

**Laborers' and Retirement Board Employees'
Annuity and Benefit Fund of Chicago
Minutes of Regular Board Meeting No. 997**

May 22, 2018

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**LABORERS' & RETIREMENT BOARD EMPLOYEES'
ANNUITY & BENEFIT FUND OF CHICAGO**

May 22, 2018

Report of Meeting No. 997 held on May 22, 2018, starting at 1:11 p.m. at the office of the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago ("Fund" or "LABF"). The following notes attendance:

Board Members:	Victor Roa	– President (Union Appointed Member)
	Erin Keane	– Vice President (City Comptroller, City of Chicago)
	Michael LoVerde	– Secretary (Active Employee Elected Member)
	Kurt Summers, Jr.	- (City Treasurer, City of Chicago)
	James Capasso, Jr.	– Trustee (Annuitant Elected Member)
	James Joiner	– Trustee (Active Employee Elected Member)
Staff & Consultants:	Graham Grady	– Taft Stettinius & Hollister LLP, Fund's Counsel
	Dr. Terence Sullivan	– Fund's Physician
	James Wesner	– Marquette Associates, Fund's Investment Consultant
	Kweku Obed	– Marquette Associates, Fund's Investment Consultant
	Neil Capps	– Marquette Associates, Fund's Investment Consultant
	Alex Rivera	– Gabriel, Roeder, Smith & Company, Actuary
	Ryan Gundersen	– Gabriel, Roeder, Smith & Company, Actuary
	Jenna March	– Gabriel Roeder Smith & Company, Fund Actuary
	Michael Walsh	– Executive Director and Chief Investment Officer
	Peggy Grabowski	– Comptroller
	John Carroll	– Compliance Administrator
	Nadia Oumata	– Manager of Accounting and Investments
	Tina Rhoten	– Benefits Manager
	Paul Rzeszutko	– Assistant Benefits Manager
	Nicole Evangelista	– Payment Services Coordinator
	Irene Velazquez	– Payment Services Assistant
Absent:	Carol Hamburger	– Trustee (Managing Deputy Comptroller, City of Chicago)
	Carole Brown	– Trustee (Chief Financial Officer, City of Chicago)
Observers:	Brinton Siverly, City of Chicago	
	Steven Yoon, Municipal Employees' Annuity and Benefit Fund of Chicago	

President Roa determined that a quorum was present after Secretary LoVerde took attendance.



*Laborers' and Retirement Board Employees'
Annuity and Benefit Fund of Chicago*

Board Members:

I am transmitting herewith the minutes for the meeting of the Retirement Board which was held on **May 22, 2018**. The minutes are comprised of the following:

- Public Participation
- Approval of Minutes from Prior Meetings
- Schedule A: Applications for Refunds
 - 1. Refund of Contributions Due to Separation from Service
 - 2. Miscellaneous Refunds
- Schedule B: Applications for Annuities
- Schedule B continued: Applications for Annuities
 - 1. Employee Annuities
 - 2. Spouse and Child Annuities
- Schedule C: Adjustment Refunds to New Annuitants
- Schedule D: Applications for Duty Disability Benefits
- Schedule E: Applications for Ordinary Disability Benefits
- Schedule F: Applications for Extension of Duty Disability Benefits
- Schedule G: Applications for Extension of Ordinary Disability Benefits
- Schedule H: Payment of Uncashed Checks of Deceased Members
- Schedule I: Payment of Administrative Expenses
- Gabriel, Roeder, Smith & Company Presentation
- Investments Report
- Executive Session No. 1
- Executive Session No. 2
- Administrative Report
- Legal Report
- Executive Session No. 3
- Adjournment

All the foregoing matters were checked upon receipt in the office of the Retirement Board and were found to be hereinafter set forth.

Sincerely,

[Redacted Signature]

Michael R. LoVerde
Retirement Board Secretary

**LABORERS' & RETIREMENT BOARD EMPLOYEES'
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PUBLIC PARTICIPATION

None.

APPROVAL OF MINUTES FROM PREVIOUS MEETINGS

It was moved by Trustee LoVerde, seconded by Trustee Joiner, that the regular minutes of Meeting No. 996 held on April 17, 2018 be approved as submitted.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Capasso and Joiner.
Against -- None.

It was moved by Trustee LoVerde, seconded by Trustee Capasso, that the minutes of Executive Sessions 1, 2, 3 and 4 of Meeting No. 996 held on April 17, 2018 be approved as submitted.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Capasso and Joiner.
Against -- None.

SCHEDULE A – APPLICATIONS FOR REFUNDS

1. Refund of Contributions Due to Separation from Service

It was moved by Trustee Capasso, seconded by Trustee LoVerde, that the applications presented for Refunds of Contributions Due to Separation from Service be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Capasso and Joiner.
Against -- None.

2. Miscellaneous Refunds

None.

Trustee Summers arrived at 1:12 p.m.

SCHEDULE B – APPLICATIONS FOR ANNUITIES

1. Employee Annuities

Mr. Walsh reviewed the starred case pertaining to the reinstatement of the annuity benefits for Charles D. Settino. Mr. Walsh noted that Mr. Settino's annuity with LABF started in 1992 and was later suspended by LABF in 1997 because Mr. Settino went to work for the Chicago Park District which was deemed an Employer whose employees participated in the LABF. Consistent with the applicable provisions of the Illinois Pension Code, LABF's practice in these situations has always been to suspend benefits when an employee goes to work for an entity deemed an Employer and only reinstate the benefits if the employee subsequently terminates employment with the related Employer. Since Mr. Settino has subsequently stopped working at the Chicago Park District, it was Fund staff's recommendation to reinstate Mr. Settino's annuity effective March 1, 2018. Mr. Walsh also reminded the Trustees of LABF's definition of Employer which was reviewed in 2017.

It was moved by Trustee Capasso, seconded by Trustee LoVerde, that the applications for Employee Annuities be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso and Joiner.
Against -- None.

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2. Spouse and Child Annuities

Fund staff recommended that the Board approve the Child's Annuities associated with Member #70008, a Tier 2 member, and, pending additional review, Fund staff will provide a recommendation regarding a possible Widow's Annuity at a future meeting.

It was moved by Trustee LoVerde, seconded by Trustee Keane, that the applications for Spouse and Child Annuities be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso and Joiner.
Against -- None.

SCHEDULE C – ADJUSTMENT REFUNDS TO NEW ANNUITANTS

It was moved by Trustee LoVerde, seconded by Trustee Joiner, that the Adjustment Refunds to New Annuitants be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso and Joiner.
Against -- None.

SCHEDULE D – APPLICATIONS FOR DUTY DISABILITY BENEFITS

It was moved by Trustee LoVerde, seconded by Trustee Joiner, that the applications for Duty Disability Benefits be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso and Joiner.
Against -- None.

SCHEDULE E – APPLICATIONS FOR ORDINARY DISABILITY BENEFITS

It was moved by Trustee LoVerde, seconded by Trustee Summers, that the applications for Ordinary Disability Benefits be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso and Joiner.
Against -- None.

SCHEDULE F – EXTENSION OF DUTY DISABILITY BENEFITS

It was moved by Trustee LoVerde, seconded by Trustee Capasso that the applications for Extension of Duty Disability Benefits, be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso and Joiner.
Against -- None.

SCHEDULE G – EXTENSION OF ORDINARY DISABILITY BENEFITS

It was moved by Trustee LoVerde, seconded by Trustee Joiner, that the applications for Extension of Ordinary Disability Benefits be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso and Joiner.
Against -- None.

SCHEDULE H – PAYMENT OF UNCASHED CHECKS OF DECEASED MEMBERS

None.

SCHEDULE I – PAYMENT OF EXPENSES

It was moved by Trustee Joiner, seconded by Trustee LoVerde, that Administrative and Investment Invoices be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso and Joiner.
Against -- None.

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PRESENTATION BY GABRIEL, ROEDER, SMITH & COMPANY

Alex Rivera and Ryan Gundersen, of Gabriel, Roeder, Smith & Company, reviewed with Trustees a summary of the 2017 actuarial valuation and GASB 67/68 reports. See attached documents.

INVESTMENTS REPORT

Market Tracker

Mr. Obed reviewed April 2018 market performance.

1st Quarter 2018 Performance Report

Mr. Wesner reviewed the 1st Quarter 2018 Performance Report.

April 30, 2018 Preliminary Performance Report

Mr. Wesner reviewed the Fund's April 30, 2018 Preliminary Performance Report.

Watch List

This topic was discussed in executive session.

EXECUTIVE SESSION NO. 1

At 2:10 p.m., Trustee LoVerde requested an executive session under 5 ILCS 120/2(c)(7) to discuss the sale or purchase of securities, investments or investment contracts. Trustee Capasso seconded the motion.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso and Joiner.
Against -- None.

At 2:20 p.m., Trustee LoVerde made a motion, seconded by Trustee Joiner, that the executive session be adjourned and that the Board return to open session.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso and Joiner.

This vote was taken out of order. It was moved by Trustee LoVerde, seconded by Trustee Joiner, to place Progress Investment Management on the Watch List due to organizational changes.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso, Summers and Joiner.
Against -- None.

Asset Allocation Follow-Up/Implementation

This topic was discussed in executive session.

EXECUTIVE SESSION NO. 2

At 2:20 p.m., Trustee LoVerde requested an executive session under 5 ILCS 120/2(c)(7) to discuss the sale or purchase of securities, investments or investment contracts. Trustee Keane seconded the motion.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso and Joiner.
Against -- None.

At 2:30 p.m., Trustee LoVerde made a motion, seconded by Trustee Summers, that the executive session be adjourned and that the Board return to open session.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Summers, Capasso and Joiner.
Against -- None.

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ADMINISTRATIVE REPORT

Legislative Matters

Mr. Walsh reviewed the status of House Bill 4811, which was, in part, a trailer bill to P.A. 100-0023, and noted that the Bill had passed both the House and Senate and was ready to be sent to the Governor for signature. Mr. Walsh also reminded the Trustees of some of the additional issues with P.A. 100-0023 that were not addressed in House Bill 4811. Finally, Mr. Walsh provided Trustees with a copy of a memo prepared by the Fund's Legislative Liaison discussing the status of other legislation. See attached copy of memo.

Annual Financing Resolution

Mr. Walsh reviewed some of the discussions and decisions leading up to the final version of the Annual Financing Resolution that the Trustees approved in 2017. He also reminded the Board that, per the Board's request, Fund Counsel sent a letter to the City's Corporation Counsel last year asking that Corporation Counsel confirm the Fund's analysis regarding the City's obligation under 40 ILCS 5/11-176 and schedule a time to discuss the mechanics. Mr. Walsh updated the Board regarding the meeting which occurred in late March of 2018. Mr. Walsh explained that following the meeting with representatives from Corporation Counsel's office, LABF staff conducted some additional research, the findings from which were presented to the Board in a report called *Review of LABF Financing Request* (see attached). After reviewing the report, a number of the Trustees made suggestions as to what should be requested as part of this year's Annual Financing Resolution. The Trustees asked Mr. Walsh to review certain component parts of the annual request for funding with Fund Counsel and they also requested copies of the communications between Fund Counsel and the City's Corporation Counsel on this matter. The Trustees also asked for this item to be further discussed at the June 19, 2018 meeting.

Beneficiary Designation Review

Mr. Walsh reviewed the current process and procedures in place at LABF related to beneficiary designation forms. Mr. Walsh noted that there are many scenarios not covered by the current beneficiary designation form and procedures and he asked to possibly broaden the current procedures in order to cover additional scenarios. Mr. Walsh proposed a few modifications to the current beneficiary designation procedures for the Trustees to consider. The Trustees asked if other laws, such as estate laws, were in conflict with the proposed changes and asked Fund staff and Fund Counsel to review the matter. The Trustees approved the proposed changes to the beneficiary designation procedure pending a review by Fund Counsel.

Miscellaneous

Harassment Training - Mr. Walsh discussed the possibility of providing harassment training for LABF Staff and LABF Trustees. He mentioned that Fund Counsel has conducted such trainings in the past and could provide training for the LABF. The Trustees were unanimous in their support for this type of training.

Marquette Investment Symposium – Mr. Walsh informed Trustees that the Marquette Investors Symposium will be held on September 28, 2018.

LEGAL REPORT

Underwood Litigation

This topic was discussed in executive session.

EXECUTIVE SESSION NO. 3

At 3:57 p.m., Trustee LoVerde requested an executive session under 5 ILCS 120/2(c)(11) to discuss current or potential litigation involving the Fund. Trustee Joiner seconded the motion.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Capasso and Joiner.
Against -- None.

At 3:59 p.m., Trustee LoVerde made a motion, seconded by Trustee Joiner, that the executive session be adjourned and that the Board return to open session.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Capasso and Joiner.
Against -- None.

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The Trustees took no action.

Johnson Litigation

Mr. Grady gave a status report on the Johnson Litigation and noted that Mr. Krislov is seeking an extension for additional time to respond in this matter.

Lobbyist Registration

Mr. Grady reviewed this matter with the Trustees. Mr. Grady reviewed several exemptions that exist and explained that Fund Counsel is in the process of clarifying with the Illinois Secretary of State's office if those exemptions apply to LABF.

ADJOURNMENT

With no further business, at 4:03 p.m., Trustee LoVerde made a motion to adjourn the meeting. Trustee Joiner seconded the motion.

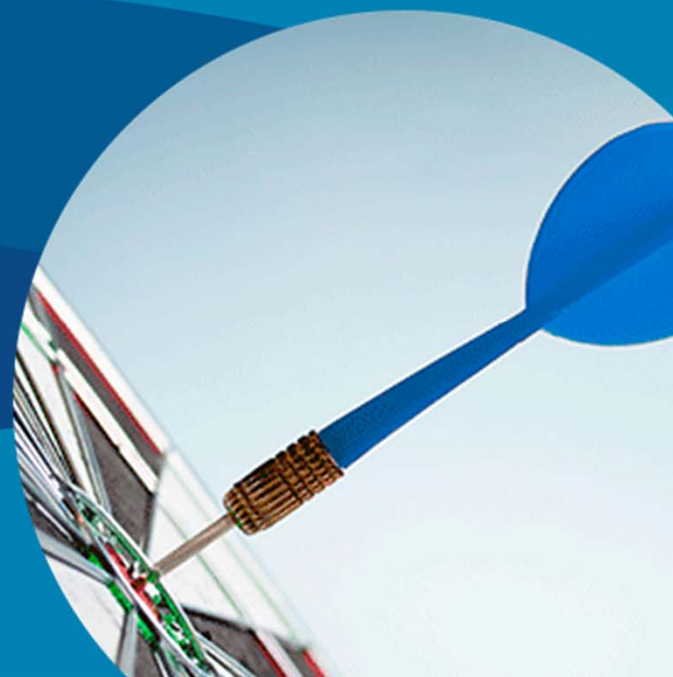
Roll-call: For -- Trustees Roa, Keane, LoVerde, Capasso and Joiner.
 Against -- None.



Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago

Actuarial Valuation as of
December 31, 2017

May 22, 2018



Key Valuation Results: Changes Since Last Year

- Updated assumptions as a result of an experience study for the five-year period from January 1, 2012, to December 31, 2016
 - The LABF Board approved the following assumptions for use in the current valuation
 - Price inflation was decreased from 3.00 percent to 2.25 percent
 - Investment Return was decreased from 7.50 percent to 7.25 percent
 - Wage inflation was decreased from 3.75 percent to 3.00 percent
 - Salary increase rates were decreased
 - Mortality tables were updated to RP-2014 Blue Collar with generational mortality improvements
 - Retirement rates were decreased
 - Termination rates were decreased
 - Disability term cost rates were increased
- The changes in assumptions and plan provisions increased the actuarial accrued liability by \$49.9 million

Key Valuation Results: Changes Since Last Year

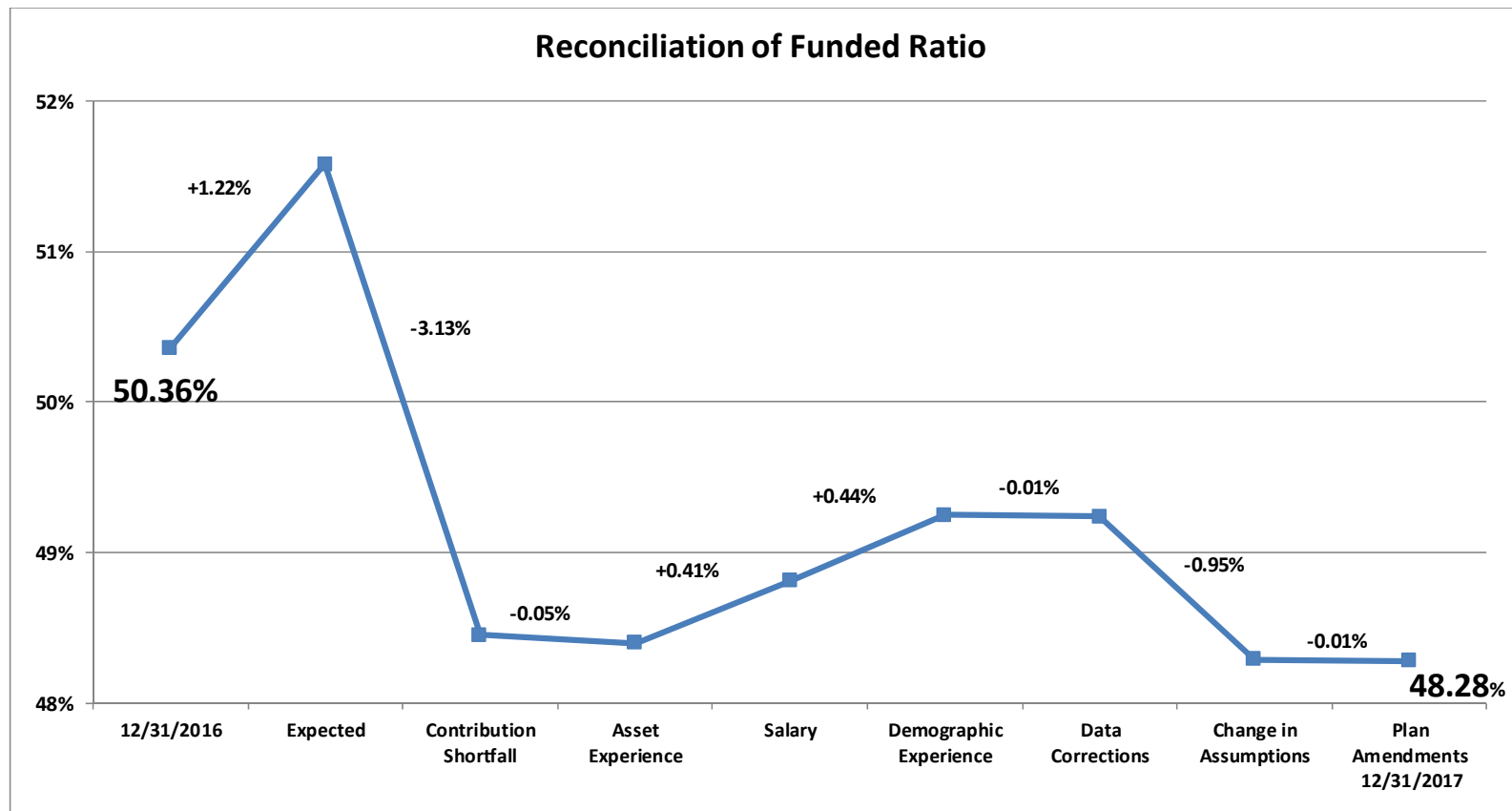
- Public Act 100-0023 (Effective July 6, 2017)
 - Provides changes to the funding policy and new benefit provisions (Tier 3) for members hired on and after July 6, 2017, and any Tier 2 member who irrevocably elects Tier 3
 - Funding policy changed from 1.0 multiple to 90 percent target funding by 2058 with fixed dollar contributions for payment years 2018 through 2022

Key Valuation Results

	December 31, 2016	December 31, 2017	% Change
Actuarial Liability	\$ 2,509,272,511	\$ 2,578,745,050	2.77 %
Assets - Actuarial Value	1,263,664,871	1,245,119,356	(1.47)%
Unfunded Liability (Surplus)	1,245,607,640	1,333,625,694	7.07 %
Funded Ratio (AVA)	50.36%	48.28%	(4.13)%
Funded Ratio (MVA)	46.54%	49.15%	5.61 %
	Fiscal Year 2017	Fiscal Year 2018	
Statutory City Contribution	\$ 36,000,000	\$ 48,000,000	33.33 %
Actuarial Determined Contribution (ADC)	124,226,042	129,247,584	4.04 %

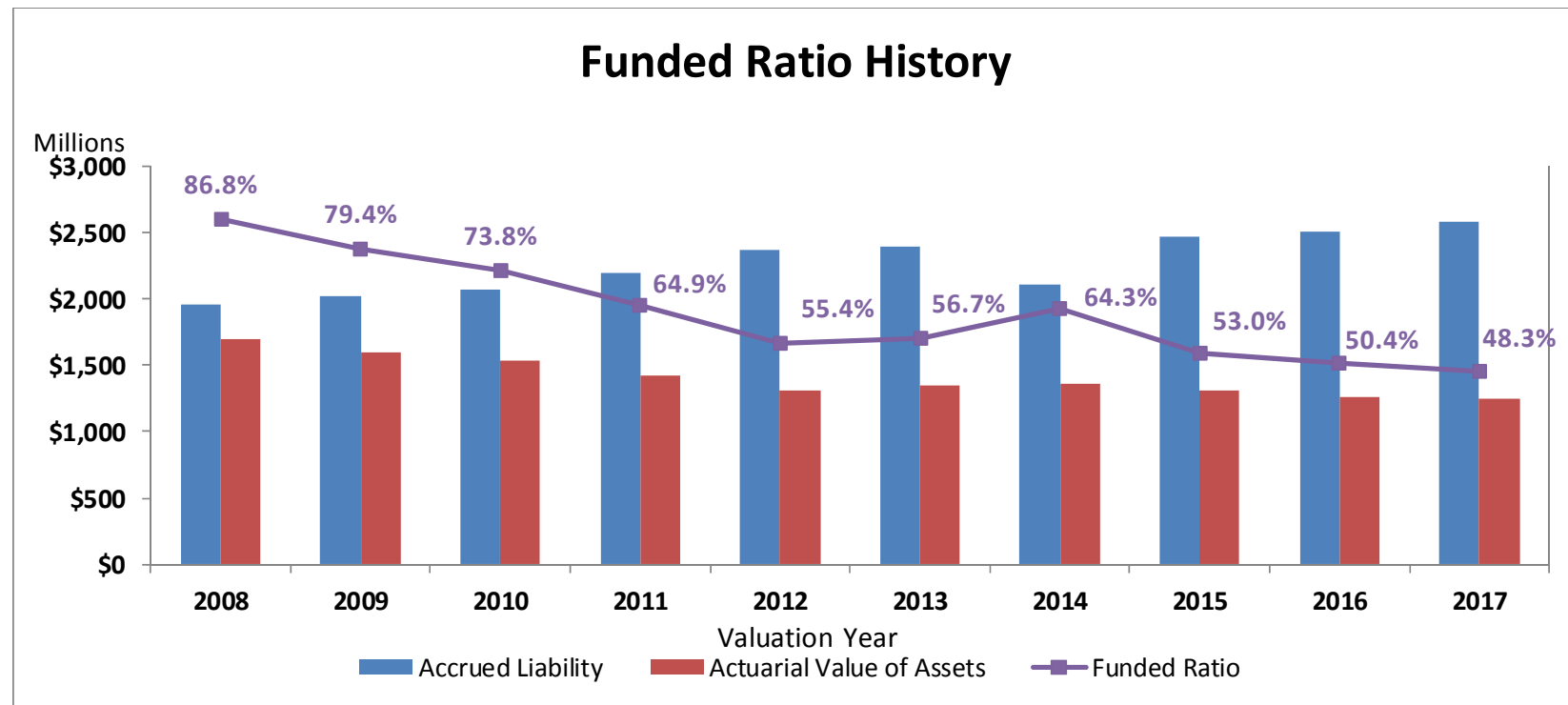
- Funded Ratio (AVA) decreased due to contributions less than Normal Cost plus interest on the Unfunded Actuarial Accrued Liability
- Contribution shortfalls persist
- The funded ratio is projected to decline from 48.3 percent in 2017 to 44.3 percent in 2020 and then increase gradually to 90.0 percent in 2058. However, the funded ratio doesn't reach 50.0 percent until 2045.

Reconciliation of Funded Ratio

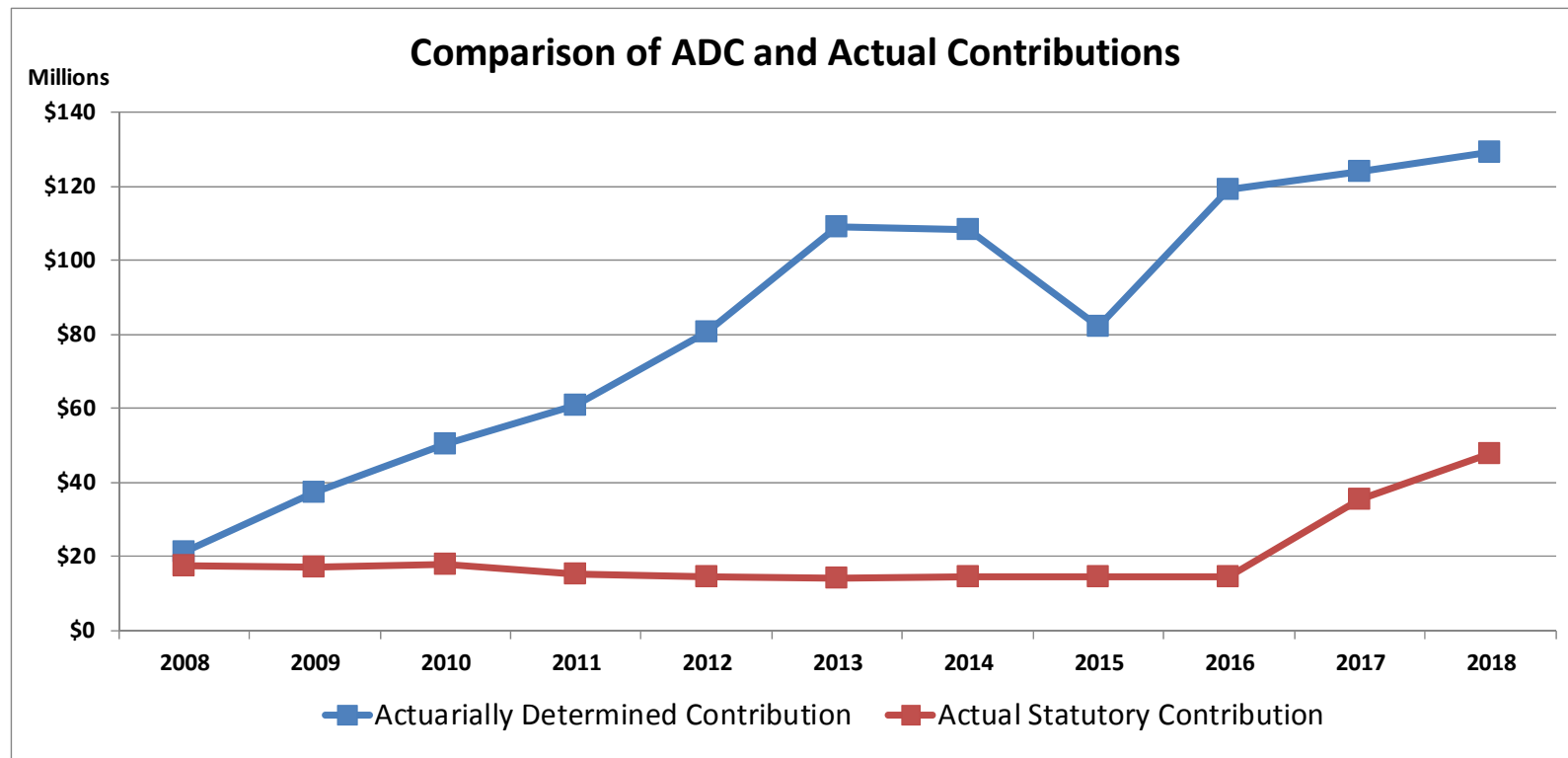


Expected reflects contributions equal to normal cost plus interest on unfunded actuarial liability.

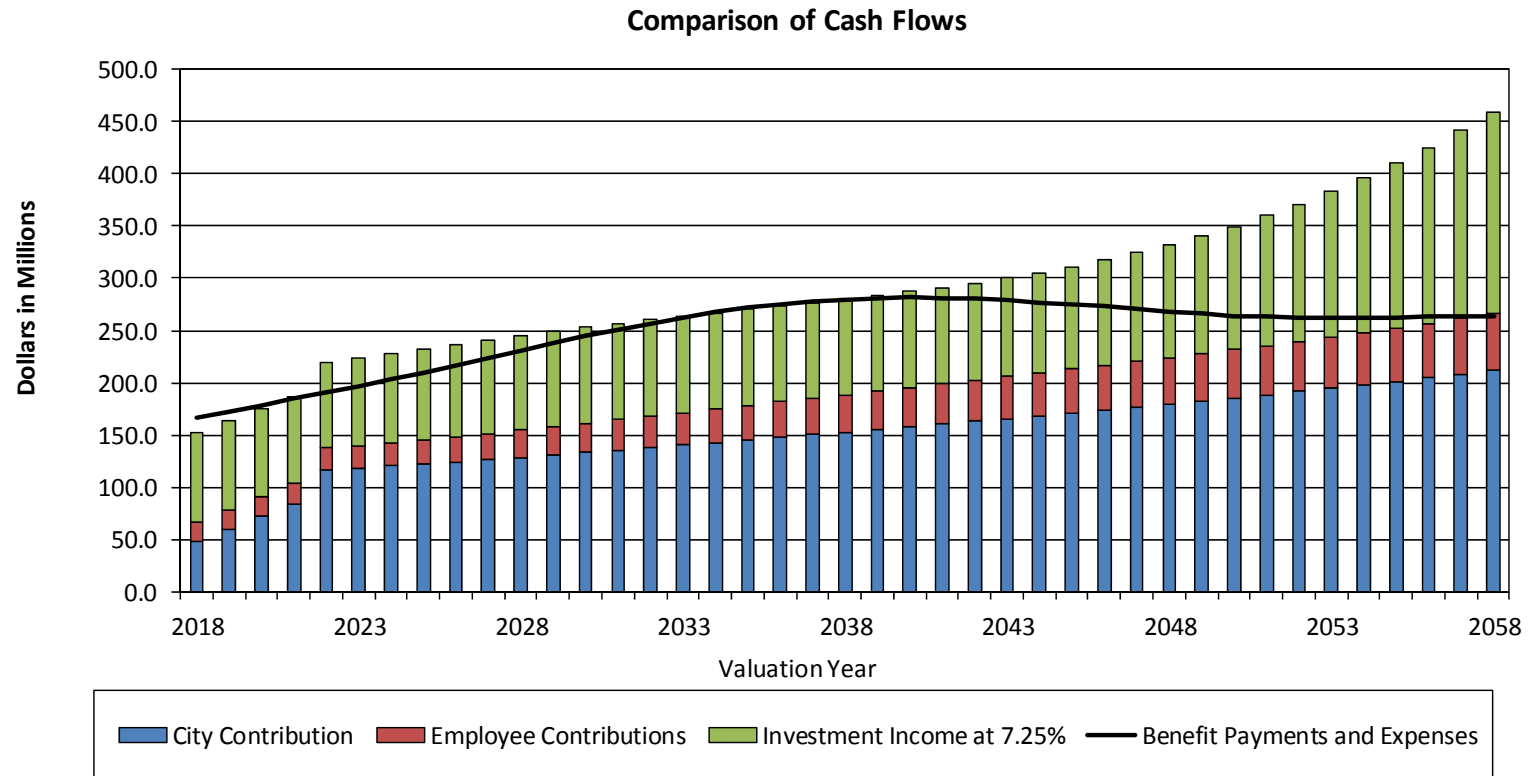
History of Funded Ratio



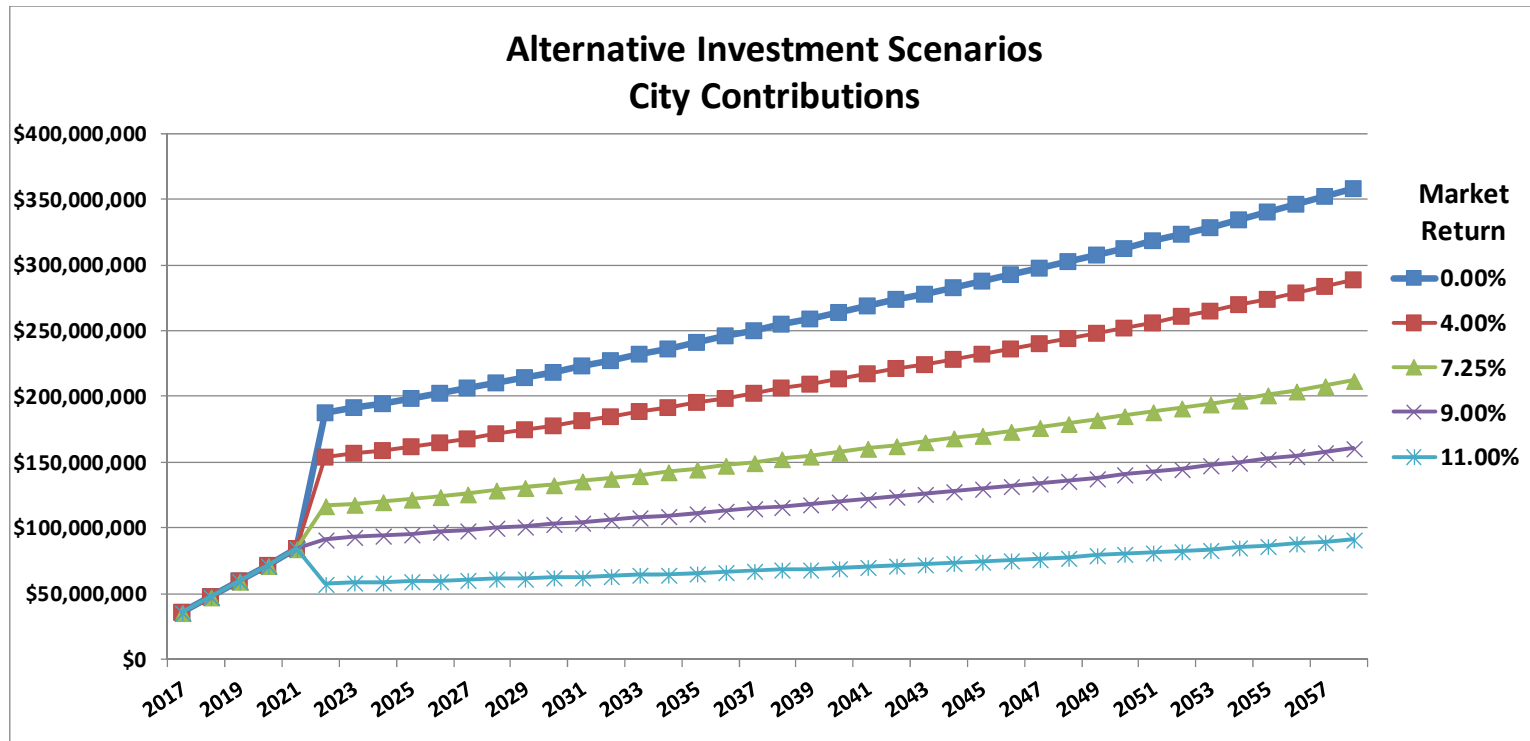
Contribution Comparison



Projections – Cash Flow



Projections – City Contributions



As a result of the funding policy under Public Act 100-0023, the funded ratio in each scenario is projected to be 90 percent in 2058.

GASB Statement Nos. 67 and 68

- GASB Statement Nos. 67 and 68 blended discount rate increased from 4.17 percent at December 31, 2016, to 7.07 percent at December 31, 2017 due primarily to the change in funding policy
- The municipal bond rate used to develop the blended discount rate decreased from 3.78 percent at December 31, 2016, to 3.31 percent at December 31, 2017
- The blended discount rate reflects the year that assets are projected to be depleted under the closed group projections for accounting purposes — 2071
- The following table compares the funded status under the statutory actuarial valuation and the GASB Statement Nos. 67 and 68 actuarial valuation

GASB Statement Nos. 67 and 68

Statutory Requirements		GASB 67 Requirements	
Actuarial Cost Method	Entry Age Normal	Cost Method	Entry Age Normal
Discount Rate	7.25%	Discount Rate	7.07%
Actuarial Accrued Liability	\$2,578,745,050	Total Pension Liability	\$2,630,107,508
Actuarial Value of Assets	\$1,245,119,356	Plan Fiduciary Net Position	\$1,267,554,561
Unfunded Actuarial Accrued Liability	\$1,333,625,694	Net Pension Liability	\$1,362,552,947
Funded Ratio	48.28%	Plan Fiduciary Net Position as a Percentage of Total Pension Liability	48.19%
Covered Payroll	\$208,442,487	Covered Payroll	\$208,442,487
Unfunded Actuarial Accrued Liability as a Percentage of Covered Employee Payroll	639.81%	Net Pension Liability as a Percentage of Covered Employee Payroll	653.68%

Disclaimers

- This presentation is intended to be used in conjunction with the actuarial valuation report issued on May 2, 2018, and the experience study report issued on March 2, 2018. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- The actuary submitting this presentation (Alex Rivera) is a Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.
- The primary purpose of the actuarial valuation is to measure the financial position of LABF.
- The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The major actuarial assumptions used in this analysis were provided by and are the responsibility of LABF. We are unable to judge the reasonableness of some of these assumptions without performing a substantial amount of additional work beyond the scope of the assignment.

Disclaimers

- Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law.
- This is one of multiple documents comprising the actuarial report for the LABF actuarial valuation. Additional information regarding actuarial assumptions and methods, and important additional disclosures are provided in the full actuarial valuation report as of December 31, 2017.
- If you need additional information to make an informed decision about the contents of this presentation, or if anything appears to be missing or incomplete, please contact us before relying on this presentation.

2017 Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago Actuarial Report Fact Sheet

- **Actuarial accrued liability**

- Total AAL increased from \$2.51 billion to \$2.58 billion or 2.8%.

- **Three values of assets**

		2017 Rate of Return	
	12/31/2017 Value	(Net of Investment Expense)	Growth in Assets
Book	\$1.01 billion	5.1%	-5.2%
Market	\$1.27 billion	18.7%	8.5%
Actuarial (5-yr smoothed)	\$1.25 billion	7.4%	-1.5%

- **Unfunded AAL increased \$88.0 million, from \$1.25 billion to \$1.33 billion, due to:**

Contributions Less than Normal Cost Plus Interest	\$	80.4 million
Investment Loss (Actuarial Value Basis)		1.2 million
Gain from Salary Changes		(21.3) million
Loss from Plan Amendments		0.1 million
Loss from Assumption Changes		49.8 million
Other		(22.2) million
Total	\$	88.0 million

- **Funded ratio and contributions**

- Based on Actuarial Value of Assets: 48.3%
 - Based on Market Value of Assets: 49.2%
 - Statutory contribution for 2018 (\$48.0 million) is significantly lower than the ADC (\$129.2 million).
 - Pursuant to Public Act ("P.A.") 100-0023, effective July 6, 2017, the funding policy was amended and requires City contributions to equal \$36 million in payment year 2018, \$48 million in payment year 2019, \$60 million in payment year 2020, \$72 million in payment year 2021 and \$84 million in payment year 2022. For payment years after 2022, the City contribution equals the sum of the net employer normal cost plus a level percent of payroll amortization of the unfunded liability needed to attain a 90 percent funded ratio by 2058 on an open group basis.
 - The statutory employer multiple is 3.08; the recommended multiple based on ADC funding is 8.28.

- **Projected funded ratio**

- Under the current funding policy and assumptions (including 7.25% annual investment return), the funded ratio is projected to decline from 48.3 percent in 2017 to 44.3 percent in 2020 and then increase gradually to 90.0 percent in 2058. However, the funded ratio doesn't reach 50 percent until 2045.

- **Active members**
 - Membership decreased from 2,822 to 2,794.
 - Average employee is 48.1 years old, with 16.1 years of service, earning \$74,604 annual salary.
 - Total active pensionable payroll increased slightly from \$208.2 million to \$208.4 million, or 0.1%.
- **Inactive members**
 - Membership decreased from 1,476 to 1,469.
 - Average inactive member is 59.2 years old, with 2.1 years of service.
- **Annuitants and beneficiaries**
 - The number of employee annuitants decreased from 2,633 to 2,585.
 - Average employee annuitant benefit is \$50,807 and age is 70.5.
 - 93 new employee annuitants with average benefit of \$44,964, age of 61.6, with 25.2 years of service.
 - The number of spouse annuitants (including reversionary annuitants) decreased from 1,100 to 1,078.
 - Average spouse annuitant benefit is \$15,380, age is 77.3.
 - The number of child annuitants increased from 36 to 40.
 - Benefits paid during the year increased 1.6% (See table below).
 - Refunds paid: \$2.3 million.

Benefit Payments (in millions)			
	2016	2017	Increase
Employees' Annuities	\$ 129.0	\$ 132.2	2.48 %
Spouses' Annuities	16.5	16.4	(0.61)%
Children	0.1	0.1	0.00 %
Annuitant Health Insurance	1.8	-	(100.00)%
Disability Payments	6.4	6.0	(6.25)%
Total	\$ 153.8	\$ 154.7	0.59 %

Summary of Actuarial Valuation

	December 31, 2016	December 31, 2017	% Change
Actuarial Values			
Actuarial Liability	\$ 2,509,272,511	\$ 2,578,745,050	2.77 %
Assets - Actuarial Value	1,263,664,871	1,245,119,356	(1.47)%
Unfunded Liability (Surplus)	1,245,607,640	1,333,625,694	7.07 %
Funded Ratio	50.36%	48.28%	(4.13)%
Actuarial Determined Contribution (ADC)	\$ 124,226,042	\$ 129,247,584	4.04 %
Market Values			
Actuarial Liability	\$ 2,509,272,511	\$ 2,578,745,050	2.77 %
Assets - Market Value	1,167,740,724	1,267,554,561	8.55 %
Unfunded Liability	1,341,531,787	1,311,190,489	(2.26)%
Funded Ratio	46.54%	49.15%	5.61 %
Book Values			
Actuarial Liability	\$ 2,509,272,511	\$ 2,578,745,050	2.77 %
Assets - Book Value	1,068,986,041	1,012,876,216	(5.25)%
Unfunded Liability (Surplus)	1,440,286,470	1,565,868,834	8.72 %
Funded Ratio	42.60%	39.28%	(7.80)%

Actuarial Liability includes pension liability only. Pursuant to the provisions contained in P.A. 98-0043, the city terminated health insurance supplement payments to eligible annuitants as of December 31, 2016, resulting in no OPEB liability.

Reconciliation of Funded Ratio

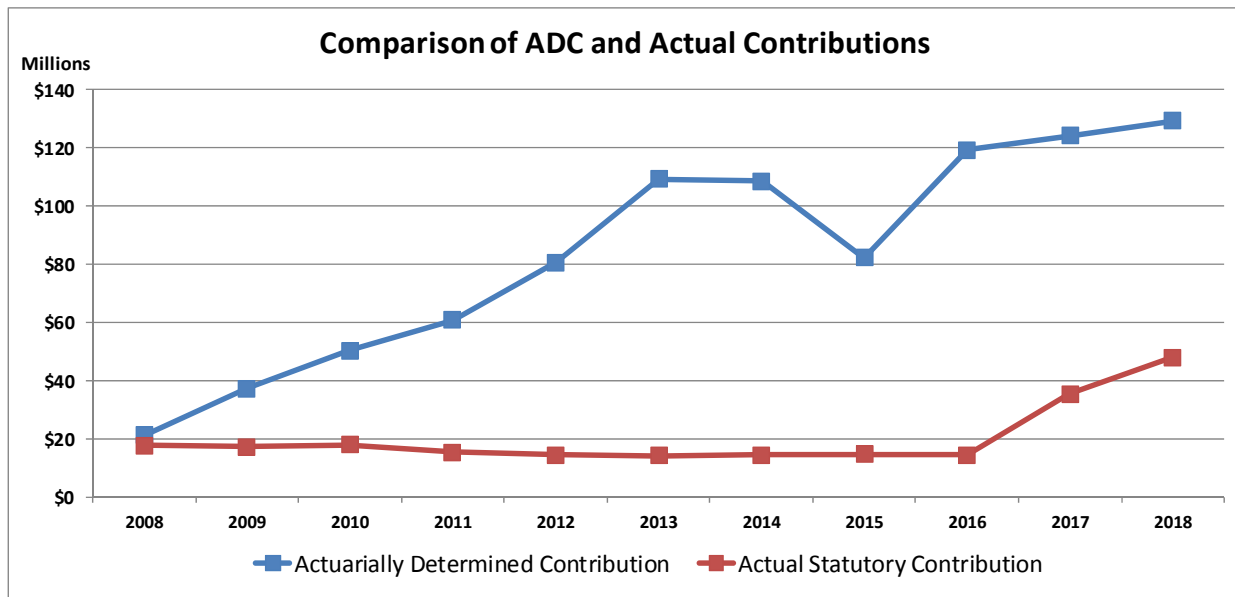
	2013	2014	2015	2016	2017
Funded Ratio Beginning of Year	55.41%	56.65%	64.28%	52.99%	50.36%
Expected Increase If All Assumptions Realized	1.16%	1.09%	0.54%	1.11%	1.22%
Expected Funded Ratio	56.57%	57.74%	64.82%	54.10%	51.58%
Gains (Losses) During the Year Attributable to:					
Contributions in Excess of (Less Than) Normal Cost plus Interest	-3.69%	-3.58%	-2.91%	-3.78%	-3.13%
Gain (Loss) on Investment Return on the Smoothed Value of Assets	2.66%	1.19%	-0.88%	-0.37%	-0.05%
Gain (Loss) from Salary Changes	0.29%	0.24%	0.28%	0.23%	0.41%
Gain (Loss) from Retirement, Termination, & Mortality	0.11%	0.28%	1.02%	0.19%	0.44%
Gain (Loss) from Data Corrections	0.00%	0.00%	-0.01%	-0.01%	-0.01%
Change in Methodology	0.00%	0.00%	0.00%	0.00%	0.00%
Change in Assumptions	0.00%	0.00%	0.00%	0.00%	-0.95%
Plan Amendments ¹	0.71%	8.41%	-9.33%	0.00%	-0.01%
Total Gains (Losses) During the Year	0.08%	6.54%	-11.83%	-3.74%	-3.30%
Funded Ratio End of Year	56.65%	64.28%	52.99%	50.36%	48.28%

¹ The increase in the Funded Ratio for fiscal year 2014 of 8.41 percent was a result of the benefit changes provided in P.A. 98-0641. The Public Act was ruled unconstitutional and void in its entirety on July 24, 2015, resulting in a decrease in the Funded Ratio for fiscal year 2015 of 9.33 percent.

Actuarial Determined Contributions of Employer and Trend Information

Year	Actuarial Determined Contribution (ADC) of the Employer	Actual Statutory Contribution	Percent of ADC Contributed
2008	\$ 21,216,989	\$ 17,580,428	82.86%
2009	37,199,049	17,189,811	46.21%
2010	50,274,041	17,938,810	35.68%
2011	60,801,575	15,358,602	25.26%
2012	80,636,419	14,414,835	17.88%
2013	109,290,128	14,100,639	12.90%
2014	108,538,602	14,520,515	13.38%
2015	82,252,473	14,566,544	17.71%
2016	119,215,489	14,443,495	12.12%
2017	124,226,042	35,456,607	28.54%
2018*	129,247,584	48,000,000	37.14%

* Expected



Active Accrued Liability and Normal Cost by Tier

	Tier 1 Members	Tier 2 Members ¹	Tier 3 Members ^{2,3}	Total
(1) Count	2,125	609	60	2,794
(2) Payroll	\$ 166,968,957	\$ 37,863,368	\$ 3,610,162	\$ 208,442,487
(3) Average Payroll	\$ 78,574	\$ 62,173	\$ 60,169	\$ 74,604
(4) Actuarial Accrued Liability (AAL)	\$ 854,734,094	\$ 14,577,283	\$ 1,305,911	\$ 870,617,288
(5) Normal Cost	\$ 33,187,517	\$ 5,515,357	\$ 633,949	\$ 39,336,823
(6) Normal Cost as a Percent of Pay	19.9%	14.6%	17.6%	18.9%
(7) Estimated Member Contributions as a Percent of Pay	8.5%	8.5%	10.9%	8.5%
(8) Net Employer Normal Cost as a Percent of Pay	11.4%	6.1%	6.7%	10.3%

¹ Members who began participating on or after January 1, 2011.

² Members who began participating on or after July 6, 2017.

³ 32 Tier 2 members who elected Tier 3 began participating on or after July 6, 2017.

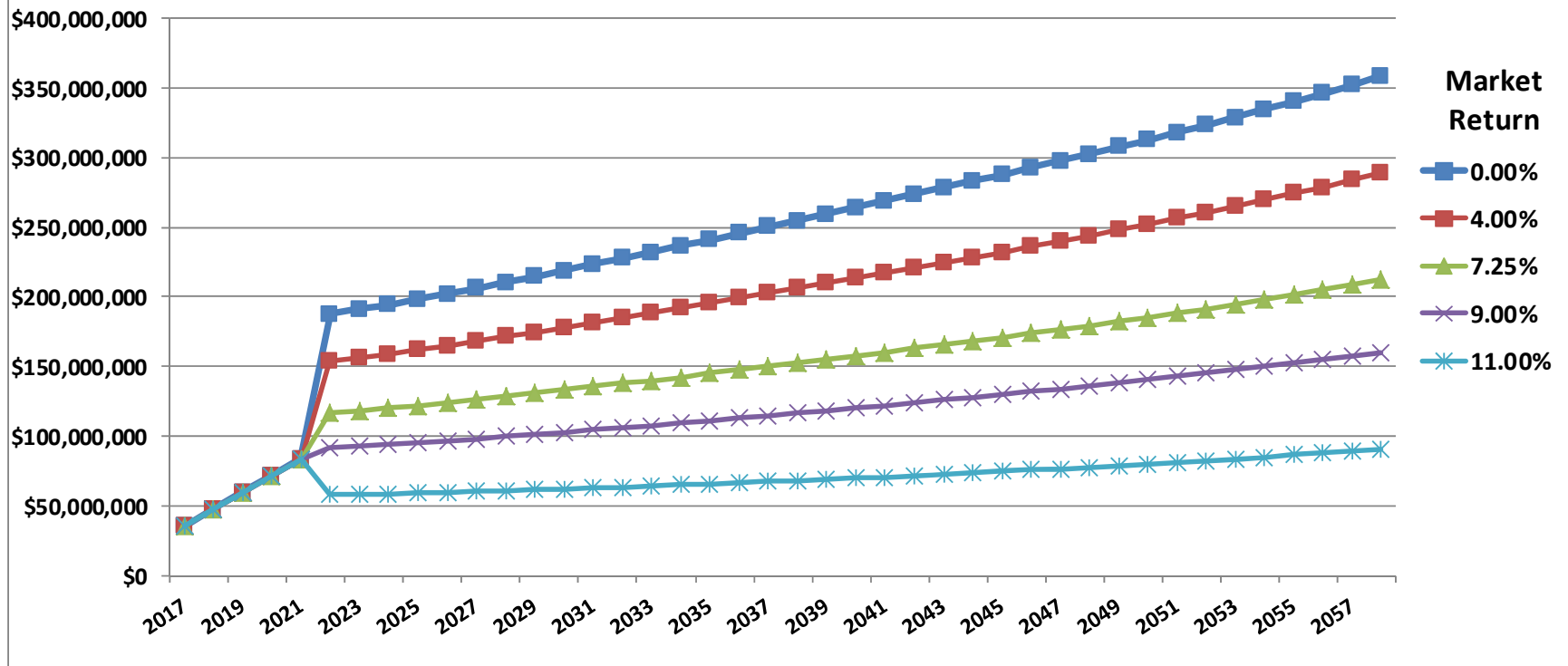
⁴ Estimated member contributions are 10.5 percent for former Tier 2 members electing Tier 3, and 11.5 percent for Tier 3 members.

Projection Results

Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Projection Results (\$ in Thousands)								
PYE 12/31	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Ratio	Capped Payroll	Total Statutory Contribution	Employee Contributions	Benefit Payments and Admin. Exp.
2017	\$2,578,745	\$1,245,119	\$ 1,333,626	48.28%	\$208,442	\$ 35,457	\$ 17,411	\$ 161,035
2018	2,635,432	1,214,825	1,420,607	46.10%	211,406	48,000	18,069	166,529
2019	2,690,443	1,199,999	1,490,444	44.60%	215,367	60,000	18,619	172,417
2020	2,743,741	1,215,186	1,528,554	44.29%	219,271	72,000	19,232	178,279
2021	2,795,001	1,242,273	1,552,729	44.45%	223,857	84,000	19,881	184,378
2022	2,844,256	1,271,697	1,572,559	44.71%	228,822	116,744	20,610	190,385
2023	2,891,201	1,298,851	1,592,350	44.92%	233,816	118,520	21,384	196,538
2024	2,935,152	1,323,681	1,611,471	45.10%	238,932	120,292	22,188	203,167
2025	2,975,777	1,346,130	1,629,647	45.24%	244,593	122,309	23,026	209,957
2026	3,012,697	1,365,903	1,646,794	45.34%	250,299	124,286	23,930	216,889
2027	3,045,259	1,382,563	1,662,696	45.40%	256,340	126,390	24,861	224,207
2028	3,074,062	1,396,927	1,677,135	45.44%	262,692	128,612	25,835	230,673
2029	3,098,233	1,408,253	1,689,980	45.45%	269,112	130,837	26,845	237,729
2030	3,117,507	1,416,449	1,701,058	45.44%	275,668	133,118	27,871	244,734
2031	3,132,239	1,422,141	1,710,098	45.40%	282,573	135,598	28,909	251,117
2032	3,142,593	1,425,495	1,717,099	45.36%	289,134	137,901	29,960	257,004
2033	3,148,477	1,426,572	1,721,905	45.31%	295,703	140,217	30,980	262,651
2034	3,150,405	1,426,079	1,724,327	45.27%	302,354	142,613	31,990	267,526
2035	3,149,117	1,424,987	1,724,131	45.25%	309,158	145,141	32,981	271,458
2036	3,145,121	1,423,935	1,721,186	45.27%	315,827	147,615	33,961	274,667
2037	3,138,975	1,423,721	1,715,254	45.36%	322,592	150,181	34,919	277,175
2038	3,130,983	1,424,757	1,706,226	45.51%	329,102	152,619	35,860	279,201
2039	3,121,412	1,427,546	1,693,865	45.73%	335,633	155,082	36,779	280,836
2040	3,111,159	1,433,270	1,677,888	46.07%	342,275	157,664	37,688	281,554
2041	3,101,356	1,443,364	1,657,992	46.54%	349,027	160,360	38,580	281,184
2042	3,092,704	1,458,743	1,633,961	47.17%	355,618	163,003	39,461	280,173
2043	3,085,757	1,480,289	1,605,468	47.97%	362,275	165,703	40,322	278,715
2044	3,081,116	1,508,931	1,572,185	48.97%	368,951	168,423	41,179	276,806
2045	3,078,880	1,545,040	1,533,840	50.18%	375,438	171,031	42,033	274,924
2046	3,079,446	1,589,530	1,489,916	51.62%	382,290	173,846	42,882	272,880
2047	3,083,321	1,643,297	1,440,024	53.30%	389,112	176,662	43,750	270,574
2048	3,090,738	1,707,043	1,383,695	55.23%	396,025	179,536	44,620	268,296
2049	3,101,993	1,781,572	1,320,420	57.43%	403,044	182,477	45,497	266,012
2050	3,117,045	1,867,374	1,249,671	59.91%	410,127	185,445	46,387	264,047
2051	3,135,334	1,964,400	1,170,934	62.65%	417,140	188,378	47,299	262,906
2052	3,156,585	2,073,086	1,083,499	65.67%	424,475	191,518	48,234	262,355
2053	3,180,758	2,194,024	986,734	68.98%	431,823	194,669	49,191	262,076
2054	3,207,791	2,327,904	879,887	72.57%	439,355	197,942	50,154	262,112
2055	3,237,559	2,475,420	762,139	76.46%	447,107	201,313	51,121	262,481
2056	3,270,146	2,637,501	632,645	80.65%	454,997	204,775	52,108	263,014
2057	3,306,067	2,815,612	490,455	85.16%	463,131	208,380	53,085	263,277
2058	3,345,104	3,010,481	334,623	90.00%	471,333	211,970	54,053	263,934

Projections assume a stable active population, actual employer contributions equal to scheduled contributions for plan years 2017-2022, then equal to the statutory contribution thereafter, and 7.25 percent per annum investment return.

Alternative Investment Scenarios City Contributions





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TO: The Honorable Members of the Board of Trustees,
Laborers' Annuity and Benefit Fund of Chicago

FROM: Robert S. Molaro & Associates

RE: Springfield Update

DATE: Thursday, May 17, 2018

The following is the current status of the bills that directly affect the LABF Chicago or are of significant interest:

HB 4811 (Zalewski) changes a provision to the Municipal Fund (not the LABF) that provides that each disabled employee who receives duty or ordinary disability benefit shall be examined at least once a year, or a longer period of time as determined by the Board of the Fund (rather than shall be examined at least once a year), by one or more licensed and practicing physicians appointed by the Board. Effective immediately.

House Amendment #1 to HB 4811 was adopted in the House Personnel and Pensions Committee on April 25. House Amendment #1 is the trailer cleanup language to Public Act 100-23. The bill passed out of the Senate Licensed Activities and Pensions Committee on May 10 on a vote of 9-0-0 and is now on Second Reading in the Senate. Deadline for final passage of all bills is Friday, May 25.

<http://www.ilga.gov/legislation/billstatus.asp?DocNum=4811&GAID=14&GA=100&DocTypeID=HB&LegID=110154&SessionID=91>

HB 4413 (Ammons) provides that any open meeting of the board of trustees of a retirement system or pension fund or any committee established by a retirement system or pension fund must be broadcast to the public and maintained in real-time on the retirement system's or pension fund's website using a high-speed internet connection. HB 4413 was amended to add the following language to the above: A retirement system or pension fund must make audio and video available for a meeting broadcast and maintained under this subsection. The bill passed the House on April 18, as amended, on a roll call vote of 71-39-1. The bill is now in the Senate in the Committee on Assignment of bills.

<http://www.ilga.gov/legislation/billstatus.asp?DocNum=4413&GAID=14&GA=100&DocTypeID=HB&LegID=109186&SessionID=91>

HB 2575 (Harris) Municipal Bankruptcies, has been Re-referred to the House Rules Committee. It is unlikely that the bill will be moved during this Spring Session.

<http://www.ilga.gov/legislation/billstatus.asp?DocNum=2575&GAID=14&GA=100&DocTypeID=HB&LegID=103815&SessionID=91>

HB 5877 (Wallace) Racial Discrimination, is similar to the Sexual Harassment and Training bill which passed earlier this year. The bill has been referred to the House Rules Committee. It seems unlikely that this bill will move forward to passage this Spring.

<http://www.ilga.gov/legislation/billstatus.asp?DocNum=5877&GAID=14&GA=100&DocTypeID=HB&LegID=112644&SessionID=91>

HB 5342 (Martwick) the Firefighter/Alderman Pension bill, will be heard in the Senate Licensed Activities and Pensions Committee later this afternoon.

<http://www.ilga.gov/legislation/billstatus.asp?DocNum=5342&GAID=14&GA=100&DocTypeID=HB&LegID=111128&SessionID=91>

Please be aware that the Legislative Spring Session is still scheduled to end on May 31, 2018. It is expected that the House of Representatives and the State Senate Democrats will be passing a Democratic budget without Republican agreement.

Therefore, it will be up to the Governor to decide whether to accept this budget in full, perform amendatory line item vetoes, or execute a total veto of the bill. I will keep you informed of all pertinent developments.

However, Democrats will continue to work over the next three weeks to reach a bipartisan agreement regarding the budget.

Review of LABF Financing Request

May 22, 2018

Contents

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Purpose of Sec. 11-169 Financing; Tax Levy	1
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Key Takeaways:

1. Historically, Illinois Pension Code Section 11-169 *Financing; Tax levy* (Chapter 24, Section 11 of the Illinois Revised Statutes in 1935) served the following two primary functions: (1) it authorized the levying of additional property taxes for pension fund purposes, and (2) it set a limit, or cap, on the amount that could be levied. Other sections of the law, many of which are listed in the Determination of City Contribution Requirements section below, were to be used to determine the sum required for the various purposes under the law. However, the sum of these amounts often exceeded the tax levy cap under Section 11-169. When this was the case, the amount that the LABF could request of the City of Chicago was limited to the tax levy cap amount. The tax levy cap provision was so routinely applied in the last few decades that it might have appeared as though Section 11-169 was the sole determinant of the required City contribution when, in fact, it was not. However, this may have changed with the enactment of Public Act 100-0023 on July 6, 2017, when Section 11-169 went from establishing a tax levy cap to actually specifying the contribution amount.
2. Pension law specifies that in lieu of all amounts ordinarily contributed by an employee and by the City for annuity purposes, the City is required to contribute sums equal to such amounts for any period during which the employee receives a duty disability benefit from LABF. However, the sum of such amounts, together with the sums required for all other purposes under the law, are subject to the tax levy cap specified in Section 11-169. Since the aggregate amount of the sums for all other purposes (non-duty disability related purposes) already exceeded the authorized tax levy cap every levy year since 1970, there were no additional contributions to be made by the City related to those members receiving a duty disability benefit.
3. Given that the City of Chicago has had the ability since 1997 to utilize sources in lieu of the tax levy for the purpose of financing its contribution obligations to LABF, the LABF should not have to absorb a reduction in contributions associated with the property tax loss and cost of collections.

General Legislative Background

The LABF was created on June 21, 1935 upon the passage of House Bill 968 (“The 1935 Act”), amending Chapter 24 (Villages and Cities) of the Illinois Revised Statutes. In 1963, the Statutes were amended to create the Illinois Pension Code (Chapter 40), which continues to govern all the public retirement systems and pension funds in the State.

Purpose of Sec. 11-169 Financing; Tax Levy

Historically, Illinois Pension Code Section 11-169 *Financing; Tax levy* (Chapter 24, Section 11 of the Illinois Revised Statutes prior to 1963) has served two primary functions. First, this section gives the City of Chicago the authority to levy a property tax for pension financing purposes and specifies that such tax is to be in addition to the amount the City is separately authorized to levy for general purposes. Although most of the applicable language from the 1935 Act still exists in Section 11-169 of the Illinois Pension Code, the language from the 1935 Act more clearly conveys the intent of this provision in the law. The 1935 Act, in relevant part, reads as follows:

It shall be lawful for any such city to levy a tax upon all taxable property in such city for the purpose of providing revenue for the annuity and benefit fund herein provided for, which fund is and shall be construed to be a pension fund. Such tax shall, until January 1, 1940, be not more than one-tenth (1/10) of one mill, and for the period of two years beginning January 1, 1940, such tax shall be not more than two-tenths (2/10) of one mill, and thereafter shall be not more than twenty-nine one-hundredths (29/100) of one mill, on the dollar of the assessed valuation of all taxable property in such city.

*For such purpose, beginning in the year in which this Act shall come in force and effect in such city, the city council of such city shall levy such a tax annually upon all taxable property in such city at the rate on the dollar of the assessed valuation of all such taxable property that will produce a sum which, when added to the amounts deducted from the salaries of all persons included under the provisions of this Act and applied to the annuity and benefit fund herein provided for, will be sufficient for the purpose of said fund in accordance with the provisions of this Act. **Said tax shall be levied and collected in like manner with the general taxes of such city, and shall be in addition to all other taxes which such city is now or may hereafter be authorized to levy upon the aggregate valuation of all taxable property within such city, and shall be exclusive of and in addition to the amount of tax such city is now or may hereafter be authorized to levy for general purposes** under and by virtue of section 1 of Article VIII of an Act entitled, "An Act to provide for the incorporation of cities and villages," approved April 10, 1872, in force July 1, 1872, as subsequently amended, or under and by virtue of any other law or laws which may limit the amount of tax which such city may levy for general purposes. **The county clerk of the county in which such city is located, in reducing tax levies under the provisions of an Act entitled, "An Act concerning the levy and extension of taxes," approved May 9, 1901, in force July 1, 1901, as subsequently amended, shall not consider any such tax as a part of the general tax levy for city purposes, and shall not include the same in any limitation of the assessed valuation upon which taxes are required to be extended.***

The amount of the tax to be levied in each year shall be certified to the city council of such city by the retirement board of the annuity and benefit fund herein provided for.

As soon as any revenue derived from the said tax shall be collected, the same shall be paid to the treasurer of such city and shall be held by such treasurer for the benefit of the annuity and benefit fund herein provided for, and all such revenue shall be paid into said annuity and benefit fund in accordance with the provisions of this Act.

If the funds available for the purposes of this Act shall be insufficient during any year to meet the requirements of this Act, such city may issue tax anticipation warrants, as provided by law, against the tax levy herein provided for, for the current year.

The various sums, hereinafter stated, to be contributed by such city for the purposes of this Act and any interest to be contributed by such city in accordance with the provisions of this Act, shall be taken from the revenue derived from said tax, and no money of such city derived from any source other than the levy and collection of said tax or the sale of tax anticipation warrants in accordance with the provisions of this section shall be used to provide revenue for the annuity and benefit fund herein provided for.

Second, prior to the enactment of Public Act 100-0023 on July 6, 2017, Section 11-169 (Chapter 24, Section 11 of the Illinois Revised Statutes prior to 1963) served to place a limit, or cap, on the amount of property tax that could be levied by the City of Chicago for pension contribution purposes. From 1935 to 1969, the limit was determined based on a flat percentage of taxable property within the City of Chicago. Due primarily to increases in LABF membership, the flat percentage of taxable property often failed to generate an amount sufficient to provide the sums required for the various purposes under the law (see the *Determination of City Contribution Requirements* section below). In other words, although the law specified certain sums were to be contributed by the City for certain purposes, the City's contribution was capped. To address this issue, Public Act 76-1509 was enacted on September 22, 1969 and changed the tax cap calculation methodology, moving it from a flat percentage of taxable property to a multiple of the amount employees contributed two years prior. As a result, the maximum authorized levy amount began to fluctuate based on total pensionable salary, which more closely correlated with the total sum of the required contributions under the law. The following language from the law makes it clear that Section 11-169 served to limit the amount of property tax that could be levied for pension contribution purposes:

- From 1935 to 1969: “such tax **shall be not more than**” [followed by a flat percentage of taxable property which was amended from time-to-time as shortfalls arose]
- From 1970 to 2017: “...**the city shall levy a tax annually** at a rate on the dollar of the value, as equalized or assessed by the Department of Revenue of all taxable property within such city that will produce, when extended, **not to exceed** an amount equal to the total amount of contributions by the employees to the fund made in the calendar year 2 years prior to the year for which the annual applicable tax is levied, multiplied by 1.1 for the years 1970, 1971 and 1972; 1.145 for the year 1973; 1.19 for the year 1974; 1.235 for the year 1975; 1.280 for the year 1976; 1.325 for the year 1977; 1.370 for the years 1978 through 1998; and 1.000 for the year 1999 and for each year thereafter through levy year 2016.”

On July 6, 2017, Public Act 100-0023 became law and amended Section 11-169. As a result of the amendment, the law appears to no longer set the contribution cap, but rather to specify the amount that “shall be” contributed. Unfortunately, the language now conflicts with the many other sections of the law that also specify an amount that the City must contribute (see *Determination of City Contribution Requirement*). However, given the evolution of the pension law, it seems reasonable to conclude that the contribution requirement now specified in Section 11-169 trumps, or effectively replaces, the contribution requirements specified elsewhere in the law. The following are excerpts from Section 11-169 as it reads today:

- From levy year 2017 to 2021 (payment year 2018 to 2022): Beginning in payment year 2018, the **city's required annual contribution** to the Fund for payment years 2018 through 2022 **shall be**: for 2018, \$36,000,000; for 2019, \$48,000,000; for 2020, \$60,000,000; for 2021, \$72,000,000; and for 2022, \$84,000,000.
- From levy year 2022 to 2057 (payment year 2023 to 2058): **the city's required annual contribution to the Fund shall be** equal to the amount, if any, needed to bring the total actuarial assets of the Fund up to 90% of the total actuarial liabilities of the Fund as of the end of the year.

Determination of Sums Required for Various Purposes Under the Law

Listed below are excerpts from Article 11 of the Illinois Pension Code that specify the various sums to be contributed by the City of Chicago. As mentioned above, these sections now conflict with the language in Section 11-169 which separately specifies the required amount. Public Act 100-0023 may have effectively rendered the following sections obsolete.

Sec. 11-146. Compensation annuity and supplemental annuity. [Sec. 33 of 1935 Act]

The city shall contribute to the fund each year the amount required for all Compensation Annuities. Supplemental Annuity shall be provided from city contributions after the date of the employee's death, of such equal sums annually, which when improved by interest at the effective rate, will be sufficient, at the time payment of Compensation Annuity to the widow ceases to provide Supplemental Annuity, as stated, for the widow throughout her life thereafter.

Sec. 11-160.1. Payments to city. (healthcare subsidies)

The payments described in this subsection shall be paid from the tax levy authorized under Section 11-169; such amounts shall be credited to the reserve for group hospital care and group medical and surgical plan benefits, and all payments to the city required under this subsection shall be charged against it.

Sec. 11-170(b). Contributions for age and service annuities for present employees, future entrants and re-entrants. (prior to enactment of PA 100-0023) [Sec. 16 & Sec. 17 of 1935 Act]

*Concurrently with each employee contribution, **the city shall contribute** beginning on the effective date and prior to July 1, 1947, 5 3/4%; and beginning July 1, 1947 and prior to July 1, 1953, 7%; and beginning July 1, 1953, 6% of each payment of such salary until the employee attains age 65.*

Sec. 11-171. Additional contributions and credits-All employees. (Employees in service as of 7/1/1947 had the option to make an additional contribution)

*“Concurrently with each such additional contribution, **the city shall contribute** 1 and 4/10 times the additional contribution.”*

Sec. 11-174(b). Contributions for widow's annuity for widows of present employees, future entrants and re-entrants. [Sec. 21 and 22 of 1935 Act]

*Concurrently with each employee contribution, **the city shall contribute** beginning on the effective date and prior to July 1, 1947, 1 3/4%; and beginning July 1, 1947, 2% of salary.*

Sec. 11-176. Contributions by city for duty disability benefit. [Sec. 46 of 1935 Act]

*In lieu of all amounts ordinarily contributed by an employee and by the city for age and service annuity, and widow's annuity **the city shall contribute** sums equal to such amounts for any period during which the employee receives a duty disability benefit under this Article, or a temporary total disability benefit under the Workers' Compensation Act if the disability results from a condition commonly termed heart attack or stroke or any other condition falling within the broad field of coronary involvement or heart disease, to be credited to the disabled employee for annuity purposes as though he were in active discharge of his duties during any such period of disability.*

Sec. 11-177. Contributions by city for ordinary disability benefit. [Sec. 47 of 1935 Act]

***The city shall contribute** all amounts ordinarily contributed by it for annuity purposes for any employee receiving ordinary disability benefit as though he were in active discharge of his duties during such period of disability.*

Sec. 11-178. Contributions by city for prior service annuities and other benefits. [Sec. 53 of 1935 Act]

***The city shall make contributions** to provide prior service and widow's prior service annuities, and other annuities and benefits, as follows...*

Sec. 11-179. Contribution by city for administration costs. [Sec. 13 of 1935 Act]

***The city shall contribute** from revenue derived from taxes herein authorized, the amount necessary to defray costs of administration of the fund. Beginning July 1, 1987, the board shall estimate and approve a budget for the entire cost of administration of the fund required each year to be contributed by the city by its regular January meeting for the current fiscal year.*

Tax Levy Loss and Cost of Collections

For a variety of reasons, not every dollar of property tax levied within the City of Chicago is actually received. According to a letter from Donald F. Campbell, LABF's actuary, dated November 29, 1943, "A law was enacted in 1943 allowing us to anticipate a reserve for loss and cost of collections" associated with the tax levy. Therefore, in many of the years where the tax levy cap had not already been reached, the LABF requested an amount in excess of the financing requirements under the law such that when the tax levy loss and cost of collections were realized, the actual contribution to LABF approximated the financing requirements. In 1945, LABF assumed a loss and cost of collections of 10%, but this figure fluctuated anywhere from 7.5% to 10% for the purposes of the 1945 through 1969 tax levy requests. Beginning with the 1970 tax levy request, when the multiplier methodology was first used to determine the tax levy cap, the required

contributions under the law exceeded the tax levy cap. Therefore, since the amount being requested had already reached the cap, the amount could not be increased any further in anticipation of the loss and cost of collections.

On June 27, 1997, Public Act 90-0031 was enacted which allowed the City to begin utilizing sources other than the property tax levy to finance its contribution requirements. The law added subsection (f) of Section 11-169, which reads as follows:

*In lieu of levying all or a portion of the tax required under this Section in any year, the city may deposit with the city treasurer no later than March 1 of that year for the benefit of the fund, to be held in accordance with this Article, an amount that, together with the taxes levied under this Section for that year, is not less than the amount of the city contributions for that year as certified by the board to the city council. **The deposit may be derived from any source legally available for that purpose, including, but not limited to, the proceeds of city borrowings.** The making of a deposit shall satisfy fully the requirements of this Section for that year to the extent of the amounts so deposited.*

In accordance with this provision, the City has since utilized sources such as State Personal Property Replacement Tax, City of Chicago Corporate Fund and various of its Enterprise Funds, in addition to the tax levy, to finance its contribution obligations to LABF. Despite the additional authorized financing sources, the actual city contribution continually falls short of the requested amount due to a loss associated with the portion of its contribution financed by the tax levy. It is questionable as to whether the City has the legal authority to pass along the shortfall to the LABF since it has the authority to make up the shortfall from “any source legally available”.

Empirical Evidence Supporting Findings

This section contains copies the following historical documents used to support the findings in this report:

1. Excerpt from LABF’s Annual Statement as of December 31, 1935
2. January 2, 1942 letter from LABF to the City Council of the City of Chicago certifying the City contribution amount for the purposes of the 1942 tax levy
3. November 29, 1944 letter from Donald F. Campbell, Fund Actuary, to John P. Wilson, Executive Director and President of the Retirement Board, addressing funding deficiencies and a 1943 law allowing the Fund to levy an amount that would anticipate a loss and cost of collection associated with property taxes
4. October 9, 1953 letter from Donald F. Campbell, Fund Actuary, to the retirement board regarding the tax levy resolution for 1954
5. September 19, 1957 letter from Donald F. Campbell, Fund Actuary, to the retirement board regarding the tax levy resolution for 1958
6. August 23, 1962 letter from Donald F. Campbell, Fund Actuary, to the retirement board regarding the tax levy resolution for 1963
7. Excerpt from December 6, 1962 Chicago City Council Journal of Proceedings

3.
Exhibit "B"

LABORERS' AND RETIREMENT BOARD EMPLOYEES' ANNUITY AND BENEFIT FUND.

INCOME

FOR THE PERIOD FROM JULY 1, 1935 TO DECEMBER 31, 1935

SALARY DEDUCTIONS:

Employees	\$ 57,938.15	
Wives of Employees	14,358.06	
Ordinary Disability	7,275.41	
Expense of Administration	<u>4,438.90</u>	
Total Salary Deductions		\$ 84,010.52

CITY CONTRIBUTIONS:

Employee's Annuity	\$ 89,038.70	
Wives Annuity	25,323.29	
Children's Annuity	254.18	
Duty Disability	3,456.13	
Ordinary Disability	7,333.04	
Expense of Administration	<u>9,175.72</u>	
Total City Contributions		\$134,581.06

Note: Notice the breakout of City contributions in LABF's 1935 Annual Financial Statements.

Less Contributions Cancelled because of Refunds and Credited to Prior Service Account	<u>155.18</u>	
		\$134,425.88

Tax Extension 1935	\$131,982.68	
Less Reserve for Loss and Cost of Collection	<u>13,198.27</u>	
Net Tax Extension	<u>\$118,784.41</u>	

Current Deficiency after Refund Credits	<u>15,641.47</u>	
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Net City Contributions		<u>118,784.41</u>
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TOTAL INCOME FOR THE PERIOD FROM JULY 1, 1935 TO DECEMBER 31, 1935		\$202,794.93
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TOTAL EXPENDITURES FOR THE PERIOD FROM JULY 1, 1935 TO DECEMBER 31, 1935		<u>19,034.91</u>
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EXCESS INCOME OVER EXPENDITURES AND BALANCE NET LEDGER ASSETS DECEMBER 31, 1935		<u>\$183,760.02</u>
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Note: Notice that the amount required for the purposes of the fund exceeds the maximum amount that could be levied in 1942; therefore, the financing request is capped at maximum tax levy amount.

Chicago, Illinois.
January 2, 1942.

To the Honorable,
The City Council of the City of Chicago,
Chicago, Illinois.

Gentlemen:

This is to certify that at a meeting of the Retirement Board of the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago held on January 2, 1942, a quorum being present, the following resolution was unanimously adopted:

RESOLVED: That pursuant to the provisions of an Act of the General Assembly of Illinois, approved June 21, 1935, in force July 1, 1935, entitled "An Act to provide for the creation, setting apart, maintenance, and administration of a laborers' and retirement board employees' annuity and benefit fund in cities having a population exceeding two hundred thousand inhabitants," the Retirement Board of the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago hereby advises the City Council of the City of Chicago that the amount of the tax required in the year 1942 for the purpose of providing revenue for the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago is Seven Hundred Twenty-five Thousand, Five Hundred and Eighty-four (\$725,584.00) Dollars, but in view of the fact that the valuation of assessable property in the City of Chicago as related to the tax rate fixed for the fund precludes the collection of the foregoing amount we certify to the City Council of the City of Chicago that the tax to be levied for the purposes of the fund for the year 1942 be in the amount of Six Hundred Forty Thousand, Nine Hundred(\$640,900.00) Dollars.

AND BE IT FURTHER RESOLVED: That the Secretary be instructed to submit a copy of this resolution to the said City Council.

I hereby certify that the above is a full, true and correct copy of the resolution adopted by the Retirement Board of the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago at its meeting held January 2, 1942.

SECRETARY

SEAL)

DONALD F. CAMPBELL
AND
DONALD F. CAMPBELL, JR.
CONSULTING ACTUARIES
160 NO. LA SALLE ST.
CHICAGO 1, ILL.

TELEPHONE STATE 1336

November 29, 1944.

Mr. John P. Wilson,
The Retirement Board of the Laborers'
and Retirement Board Employees'
Annuity and Benefit Fund,
Chicago, Illinois.

Dear Mr. Wilson:

Mr. Burke has requested me to advise you regarding moneys for the Ordinary Disability Fund.

The question arose as to the advisability of requesting an appropriation from the City Council to take care of the existing deficiency.

It would not be possible for the city to pay such an amount since the law provides that the city may pay only the 29/100 of a mill tax levy. This is prescribed in Section 11 in the clause "and no money of such city derived from any source other than the levy and collection of said tax or the sale of tax anticipation warrants in accordance with the provisions of this section shall be used to provide revenue for the annuity and benefit fund herein provided for."

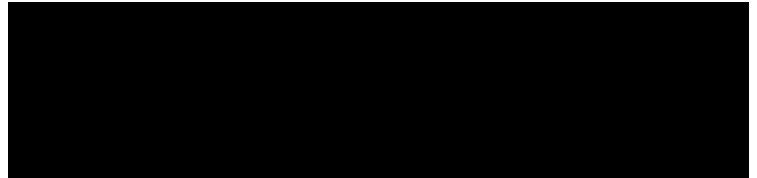
On January 1, 1943 the Ordinary Disability Fund had a balance of \$10,195.39. Income from deductions and city's contributions was \$28,963.96 and disbursements from the fund were \$62,895.22. After adding interest to the balance and making the interest adjustments to income and expenditures the fund would have gone behind \$34,073.07. The law allowed us to transfer an amount of \$20,521.27 to this fund from the Annuity Payment Fund, because at the end of the year the assets of that fund exceeded the liabilities by 15% and the \$20,521.27 was the amount left over. This transfer is not in the nature of a loan but is in fact a gift from the Annuity Payment Fund and arose because of mortality experience favorable to the Fund. So the fund actually decreased by \$13,551.50, leaving a deficiency at the end of the year of \$3,356.11.

For the year 1944 the expenditures for ordinary disability will exceed the income from deductions and contributions. Although it is impossible to tell until the year has ended what amounts will be available for transfer, I can safely say now that there will be sufficient to permit of transfers so that the red-figure balance in the Ordinary Disability Fund will be reduced if not removed entirely.

Therefore, I think that it is not advisable to take any steps at the present time to provide additional revenue for the Ordinary Disability Fund.

The figure of \$517,000.00 which I estimated as necessary for purposes of the fund for 1945 is slightly under 29/100 of a mill on 37% of the 1943 valuation of the city. A law was enacted in 1943 allowing us to anticipate a reserve for loss and cost of collection. Therefore we took that into account at 10% by asking for \$574,444.00. The Board will not be subject to criticism for asking for such an amount.

Respectfully submitted,

A large black rectangular redaction box covering the signature of the Actuary.

ACTUARY.

Note: Notice the reference to a 1943 law allowing LABF to anticipate a loss by requesting an amount in excess of the sums required for the various pension fund purposes

DFC*MP

DONALD F. CAMPBELL, JR.
CONSULTING ACTUARY
188 WEST RANDOLPH STREET - SUITE 820
CHICAGO 1, ILLINOIS

TELEPHONE STATE 2-1336

October 9, 1953.

The Retirement Board of the Laborers'
and Retirement Board Employees'
Annuity and Benefit Fund,
Chicago, Illinois.

Gentlemen:

Re: Tax Levy Resolution For Year 1954.

In my letters to the Board dated October 24, 1951 for the 1952 tax levy, and September 25, 1952 for the 1953 tax levy, I estimated that a tax levy of \$2,871,000.00 for each of these years would amortize the deficit in about nineteen (19) years for the 1952 levy, and about eighteen (18) years for the 1953 levy.

The Board's tax levy resolution for the years of 1952 and 1953 was \$2,871,000.00 for each year.

This annual tax levy of \$2,871,000.00 I estimate still will provide sums such that the deficit of the Fund will be amortized well within the thirty year amortization period set up in the Act in the year 1949. Although the length of time it will take to amortize the deficit cannot be determined accurately until the effect of the 1953 amendments is determined and the annual statements are completed the changes will not be of such an amount to change the remaining amortization period very far from eighteen years at present based on three (3) per cent interest earnings.

Note: Notice the breakdown of the sums required for the various purposes of the law.

Page Two.

October 9, 1953.

Based on such estimate the detail of the levy would be as follows:

City Contributions For Employees' Annuities.....	\$1,212,000.00
City Contributions For Wives' Annuities.....	314,000.00
City Contributions For Ordinary Disability.....	65,000.00
City Contributions For Expense Of Administration.....	60,000.00
City Contributions For Child's Annuities.....	8,000.00
City Contributions For Duty Disability.....	25,000.00
City Contributions For Compensation Annuities.....	12,000.00
City Contributions For Supplemental Annuities.....	2,000.00
City Contributions For Purposes Of Section 53.....	<u>1,173,000.00</u>
Total.....	<u>\$2,871,000.00</u>

The maximum amount of tax that could be levied under the provisions of the Act based on 1952 assessed valuations is \$3,150,000.00.

Respectfully submitted,

Actuary.

DFC*mc

Note: Notice that the \$2,871,000 being requested is less than the maximum tax levy amount (\$3,150,000) allowed under the law.

DONALD F. CAMPBELL
CONSULTING ACTUARY
188 WEST RANDOLPH STREET - SUITE 820
CHICAGO 1, ILLINOIS

TELEPHONE STATE 2-1386

Note: Note that when a deficit existed as a result of inadequate contributions, the deficit was amortized over a period of years.

September 19, 1957

The Retirement Board of the Laborers'
and Retirement Board Employees'
Annuity and Benefit Fund,
Chicago, Illinois.

Re: Tax Levy Resolution For Year 1958.

Gentlemen:

In my letter to the Board dated August 28, 1956 I estimated that a tax levy of \$2,871,000.00 for the year 1957 would amortize the deficit within the thirty (30) year amortization set up in the Act in the year 1949.

The Board's tax levy resolution for each of the years from 1952 to 1956, both inclusive, was for \$2,871,000.00.

If this same sum of \$2,871,000.00 is levied for the year 1958, I estimate that it will provide sums such that the deficit to the Fund will be amortized within the thirty year amortization period. Although the length of time it will take to amortize the deficit cannot be determined accurately until the effect of the 1957 amendments is determined and the annual statement for 1957 is completed, I estimate that the operating experience of the Fund for 1958 will not differ materially from that for the year 1957 and that the remaining amortization period will be completed before the year 1979.

Based on such estimate the detail of the levy would be as follows:

City Contributions For Employees' Annuities....	\$1,564,000.00
City Contributions For Wives' Annuities.....	441,000.00
City Contributions For Ordinary Disability.....	160,000.00
City Contributions For Expense Of Administration	69,000.00
City Contributions For Child's Annuities.....	8,000.00

Page Two.

City Contributions For Duty Disability.....	\$ 85,000.00
City Contributions For Compensation Annuities.....	12,000.00
City Contributions For Supplemental Annuities.....	3,000.00
City Contributions For Purposes Of Section 53.....	<u>529,000.00</u>
Total.....	<u>\$2,871,000.00</u>

The maximum amount of tax that could be levied under the provisions of the Act based on 1956 assessed valuations is \$3,396,210.17.

Respectfully submitted,



Actuary.

DFC*mac

DONALD F. CAMPBELL
CONSULTING ACTUARY
221 NORTH LA SALLE STREET • SUITE 3117
CHICAGO 1, ILLINOIS

TELEPHONE STATE 2-1335

Note: Notice that the sum required for the various purposes under the law was calculated, then inflated to allow for a 7½% shortfall due to loss and cost of collection.

August 23, 1962.

Mr. John P. Wilson, President,
Laborers' and Retirement Board
Employees' Annuity and Benefit
Fund,
Chicago, Illinois.

Note: Notice the separate
Park District levy.

Re: Tax Levy Resolution For The Year 1963.

Dear Mr. Wilson:

Enclosed herewith are two forms for the tax levy resolutions for the year 1963 showing the amount of tax levy for the City to be \$3,726,000.00 and for the Park District to be \$24,000.00.

The amount of tax levy for the year 1962 for the City was \$3,726,000.00 and for the Park District \$24,000.00.

If present factors affecting costs remain about as at present a tax levy of \$3,726,000.00 for the City and of \$24,000.00 for the Park District, both levies allowing for a 7½% reserve for loss and cost of collection, I estimate would amortize the Fund's deficit within a period of about twenty-three years from January 1, 1963.

This period is about seven years longer than the thirty year amortization period provided for in the Act.

Future changes in these factors will result in different tax levy requirements.

The rate of future retirements, amount of future salaries, and rate of interest earnings are the principal factors. The actual future experience will show the extent of any variations from the past operating experience of the Fund.

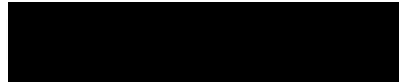
The detail of the levy for the City of \$3,726,000.00 would be as follows:

Page Two.

City Contributions For Employees' Annuities.....	\$2,300,000.00
City Contributions For Wives' Annuities.....	660,000.00
City Contributions For Ordinary Disability.....	216,000.00
City Contributions For Expense Of Administration.....	100,000.00
City Contributions For Child Annuities.....	18,000.00
City Contributions For Duty Disability.....	150,000.00
City Contributions For Compensation Annuities.....	6,000.00
City Contributions For Supplemental Annuities.....	3,000.00
City Contributions For Purposes Of Section 53.....	273,000.00
Total.....	<u>\$3,726,000.00</u>

The maximum amount of tax that could be levied by the City under the provisions of the Act based on 1961 assessed valuations is \$3,760,000.00.

Respectfully submitted,



Actuary.

DFC*mac
Enclosure.

Pension Funds.

No. 15. CITY RELIEF FUND—660

<u>Code</u>	<u>Amounts Appropriated</u>
	\$
For general assistance to persons in need thereof, residing within the City of Chicago, and expendi- tures for the administration thereof.....	12,120,909.00
9112.930	
9114.960 For loss and cost in collection of taxes.....	836,600.00
Total from City Relief Fund.....	<u>12,957,509.00</u>

No. 16. MUNICIPAL EMPLOYEES' ANNUITY AND
BENEFIT FUND—681

For the amount of tax to be levied in the year 1963 as certified to the City Council by the Retirement Board of the Municipal Employees' Annuity and Benefit Fund of the City of Chicago for the pur- pose of providing revenue for the fund under the provisions of an act entitled, "An Act to provide for the creation, setting apart, maintenance and administration of a municipal employees', officers', and officials' annuity and benefit fund in cities having a population exceeding two hundred thou- sand inhabitants," approved June 29, 1921, as amended	9,251,000.00
9216.976	

No. 17. LABORERS' AND RETIREMENT BOARD
EMPLOYEES' ANNUITY AND BENEFIT FUND—682

For the amount of tax to be levied in the year 1963 as certified to the City Council by the Retirement Board of the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of the City of Chicago for the purpose of providing revenue for the fund under the provisions of an act en- titled, "An Act to provide for the creation, setting apart, maintenance and administration of a labor- ers' and retirement board employees' annuity and benefit fund in cities having a population exceed- ing two hundred thousand inhabitants", approved June 21, 1935, as amended.....	3,726,000.00
9216.976	

Note: Page from Journal of
Proceedings of the City
Council of the City of Chicago
for the Recessed Session--
Thursday, December 6, 1962
showing budgeted
contribution amount.

No. 18. POLICEMEN'S ANNUITY AND BENEFIT
FUND—683

For the amount of tax to be levied in the year 1963 as certified to the City Council by the Retirement Board of the Policemen's Annuity and Benefit Fund of the City of Chicago for the purpose of providing revenue for the fund under the pro- visions of an act entitled, "An Act to provide for the creation, setting apart, maintenance and ad- ministration of a policemen's annuity and benefit fund in cities having a population exceeding two hundred thousand inhabitants," approved June 29, 1921, as amended.....	9,117,000.00
9216.976	