256,793
Supplementary Payment Reserve	-	235,189
Optional Reserve Account	931,666	872,845
	13,637,224,857	12,456,172,022
Unreserved Net Assets	(8,454,555,198)	(7,402,923,153)
Net assets held in trust for pension benefits	$ 5,182,669,659	$ 5,053,248,869

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.

Supplementary Payment Reserves

Amounts contributed by employees retired before 1960 to defray the cost of annual post-retirement increases.

Optional Reserves

Amounts contributed by the aldermen for the alternative plan.

Note 8 – Operating Leases

Office Lease

MEABF moved to a new office location on March 1, 2011 under a fifteen-year, non-cancelable lease agreement with Hines REIT 321 North Clark Street LLC. The lease currently requires monthly payments of $46,393. The Plan received rent abatements for the initial six full months of the term of the lease, and the initial three calendar months of the third, the fourth, the fifth and sixth lease year and the initial two calendar months of the seventh lease year. Monthly lease payments are subject to an escalation clause for increases in real estate taxes and maintenance expenses which have been estimated to be 3% annually.

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, 2012:

Year Ending December 31,	Amount
2013	$ 428,314
2014	454,084
2015	467,356
2016	483,667
2017	541,334
2018-2022	3,509,950
2023-2026	2,472,752
Total	$8,357,457

Total rent expense was $494,632 and $476,620 for 2012 and 2011, 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.

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE 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)
12/31/12	$5,073,320,275	$13,475,376,963	$8,402,056,688	37.7%	$1,590,793,702	528.2%
12/31/11	$5,552,291,417	$12,292,930,124	$6,740,638,707	45.2%	$1,605,993,339	419.7%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(PENSION)

		Employer Contributions	
Year Ended December 31,	Annual Required Contribution	Amount Contributed	Percentage Contributed
2012	$690,822,553	$148,858,655	21.5%
2011	$611,755,567	$147,009,321	24.0%
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%

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, 2012
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	7.5%
Projected salary increases	4.5 - 8.25% per year, tiered based on years of service
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.

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)
12/31/12	$ -	$162,083,083	$162,083,083	00.0%	$1,590,793,702	10.2%
12/31/11	$ -	$163,241,898	$163,241,898	00.0%	$1,605,993,339	10.2%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(POST - EMPLOYMENT HEALTHCARE)

		Employer Contributions	
Year Ended December 31,	Annual Required Contribution	Amount Contributed	Percentage Contributed
2012	$14,631,863	$9,522,054	65.1%
2011	$22,803,577	$9,516,053	41.7%
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%

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, 2012
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 - 8.25% per year, tiered based on years of service
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	268.0%
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. The actuarial valuation as of December 31, 2009 included projections through the year ended December 31, 2012.

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

Year Ended December 31,	Annual Required Contribution	Employer Contributions: Amount Contributed	Employer Contributions: Percentage Contributed
2012	$864,676[1]	$173,544	20.1%
2011	$816,278[1]	$174,439	21.4%
2010	$770,673[1]	$146,434	19.0%
2009	$611,526	$111,840	18.3%
2008	$573,808	$ 96,670	16.8%

[1] Projected for plan years ended December 31, 2012, 2011 and 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, 2012 AND 2011

	2012	2011
Personnel		
Administrative salaries	$ 2,758,058	$ 3,128,413
Payroll taxes	35,156	40,001
Employee benefits	1,026,201	1,166,125
OPEB expense	654,928	614,068
	4,474,343	4,948,607
Professional Services		
Actuarial valuation	70,074	77,413
Staff actuary	70,810	69,866
Actuarial consulting	7,996	31,057
Legal services	167,093	151,185
Litigation expense	-	155,000
Medical	51,751	50,366
Audit	37,500	33,000
Legislative liaison services	16,700	16,700
Payroll services	369,993	358,772
IT consulting	27,878	13,875
Healthcare benefit consulting	9,693	8,701
Tax consulting	2,699	1,933
Other consulting	8,650	-
	840,837	967,868
Communication		
Printing & publications	39,053	27,435
Postage	111,667	48,464
Telephone and communications	40,449	60,067
	191,169	135,966
Occupancy and utilities		
Office rent	494,632	476,620
Utilities	12,425	18,815
Office maintenance	1,694	4,526
	508,751	499,961
Other operating expense		
Fiduciary and insurance	149,900	110,926
Office supplies and equipment	48,100	43,833
Depreciation	531,197	587,408
Equipment rental and maintenance	10,569	11,868
Training and travel	11,659	10,391
Contractual services	19,623	21,790
Dues and subscriptions	13,499	13,547
Miscellaneous	41,839	23,173
	826,386	822,936
Total Administrative and OPEB expense	$ 6,841,486	$ 7,375,338

SCHEDULE OF INVESTMENT MANAGEMENT COMPENSATION
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Equity Managers		
Ariel Capital	$ 475,385	$ 479,447
Castle Ark	419,140	508,856
Earnest Partners	525,837	474,628
FIS Group	977,414	873,575
Geneva Capital Management	491,522	501,861
Great Lakes Advisors	349,333	373,039
Herndon Capital Management	424,524	68,124
Holland Capital	447,140	505,416
Keeley Asset Mgmt.	707,837	692,787
Rhumbline Advisors Large Cap Core	46,665	57,538
Rhumbline Advisors Mid Cap Growth	-	3,774
Rhumbline Advisors Large-Cap Value	-	8,922
Wellington Capital	-	205,923
William Blair Small/Mid Cap	583,508	602,555
Total Equity	5,448,305	5,356,445
Bond Managers		
LM Capital	453,618	487,982
MacKay Shields	698,635	492,619
Neuberger Berman	181,168	184,005
RBC Global Asset Management	118,138	192,521
Segall Bryant & Hamill	271,923	293,528
Symphony Asset Management	470,254	363,963
UBS AM Bonds	112,283	104,825
Total Bond	2,306,019	2,119,443
International Equity Managers		
LSV Asset Management	834,161	829,495
MacKay Shields	-	437,355
Cornerstone Capital Management (formerly Madison Square Investors)	517,975	74,806
NTGI All Country World Ex-US Index	198,807	218,574
NTGI International Small Cap Index	200,373	227,336
Walter Scott	787,732	824,234
William Blair	1,166,307	1,119,799
Total International Equity	3,705,355	3,731,599
Hedge Fund of Funds		
K2 Advisors	2,100,865	2,106,725
The Rock Creek Group	1,754,651	1,732,636
Total Hedge Fund of Funds	3,855,516	3,839,361

SCHEDULE OF INVESTMENT MANAGEMENT COMPENSATION
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

	2012	2011
Real Estate Managers		
AFL-CIO Building Trust	653,692	541,398
American Realty	511,162	305,691
Capri Capital	601,985	613,313
DV Urban	173,823	193,554
J P Morgan	762,789	684,443
John Buck Company	91,321	143,538
Mesirow Real Estate	500,000	612,500
Prudential Asset Mgmt.	885,083	683,151
Shamrock-Hostmark Hotel Fund	71,072	71,072
Tishman Speyer	165,906	193,759
UBS Realty Advisors	83,870	73,241
Walton Street Partners	245,362	310,693
Total Real Estate	4,746,065	4,426,353
Private Equity Managers		
Adams Street Partners	529,000	529,000
Carpenter Bancorp Fund	200,000	200,000
Citigroup International PE Fund	225,000	225,000
First Analysis	143,959	317,077
Hispania Partners	221,062	243,635
Hopewell Ventures	156,600	156,524
Invesco	2,225	2,552
Levine Leichtman	410,942	487,553
MK Capital	100,000	100,000
Mesirow Financial	789,500	1,544,339
Midwest Mezzanine Fund	302,258	432,654
Morgan Stanley Secondary	200,000	200,000
Muller & Monroe	214,875	241,065
Nogales Investors	45,614	38,462
GoldPoint Partners (formerly New York Life Investment Management)	375,000	640,582
Prudential Capital Partners	35,836	-
Stepstone (formerly Parish Capital)	100,000	72,981
RCP Advisors	200,000	200,000
Total Private Equity	4,251,871	5,631,424
Total Investment Management Fees	24,313,131	25,104,625
Other Investment Expenses		
Investment Consultant	300,624	290,000
Master Custodian	179,344	169,681
Negotiation fee: Custody Reduction	148,212	148,212
Investment Legal Services	432,217	596
Miscellaneous Investment Expense	-	8,500
Total Other Investment Expenses	1,060,397	616,989
Total Investment Expenses	$ 25,373,528	$ 25,721,614

SCHEDULE OF PROFESSIONAL AND CONSULTING COSTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Legal Advisors	$ 167,093	$ 306,185
Medical Advisors	51,751	50,366
Consulting Actuary	148,880	178,336
Other Consulting	65,620	41,209
Auditor	37,500	33,000
Payroll Services	369,993	358,772
Total	$ 840,837	$ 967,868