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

2006 Comprehensive Annual Financial Report

For the year ended December 31, 2006

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Prepared by:

Administrative Staff of the
Municipal Employees' Annuity and Benefit Fund of Chicago
221 North LaSalle Street, Suite 500
Chicago, Illinois 60601

Terrance R. Stefanski
Executive Director

Table of Contents

Table of Contents

Actuarial (continued)

Statistical

Plan Summary

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Municipal Employees' Annuity and Benefit Fund of Chicago

Illinois

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Municipal Employees' Annuity and Benefit Fund of Chicago
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Telephone: 312-236-4700 Fax: 312-236-2383
Terrance R. Stefanski, Executive Director

Letter of Transmittal

April 11, 2007

The Retirement Board
Municipal Employees' Annuity & Benefit of Chicago
Chicago, Illinois 60601

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Annuity and Benefit Fund of Chicago (the Plan), a pension trust fund of the City of Chicago, for the year ended December 31, 2006. This report provides you with information necessary to gain a better understanding of the Plan.

Responsibility for the information contained in this report rests with Plan management. We have committed the resources necessary to maintain an internal accounting control system designed to safeguard assets and allow preparation of financial statements, supporting schedules and statistical tables that are fairly presented in accordance with generally accepted accounting principles. Controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. We believe that the Plan's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Report Contents and Structure

This report is divided into the following six sections:

- **Introductory Section** contains a letter of transmittal, 2005 Certificate of Achievement, 2006 Board of Trustees, organizational chart, executive staff and list of advisors. The letter of transmittal is designed to complement Management's Discussion and Analysis (MD&A), which immediately follows the independent auditor's report. The MD&A provide additional narrative introduction, overview and analysis of the basic financial statements;
- **Financial Section** includes the independent auditor's report, MD&A, financial statements including statements of Plan net assets, changes in Plan net assets and the accompanying notes as well as required supplementary schedules;
- **Investment Section** reports the Plan's investment activities for the year including total assets invested, annual investments returns, listing of investment managers, the investment asset allocation and investment policies and responsibilities;

- **Actuarial Section** includes the actuarial certification, summary of actuarial valuation and discussion of valuation results;
- **Statistical Section** contains tables, demographics and graphic information presented generally on a multi-year basis; and
- **Plan Summary Section** contains a summary of Plan provisions and membership.

Plan Profile

The Plan is a defined benefit, single employer plan that was established in 1921 by virtue of an Act of the State of Illinois Legislature. Plan provisions for benefits, employer and member contribution rates are mandated by the Illinois Compiled Statutes, Chapter 40, Pensions, Act 5, Article 8. The purpose of the Plan is to provide retirement and disability benefits to qualified members. The Plan also provides benefits to certain surviving dependents. Additional information regarding administration and history of the Plan can be found in the Financial Section – Notes to the Financial Statements portion of this report. Summary of principal eligibility and benefit provisions can be found in the Plan Summary Section of this report.

The Plan is considered a component unit (largest of four pension trust funds: Police, Fire, Laborers and Municipal) of the City of Chicago, and as such, is included in the City of Chicago's financial statements.

A Board of Trustees (Retirement Board) administers the Plan. The Retirement Board is composed of five members, 2 ex-officio members (the City Comptroller and the City Treasurer) and 3 elective members. The Retirement Board sets investment policy, reviews investment performance, and hires investment managers, investment consultants, actuaries, auditors, medical and legal professionals. Appointed by the Retirement Board, the Executive Director, Terrance R. Stefanski, and his staff implement the investment policies and decisions of the Retirement Board as well as administer the benefit provisions of the Plan.

Member Services

Plan membership covers any employee employed under the personnel ordinance of the City of Chicago or the Board of Education of Chicago (other than teachers) or the Plan who is not participating in any other public fund or retirement fund. Membership is mandatory except for elected officials, employees of the Board of Election and employees of the law department. Under certain conditions, membership is extended to current and former employees of the Chicago Housing Authority (CHA) and the Public Building Commission (PBC) who have service in the Plan and who elect to participate with respect to their CHA or PBC service.

The Plan had 66,457 members at December 31, 2006, with 33,429 active members employed and contributing to the Plan; 22,828 retirees and beneficiaries receiving employee annuities and survivor benefits; and 10,200 terminated or inactive members entitled to benefits or a refund of contributions. A breakdown of the Plan's membership is provided in the Statistical Section.

The Plan's primary goal is to provide accurate information in a timely fashion. The Plan publishes an easy-to-read Membership Handbook that explains the benefit provisions of the Plan. The Plan's newsletter "Pension Matters" also contains information about benefit plan changes, financial information and investment performance. The newsletter is published twice a year and is mailed to active and retired members.

The Plan participates in group pre-retirement seminars for its members at the City of Chicago and the Board of Education educating them about any recent laws affecting their benefits, current benefit provisions and the benefit application process. Individual pre-retirement counseling is also available at the Plan's office. Although an appointment is preferred to better service the member, walk-ins are not turned away. In 2006, the Plan's staff prepared and mailed 3,666 annuity estimates. Another 3,078 annuity estimates were done in individualized pre-retirement counseling sessions. There were 146,856 phone inquiries received during the year: 43% of the calls were from active members inquiring about potential benefits, 22% were inquiries from retired members or beneficiaries, 18% from disabled members and 12% related to retiree health benefits.

The Plan strives to provide benefit payments to its members and beneficiaries in a timely manner. It currently takes approximately 45 days from the retirement date to disburse the 1st benefit payment to a new retiree; mainly due to the wait time for final payroll reporting from the employer. The Plan constantly reviews its current processes, trying to determine areas needing improvement and making changes when necessary to make processing of payments more efficient.

In 2006, the Plan added 1,003 new annuitants to its benefits payroll and discontinued 1,070 payments. Eighty seven percent (87%) of annuity payments are paid via electronic funds transfer (EFT), which ensures that the monthly benefit is in the participant's account on the 1st business day of each month.

Major Initiatives and Accomplishments

- **Investments:** The Retirement Board continued to adjust the Plan's portfolio to meet its target asset allocation and performance objectives. The following adjustments were made to the portfolio during the year:
  - TIMCO, a small cap core account, was terminated and the funds were used to pay benefits.
  - S&P 500 Index, managed by Northern Trust, was terminated and assets were transferred to the Sudan-free S&P 500 Dividend Tilt Index, also managed by Northern Trust.
  - Frank Russell's commingled fixed income account was terminated and the funds were transferred to UBS Asset Management, an existing fixed income account.
  - Frank Russell's commingled international equity account was terminated and the funds were equally distributed among five existing international equity managers,

one existing emerging markets manager, and one newly hired emerging markets manager.

- Mondrian Partners' commingled emerging markets account was terminated and the funds were allocated to Alliance Bernstein's emerging markets account.

- Zenna Financial, a woman-owned index account provider domiciled in Chicago, received a $50 million mandate.

- John Buck Company Fund III, a Chicago-based real estate fund, received a $15 million commitment.

- Midwest Mezzanine Fund IV, a Chicago-based mezzanine-financing fund, received a $25 million commitment.

- To increase diversification within the Fund's domestic equity small/mid cap allocation, five new managers received mandates:
  - Northpointe Capital, a small cap growth manager, received a $30 million mandate.
  - William Blair & Company, a small/mid cap growth manager, received a $50 million mandate.
  - Voyageur Asset Management, a mid cap growth manager, received a $50 million mandate.
  - Penn Capital, a small/mid cap core manager, received a $75 million mandate.
  - Earnest Partners, a mid cap core manager, received a $75 million mandate.

  The mandates were funded by reductions in the mandate of Ariel Capital (small/mid cap value) and Keeley Asset Management (mid cap value).

- Granite Real Estate Fund I, a Chicago-based real estate fund focusing on developments in urban areas received a contingent commitment of 20% of equity raised (min $25M) with a cap of $10 million.

❖ **Employer Wage Reporting:** Since the City of Chicago and Board of Education have migrated to new payroll systems, the Plan continues to meet with the employer's payroll team to address specific payroll issues. This dialogue has allowed the employer to get a better understanding of the Plan's requirements to be able to provide uniform and accurate payroll reporting. The Plan will continue to keep an open dialogue with the employer to ensure wage reporting is complete, timely and accurate. A key payroll issue being addressed is the privacy of the information being transmitted. Both sender and receiver of the payroll information have taken steps to ensure that transmitted information is safeguarded.

❖ **Pension Benefit Administration System:** Accurate and timely information is vital in delivering excellent service to the members. Having a system that integrates all member information in an easily accessible format is the greatest tool for Plan staff in calculating benefits, satisfying member queries and ultimately paying benefits in a timely fashion. In order to have this "one stop shop", the Pension Benefit Administration System that has been in place for some time is already showing its age and is in need of a second iteration which will include enhancements for the full functionality of the contributions accounting system. It will also be linked to the Call Center and the Document Management System. The software will also be upgraded. The goal of this iteration is to provide a more efficient, reliable and totally integrated system allowing for the Plan staff to provide top quality service. Though the full scope of this iteration has not been totally identified, discussions will begin in June 2007 and testing will begin as different modules get developed.

- **New Accounting Software:** During the last quarter of the year, the Plan migrated its accounting system from Solomon IV to Microsoft Dynamics GP Standard Edition. This new software will serve as the core of the Plan’s financial system and it will provide a cost effective, robust, well-supported solution with a high level of data integrity, documentation and functionality. Transactions for the last month of the calendar year were run parallel on both the old and new accounting systems. Financial reports were generated from both systems for the year ended December 31, 2006 and were confirmed accurate and in sync.

- **Business Continuity:** The four City of Chicago pension funds jointly with the Cook County pension fund signed a lease agreement in 2006 for a disaster recovery remote site in Lombard, Illinois. The build out was completed towards the end of 2006. The primary function of the remote site is to provide an alternate operating location to conduct necessary business functions in the event the main Plan facilities are inaccessible. The remote site will also house an additional live backup of the Plan servers, Pension Administration, Imaging and Accounting database servers. Once connection configuration is established and tested out, staff members will be alternately scheduled to work at the remote site on a periodic basis.

- **Imaging Project:** This project focuses on the imaging of over 146,000 participant records with each record containing an average of 50 documents. The design of the Document Management workflow was completed and implemented in 2006 along with the imaging of archived refund files and files of deceased participants. A team of permanent and temporary employees was formed to work on this massive project. File conversion of current and retired member files is in progress. Testing of the workflow is also being done. Full production is scheduled to go live in June 2007 and completion date for the project is estimated for the end of 2009.

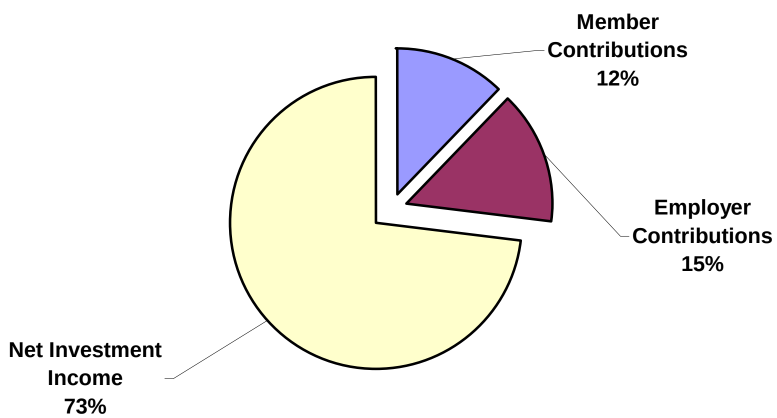
- **Website Project-Phase I:** There has not been much progress made on this project due to other priorities. Although financial reports, newsletters and other publications are ready to be published on the website, finalizing the office forms is still to be done. Phase I, which includes downloadable forms, financial reports and publications, is targeted to be completed in 2007.

- **Legislative Changes in Plan Provisions.** There were no changes in 2006.

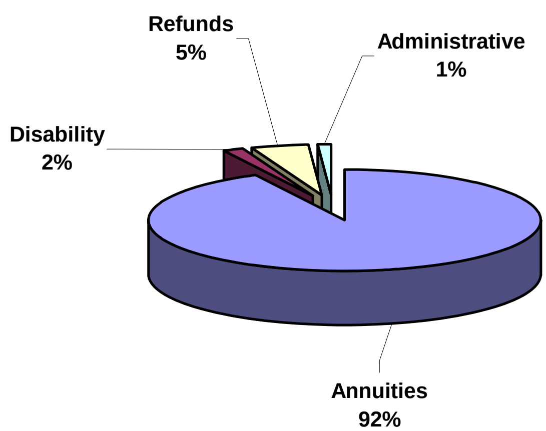
Economic Factors and Investment Results

The Plan's largest source of revenues comes from investment activity, which accounted for 73% of the Plan's total revenues for the calendar year. Since revenues from member and employer contributions were not sufficient to pay benefits, the Plan withdrew approximately $297 million from its investment portfolio, or 38% of the total investment revenues, to pay benefits in 2006.

2006 Revenues: $1,065 million



2006 Expenditures: $581 million



Investors with exposure to the equity markets were well rewarded in 2006. Performance continued to be led by the international markets, especially emerging countries like China and India, proving the importance of diversifying assets globally. For five straight years now, international markets have outperformed the domestic markets, growing assets at a rate 2.5 times that of the domestic markets.

The year 2006 was a robust year for merger and acquisition activity. Firms flush with cash made decisions to grow their firms by acquisition, scooping up smaller peers or expanding the services that they provide. Private equity and hedge funds, also with an abundance of capital and easy access to leverage, left almost no company exempt from a potential buyout. These activities and the speculation of more to come helped push stock prices higher throughout the year.

The real estate market continued its strong performance as global demand for real assets continued to push prices higher. Late in the year though, concerns about the real estate market began to intensify, as hot markets began to cool and foreclosures began to increase. Investors will need to watch these challenges closely and see how they may affect the overall investment markets.

The total return for the *Plan* for 2006 was 12.9%, growing assets by almost $800 million. Over periods of three, five, and ten years the *Plan* has returned annually 10.2%, 7.7%, and 8.6%, respectively. A more comprehensive analysis of the *Plan's* portfolio and performance for the year ending December 31, 2006 is located in the Investment Section of this report. The MD&A of the Financial Section also reflects investment performance for the years ending December 31, 2006 and 2005.

Funding

The financial stability of a pension fund is indicated by its funded status, which is a comparison of liabilities to assets expressed as either an unfunded liability or as a ratio of assets to liabilities. The Plan's funding status is measured using liabilities under the Entry Age Normal funding method and the Actuarial Value of Assets. Illinois State law mandates employer and member contributions together should sufficiently provide for the actuarial requirements of the Plan. As mandated by state statute, member contributions are set at 8.5% of covered salary and the employer should contribute the remaining amounts sufficient for the requirements of the Plan. Presently, employer contributions are limited to 1.25 times the employee contribution level in the second prior calendar year. A pension fund is fully funded when the sum of present assets plus the present value of all future contributions equal the present value of all benefits payable in the future.

The Plan's funded ratio as of the December 31, 2006 actuarial valuation conducted by Gabriel Roeder Smith & Company, decreased to 67.2% from a 68.5% funding ratio in 2005. The decrease in the funded ratio was due to continued shortfalls in contributions relative to the actuarially determined contribution requirement. The Actuary's report concludes that future decreases in the funded ratio are expected as a result of contributions that are insufficient to adequately finance the Plan. An amendment to the statute is needed in order to increase employer contributions. A detailed discussion of funding is provided in the Actuarial Section of this report and historical information relating to funding progress is presented in the Required Supplementary Information – Schedule of Funding Progress.

Independent Audit

For the calendar year December 31, 2006, Bansley and Kiener, L.L.P., Certified Public Accountants, conducted the audit of the Plan's financial statements and issued an unqualified ("clean") opinion of the Plan's financial statements The Auditor's report is located at the front of the Financial Section of this report.

Achievement Awards

The Plan's 2005 Comprehensive Annual Financial Report earned a Certificate of Achievement for Excellence in Financial Reporting (CAFR) from Government Finance Officers Association of the United States and Canada (GFOA). This prestigious award has been received by the Plan in each of the last 17 years.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR that satisfies both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe this report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

Preparation of the Comprehensive Annual Financial Report for 2006 calendar year is made possible because of the team spirit and concerted efforts of the Plan's actuary, auditor and administrative staff under the leadership of the Board of Trustees. It is our intention to present accurate, complete and reliable information for making management decisions, determining compliance with applicable law, and evaluating responsible stewardship of Plan assets.

We extend our profound gratitude to the entire Board of Trustees, the Plan's administrative staff, Plan advisors and the many other people who have contributed in no small measure in making the year 2006 a success.

Respectfully submitted,

Terrance R. Stefanski
Executive Director

Teresita T. Toledo
Comptroller

Board of Trustees
(December 31, 2006)

Joseph M. Malatesta, *President*
Joseph Malatesta has served the Retirement Board since July 1, 1998. Currently, Mr. Malatesta is General Manager of Operations in the Department of Aviation at O'Hare International Airport. His career with the City of Chicago began in 1991 at the City Treasurer's office as a Fund Manager. Mr. Malatesta received his Bachelor's Degree from the University of Illinois at Chicago, and his Master's in Business Administration (MBA) from Dominican University.

Steve Lux, *Vice President*
Steve Lux has served the Retirement Board since March 2006. Mayor Richard M. Daley named him City of Chicago Comptroller on June 28, 2006. As City Comptroller, Mr. Lux serves on four City pension funds. Mr. Lux started his career with the City of Chicago in 1996 at the City Comptroller's office. Prior to his current position, Mr. Lux was a Deputy Comptroller, then Managing Deputy Comptroller. Mr. Lux has worked in the accounting field for over 20 years in both public and governmental accounting. He has an undergraduate degree in accounting from the University of Illinois in Urbana and is a Certified Public Accountant.

Peter Brejnak, *Recording Secretary*
Peter Brejnak has served the Retirement Board since November 1997. Mr. Brejnak has been a public servant for over 34 years, most currently with the Department of Water as Chief Operating Engineer at the Jardine Water Purification Plant. Mr. Brejnak is also a former Non-Commissioned Officer in the United States Marine Corps, and a former Vice Commander of the John P. Hayes American Legion Post. He is also a member of the Board of Directors of the Municipal Employees' Society of Chicago.

John K. Gibson, *Trustee*
John Gibson has served the Retirement Board since February 20, 1997. He is the Chief Engineer of Senn High School, one of the most ethnically diverse schools in the nation. Mr. Gibson started his career in the Chicago Public Schools in 1969. During this time he also taught engineering courses for sixteen years in the evening division for the Chicago City Colleges. Mr. Gibson is Vice President of Local 143, the Chicago Public School Engineers' Union.

Stephanie D. Neely, *Treasurer*
Stephanie Neely has served the Retirement Board since December 2006. Ms. Neely is Treasurer of the Board, and one of two ex-officio members. Mayor Richard M. Daley appointed her as City Treasurer in 2006. In February 2007, she was elected to a four-year term as City Treasurer. Ms. Neely has an undergraduate degree in Economics from Smith College and a Masters degree in Business Administration from the University of Chicago. As Treasurer her duties include serving on five public pension boards. She has also served on the board of several civic and business organizations, including the Chicago Summer Business Institute, the Chicago Chapter of the National Association of Securities Professional, the Urban Prep Charter School, the Illinois Council Against Handgun Violence and the Illinois Sports Facilities Authority.

Organizational Chart

BOARD OF TRUSTEES

- **Investment Advisor**
- **Investment Managers**
- **Bank Custodian**
- **Actuary**
- **Legal**
- **Medical**
- **Certified Public Accountants**
- **Executive Director**
  - **Deputy Director**
    - **Staff Actuary**
    - **Executive Assistant**
    - **Accounting** – Comptroller
      - **Asst. Comptroller**
      - **Data Analyst**
      - **Contribution Accounting** – Supervisor
        - **Accountants**
      - **G/L Accounting** – Supervisor
        - **Accountants**
      - **Annuitant Services** – Supervisor
        - **Annuitant Service Reps.**
      - **IT/Data Mgt/LAN** – Supervisor
        - **Database Analyst**
        - **Data Proc/LAN Support**
    - **Investment Management** – Sr. Investment Manager
      - **Investments**
      - **Financial Analysts**
    - **Benefits** – Manager
      - **Pension Benefits**
        - Assistant Manager
          - **Counseling**
          - **Applications**
        - Assistant Manager
          - **Counseling**
          - **Health Insurance**
      - **Disability Benefits** – Supervisor
        - **Disability Reps.**
      - **Benefit Clerk**
      - **Benefit Process/Projects Coordinator**
    - **Support Services** – Director
      - **Document Management**
      - **Word Processor**
      - **Support Svc. Clerks**
      - **Receptionist**

Executive Staff

Terrance R. Stefanski, *Executive Director*
Gina T. Barette, *Executive Assistant*
James E. Mohler, *Senior Investment Manager*
Katherine M. Schanding, *Staff Actuary*
Jane J. Tessaro, *Benefits Manager*
Teresita T. Toledo, *Comptroller*
Kriket Utz, *Support Services Director*

Advisors - *are listed on page 15*

Investment Managers - *are listed on page 47*

Advisors

LEGAL ADVISORS

Mr. Frederick P. Heiss
166 West Washington Suite 600
Chicago, IL 60602

Mr.William A. Marovitz
101 West Grand Ave., Suite 200
Chicago, IL 60610

MEDICAL ADVISOR

Dr. Terence Sullivan, M.D.
1522 West Diversey Ave.
Chicago, IL 60614

INVESTMENT CONSULTANT

Mr. Edmund M. Burke
Becker, Burke Associates, Inc.
221 North LaSalle Street, Suite 1000
Chicago, IL 60601

CUSTODIAN

Ms. Stephanie D. Neely
City Treasurer
121 North LaSalle Street
Chicago, IL 60602

BANK CUSTODIAN

Ms. Rita Curtin
The Northern Trust Company
50 South LaSalle Street
Chicago, IL 60675

CONSULTING ACTUARY

Mr. Michael R. Kivi, F.S.A
Mr. Larry Langer, A.S.A
Gabriel, Roeder, Smith & Company
20 North Clark Street, Suite 2400
Chicago, IL 60602

AUDITORS

Mr. Michael Huels, C.P.A.
Bansley and Kiener, L. L. P.
O'Hare Plaza
8745 West Higgins Road, Suite 200
Chicago, IL 60631

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Financial

BANSLEY AND KIENER, L.L.P.
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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 the Municipal Employees' Annuity & Benefit Fund of Chicago (the Plan), a Component Unit of the City of Chicago, as of December 31, 2005 and 2004, 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, 2005 and 2004, 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 conducted 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 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. 40, *Deposits and Investment Risk Disclosures*, during the year ended December 31, 2005.

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

March 30, 2006

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.

Management's Discussion and Analysis (continued)

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.

Management's Discussion and Analysis (continued)

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)
	$ 6,797.0	$ 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.

Management's Discussion and Analysis (continued)

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

	2006	2005	2004	Increase(Decrease) 2006 To 2005	Increase(Decrease) 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.

Management's Discussion and Analysis (continued)

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.

Management's Discussion and Analysis (continued)

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.

Statements of Plan Net Assets

	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 $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)	$6,841,127,865	$ -	$6,841,127,865	$6,356,888,734

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

Statements of Changes in Plan Net Assets

	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.

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.

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

Notes to Financial Statements *(continued)*

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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

Notes to Financial Statements *(continued)*

Note 1 – Summary of Significant Accounting Policies (Continued)

Other Post-Employment 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 post employment 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.

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

Notes to Financial Statements *(continued)*

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

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.

Notes to Financial Statements *(continued)*

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 9,392 City annuitants enrolled in the City's health care plan and 1,988 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.

Notes to Financial Statements *(continued)*

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

Notes to Financial Statements *(continued)*

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

Notes to Financial Statements *(continued)*

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.

Notes to Financial Statements *(continued)*

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.

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

Notes to Financial Statements *(continued)*

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	**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 Professional and Consulting Fees

	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

Schedule of Investment Management Compensation

	Years ended December 31	
	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

Schedule of Investment Management Compensation (continued)

	Years ended December 31	
	2006	**2005**
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
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

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Investments

Municipal Employees' Annuity and
Benefit Fund of Chicago
221 North LaSalle Street, Suite 500, Chicago, Illinois 60601
Telephone: 312-236-4700 Fax: 312-236-2383
Terrance R. Stefanski, Executive Director

INVESTMENT REPORT - 2006

June 29, 2007

Board of Trustees and Executive Director
Municipal Employees' Annuity & Benefit Fund of Chicago
221 N. LaSalle Street, Room #500
Chicago, Illinois 60601

The year 2006 was lucrative for a diversified investor. Led again by the international markets, equity returns remained strong for a fourth straight year. Allocations to real estate added value to a diversified portfolio as double digit returns continued for a third straight year. Private equity and other alternative investments continued to show strength as capital inflows to these asset classes help maintain their torrid pace. Only an over-exposure to fixed income would have hurt an investor as the asset class has averaged a dismal 3.2% annually over the last three years.

2006 – Market Review

The Federal Reserve (Fed) entered the year determined to continue to stifle any signs of growing inflation. Even after raising rates eight times in 2005, measures to tighten monetary policy continued into 2006. As long-time Fed Chairman Alan Greenspan passed the baton to new Chairman Ben Bernanke at the beginning of the year, the Fed added another one hundred basis points to short-term rates during the year before pausing in August. With these increases, short-term rates went from historical lows back to more standard levels. By making the access to money more expensive, the Fed began to slow a housing market that had been growing at staggering pace.

Merger and acquisition activity was vigorous during the year as large firms with significant cash positions and alternative fund managers, flush with investor capital and easy to get to leverage, bought out firms at a pace and magnitude that left almost no firm exempt from takeover. Examples included telecommunication service provider AT&T purchasing BellSouth, telecommunication equipment giants Alcatel and Lucent agreeing to merge, the Blackstone Group purchasing the real estate investment trust Equity Office Properties, Google purchasing YouTube, and Bank of New York merging with Mellon Financial. This vigorous pace has continued in 2007.

As more and more emerging countries looked to improve the standard of living of their citizens, the demand for energy and natural resources pushed the cost of these precious commodities to record levels. Over the short-term, the insatiable demand has surged profit margins for companies providing these resources. Over the long-term, however, this mismatch of supply and demand will have a negative effect on consumer spending, which has played an integral role in the growth of the economy over the last few years.

The financial markets in 2006 were not scandal free. In May the Securities and Exchange Commission began probing United Health Group in regards to the back-dating of stock options. In July, the probe expanded to over eighty companies. This scandal led to the departure of top corporate officers at firms such as McAfee, CNET, and KB Homes. Going into 2007, the scope of this probe continues to grow.

When all was said and done though, the markets rewarded investors handsomely. The Dow Jones Industrial Average hit record levels throughout the year, adding 16% in value for the year. Diversifying internationally also paid very well as the MSCI EAFE International Index returned over 26% in 2006.

2006 – Plan Investment Performance

The Plan's portfolio is well diversified. At year-end 2006, the portfolio had a 53% allocation to domestic equity, both large and small firms, 13% exposure to international equities, a 28% allocation to fixed income and short-term instruments, and a 6% allocation to real estate and private equity. The portfolio achieved a 12.9% rate of return for the year, ranking in the 48th percentile compared to other public plans. Plan performance was strong across allocations. Only the fixed income market was unrewarding to investors, providing a return of roughly 4% for the year.

The Plan's funding ratio for 2006, represented by the actuarial asset value of assets as a percentage of the actuarial accrued liability, was 67.2%, a decline from 68.5% in 2005. This slight decline was expected due to the continued recognition of deferred unrealized losses in 2002. Utilizing the year-end fair value of assets, the Plan's funding ratio actually increased from 68.7% in 2005 to 70.6%. Going forward, improvement in the Plan's funding ratio will be dependent on achieving the actuarially determined rate or return over time and addressing the growing discrepancy between the statutorily determined contributions received and the actuarially determined contribution requirement.

The Plan's investment policy is designed to maximize returns while minimizing risk over the long-term. The actuarially determined rate of return for the total portfolio is conservatively set at 8% to avoid speculative investing and its inherent risk. Market factors can positively or negatively affect rates of return each year. Annualized returns for longer periods tend to smooth the effects of short-term market fluctuations. As such, reviewing an individual investors performance over a longer time period is a much better indicator of their ability to meet stated investment objectives. The Plan over ten years has returned 8.6% annually and over twenty years returned 9.8% annually.

2006 – Plan's Operating Cash Flow Needs

Withdrawals from the investment portfolio to assist with the payment of monthly retirement benefits continued to reduce the amount of reserves available to cover future liabilities. In aggregate, $297 million was drawn during the year to assist in the payment of monthly benefits. Necessary operating draws from the investment portfolio led to Fund assets only growing by 7.6%, compared to the investment return of 12.9% for the year. Operating expenditures being withdrawn from the investment portfolio is done in conjunction with rebalancing the portfolio's asset allocation to the Retirement Board's targeted allocations.

The Master Custodian's certification letter for 2006, a summary of the Plan's investment policy, and select investment schedules follow for your review.

Respectfully submitted,

James E. Mohler

James E. Mohler
Senior Investment Manager

Note: Investment returns and percentile rankings are supplied by Becker, Burke Associates and the calculations were prepared using a time-weighted rate of return based on the fair value of assets.

Northern Trust

To the Board of Trustees and the Executive Director:

The Northern Trust Company as custodian ("Master Custodian") of assets of the Municipal Employees' Annuity and Benefit Fund of Chicago ("Fund") held by it in a custodial account (the "Account") has provided annual Statements of Account for the Account to the Fund which provide a complete and accurate reflection of The Northern Trust Company's record of the investments, receipts, disbursements, purchases and sales of securities and other transactions pertinent to the Account for the period January 1, 2006 through December 31, 2006.

In addition to the custody of assets in the Account, pursuant to and in accordance with the terms of the Master Custody Agreement among the Board of Trustees of the Fund and The Northern Trust Company dated April 1, 1996 as amended (the "Custody Agreement"), The Northern Trust Company provided and continues to provide the following services as Master Custodian:

1. Receive and hold all amounts paid to the Account by the Board of Trustees.
2. Accept and deliver securities in connection with investment transactions in the Account in accordance with the instructions of appointed Investment Managers.
3. Collect dividends and registered interest payments.
4. Collect matured or called securities and coupons to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.
5. Lend Securities in the Account pursuant to a Securities Lending Agreement entered into by and between the Board of Trustees and The Northern Trust Company.
6. Invest cash balances held from time to time in the individual investment management accounts of the Account in short term-cash equivalent securities.
7. Facilitate the exercising of rights of ownership, including but not limited to, proxy voting, stock subscriptions and conversion rights as directed by the Fund or its appointed investment managers.
8. Hold securities in the Account in the name of the Fund or nominee form or other means as provided in the Custody Agreement.
9. Use the Federal Book Entry Account System for deposit of Treasury securities and clearing corporations as defined in Article 8 of the Illinois Uniform Commercial Code for the deposit of securities.
10. Employ agents to the extent provided in the Custody Agreement.
11. Provide disbursement services.
12. Provide security fail float income to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.

THE NORTHERN TRUST COMPANY

By: Rita M. Curtin

Rita M. Curtin
Senior Vice President

INVESTMENT MANAGERS
As of December 31, 2006

ABN AMRO Asset Management
AFL-CIO Building Investment Trust
AllianceBernstein
American Institutional Realty Advisors
Ariel Capital Management
Bear Stearns Asset Management
Capri Capital Advisors
CastleArk Management
ClearBridge Advisors
DV Urban Realty
Earnest Partners
First Analysis
Frontenac Company
Great Lakes Advisors
Harris Investment Management
Hispania Capital Partners
Holland Capital Management
Hopewell Ventures
Invesco
J.P. Morgan Fleming Asset Management
The John Buck Company
Keeley Asset Management
Lehman Brothers Asset Management
LSV Asset Management
MacKay Shields
Mesirow Financial
MFS Investment Management
Midwest Mezzanine Funds
MK Capital
Muller & Monroe Asset Management
New Amsterdam Partners
Nogales Investors Management
Northern Trust Global Investment Advisors
NorthPointe Capital
Payden & Rygel Investment Management
Penn Capital Management
Prudential Real Estate Investors

INVESTMENT MANAGERS (CONTINUED)

SB Partners
Tishman Speyer
Trust Company of the West
UBS Global Asset Management
UBS Realty Advisors
Voyageur Asset Management
Walter Scott & Partners
Walton Street Capital
Wellington Management Company
William Blair & Company
Zenna Financial Services

Investment Authority and Responsibility

The authority granted to the Retirement Board (the Board) can be found in the Illinois Compiled Statutes, Chapter 40, Act 5, Section 8-201 and 8-201.1. Section 1-113 also defines investments deemed to be prudent. Any fiduciary with investment authority is required to discharge his, or her, duties with respect to a plan with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.

In order to clarify the roles and responsibilities of the Board and the various investment professionals engaged by the Board, the following responsibilities have been designated:

The Board assumes the responsibility for establishing an investment policy to guide the investment activity of the Plan.

The Board engages various managers to make investments in accordance with this policy and applicable statutes. These managers apply their professional judgment in making investment decisions. Managers are given full discretion within their assigned style and strategy to select, acquire, maintain and dispose of individual investments.

Description of Investment Policies, Objective and Guidelines

The Board established a three-phased program for implementing the investment policy of the Plan:

Phase 1 reduce risk and improve diversification through the use of multiple complementary managers,
Phase 2 establish objectives and guidelines for managing the Plan's assets, and
Phase 3 evaluate and refine the structure of managers established in phase 1 and the objectives and guidelines established in phase 2.

Phase 1 was implemented during 1983 through 1985. Continuing formal performance reviews have been held semi-annually since then. Phase 2 was created in 1987 and is reviewed periodically for continued relevancy to Plan liabilities. Phase 3 is ongoing as portfolio performance is compared to Plan objectives and guidelines.
The Retirement Board completed a review of its investment policy and manager structure in 2004. Based on this study the Board set the Plan's asset allocation parameters. Targets within these parameters are used to put the portfolio in an optimal position to achieve the Plan's long-term goals and objectives.

Investment Allocation Guidelines

Under the "Prudent Person Rule" the members of the Retirement Board are required to discharge their duties with respect to a plan, with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.

Diversification

The Plan's assets are diversified in several ways to minimize the risk of loss. Diversification is accomplished through the proper allocation of assets. The main allocation is to publicly traded stocks and bonds. Additional diversification is achieved by an allocation to international stocks and small allocations to real estate and private equity. Diversification within asset classes based on investment objectives and management style is also utilized.

Performance Review

The rate of return of the Plan is compared annually against the actuarial assumed rate of return of 8%. The return is also compared with numerous market indices, including the Standard and Poor's 500 Stock Index and the Lehman Brothers Aggregate Bond Index. Target rates of return vary from one investment manager to another, depending upon the account's guidelines and the mutually agreed upon objectives. The return of the total Plan is also compared to a universe of other pension plans with similar structures.

Cash Flow Needs

Cash equivalents represent operational cash flow reserves for approximately one month operating cash needs. Monies drawn from investments to assist monthly operating cash flow needs is primarily taken from asset classes that have become over funded compared to determined allocation targets.

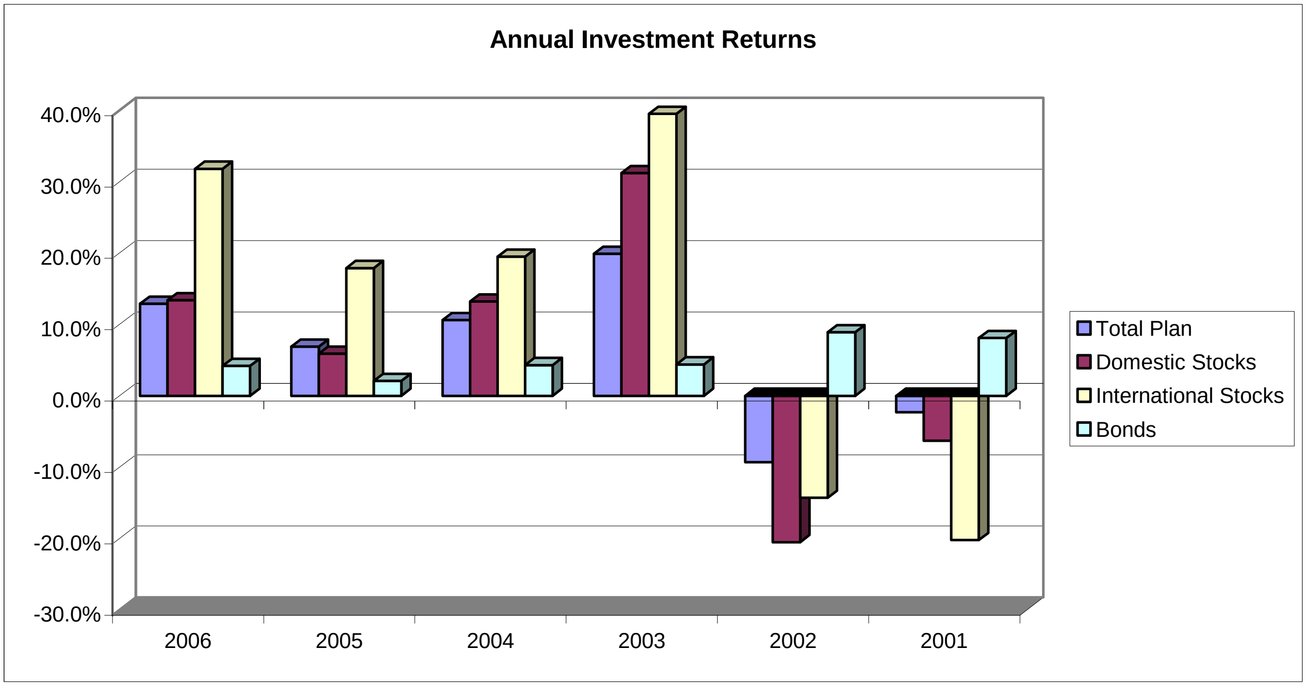
Investments (Fair to Book)
As of December 31, 2006 and December 31, 2005

Category	12/31/06 Fair Value	%	12/31/06 Book Value	%	12/31/05 Fair Value	%	12/31/05 Book Value	%
Bonds	$ 1,701,045,511	25%	$ 1,696,485,364	30%	$ 1,594,234,194	25%	$ 1,500,191,098	28%
Equities								
Domestic	3,588,714,626	53%	2,685,501,043	47%	3,408,740,545	54%	2,606,190,693	49%
International	867,982,346	13%	670,427,415	12%	735,000,431	12%	537,244,625	10%
Total Equities	4,456,696,971	66%	3,355,928,458	59%	4,143,740,975	65%	3,143,435,317	60%
Real Estate	288,026,845	4%	222,304,023	4%	263,154,789	4%	213,284,860	4%
Private Equity	105,722,396	2%	166,016,528	3%	98,254,483	2%	165,785,194	3%
Cash Equivalents	245,515,223	4%	245,364,974	4%	248,537,964	4%	248,274,225	5%
Total Investments	$6,797,006,946	100%	$5,686,099,347	100%	$6,347,922,405	100%	$5,270,970,694	100%

Annual Investment Returns

Last six years

	2006	2005	2004	2003	2002	2001
Total Plan						
The Plan	12.9%	6.9%	10.6%	19.9%	-9.3%	-2.3%
Inflation + 3%	6.2%	6.4%	5.5%	4.9%	5.4%	4.6%
Domestic Stocks						
The Plan	13.4%	5.9%	13.2%	31.2%	-20.5%	-6.3%
S&P 500 Stock Index	15.8%	4.9%	10.9%	28.7%	-22.1%	-11.9%
International Stocks						
The Plan	31.8%	17.9%	19.5%	39.5%	-14.3%	-20.2%
MSCI EAFE Net	26.3%	13.5%	20.2%	38.6%	-15.9%	-21.4%
Bonds						
The Plan	4.2%	2.1%	4.3%	4.4%	8.9%	8.1%
Lehman Aggregate Bond Index	4.3%	2.4%	4.3%	4.1%	10.3%	8.4%

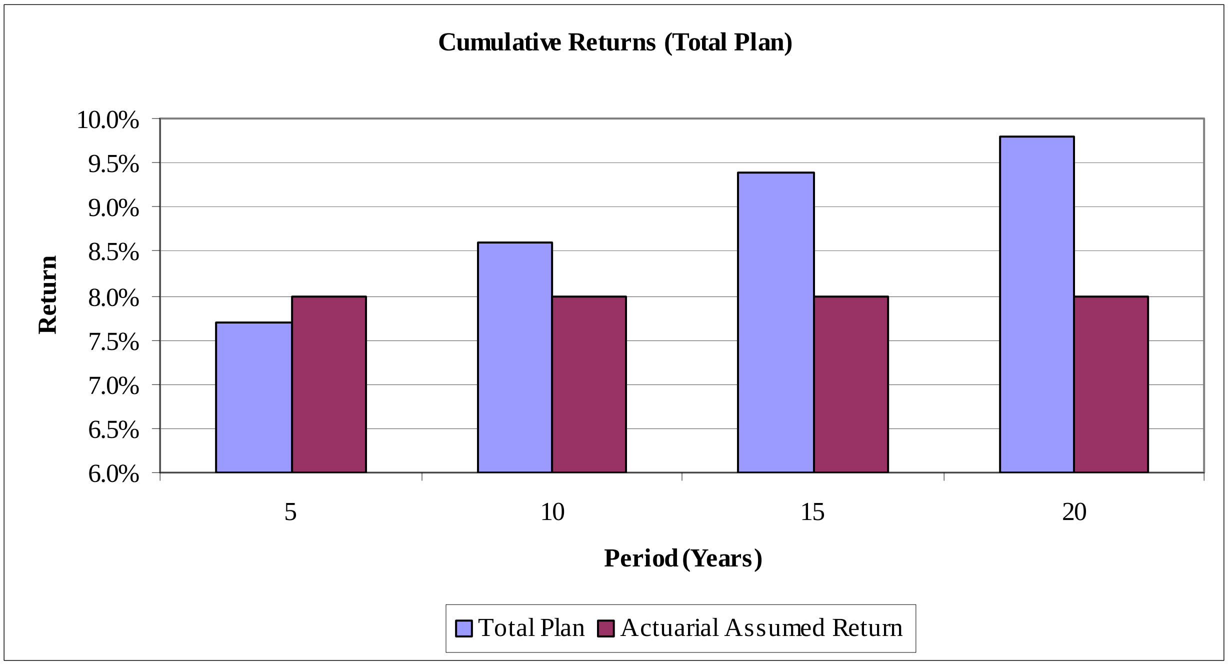


Investment returns are supplied by Becker, Burke Associates and the calculations were prepared using a time-weighted rate of return based on the fair value of assets.

Cumulative Annuals – Total Plan

As of December 31, 2006
Last 5, 10, 15, and 20 years

	5 Years	10 Years	15 Years	20 Years
Total Plan	7.7%	8.6%	9.4%	9.8%
Actuarial Assumed Return	8.0%	8.0%	8.0%	8.0%

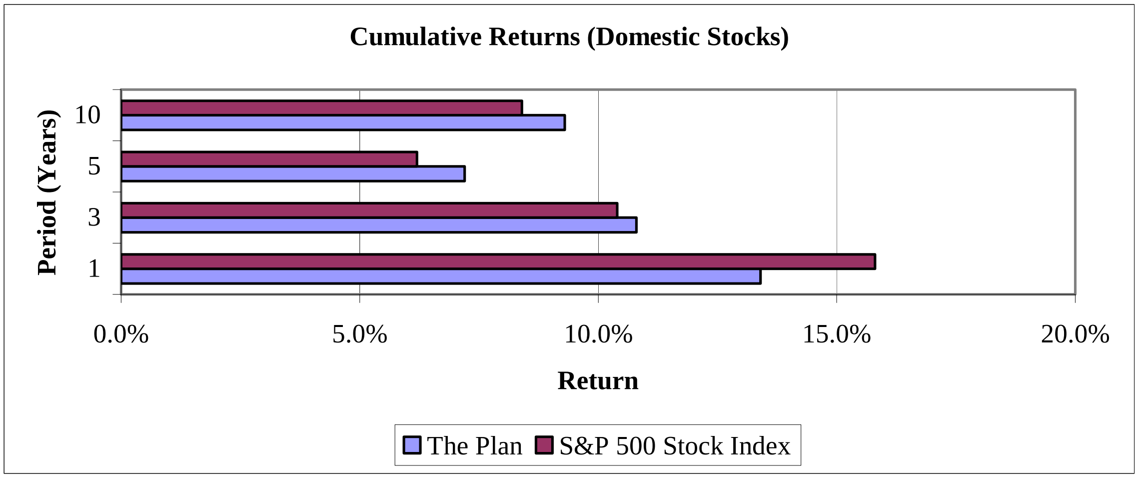


Investment returns are supplied by Becker, Burke Associates and the calculations were prepared using a time-weighted rate of return based on the fair value of assets.

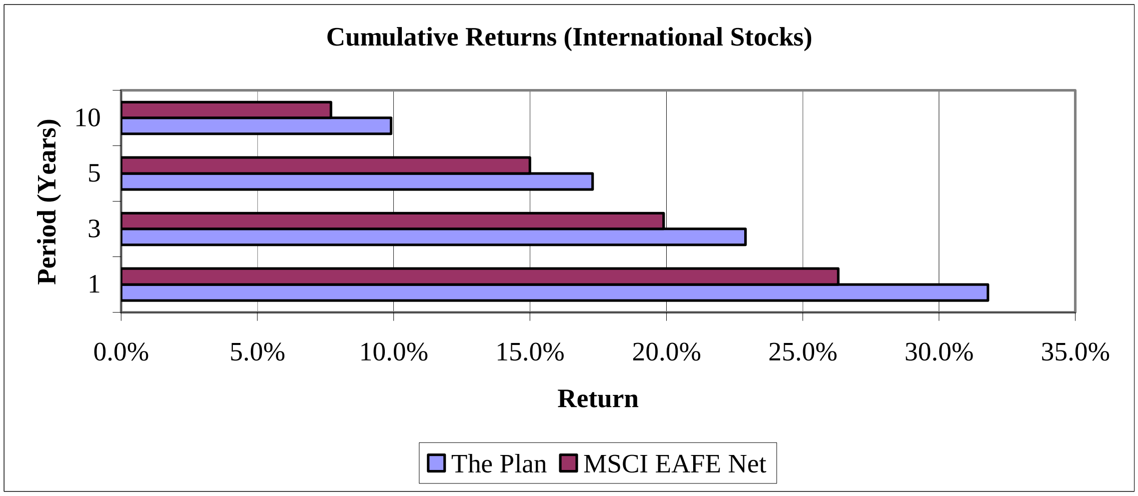
Cumulative Annuals – Domestic and International Stocks

As of December 31, 2006
Last 1, 3, 5, and 10 years

	1 Year	3 Years	5 Years	10 Years
Domestic Stocks				
The Plan	13.4%	10.8%	7.2%	9.3%
S&P 500 Stock Index	15.8%	10.4%	6.2%	8.4%



	1 Year	3 Years	5 Years	10 Years
International Stocks				
The Plan	31.8%	22.9%	17.3%	9.9%
MSCI EAFE Net	26.3%	19.9%	15.0%	7.7%

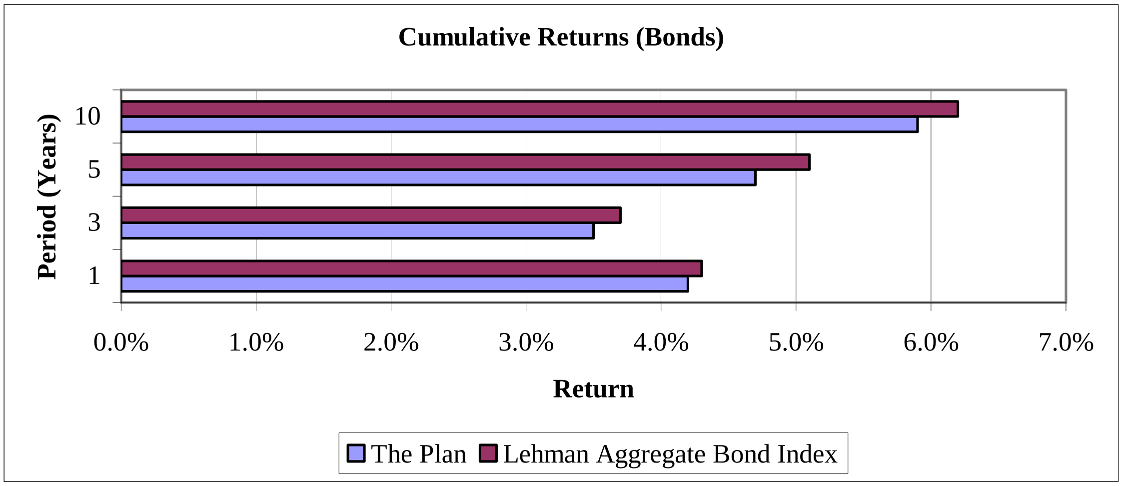


Investment returns are supplied by Becker, Burke Associates and the calculations were prepared using a time-weighted rate of return based on the fair value of assets.

Cumulative Annuals – Bonds

As of December 31, 2006
Last 1, 3, 5, and 10 years

	1 Year	3 Years	5 Years	10 Years
Bonds				
The Plan	4.2%	3.5%	4.7%	5.9%
Lehman Aggregate Bond Index	4.3%	3.7%	5.1%	6.2%

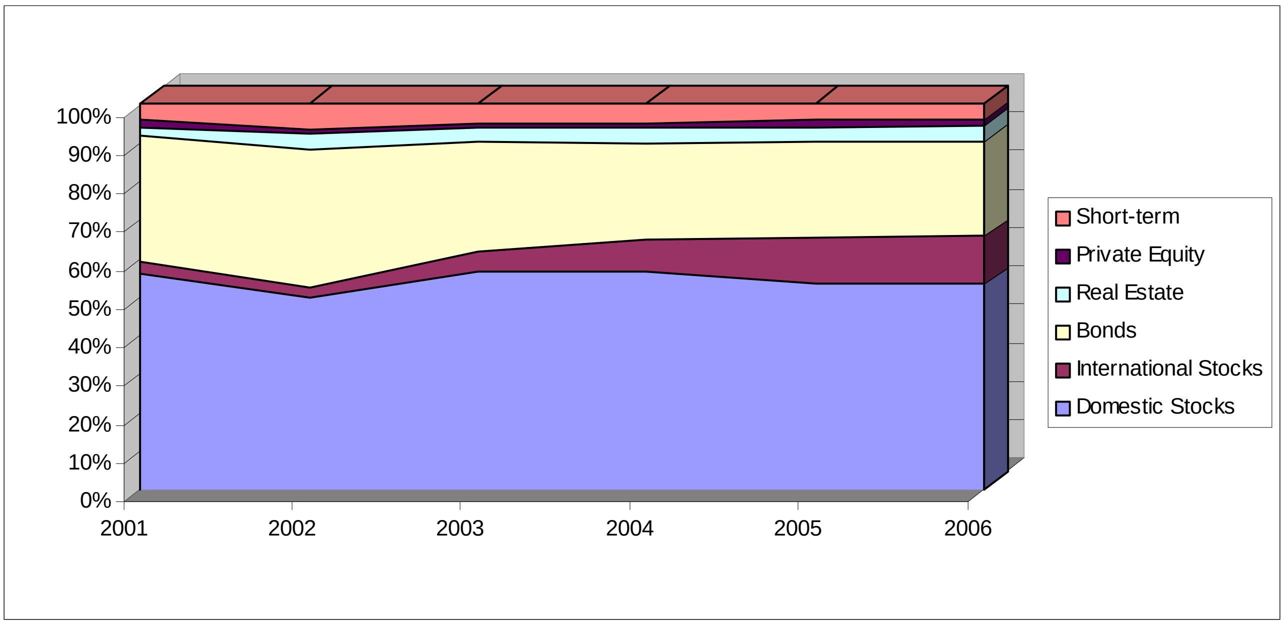


Investment returns are supplied by Becker, Burke Associates and the calculations were prepared using a time-weighted rate of return based on the fair value of assets.

Investment Asset Allocation (By Asset Class)

Last six years

	2001	2002	2003	2004	2005	2006
Domestic Stocks	56%	50%	57%	56%	54%	53%
International Stocks	3%	3%	5%	8%	12%	13%
Bonds	33%	36%	29%	25%	25%	25%
Real Estate	2%	4%	4%	4%	4%	4%
Private Equity	2%	1%	1%	1%	2%	2%
Short-term	4%	7%	5%	5%	4%	4%
Investment Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**



Fifteen Largest Investment Holdings

Year Ended December 31, 2006

Type of Investment	Name of Investment	Fair Value	% of Invested Assets
Commingled Bond Fund	NTGI Aggregate Bond Index	$ 297,711,052	4.38%
Commingled Short-term Fund	NTGI Short-term Investment Funds	200,988,921	2.96%
Commingled Int'l Equity Fund	Walter Scott International Group	126,253,070	1.86%
Common Stock	General Electric Company	73,925,033	1.09%
Real Estate Fund	JP Morgan Strategic Property Fund	72,638,791	1.07%
Common Stock	Citigroup Inc.	63,806,801	0.94%
Common Stock	Microsoft Inc.	62,012,800	0.91%
Common Stock	Exxon Mobil Corp.	52,681,592	0.78%
Real Estate Fund	Capri Capital Advisors Apartment Fund III	48,923,223	0.72%
Common Stock	Bank of America Corp.	45,450,693	0.67%
Common Stock	American International Group	45,243,473	0.67%
Common Stock	Johnson & Johnson Co.	40,572,921	0.60%
Real Estate Fund	Prudential PRISA I	33,540,894	0.49%
Common Stock	Cisco Systems Inc.	33,030,655	0.49%
Common Stock	Morgan Stanley	31,679,201	0.47%
	Total	**$ 1,228,459,121**	**18.07%**

Note: A complete listing of the portfolio holdings is available for review at the Fund office.

Investment Brokerage Commissions

As of December 31, 2006

Domestic Trading

Broker Name	Commissions	(#) Shares	Cost per Share
LYNCH JONES & RYAN	$271,365	6,128,138	$0.04
MELVIN SECURITIES	225,857	6,352,098	0.04
LOOP CAPITAL MARKETS/BROADCORT CAPITAL	149,666	5,088,175	0.03
GARDNER RICH & CO.	149,059	3,750,168	0.04
JEFFRIES & COMPANY	123,570	2,766,829	0.04
INVESTMENT TECHNOLOGY GROUP	103,904	6,259,744	0.02
BEAR STEARNS SECURITIES CORP.	90,200	2,534,501	0.04
PERSHING LLC	86,690	2,242,850	0.04
BNY ESI SECURITIES CO.	81,256	2,115,016	0.04
LEHMAN BROTHERS	75,549	2,032,150	0.04
MERRILL LYNCH PIERCE FENNER & SMITH	68,983	1,983,794	0.03
MR BEAL & COMPANY	58,819	1,753,300	0.03
GOLDMAN SACHS & COMPANY	58,352	2,586,419	0.02
CABRERA CAPITAL MARKETS	57,832	1,466,070	0.04
LIQUIDNET INC.	56,377	2,376,433	0.02
CITATION GROUP	53,522	1,477,915	0.04
UBS WARBURG LLC	50,563	1,468,530	0.03
PODESTA & COMPANY	50,377	1,410,840	0.04
MORGAN STANLEY & CO. INC.	45,287	1,459,884	0.03
CITIGROUP GLOBAL MARKETS INC./SMITH BARNEY	41,337	1,158,004	0.04
BERNSTEIN, SANFORD & CO.	38,327	1,009,905	0.04
CREDIT SUISSE FIRST BOSTON CORP.	37,981	1,168,290	0.03
BROADCORT CAPITAL CORP.	37,795	942,950	0.04
JACKSON SECURITIES	37,001	924,500	0.04
WILLIAMS CAPITAL GROUP	34,966	894,266	0.04
JONES & ASSOCIATES	33,160	1,016,521	0.03
NATIONAL FINANCIAL SERVICES	31,545	980,662	0.03
BANC AMERICA SECURITIES	29,615	888,435	0.03
CHEEVERS & CO.	27,498	687,440	0.04
MANAGERS WITH < $25,000 OF COMMISSIONS	505,585	20,158,303	0.03
Total Broker Commissions as of 12/31/06	$2,712,037	85,082,130	$0.03

The Retirement Board's brokerage policy encourages investment managers, as they search for best possible trade execution, to utilize women/minority-owned business enterprises, specifically firms registered in the State of Illinois. The Retirement Board also has commission recapture arrangements with two firms, where 70% of commission costs are rebated to the Fund.

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Actuarial

GRS

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April 10, 2007

The Retirement Board of the
Municipal Employees' Annuity and Benefit
Fund of Chicago
221 North LaSalle Street
Suite 500
Chicago, Illinois 60601

Subject: Actuarial Certification

Board Members:

At your request, we have performed an actuarial valuation for the Municipal Employees' Annuity and Benefit Fund of Chicago ("the Plan") as of December 31, 2006. An actuarial valuation of the Plan is performed annually. The valuation has been performed to measure the funding status of the Plan and determine the actuarially required contribution for 2007. It includes disclosure information required under Governmental Accounting Standards Board (GASB) Statement No. 25, Statement No. 27, and Statement No. 43. The assumptions and methods used were selected by the actuary and meet the parameters set for the disclosure presented in the financial section by GASB Statement No. 25 and GASB Statement No. 43.

We have provided the supporting schedules for the actuarial section of the comprehensive annual financial report, including:

- Active Member Valuation Data
- Retirements and Beneficiaries Added to and Removed from Rolls
- Solvency (Termination) Test
- Analysis of Financial Experience

We have also provided the following schedules for the financial sections of the report. We relied on information from the prior actuary for years before 1999.

- Schedule of Funding Progress
- Schedule of Employer Contributions

This valuation is based upon:

a) **Data Relative to the Members of the Plan**—Data utilized for active members and persons receiving benefits from the Plan was provided by the Plan's staff. We have tested this data for reasonableness.
b) **Asset Values**—The values of assets of the Plan were provided by the Plan's staff. An actuarial value of assets was used to develop actuarial results for GASB Statement No. 25 and Statement No. 27.
c) **Actuarial Method**—The actuarial method utilized by the Plan is the Entry Age Normal Actuarial Cost Method. The objective of this method is to recognize the costs of Plan benefits over the entire career of each member as a level of percentage of compensation. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately amortized. All actuarial gains and losses under this method are reflected in the UAAL.
d) **Actuarial Assumptions**—The same actuarial assumptions as last year were used for this valuation. They are set out in the following pages.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of the Plan when due. The provision of State Law establishing the Plan constrains employer contributions to be 1.25 times the employee contribution level in the second prior fiscal year. Thus, with an administrative lag, the employer contribution is designed to match the employee contribution in a 1.25:1 relationship. The most recent actuarial valuation of the Plan on the State reporting basis shows that a ratio of 3.02 is needed to adequately finance the Plan. It should be noted that the statutory employer contributions have been less than the Annual Required Contribution (ARC) for the past four years and are again expected to be less than the ARC for 2007. In order for employer contributions to be increased, the State legislature would first need to amend the statute.

The valuation results set forth in this report are based on the data and actuarial techniques described above, and upon the provisions of the Plan as of the valuation date. Based on these items, we certify these results to be true and correct.

Gabriel, Roeder, Smith & Company

Michael R. Kivi
Michael R. Kivi, F.S.A.
Senior Consultant

Larry Langer, A.S.A.
Senior Consultant

Amy Williams
Amy Williams, A.S.A.
Consultant

Summary of Actuarial Valuation

		December 31, 2005		December 31, 2006	% Change
ACTUARIAL VALUES					
Termination Values					
Liability	$	6,577,068,215	$	6,786,768,449	**3.19 %**
Assets - Actuarial Value		6,332,378,676		6,509,145,626	**2.79 %**
Deficiency/(Excess)		244,689,539		277,622,823	**13.46 %**
Funded Ratio		**96.28%**		**95.91%**	**(0.38)%**
GASB #25 Values [1]					
Actuarial Liability	$	9,250,211,817	$	9,692,319,483	**4.78 %**
Assets - Actuarial Value		6,332,378,676		6,509,145,626	**2.79 %**
Unfunded Liability (Surplus)		2,917,833,141		3,183,173,857	**9.09 %**
Funded Ratio		**68.46%**		**67.16%**	**(1.90)%**
Annual Required Contribution (ARC)	$	325,913,986	$	6,410,212	**12.43 %**
Market Values					
Actuarial Liability	$	9,250,211,817	$	9, 692,319,483	**4.78 %**
Assets - Market Value		6,356,888,734		6,841,127,865	**7.62 %**
Unfunded Liability		2,893,323,083		2,851,191,618	**(1.46)%**
Funded Ratio		**68.72%**		**70.58%**	**2.71 %**
Book Values					
Actuarial Liability	$	9,250,211,817	$	9,692,319,483	**4.78 %**
Assets - Book Value		5,279,937,024		5,730,220,266	**8.53 %**
Unfunded Liability (Surplus)		3,970,274,793		3,962,099,217	**(0.21)%**
Funded Ratio		**57.08%**		**59.12%**	**3.58 %**

[1] *Values as of December 31, 2006, include GASB #43 liability of $216,201,037 and GASB #43 ARC of $23,287,106.*

Summary of Actuarial Valuation (continued)

	December 31, 2005	December 31, 2006	% Change
Assets			
Market Value - Beginning of Year	$ 6,242,741,942	$ 6,356,888,734	**1.83 %**
Income			
Investment Income	402,310,621	778,725,950	**93.56 %**
Employer Contributions	155,067,116	157,062,769	**1.29 %**
Employee Contributions	122,542,484	129,466,091	**5.65 %**
Subtotal	679,920,221	1,065,254,810	**56.67 %**
Outgo (Refunds, Benefits & Expenses)	565,773,429	581,015,679	**2.69 %**
Net Change	114,146,792	484,239,131	**324.22 %**
Market Value - End of Year	$ 6,356,888,734	$ 6,841,127,865	**7.62 %**
Book Value - Beginning of Year	$ 5,183,689,930	$ 5,279,937,024	**1.86 %**
Income			
Investment Income	384,410,923	744,770,061	**93.74 %**
Employer Contributions	155,067,116	157,062,769	**1.29 %**
Employee Contributions	122,542,484	129,466,091	**5.65 %**
Subtotal	662,020,523	1,031,298,921	**55.78 %**
Outgo (Refunds, Benefits & Expenses)	565,773,429	581,015,679	**2.69 %**
Net Change	96,247,094	450,283,242	**367.84 %**
Book Value - End of Year	$ 5,279,937,024	$ 5,730,220,266	**8.53 %**
Actuarial Value - Beginning of Year	$ 6,343,076,159	$ 6,332,378,676	**(0.17)%**
Income			
Investment Income	277,466,346	471,253,769	**69.84 %**
Employer Contributions	155,067,116	157,062,769	**1.29 %**
Employee Contributions	122,542,484	129,466,091	**5.65 %**
Subtotal	555,075,946	757,782,629	**36.52 %**
Outgo (Refunds, Benefits & Expense)	565,773,429	581,015,679	**2.69 %**
Net Change	(10,697,483)	176,766,950	**1752.42 %**
Actuarial Value - End of Year	$ 6,332,378,676	$ 6,509,145,626	**2.79 %**

Summary of Actuarial Valuation (continued)

	December 31, 2005	December 31, 2006	% Change
Members			
Active[1]	33,743	33,429	**(0.93)%**
Inactive	8,440	10,200	**20.85 %**
Retirees	18,221	18,183	**(0.21)%**
Deferred	3	1	**(66.67)%**
Survivors	4,467	4,451	**(0.36)%**
Disabilities	462	523	**13.20 %**
Children	204	193	**(5.39)%**
Payroll Data			
Valuation Payroll	$ 1,407,323,058	$ 1,475,877,378	**4.87 %**
Average Salary	41,707	44,150	**5.86 %**

[1]*Active participants include disabled employees.*

Discussion Of Valuation Results

The Actuarial report sets forth the results of the actuarial valuation of the Municipal Employees' Annuity and Benefit Fund of Chicago ("the Plan") as of December 31, 2006. The purposes of this valuation are:

1. To develop the minimum actuarially determined contribution for 2007.
2. To develop the annual required contribution (ARC) under GASB #25 and GASB #43.
3. To develop the annual pension cost under GASB #27.
4. To review the funding status of the Plan.

The funded status in basic terms is a comparison of the Plan's liabilities to assets expressed as either unfunded liability or as a ratio of assets to liabilities. This comparison can be measured in various ways. Plan liabilities are dependent on the actuarial assumptions and actuarial cost method. Plan assets can be measured at market value, book value, or some variation to smooth the fluctuations that invariably occur from year to year.

For Plan and City financial reports, the funding status is measured using liabilities under the Entry Age Normal funding method and the Actuarial Value of Assets. The Actuarial Value of Assets is determined by annually spreading the difference between expected and actual investment earnings over a five-year period.

Actuarial Obligations of the Plan

The value of all future pension payments, calculated using the actuarial assumptions contained in this report, is the sum of payments to two major groups of beneficiaries - the retired lives and the active lives.

Retired Lives:

For those currently receiving known benefits, i.e., current retirees, widows, widowers, and children, the value is determined based on estimated future longevity with the future benefit payment discounted to present time at the assumed investment earnings rate.

Active Lives:

The value of future payments for active employees who will receive benefits in the future is estimated, since the amount of pension is only known at the actual time of retirement. This estimate is made using various assumptions as to future salary increases, probable retirement age, and probability of death, withdrawal, or disablement before retirement. For active employees, the goal is to have enough assets on hand at retirement to pay for all future benefits promised. To provide for an orderly accumulation of these required assets, an actuarial funding method is used.

Using the “Entry Age Normal” funding method, assets are allocated as a level amount (expressed as a percentage of salary) over the employee’s working lifetime. These allocated costs are called “normal costs” and are sufficient, if set aside each year, to fully fund his or her benefits when and if he or she retires. The actuarial reserve (amount of assets needed now) is then the present value of future benefits less the value of future normal costs to be paid.

The difference between the sum of actuarial reserves for active and retired lives (“the Actuarial Accrued Liability”) and the present assets is called the “Unfunded Actuarial Accrued Liability.” If assets exceed the liability, there is a surplus. The unfunded liability depends upon the benefits, the characteristics of the covered group of employees and retirees, the actuarial assumptions, and the actuarial funding method. The unfunded liability can be thought of as the amount of assets that will be needed in future years to provide for all future benefits payable when added to the future normal costs determined by the actuarial funding method.

For the pension plan to be in balance (funded ratio of 100 percent), the present value of all benefits payable in the future must equal the sum of present assets plus the present value of all future contributions. If a plan is 100 percent funded, it does not mean that no contributions are ever needed again. It simply means that the plan is where it should be. The assets of the plan are sufficient to provide for future benefits payable based on service to the date of valuation. **Future contributions are still needed** to provide the “normal costs” for service after the date of the valuation in order to have sufficient assets at retirement to provide the future payments of the total projected benefit.

Summary of Results

The annual required contribution (ARC) under GASB #25 for the year ending December 31, 2007, is $343.1 million, which is for pension benefits only. This amount is net of employee contributions of $128.2 million and is based on a 30-year amortization period.

GASB #43 requires the calculation of a separate ARC for Other Post employment Benefits (OPEB) beginning with the Fund's 2006 fiscal year. The ARC for the 2006 fiscal year was determined in the last actuarial valuation as of December 31, 2005. The OPEB ARC for the fiscal year ending December 31, 2007, is $23.3 million.

Because of the requirements of GASB #43, there are some differences between the calculation of the ARC for pension benefits and the ARC for OPEB. These differences are summarized below.

	Pension ARC	**OPEB ARC**
Investment Return	8.00% per year	4.50% per year
Assets	5-year smoothed market	No assets (Pay-as-you-go)

GASB #43 requires that the investment return assumption (or "discount rate") used to value OPEB liabilities be based on the estimated long-term yield on the investments expected to be used to finance the payment of benefits. The investment return assumption of 4.50 percent reflects the fact that OPEB liabilities are considered to be funded on a pay-as-you-go basis. That is, the health insurance supplement is financed with current contributions, and no separate healthcare asset account exists to pay the health insurance supplement.

Beginning with this December 31, 2006, actuarial valuation, GASB #25 requires the use of a 30-year amortization period to determine the pension ARC. However, the 2006 pension ARC was determined in the actuarial valuation as of December 31, 2005, using a 40-year amortization period.

The Unfunded Actuarial Accrued Liability based on the Actuarial Value of Assets increased from $2.918 billion to $3.183 billion during the year, resulting in a change in funding ratio from 68.5 percent to 67.2 percent. The increase in the Unfunded Actuarial Accrued Liability is largely attributable to a shortfall in contributions relative to the actuarially determined contribution requirement and a loss due to retirement, termination and mortality. A more thorough examination of these and other factors can be found in the Analysis of Financial Experience on page 60.

Based on the Market Value of Assets, the Unfunded Actuarial Accrued Liability decreased from $2.893 billion to $2.851 billion, and the funded ratio increased from 68.7 percent to 70.6 percent.

Plan Membership

	December 31, 2005	December 31, 2006
Active Members		
Number	33,743	33,429
Vested	15,533	15,689
Non-vested	18,210	17,740
Average Age	45.7	46.1
Average Service	10.4	10.8
Average Annual Salary	$41,707	$44,150
Inactive Members		
Number	8,440	10,200
Average Age	44.7	43.9
Average Service	4.8	4.5
Retirees		
Number	18,221	18,183
Average Age	71.8	72.1
Average Annual Benefit	$26,178	$27,028
Deferred		
Number	3	1
Average Age	53.1	51.2
Average Annual Benefit	$8,192	$1,920
Surviving Spouses		
Number	4,467	4,451
Average Age	76.8	77.0
Average Annual Benefit	$11,211	$11,385
Children	204	193
Total Members	65,078	66,457

The major characteristics of the data on the members of the Plan are summarized as follows:

Total members receiving benefits under the Plan decreased 0.2 percent during 2006, from 22,688 to 22,634, while the number of active members decreased 0.9 percent from 33,743 to 33,429. Total expenditures for benefits increased from $533 million in 2005 to $547 million during 2006, or 2.6 percent.

Changes in Provisions of the Plan

There were no changes to the fund provisions in 2006.

Discussion of Actuarial Assumptions

Actuarial assumptions are used to project future demographic and economic expectations for purposes of valuing the liabilities of the plan. The assumptions should reflect current patterns. However, their primary orientation is the long-term outlook for each factor affecting the valuation. Thus, while actual experience will fluctuate over the short run, actuarial assumptions were chosen in an attempt to model the future long run experience.

There are two general types of actuarial assumptions:

1. Demographic Assumptions - reflect the flow of participants into and out of a retirement system, and

2. Economic Assumptions - reflect the effect of the economic climate on a retirement system.

Demographic assumptions can be readily studied over recent plan experience. Economic assumptions can be studied against recent experience; however, future experience is more likely to be a result of outside factors than of plan specifics. The most significant demographic assumptions are active turnover, retirement, and post-retirement mortality. The most significant economic assumptions are pay increases, investment return, and inflation. Other actuarial assumptions include disability incidence, active mortality, and percent married.

The same assumptions that were used in the prior valuation as of December 31, 2005, were used.

2006 Experience Analysis

The Fund had an investment gain in 2006 of $282 million relative to the 8.00 percent expected rate of return on a market value basis. The loss on an actuarial value basis relative to the 8.00 percent expected rate of return was $24 million due to the deferred recognition of investment gains and losses.

Individual salary increases varied among plan participants, but the overall increase was higher than anticipated by the actuarial assumptions, resulting in an experience loss of $15 million. Service credit changes and purchases resulted in an experience loss of $14 million.

There was an additional loss of $52 million from all other factors, including actual retirement, termination, disability, mortality experience, and data changes. This is about 0.5 percent of the December 31, 2006, liabilities, which is a reasonable variation.

The following table summarizes the experience gains and losses for the year.

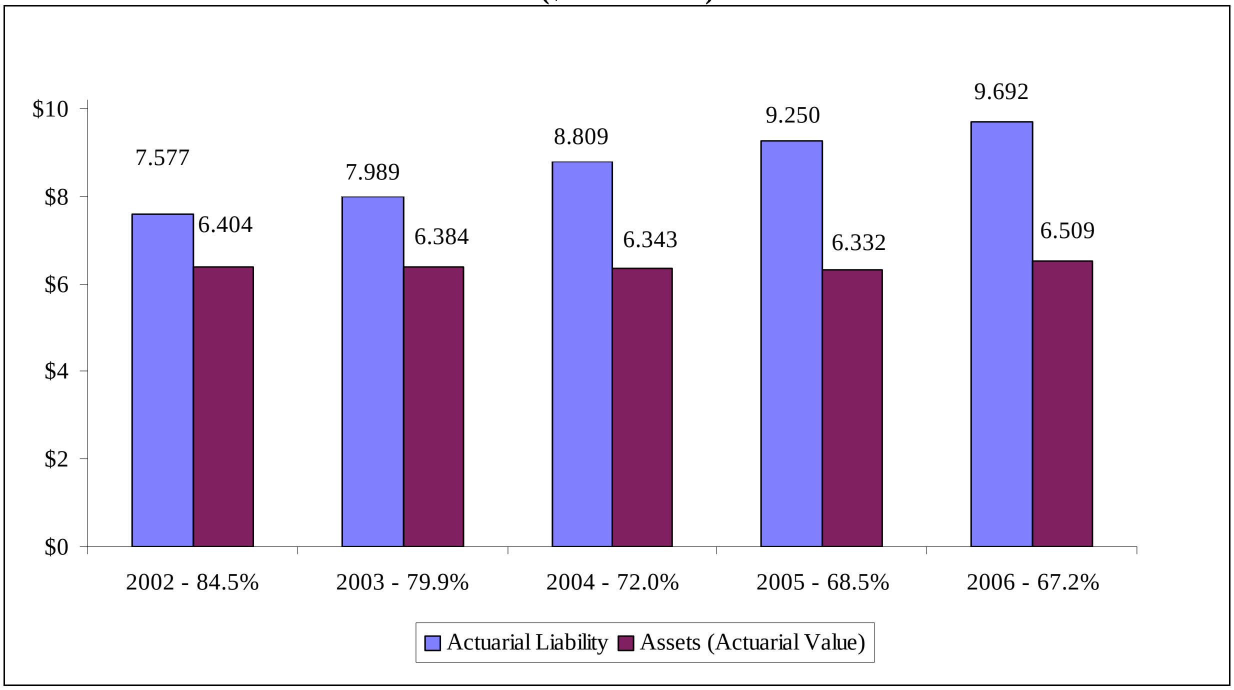
Analysis of Financial Experience

	2006	2005	2004	2003	2002
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)					
Beginning of Year	$ 2,917,833,141	$ 2,465,424,785	$ 1,604,537,599	$ 1,173,117,883	$ 467,378,934
(Gains) Losses During the Year Attributable to:					
Contributions Less Than (in Excess of) Normal Cost plus Interest	160,792,128	117,187,386	32,776,482	3,456,024	(50,118,958)
(Gain) Loss on Investment Return	23,783,664	218,674,940	282,820,577	358,329,234	419,605,037
(Gain) Loss from Salary Changes	15,270,913	79,469,300	(48,441,973)	(70,999,285)	(8,665,613)
(Gain) Loss from Retirement, Termination, & Mortality	51,557,086	122,267,607	109,401,939	109,170,676	49,293,343
(Gain) Loss from Data Corrections	-	-	-	-	-
(Gain) Loss from Transfers	-	-	24,201,945	-	-
Change in Methodology	-	-	-	-	-
Non-ERI Service Credit Changes and Purchases	13,936,925	10,339,947	95,475,721	-	-
Change in Assumptions	-	(95,530,824)	-	-	-
Plan Amendments	-	-	364,652,495	31,463,067	295,625,140
Net Increase (Decrease) in UAAL	$ 265,340,716	$ 452,408,356	$ 860,887,186	$ 431,419,716	$ 705,738,949
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)					
End of Year	$ 3,183,173,857	$ 2,917,833,141	$ 2,465,424,785	$ 1,604,537,599	$ 1,173,117,883

Funding Analysis

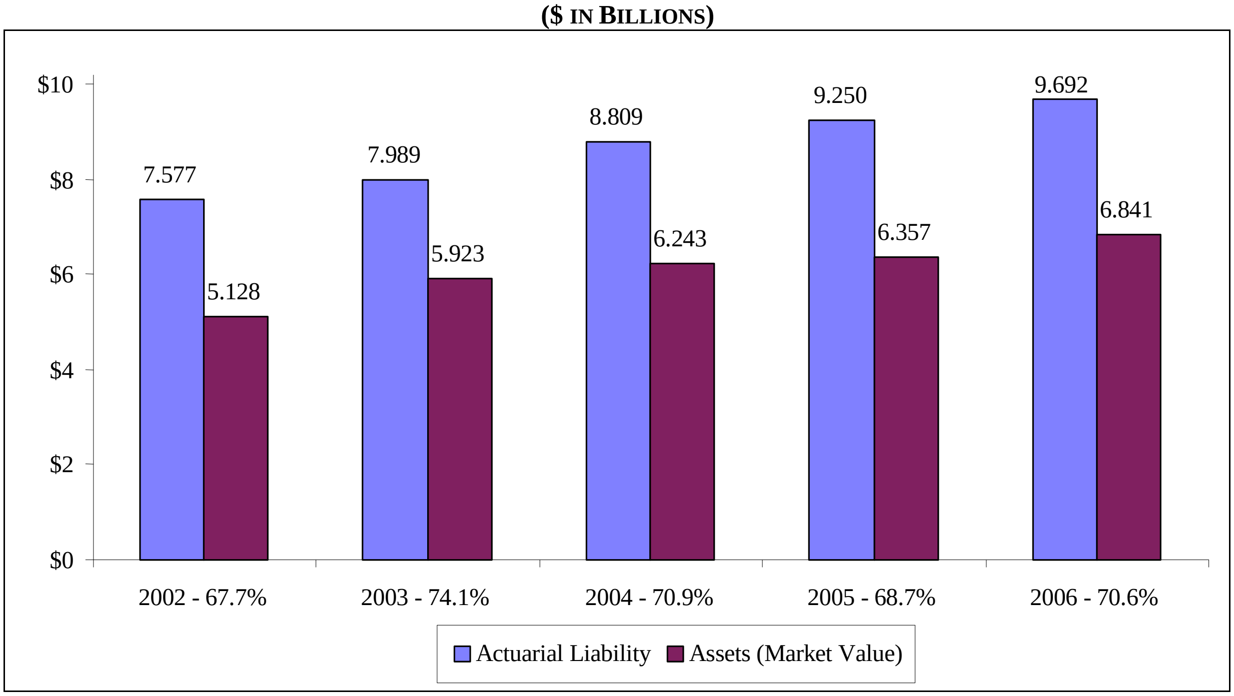
The charts on the following pages summarize the various measures of benefit security (funded ratio) examined in this valuation and highlight the trends of the measures.

COMPONENTS OF FUNDED RATIO
GASB #25[1]/STATE REPORTING
($ IN BILLIONS)

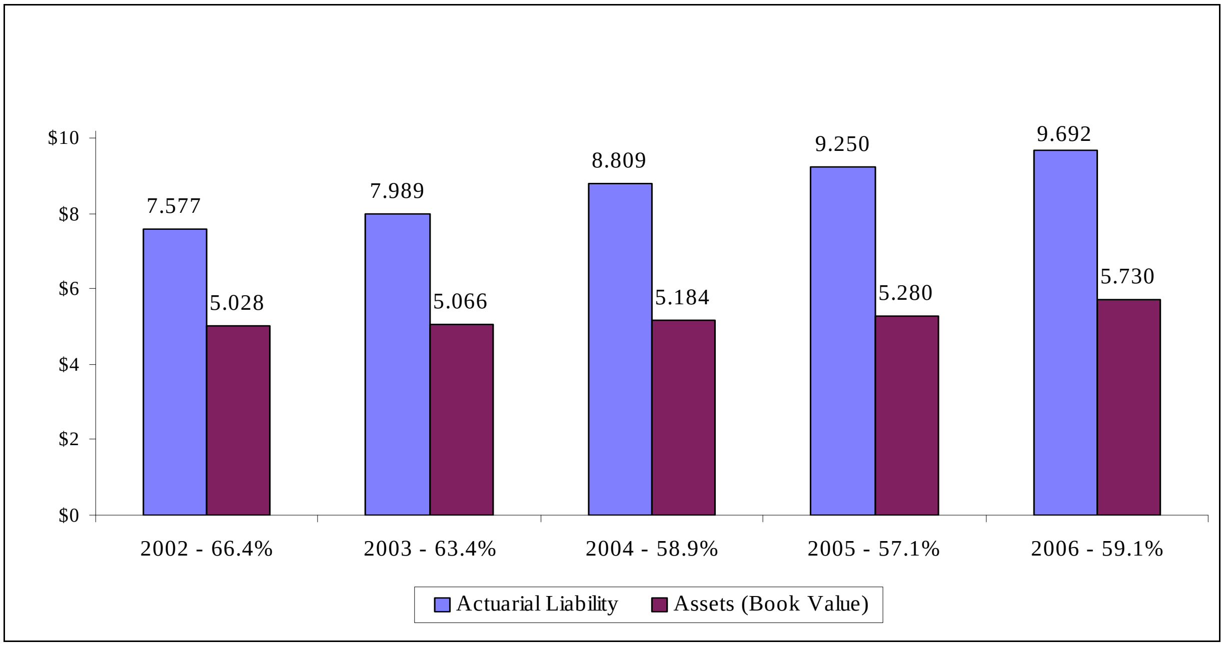


[1]2006 Actuarial Liability includes GASB #43 Liability of $ 216,201,037

COMPONENTS OF FUNDED RATIO
BASED ON MARKET VALUE
($ IN BILLIONS)



COMPONENTS OF FUNDED RATIO
BASED ON BOOK VALUE
($ IN BILLIONS)



Conclusion

On a market value basis, the funded ratio has increased from 68.7 percent in the last valuation to 70.6 percent in this valuation due to greater than expected returns on a Market Value of Assets basis partially offset by contribution shortfalls and liability losses. When measured using the Actuarial Value of Assets, which smoothes gains and losses over a five-year period, the funding ratio decreased from 68.5 percent in 2005 to 67.2 percent in 2006. Future decreases in the funded ratio are expected to occur as a result of contributions that are insufficient to adequately finance the Plan.

Summary of Actuarial Values

		APV of Projected Benefits	2007 Normal Cost
(1)	Values for Active and Inactive Members		
	(a) Retirement	$ 5,099,618,822	$ 139,816,597
	(b) Termination – Vested	382,627,266	21,931,540
	(c) Termination - Non Vested	75,025,924	24,846,467
	(d) Death	94,186,616	4,867,539
	(e) Inactive Vested and Non-Vested	224,268,193	-
	(f) Health Insurance	217,825,958	10,059,792
	(g) Disability	-	11,069,080
	(h) Expenses of Administration	-	6,397,685
	Total for Actives and Inactives	$ 6,093,552,779	$ 218,988,701
(2)	Values for Members in Payment Status	$ 5,438,978,756	$ -
(3)	Grand Totals	$ 11,532,531,535	$ 218,988,701
	Actuarial Present Value of Future Compensation		$ 13,467,162,410

Actuarial Reserve Liabilities

As of December 2006

Accrued Liabilities for Active and Inactive Participants	$ 4,253,340,727
Reserves For:	
Service Retirement Pension	$ 4,634,874,672
Future Spouses of Current Retirees	377,934,762
Surviving Spouse Pension	334,642,239
Health Insurance Supplement	89,814,583
Children Annuitants	1,712,500
Total Accrued Liabilities	$ 9,692,319,483
Unfunded Actuarial Liabilities	$ 3,183,173,857
Actuarial Net Assets	$ 6,509,145,626

Statutory Reserves

As of December 31, 2006

	Annuity Payment Fund	Prior Service Fund	Total
Statutory Reserves			
Retirees	$ 1,081,468,628	$ 4,058,969,951	$ 5,140,438,579
Future Surviving Spouses	242,766,897	343,809,516	586,576,413
Spouses	150,094,466	170,831,486	320,925,952
Annual Benefits			
Retirees	129,079,914	362,372,826	491,452,740
Future Surviving Spouses	N/A	N/A	N/A
Spouses	21,981,820	28,690,772	50,672,592

Statutory Reserves are based on the Combined Annuity Mortality Table with interest at 3% per annum or the American Experience Table of Mortality at 4% per annum.

Actuarial Accrued Liability Prioritized Solvency Test

Valuation Date 12/31	(1) Active and Inactive Member Contribution	(2) Retirees and Beneficiaries	(3) Active and Inactive Members (ER Financed Portion)	Actuarial Value of Assets	Portion (%) of Present Value Covered By Assets (1)	(2)	(3)
1997 [1,2]	$ 935,038,744	$ 2,251,886,541	$ 2,072,219,872	$4,467,100,715	100.00%	100.00%	61.78%
1998 [1,2]	865,320,511	3,508,852,569	1,950,542,822	5,202,095,202	100.00%	100.00%	42.45%
1999 [1,3]	881,590,795	3,357,380,909	2,323,327,481	6,017,841,114	100.00%	100.00%	76.57%
2000	986,495,384	3,380,841,203	2,297,843,144	6,297,976,257	100.00%	100.00%	84.02%
2001	1,052,749,399	3,381,254,824	2,500,172,254	6,466,797,543	100.00%	100.00%	81.31%
2002 [2]	1,217,420,586	3,551,167,505	2,808,512,286	6,403,982,494	100.00%	100.00%	58.23%
2003 [2]	1,285,968,607	3,740,757,718	2,961,910,231	6,384,098,957	100.00%	100.00%	45.83%
2004 [2]	1,165,883,637	5,217,025,314	2,425,591,993	6,343,076,159	100.00%	99.24%	0.00%
2005 [1]	1,252,060,754	5,325,007,461	2,673,143,602	6,332,378,676	100.00%	95.40%	0.00%
2006	1,347,789,693	5,438,978,756	2,905,551,034	6,509,145,626	100.00%	94.90%	0.00%

[1] *Change in actuarial assumptions*

[2] *Change in benefits*

[3] *Change in actuary*

The prioritized solvency test is another means of checking a plan's progress under its funding program, based on the Actuarial Accrued Liability. In this test the plan's present assets (cash and investments) are compared with obligations in order of priority: (1) active and inactive member contributions on deposit; (2) the present value of future benefits to present retired lives; (3) the employer financed portion for present active and inactive members. In a plan that has been following the discipline of financing, the obligation for active and inactive member contributions on deposit (present value 1) and the present value of future benefits to present retired lives (present value 2) will be fully covered by present assets (except in rare circumstances). In addition, the Actuarial Accrued Liability for present active and inactive members (present value 3) will be partially covered by the remainder of present assets. Generally, if the plan has been following a system of amortizing the Unfunded Liability, the funded portion of present value (3) will increase over time.

Development of Actuarial Value of Assets

As of December 31, 2006

(1) **Expected Return on Market Value of Assets for Prior Year**

(a) Market Value of Assets as of 12/31/2005 — $ 6,356,888,734

(b) Actual Income and Disbursements in Prior Year Weighted for Timing

	Item	Amount	Weight for Timing	Weighted Amount
i)	Member Contributions	$ 129,466,091	50.0%	$ 64,733,046
ii)	City Contributions & Misc.	157,062,769	50.0%	78,531,385
iii)	Benefit Payments	(547,423,686)	50.0%	(273,711,843)
iv)	Refunds	(27,194,308)	50.0%	(13,597,154)
v)	Administration	(6,397,685)	50.0%	(3,198,843)
vi)	Total			$ (147,243,409)

(c) Market Value of Assets Adj. for Actual Income and Disbursements [(a) + (b)(vi))] — $ 6,209,645,325

(d) Assumed Rate of Return on Plan Assets for the Year — 8.00%

(e) Expected Return [(c) * (d)] — $ 496,771,626

(2) **Actual Return on Market Value of Assets for Prior Year**

(a) Market Value of Assets as of 12/31/2005 — $ 6,356,888,734

(b) Income (less investment income) for Prior Plan Year — 286,528,860

(c) Disbursements Paid in Prior Year — 581,015,679

(d) Market Value of Assets as of 12/31/2006 — 6,841,127,865

(e) Actual Return [(d) + (c) - (b) - (a)] — $ 778,725,950

(3) **Investment Gain/(Loss) for Prior Year** — $ 281,954,324

(4) **Actuarial Value of Assets as of 12/31/2006**

(a) Market Value of Assets as of 12/31/2006 — $ 6,841,127,865

(b) Deferred Investment Gains and (Losses) for Last 5 Years

	Plan Year	Gain/(Loss)	Weight for Timing	Deferred Amount
i)	2002	$ (997,543,850)	0.00%	$ -
ii)	2003	558,324,412	20.00%	111,664,882
iii)	2004	115,258,014	40.00%	46,103,206
iv)	2005	(85,582,181)	60.00%	(51,349,308)
v)	2006	281,954,324	80.00%	225,563,459
vi)	Total	$ (127,589,281)		$ 331,982,239

(c) Actuarial Value of Assets [(a) - (b) (vi)] — $ 6,509,145,626

The calculated value is determined by adjusting the market value of assets to reflect the investment gains and losses (the difference between the actual investment return and the expected investment return) during each of the last 5 years at the rate of 20 percent per year.

Annual Required Contributions of Employer and Trend Information

Last ten years

Year	Annual Required Contribution (ARC) of the Employer[1]	Required Statutory Basis[2]	Actual[3]	Percent of ARC Contributed
1997	$ 100,278,969	$ 153,004,815	$ 156,832,214	156.40%
1998	108,174,346	152,248,055	158,564,165	146.58%
1999	157,514,076	117,813,120	119,644,186	75.96%
2000	93,016,467	136,727,040	140,171,920	150.70%
2001	83,526,133	130,199,616	131,439,834	157.36%
2002	92,711,870	131,500,800	130,966,381	141.26%
2003	158,614,805	140,748,480	141,882,893	89.45%
2004	198,199,001	152,510,400	153,919,476	77.66%
2005	285,291,350	153,389,000	155,067,116	54.35%
2006	325,913,986	153,184,000	157,062,769	48.19%

[1] Under Normal Cost plus 40-Year Level-Dollar Amortization. Negative ARC values are set to zero, as no contribution is then required

[2] Tax levy after 4.00 percent loss

[3] Net tax levy plus miscellaneous. Includes prior year adjustments for taxes

Annual Required Contributions of Employer and Trend Information (continued)

Year	Assets Available for Benefits as a % of Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (Surplus) as a % of Covered Payroll End of Year	Employer Contribution as a % of Covered Payroll Beginning of Year
1997	84.94%	66.43%	14.57%
1998	82.26%	96.00%	13.30%
1999	91.70%	42.97%	10.24%
2000	94.49%	29.53%	11.06%
2001	93.26%	33.99%	10.57%
2002	84.52%	85.14%	9.52%
2003	79.91%	114.98%	10.30%
2004	72.01%	189.19%	11.03%
2005	68.46%	207.33%	11.90%
2006	67.16%	215.68%	11.16%

Retirees and Beneficiaries Added To and Removed From Payrolls

Last ten years

Employee Annuitants (Male and Female)

	Added to Payroll		Removed from Payroll		Payroll End of Year			
Year	No.	Ann. Benefits[1]	No.	Ann. Benefits	No.	Ann. Benefits	Average Annual Benefit	Increase in Average Benefit
1997	564	$ 19,294,719	639	$ 8,688,842	13,373	$ 215,144,576	$ 16,088	5.78%
1998 [2]	3,135	94,348,388	670	9,714,702	15,838	299,778,262	18,928	17.65%
1999	640	7,574,818	725	3,278,538	15,717	304,074,542	19,347	2.21%
2000	593	8,293,448	780	5,050,261	15,530	307,317,729	19,789	2.28%
2001	557	9,504,016	725	3,987,228	15,362	312,834,517	20,364	2.91%
2002	910	20,996,020	726	4,089,101	15,546	329,741,436	21,211	4.16%
2003	1,002	25,806,766	695	3,996,748	15,853	351,551,454	22,176	4.55%
2004 [2]	3,133	127,180,562	733	14,182,304	18,253	464,549,712	25,451	14.77%
2005	698	27,479,544	730	15,040,308	18,221	476,988,948	26,178	2.86%
2006	713	30,424,920	751	15,961,128	18,183	491,452,740	27,028	3.25%

Surviving Spouse Annuitants (Not Including Compensation)

	Added to Payroll		Removed from Payroll		Payroll End of Year			
Year	No.	Ann. Benefits[1]	No.	Ann. Benefits	No.	Ann. Benefits	Average Annual Benefit	Increase in Average Benefit
1997	311	$9,943,282	254	$1,119,717	4,437	$31,086,606	$7,006	37.84%
1998	325	15,996,513	280	1,811,448	4,482	45,271,671	10,101	44.71%
1999	312	3,499,596	280	2,696,948	4,514	46,074,319	10,207	1.05%
2000	344	3,308,638	250	1,882,218	4,608	47,500,739	10,308	0.99%
2001	277	3,318,509	360	3,598,708	4,525	47,220,540	10,435	1.23%
2002	294	3,671,626	302	2,833,880	4,517	48,058,286	10,639	1.95%
2003	284	3,704,694	300	2,966,073	4,501	48,796,907	10,841	1.90%
2004	273	3,456,012	302	2,958,431	4,472	49,294,488	11,023	1.68%
2005	255	3,408,036	260	2,624,292	4,467	50,078,232	11,211	1.70%
2006	265	3,498,720	281	2,904,360	4,451	50,672,592	11,385	1.55%

[1] *Annual benefits added to payroll include post-retirement increase amounts starting in 2004.*

[2] *Early retirement incentive offered to employees*

Active Participating Member Valuation Data
Last ten years

Year End	Members in Service	Percent Increase	Annual Salaries	Percent Increase	Average Salary	Percent Increase	Actuarial Salary Assumption	CPI Chicago
1997	34,839	(0.52)%	$1,192,286,688	10.80 %	$34,223	11.38 %	5.00 %	2.70 %
1998	33,119	(4.94)%	1,168,639,224	(1.98)%	35,286	3.11 %	5.00 %	2.01 %
1999	35,868	8.30 %	1,267,181,658	8.43 %	35,329	0.12 %	5.00 %	2.57 %
2000	36,089	0.62 %	1,243,439,345	(1.87)%	34,455	(2.47)%	5.00 %	4.03 %
2001	36,679	1.63 %	1,375,048,892	10.58 %	37,489	8.81 %	5.00 %	0.82 %
2002	35,522	(3.15)%	1,377,909,441	0.21 %	38,790	3.47 %	5.00 %	2.50 %
2003	35,384	(0.39)%	1,395,513,060	1.28 %	39,439	1.67 %	5.00 %	1.70 %
2004	33,267	(5.98)%	1,303,127,528	(6.62)%	39,172	(0.68)%	5.00 %	2.20 %
2005	33,743	1.43 %	1,407,323,058	8.00 %	41,707	6.47 %	4.50 %	3.59 %
2006	33,429	(0.93)%	1,475,877,378	4.87 %	44,150	5.86 %	4.50 %	0.71 %
Average Increase (Decrease) for the Last five years		(1.80)%		1.55 %		3.36 %	4.80 %	2.14 %

Actuarial Methods and Assumptions
As of December 31, 2006

Actuarial Cost Method

An Actuarial Cost Method is a set of techniques used by the actuary to develop contribution levels under a retirement plan. The principal Actuarial Cost Method used in this valuation is the Entry Age Normal Actuarial Cost Method. Under this Method, a Normal Cost is developed by spreading the actuarial value of benefits expected to be received by each active participant over the total working lifetime of that participant, from hire to termination, as a level percentage of pay.

To the extent that current assets and future Normal Costs do not support participants' expected future benefits, an Unfunded Actuarial Accrued liability ("UAAL") develops. The UAAL is generally amortized over a defined period of time (e.g., 40 years). The total contribution developed under this method is the sum of the Normal Cost and the payment toward the UAAL.

Experience gains (losses) decrease (increase) the UAAL and thus are amortized as part of the UAAL.

Current Actuarial Assumptions

Demographic Assumptions

Mortality: 1994 Group Annuity Mortality Table, sex distinct Tables set forward two years. (Adopted 2005)

Disability: Disability cost valued as a term cost of 0.75 percent of payroll. (Adopted 2005)

Rate of Retirement:

Age and Service-Based Rates of Retirement

Service	50 - 54	55 - 59	60 - 64	65	66	67	68	69	70+
10			15%	25%	20%	17%	15%	15%	100%
11			13%	23%	18%	15%	13%	13%	100%
12			10%	20%	15%	12%	10%	10%	100%
13			10%	20%	15%	12%	10%	10%	100%
14			10%	20%	15%	12%	10%	10%	100%
15			10%	20%	15%	12%	10%	10%	100%
16			10%	20%	15%	12%	10%	10%	100%
17			10%	20%	15%	12%	10%	10%	100%
18			10%	20%	15%	12%	10%	10%	100%
19			10%	20%	15%	12%	10%	10%	100%
20		10%	10%	20%	15%	12%	10%	10%	100%
21		10%	10%	20%	15%	12%	10%	10%	100%
22		10%	10%	20%	15%	12%	10%	10%	100%
23		10%	10%	20%	15%	12%	10%	10%	100%
24		10%	10%	20%	15%	12%	10%	10%	100%
25		20%	15%	25%	20%	17%	15%	15%	100%
26		16%	16%	26%	21%	18%	16%	16%	100%
27		17%	17%	27%	22%	19%	17%	17%	100%
28		18%	18%	28%	23%	20%	18%	18%	100%
29		19%	19%	29%	24%	21%	19%	19%	100%
30	25%	20%	20%	30%	25%	22%	20%	20%	100%
31	20%	20%	20%	30%	25%	22%	20%	20%	100%
32	20%	20%	20%	30%	25%	22%	20%	20%	100%
33	37%	37%	37%	47%	42%	39%	37%	37%	100%
34	37%	37%	37%	47%	42%	39%	37%	37%	100%
35	30%	30%	30%	40%	35%	32%	30%	30%	100%
36	30%	30%	30%	40%	35%	32%	30%	30%	100%
37	40%	40%	40%	50%	45%	42%	40%	40%	100%
38	60%	60%	60%	70%	65%	62%	60%	60%	100%
39	80%	80%	80%	90%	85%	82%	80%	80%	100%
40	100%	100%	100%	100%	100%	100%	100%	100%	100%

Rates of Retirement: Adopted 2005

Rates of Termination:

Service	**Rate**
0	20.00%
1	15.00%
2	10.00%
3	9.00%
4	8.00%
5	7.00%
6	6.50%
7	5.75%
8	4.75%
9	4.50%
10	5.00%
11	4.00%
12	4.00%
13	3.60%
14	3.30%
15	3.00%
16	2.80%
17	2.50%
18	2.30%
19	2.10%
20	1.90%
21	1.70%
22	1.60%
23	1.50%
24	1.30%
25	1.20%
26	1.10%
27	1.00%
28	0.90%
29	0.80%
30	0.00%

Rates of termination adopted 2005.

Economic Assumptions

Investment Return Rate and Discount Rate:

8.00 percent per annum (net of investment expense) for pensions and 4.5 percent per annum for OPEB. The 8.00 percent assumption contains a 3.00 percent inflation assumption and a 5.00 percent real rate of return assumption for pension. Pension investment return and discount rate adopted 1999 and OPEB discount rate adopted 2005.

Future Salary Increases:

The following illustrative annual rates of salary increases were used:

Service	Salary Scale
1	7.00%
2	6.75%
3	6.25%
4	5.75%
5	5.25%
6 - 19	4.75%
20+	4.50%

Adopted 2005

Asset Value:

The Actuarial Value of Assets is smoothed by using a five-year phase-in of each year's unexpected investment gains and losses. Adopted 1999.

Other Assumptions

Marital Status:

It is assumed that 85 percent of members have an eligible spouse. The male spouse is assumed four years older than the female spouse. No assumption is made about other dependents. Adopted 1999.

Group Health Insurance:

It is assumed for valuation purposes that the health insurance supplement in effect as of June 30, 2013, will continue for life for all employee annuitants (and their future surviving spouses). The amount of the Plan paid health insurance from July 1, 2003, until June 30, 2008, is $85.00 per month for each annuitant (employees and surviving spouses) not qualified to receive Medicare benefits, and $55.00 if qualified. Then, the amount of the Plan paid health insurance from July 1, 2008, until June 30, 2013, is $95.00 per month for each annuitant (employees and surviving spouses) not qualified to receive Medicare benefits, and $65.00 if qualified. It is assumed that all annuitants age 65 and older will be eligible for Medicare and all annuitants less than age 65 will not be eligible for Medicare. Future surviving spouses of retirees are assumed to be eligible for Medicare, as well as surviving spouse annuitants that are currently receiving a health insurance supplement.

Required Ultimate Multiple:

The actuarial requirements (adjusted for tax levy loss) less expected employee contributions divided by the actual employee contributions made in the second prior year.

Loss in Tax Levy:

4.00 percent overall loss on tax levy is assumed.

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Statistical

Adoption of GASB pronouncements

The Plan has implemented GASB Statement No. 44, Economic Condition Reporting: The Statistical Section issued by the Governmental Accounting Standards (GASB). This statement improves the understandability and usefulness of statistical section information. It provides clearer guidance for statistical section reporting. The provisions of this Statement are effective for statistical sections prepared for periods beginning after June 15, 2005.

The Plan has also implemented GASB Statement No. 43, Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans for the health insurance supplemental benefit paid by the Plan on behalf of eligible annuitants.

Source of Data: Data presented in the Statistical section is derived from financial statements and retirement files prepared by Plan staff and from the Actuarial Report.

Methodology: Data were imported into Microsoft Excel for calculations and for generating graphs and statistical tables with ten years of data.

Assumptions: Active members are those with reported wages in the last payroll of the calendar year. Retired members and beneficiaries are those who were paid benefits in the last month of the calendar year.

Additions to Plan Net Assets

Year	Investment Earnings net of Direct Investment Expense*	Employer Contributions	Member Contributions	Total Additions
1997	$ 776,452,044	$ 156,832,214	$ 98,978,257	$ 1,032,262,515
1998	844,588,751	158,564,165	124,675,114	1,127,828,030
1999	515,440,459	119,644,186	102,454,040	737,538,685
2000	217,067,663	140,171,920	107,371,034	464,610,617
2001	(158,373,573)	131,439,834	118,240,723	91,306,984
2002	(538,062,313)	130,966,381	128,395,307	(278,700,625)
2003	961,888,872	141,882,893	129,644,188	1,233,415,953
2004	578,730,089	153,919,476	155,884,575	888,534,140
2005	402,310,621	155,067,116	122,542,484	679,920,221
2006	778,725,950	157,062,769	129,466,091	1,065,254,810

** For years including and subsequent to 1997, net investment income includes realized and unrealized appreciation or depreciation of investments. Preceding years included only realized gains and losses.*

Deductions from Plan Net Assets

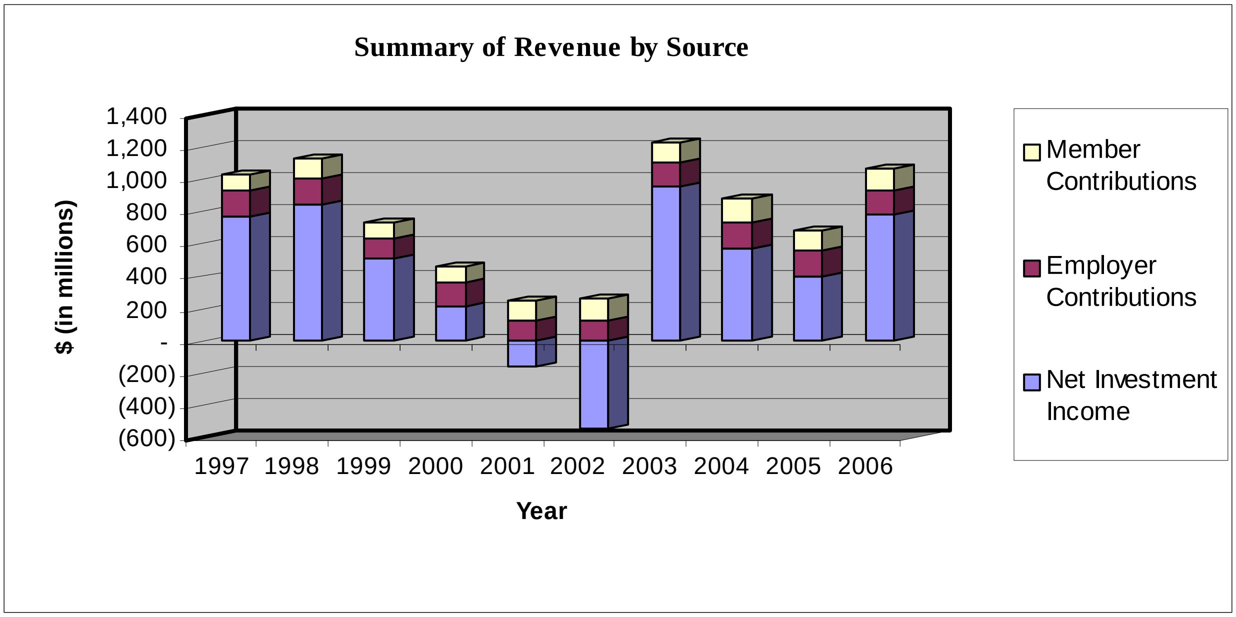
Year	Annuity	Disability	OPEB Health Subsidy	Refunds	Administrative Expense	Total
1997	$ 238,196,220	$ 8,864,927	$ 5,567,932	$ 25,330,325	$ 3,897,012	$ 281,856,416
1998	288,607,539	7,462,337	6,185,736	37,851,181	4,654,198	344,760,991
1999	346,886,713	6,629,484	6,469,805	21,199,532	3,851,246	385,036,780
2000	365,432,607	6,945,471	5,834,910	24,674,848	3,844,081	406,731,917
2001	356,548,995	7,919,981	6,272,253	21,951,794	4,086,513	396,779,536
2002	370,006,543	10,586,498	6,278,622	22,425,917	4,557,088	413,854,668
2003	390,834,936	10,879,692	6,881,611	25,561,485	4,678,634	438,836,358
2004	481,319,408	8,830,525	8,689,957	64,272,300	5,470,007	568,582,197
2005	514,623,174	9,990,510	8,877,021	26,737,456	5,545,268	565,773,429
2006	528,426,077	10,267,132	8,730,476	27,194,308	6,397,685	581,015,679

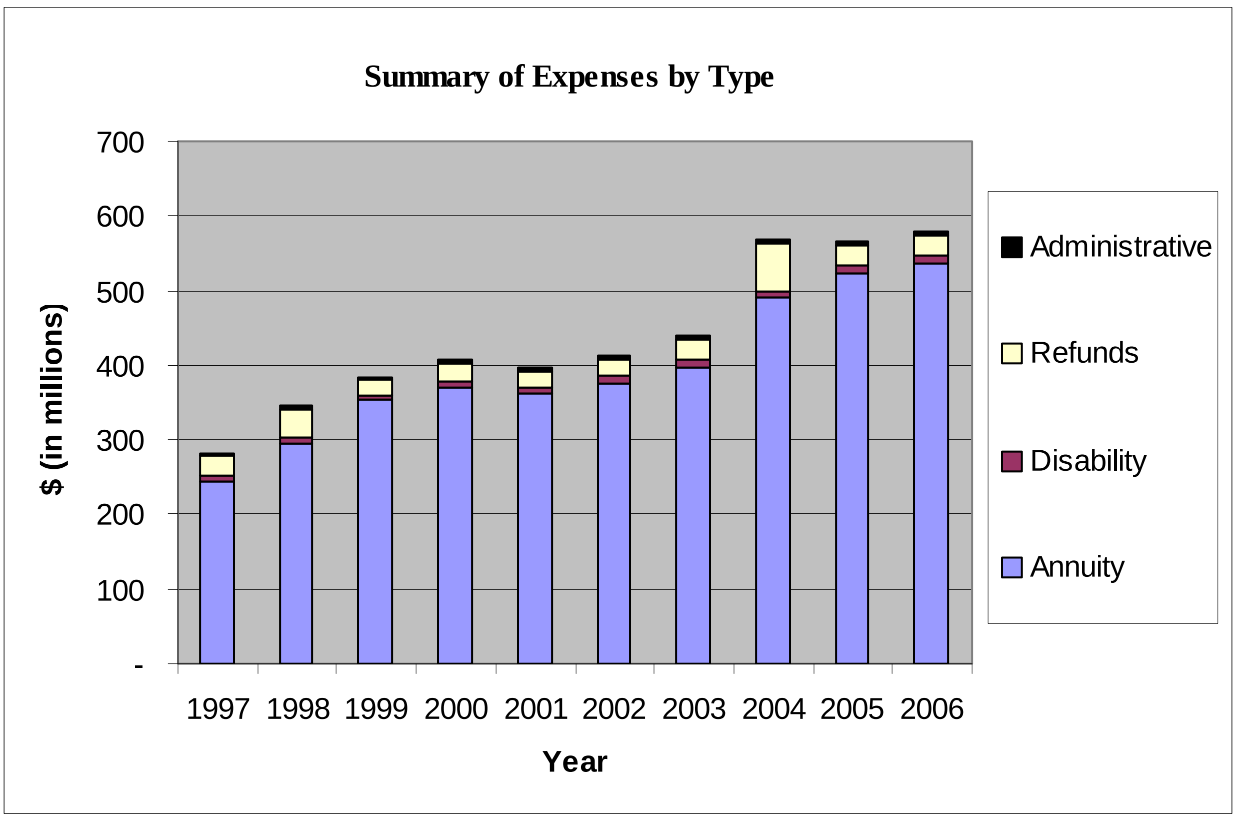
Changes in Plan Net Assets

Year	Total Additions	Total Deductions	Change in Plan Net Assets
1997	$ 1,032,262,515	$ 281,856,416	$ 750,406,099
1998	1,127,828,030	344,760,991	783,067,039
1999	737,538,685	385,036,780	352,501,905
2000	464,610,617	406,731,917	57,878,700
2001	91,306,984	396,779,536	(305,472,552)
2002	(278,700,625)	413,854,668	(692,555,293)
2003	1,233,415,953	438,836,358	794,579,595
2004	888,534,140	568,582,197	319,951,943
2005	679,920,221	565,773,429	114,146,792
2006	1,065,254,810	581,015,679	484,239,131

Other Post-Employment Benefits: Health Insurance Subsidy

Year	Employee Annuities	Spouse Annuities	Child Annuities	Total
1997	$ 4,453,414	$ 1,114,518	$ -	$ 5,567,932
1998	5,056,235	1,129,501	-	6,185,736
1999	5,319,168	1,150,637	-	6,469,805
2000	4,765,407	1,069,503	-	5,834,910
2001	5,103,748	1,168,505	-	6,272,253
2002	5,109,041	1,169,581	-	6,278,622
2003	5,608,708	1,275,598	-	6,884,306
2004	7,301,575	1,376,142	12,240	8,689,957
2005	7,499,145	1,367,932	9,944	8,877,021
2006	7,373,775	1,343,866	12,835	8,730,476


Summary of Revenue by Source
$ (in millions)
1,400
1,200
1,000
800
600
400
200
-
(200)
(400)
(600)
1997 1998 1999 2000 2001 2002 2003 2004 2005 2006
Year
Member Contributions
Employer Contributions
Net Investment Income


Summary of Expenses by Type
$ (in millions)
700
600
500
400
300
200
100
-
1997 1998 1999 2000 2001 2002 2003 2004 2005 2006
Year
Administrative
Refunds
Disability
Annuity

Benefit Expenses by Type

Last ten years

	Annuity			OPEB	Disability			
Year	**Employee**	**Surviving Spouse**	**Children**	**Health Subsidy**	**Ordinary**	**Duty**	**Refunds**	**Total**
1997	$210,965,124	$ 26,705,328	$ 525,769	$ 5,567,932	$ 7,097,259	$ 1,767,668	$ 25,330,325	$ 277,959,405
1998	256,049,250	31,905,210	653,079	6,185,736	5,844,025	1,618,312	37,851,181	340,106,793
1999	300,490,756	45,783,597	612,360	6,469,805	5,159,383	1,470,101	21,199,532	381,185,534
2000	316,479,067	48,410,776	542,763	5,834,910	5,306,741	1,638,730	24,674,848	402,887,835
2001	308,930,340	47,073,636	545,019	6,272,253	5,893,479	2,026,502	21,951,794	392,693,023
2002	321,673,434	47,691,000	637,823	6,278,622	8,321,808	2,264,690	22,425,917	409,293,294
2003	341,614,634	48,558,458	661,845	6,881,611	8,475,088	2,404,604	25,561,485	434,157,725
2004	431,559,744	49,163,339	596,325	8,689,957	7,200,947	1,629,578	64,272,300	563,112,190
2005	464,247,177	49,783,518	595,785	8,877,021	8,011,243	1,979,267	26,737,456	560,231,467
2006	477,509,429	50,340,031	580,445	8,730,476	7,824,045	2,443,087	27,194,308	574,621,821

Retirees and Beneficiaries By Type of Benefit

Last ten years

	Annuity			Disability		Compensation	Reciprocal	
Year	**Employee**	**Spouse**	**Child**	**Ordinary**	**Duty**	**Annuitants**	**Employee**[1]	**Spouse**
1997	11,774	4,083	221	464	166	1	1,599	354
1998	14,070	4,120	228	263	120	1	1,768	362
1999	13,985	4,115	213	298	152	1	1,732	399
2000	13,744	4,213	189	300	148	1	1,786	395
2001	13,608	4,138	198	309	196	2[1]	1,754	387
2002	13,725	4,132	212	260	129	2[1]	1,821	385
2003	13,909	4,118	210	323	190	2[1]	1,944	383
2004	16,109	4,087	201	294	132	2[1]	2,144	385
2005	16,027	4,094	204	304	158	2[1]	2,194	373
2006	15,926	4,075	193	330	193	2[1]	2,257	376

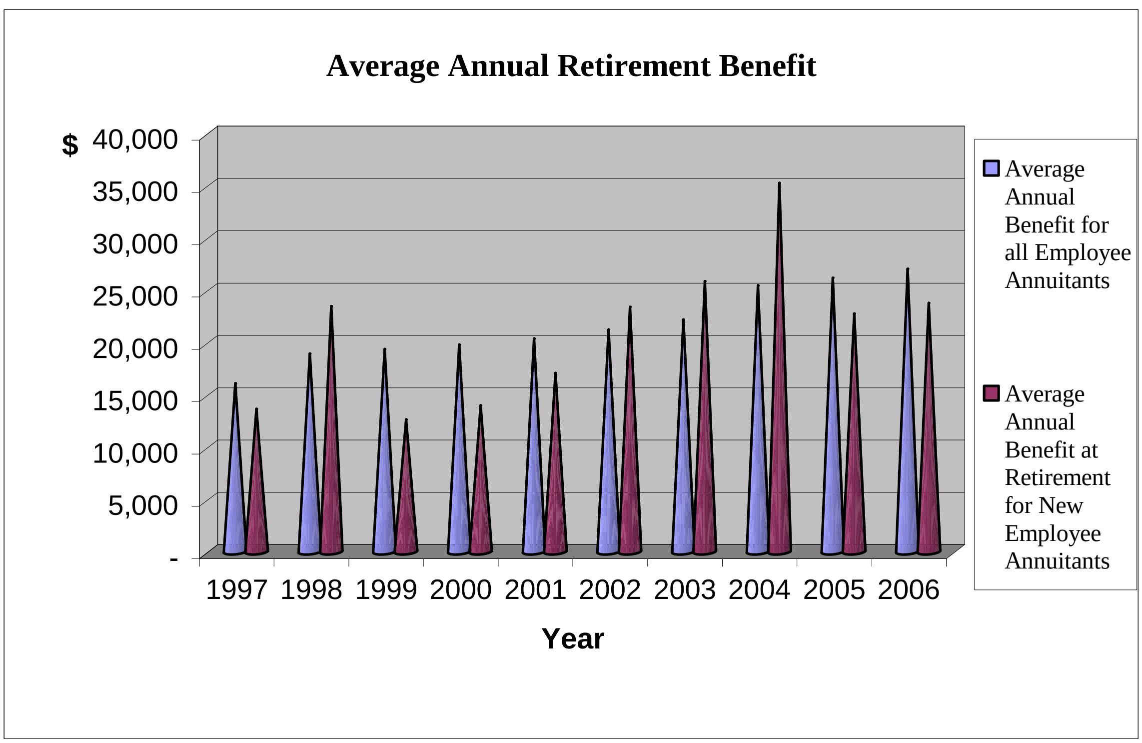
[1] Compensation annuitants also included with spouse annuitants

Source of Data: 2006 Actuarial Valuation Report

Average Employee Retirement Benefits Payable
Last ten years

Year	Average Annual Benefit	Average Current Age of Retirees	Average Annual Benefit at Retirement Current Year	Average Age at Retirement Current Year	Average Years Service at Retirement Current Year
1997	$ 16,088	72.5	$ 13,651	64.4	20.3
1998	18,928	71.5	23,471	62.4	27.6
1999	19,347	72.3	12,625	63.5	N/A
2000	19,789	72.6	13,986	64.5	17.4
2001	20,364	73.0	17,063	63.5	21.4
2002	21,211	73.1	23,407	63.2	22.0
2003	22,176	72.6	25,832	61.9	25.3
2004	25,451	71.0	35,222	59.6	27.9
2005	26,178	71.8	22,753	63.5	24.4
2006	27,028	72.1	23,757	63.1	24.1

Source: 2006 Actuarial Valuation Report



Distribution of Current Annuitants by Pension Amounts
As of December 31, 2006

Amount of Monthly Benefit	Number of Employee Annuitants	Number of Spouse Annuitants	Number of Child Annuitants	Total Number of Annuitants
Deferred	1	-	-	1
$ 1 - $ 250	356	75	193	624
251 - 500	296	62	-	358
501 - 750	216	50	-	266
751 - 1,000	1,196	3,285	-	4,481
1,001 - 1,250	4,204	316	-	4,520
1,251 - 1,500	1,211	253	-	1,464
1,501 - 1,750	1,277	169	-	1,446
1,751 - 2,000	1,249	103	-	1,352
2,001 - 2,250	985	58	-	1,043
2,251 - 2,500	814	37	-	851
2,501 - 2,750	794	23	-	817
2,751 - 3,000	709	12	-	721
3,001 - 3,250	674	5	-	679
3,251 - 3,500	565	2	-	567
3,501 - 3,750	620	-	-	620
3,751 - 4,000	529	1	-	530
4,001 - 4,250	438	-	-	438
4,251 - 4,500	400	-	-	400
4,501 - 4,750	399	-	-	399
4,751 - 5,000	327	-	-	327
Over $ 5,000	924	-	-	924
Totals	**18,184**	**4,451**	**193**	**22,828**

Source of Data: 2006 Actuarial Valuation Report

Statistics On Employee Annuities Classified By Age

As of December 31, 2006

	Male		Female	
Age	**No.**	**Annual Payments**	**No.**	**Annual Payments**
Under 50	6	$ 31,212	6	$ 43,908
50	10	439,596	8	317,928
51	22	933,924	11	480,120
52	34	1,768,968	33	1,375,380
53	109	4,958,916	58	2,464,536
54	138	6,907,524	76	3,005,736
55	142	6,680,088	132	4,603,392
56	151	6,404,208	118	4,030,932
57	185	8,250,816	157	5,002,116
58	169	7,252,620	150	4,630,728
59	212	9,033,000	200	6,035,628
60	188	7,654,188	238	6,293,580
61	163	6,466,368	230	6,470,184
62	177	6,557,472	268	6,284,316
63	222	8,556,780	337	8,355,432
64	282	10,359,900	353	7,500,960
65	211	7,288,248	374	8,877,624
66	247	8,160,900	388	8,780,088
67	233	7,966,200	405	8,593,476
68	261	8,769,912	455	10,057,848
69	307	10,225,272	452	9,472,308
70	236	7,622,484	412	8,538,984
71	278	9,778,224	445	9,290,076
72	252	7,904,832	419	8,464,992
73	259	8,292,204	350	7,160,352
74	242	7,783,896	335	6,530,184
75	248	8,359,644	327	6,567,720
76	230	7,755,000	383	7,598,856
77	254	8,700,804	371	6,983,400
78	239	8,404,044	354	6,533,964
79	243	7,940,124	340	6,402,300
80	208	6,183,000	272	4,966,716
81	215	7,009,344	282	5,078,004
82	198	6,351,768	255	4,200,432
83	179	5,549,964	252	4,389,660
84	160	4,878,684	230	3,958,992
85 & Over	650	16,985,568	1,147	17,946,192
Totals	**7,560**	**$ 264,165,696**	**10,623**	**$ 227,287,044**

Source: 2006 Actuarial Valuation Report

History of Annuities
Last ten years

Employee Annuitants

Year End	Number of Annuitants	Total Annuities	Average Annuities
		$	
1997	13,373	215,144,576	$ 16,088
1998	15,838	299,778,262	18,928
1999	15,717	304,074,542	19,347
2000	15,530	307,317,729	19,789
2001	15,362	312,834,517	20,364
2002	15,546	329,741,436	21,211
2003	15,853	351,551,454	22,176
2004	18,253	464,549,712	25,451
2005	18,221	476,988,948	26,178
2006	18,183	491,452,740	27,028

Surviving Spouse Annuitants

Year End	Number of Annuitants	Total Annuities	Average Annuities
		$	
1997	4,437	31,086,606	$ 7,006
1998	4,482	45,271,671	10,101
1999	4,514	46,074,319	10,207
2000	4,608	47,500,739	10,308
2001	4,525	47,220,540	10,435
2002	4,517	48,058,286	10,639
2003	4,501	48,796,907	10,841
2004	4,472	49,294,488	11,023
2005	4,467	50,078,232	11,211
2006	4,451	50,672,592	11,385

Source: 2006 Actuarial Valuation Report

Number of Actively Participating Members

Last ten years

Year	Male Participants	Female Participants	Total Participants
1997	14,798	20,041	34,839
1998	14,207	18,912	33,119
1999	16,533	19,335	35,868
2000	17,806	18,283	36,089
2001	14,928	21,751	36,679
2002	14,037	21,485	35,522
2003	13,976	21,408	35,384
2004	12,756	20,511	33,267
2005	13,039	20,704	33,743
2006	13,107	20,322	33,429

Source of Data: 2006 Actuarial Valuation Report

Participating Members by Age & Length of Service

Attained	Completed Years of Service									
Age	**Under 1**	**1-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30-34**	**35 & Over**	**Total**
Under 20	32	40	-	-	-	-	-		-	72
20-24	211	540	91	-	-	-	-	-	-	842
25-29	244	1,148	601	55	-	-	-	-	-	2,048
30-34	214	1,068	1,168	374	34	-	-	-	-	2,858
35-39	197	1,069	1,402	821	400	17	-	-	-	3,906
40-44	202	1,030	1,564	1,048	891	356	19	-		5,110
45-49	169	943	1,524	1,131	1,141	836	306	12	-	6,062
50-54	91	724	1,140	961	1,069	844	459	111	-	5,399
55-59	64	479	747	707	841	564	248	111	6	3,767
60-64	28	212	393	358	429	324	186	60	47	2,037
65-69	9	79	163	146	146	120	76	47	43	829
70 & Over	6	54	94	73	55	51	52	21	44	450
W/O DOB	-	-	-	-	-	-	-	-	49	49
Total	**1,467**	**7,386**	**8,887**	**5,674**	**5,006**	**3,112**	**1,346**	**362**	**189**	**33,429**

Source of Data: 2006 Actuarial Valuation Report

Global Distribution of Annuity Benefit Payments

As of December 31,2006

State	Number	Annual Payments	State	Number	Annual Payments
Alabama	77	$ 1,427,507	Oregon	13	$ 137,391
Alaska	1	14,775	Pennsylvania	12	145,436
Arizona	273	6,309,531	Puerto Rico	41	746,483
Arkansas	76	1,618,800	Rhode Island	2	36,194
California	186	3,671,473	South Carolina	14	393,227
Colorado	26	515,928	South Dakota	3	70,723
Connecticut	3	52,680	Tennessee	86	1,721,720
District of Columbia	3	83,049	Texas	134	2,683,859
Florida	660	15,914,085	Utah	9	228,590
Georgia	112	2,106,023	Virginia	24	322,670
Hawaii	3	40,977	Washington	23	475,684
Idaho	5	218,157	West Virginia	4	101,833
Illinois	19,706	459,905,154	Wisconsin	226	4,730,806
Indiana	249	5,147,645	Wyoming	1	22,540
Iowa	15	336,815	Total - US	**22,794**	**$ 526,829,657**
Kansas	5	70,443			
Kentucky	35	736,714			
Louisiana	37	709,467	Brazil	1	17,122
Maine	2	100,604	China	1	11,480
Maryland	19	291,250	Costa Rica	1	18,212
Massachusetts	12	232,908	Czech Republic	1	21,891
Michigan	144	3,284,805	Germany	1	12,921
Minnesota	42	800,586	Greece	2	47,170
Mississippi	107	2,091,405	India	2	32,834
Missouri	44	892,312	Ireland	6	112,660
Montana	3	101,231	Israel	2	30,382
Nebraska	5	84,202	Italy	3	85,410
Nevada	208	5,527,211	Jamaica	1	12,921
New Hampshire	2	36,567	Lithuania	1	24,752
New Jersey	2	28,504	Mexico	3	46,780
New Mexico	19	532,195	Nicaragua	1	50,742
New York	17	289,589	Panama	2	9,911
North Carolina	49	800,586	Philippines	3	62,878
North Dakota	1	43,611	Poland	1	15,620
Ohio	38	691,818	United Kingdom	1	9,600
Oklahoma	16	303,895	Total - Outside US	**33**	**$ 623,286**

Note:

Annual payments - annuity payments for December 2006 were multiplied by 12 months.

Geographical Distribution of Annuity Benefit Payments in Illinois

As of December 31, 2006

County	Number of Recipients	Annual Payments	County	Number of Recipients	Annual Payments
ADAMS	1	$ 23,201	MACOUPIN	3	$ 36,049
BOONE	22	675,975	MADISON	5	54,750
BUREAU	4	76,815	MARION	1	22,122
CARROLL	3	63,782	MARSHALL	5	132,463
CHAMPAIGN	40	1,136,559	MASON	1	41,258
CLAY	1	11,941	MCDONOUGH	1	424
COLES	1	48,689	MCHENRY	159	4,244,290
COOK	17,868	415,839,749	MCLEAN	6	83,515
DEKALB	13	176,742	MONTGOMERY	2	34,967
DUPAGE	598	12,948,352	MORGAN	1	12,921
EDGAR	1	2,886	MOULTRIE	1	9,600
EFFINGHAM	1	9,600	OGLE	11	287,637
FAYETTE	1	9,600	PEORIA	4	98,810
FRANKLIN	3	84,222	PERRY	1	12,921
FULTON	2	99,426	PIATT	1	13,105
GRUNDY	14	531,301	PULASKI	2	28,063
HAMILTON	1	9,600	PUTNAM	4	91,719
HENRY	2	66,595	ROCK ISLAND	3	39,276
IROQUOIS	7	281,866	SALINE	4	45,042
J O DAVIESS	15	448,683	SANGAMON	16	366,470
JACKSON	3	84,063	SHELBY	3	102,766
JOHNSON	1	14,349	ST. CLAIR	4	60,209
KANE	131	3,226,913	STEPHENSON	9	168,150
KANKAKEE	39	1,000,114	VERMILION	4	153,038
KENDALL	15	459,060	WARREN	1	12,921
KNOX	3	32,121	WAYNE	1	41,327
LA SALLE	2	75,307	WHITESIDE	4	64,758
LAKE	254	5,920,601	WILL	354	9,349,880
LASALLE	6	141,957	WILLIAMSON	11	152,203
LEE	6	181,763	WINNEBAGO	22	362,872
LOGAN	1	54,177	WOODFORD	1	12,545
MACON	2	33,075			
Total annuity payments in Illinois				**19,706**	**$ 459,905,154**

Note: Annual payments - Annuity payments for December 2006 were multiplied by 12 months.

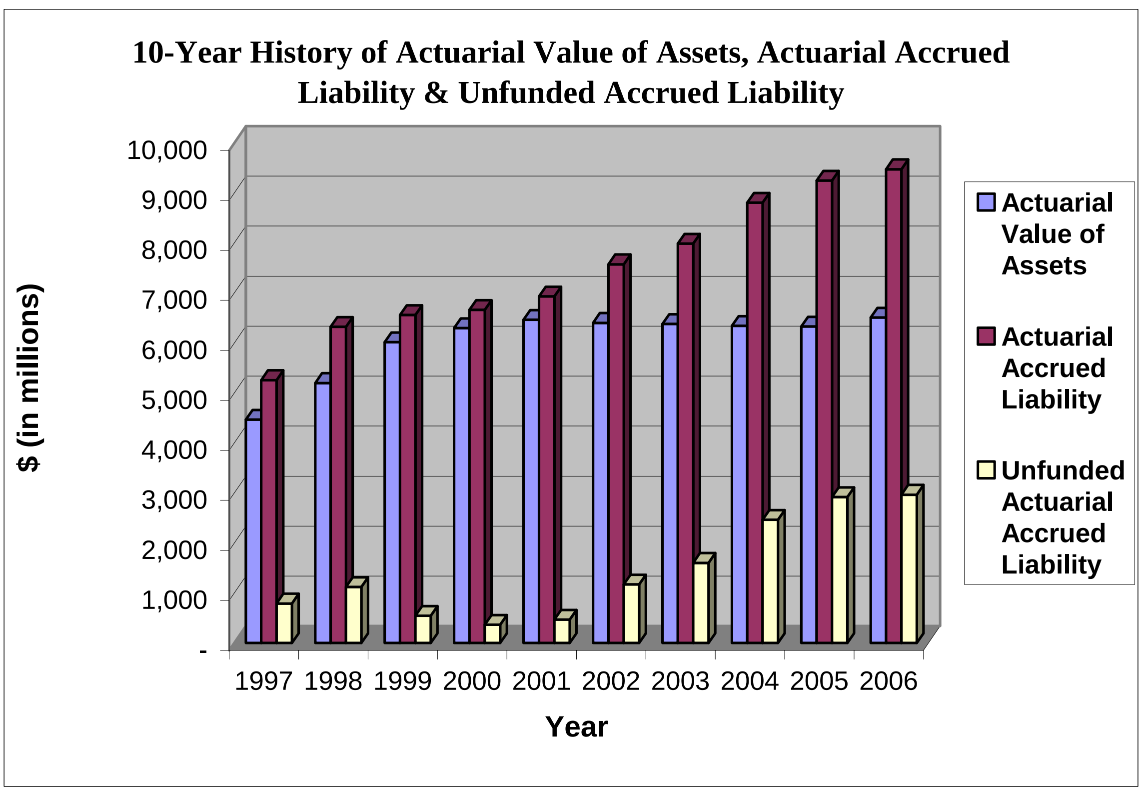
	Number	Annuity Payments	Percent
Total out-of-state payments	3,088	66,924,502	12.7%
Total payments in Illinois State	19,706	459,905,154	87.2%
Total payments Outside US	33	623,286	0.1%
Total annuity benefit payments	**22,827**	**527,452,943**	**100%**

Schedule Of Funding Progress For GASB # 25
Last ten years

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll [(b-a)/c]
1997	$ 4,467,100,715	$ 5,259,125,157	$ 792,024,442	84.94%	$ 1,192,286,688	66.43%
1998	5,202,095,202	6,323,965,903	1,121,870,701	82.26%	1,168,639,224	96.00%
1999	6,017,841,114	6,562,299,185	544,458,071	91.70%	1,267,181,658	42.97%
2000	6,297,976,257	6,665,179,731	367,203,474	94.49%	1,243,439,345	29.53%
2001	6,466,797,543	6,934,176,477	467,378,934	93.26%	1,375,048,892	33.99%
2002	6,403,982,494	7,577,100,377	1,173,117,883	84.52%	1,377,909,441	85.14%
2003	6,384,098,957	7,988,636,556	1,604,537,599	79.91%	1,395,513,060	114.98%
2004	6,343,076,159	8,808,500,944	2,465,424,785	72.01%	1,303,127,528	189.19%
2005 [1]	6,332,378,676	9,250,211,817	2,917,833,141	68.46%	1,407,323,058	207.33%
2006 [2]	6,509,145,626	9,476,118,446	2,966,972,820	68.69%	1,475,877,378	201.03%

[1] OPEB liabilities are discounted at a rate of 4.5 percent beginning in 2005
[2] OPEB liabilities excluded beginning in 2006

Source: 2006 Actuarial Valuation Report



Plan Summary

Membership and Service

Members

Persons appointed under civil service who are employed by the City and Board of Education of Chicago (other than teachers); persons employed by the Retirement Board; temporary and non-career service employees who have a total of at least one year of service and have four consecutive months of service immediately prior to filing written application with the Retirement Board; aldermen and other officials of the City and the Board of Education of Chicago who shall, while in office, file written application with the Retirement Board. Beginning January 1, 1984, temporary and non-career service employees will automatically be members. Aldermen and other officials of the City and the Board of Education of Chicago will still file written application with the Retirement Board. Current and former employees of the Chicago Housing Authority and the Public Building Commission who have service in the Plan or who reinstate service in this Plan, may elect to participate in this Plan with respect to their employment with the Chicago Housing Authority or the Public Building Commission under certain conditions.

Service

For all purposes except minimum annuity and ordinary disability credit, service in four months in any calendar year constitutes one year of service credit.

For minimum annuity, one half-year credit is given for one complete month of service and a full year credit is given for one complete month of service plus service in at least five other months. For Ordinary Disability credit, the exact number of days, months and years is used.

Benefit Plan Provisions

Retirement Annuity

Money Purchase Formula

Maximum is 60 percent of highest salary. Applies in cases where an employee is age 55 or older and has a minimum of 10 years of service. If employee is age 55 to 60 with service less than 20 years, the annuity is based on all employee deductions plus 1/10th of the City contributions for each year over 10. In the case of withdrawal before age 55 and application after age 55, the annuity is based on employee deductions plus 1/10th of the City contributions for each year over 10, with interest to date of application or age 55, whichever is later. The age factor for age 55 is used.

The annuity is based on all employee deductions and City contributions in cases where the employee is (a) age 55 to 60 with 20 or more years of service; (b) age 60 or older; or (c) resigning at the time of disability credit expiration.

Minimum Annuity Formula

Maximum is 80 percent of final average salary.

- An employee age 60 or older with at least 10 years of service, or an employee age 55 or older with at least 20 years of service, or an employee age 50 or older with at least 30 years of service, is entitled to an annuity equal to 2.40 percent for each year of service of the final average salary during the four highest consecutive years within the last 10 years of service prior to retirement. If the employee withdraws from service before age 60 with less than 20 years of service, he can begin to receive an annuity no earlier than age 60. For an employee who is eligible to begin receiving an annuity before age 60, the annuity is discounted 0.25 percent for each month the employee is younger than age 60 unless he has at least 25 years of service.

The employee will receive a minimum annuity of $850 per month if the employee withdraws at age 60 or older with at least 10 years of service.

Reversionary Annuity

An employee may elect to reduce his or her annuity by an amount less than or equal to $400 to provide a reversionary annuity for a spouse, parent, child, brother, or sister, to begin upon the employee's death. The election must be made before retirement and have been in effect one year prior to death. The one-year requirement is waived if the beneficiary is the employee's spouse. The death of the employee before retirement voids this election. The reversionary annuity for a spouse when added to the spouse's annuity cannot exceed 100 percent of the employee's reduced annuity. If the employee resigns after June 30, 1983, the 3.00 percent automatic annual increase in the annuity will be computed on the original, not the reduced, annuity; if the beneficiary dies before the employee annuitant, the full annuity is restored for annuities granted after June 30, 1983. The amount of the monthly reversionary annuity is determined by multiplying the amount of the monthly reduction in the employee's annuity by a factor based on the age of the employee and the difference between the ages of the employee and the reversionary annuitant at the starting date of the employee's annuity.

Reciprocal Annuity

Under reciprocal retirement, an employee can receive an annuity based on combined service credits in two or more governmental units in Illinois to whose pension funds he or she has contributed.

Automatic Increase in Annuity

An employee annuitant is entitled to receive an increase of 3.00 percent 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, and

2.) the later of the first anniversary of retirement and age 60.

Increases apply only to life annuities.

Elected City Officer's Optional Plan

An alternative plan for elected officials of 3.00 percent of the Final Salary for the first eight years, 4.00 percent for the next four years and 5.00 percent thereafter, subject to the maximum 80 percent, is available. The elected official must contribute an additional 3.00 percent of salary to receive these benefits. This plan also includes alternative widow and disability benefit formulas. This plan became effective upon approval from the IRS on September 17, 1991.

Survivor Benefits

Spouse Annuity

The surviving spouse annuity is the greater of the annuity under the money purchase formula or the minimum annuity formula. Surviving spouses who remarry on or after September 4, 2000, will not have their annuities terminated.

Money Purchase Formula

When an employee retires, the spouses' annuity is fixed, based on employee deductions and City pay credits made for spouses' annuity purposes and a joint life age factor. (If the employee is a female, these are deductions accumulated since October 1974).

If the employee dies in service, the spouse's annuity is based on all sums accumulated to their credit.

For 3.00 percent annuities fixed on or after August 1, 1983, the "Combined Annuity Mortality Table" shall continue to be used; however, surviving spouse's single life annuities and reversionary annuities shall be computed using the best factor (the factor producing the highest annuity), without regard to gender.

Spouses' Minimum Annuity Formula

If the employee retires or dies in service and is at least age 55 with 20 or more years of service, or is at least age 50 with 30 or more years of service, the spouse's annuity is equal to half the amount of annuity the employee was entitled to receive at the time of retirement or death in service. This annuity must then be discounted 0.25 percent for each month the spouse is under age 55 (or age 50 if the employee had at least 25 years of service) at the time the employee retires or dies in service.

If the employee dies while receiving a retirement annuity, the spouse is eligible for an annuity of one-half of the employee's annuity at death. This annuity is discounted for his/her age under 55 at the time of the employee's death, unless the employee had at least 25 years of service and withdrew from service on or after June 27, 1997, in which case the spouse annuity would be discounted for spouse age under 50 at the time of the employee's death.

If the employee dies in service on or after January 1, 2002, with at least 10 years of service, the spouse is entitled to an annuity of half of the minimum formula annuity earned and accrued to the credit of the employee at the date of death. For the purposes of this benefit, the minimum formula annuity earned and accrued to the credit of the employee is equal to 2.40 percent for each year of service of the highest average annual salary for any four consecutive years within the last 10 years of service immediately preceding the date of death, up to a maximum of 80 percent of the highest average annual salary. This annuity is not reduced due to the age of the employee or spouse. The spouse is eligible for this annuity only if the marriage was in effect for 10 full years or more.

The spouse will receive a minimum annuity of $800 per month if the employee retires with at least 10 years of service or dies in service with at least five years of service.

Child's Annuity

A child's annuity is provided for an unmarried child of a deceased employee who is under the age of 18, if the child was born before the withdrawal from service, or legally adopted at least one year before the child's annuity becomes payable. The annuity is $220 per month while the spouse of the deceased employee is alive and $250 per month if the spouse is deceased.

Family Maximum

Non-Duty Death: 60 percent of final monthly salary.

Duty Death: 70 percent of final monthly salary.

Disabilities

Duty Disability Benefits

Any employee who becomes disabled as the result of an injury incurred in the performance of any act of duty has a right to receive a duty disability benefit in the amount of 75 percent of salary at date of injury, plus $10 a month for each unmarried child less than age 18. Child's duty disability benefit is limited to 15 percent of the employee's salary as of the date of injury. Duty disability benefits begin one day after the later of the last day worked or the last day paid.

If the disability has resulted from any mental disorder, physical defect or disease which existed at the time such injury was sustained, the duty disability benefit shall be 50 percent of salary at date of injury. Disablement because of heart attacks, strokes, or any disablement due to heart disease shall not be considered the result of an accident suffered in the performance of duty. However, the employee will receive service credit and the City will contribute salary deductions for annuity purposes if the employee is receiving Workers' Compensation.

A duty disability benefit is payable to age 65 if the disability benefits begin before age 60. For an employee who begins disability on or after age 60, disability benefits will continue for five years. A duty disability benefit which continues for more than five years and which starts before the employee's age 60, will be increased by 10 percent on January 1st of the sixth year.

The City contributes salary deductions for annuity purposes for the duty disability benefit. Such amounts contributed by the City after December 31, 1981, while the employee is receiving duty disability benefits, are not refundable to the employee and will be used for annuity purposes only.

Ordinary Disability Benefits

This benefit is granted for disability incurred other than in performance of an act of duty and is 50 percent of salary as of the last day worked. The first payment shall be made one month after the disablement occurs provided the employee is not then in receipt of salary. Length of time on disability is limited to a maximum of 25 percent of the employee's total service or five years, whichever occurs first.

The Plan contributes salary deductions for annuity purposes for the ordinary disability benefit. Such amounts contributed by the Plan after December 31, 2000, while the employee is receiving ordinary disability benefits, are not refundable to the employee and will be used for annuity purposes only.

Other Post-Employment Benefit: Group Health Hospital And Surgical Insurance Premiums

The pension plan shall provide payments in the amount of $85 per month for non-Medicare eligible city annuitants (defined in section 164.1 of Article 8 of the Illinois Pension Code as persons receiving an age and service annuity, a widow's annuity, a child's annuity, or a minimum annuity as a direct result of previous employment by the City of Chicago) and $55 per month for Medicare eligible city annuitants from July 1, 2003, through June 30, 2008. Thereafter, the pension plan shall provide payments in the amount of $95 per month for non-Medicare eligible city annuitants and $65 per month for Medicare eligible city annuitants from July 1, 2008, through June 30, 2013.

The city health care plans referred to above and the Board’s payments to the city for such plans are not and shall not be construed to be pension or retirement benefits for the purposes of Section 5 of Article XIII of the Illinois Constitution of 1970.

Should the Board of Education continue to sponsor a retiree health plan, the Board is authorized to provide payments to the Board of Education, on behalf of each eligible annuitant who chooses to participate in the Board of Education retiree health benefit plan, in the amount of $85 per month for non-Medicare eligible participants and $55 per month for Medicare eligible participants from July 1, 2003, through June 30, 2008. Thereafter, the Board is authorized to provide payments to the Board of Education, on behalf of each eligible annuitant who chooses to participate in the Board of Education retiree health benefit plan, in the amount of $95 per month for non-Medicare eligible participants and $65 per month for Medicare eligible participants from July 1, 2008, through June 30, 2013.

The Board of Education health benefit plan referred to above and the Board’s payments to the Board of Education for such plan are not and shall not be construed to be pension or retirement benefits for the purposes of Section 5 of Article XIII of the Illinois Constitution of 1970.

Refunds

To Employees

An employee who resigns before age 55, or before age 60 with less than 10 years of service is entitled to all salary deductions accumulated with interest to date of resignation, plus the 0.50 percent deducted for annuity increase purposes without interest.

To Estate

Amounts contributed by an employee, excluding the 0.50 percent deductions for annuity increase, that have not been paid out as annuity, are refundable to his or her estate, with interest either to the date of retirement or death, if the employee died in service.

Refund in Lieu of Annuity

If the annuity of an employee or spouse is less than $800 a month, the employee or spouse may elect to receive a refund, as above, in lieu of an annuity.

Spouses' Annuity Contributions

If unmarried at the time of retirement, the employee is entitled to a refund, with interest, of contributions made for the spouse's annuity.

Disability Deductions

The employee's pension deductions paid by the city while the employee is receiving duty disability benefits are no longer refunded to the employee if the duty disability was granted after December 31, 1981, or if the ordinary disability was granted after December 31, 2000. These deductions are now used only for annuity purposes.

Deductions And Contributions

Covered employees are required to contribute 8.50 percent of their salary to the Plan.

The City shall annually levy a tax which, when added to the amounts deducted from the salaries of the employees, or otherwise contributed by them, will be sufficient for the requirements of the Plan. The tax will produce an amount that does not exceed the 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 for the year 1999 and each year thereafter. The total amount of contributions by the employees shall not include contributions for service credit purchases under Section 8-138.4 for purposes of establishing the tax levy amount.

When the balance of the prior service reserve equals its liabilities (including in addition to all other liabilities, the present value of all annuities, present and prospective, according to the applicable mortality tables and rates of interest), the City shall cease to contribute the amounts to provide prior service annuities and other annuities and benefits.

Tax Shelter Of Employee Salary Deductions

Beginning January 1, 1982, the City employee salary deductions were designated for income tax purposes as made by the employer. The W-2 salary is therefore reduced by the amount of contributions. For pension purposes gross wages remain unchanged. Income tax will be paid when a refund or annuity is granted. For the purposes of benefits, refunds, or financing, these contributions are treated as employee contributions. Beginning September 20, 1981, the Board of Education paid contributions in the amount of 7.00 percent of the employee’s salary. The 1985 amendments contained a provision whereby the amount of pick-up, if any, is included in the pensionable salary for contributions and benefits. Such provision was retroactive to September 20, 1981.

Beginning May 28, 2000, the remainder of contributions due for Board of Education employee salary deductions was designated for income tax purposes to be made by the employer and treated in the same manner as City employee salary deductions. Effective January 16, 2004, the Fund may allow the employee to designate any optional contribution amounts that he has elected to pay to the Fund as employer contributions for income tax purposes. The contributions shall be made by the employer through a reduction in payroll to the employee and the election to have the employer make the optional contributions is irrevocable. For the purposes of benefits, refunds, or financing, these contributions are treated as employee contributions.

Legislative Changes in Plan Provisions 1979 through 2006

1979 Session

SB 964

- Disability benefit for chronic alcoholism, pregnancy, or childbirth.

HB 1023

- Reciprocal Act: changes proportionate pension credits under the "alternative formula."

HB 2012

- Under IRS Code Section 414(h), employer may pick up the employee contributions for all compensation earned after December 31, 1980, by a reduction in the cash salary or an offset to a future salary increase or by a combination of both.

1980 Session

HB 3635

- Reversed all changes made by HB 2012 and put the pick-up section as a new paragraph; they are treated as employee contributions for all purposes, including refunds and determination of the tax levy.

Spring 1981 Session

SB 21

- Actuarial Reporting Standards.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

SB 851

- Authorizes investments in conventional mortgage pass-through securities.

SB 879

- Financial statement required by Department of Insurance within six months and actuarial statement within nine months; $100 penalty per day if late.

HB 212

- Eliminates refund of City contributions made while an employee is receiving duty disability benefits.

HB 213

- $200 refund in lieu of annuity

HB 215

- Authorizes securities lending.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

Spring 1982 Session

SB 1147

- Minimum reporting and actuarial information for 1984.

SB 1180

- Board of Education may incur an obligation to "pick up" employee contributions. These contributions may be paid by a special Pension Contribution Liability Tax. If levied, no payment is required until actual collection of the tax.

SB 1452

- Provides that an active member of the General Assembly who was employed by the City of Chicago by temporary appointment or in an exempt position, and could have elected to participate in the Plan but did not so elect, may establish credit for such service by making the required contribution.

SB 1579

- Expanded fiduciary standards, prohibited transactions, civil action may be brought by Attorney General or by a participant; list of permitted investments moved to general section of the statute.

HB 740

- Pension credit may be established for services rendered for a transportation system operated by a public utility prior to the establishment of the CTA.

HB 2286

- Allows persons who withdrew from service or became eligible for survivors' benefits in 1981 and who receive a monthly annuity between $100 and $200 to elect a refund in lieu of annuity.

Spring 1983 Session

SB 22

- Delegation of investment authority restrictions.

HB 380

- Maximum survivor annuity from $400 to $500; 10 percent increase in duty disability benefit January 1 of the sixth year.

HB 514

- 10.00 percent prudent person investment category.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

HB 637

- Allows an active member of the General Assembly to establish credit in this plan for time for which he or she could have elected to participate with interest at 6.00 percent and to transfer credits to the Park Fund.

HB 1144

- Revises provision allowing a person who withdrew from service or began receiving a widow's annuity in 1981 to elect to receive a refund in lieu of annuity by extending the deadline for election by one year to March 1, 1984, and by raising the amount subject to refund to $250 per month.

- 3.00 percent post-retirement annuity increase for those who qualify.

- Mandatory coverage for all employees in temporary positions.

- Reversionary annuity revisions - table of factors.

- Credit for Executive Director of Chicago Land Clearance Commission or Chicago Dwellings Association or for service as administrator of Illinois--Indiana Bi-State Commission--if certain contributions are made before April 1, 1984.

Federal Law and Regulation or Supreme Court Decision

For an employee under the age of 70 who commences disability on or after attainment of age 60 in service, the ordinary disability benefit payments shall not exceed in the aggregate throughout the employee's service a period equal to 1.4 of the total service rendered prior to the date of the disability but no more than five years or age 70, whichever is earlier. The duty disability payments shall be payable for a period of five years or age 70, whichever occurs first.

For 3.00 percent annuities fixed on or after August 1, 1983, the "Combined Annuity Mortality Table" shall continue to be used; however, widows' single life annuities and reversionary annuities shall be computed using the best factor (the factor producing the highest annuity, not depending upon sex).

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

1984 Session

- Illinois Public Employees' Pension Laws Commission abolished.

1985 Session

HB 561

- 1.80, 2.00, 2.20, 2.40 percent benefit accrual rate for those born before January 1, 1936, and retiring after July 18, 1985.
- Reduction in age discount factor (employee and widow) from 0.50 percent to 0.25 percent for employees born before January 1, 1936, and retiring after July 18, 1985.
- Health insurance supplement up to $25 per month if the employee is age 65 or older with at least 15 years of service (for each employee annuitant in receipt of annuity and for each employee who retires on annuity in the future).
- Disability provisions extended to age 70 in certain cases.
- Unisex money purchase factors for widows/widowers.
- Membership provisions extended to age 70.
- Board of Education employee contribution "pick up" included in the definition of salary for contribution and benefit purposes (retroactive).

1986 Session

HB 2630

- Beginning for retirement or death in service on or after January 23, 1987, the spouse dollar cap is eliminated.
- Beginning for retirement on or after January 1, 1987, the first annuity increase will begin on the first annuity payment date following the first anniversary of retirement or age 60 if later.

1987 Session

HB 2715

- 1.80, 2.00, 2.20, 2.40 percent benefit accrual rates for those born on or after January 1, 1936, and retiring on or after January 1, 1988.
- Reduction in an age discount factor (employee and widow) from 0.50 percent to 0.25 percent for employees born on or after January 1, 1936, and retiring or dying in service on or after January 1, 1988. No discount for employee age less than 60 if employee has at least 35 years of service.
- Minimum employee annuity of $250 and minimum spouse of $200 under certain conditions.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

- Elimination of cap on maximum widow's annuity for spouses of certain retired employees with repayment of any "excess spouse" refund.
- Change amount of children's benefits to $120 or $150, effective January 1, 1988.
- Provides for certain "Good Government" initiatives.

1988 Session

No legislative changes.

1989 Session

SB 95

- Signed August 23, 1989. Changed the amount of plan paid health insurance "supplement" from January 1, 1988, until December 31, 1992, to $65 per month for each annuitant not qualified to receive Medicare benefits (and $35 if qualified) and from January 1, 1993, until December 31, 1997, the amounts are $75 and $45, respectively. Widows will now be supplemented and employee annuitants will no longer be required to meet the age 65 and 15 years of service requirements. The City will be required to pay 50 percent of the aggregated cost of health care claims for the retired group under all health care plans offered by the City. A procedure was established for the City to determine, with the help of an independent actuary, the aggregate cost of claims and premiums for each calendar year from 1989 through 1997 for the retired group.

HB 332

- Signed August 23, 1989. Eliminated age-related discriminatory provisions as required by Federal law or regulation. Provided for Age Discrimination changes effective January 1, 1988, to eliminate age 65 requirements for marriage in service and children's benefits, provided contributions after age 65 for spouse benefits, provided employee accumulation annuities be computed after age 70, provided employee and spouse accumulation annuities not be "fixed" at age 65, provided no age 70 restriction on disability benefits, provided for active members over age 65 that their accounts be "unfixed" and accumulate interest until the date of withdrawal, and provided that there be no age 70 membership limitation and removed the permitted "no spouse" refund at age 65.

- Allow for local labor officials on a leave of absence from the Plan to contribute for their service as a local labor official.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

1990 Session

SB 136

- Amends Chapter 120, Paragraph 671 of the Revenue Act to provide for a separate listing on the tax bill of the dollar amount of tax due from the person assessed which is allocable to a tax levied under the Illinois Pension Code, or any other tax levied by a municipality or township for public pension or retirement purposes. Effective January 1, 1990.

SB 1951

- Signed January 14, 1991. Beginning for withdrawals on or after January 1, 1991, annuity payments will be made as of the first day of the calendar month during the annuity payment period.
- percent benefit accrual rate for employees retiring on or after July 1, 1990.
- No discount for employee age less than 60 if employee has at least 30 years of service and retires on or after July 1, 1990.
- Minimum employee annuity of $350 and minimum spouse of $300 under certain conditions.
- Spouses and widows of employees retiring or dying in service on or after July 1, 1990, with 20 or more years of service at age 55 or over will be eligible for half of the employee's annuity discounted 0.25 percent for each month the spouse or widow is less than 55.
- Retroactive eligibility for 35 years no discounts and spouse and widow annuities computed as half of employee annuity.
- Refund in lieu of $300 annuity.
- Disability benefit retroactive one year from application; duty disability deductions in lieu for heart attack or stroke.
- An alternative plan for elected officials of 3.00 percent of salary for the first eight years, 4.00 percent for the next four years and 5.00 percent thereafter, subject to a maximum of 80 percent, is available. The elected official must contribute an additional 3.00 percent of salary to receive these benefits. This plan also includes alternative widow and disability benefit formulas. This plan will become effective upon approval from the IRS.
- Collateral for securities lending expanded.
- Fractional payment for refund repayment and temporary service authorized. Credit established by fractional payment shall be earliest service for which credit may be established.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

1991 Session

HB 971

- Signed November 19, 1991. Eligibility for the alternative plan for elected officials was extended to persons who hold office as a City officer on April 30, 1991, until 30 days after the date the plan takes effect, notwithstanding the ending of his term of office prior to that effective date.

1992 Session

SB 1650 Signed January 25, 1993.

- Transfer provisions for County elected officers and judges.
- Early Retirement Incentive was created for withdrawals from December 31, 1992, to June 30, 1993.
- Requires a total of 20 years of service (with at least 10 in this plan, five in a Reciprocal plan and up to five purchased under ERI).
- Requires age 55 or older.
- Requires an election form to be filed before June 1, 1993.
- Retired under this Article.
- Provides for elimination of the age discount for employees 55-60.
- Provides for 80 percent maximum final average salary compared to the present 75 percent.
- Provides for an optional purchase of up to five years of service credit for 4.25 percent of the November 1, 1992, salary.
- Provides for a 24-month option to pay for ERI service.
- Provides for a tax levy derived from ERI contributions.

1993 Session

No legislative changes.

1994 Session

No legislative changes.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

1995 Session

SB 114

- Approved July 14, 1995.
- The amount of earnings that may be taken into account by any retirement system is limited to the maximum dollar limitation specified in Section 401(a)(17) of the Internal Revenue Code, except for persons who became Members before 1996.
- The Plan is authorized to make certain involuntary distributions required by Section 401(a)(9) of the Internal Revenue Code.

SB 424

- Approved July 7, 1995.
- The Pension Laws Commission was created as a legislative support services agency.

1996 Session

SBJPA

- On August 20, 1996, the Small Business Job Protection Act was signed by President Clinton.
- Treatment of governmental plans under Code Section 415:
- Rule limiting annual benefit to 100 percent of the average of the highest three-year compensation no longer applies.
- Excess benefit plans are permitted to provide Members with benefits in excess of the Code Section 415 limits.
- Early retirement reduction does not apply to certain survivor and disability benefits.
- The definition of compensation now includes elective deferrals.
- Taxation of distributions:
    - $5,000 death benefit exclusion was repealed for deaths after August 20, 1996.
    - Five-year averaging for lump sum distributions was repealed effective January 1, 2000.

  Annuity payments will be taxed according to a simplified general rule, which uses investment and age as of annuity starting date for annuities, which start on or after November 19, 1996.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

1997 Session

HB 15

- Approved June 27, 1997.
- For withdrawals from service occurring on or after July 1, 1990, an alternate method of calculating salary using the annual equivalent of average salary instead of the salary rate applicable for the greatest part of the year is allowed.
- Annuities effective on or after January 1, 1998, will be payable on the first day of the calendar month.
- The prudent person rule for investing is allowed.
- An eligible employee is allowed to contribute for all periods of temporary service while still in City service, for up to 90 days after withdrawal from City service, or while in reciprocal service.
- The Board is allowed to adopt rules prescribing the manner of repaying refunds and purchasing any optional credit including accepting rollovers for payments.
- The City is allowed to use deposits from any legal source (including borrowing) in lieu of all or part of the tax levy on or after June 27, 1997.

HB 313

- Approved June 27, 1997. For withdrawals from service occurring on or after June 27, 1997, an employee (or surviving spouse) age 50 or over with at least 30 years of service is eligible to receive an annuity based on the minimum annuity formula.
- For withdrawals from service occurring on or after June 27, 1997, an employee under age 60, with at least 25 years of service, is not subject to an age discount.
- The surviving spouse of a retiree dying on or after June 27, 1997, while receiving an annuity is eligible for one-half of the employee's annuity at death, discounted for spouse's age under 55 at the time of employee's death.
- Beginning June 27, 1997, employees already receiving annuity will receive a minimum annuity of $550 for life (reciprocal annuitants must have at least five years of Municipal service). Any future employee annuitant withdrawing from service after attainment of age 60 with 10 or more years of service would qualify for this minimum.
- Beginning June 27, 1997, widow(er)s already receiving annuity will receive a minimum annuity of $500 for life (reciprocal annuitants must have at least five years of Municipal service). For future spouses of retirees, 10 years of service is required. For spouses of employees dying in service in the future, five years of service is required.
- Beginning June 27, 1997, the child's annuity will be increased to $220 per month if the spouse of the deceased employee parent survives or $250 per month if no such spouse survives.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

- Coverage in the City group health insurance is extended through June 30, 2002, with some modification in the plans offered. Pension plan supplement remains $45 and $75 for Medicare eligible and non-Medicare eligible annuitants respectively.
- Spouses of employees dying in service after age 50 on or after June 27, 1997, will be eligible to receive 50 percent of the annuity that the employee would have received. This annuity will be reduced by 0.25 percent per month for each month that the spouse is below the age of 55.
- Spouses of employees dying after retirement on or after June 27, 1997, will be eligible to receive 50 percent of the employee's annuity at death. This annuity will be reduced by 0.25 percent per month for each month that the spouse is below the age of 55.

HB 1641

- Approved August 22, 1997.
- Beginning August 22, 1997, for surviving spouses of employees who retired or died in service before January 23, 1987, the previous $300, $400, or $500 maximum spouse annuity limitation is removed. If an excess spouse refund was paid, it must be repaid with interest.
- Service paid under Section 8-230 can be counted for ordinary disability purposes for periods of disability on or after August 22, 1997.
- Early Retirement Incentive was created for withdrawals from December 31, 1997, to June 30, 1998.
- Requires an election form to be filed before June 1, 1998.
- Requires a member to be a current contributor on November 1, 1997, and have not previously retired under this Article.
- Provides for elimination of the age discount for employees age 55 to 60.
- Provides for 80 percent maximum final average salary compared to the present 75 percent.
- Provides for an optional purchase of up to five years of service credit for 4.25 percent of the November 1, 1997, salary.
- Provides for a 24-month option to pay for ERI service
- Provides for a tax levy derived from ERI contributions.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

1998 Session

HB 3515

- Approved August 14, 1998.
- Beginning January 1, 1999, the automatic increase for employee annuitants changed to 3.00 percent compounded for all past, current, and future annuitants regardless of the effective date of the annuity. Term annuities are not eligible for the increase.
- Employees withdrawing after January 1, 1999, will be eligible for the minimum formula upon attainment of age 60 if they have at least 10 years of service.
- Beginning January 1, 1999, employees already receiving an annuity as of August 14, 1998, will receive a minimum annuity of $850 for life (reciprocal annuitants must have at least five years of Municipal service). Any future employee annuitant withdrawing from service after August 14, 1998, after attainment of age 60 with 10 or more years of service would qualify for this minimum.
- Beginning January 1, 1999, widow(er)s already receiving annuity as of August 14, 1998, will receive a minimum of $800 for life (reciprocal annuitants must have at least five years of Municipal service). For future spouses of retirees dying after August 14, 1998, 10 years of service is required. For spouses of employees dying in service after August 14, 1998, five years of service is required.
- The conditions of the reversionary option were changed as follows:
- The nullification of reversionary payment due to employee dying was reduced to 365 days after written designation was filed with the board and now applies only to parents, children, and siblings (not spouses).
- Employees may reduce their monthly annuity by as much as $400.
- The increased annuity for spouse may now be as much as 100 percent of the reduced employee annuity.
- Spouses and widows that are eligible for the "50 percent employee amount" will no longer have this amount reduced for under age 55 if the employee dies on or after January 1, 1998, and withdrew from service on or after June 27, 1997, and the employee retired after age 55 with at least 25 years of service or after age 50 with at least 30 years of service. The age discount will only apply if the spouse is under age 50.
- The child of an annuitant who withdraws after January 1, 1998, having attained age 50 with at least 30 years of service is eligible for a child annuity upon the death of the annuitant.
- The required employer multiple has been set at 1.25 for 1999 and beyond.
- Money deposited under 5/8-173(f) may be used by the plan for any of the purposes for which the proceeds of the tax levied by the city under this section may be used.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

- An employee or former employee may pay and receive credit for all periods of full-time employment by the Public Building Commission as long as they are not receiving credit for the same service from another retirement system. Employee must pay employee and employer contributions based on the salary received from the Public Building Commission for employment. Repayment must be made before annuity begins.
- Annuitants may authorize a portion of their annuity to be withheld for payment of dues to the labor organization by which they were represented. A minimum of 25 annuitants must choose an organization for it to be included in this plan.

HB 1612

- Effective July 1, 1999, Qualified Illinois Domestic Relations Orders were recognized.

1999 Session

No Changes

2000 Session

HB 1583

- Approved July 6, 2000.
- An employee or widow whose annuity would amount to less than $800 per month may elect to receive a refund in lieu of annuity. Formerly, only employees and widows whose annuity would be less than $300 per month could choose a refund.
- The reversionary annuity tables have been extended down to age 50 from age 55 to comply with the change in the law allowing retirement at age 50 with 30 years of service.
- The Board is allowed to pay an annuity (if the person qualifies) directly to a Medicare approved, State certified nursing home or to a publicly owned and operated nursing home, hospital, or mental institution. Each person must qualify under the provisions of this amendment.
- Annuities of widows who remarry on or after the date 60 days after the effective date of this amendment would not be terminated upon remarriage.
- For annuities effective before January 1, 1998, all annuity payments will be made on the first day of the calendar month, for the entire month without proration.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

2001 Session

EGTRRA

- On June 7, 2001, the Economic Growth and Tax Relief Reconciliation Act of 2001 was signed by President Bush.
- Beginning January 1, 2002, payments for eligible optional service credits may be made with funds rolled over from a 457 deferred compensation plan or a 403(b) tax deferred annuity plan (if allowed by the 457 or 403(b) plan).

2002 Session

SB 314

- Effective July 1, 2002.
- The accrual rate for the minimum formula annuity is changed from 2.20 percent to 2.40 percent of final average salary and the maximum annuity is changed from 75 percent to 80 percent of final average salary for employees withdrawing from service on or after January 1, 2002.
- The 3.00 percent post-retirement automatic increase will now begin no later than three years after retirement for an eligible retiree (An eligible retiree is an employee annuitant, not a widow or widower annuitant, originally granted a lifetime annuity). For eligible retirees less than age 60 on the first anniversary of retirement, the 3.00 percent increase will begin at the earlier of age 60, and the latest of the following dates:
    - The third anniversary of retirement
    - The attainment of age 53; or
    - January 1, 2002
    - For eligible retirees age 60 or older on the first anniversary of retirement, the 3.00 percent increase will begin on the first anniversary of retirement.

HB 5168

- Effective June 28, 2002.
- For the eligible spouse of an employee who dies in service on or after August 28, 2002, with at least 10 years of service, the annuity is no less than 50 percent of the minimum formula annuity the employee would have been entitled to based on service and salary to the date of death without regard to age eligibility requirements. This is equal to 2.40 percent of final average salary for each year of service. The employee and the spouse must have been married for ten years.
- For children of employees who die in service on or after June 28, 2002, there is no service requirement for eligibility for children's annuity.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

- The definition of "child" now includes any child adopted before employee withdraws from service and at least one year prior to the date any benefit for the child accrues. Previously the adoption also had to take place before the employee attained age 55.
- For ordinary disability benefits paid on or after January 1, 2001, the ordinary disability benefit is 50 percent of the employee's salary at the date of disability with the amounts ordinarily contributed by the employee for annuity purposes contributed by the Plan. These contributions are not refundable.
- The pension plan subsidy for retiree health insurance was extended through June 30, 2003. For annuitants (older than child annuitants) taking the employer-provided plan, the subsidy is $75 per month if the annuitant is not eligible for Medicare, and $45 per month if the annuitant is eligible for Medicare.
- Current and former Chicago Housing Authority employees who have service in this Plan or who reinstate service in this Plan may elect to participate in this Plan with respect to their employment with the Chicago Housing Authority under certain conditions. Contributions can be made for past service as well as current service.
- Current and former Public Building Commission employees who have service in this Plan or who reinstate service in this Plan may elect to participate in this Plan with respect to their employment with the Public Building Commission under certain conditions. Contributions can be made for past service as well as current service.

- An employee with 10 years of service in this Plan may establish service credit for up to seven years of full-time employment by the Illinois Housing Development Authority.
- The City Clerk and City Treasurer may elect to establish alternative credits in the Aldermanic Plan.
- Chicago aldermen may receive an annuity at age 55 with 10 years of service or age 60 with eight years of service.
- An alderman in service on June 1, 1995, can make payments for prior service up to 30 days after the effective date, even though he might be out of service or retired.
- A member of the Plan who has service in Police Fund may apply to Police to transfer his credits and service to Municipal under certain conditions. This must be done within 90 days of the effective date. Employee and employer contributions will be transferred.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

2003 Session

SB 1701

- Effective July 1, 2003.
- The healthcare benefits were extended and increased to $85 per month for non-Medicare eligible participants and $55 per month for Medicare eligible participants for the period from July 1, 2003, through June 30, 2008. Thereafter, the benefits are extended and increased from $85 to $95 and $55 to $65 for the period July 1, 2008, to June 30, 2013.
- The healthcare benefits referred to above are not and shall not be construed to be pension or retirement benefits for the purposes of Section 5 of Article XIII of the Illinois Constitution of 1970.

2004 Session

HB 600

- Effective January 16, 2004.
- Early Retirement Incentive was created for withdrawals from January 31, 2004, to February 29, 2004 (or to May 31, 2004, for those deemed critical employees).
- Requires an election form to be filed before January 31, 2004.
- Requires a member to be a current contributor who has not previously retired under this Article and satisfy one of the following:
  - Active as of October 15, 2003
  - Returned to active from approved leave of absence prior to December 15, 2003
  - Receiving ordinary or duty disability benefits as of October 15, 2003
  - Restored to service by January 31, 2004, after having been involuntarily laid off
- Requires that employees that reenter service forfeit their right to receive benefits and will have their benefits recalculated at the time of retirement excluding the benefits provided under the ERI.
- Requires that the participant is age 50 with ten years of creditable service in this Fund and have 70 combined years of age and service, with service in one or more systems under the Reciprocal Act (excluding service purchased under the ERI).
- Provides for elimination of the age discount for employees younger than age 60.
- Provides for an optional purchase of up to five years of service credit for 4.25 percent of the monthly salary rate in effect October 15, 2003.
- Provides for a 24-month option to pay for ERI service.
- Provides for the exclusion of ERI contributions from the base from which the tax levy is derived.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

- Allows Board members to continue until the end of their terms without forfeiting the benefits provided by the early retirement incentive.
- Provides for a lump sum benefit option of 100 percent of salary at retirement and an actuarially reduced monthly annuity for those employees who were eligible for the maximum benefit (excluding purchased service under the ERI)
- Automatic increases in annuities will now take effect in the January of each year in which they are to be provided.
- An employee who previously withdrew contributions from the Fund, may have his rights under the Fund restored after repaying the withdrawn contributions with interest after completing the required amount of service after the date of refund. The required service is:
- 90 days of service under this Fund or
- Two years of service under any participating Fund under the Reciprocal Act.
- Municipality credits earned in this Fund shall be transferred to the Firemen's Annuity and Benefit Fund of Chicago with 11.00 percent interest compounded annually to the date of the transfer for former paramedics who are now covered under the Firemen's Annuity and Benefit Fund.
- Employees may elect to have their optional contributions "picked-up" by the employer, to be treated as employer contributions for tax purposes. The employee election is irrevocable.
- For the eligible spouse of an employee who died in service on or after January 1, 2002, and before August 28, 2002, with at least 10 years of service, the annuity is no less than 50 percent of the minimum formula annuity the employee would have been entitled to based on service and salary to date of death without regard to age eligibility requirements. This minimum formula annuity is equal to 2.40 percent of final average salary for each year of service. The employee and spouse must have been married for ten years.

Legislative Changes in Plan Provisions 1979 through 2006 (continued)

2005 Session

SB 23

- Approved June 27, 2005.
- Prohibits the investment or deposit from the retirement system or pension fund to certain entities doing business in or with the government of the Republic of the Sudan. Fund managing companies must certify that under Section 1-110.5 of the pension code that they have not loaned to, invested in, or otherwise transferred any of the pension fund assets to a forbidden entity.

SB 253

- Approved August 4, 2005.
- Provides, that to qualify as an "emerging investment manager", the maximum value of an investment portfolio that a manager manages is $2,000,000,000 (was $400,000,000).

SB 1446

- Approved August 22, 2005.
- Provides for various changes in provisions and procedures concerning Qualified Illinois Domestic Relations Orders. Allows for alternate payee's benefit to be based on a percentage of employee's benefit. Effective July 1, 2006.

HB 227

- Approved August 22, 2005
- Provides a benefit to a spouse married to the employee after retirement under certain conditions.

2006 Session

No Changes