MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

FINANCIAL REPORT

DECEMBER 31, 2006 AND 2005

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 statement of plan net assets of Municipal Employees' Annuity & Benefit Fund of Chicago (the Plan), a Component Unit of the City of Chicago, as of December 31, 2006, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the plan's 2005 financial statements and, in our report dated March 30, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Municipal Employees' Annuity & Benefit Fund of Chicago as of December 31, 2006, and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the schedules of funding progress and employer contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of administrative expenses, investment management compensation, and professional and consulting costs are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the Plan adopted Governmental Accounting Standards Board Statement No. 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* during the year ended December 31, 2006. The Plan adopted Governmental Accounting Standards Board Statement No. 40 *Deposits and Investment Risk Disclosures*, during the year ended December 31, 2005.

Bansley and Kiener, L.L.P.

Certified Public Accountants

April 5, 2007

Management's Discussion and Analysis

The following is Management's Discussion and Analysis (MD&A) of the Municipal Employees' Annuity and Benefit Fund of Chicago ("Plan") for the year ended December 31, 2006. It provides an overview of the Plan's financial activities for the year under review. Please read it in conjunction with the Plan's financial statements that follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements are prepared based on an economic sources focus and accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) pronouncements. The Plan's financial statements include the statement of plan net assets, statement of changes in plan net assets and notes to the financial statements.

The statement of plan net assets presents the Plan's assets, liabilities and net assets as of the close of the Plan's calendar year. It provides information about the fair value and composition of the net assets held in trust for pension benefit payments. The liabilities do not include the actuarial value of future benefits.

The statement of changes in plan net assets includes the results of Plan operations during the calendar year disclosing the additions (members' contributions and net investment income) to and deductions (benefit payments, administrative expenses and other related expenses) from the Plan net assets. The net increase (or decrease) in net assets illustrates the change in net assets as reported in the statements of Plan net assets from the prior year to the current year.

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. Disclosures include a general description of the Plan, benefits, contributions and reserves, accounting policies, implementation of any new accounting pronouncements, how assets values are determined, and any contingencies or commitments.

The required supplementary information is required by GASB and is not a required part of the financial statements. It includes required schedule of funding progress and schedule of employer contributions as well as related disclosures. These schedules are based on the actuarial valuations and contribute to an understanding of the funding progress over the last six years. Additional supplemental schedules include information regarding administrative expenses, professional and consulting costs and investment management fees incurred by the Plan.

Adoption of GASB pronouncements

For plan year ending December 31, 2006, the Plan has implemented the new *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans* under GASB Statement No. 43 for the health insurance supplemental benefit paid by the Plan on behalf of eligible City annuitants and eligible Board of Education annuitants. The Plan will also implement GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* beginning plan year 2007.

FINANCIAL HIGHLIGHTS

- Plan net assets held in trust increased by $484.2 million (7.6%) to $6,841.1 million in 2006 from $6,356.9 million in 2005 and $6,242.8 million in 2004. The increase in 2006 is the result of the net appreciation of the assets in the investment portfolio.

- The Plan's investment portfolio returned 12.9% for 2006 calendar year compared to 6.9% in 2005 and 10.9% in 2004. The 2006 investment return is well above the 8.0% actuarial assumed rate of return.

- Total additions to plan net assets (contributions and net investment income) increased significantly by $385.3 million (56.7%) to $1,065.2 million in 2006 compared to $679.9 million in 2005 and $888.6 million in 2004. The increase in 2006 is largely due to net investment income that recorded a $374.6 increase from the prior year.

- Total deductions from plan net assets (benefit payments, refunds of contributions and administrative expenses) increased modestly by $15.2 million (2.7%) to $581.0 in 2006 compared to $565.8 in 2005 and $568.6 million in 2004. The increase in 2006 is mainly due to increase in benefit payments.

- Under GASB #25 and GASB #43, the Plan's funded ratio based on the actuarial value of assets and actuarial liability at December 31, 2006 decreased to 67.2% from 68.5% in 2005 and 72.0% in 2004. The decrease is largely attributable to a shortfall in contributions relative to the actuarially determined contribution requirement. Values at December 31, 2006 include $216.2 million GASB #43 liability for health insurance supplemental benefit.

- Annual Required Contribution (ARC) for 2006 under GASB #25 and GASB #43 increased 14.2% to $325.9 million from $285.3 million in 2005 and $198.2 million in 2004. The ARC at December 31, 2006 includes $22.6 million annual required contribution under GASB #43 for health insurance supplemental benefit.

Summary of Plan net assets at December 31 ($ in millions)

				Increase(Decrease)	
	2006	2005	2004	2006 To 2005	2005 To 2004
Cash and Cash equivalents	$ 1.6	$ 1.5	$ 1.5	$ 0.1	$ -
Receivables from investments sold & accrued earnings	103.1	61.8	94.3	41.3	(32.5)
Receivables for contributions & others	164.5	167.5	172.3	(3.0)	(4.8)
Investments, at fair value	6,797.0	6,348.0	6,293.1	449.0	54.9
Invested securities lending collateral	922.8	745.3	806.7	177.5	(61.4)
Property and equipment	3.8	4.3	4.9	(0.5)	(0.6)
Total assets	7,992.8	7,328.4	7,372.8	664.4	(44.4)
Payables for investments purchased	222.0	219.5	316.7	2.5	(97.2)
Securities lending payable	922.8	745.3	806.7	177.5	(61.4)
Accounts payable and accrued expenses	6.9	6.7	6.6	0.2	0.1
Total liabilities	1,151.7	971.5	1,130.0	180.2	(158.5)
Net assets held in trust for pension benefits	$ 6,841.1	$ 6,356.9	$ 6,242.8	$ 484.2	$ 114.1

As previously stated in the financial highlights, the Plan's net assets increased in 2006 as a result of the net appreciation of the assets in the investment portfolio. In 2006, investments increased by $449.0 million largely due to the strong returns in the equity markets, particularly in the international equity markets. The increase in receivables in 2006 is mainly due to an increase in unsettled trades at year-end. The 2006 increase in liabilities is due to increase in securities lending cash collateral held at year-end.

Summary of Investments at December 31 ($ in millions)

				Increase(Decrease)	
	2006	2005	2004	2006 To 2005	2005 To 2004
Bonds	$ 1,701.0	$ 1,594.2	$ 1,599.5	$ 106.8	$ (5.3)
Domestics and preferred stocks	3,588.8	3,408.8	3,748.9	180.0	(340.1)
International equities	868.0	735.0	258.3	133.0	476.7
Real estate	288.0	263.2	251.8	24.8	11.4
Other investments	105.7	98.3	90.3	7.4	8.0
Short-term investments	245.5	248.5	344.3	(3.0)	(95.8)
	$ 6,796.0	$ 6,348.0	$ 6,293.1	$ 449.0	$ 54.9

Despite the fact that $297 million was liquidated from the investment portfolio to pay monthly benefits, investments increased by $449 million in 2006, closing the calendar year at $6,797.0 million from $6,348.0 million in 2005 and $6,293.1 million in 2004. The largest contributor to the 2006 increase in invested assets was the domestic and international equities, which represented about 66% of total investments. Funds needed to meet cash flow requirements were drawn from allocations in the portfolio that were over the Plan's targets at the time the funds were needed for operation.

Summary of changes in the Plan net assets for years ended December 31, 2006, 2005 and 2004.
($ in millions)

				Increase(Decrease)	
	2006	2005	2004	2006 To 2005	2005 To 2004
Additions:					
Members' contributions	$ 129.5	$ 122.5	$ 155.9	$ 7.0	$ (33.4)
Employers' contributions	157.0	155.1	153.9	1.9	1.2
Net Investment income	775.8	401.2	577.5	374.6	(176.3)
Securities lending income	2.9	1.1	1.3	1.8	(0.2)
Total additions	$ 1,065.2	$ 679.9	$ 888.6	$ 385.3	$ (208.7)
Deductions:					
Annuity benefits & lump sum payments	$ 528.4	$ 514.6	$ 481.3	$ 13.8	$ 33.3
Health insurance premium supplement	8.7	8.9	8.7	(0.2)	0.2
Disability benefits	10.3	10.0	8.8	0.3	1.2
Refunds of contributions & rollover distributions	27.2	26.8	40.1	0.4	(13.3)
Transfer to Firemen's Fund	-	-	24.2	-	(24.2)
Administrative expenses	6.4	5.5	5.5	0.9	-
Total deductions	581.0	565.8	568.6	15.2	(2.8)
Net increase (decrease)	$ 484.2	$ 114.1	$ 320.0	$ 370.1	$ (205.9)

Additions to Plan net assets consist of contributions from employer, active members and investment earnings.

- The increase in member contributions is due to an increase in covered payroll to $1,475.9 million in 2006 from $1,407.3 million in 2005 and $1,303.1 million in 2004. Required member contribution rate remained at 8.5%. Member contributions soared in 2004 due to the 2004 early retirement incentive. Employer contributions had a slight increase of 1.3% to $157.0 million in 2006 from $155.1 million in 2005 and $153.9 million in 2004. Employer contributions are calculated using a statutorily set multiplier (currently 1.25) times member contributions collected two years prior.

- Net investment income from interest, dividends, equity and other investments increased by $374.6 million to $775.8 million in 2006 from $401.2 million in 2005 and $577.5 million in 2004. The 2006 increase is primarily due to stronger returns in the equity markets globally. The decrease in 2005 from 2004 was due to lower appreciation on investments. Expense for investment fees increased to $23.0 million in 2006 from $21.7 million in 2005 and $19.6 million in 2004.

- Security lending income recorded an increase of $1.8 million to $2.9 million in 2006 from $1.1 million in 2005 and $1.3 million in 2004.

Deductions from Plan net assets primarily consist of benefit payments, refunds of contributions and administrative expenses.

- Annuity benefit payments increased 2.7% to $528.4 million in 2006 from $514.6 million in 2005 and $481.3 million in 2004. The increase in 2006 is largely attributable to the annual 3% cost of living adjustment to eligible retirees. Benefit payrolls added 713 employee annuities, 265 surviving spouse annuities and 25 child annuities in 2006. A total of 1,068 benefit recipients were removed from payroll due to death or expiration of term annuities.

- Insurance premium supplemental benefit, a post-employment benefit other than pensions under GASB #43 and is mandated by the Illinois statutes, had a slight decrease to $8.7 million in 2006 from $8.9 million in 2005 and $8.7 million in 2004.

- Disability benefits increased to $10.3 million in 2006 from $10.0 million in 2005 and $8.8 million in 2004. The slight increase in disability benefit payments is due to an increase in the average period on disability for a disabled member in 2006 compared to previous year.

- Refunds of contributions in 2006 were historically normal with a slight increase of $0.4 million to $27.2 million in 2006 from $26.8 million in 2005 and $40.1 million in 2004. Refunds of spousal contributions (for members unmarried at retirement) surged in 2004 due to an early retirement incentive offered that year.

- Administrative expenses increased by $0.9 million to $6.4 million in 2006 from $5.5 million in 2005 and $5.5 million in 2004. The increase is due to increase in personnel costs for cost of living adjustments and step increases. The increase is also attributable to global custody fees. When the Retirement Board increased its asset allocation for international equities, global custody fees increased accordingly.

Funding Progress

The actuarial information provided by the Plan's actuary is based upon assumptions about future events, at the time the actuarial valuations were performed; and, therefore, the amounts presented are estimates. The actuarial value of assets marginally increased by $176.8 million (2.8%) to $6,509.1 million in 2006 from $6,332.4 million in 2005 and $6,343.1 million in 2004. The actuarial value of liabilities increased by $442.1 million (4.8%) to $9,692.3 million in 2006, from $9,250.2 million in 2005 and $8,808.5 million in 2004. Actuarial liability for health insurance supplement under GASB #43 increased to $216.2 million in 2006 from $209.3 million in 2005.

At December 31, 2006, actuarial asset values fund 67.2% of this liability, a decrease from the 68.5% funded ratio in 2005 and 72.0% funded ratio in 2004. There were no major plan amendments in 2006. The decrease in the funded ratio was due to continued shortfalls in contributions relative to the actuarially determined contribution requirement.

Annual Required Contribution (ARC) for 2006 increased 14.2% to $325.9 million from $285.3 million in 2005 and $198.2 million in 2004. Expressed as a percentage of the ARC, employer contributions decreased to 48.2% in 2006 compared to 54.4% in 2005 and 77.7% in 2004. ARC for 2006 include a $22.6 million ARC under GASB #43 for post-employment benefit other than pension.

Economic Factors and Rates of Return

In 2006 investors were rewarded for their exposure to the equity markets. Proving that investing is global in nature, investors with allocations to the international markets saw this exposure advance their portfolios, with the EAFE International index returning 26.3% for the year. Domestic equities trailed the international markets, but still had a strong year with the S&P500 and Russell 2000 returning 15.8% and 18.4%, respectively. Over the last three years, the strong run in the equity markets has produced returns of 19.9% annually in the EAFE International index; and, domestically the S&P500 and Russell 2000 provided annual returns of 10.4% and 13.6%, respectively. Fixed income investments for the year were unproductive as the Lehman Brothers Aggregate Bond index returned only 3.5% in 2006. Even though the Federal Reserve raised short-term borrowing rates during the year, the short-term rate increase had little to no effect on longer rates, inverting the yield curve. This is reflected by comparing the return of 90-day Treasury bill to the aggregate bond index, 4.8% versus 4.3%, respectively. Real estate and private equity, even though a small portion of the portfolio, added value in 2006 with aggregate returns in the mid teens.

As of March 31, 2007, the Plan's estimated investment return has been 2.1% Total investments increased approximately $79.0 million to $6,876.0 million as of the quarter ending March 31, 2007. These figures are net of $70.0 million drawn from the portfolio for operation in the first quarter of 2007.

Contact information

This financial report is designed to provide a general overview of the Plan's finances and the accountability of Plan assets. Questions concerning any data provided in this report or requests for additional information should be addressed to Mr. Terrance R. Stefanski, Executive Director, Municipal Employees' Annuity and Benefit Fund of Chicago, 221 N. LaSalle Street, Suite 500, Chicago, IL 60601.

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

STATEMENTS OF PLAN NET ASSETS
DECEMBER 31, 2006, WITH COMPARATIVE TOTALS FOR 2005

	Pension Plan	Health Insurance Plan	Total 2006	Total 2005
Cash and cash equivalents	$ 1,561,759	$ -	$ 1,561,759	$ 1,521,029
Receivables				
Contributions from the City of Chicago, net of allowance for loss of $15,686,130 in 2006 and $15,153,716 in 2005	153,597,925	-	153,597,925	153,795,044
Early Retirement Incentive (ERI) Receivable	3,159	-	3,159	3,588,175
Member contributions	10,550,830	-	10,550,830	10,158,501
Interest and dividends	16,576,117	-	16,576,117	13,076,965
Receivables for investments sold	86,520,647	-	86,520,647	48,695,440
Miscellaneous	372,277	-	372,277	-
Total receivables	267,620,955	-	267,620,955	229,314,125
Investments, at fair value				
Bonds	1,701,045,511	-	1,701,045,511	1,594,234,194
Common and preferred stock	4,456,696,971	-	4,456,696,971	4,143,740,975
Real estate	288,026,845	-	288,026,845	263,154,789
Other investments	105,722,396	-	105,722,396	98,254,483
Short-term investments	245,515,223	-	245,515,223	248,537,964
Total investments	6,797,006,946	-	6,797,006,946	6,347,922,405
Invested securities lending collateral	922,831,534	-	922,831,534	745,260,574
Property and equipment, net of accumulated depreciation and amortization of $1,656,862 in 2006 and $941,806 in 2005	3,806,767	-	3,806,767	4,340,320
Total assets	7,992,827,961	-	7,992,827,961	7,328,358,453
LIABILITIES				
Payables for investments purchased	222,005,658	-	222,005,658	219,457,870
Accounts payable and accrued expenses	6,862,904	-	6,862,904	6,751,275
Securities lending collateral	922,831,534	-	922,831,534	745,260,574
Total liabilities	1,151,700,096	-	1,151,700,096	971,469,719
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 18)	$ 6,841,127,865	$ -	$ 6,841,127,865	$ 6,356,888,734

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 ASSETS
YEAR ENDED DECEMBER 31, 2006, WITH COMPARATIVE TOTALS FOR 2005

	Pension Plan	Health Insurance Plan	Total 2006	Total 2005
Additions				
Contributions from the City of Chicago	$ 148,332,294	$ 8,730,476	$ 157,062,770	$ 155,067,116
Member contributions	129,466,090	-	129,466,090	122,542,484
Total contributions	277,798,384	8,730,476	286,528,860	277,609,600
Investment income				
Net appreciation in fair value of investments	628,262,629	-	628,262,629	289,262,092
Interest	69,542,200	-	69,542,200	59,163,983
Dividends	75,047,747	-	75,047,747	62,228,956
Income from real estate investments	11,984,948	-	11,984,948	12,237,309
Other income (loss)	14,044,318	-	14,044,318	(20,568)
	798,881,842	-	798,881,842	422,871,772
Less investment expenses	23,047,785	-	23,047,785	21,666,395
Net income from investing activities	775,834,057	-	775,834,057	401,205,377
Security lending activities				
Securities lending income	44,449,534	-	44,449,534	23,195,417
Borrower rebates	(40,642,588)	-	(40,642,588)	(21,663,775)
Bank fees	(915,052)	-	(915,052)	(426,398)
Net income from securities lending activities	2,891,894	-	2,891,894	1,105,244
Total additions	1,056,524,335	8,730,476	1,065,254,811	679,920,221
Deductions				
Benefits				
Annuity payments	528,426,077	-	528,426,077	514,623,174
Disability and death benefits	10,267,133	-	10,267,133	9,990,510
Contribution of insurance premiums	-	8,730,476	8,730,476	8,877,021
Total benefits	538,693,210	8,730,476	547,423,686	533,490,705
Refund of member contributions	20,615,107	-	20,615,107	20,874,496
Rollover distributions	6,579,202	-	6,579,202	5,862,960
Administrative expenses	6,397,685	-	6,397,685	5,545,268
Total deductions	572,285,204	8,730,476	581,015,680	565,773,429
Net increase	484,239,131	-	484,239,131	114,146,792
Net assets held in trust for pension benefits				
Beginning of year	6,356,888,734	-	6,356,888,734	6,242,741,942
End of year	$ 6,841,127,865	$ -	$ 6,841,127,865	$ 6,356,888,734

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 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.

Deposit and Investment Risk Disclosures

During the year ended December 31, 2005, the Plan adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures.* As a result, the Plan has addressed certain deposit and investment risk disclosures.

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 real estate and commingled real estate are based upon annual independent appraisals. Fair value 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 90 days.

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. A summary of property and equipment at December 31, 2006 and 2005 is as follows:

	2006	2005
Pension administration system	$4,997,988	$4,861,396
Furniture	75,601	82,387
Equipment	33,840	69,251
Computers	231,771	187,059
Leasehold improvements	124,429	82,033
	5,463,629	5,282,126
Less accumulated depreciation and amortization	1,656,862	941,806
Net property and equipment	$3,806,767	$4,340,320

Administrative Expenses

Administrative expenses are budgeted and approved by the Plan's Board of Trustees. Funding for these expenses is included in the employer contributions as determined by the annual actuarial valuation.

Other Postemployment Benefits

During the year ended December 31, 2006, the Plan adopted Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* As a result, the Plan has addressed the accounting and disclosures related to other postemployment benefits.

Note 2 – Description of Pension and Health Insurance Plans

Pension Plan

Any employee of the City of Chicago or the Board of Education employed under the provisions of the municipal personnel ordinance 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 covered by the Plan which is a defined benefit single employer pension plan with a defined contribution minimum. Although this is a single employer plan, the defined benefits, as well as the employer and employee contribution levels, are mandated in Illinois State Statutes (Chapter 40, Pensions, Article 5/8) and may be amended only by the Illinois legislature. The City of Chicago accounts for the plan as a pension trust fund. The payroll for employees covered by the plan for the years ended December 31, 2006 and 2005 were $1,475,877,378 and $1,407,323,058, respectively.

Note 2 – Description of Pension and Health Insurance Plans (Continued)

Plan membership at December 31 is as follows:

	2006	2005
Active employees (includes members currently receiving disability benefits):		
Vested	15,689	15,533
Nonvested	17,740	18,210
	33,429	33,743
Retirees and beneficiaries currently receiving benefits	22,828	22,895
Terminated (inactive members) employees entitled to benefits or a refund of contributions	10,200	8,440
	66,457	65,078

The Plan provides retirement benefits as well as death and disability benefits. Employees age 55 or more with at least 10 years of service are entitled to receive a monthly purchase annuity with partial City contributions if under age 60 with less than 20 years of service. Employees 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. There is a 10 year deferred vested benefit payable at age 60. The original annuity is limited to 80% of the highest average annual salary. 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. The monthly annuity is increased by 3% in January of the year of the first payment date following the later of age 60 or the first anniversary of retirement, and by 3% annually thereafter; except for an employee retiring prior to age 60 the first increase will occur not later than January of the year of the first payment date following the later of (1) the third anniversary of retirement or (2) the attainment of age 53.

Covered employees are required to contribute 8.5% of their salary to the Plan. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest (3% or 4% depending on when an employee became a participant). The City of Chicago is required by state statutes to contribute the remaining amounts necessary to finance the requirements of the Plan. It is required to levy a tax at a rate not more than an amount equal to the 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, multiplied by 1.25 annually.

Note 2 – Description of Pension and Health Insurance Plans (Continued)

Health Insurance Plan

In accordance with the provisions of Illinois Compiled Statutes (ILCS) Chapter 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:

1. From July 1, 2003 through June 30, 2008, $85 per month for each such annuitant who is not eligible to receive Medicare benefits and $55 per month for each such annuitant who is eligible to receive Medicare benefits.

2. 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.

The payments described above shall be funded on a pay-as-you-go basis by the tax levy authorized under Section 8-173.

As of December 31, 2006, there are approximately 12,800 City annuitants enrolled in the City's health care plan and 9,700 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 2006 and 2005, the Pension Plan received contributions of $8,730,476 and $8,877,021 and remitted contributions of $8,730,476 and $8,877,021, respectively.

Note 3 – Deposits and Investments

Deposits that are held locally in the Plan's name are held by the Treasurer of the City Chicago, ex-officio Treasurer of the Plan. At December 31, 2006 and 2005, the Plan's book balances of cash are $1,561,759 and $1,521,029, respectively. The actual bank balances at December 31, 2006 and 2005 are $1,561,459 and $1,520,229, respectively. All non-investment related bank balances at year end are insured or collateralized at 110% 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, 2006 and 2005, $2,759,826 and $3,616,154 of the Plan's deposits with its custodian Northern Trust was exposed to custodial credit risk.

Certain Plan investments are held by a bank administered trust fund. There were no investments representing 5% or more of the Plan's net assets as of December 31, 2006 and 2005.

	2006	2005
Investments At Fair Value As Determined by Quoted Price		
Bonds	$1,701,045,511	$1,594,234,194
Common and preferred stock	4,456,696,971	4,143,740,975
	6,157,742,482	5,737,975,169
Investments at Fair Value As Determined by Plan Administrator		
Real estate	288,026,845	263,154,789
Private equity	105,722,396	98,254,483
Short-term investments	245,515,223	248,537,964
	639,164,464	609,947,236
Total investments	$6,797,006,946	$6,347,922,405

Note 3 – Deposits and Investments (Continued)

Securities Lending

Under the provisions of state statutes, the Plan lends securities (both equity and fixed income) to qualified and Plan approved brokerage firms 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, which includes the securities of the Plan as well as other lenders, and receives cash, U.S. Treasury securities or letters of credit as collateral. The collateral received cannot be pledged or sold by the Plan unless the borrower defaults. All securities loans can be terminated on demand by either the Plan or the borrower. At December 31, 2006 the average term of the loan was 96 days (88 days in 2005). All security loan agreements are initially collateralized at 102% of the loaned securities. Whenever adjustments are needed to reflect changes in the fair value of the securities loaned, the collateral is adjusted accordingly. Cash collateral is invested in the short-term investment pool, which at December 31, 2006 had a weighted average maturity of 70 days (64 days in 2005). As of December 31, 2006 and 2005, the Plan had loaned to borrowers securities with a fair value of $941,011,874 and $756,813,744, respectively. As of December 31, 2006 and 2005, the Plan received from borrower's cash collateral of $922,831,534 and $745,260,574, and non-cash collateral of $44,156,832 and $32,257,889, respectively. Securities lending net income for the years ended December 31, 2006 and 2005 was $2,891,894 and $1,105,244 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.

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

	2006	2005
Securities loaned – cash collateral		
Domestic bonds	$343,616,592	$256,694,526
Domestic equities	490,025,562	436,081,379
International equities	64,333,835	32,575,870
Total securities loaned – cash collateral	897,975,989	725,351,775
Securities loaned – non-cash collateral		
Domestic bonds	20,618,401	29,541,477
Domestic equities	21,207,150	1,119,136
International equities	1,210,334	801,356
Total securities loaned – non-cash collateral	43,035,885	31,461,969
Total	$941,011,874	$756,813,744

Note 3 – Deposits and Investments (Continued)

Foreign Currency Risk

The Plan's exposure to foreign currency risk at December 31, 2006 was as follows:

Currency	Fair Value	Percentage
Australian Dollar	$ 17,262,605	2.71%
Brazilian Real	20,667,185	3.24%
Canadian Dollar	(2,171,967)	-.34%
Swiss Franc	39,781,154	6.25%
Chilean Peso	1,789,865	.28%
Danish Krone	637,743	.10%
Egyptian pound	108,012	.02%
Euro	177,411,703	27.85%
British Pound Sterling	112,306,726	17.63%
Hong Kong Dollar	37,217,023	5.84%
Hungarian Forint	2,639,490	.41%
Indonesian Rupiah	6,204,551	.97%
New Israeli Shekel	2,921,783	.46%
Indian Rupee	20,965,021	3.29%
Japanese Yen	107,522,930	16.88%
South Korean Won	23,025,868	3.62%
Mexican Peso	11,651,740	1.83%
Malaysian Ringgit	2,787,633	.44%
Norwegian Krone	2,603,251	.41%
Philippine Peso	390,226	.06%
Swedish Krona	5,550,591	.87%
Singapore Dollar	6,589,593	1.03%
Thai Baht	2,584,746	.41%
Turkish Lira	2,600,440	.42%
New Taiwan Dollar	19,967,301	3.13%
South African Rand	13,926,132	2.19%
Total	$636,941,345	100.00%

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

Note 3 – Deposits and Investments (Continued)

Interest Rate Risk

As of December 31, 2006, the Plan had the following investments and maturities:

Security Type	Total Fair Value	Less than 1 year	1-6 years	6-10 years	10 or more years	Maturity Not Determined
Asset backed	$ 91,394,251	$ -	$ 41,964,195	$ 906,796	$ 48,523,260	$ -
Commercial mortgage backed	135,564,265	-	2,470,243	851,887	132,242,135	-
Corporate bonds	246,481,560	10,521,608	128,964,520	64,708,474	42,286,958	-
Government agencies	239,970,558	813,596	67,503,231	21,868,992	4,251,642	145,533,097
Government bonds	256,449,019	1,386,444	118,103,523	38,027,776	98,931,276	-
Government mortgage backed	348,045,648	-	-	1,269,217	241,079,125	105,697,306
Index linked government bonds	16,918,652	-	-	16,918,652	-	-
Non-government backed CMO's	67,900,451	-	2,812,970	-	65,087,481	-
Other fixed income	298,321,107	-	610,055	-	-	297,711,052
Short term investment funds	200,988,921	-	-	-	-	200,988,921
Short term bills and notes	25,275,773	25,275,773	-	-	-	-
Total	$1,927,310,205	$37,997,421	$362,428,737	$144,551,794	$632,401,877	$749,930,376

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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 3 - Deposits and Investments (Continued)

Credit Risk

The following table presents the Fund's ratings as of December 31, 2006:
(In thousands)

S&P Credit Rating	*Market Value*	*Asset Backed Securities*	*Comm'l Mortgage Backed*	*Corporate Bonds*	*Gov't Agencies*	*Gov't Bonds*	*Gov't Mortgage Backed*	*Index Linked Gov't Bonds*	*Non-Gov't Backed CMO's*	*Other Fixed Income*
TSY	$ 76,645	$ -	$ -	$ -	$ -	$ 68,414	$ -	$ 8,231	$ -	$ -
AGY	508,687	-	-	-	162,820	-	345,867	-	-	-
AAA	515,223	85,768	110,271	9,978	70,004	168,096	-	8,688	62,418	-
AA	7,951	273	259	7,419	-	-	-	-	-	-
AA-	35,932	-	-	30,087	5,845	-	-	-	-	-
A+	28,858	60	-	28,798	-	-	-	-	-	-
A	33,301	516	-	32,198	587	-	-	-	-	-
A-	27,139	1,531	-	25,608	-	-	-	-	-	-
BBB+	43,376	-	-	43,376	-	-	-	-	-	-
BBB	37,169	244	-	28,993	-	7,932	-	-	-	-
BBB-	16,568	-	-	16,568	-	-	-	-	-	-
BB+	2,948	-	-	2,948	-	-	-	-	-	-
BB	1,062	-	-	1,062	-	-	-	-	-	-
BB-	3,024	-	-	3,024	-	-	-	-	-	-
B+	2,973	-	-	2,973	-	-	-	-	-	-
B	6,975	-	-	6,975	-	-	-	-	-	-
B-	362	-	-	362	-	-	-	-	-	-
NR	352,853	3,001	25,034	6,113	715	12,008	2,178	-	5,483	298,321
Total	$1,701,046	$ 91,393	$135,564	$ 246,482	$ 239,971	$256,450	$ 348,045	$16,919	$67,901	$298,321

TSY = Treasury Issue
AGY = Agency Issue
NR = Not Rated

Note 4 – Net Assets Held in Trust for Pension Benefits

The Plan has reserved a portion of Plan net assets for future obligations. Employee contributions are distributed to active employee and survivor benefit reserves based on requirements specified in Illinois State Statutes. After meeting current cash requirements for administrative expense and disability benefits, employer contributions and investment income are allocated to all reserves based on actuarially calculated requirements. Amounts are transferred between reserves annually based on actuarially calculated requirements.

	2006	2005
Net assets reserved for:		
Retirement and survivor benefits for active employees	$ 4,253,340,727	$ 3,925,204,356
Retirement and survivor benefits for retired employees	5,438,978,756	5,325,007,461
	9,692,319,483	9,250,211,817
Unreserved net assets	(2,851,191,618)	(2,893,323,083)
Net assets held in trust for pension benefits	$ 6,841,127,865	$ 6,356,888,734

Note 5 – Office Lease

The Plan leases its administrative office and storage facilities under a fifteen-year agreement in effect through February 28, 2008. The lease may be canceled subject to significant cancellation penalties. The lease currently requires monthly payments of $18,287. Monthly lease payments are subject to an escalation clause for increases in real estate taxes and maintenance expenses.

Following is a summary of estimated future lease payments under the Plan's operating lease as of December 31, 2006:

Year Ending December 31,	Amount
2007	$219,444
2008	36,574
Total	$256,018

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

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)
12/31/06	$6,509,145,626	$9,692,319,483	$3,183,173,857	67.2%	$1,475,877,378	215.7%
12/31/05	$6,332,378,676	$9,250,211,817	$2,917,833,141	68.5%	$1,407,323,058	207.3%
12/31/04	$6,343,076,159	$8,808,500,944	$2,465,424,785	72.0%	$1,303,127,528	189.2%
12/31/03	$6,384,098,957	$7,988,636,556	$1,604,537,599	79.9%	$1,395,513,060	115.0%
12/31/02	$6,403,982,494	$7,577,100,377	$1,173,117,883	84.5%	$1,377,909,441	85.1%
12/31/01	$6,466,797,543	$6,934,176,477	$ 467,378,934	93.3%	$1,375,048,892	34.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

	Employer Contributions	
Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2006	$325,913,986	48.2 %
2005	$285,291,350	54.4%
2004	$198,199,001	77.7%
2003	$158,614,805	89.5%
2002	$ 92,711,870	141.3%
2001	$ 83,526,133	157.4%

NOTE TO SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

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	12/31/06
Actuarial cost method	Entry age normal
Amortization method	Level dollar open
Amortization period	40 years (pension plan) 30 years (health insurance plan)
Asset valuation method	5 -year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
OPEB investment rate of return	4.5%
Projected salary increases	4.5%
Inflation	3.0%
Healthcare Cost Trend Rate	0.0%
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 2) the later of the first of January of the year after the second anniversary of retirement and age 53

SCHEDULE OF ADMINISTRATIVE EXPENSES
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Administrative Salaries	$ 2,531,591	$ 1,878,660
Employee Benefits	759,612	683,679
Professional Services:		
Actuarial	84,806	156,316
Medical	43,888	43,050
Auditing	31,000	31,500
Legal	100,838	72,292
Custodial	610,459	174,295
Consulting	55,373	133,192
Investment consultants	180,000	180,000
Data Processing	499,293	622,831
Contractual	77,041	103,390
Office Supplies and Equipment	49,450	43,931
Office Equipment Maintenance	7,856	4,138
Bank service charge	2,972	4,617
Equipment Rental	8,027	6,325
Depreciation	785,300	761,137
Printing and Publishing	129,985	126,789
Postage	58,696	85,743
Rent and Utilities	276,905	324,224
Retirement Board Election Costs	-	5,378
Miscellaneous	4,947	18,824
Insurance	4,145	4,248
Business continuity planning	-	5,891
Telephone and Communications	50,849	39,708
Travel	22,909	15,720
Dues and Subscriptions	21,743	19,390
Total Administrative Expenses	$ 6,397,685	$ 5,545,268

SCHEDULE OF INVESTMENT MANAGEMENT COMPENSATION
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Equity Managers		
ABN AMRO	$ 215,847	$ 203,766
Ariel Capital	1,894,174	1,937,724
Bear Stearns	751,787	875,631
Castle Ark	150,686	138,329
Clearbridge Advisors	587,472	638,827
Earnest Partners	29,623	-
Great Lakes Advisors	586,289	562,881
Harris Investment Mgmt.	314,781	172,074
Holland Capital	602,980	607,321
Keeley Asset Mgmt.	897,799	770,106
MacKay Shields	488,567	473,415
MEABF Emerging Manager Fund	506,471	450,870
New Amsterdam Partners	138,701	133,355
Northern Trust Quantative Adv.	176,746	202,970
NorthPointe Capital	16,815	-
Penn Capital	46,690	-
TCW	327,003	271,561
TIMCO	26,174	336,095
UBS AM Equity	564,283	539,388
Voyageur Asset Management	22,145	-
Wellington Capital	648,104	642,478
William Blair Large Cap	590,645	576,071
William Blair Small/Mid Cap	31,972	-
Zenna Financial	10,085	-
Total Equity	9,625,839	9,532,862
Bond Managers		
Alliance Bernstein	455,990	447,076
NTGI Bond Index	87,322	93,095
Frank Russell Trust	36,474	323,107
Lehman Brothers	272,153	268,073
Payden & Rygel	170,984	157,219
UBS AM Bonds	475,728	348,954
Total Bond	1,498,651	1,637,524
International Equity Managers		
Alliance Bernstein Emerging Markets	529,742	-
Alliance Bernstein International	739,577	315,387
Frank Russell Trust	158,957	1,339,783
LSV Asset Management	706,225	316,375
MFS	692,449	421,457
MacKay Shields	496,167	270,555
Mondrain	55,006	129,930
Walter Scott	769,627	584,601
William Blair	806,014	190,476
Total International Equity	4,953,764	3,568,564

SCHEDULE OF INVESTMENT MANAGEMENT COMPENSATION
YEARS ENDED DECEMBER 31, 2006 AND 2005
(Continued)

	2006	2005
Real Estate Managers		
AFL-CIO Building Trust	224,989	188,981
American Realty	179,593	171,446
Capri Capital	869,817	1,095,024
DV Urban	151,603	-
J P Morgan	663,327	578,892
John Buck Company	400,829	397,500
Prudential Asset Mgmt.	642,458	590,584
Tishman Speyer	137,780	-
UBS Realty Advisors	51,523	-
Walton Street Partners	262,500	187,500
Total Real Estate	3,584,419	3,209,927
Private Equity Managers		
First Analysis	878,943	1,140,953
Hispania Partners	125,000	125,000
Hopewell Ventures	112,500	119,362
Invesco	12,808	34,610
MK Capital	100,000	100,000
Mesirow Financial	1,185,093	1,185,093
Midwest Mezzanine Fund	437,500	437,500
Muller & Monroe	100,000	100,000
Nogales Investors	283,312	250,000
SB Partners	149,956	225,000
Total Private Equity	3,385,112	3,717,518
Total	$ 23,047,785	$ 21,666,395

SCHEDULE OF PROFESSIONAL AND CONSULTING FEES
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Legal Advisors	$ 100,838	$ 72,292
Medical Advisors	43,888	43,050
Investment Consultant	180,000	180,000
Consulting Actuary	84,806	156,316
Consulting	55,373	133,192
Auditor	31,000	31,500
Master Custodian	610,459	174,295
Total	$ 1,106,364	$ 790,645