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

FINANCIAL REPORT

DECEMBER 31, 2008 AND 2007

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

CONTENTS

BANSLEY AND KIENER, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
O'HARE PLAZA
8745 WEST HIGGINS ROAD, SUITE 200
CHICAGO, ILLINOIS 60631
AREA CODE 312 263.2700

INDEPENDENT AUDITOR'S REPORT

The Retirement Board
Municipal Employees' Annuity & Benefit Fund
of Chicago
Chicago, Illinois

We have audited the statements 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, 2008 and 2007, and the related statements of changes in plan net assets for the years 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 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 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 audits provide 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, 2008 and 2007, and the changes in its plan net assets for the years 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 audits were 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. 50 *Pension Disclosures* during the year ended December 31, 2008. The Plan adopted Governmental Accounting Standards Board Statement No. 45 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions,* during the year ended December 31, 2007.

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

April 13, 2009

Management's Discussion and Analysis as of December 31, 2008

This Management Discussion and Analysis (MD&A) of the Municipal Employees' Annuity and Benefit Fund of Chicago ("Plan") provides an overview of the financial activities of the Plan for the year ended December 31, 2008. It serves as an introduction to the financial statements which begin on page 7. Readers are encouraged to read it in conjunction with the basic financial statements, notes to financial statements, required supplementary and additional information to better understand the financial condition and performance of the Plan during the year ended December 31, 2008.

Financial Highlights

- The Plan's investment portfolio returned –27.9 percent for 2008 calendar year, significantly below the 8.0 percent actuarial assumed investment rate of return, and compared to a 7.8 percent return in 2007 and 12.9 percent in 2006.

- Plan net assets held in trust reported in the Statement of Plan Net Assets total $4,739.6 million, a decrease of $2,269.9 million or 32.4 percent from the prior year.

- Total additions as reported in the Statement of Changes in Plan Net Assets indicate a negative $1,654.0 million, mainly attributable to the net depreciation in the fair value of investments. Total additions decreased by -$2,419.5 million or –316.1 percent from the prior year.

- Total deductions as reported in the Statement of Changes in Plan Net Assets total $615.9 million, a slight increase of $18.8 million or 3.1 percent from the prior year, due to scheduled benefit increases.

- As of the December 31, 2008 actuarial valuation, the total Plan's Unfunded Actuarial Accrued Liability (UAAL) for both pension plan and post-employment healthcare supplement increased to $3,936.3 million in 2008 from $3,296.2 million in the prior year. The increase in the unfunded actuarial liability is mainly due to large reductions in investment values and shortfalls in contributions relative to the actuarially determined contribution requirement.

- The net annual required contribution (ARC) for pension benefits only under Governmental Accounting Standards Board (GASB) Statement #25 for 2008 was $360.4 million, and the employer contributed 40.7 percent or $146.8 million in 2008. A calculation of a separate ARC for post-employment healthcare supplement is mandated by GASB #43 beginning in fiscal year 2006. The ARC for post-employment healthcare supplement for 2008 was $23.8 million, and the employer contributed 37.8 percent or $9.0 million in 2008.

- 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 supplement decreased to 62.9 percent in 2008 from 67.6 percent in 2007 and 67.2 percent in 2006.

Financial Analysis

Tables 1 and 2 below provide condensed financial data extracted from the basic financial statements for current fiscal year and the two prior fiscal years.

Plan Net Assets ($ in millions)

(as of December 31, 2008, 2007 and 2006)

Table 1

	2008	2007	2006	Increase (Decrease) From 2007 to 2008 $ Change	% Change
Cash, receivables and other assets	$ 234.6	$ 281.0	$ 273.0	$ (46.4)	-16.5%
Investments, at fair value	4,673.5	6,900.0	6,797.0	(2,226.5)	-32.3%
Invested securities lending collateral	543.2	1,037.2	922.8	(494.0)	-47.6%
Total assets	5,451.3	8,218.2	7,992.8	(2,766.9)	-33.7%
Liabilities	711.7	1,208.7	1,151.7	(497.0)	-41.1%
Total plan net assets	**$4,739.6**	**$7,009.5**	**$6,841.1**	**$ (2,269.9)**	**-32.4%**

Plan net assets

The net assets held in trust for pension benefits as of December 31, 2008 declined substantially, dropping to $4,739.6 million from $7,009.5 million in 2007 and $6,841.1 in 2006. The decrease of -$2,269.9 million or –32.4 percent was largely due to steep declines in the fair value of investments resulting from the turmoil in the global financial markets and continued shortfalls in contributions relative to the actuarially determined contribution requirement. The value of securities on loan, shown both as assets and liabilities at year-end declined to $543.2 million from $1,037.2 million in 2007 and $922.8 million in 2006.

Additions and Deductions to Plan Net Assets ($ in millions)

(Years ended December 31, 2008, 2007 and 2006)

Table 2

	2008	2007	2006	Increase (Decrease) From 2007 to 2008 $ Change	% Change
Additions:					
Employer contributions	$ 155.8	$ 148.1	$ 157.0	$ 7.7	5.2%
Member contributions	137.7	132.5	129.5	5.2	3.9%
Total contributions	293.5	280.6	286.5	12.9	4.6%
Net investment income (loss)	(1,900.1)	483.8	775.0	(2,383.9)	-492.7%
Net security lending income (loss)	(47.4)	1.1	2.9	(48.5)	-4409.1%
Total additions	(1,654.0)	765.5	1,064.4	(2,419.5)	-316.1%
Annuity and disability benefits	573.7	554.0	538.7	19.7	3.6%
Healthcare subsidy for City and BE retirees	9.0	8.5	8.7	0.5	5.9%
Refunds of contributions	25.5	28.0	27.2	(2.5)	-8.9%
Administrative expense	7.7	6.6	5.6	1.1	16.7%
Total deductions	615.9	597.1	580.2	18.8	3.1%
Net increase (decrease)	(2,269.9)	168.4	484.2	(2,438.3)	-1447.9%
Net assets at beginning of year	7,009.5	6,841.1	6,356.9	168.4	2.5%
Ending net assets	**$ 4,739.6**	**$7,009.5**	**$6,841.1**	**$ (2,269.9)**	**-32.4%**

Changes in Plan Net Assets

Employer contributions increased to $155.8 million from $148.1 million in 2007 but was slightly lower than the employer contributions of $157.0 million in 2006. Employer contributions are statutorily set at 1.25 times the employee contribution level in the second prior fiscal year. Primarily attributable to permissive service credit purchases, member contributions slightly increased to $137.7 million from $132.5 million in 2007 and $129.5 million in 2006.

Investments posted –27.9 percent return in 2008 compared to 7.8 percent return in 2007 and 12.9 percent in 2006. Due to the turmoil in the investment market and the global economy, the value of invested assets plunged in 2008 by -$1,900.1 million in 2008 compared with growth of $483.8 million in 2007 and $775.0 million in 2006. Securities lending activities reflected a loss of -$47.4 million for 2008 compared to a gain of $1.1 million in 2007 and $2.9 million in 2006. The net loss in 2008 reflects the effects of mark to market accounting practiced by the custodian. The underlying assets have not realized a loss and the custodian believes that the affected securities will return full principal and interest at time of maturity.

Annuity and disability benefits increased by 3.6% to $573.7 million in 2008, from $554.0 million in 2007 and $538.7 million in 2006 primarily due to annual cost of living increases for annuities. The healthcare subsidy for City and Board of Education retirees was increased by $10 a month for each annuitant effective July 1, 2008 increasing the total for 2008 by 5.9 percent to $9.0 million, compared to $8.5 million in 2007 and $8.7 million in 2006. Refunds of contributions decreased to $25.5 million in 2008 from $28.0 million in 2007 and $27.2 million in 2006 due to a decrease in refund applications. Refunds of contributions are expected to rise in early 2009 due to the termination in late December 2008 of about 355 City of Chicago employees.

Administrative expenses increased to $7.7 million from $6.6 million in 2007 and $5.6 million in 2006. The increase is due to the acceleration of depreciation expense on a pension administration system that will be retired from service in 2009, and slight increases in personal services, employee benefits, consulting services and rental expense. Under the terms of the 3rd amendment to the lease agreement, office rental expense increased by about 5%.

Securities Lending

The credit crunch intensified in 2008 triggering significant declines in the valuation of fixed income instruments, specifically in regards to financial sector companies. The Plan's custodian is utilized for securities lending services and is authorized by contract to invest the collateral received on loaned securities in approved commingled short-term investment funds. Some of the holdings within these short-term funds were affected by the credit crunch, reducing valuations. The investments within these funds are "marked to market" on a daily basis, which triggered negative securities lending income during certain months of the year. The master custodian has allowed its clients the ability to carry forward the negative balances and recoup the negative earnings in succeeding months as positive income is generated. The custodian believes that securities lending income should rebound from its negative earnings as holdings affected by the credit crunch come closer to their dates of maturity. As of December 31, 2008, the Plan's carry forward balance was $47.4 million.

Summary of Investment at December 31 ($ in millions)

	2008	2007	2006	Increase (Decrease) 2007 to 2008 $ Change	% Change
Bonds	$ 1,360.4	$ 1,718.2	$ 1,701.0	$ (357.8)	-20.8%
Domestic Equity	1,814.0	3,554.6	3,588.8	(1,740.6)	-49.0%
International Equity	722.5	900.2	868.0	(177.7)	-19.7%
Real Estate	318.4	330.5	288.0	(12.1)	-3.7%
Private Equity	131.2	120.5	105.7	10.7	8.9%
Short-Term Investments	327.0	276.0	245.5	51.0	18.5%
	$ 4,673.5	$ 6,900.0	$ 6,797.0	$ (2,226.5)	-32.3%

Due to the economic downturn and the withdrawal of funds to pay monthly benefits, the Plan's investment portfolio decreased by $2,226.5 million in 2008, closing the year at $4,673.5 million compared to $6,900.0 million in 2007 and $6,797.0 million in 2006. The domestic equity portfolio, which decreased by $1,740.6 million in 2008, reflected the largest decrease in value for the year and included $175.0 million in withdrawals to pay benefits. Despite an increased allocation to international equity, the international portfolio decreased by $177.7 million because of the downturn in the global markets. Fixed income decreased by $357.8 million primarily due to the withdrawal of $195.0 million to pay benefits and unrealized market losses. Real estate exposure reduced slightly mainly due to property values beginning to reflect declines. Funds needed to meet monthly cash flow requirements are drawn from allocations in the portfolio that are over the Plan's targets at the time the funds are needed for operations.

Economic Factors and Rates of Return

The U.S. economy officially entered into a recessionary period in December 2007. As the deep downturn continued through 2008, U.S. and global markets were negatively impacted by a deteriorating housing market, growing unemployment, and liquidity concerns in the credit markets. While there was no safe haven for investors in 2008, some markets fared better than others. Fixed income investments, as represented by the Barclays Capital U.S. Aggregate Bond index, produced a positive return in 2008 of 5.2%. The 90-Day Treasury Bill returned 1.6 percent for the year. Most other markets suffered declines. Domestically, the S&P 500 and Russell 2000 returned –37.0 percent and –33.8 percent, respectively. Globally, the MSCI EAFE (Europe, Australasia, and Far East) index and MSCI Emerging Markets index returned –43.1 percent and –53.2 percent, respectively. While real estate produced a return of –6.5 percent for the year, as represented by the NCREIF index, investors in this asset class may have not seen the worst yet. NCREIF returns for 2009 are expected to fall due to property appraisals that should reflect declines in property values. For the last two years, the return on the Plan's investments failed to meet or exceed the actuarial assumed return of 8.0 percent.

Stock Market Volatility

The economic downturn that reduced the value of Plan assets in 2008 continued its downward spiral in the first quarter of 2009. For the first two months of 2009, major market indices of domestic and international stocks were down roughly 20%. The Plan, which allocates a portion of the investment portfolio to the equity markets, was down by roughly 9% over the same time period. At the time of distribution of this report, the equity markets had rebounded somewhat, gaining back roughly thirty to fifty percent of the valuation reduction incurred in the first two months of 2009.

Funding Status

The funded status of the Plan is measured by a comparison of the Plan'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 the Plan's independent actuary in performing their annual valuation of the Plan. 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 assets that will be needed in future years to provide for all future benefit obligations.

The Plan's independent actuary, Gabriel Roeder Smith & Company, performed an actuarial valuation as of December 31, 2008. Based on this latest actuarial valuation, the Plan's actuarial value of liabilities for defined pension benefits was $10,383.2 million and actuarial value of assets was $6,669.5 million, and unfunded actuarial liability of $3,713.7 million and a funded ratio of 64.2 percent, a decrease from 69.1 percent in 2007 and 68.7 percent in 2006.

Post-employment Healthcare. The Governmental Accounting Standards Board (GASB) issued Statement #43 requiring the Plan to estimate its liability for post-employment health insurance supplement beginning with fiscal year 2006. For 2008, the Plan's estimated liability for future post-employment health insurance supplement for City and Board of Education retirees increased to $222.7 million from $217.9 million in 2007 and $216.2 million in 2006. The Plan does not set aside assets to fund this post-employment health insurance supplement benefits. It is funded on a pay-as-you go basis and this benefit is set to expire in June 30, 2013.

For both defined pension benefits and post-employment health insurance supplement, the Unfunded Accrued Actuarial Liability (UAAL) increased to $3,936.3 million in 2008, from $3,296.2 million in 2007 and $3,183.2 in 2006, resulting in a decrease in the funding ratio to 62.9 percent in 2008 from 67.6 percent in 2007 and 67.2 percent in 2006. The increase in the UAAL is largely attributable to reductions in the value of investments and a shortfall in contributions relative to the actuarially determined contribution requirement. Based on the actuarial smoothing techniques, the Plan has a -$1,929.9 million unrealized loss yet to recognize over the next four years.

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 the Plan'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 the Plan on the State reporting basis shows a ratio of 3.33 is needed to adequately finance the Plan.

Request for Information

Additional information is available upon request. Please direct your request 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)

STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2008

	Pension	Postemployment Healthcare	Total
Cash and cash equivalents	$ 1,622,524	$ -	$ 1,622,524
Receivables			
Contributions from the City of Chicago, net of allowance for loss of $15,514,130	159,465,741	-	159,465,741
Member contributions	8,131,701	-	8,131,701
Interest and dividends	15,804,728	-	15,804,728
Receivables for investments sold	46,807,079	-	46,807,079
Miscellaneous	105,546	-	105,546
Total receivables	230,314,795	-	230,314,795
Investments, at fair value			
Bonds	1,360,360,660	-	1,360,360,660
Domestic and international equity	2,536,520,980	-	2,536,520,980
Real estate	318,413,913	-	318,413,913
Other investments	131,241,134	-	131,241,134
Short-term investments	327,011,431	-	327,011,431
Total investments	4,673,548,118	-	4,673,548,118
Invested securities lending collateral	543,248,530	-	543,248,530
Property and equipment, net of accumulated depreciation and amortization of $4,050,800	2,636,126	-	2,636,126
Total assets	5,451,370,093	-	5,451,370,093
LIABILITIES			
Payables for investments purchased	115,131,467	-	115,131,467
Accounts payable and accrued expenses	5,048,366	-	5,048,366
Securities lending collateral	543,248,530	-	543,248,530
Securities lending earnings shortfall	47,373,895	-	47,373,895
OPEB liability	-	954,080	954,080
Total liabilities	710,802,258	954,080	711,756,338
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 26)	$ 4,740,567,835	$ (954,080)	$ 4,739,613,755

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)

STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2007

	Pension	Postemployment Healthcare	Total
Cash and cash equivalents	$ 1,604,187	$ -	$ 1,604,187
Receivables			
Contributions from the City of Chicago, net of allowance for loss of $14,304,348	160,360,812	-	160,360,812
Member contributions	10,528,434	-	10,528,434
Interest and dividends	17,722,472	-	17,722,472
Receivables for investments sold	87,322,078	-	87,322,078
Miscellaneous	43,972	-	43,972
Total receivables	275,977,768	-	275,977,768
Investments, at fair value			
Bonds	1,718,198,492	-	1,718,198,492
Domestic and international equity	4,454,812,607	-	4,454,812,607
Real estate	330,533,414	-	330,533,414
Other investments	120,482,749	-	120,482,749
Short-term investments	275,979,001	-	275,979,001
Total investments	6,900,006,263	-	6,900,006,263
Invested securities lending collateral	1,037,232,545	-	1,037,232,545
Property and equipment, net of accumulated depreciation and amortization of $2,413,971	3,380,530	-	3,380,530
Total assets	8,218,201,293	-	8,218,201,293
LIABILITIES			
Payables for investments purchased	163,051,059	-	163,051,059
Accounts payable and accrued expenses	7,910,156	-	7,910,156
Securities lending collateral	1,037,232,545	-	1,037,232,545
OPEB liability	-	483,590	483,590
Total liabilities	1,208,193,760	483,590	1,208,677,350
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 26)	$ 7,010,007,533	$ (483,590)	$ 7,009,523,943

The accompanying notes are am integral part of the financial statements.

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

STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED DECEMBER 31, 2008

	Pension	Postemployment Healthcare	Total
Additions			
Contributions from the City of Chicago	$ 146,803,250	$ 9,029,362	$ 155,832,612
Member contributions	137,748,907	-	137,748,907
Total contributions	284,552,157	9,029,362	293,581,519
Investment income			
Net depreciation in fair value of investments	(2,051,463,604)	-	(2,051,463,604)
Interest	82,924,822	-	82,924,822
Dividends	81,008,326	-	81,008,326
Income from real estate investments	9,720,357	-	9,720,357
Other income	7,443	-	7,443
	(1,877,802,656)	-	(1,877,802,656)
Less investment expenses	22,388,147	-	22,388,147
Net loss from investing activities	(1,900,190,803)	-	(1,900,190,803)
Security lending activities			
Securities lending loss	(16,277,658)	-	(16,277,658)
Borrower rebates	(20,280,107)	-	(20,280,107)
Bank fees	(10,827,367)	-	(10,827,367)
Net loss from securities lending activities	(47,385,132)	-	(47,385,132)
Total additions	(1,663,023,778)	9,029,362	(1,653,994,416)
Deductions			
Benefits			
Annuity payments	561,947,108	-	561,947,108
Disability benefits	11,687,603	-	11,687,603
Contribution of insurance premiums	-	9,029,362	9,029,362
Total benefits	573,634,711	9,029,362	582,664,073
Refund of member contributions	25,501,985	-	25,501,985
Administrative and OPEB expenses	7,279,224	470,490	7,749,714
Total deductions	606,415,920	9,499,852	615,915,772
Net decrease	(2,269,439,698)	(470,490)	(2,269,910,188)
Net assets held in trust for pension benefits			
Beginning of year	7,010,007,533	(483,590)	7,009,523,943
End of year	$ 4,740,567,835	$ (954,080)	$ 4,739,613,755

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)

STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED DECEMBER 31, 2007

	Pension	Postemployment Healthcare	Total
Additions			
Contributions from the City of Chicago	$ 139,606,140	$ 8,530,910	$ 148,137,050
Member contributions	132,442,200	-	132,442,200
Total contributions	272,048,340	8,530,910	280,579,250
Investment income			
Net appreciation in fair value of investments	339,013,557	-	339,013,557
Interest	79,407,999	-	79,407,999
Dividends	82,402,518	-	82,402,518
Income from real estate investments	9,935,868	-	9,935,868
	510,759,942	-	510,759,942
Less investment expenses	26,880,530	-	26,880,530
Net income from investing activities	483,879,412	-	483,879,412
Security lending activities			
Securities lending income	55,763,678	-	55,763,678
Borrower rebates	(53,471,114)	-	(53,471,114)
Bank fees	(1,212,382)	-	(1,212,382)
Net income from securities lending activities	1,080,182	-	1,080,182
Total additions	757,007,934	8,530,910	765,538,844
Deductions			
Benefits			
Annuity payments	543,411,793	-	543,411,793
Disability benefits	10,624,807	-	10,624,807
Contribution of insurance premiums	-	8,530,910	8,530,910
Total benefits	554,036,600	8,530,910	562,567,510
Refund of member contributions	28,009,512	-	28,009,512
Administrative and OPEB expenses	6,082,154	483,590	6,565,744
Total deductions	588,128,266	9,014,500	597,142,766
Net increase (decrease)	168,879,668	(483,590)	168,396,078
Net assets held in trust for pension benefits			
Beginning of year	6,841,127,865	-	6,841,127,865
End of year	$ 7,010,007,533	$ (483,590)	$ 7,009,523,943

The accompanying notes are an integral part of the financial statements.

NOTES TO 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.

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.

NOTES TO FINANCIAL STATEMENTS

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, 2008 and 2007 is as follows:

	2008	2007
Pension administration system	$4,997,988	$4,997,988
Furniture	50,660	55,052
Equipment	31,707	32,615
Computers	572,335	281,811
Leasehold improvements	53,663	135,696
	5,706,353	5,503,162
Less accumulated depreciation and amortization	4,050,800	2,413,971
	1,655,553	3,089,191
Construction in progress	980,573	291,339
Net property and equipment	$2,636,126	$3,380,530

During 2008, the estimated useful life of the Pension Administration System was reduced due to the planned retirement of the system in 2009. This change had the effect of decreasing net assets held in trust for pension benefits as of December 31, 2008 by $717,250.

Construction in progress for the new Pension Benefit System (PBS) is near completion. The new system will be placed in service by the 2nd quarter of 2009 replacing the Pension Administration System that is being retired from service. Estimated cost of the PBS is approximately $1,200,000.

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 mandated in the Illinois State Statutes Chapter 40, Pension Article 5/8-190.

Pension Disclosures

During the year ended December 31, 2008, the Plan adopted Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*. As a result, the Plan has addressed certain pension disclosures.

Other Postemployment Benefits

During the year ended December 31, 2007, the Plan adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the Plan has addressed the accounting and disclosures related to other postemployment benefits.

Note 1 – Summary of Significant Accounting Policies (Continued)

Reclassification

Certain reclassifications have been made in the prior year financial statements to conform with current year presentation.

Note 2 – Description of Pension and Health Insurance Plans

Pension Plan

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, the Plan. 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 except those classified by the municipal personnel ordinance as labor service or persons 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, 2008 and 2007 were $1,543,976,553 and $1,564,458,835, respectively. Plan membership at December 31 is as follows:

	2008	2007
Active employees (includes members currently receiving disability benefits):		
Vested	16,301	16,117
Non-vested	16,262	18,768
	32,563	34,885
Retirees and beneficiaries currently receiving benefits	22,730	22,789
Terminated employees entitled to benefits but not yet receiving them	3,615	1,198
Terminated employees entitled to a refund of contributions	8,467	7,907
Total	67,375	66,779

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

Benefit Provisions

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

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.

Post-Retirement Increase

The monthly annuity is increased annually by 3% of the currently payable annuity. 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 and age 53, or
2) the later of the first anniversary of retirement and age 60.

Surviving Spouse Pension

Upon the death of an employee, 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" or 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 cannot exceed an amount equal to 50% of the highest salary earned by the employee.

Child Annuity

Annuities are provided for unmarried children of a deceased employee who are 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 2 – Description of Pension and Health Insurance Plans (Continued)

Ordinary Disability

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

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 its 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 are required to contribute to the Plan 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.

Employer Contributions

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. Annual required contribution (ARC) rates are determined using the entry age normal actuarial funding method. The Plan 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 ratio of 3.33 is needed to adequately finance the Plan. The statutory employer contributions have been less than the ARC for the past six years. Contribution rates may be increased only by an amendment by the State legislature to the statues.

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

Funding Status and Funding Progress – Pension Plan

The following table shows the funded status and funding progress as of December, 31 2008, the most recent actuarial valuation:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b–a)/c)
$6,669,501,770	$10,383,157,695	$3,713,655,925	64.2%	$1,543,976,553	240.5%

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, 2008
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	8.0 percent per year
Projected Base Salary Increases	4.5 percent per year
Includes inflation at	3.0 percent per year
Post Retirement Benefit Increases	3.0 percent per year beginning in January of the first payment date following the earlier of 1) the later of the 3rd anniversary of retirement and age 53, or 2) the later of the 1st anniversary of retirement and age 60.

Post-employment Healthcare Subsidy – City of Chicago and Board of Education Retirees

MEAB 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:

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.

NOTES TO FINANCIAL STATEMENTS

Note 2 – Description of Pension and Health Insurance Plans (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, 2008, there are 9,167 (9,231 as of December 31, 2007) City annuitants enrolled in the City's health care plan and 1,913 (1,913 as of December 31, 2007) 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 2008 and 2007, the Pension Plan received contributions of $9,029,362 and $8,530,910 and remitted contributions of $9,029,362 and $8,530,910, 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, 2008, the most recent actuarial valuation:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
N/A	$222,691,036	$222,691,036	.0%	$1,543,976,553	14.4%

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, 2008
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 percent per year
Includes inflation at	3.0 percent per year
Healthcare Cost Trend Rate	0.0 percent (Trend not applicable – Fixed dollar subsidy)

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

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 2008 and 2007, MEABF as employer contributed $96,670 and $53,810 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 the Plan's annual OPEB cost for the staff retiree healthcare benefits are shown in the following table:

	2008	2007
Annual OPEB Cost		
Annual Required Contribution (ARC)	$573,808	$537,400
Interest on Net OPEB Obligation	21,762	-
Adjustment to ARC	(28,410)	-
Annual OPEB Cost	567,160	537,400
Employer Contributions	96,670	53,810
Net OPEB Obligations (NOO)		
Net OPEB Obligation at Beginning of Year	483,590	-
Increase in NOO	470,490	483,590
Net OPEB Obligation at End of Year	$954,080	$483,590

The Net OPEB Obligation is the amount recorded in the Plan's Statement of Plan Net Assets as of year-end as the net liability for MEABF Staff Retiree Healthcare OPEB Liability. The employer contributions consist of $56,615 explicit subsidy and $40,055 implicit subsidy and treated as administrative expense of the defined benefit plan. The Annual *OPEB Cost* recorded in the Statement of Changes in Plan Net Assets for 2008 as the MEABF Staff Retiree OPEB expense is net of employer implicit and explicit subsidy. The Annual OPEB Cost is the amount recorded in the Statement of Changes in Plan Net Assets for 2008 as the MEABF Staff Retiree OPEB expense.

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

The following table shows the MEABF Staff Retiree Healthcare plan's annual OPEB cost and actual employer contributions as a percentage contributed for 2008 and 2007.

Year ended December 31	Annual OPEB Cost	Amount Contributed	Percentage Contributed
2008	$567,160	$96,670	17.0%
2007	$537,400	$53,810	10.0%

Funding Status and Funding Progress – Post-employment Benefit for MEABF Staff Retiree Healthcare

The following table shows the projected funded status and funding progress as of December 31, 2008 based on the most recent actuarial valuation as of December 31, 2006.

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
N/A	$4,843,612	$4,843,612	0.0%	$2,952,239	164.1%

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.

Funding Status and Funding Progress – Post-employment Benefit for MEABF Staff Retiree Healthcare

For a plan the size of the MEAB 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. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 2006
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 Base Salary Increases	4.5%
Wage Inflation	4.5%
Ultimate Healthcare Cost Trend Rate	5.0%

NOTES TO FINANCIAL STATEMENTS

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, 2008 and 2007, the Plan's book balances of cash are $1,622,524 and $1,604,187, respectively. The actual bank balances at December 31, 2008 and 2007 are $1,622,224 and $1,603,887, 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, 2008 and 2007, $8,741,643 and $4,264,361 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, 2008 and 2007.

	2008	2007
Investments At Fair Value As Determined by Quoted Price		
Bonds	$1,360,360,660	$1,718,198,492
Domestic and international equity	2,536,520,980	4,454,812,607
	3,896,881,640	6,173,011,099
Investments at Fair Value As Determined by Plan Administrator		
Real estate	318,413,913	330,533,414
Private equity	131,241,134	120,482,749
Short-term investments	327,011,431	275,979,001
	776,666,478	726,995,164
Total investments	$4,673,548,118	$6,900,006,263

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, 2008 the average term of the loan was 69 days (84 days in 2007). 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, 2008 had a weighted average maturity of 44 days (45 days in 2007). As of December 31, 2008 and 2007, the Plan had loaned to borrowers securities with a fair value of $535,935,976 and $1,040,349,638, respectively. As of December 31, 2008 and 2007, the Plan received from borrower's cash collateral of $543,248,530 and $1,037,232,545, and non-cash collateral of $1,919,771 and $29,791,378, respectively. Securities lending net income (loss) for the years ended December 31, 2008 and 2007 was ($47,385,132) and $1,080,182 respectively. The short-term investment pool in which cash collateral is invested is marked to market on a daily basis, generating a shortfall of $47,373,895 as of December 31, 2008. The custodian believes that the shortfall is temporary and should rebound as holdings affected come closer to their maturity. 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:

	2008	2007
Securities loaned – cash collateral		
Domestic bonds	$210,939,527	$ 315,484,354
Domestic equities	297,933,024	644,598,777
International equities	25,209,748	50,475,129
Total securities loaned – cash collateral	534,082,299	1,010,558,260
Securities loaned – non-cash collateral		
Domestic bonds	69,966	24,107,813
Domestic equities	1,144,645	4,436,530
International equities	639,066	1,247,035
Total securities loaned – non-cash collateral	1,853,677	29,791,378
Total	$535,935,976	$1,040,349,638

Note 3 – Deposits and Investments (Continued)

Foreign Currency Risk

The Plan's exposure to foreign currency risk at December 31, 2008 was as follows:

Currency	Fair Value	Percentage
Australian Dollar	$ 30,973,939	4.55%
Brazilian Real	12,373,437	1.82%
Canadian Dollar	31,651,208	4.65%
Swiss Franc	42,586,603	6.26%
Chilean Peso	1,041,715	.15%
Columbian Peso	86,580	.01%
Czech Koruna	896,086	.13%
Danish Krone	4,597,755	.68%
Egyptian pound	703,997	.10%
Euro	169,515,251	24.90%
British Pound Sterling	100,940,377	14.83%
Hong Kong Dollar	31,638,247	4.65%
Hungarian Forint	253,054	.04%
Indonesian Rupiah	1,610,135	.24%
New Israeli Shekel	1,778,228	.26%
Indian Rupee	9,376,167	1.38%
Japanese Yen	183,771,658	26.99%
South Korean Won	6,903,502	1.01%
Mexican Peso	3,784,142	.56%
Malaysian Ringgit	1,211,500	.18%
Moroccan Dirham	209,685	.03%
New Zealand Dollar	1,166,439	.17%
Norwegian Krone	5,761,278	.83%
Pakistan Rupee	24,990	.00%
Philippine Peso	196,571	.03%
Polish Zloty	663,763	.10%
Swedish Krona	12,861,065	1.89%
Singapore Dollar	9,188,698	1.35%
Thai Baht	673,531	.10%
Turkish Lira	2,382,494	.35%
New Taiwan Dollar	5,269,325	.77%
South African Rand	6,020,403	.88%
United Arab Emirates Dirham	762,200	.11%
Total	$680,787,443	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.

NOTES TO FINANCIAL STATEMENTS

Note 3 – Deposits and Investments (Continued)

Interest Rate Risk

As of December 31, 2008, 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	$ 52,705,655	$ -	$ 30,200,160	$ 664,581	$ 21,840,914	$ -
Commercial mortgage backed	105,364,216	-	-	-	105,364,216	-
Corporate bonds	280,896,753	31,122,060	120,699,787	66,963,900	62,111,006	-
Government agencies	104,515,777	-	50,574,382	13,697,337	14,388,960	25,855,098
Government bonds	136,076,225	-	71,216,096	16,655,585	48,204,544	-
Government mortgage backed	353,121,180	-	10,829	4,772,485	295,685,553	52,652, 313
Index linked government bonds	20,022,530	-	8,937,015	11,085,515	-	-
Non-government backed CMO's	30,655,915	-	260,958	1,275,400	29,119,557	-
Other fixed income	277,002,410	610,432	-	-	-	276,391,978
Short term investment funds	297,617,188	-	-	-	-	297,617,188
Total	$1,657,977,849	$31,732,492	$281,899,227	$115,114,803	$576,714,750	$652,516,577

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 3- Deposits and Investments (Continued)

Credit Risk

The following table reflects credits ratings of fixed income securities held by the Plan as of December 31, 2008:
(in thousands)

S&P Credit Rating	*Fair 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	$ 19,699	$ -	$ -	$ -	$ -	$ 15,568	$ -	$ 4,131	$ -	$ -
AGY	382,987	-	-	-	35,565	-	347,422	-	-	-
AAA	356,695	49,354	82,473	11,650	65,572	114,968	194	15,892	16,592	-
AA	8,149	738	-	7,411	-	-	-	-	-	-
AA-	3,539	-	-	3,539	-	-	-	-	-	-
A+	23,675	25	-	23,650	-	-	-	-	-	-
A	70,806	330	-	67,756	1,125	-	-	-	1,595	-
A-	42,195	519	166	41,510	-	-	-	-	-	-
BBB+	41,060	-	-	40,742	318	-	-	-	-	-
BBB	36,989	-	-	32,060	-	264	-	-	4,665	-
BBB-	36,623	-	-	30,208	-	4,276	-	-	2,139	-
BB+	3,886	-	-	3,886	-	-	-	-	-	-
BB	4,034	-	-	2,753	-	-	-	-	1,281	-
BB-	470	-	-	470	-	-	-	-	-	-
B+	2,378	-	-	1,103	-	-	-	-	1,275	-
B	1,648	174	-	1,280	-	-	-	-	194	-
B-	36	-	-	-	-	-	-	-	36	-
CCC+	1,979	-	-	1,979	-	-	-	-	-	-
CCC	167	89	-	78	-	-	-	-	-	-
CC	190	190	-	-	-	-	-	-	-	-
C	78	-	-	78	-	-	-	-	-	-
D	4	-	-	4	-	-	-	-	-	-
NR	323,074	1,287	22,726	10,739	1,936	1,000	5,505	-	2,879	277,002
Total	$1,360,361	$ 52,706	$105,365	$280,896	$104,516	$136,076	$353,121	$20,023	$30,656	$ 277,002

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

The Plan does not have a formal policy in regards 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 4 – 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. 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:

	2008	2007
City Contribution Reserves	$ 1,464,478,847	$ 1,370,338,603
Salary Deduction Reserves	1,464,099,104	1,369,944,352
Prior Services Reserves	5,960,217,402	5,738,016,571
Annuity Payment Reserves	1,715,662,109	1,706,982,093
Optional Reserve Account	1,156,080	1,098,379
Supplementary Payment Reserves	235,189	235,189
	10,605,848,731	10,186,615,187
Unreserved Net Assets	(5,866,234,976)	(3,177,091,244)
Net assets held in trust for pension benefits	$ 4,739,613,755	$ 7,009,523,943

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.

Optional Reserves

Amounts contributed by the aldermen for the alternative plan.

Supplementary Payment Reserves

Amounts contributed by the annuitants and amounts transferred from the investment and interest reserve to provide annual increase for those who retired before the amendment providing post retirement increases and additional employee contributions.

NOTES TO FINANCIAL STATEMENTS

Note 5 – Lease Agreements

Office Lease

The Plan leases its administrative office and storage facilities under a fifteen-year agreement and has been amended to extend the lease through February 29, 2010 with a Plan option to extend to February 28, 2011. The lease may be canceled subject to significant cancellation penalties. The lease currently requires monthly payments of $33,500. Monthly lease payments are subject to an escalation clause for increases in real estate taxes and maintenance expenses.

Disaster Recovery (DR) site

The Plan 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 lease as of December 31, 2008:

Year Ending December 31,	Amount
2009	$402,759
2010	76,711
2011	10,006
2012	10,309
2013 and thereafter	33,067
Total	$532,852

Note 6- Risk Management

The Plan 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 were no reductions in coverage nor have there been any claims in the last three years.

REQUIRED SUPPLEMENTARY INFORMATION

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)
12/31/08	$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%
12/31/06	$6,509,145,626	$ 9,476,118,446	$2,966,972,820	68.7%	$1,475,877,378	201.0%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (PENSION)

	Employer Contributions	
Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2008	$360,387,176	40.7%
2007	$343,123,106	40.7%
2006	$303,271,824	48.9%
2005	$285,291,350	54.4%
2004	$198,199,001	77.7%
2003	$158,614,805	89.5%

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, 2008
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	8.0%
Projected salary increases	4.5%
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 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.
OPEB liabilities are discounted at a rate of 4.5% beginning in 2005.

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)
12/31/08	$ -	$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%
12/31/06	$ -	$216,201,037	$216,201,037	00.0%	$1,475,877,378	14.7%

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(POST -EMPLOYMENT HEALTHCARE)

	Employer Contributions	
Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2008	$23,782,660	38.0%
2007	$23,287,106	36.9%
2006	$22,642,162	38.6%

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, 2008
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%
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)
12/31/06	$ -	$4,832,612[1]	$4,832,612	00.0%	$2,952,239	164.1%

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

	Employer Contributions	
Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2008	$573,808[1]	17.0%
2007	$537,400	10.0%

[1] Projected for plan year ended December 31, 2008 based on most recent actuarial valuation as of December 31, 2006.

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, 2006
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, 2008 AND 2007

	2008	2007
Administrative Salaries	$ 2,774,543	$ 2,742,404
Payroll taxes	32,249	40,568
Employee Benefits	856,359	737,003
Professional Services	466,412	397,419
Data Processing	369,677	365,835
Contractual	15,683	13,570
Office Supplies and Equipment	59,381	95,143
Office Equipment Maintenance	19,402	21,529
Depreciation	1,776,272	811,941
Printing and Publishing	130,540	130,927
Postage	86,674	86,542
Rent and Utilities	377,266	309,088
Miscellaneous	1,806	6,334
Insurance	215,948	219,300
Telephone and Communications	55,284	57,157
Travel	26,441	26,873
Dues and Subscriptions	15,287	20,521
Total Administrative expense	$ 7,279,224	$ 6,082,154
OPEB expense	470,490	483,590
Total Administrative and OPEB expense	$ 7,749,714	$ 6,565,744

SCHEDULE OF INVESTMENT MANAGEMENT COMPENSATION
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Equity Managers		
ABN AMRO	$ -	$ 84,795
Ariel Capital	1,033,981	1,450,974
Attucks Asset Management	10,729	17,305
Bear Stearns	-	585,767
Castle Ark	379,913	270,006
Clearbridge Advisors	391,708	652,069
Earnest Partners	369,554	435,269
Great Lakes Advisors	616,854	618,803
Harris Investment Mgmt.	376,201	346,419
Holland Capital	523,629	648,016
Keeley Asset Mgmt.	646,821	807,819
MacKay Shields	424,603	528,929
MEABF Emerging Manager Fund	-	374,658
New Amsterdam Partners	-	131,458
Northern Trust Quantative Adv.	112,013	181,610
NorthPointe Capital	124,833	235,656
Penn Capital	387,181	670,489
Rhumbline Advisors	29,821	-
TCW	355,379	385,531
UBS AM Equity	361,179	570,098
United Investmemt Managers	687,212	136,001
Voyageur Asset Management	264,785	313,942
Wellington Capital	917,614	685,803
William Blair Large Cap	489,391	605,081
William Blair Small/Mid Cap	353,372	434,438
Total Equity	8,856,773	11,170,936
Bond Managers		
Alliance Bernstein	478,055	478,039
NTGI Bond Index	93,848	90,500
Lehman Brothers	280,437	281,580
Payden & Rygel	28,164	171,238
UBS AM Bonds	-	510,370
Total Bond	880,504	1,531,727
International Equity Managers		
Alliance Bernstein Emerging Markets	553,402	806,471
Alliance Bernstein International	434,576	746,776
LSV Asset Management	579,834	751,503
MFS	501,847	773,829
MacKay Shields	535,041	618,613
Walter Scott	815,018	992,645
William Blair	754,270	1,008,154
Total International Equity	4,173,988	5,697,991

SCHEDULE OF INVESTMENT MANAGEMENT COMPENSATION
YEARS ENDED DECEMBER 31, 2008 AND 2007
(Continued)

	2008	2007
Real Estate Managers		
AFL-CIO Building Trust	247,906	241,712
American Realty	203,938	193,294
Capri Capital	690,915	720,622
DV Urban	225,000	225,000
J P Morgan	845,048	802,291
John Buck Company	265,000	316,620
Prudential Asset Mgmt.	622,832	620,055
Shamrock-Hostmark Hotel Fund	75,000	60,938
Tishman Speyer	250,000	375,000
UBS Realty Advisors	187,500	187,500
Walton Street Partners	387,848	447,749
Total Real Estate	4,000,987	4,190,781
Private Equity Managers		
Citigroup International PE Fund	225,000	-
First Analysis	705,093	816,544
Hispania Partners	175,000	125,000
Hopewell Ventures	112,500	112,500
Invesco	13,271	18,945
Levine Leichtman	366,770	-
MK Capital	100,000	100,000
Mesirow Financial	991,598	978,750
Midwest Mezzanine Fund	536,802	556,591
Muller & Monroe	200,000	100,000
Nogales Investors	425,000	425,000
SB Partners	89,208	89,208
Total Private Equity	3,940,242	3,322,538
Total Investment Management Fees	21,852,494	25,913,973
Other Investment Expenses		
Investment Consultant	204,500	194,500
Master Custodian	167,827	772,057
Negoiation fee: Custody Reduction	148,212	-
Investment Legal Services	6,614	-
Miscellaneous Investment Expense	8,500	-
Total Investment Management Fees	535,653	966,557
Total Investment Expenses	$ 22,388,147	$ 26,880,530

SCHEDULE OF PROFESSIONAL AND CONSULTING COSTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Legal Advisors	$ 112,599	$ 117,468
Medical Advisors	46,571	45,214
Consulting Actuary	170,483	161,703
Consulting	102,759	41,034
Auditor	34,000	32,000
Total	$ 466,412	$ 397,419