

# LABORERS' AND RETIREMENT BOARD EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO

A COMPONENT UNIT OF THE CITY OF CHICAGO  
STATE OF ILLINOIS

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2012

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STATE OF ILLINOIS

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FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2012

PREPARED BY THE ACCOUNTING DEPARTMENT  
321 N. CLARK ST. SUITE 1300  
CHICAGO, IL 60654





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# Introductory Section

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

**Board of Trustees**

Stephanie Neely  
City Treasurer  
**Ex-Officio Trustee**  
**President**

Will Irving  
**Appointed Union Trustee**  
**Vice President**

Michael LoVerde  
**Elected Trustee**  
**Secretary**

Amer Ahmad  
City Comptroller  
**Ex-Officio Trustee**

Lois Scott  
City Chief Financial Officer  
**Appointed Trustee**

Joseph Rinella  
**Elected Trustee**

Carol Hamburger  
Deputy Budget Director  
**Appointed Trustee**

John Arvetis  
**Retired Trustee**

**Executive Staff**

Aileen M. Pecora  
**Interim Director**

**Consultants**

Gabriel Roeder Smith & Co.  
**Consulting Actuary**

Shelsky & Froelich  
**Legal Counsel**

Terence Sullivan M.D.  
**Fund Physician**

Calibre CPA Group PLLC  
**Auditor**

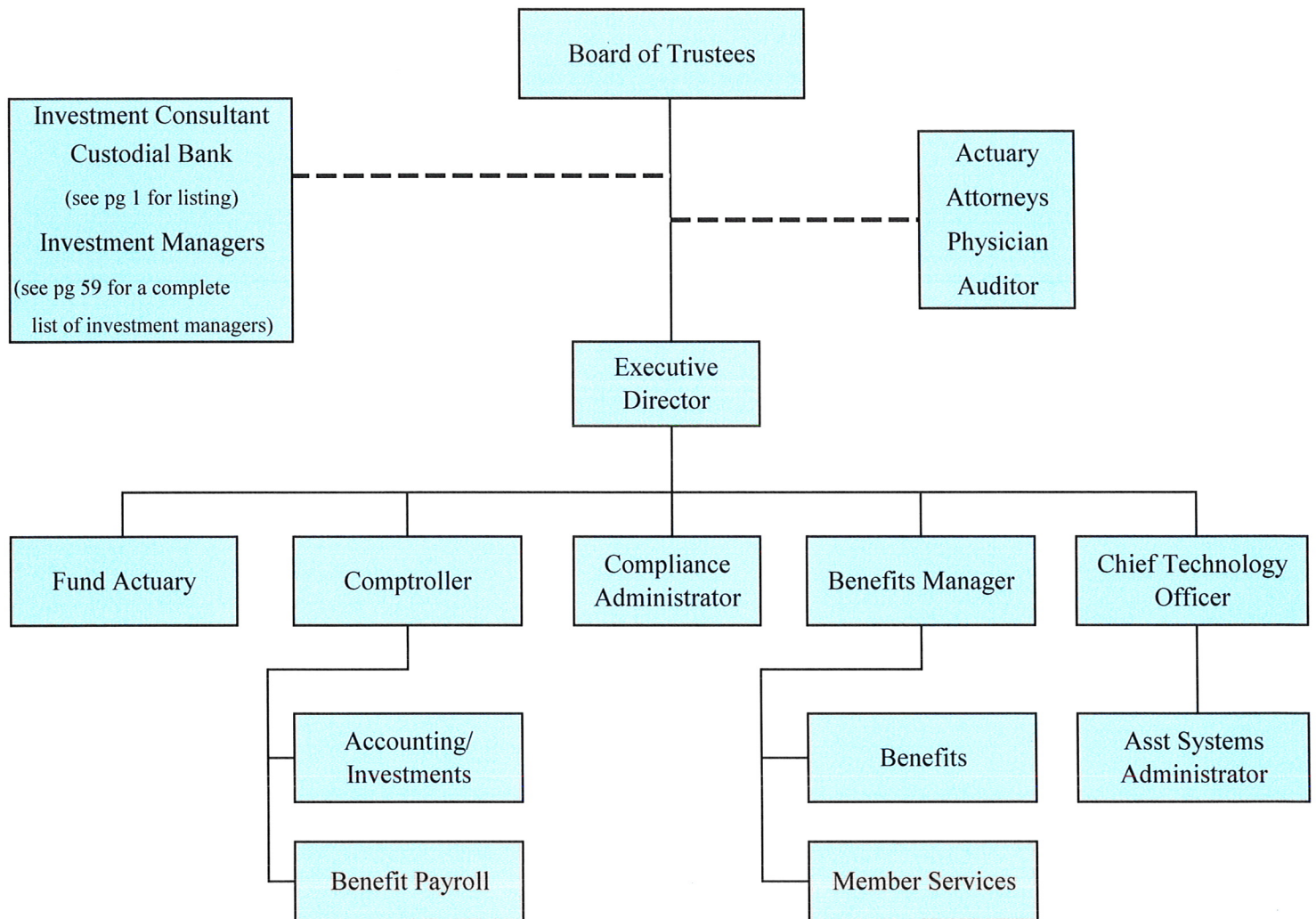
NEPC, LLC  
**Investment Consultant**

The Northern Trust Company  
**Custodial Bank**



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

**Administrative Organization**



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

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

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2011

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.



*Christopher P. Moynell*

President

*Jeffrey R. Egan*

Executive Director





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

April 15, 2013

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

The Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (the Plan) presents its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2012. This report and the information it contains is entirely the responsibility of the Plan and its administrative staff. The statements and disclosures contained in this report have been prepared to enable the Plan's participants, interested citizens, and responsible governmental officials to draw fair conclusions concerning the financial health and management of the Plan. To the best of our knowledge, the information provided is accurate and complete in all material respects.

**Background**

The Plan was established in 1935 and is governed by legislation contained in Chapter 40, Act 5 of the Illinois Compiled Statutes. Article 11 of that act specifically and exclusively refers to the Plan. The Plan was created for the purpose of providing retirement and disability benefits for employees of the City of Chicago or the Board of Education who may be employed in a laboring capacity and for the dependents of such employees. The Plan is governed by an eight member Board of Trustees; three of whom are elected, two of whom are ex-officio trustees, another two of whom are appointed by the City and one who is appointed by the president of the local labor organization representing the majority of employees. All trustees serve without compensation except for necessary expenses. The Board of Trustees and the administrative staff of the Plan are fiduciaries who are legally bound to discharge their duties with respect to the retirement system solely in the interest of the participants and their beneficiaries.

A system of internal controls helps the Plan to monitor and safeguard assets and promote efficient operations. In addition, the staff prepares an operating budget which is evaluated and approved by the Board of Trustees annually. All financial statements are prepared in accordance with generally accepted accounting principles (GAAP) within the guidelines established by the Governmental Accounting Standards Board (GASB). An external audit is completed annually by an independent auditor.

The sources and conditions of all contribution revenues are detailed in Article 11 as well as all benefit types, amounts, eligibility requirements, and methods of funding. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer, the City of Chicago, has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Reserves are set aside, as determined by the Plan's independent actuary, for the accumulation of employee and employer contributions and for the payment of all benefit obligations.

## **Overview**

At December 31, 2012, total Plan membership, including active, inactive, disabled and retired members is 8,249. Net Plan Position increased by more than \$57 million. Additions to Plan Assets were \$204 million largely due to investment income. For 2012, benefit expenses of nearly \$140 million included pensions, disability payments, and the Plan's share of the cost to provide health insurance coverage. The unfunded actuarial accrued liability based on the actuarial value of assets increased from \$769 million to \$1,059 million during the year, resulting in a reduction in the funding ratio from 64.9% to 55.4%. For a full understanding of the Plan's financial results, the reader is urged to review the Financial Section of this report that contains the management's discussion and analysis, auditor's report, the financial statements and other supplemental information. Management's discussion and analysis provides a narrative introduction, overview, and analysis of the financial statements and complements this transmittal letter.

## **Investments**

The investment policy of the Plan is designed to insure the long-term financing of its funding requirements. The Plan's investments are managed by the Board of Trustees pursuant to Chapter 40, Section 5/1 and 5/11 of the Illinois Compiled Statutes using the "prudent person rule." The prudent person rule establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the Plan. This rule states that fiduciaries must discharge their duties solely in the interest of the plan participants and beneficiaries and with the skill, care, prudence, and diligence that a prudent person would ordinarily exercise under similar circumstances in a like position. By permitting further diversification of investments within a plan, the prudent person standard may enable a plan to reduce overall risk and increase returns.

The Board of Trustees, along with professional consultants, managers and staff, maintain an asset allocation program designed to provide the highest expected return while maintaining an appropriate level of risk. The strategic asset allocation among investment types and manager styles is reviewed annually by the trustees and investment consultant.

As of December 31, 2012, the fair value of invested assets, excluding securities lending collateral, was \$1,367,467,403 which compares to \$1,312,383,158 as of December 31, 2011. For the year ending December 31, 2012, the Plan's total investment return on the fair value of assets was a strong 14.6%. Total investment return for the Plan over the last three and five years was 9.8% and 2.6%, respectively. A detailed discussion of investment performance and asset allocation is provided in the Investment Section of this report.

## **Funding Status**

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 over liabilities (%). Fund liabilities are dependent on actuarial assumptions and on actuarial cost methodology. Fund assets can be measured at market value, book value, or some variation to smooth the market fluctuations that invariably occur from year to year. The funding status for the Plan 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 investment earnings and actual investment earnings over a five year period.

Based on the Actuarial Value of Assets, the unfunded liability as of December 31, 2012 was a deficit of \$1,058,929,034 (including a GASB 43 unfunded liability of \$38,653,355) compared to a deficit of \$768,767,413 the previous year. The funding ratio as of December 31, 2012 is 55.4% compared to 64.9% in 2011.



### **Current and Future Developments**

The Plan welcomed 182 new participants in 2012, as compared to 84 new participants in 2011. These new participants of 2012 join the Tier 2 group which establishes different retirement eligibility conditions and benefit provisions from those who became members prior to January 1, 2011. In 2012, 136 participants retired from service, as compared to 161 retiring the prior year.

Continual enhancements to the Plan's participant database system were completed in 2012, specifically programming changes to address Tier 2 benefit structure. In addition, LABF has become "cloud ready" by constructing its own private cloud computing environment. The Plan's private cloud is a combination of server virtualization, thin client devices, and a storage area network. It enables computing resources to be efficiently accessed throughout the office regardless of location.

Following an asset allocation study that was completed in 2011 and with assistance from NEPC, LABF has expanded its portfolio with investments in new asset classes. The Plan made investments in Global Tactical Asset Allocation (PIMCO and Wellington) and Global Hedge Fund of Funds (Balestra and Stenham). The Fund moved away from Core Fixed Income mandates into Core Plus and Global Strategies which allows for expanded investment guidelines to capture greater investment returns. In real estate, two mandates were awarded in 2012 (Mesirow Financial and ASB Capital). Additionally, the Fund awarded mandates to two Women-Owned Hedge Fund of Fund Managers (Pluscios Management and Rock Creek) which were funded in early 2013. Searches were initiated in Emerging Market Debt with a mandate awarded in early 2013. Additionally, in 2013, searches in International Small Cap, Emerging Market Small Cap, and Real Estate Debt have been initiated. Through continued diversification of investment type, region, and management styles, our goal is to improve the expected long term results while maintaining an acceptable level of risk. Further detail is shown in the investment section of this report.

### **Internal Controls and Safeguards**

A set of internal and external controls is in place to provide reasonable assurance regarding the safekeeping of assets of the Plan, the reliability of financial records, and facilitation of efficient operations. The concept of reasonable assurance recognizes that first, the cost of the control should not exceed the benefits likely to be derived and second, the valuation of the costs and benefits require estimates and judgments by management. Some of these controls are: 1) The accrual basis of accounting is used to record the financial transactions and activities of the Plan; 2) cash receipts are deposited timely with our custodial bank, the Northern Trust Company; 3) benefit disbursements are prepared and reviewed by the Plan's benefit specialists; 4) the Plan's financial statements are audited annually by the independent accounting firm of Calibre CPA Group PLLC (the audit report makes up the Financial Section of this report, along with required supplementary information and some additional schedules providing more detail relating to the Plan's financial activities); 5) copies of the audit report and actuarial report are submitted annually to the City Comptroller, the City Clerk, and the City Council of the City of Chicago as well as to the Division of Insurance at the Illinois Department of Financial and Professional Regulation (IDFPR); 6) the IDFPR also specifies the content of another detailed report submitted to it in accordance with Chapter 40, Act 5, Article 22, Section 503; 7) the Plan's invested assets as of year end were under the management of thirty-four independent professional investment managers.

### **GFOA Award**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago for its comprehensive annual financial report for the fiscal year ended December 31, 2011. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Reports to Membership**

The Plan has issued a variety of reports covering 2011 and 2012 activity. Every spring, we mail participant statements to our active members. This statement details the participant's accumulated contributions to the Plan and beneficiary information on file. A newsletter to all membership is sent out informing members of any relevant administrative, legislative or retirement topics. In addition, the membership also receives a summary of the annual financial report. Various city and state offices will also receive the annual report in June in addition to it being available on our website and upon request at our office.

### **Outlook for 2013**

Despite concerns over the fiscal cliff and the longer term impact of sequestration, equities continued their strong momentum in the first quarter of 2013. Overall, the economic recovery in the U.S. continued, although at a somewhat sluggish pace. The trends in housing and employment, two vital areas of concern since the recession, are seeing improvement. Europe was the only significant drag on a quarter with a great deal of optimism and the developments in Cyprus were a stark reminder that some unpredictable uncertainties remain. The S&P 500 Index gained 10.6%, its second best opening quarter return since 1998. The MSCI EAFE Index gained 5.1% while the MSCI Emerging Markets Index was down 1.6% for the quarter. With the improving economy and the Federal Reserve showing very few signs of slowing down their efforts to boost the economy through Quantitative Easing, there are a number of constructive elements to promote the continued forward movement of equities in 2013.

In the global fixed income markets, 2013 began on a positive note for risky assets, as stimulatory action by global central banks spurred investors to seek higher returns. While monetary stimulus abounds, uncertainties on the political front, the contentious nature of the Cyprus bail out and weak economic data all combined to take some of the steam off the risky rally in February and March. For the first quarter of 2013, most of the major sectors of the fixed income market posted negative returns, with the exception of U.S. Agencies and U.S. High Yield. The Barclays Global Aggregate Bond Index added 0.6% for the quarter while the Barclays U.S. Aggregate Bond Index was down 0.1%.

The global economy should expand at a moderate pace in 2013, and inflation should remain benign. Headwinds remain around private sector deleveraging and fiscal austerity but central banks have shown their willingness to support growth and financial markets, which should support the global economy. Recent data from the U.S. continue to show encouraging signs of recovery. However, events in Cyprus and the elections in Italy serve as timely reminders that political risk has not disappeared. The Plan continues to monitor its investment program and strategy to ensure a favorable risk and return profile over the long term.

Benefit payments are expected to be higher in 2013 as a result of statutory cost of living increases while refund and administrative expenses are expected to remain steady in 2013.

The public pension debate continues to be in the forefront of issues affecting the Plan. The financial viability and health of pension systems is being called into question as the baby boom generation ages, life expectancy increases, and many states and municipalities face public sector budget crises. Pension reform is one of the most important issues facing the Plan. We continue to monitor the proposals of lawmakers to put pension systems on the path toward financial stability.

#### **Acknowledgements**

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the Plan's administrative staff. Every effort has been made to ensure that the information it contains is accurate and complete to the best of our ability. It is intended to provide a basis for making management decisions, to determine our compliance with legal provisions, and as a means of determining responsible stewardship of the assets contributed by the members and their employer.

The Board and staff of the Plan are dedicated to preserving the retirement system and are doing so with honesty, dedication, and integrity. We strive to be responsible in our actions that are vital to the success of the Plan. We are very grateful for the Board's diligence, concern, and support over many years of our efforts to improve the levels of service and benefits to our participants.

On behalf of the Board of Trustees, I would like to express my sincere appreciation to the staff and the professional consultants for their contributions made to this report and for their dedicated service toward the continued successful operations of the Plan.

Respectfully submitted,



Aileen M. Pecora  
Interim Director

## Financial Section





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## REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of  
Laborers' and Retirement Board Employees'  
Annuity and Benefit Fund of Chicago

### Report on the Financial Statements

We have audited the accompanying statements of plan net position of Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (the Plan) as of December 31, 2012 and 2011, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

### Management's Responsibility

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago at December 31, 2012 and 2011, and the changes in financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 11 through 15 and the required supplementary information consisting of the Schedule of Funding Progress and the Schedule of Employer Contributions, and Notes to the Schedules on pages 46 through 50 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago's basic financial statements. The supplementary information consisting of the Schedules of Administrative Expenses, Investment Expenses and Professional Services are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information on page 52 has not been subjected to the auditing procedures applied in the audits of the basic financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

### *Previously Audited Information*

We have also previously audited the basic financial statements for the years ended December 31, 2010, 2009, 2008, and 2007 (which are not presented therein). Our reports on the required supplementary information (pages 46 and 47) stated that we applied limited procedures, which consisted principally of inquiries of management regarding methods of measurements and presentation of the supplementary information, but did not audit the information and expressed no opinion on it.

*Calibre CPA Group, PLLC*

Chicago, Illinois  
April 15, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is prepared by the management staff of the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (LABF) for the purpose of providing an overview of the Plan's financial activities for the year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal (pages 4-8), the financial statements, required supplementary information and supplemental information.

### Annual Financial Review

Each year the Plan commissions an actuary to assess the financial strength of the Plan. The actuary compares the value of "benefit promises" made to its members to the value of the Plan's assets. As prescribed by accounting standards, the actuary uses a valuation method different than fair value to determine the value of the Plan's assets. It differs in that the actuarial value of assets distributes investment gains and losses over a five year period in an attempt to smooth out market volatility. For fiscal year 2012, the consulting actuary reports the Plan's actuarial liability was \$2.38 billion and the actuarial value of assets was \$1.32 billion.

The comparison of the assets to liabilities is termed the funded ratio and represents the percentage of assets available to pay the promised benefits. The funding ratio, measured using the Actuarial Value of Assets, which smooths investment gains and losses over a five year period, decreased from 64.9% in 2011 to 55.4% in 2012. The funded ratio is also expected to stabilize next year at which point the significant investment losses from 2008 will not be included in the multi-year smoothed averages.

### Overview of the Financial Statements of the Plan

This discussion and analysis is intended to serve as an introduction to the Plan's financial reporting which is comprised of the following components.

1. Basic Financial Statements: The two basic financial statements are the Statements of Plan Net Position and the Statements of Changes in Plan Net Position. The Statements of Plan Net Position report the balance of net assets restricted for payment of future pension benefits as of the fiscal year end, with comparative values reported as of the previous fiscal year end. The Statements of Changes in Plan Net Position report the net increase in net position for the fiscal year, with comparative values reported for the previous fiscal year. This increase, when added to the previous year's net position, supports the total net position as reported in the Statements of Plan Net Position.
2. Notes to the Financial Statements: Notes to the Financial Statements provide additional valuable information that assists the reader to better understand the Plan's financial position. The notes are an integral part of basic financial statements.
3. Required Supplemental Information: The required supplemental information consists of the Schedule of Funding Progress, Schedule of Employer Contributions and related notes. These schedules and related notes emphasize the long-term nature of pension funds and show the Plan's progress in accumulating sufficient assets to pay benefits when due. These schedules present actuarial trend information for both the Plan and Other Postemployment Benefits (OPEB) that are associated with the Plan. The Plan participates in two different OPEB initiatives. First, the Plan, through its subsidy, and the City of Chicago share the cost of providing health care coverage to the City annuitant or their surviving spouse. Secondly, the Plan, as the employer offers to its retirees a postemployment group health care plan.
4. Supplemental: Schedules of Administrative Expenses, Investment Expenses and Professional Services are included to present the details of organizational costs incurred to operate the Plan.

## Investment Performance

In spite of the fact that an enormous number of uncertainties permeated the financial markets in 2012, it was a relatively good year for returns. 2012 saw renewed fears about Europe; weaker growth in the emerging world; US drought threatening higher food prices; and ongoing Middle East tensions; however, financial markets continued to climb this wall of worry. The foundation for asset price increases was primarily an open ended commitment to quantitative easing by the U.S. Federal Reserve. Similarly, foreign central banks also engaged in plenty of monetary easing globally which was justified by slowing growth and benign inflation.

As reported by the Plan's investment consultant, the total investment return based upon fair value was 14.6% in 2012 versus -0.3% in 2011. Both equities and fixed income contributed to the good performance. Domestic equity returns of 17.6% exceeded the benchmark of the S&P by 1.6% and Emerging markets equities exceeded the benchmark by 3%. Bond managers strongly outperformed the benchmark with an 8.6% return as compared to the Barclays Capital Aggregate bond index of 4.2 % for the year. Conversely, real estate and private equity underperformed their benchmarks by 6.3% and 4.1% respectively. Also, International developed equity returns of 17.1% lagged the MSCI EAFE Net by 0.2%. While hedge fund asset classes returned 5.0% and surpassed the benchmark by 0.3% they had only a nominal positive impact on overall Plan performance because they represent only 6.2% of the portfolio.

Rates of Return for Fiscal 2012					
Asset Category	1 Year Return	5 Year Return	Index Name	1 Year Return	5 Year Return
Cash and short-term	0.2%	0.8%	90 Day T-Bills	0.1%	0.4%
Fixed income	8.6	6.6	BC Aggregate	4.2	5.9
Domestic equities	17.6	1.9	S&P 500	16.0	1.7
Int'l developed equities	17.1	-1.6	MSCI EAFE Net	17.3	-3.7
Emerging markets equities	21.2	n/a	MSCI EMF Net	18.2	-0.9
Private equity	3.4	2.1	Cambridge Assoc.	7.5	4.0
Real estate	4.6	-5.7	NCREIF ODCE	10.9	-1.1
Hedge funds	5.0	n/a	HFRI FOF	4.7	-1.8
Total plan	14.6%	2.6%	Allocation Index*	13.6%	2.7%

\*The Allocation Index is an asset class-weighted benchmark designed to take into account the percentage of an asset class in a portfolio and the relationship to its corresponding benchmark.

## Financial Analysis

The Laborers' Fund provides retirement benefits as well as death and disability benefits to qualified City of Chicago employees. The benefits are funded by member and employer contributions and income from investments. The following summarized comparison indicates that the net position restricted for pension benefits at December 31, 2012 amounted to \$1.371 billion, which was an increase of \$57 million or 4.4% from \$1.313 billion at December 31, 2011. This increase is in contrast to the \$114 million decrease in net assets that occurred between December 31, 2010 and December 31, 2011.

## Condensed Comparative Statements of Plan Net Position

	December 31,			Net Change	
	2012	2011	2010	2011 to 2012	2010 to 2011
Receivables	\$ 17,650,166	\$ 19,375,793	\$ 22,909,550	\$ (1,725,627)	\$ (3,533,757)
Investments, at fair value	1,367,467,403	1,312,383,158	1,445,304,893	55,084,245	(132,921,735)
Invested security lending					
cash collateral	169,286,689	169,013,638	151,718,173	273,051	17,295,465
Property and equipment	1,179,777	1,751,204	2,225,275	(571,427)	(474,071)
Total assets	1,555,584,035	1,502,523,793	1,622,157,891	53,060,242	(119,634,098)
Deferred Outflows:					
Accumulated decrease in fair value of hedging derivatives	300,510	8	-	300,502	8
Liabilities	184,807,499	188,920,162	194,943,716	(4,112,663)	(6,023,554)
Net Position - Restricted for Pension Benefits	\$ 1,371,077,046	\$ 1,313,603,639	\$ 1,427,214,175	\$ 57,473,407	\$ (113,610,536)

### Assets

An increase or decrease of invested assets is directly tied to the strength of the financial markets at the fiscal year end. Total assets increased in 2012 by \$53 million or 3.5% as opposed to a \$120 million decrease in assets in 2011 from the prior year level. Please refer to the Investment Section of this report for more information on the Plan's investments.

As of December 31, 2012, total receivables, decreased by \$1.7 million or 8.9% from 2011 as a result of a reduction in the employer contribution and decreases in interest and miscellaneous receivables. In 2011, total receivables were 15.4% lower than the previous year due to a smaller employer contribution receivable. The Plan's property and equipment is primarily comprised of a custom developed software program. This program integrates the administrative functions of contribution accounting, benefit calculation and benefit payments.

### Liabilities

In 2012, the Plan's liabilities consisted of the liability for the cash collateral associated with securities lending (91.6%); unsettled net investment trades at year end (5.3%); accrued professional and investment management fees payable (2.9%); and derivative forward currency contracts (0.2%). In 2011, the Plan's liabilities consisted of the liability for the cash collateral associated with securities lending (89.4%); unsettled net investment trades at year end (7.5%); and accrued professional and investment management fees payable (3.1%). In 2010, the Plan's liabilities consisted of the liability for the securities lending cash collateral (77.8%); unsettled net investment trades at year end (19.2%); and accrued professional and investment management fees payable (3.0%). Because of the corresponding accounting entry, the rise or fall of liabilities over the past few years primarily rests with the activity of the securities lending program and the cash collateral that is held at year end.



## Condensed Comparative Statements of Changes in Plan Net Position

	Year Ended December 31,			Net Change	
	2012	2011	2010	2011 to 2012	2010 to 2011
<b>Additions</b>					
Total contributions	\$ 30,973,852	\$ 31,427,257	\$ 34,258,802	\$ (453,405)	\$ (2,831,545)
Total investment income	173,460,076	(4,510,715)	193,187,014	177,970,791	(197,697,729)
Total additions	204,433,928	26,916,542	227,445,816	177,517,386	(200,529,274)
<b>Deductions</b>					
Benefits and refunds	142,215,002	136,532,754	129,296,766	5,682,248	7,235,988
Administrative expense	4,745,519	3,994,324	3,864,287	751,195	130,037
Total deductions	146,960,521	140,527,078	133,161,053	6,433,443	7,366,025
Net increase (decrease)	57,473,407	(113,610,536)	94,284,763	171,083,943	(207,895,299)
<b>Net Position - Restricted for pension benefits</b>					
Beginning of year	1,313,603,639	1,427,214,175	1,332,929,412	(113,610,536)	94,284,763
Ending of year	\$ 1,371,077,046	\$ 1,313,603,639	\$ 1,427,214,175	\$ 57,473,407	\$ (113,610,536)

### Additions

The additions of member and employer contributions and investment income are the funding sources for benefit payments. While employer contributions declined by \$0.9 million or 6.1%, employee contributions increased by \$0.5 million or 3% which resulted in an overall 1.4% overall decline in total contributions. Since employer contributions are a function of employee contributions from two years prior; they follow the trend of employee wages. Due to tough economic conditions, the City of Chicago mandated unpaid furlough days and undertook workforce reductions. These actions lowered the amount of salaries on which the employer and employee contributions are based.

Activity in the financial markets impacted LABF in a positive manner in 2012. Investment income was \$173 million in 2012 as compared to an investment loss of \$4.5 million in 2011 which followed a 2010 gain of \$193 million. Overall, LABF net assets grew by \$57 million or 4.4% in 2012 as compared to a 8.0% decline in net assets in 2011 from the prior year.

### Deductions

The expenditures consist of annuity and disability benefit payments, contribution refunds, administrative and office staff OPEB expenses. Annuity expense increased 4.6% in 2012 as compared to 5.1% in 2011 and 5.0% in 2010. Although the number of recipients of benefit checks increased modestly over the years (see Retiree and Beneficiaries by Type on page 87), the expense continues to increase at a greater rate. Reasons for the increased annuity expense include a compounded cost of living increase to qualified employee annuitants each January and larger annuities to newly retired members as compared to those members who have been retired for a greater length of time.

During 2012, administrative expenses increased by 18.8% from the prior year mainly due to a large increase in legal expense. Also, inflation and the corresponding accounting entries to reflect our future healthcare obligations contributed to the rise.

### **Factors impacting 2013**

The 2013 financial markets are again expected to be a challenge. We expect sluggish global economic growth and sovereign-debt problems in the eurozone. Questions regarding China's growth trajectory adds to the uncertainty. The United States struggles continue domestically with unemployment and a sub-par economic recovery. In order to respond to these challenges, the Board of Trustees continue to focus on the Plan's asset allocation model to ensure opportunity for higher returns while minimizing overall risk.

The Illinois state legislature continues to seek ways to respond to the funding challenges of the pension plans throughout the state. Pension reform legislation is expected to directly impact not only the active employees but also the current retirees. However, Pension Reformists are struggling with the language in the Illinois Constitution that states that public employee pensions are an "enforceable contractual relationship, the benefits of which shall not be diminished or impaired." On May 31, 2013, the Illinois state legislature spring session concluded without passing reform legislation. This occurred primarily because neither of two competing versions of a pension reform bill was able to garner a majority of support at that time.

### **Request for Information**

Questions about any information provided in this report should be addressed to:  
Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago  
Attn: Executive Director  
321 N Clark St Ste 1300  
Chicago IL 60654-4739

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

**STATEMENTS OF PLAN NET POSITION**

DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>RECEIVABLES</b>		
Employer	\$ 14,905,875	\$ 15,635,039
Plan member	597,791	1,248,862
Interest and dividends	2,131,351	2,481,493
Other receivables	15,149	10,399
Total receivables	<u>17,650,166</u>	<u>19,375,793</u>
<b>INVESTMENTS - at fair value</b>		
Cash and short-term investments	<u>41,872,378</u>	<u>51,778,375</u>
Equities	<u>755,217,549</u>	<u>881,286,838</u>
Fixed income	<u>270,591,752</u>	<u>240,358,591</u>
Private equity	<u>45,730,173</u>	<u>46,943,283</u>
Real estate	<u>39,159,549</u>	<u>37,705,952</u>
Hedge funds	<u>85,299,187</u>	<u>54,310,119</u>
Global asset allocation funds	<u>129,596,815</u>	<u>-</u>
Subtotal	<u>1,367,467,403</u>	<u>1,312,383,158</u>
Securities lending cash collateral	<u>169,286,689</u>	<u>169,013,638</u>
Total investments - fair value	<u>1,536,754,092</u>	<u>1,481,396,796</u>
<b>PROPERTY AND EQUIPMENT</b>	<u>1,179,777</u>	<u>1,751,204</u>
Total assets	<u>1,555,584,035</u>	<u>1,502,523,793</u>
<b>DEFERRED OUTFLOWS</b>		
ACCUMULATED DECREASE IN FAIR VALUE OF HEDGING DERIVATIVES	<u>300,510</u>	<u>8</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Due to brokers - net	9,818,051	14,080,326
Forward currency contracts	300,510	8
Refunds, professional fees payable and other liabilities	3,741,865	4,537,749
OPEB liability	1,660,384	1,288,441
Securities lending cash collateral	<u>169,286,689</u>	<u>169,013,638</u>
Total liabilities	<u>184,807,499</u>	<u>188,920,162</u>
<b>NET POSITION - RESTRICTED FOR PENSION BENEFITS</b>	<u>\$ 1,371,077,046</u>	<u>\$ 1,313,603,639</u>

See accompanying notes to financial statements.

LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF CHANGES IN PLAN NET POSITION

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ADDITIONS		
Contributions		
Employer	\$ 14,414,835	\$ 15,358,602
Plan member	16,559,017	16,068,655
Total contributions	<u>30,973,852</u>	<u>31,427,257</u>
Investment income		
Net appreciation (depreciation) in fair value of investments	154,082,774	(24,681,491)
Interest	7,027,021	7,894,044
Dividends	16,176,098	14,658,060
Private equity income - net	521,720	2,052,059
Real estate operating income - net	1,612,467	1,281,213
Hedge fund income - net	919,775	1,796,010
Global asset allocation fund income - net	1,177,765	-
	181,517,620	2,999,895
Less investment expenses	<u>(8,908,746)</u>	<u>(8,104,755)</u>
Investment income (loss) - net	<u>172,608,874</u>	<u>(5,104,860)</u>
Securities lending		
Income	415,897	452,275
Lender (borrower) rebates	585,191	250,736
Management fees	<u>(149,886)</u>	<u>(108,866)</u>
Securities lending income - net	<u>851,202</u>	<u>594,145</u>
Total additions	<u>204,433,928</u>	<u>26,916,542</u>
DEDUCTIONS		
Benefits	139,620,042	133,463,852
Refunds	2,594,960	3,068,902
Administrative and OPEB expenses	<u>4,745,519</u>	<u>3,994,324</u>
Total deductions	<u>146,960,521</u>	<u>140,527,078</u>
NET INCREASE (DECREASE)	57,473,407	(113,610,536)
NET POSITION - RESTRICTED FOR PENSION BENEFITS		
Beginning of year	<u>1,313,603,639</u>	<u>1,427,214,175</u>
End of year	<u>\$ 1,371,077,046</u>	<u>\$ 1,313,603,639</u>

See accompanying notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2012 AND 2011

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago is administered in accordance with Chapter 40, Act 5, Article 11 of the Illinois Compiled Statutes. The costs of administering the Plan are financed by employer contributions in conformance with state statutes.

**Method of Accounting** - The financial statements reflect an accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer, the City of Chicago, has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

**Investments** - Investments are reported at fair value which generally represents reported market value as of the last business day of the year. Quoted market prices, when available, have been used to value investments. For equities, fair value is determined by using the closing price listed on the national securities exchanges as of December 31. Fair value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. Cash and short-term investments are valued at fair value which approximates cost. Global asset allocation funds and alternative investments, which include real estate, private equity investments and hedge funds, are valued using current estimates of fair value from the investment manager. Such valuations consider variables such as cash flow analysis, recent sales prices of investments, comparison of comparable companies' earnings multiples, withdrawal restrictions, annual audits, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from the values that would have been used had a ready market existed. The reported values of real estate and private equity are current values unless that information was unavailable in which case the reported value will lag one quarter behind the date of these financial statements. The difference between the current value and the lag has been evaluated and determined not to be material.

Unsettled trades as of the end of the year are recorded net as due to broker. At December 31, 2012 and 2011, \$12,542,137 and \$15,467,454, respectively, were due to broker and \$2,724,086 and \$1,387,128, respectively, were due from broker for unsettled trades.

**Property and Equipment** - Property and equipment are carried at cost. Major additions are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed by using the straight line method over an estimated useful life of five years, except for the custom software package development which is depreciated over 10 years.



## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 Chapter 40, Act 5, Article 11 of the Illinois Compiled Statutes.

**Subsequent Events Review** - Subsequent events have been evaluated through April 15, 2013, which is the date the financial statements were available to be issued. This review and evaluation revealed no new material event or transaction which would require an additional adjustment to or disclosure in the accompanying financial statements.

**Reclassifications** - Certain reclassifications have been made to prior year amounts to conform to the presentation for the current year. These reclassifications did not change the total net position - restricted for pension benefits or the changes in net position from the totals previously reported.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**New Accounting Pronouncements** - GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, was adopted during the year ended December 31, 2012. This statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position. The Plan's deferred outflows have been reflected on the Statements of Plan Net Position.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was adopted during the year ended December 31, 2011. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement has no impact on the Plan's financial statements.

GASB Statement No. 59, *Financial Instruments Omnibus*, was adopted during the year ended December 31, 2011. This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement has no impact on the Plan's financial statements.

The Plan was established in 1935 and is governed by legislation contained in Illinois Compiled Statutes, particularly Chapter 40, Act 5, Article 11 which specifically and exclusively refers to the Plan. The Plan can be amended only by the Illinois Legislature. The Plan is a single-employer defined benefit pension plan with a defined contribution minimum. The Plan was created for the purpose of providing retirement and disability benefits for employees of the City of Chicago (City) who are employed in a title recognized by the city as labor service and for the dependents of such employees.

## **NOTE 2. PLAN DESCRIPTION**

The Statutes authorize a Board of Trustees of eight members to carry out the provisions of the Article. According to the Article, two members of the Board are ex officio, two are to be elected by the employee members of the Plan, one is to be elected by the retired members of the Plan, one is to be appointed by the local labor union and two are to be appointed by the Department of Human Resources (formerly the Department of Personnel). The two ex officio members are the City Comptroller or someone chosen from the Comptroller's office and the City Treasurer or someone chosen from the Treasurer's office. All members of the Board of Trustees are fiduciaries with respect to the Plan and are statutorily mandated to discharge their duties, as such, solely in the interest of the Plan's participants and beneficiaries.

The Board has the powers and duties required in the Article to collect all contributions due to the Plan, to invest the Plan's reserves, to have an annual audit, to appoint employees, to authorize or suspend payment of any benefit and to have exclusive original jurisdiction in all matters relating to or affecting the Plan. The Board approves its own budget which is prepared by the administrative staff of the Plan. The Board is required annually to submit to the City Council of the City of Chicago a detailed report of the financial affairs and status of the reserves of the Plan. Provisions in other articles of Chapter 40 require the Board to submit its annual audit and actuarial valuation reports to the State of Illinois Department of Financial and Professional Regulation's (IDFPR) Division of Insurance, as well as another detailed annual report, the form and content of which is specified by the IDFPR's Division of Insurance.

Any employee of the City of Chicago or the Board of Education of the City employed under the provisions of the municipal personnel ordinance as labor service or any person employed by a retirement board of any annuity and benefit fund in the City is covered by the Plan. 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. The City of Chicago, for its employer's portion, is required by State Statutes to contribute an amount equal to 8% of each individual employee's salary as well as the remaining amounts necessary to finance the requirements of the Plan. The City's total contribution is limited to an amount not more than the total amount of contributions made by the employees to the Plan in the calendar year two years prior to the current year, multiplied by 1.00. The source of funds for the City's contribution has been designated by State Statutes and is derived from the City's annual property tax levy, or from any source legally available for this purpose, including but not limited to, the proceeds of city borrowings. The City of Chicago payroll for employees covered by the Plan for the years ended December 31, 2012 and 2011 was \$198,789,741 and \$195,238,332, respectively. The Plan is considered by the City to be a component unit of the City of Chicago and is included in the City's financial statements as a pension trust fund.

**NOTE 2. PLAN DESCRIPTION (CONTINUED)**

At December 31, 2012 and 2011, plan members consisted of the following:

	<u>2012</u>	<u>2011</u>
Retirees and beneficiaries currently receiving benefits	3,976	3,980
Inactive plan members entitled to benefits (or a refund of contributions) but not yet receiving them	1,408	1,417
Active plan members (including plan members receiving disability benefits)		
Vested	2,226	2,304
Non-Vested	<u>639</u>	<u>548</u>
Total plan members	<u>8,249</u>	<u>8,249</u>

The Plan provides retirement benefits as well as death and disability benefits. In 2010, legislation (Public Act 96-0889) was approved which in effect established two distinct classes of membership with different retirement eligibility conditions and benefit provisions. For convenience, the Plan uses a tier concept to distinguish these groups:

Tier 1 – Employees who first became members prior to January 1, 2011

Tier 2 – Employees who first became members on or after January 1, 2011

*Retirement Benefits:*

Tier 1: Employees age 55 or more with at least 10 years of service are entitled to receive a money purchase annuity with partial City contributions if under age 60 with less than 20 years of service. Employees age 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, multiplied by the final average salary. Final average salary is calculated using salary from the highest four consecutive years within the last 10 years of service preceding retirement. If the employee retires prior to age 60, the annuity shall be reduced by  $\frac{1}{4}$  of 1% for each month the employee is under age 60, unless the employee is 50 or over with at least 30 years of service or 55 or over with at least 25 years of service. The original annuity is limited to 80% of the highest average annual salary, adjusted for annual Internal Revenue Code (IRS) §401(a)(17) and §415 limitations. There is a 10 year deferred vested benefit payable at age 60. Employees who retire at age 60 or over with at least 10 years of service are entitled to a minimum of \$850 per month.

Tier 2: Employees with at least 10 years of service are entitled to receive an unreduced annuity benefit at age 67 or a reduced annuity benefit at age 62 with at least 10 years of service. The annuity shall be reduced by  $\frac{1}{2}$  percent for each month that the employee is under age 67. Final average salary is calculated using salary from the eight highest consecutive years within the last 10 years of service preceding retirement. Pensionable salary is limited to \$108,883 in 2012, increased each year by the lesser of 3% or  $\frac{1}{2}$  of the annual increase in the Consumer Price Index-Urban (CPI-U), but not less than zero.

## **NOTE 2. PLAN DESCRIPTION (CONTINUED)**

### *Post Retirement Increases:*

Tier 1: Employee annuitants are eligible to receive an increase of 3% of the current annuity beginning the 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, and each year thereafter.

Tier 2: Employee annuitants are eligible to receive an increase based on the original annuity equal to the lesser of 3% or  $\frac{1}{2}$  of the annual unadjusted percentage increase in the CPI-U (but not less than zero) beginning the January of the first payment date following the later of 1) age 67 and 2) the first anniversary of retirement.

### *Spousal Annuity:*

Tier 1: The eligible surviving spouse is entitled to a spousal annuity equal to 50% of the pension the member had earned at the date of death.

Tier 2: The surviving spouse is entitled to a spousal annuity equal to 66  $\frac{2}{3}$ % of the pension the member had earned at the date of death.

### *Automatic increase in Spousal Annuity:*

Tier 1: There is no increase in annuity for spousal annuities.

Tier 2: The spousal annuity increase is either  $\frac{1}{2}$  the rate of the CPI-U or 3%, whichever is lower, and is applied to the original spousal annuity amount. If the CPI-U decreases or is zero, no increase is paid. The spouse is eligible for an increase on January 1st occurring on or after the commencement of the member's annuity or occurring after the first anniversary of the commencement of the spousal annuity.

### *Child's Annuity:*

Under Tier 1 and Tier 2, annuities are provided for unmarried children of a deceased member who are under the age of 18, if the child was born, or *in esse*, or legally adopted. The child's annuity is \$220 a month when there is an eligible surviving spouse or \$250 a month when there is no eligible surviving spouse.

### *Duty Disability:*

Under Tier 1 and Tier 2, an employee who becomes disabled as the result of an injury incurred in the performance of any act of duty, is entitled to receive a duty disability benefit in the amount equal to 75% of annual salary at the time of injury, reduced by any benefits received by the employee under the provisions of the Workers' Compensation Act.

### *Ordinary Disability:*

Under Tier 1 and Tier 2, an employee who becomes disabled as the result of any cause other than an injury incurred in the performance of an act of duty, is entitled to receive an ordinary disability benefit in the amount equal to 50% of annual salary as of the last day worked. An employee can receive ordinary disability for a period equal to  $\frac{1}{4}$  of his service credits up to a maximum of 5 years.

## **NOTE 2. PLAN DESCRIPTION (CONTINUED)**

### *Refunds:*

Tier 1: A member may take a refund if he withdraws from service and is under the age of 55 (with any length of service) or withdraws between the ages of 55 and 60 with less than 10 years of service.

Tier 2: A member may take a refund if he withdraws from service before the age of 62 (with any length of service) or withdraws with less than 10 years of service regardless of age.

## **NOTE 3. INVESTMENTS**

### **Investment Policies**

Investments are governed by Sections 5/1 and 5/11, Chapter 40, of the Illinois Compiled Statutes. The prudent person rule, which establishes a standard of care for all fiduciaries, is an important aspect of the Statutes. The prudent person rule states that fiduciaries must discharge their duties with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. The Plan is authorized to invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks, shares, debentures, or other obligations or securities as set forth in the State Statutes.

### **Investment Risk Factors**

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risk and risk associated with changes in interest rates.



**NOTE 3. INVESTMENTS (CONTINUED)****Investment Summary**

All of the Plan's financial instruments are consistent with the permissible investments outlined in the State Statutes. The composition of investments, by investment type, as of December 31, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Cash and short-term investments	\$ 41,872,378	\$ 51,778,375
Equities		
U.S. equities	487,211,408	523,602,287
U.S. equity funds	-	104,286,314
Foreign equities	233,874,252	224,592,994
Foreign equity funds	34,131,889	28,805,243
Total equities	<u>755,217,549</u>	<u>881,286,838</u>
Fixed income		
U.S. government obligations and municipal bonds	56,074,530	83,070,761
U.S. corporate bonds	175,092,698	150,977,891
Foreign fixed income	39,424,524	6,309,939
Total fixed income	<u>270,591,752</u>	<u>240,358,591</u>
Private equity	<u>45,730,173</u>	<u>46,943,283</u>
Real estate	<u>39,159,549</u>	<u>37,705,952</u>
Hedge funds	<u>85,299,187</u>	<u>54,310,119</u>
Global asset allocation funds	<u>129,596,815</u>	<u>-</u>
Subtotal	1,367,467,403	1,312,383,158
Securities lending cash collateral	169,286,689	169,013,638
Total investments at fair value	<u>\$ 1,536,754,092</u>	<u>\$ 1,481,396,796</u>

Short-term investments include commercial paper or notes having maturity of less than 90 days or pooled short-term investment funds managed by the Northern Trust. Under the terms of the investment agreement for these funds, the Northern Trust may invest in a variety of short-term investment securities.

### NOTE 3. INVESTMENTS (CONTINUED)

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Plan's deposits may not be returned to it. The Plan does not have a formal deposit policy for custodial credit risk. As of December 31, 2012 and 2011, the following investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Plan's name.

	<u>2012</u>	<u>2011</u>
Amount exposed to custodial credit-risk		
Investment in foreign currency	<u>\$ 308,028</u>	<u>\$ 254,219</u>

#### Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to pay interest or principal in a timely manner, or that negative perception of the issuer's ability to make payments will cause a decline in the security's price. Some fixed income securities, including obligations of the U.S. Government or those explicitly guaranteed by the U.S. Government, are not considered to have credit risk.

The fixed income portfolio of the Plan is managed by professional investment management firms. These firms are required to maintain diversified portfolios. The Plan does not have a formal policy on concentration of credit risk. Each investment manager complies with risk management guidelines individually assigned to them as part of their Investment Management Agreement. There were no investments from a single issuer that exceeded 5% of the total net assets of the Plan.

A bond's credit quality is a standard used by the investment community to assess the issuer's ability to make interest payments and to ultimately make principal payments. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investor Service (Moody's) or Standard and Poor's (S&P). In the rating agency's opinion, the lower the rating, the greater the chance that the bond issuer will default, or fail to meet its payment obligations. The following table presents the credit risk profile, based on Moody's Investor Service for fixed income securities held by the Plan as of December 31, 2012 and 2011.

**NOTE 3. INVESTMENTS (CONTINUED)****Concentration of Credit Risk (continued)**

	<u>2012</u>	<u>2011</u>
<u>Quality Rating</u>		
Aaa	\$ 48,061,735	\$ 43,156,843
Aa	9,005,731	7,726,183
A	11,146,546	10,277,619
Baa	24,891,110	22,082,367
Ba	3,902,151	1,116,223
B	2,386,464	1,861,306
Caa	3,421,542	2,920,484
Ca	1,049,461	715,339
C	319	5,136
Not rated or unavailable	<u>5,622,955</u>	<u>7,142,772</u>
Total credit risk debt -- securities	109,488,014	97,004,272
Explicit:		
Government agencies <sup>1 3</sup>	521,444	1,280,346
Government mortgage backed securities <sup>2 3</sup>	29,306,244	44,889,499
Corporate bond pooled fund -- not rated	57,658,367	31,790,861
Global bond pooled fund -- not rated	<u>73,617,683</u>	<u>65,393,613</u>
Total fixed income	<u>\$270,591,752</u>	<u>\$240,358,591</u>

<sup>1</sup> Bonds issued by Federal Home Loan Mortgage Corp.

<sup>2</sup> Bonds issued by Federal National Mortgage Association, Federal Home Loan Mortgage Corp, and Government National Mortgage Association.

<sup>3</sup> These investments are implicitly or explicitly guaranteed by the U.S. government and currently a rating is not provided by the nationally recognized statistical rating organization.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. However, the investment managers have diversified the portfolio to reduce the impact of losses in an individual investment and typically align the portfolio's duration with that of the benchmark.

**NOTE 3. INVESTMENTS (CONTINUED)****Interest Rate Risk (continued)**

At December 31, 2012, the following table shows the investments by investment type and maturity (expressed in thousands).

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>6 ±10 Years</u>	<u>10+ Years</u>	<u>Variable</u>
Asset backed securities	\$ 4,675	\$ -	\$ 1,066	\$ 151	\$ 3,458	\$ -
Commercial mortgage backed	9,836	-	-	398	9,438	-
Corporate bonds	39,599	664	19,036	12,323	7,576	-
Funds - corporate bonds	57,658	-	-	-	-	57,658
Funds - other fixed income	73,618	-	-	-	-	73,618
Government agencies	4,777	-	1,840	2,105	832	-
Government bonds	33,728	2,001	8,929	12,240	10,558	-
Gov't mortgage backed	30,053	-	264	605	18,374	10,810
Index linked gov't bonds	11,026	-	2,397	4,084	4,545	-
Municipal bonds	1,132	-	-	-	1,132	-
Non-government backed CMO's	<u>4,490</u>	<u>-</u>	<u>143</u>	<u>1,453</u>	<u>2,894</u>	<u>-</u>
Total fixed income	<u>\$270,592</u>	<u>\$2,665</u>	<u>\$33,675</u>	<u>\$33,359</u>	<u>\$ 58,807</u>	<u>\$142,086</u>

**Investment Results**

During 2012 and 2011, net realized gains (losses) on investments sold, reflecting the difference between the proceeds received and cost value of securities sold, were \$96,554,007 and \$53,539,227, respectively. These amounts are included in the net appreciation in fair value of investments as reported on the Statement of Changes in Plan Net Position. The calculation of realized gains and losses is independent of the calculation of net appreciation in the fair value of the Plan's investments. Investments purchased in a previous year and sold in the current year results in their realized gains and losses being reported in the current year and their net appreciation in Plan assets being reported in both the current and the previous year(s).

**NOTE 3. INVESTMENTS (CONTINUED)****Foreign Currency Risk**

The international portfolio is constructed on the principles of diversification, quality, growth and value. Risk of loss arises from changes in currency exchange rates. While not having a formal investment policy governing foreign currency risk, the Plan does manage its exposure to fair value loss by requiring the international securities managers to maintain diversified portfolios to limit foreign currency and security risk. The Plan's exposure to foreign currency risk as of December 31, 2012 and 2011, is presented in the following table.

<u>Currency</u>		<u>2012</u>	<u>%</u>		<u>2011</u>	<u>%</u>
Australian dollar	\$	7,164,955	3.8%	\$	7,889,698	4.4%
Brazilian dollar		5,448,947	2.9		12,545,622	7.0
Canadian dollar		4,413,316	2.3		6,027,699	3.4
Swiss franc		9,682,669	5.1		10,699,625	6.0
Colombian peso		725,581	0.4		657,527	0.4
Danish krone		2,661,848	1.4		2,318,645	1.3
Euro		37,322,281	19.7		27,907,861	15.6
British pound sterling		34,337,445	18.1		35,208,511	19.7
Hong Kong dollar		18,602,570	9.8		12,129,034	6.8
Indonesian rupiah		1,743,145	0.9		2,612,836	1.5
New Israeli shekel		982,449	0.5		826,992	0.5
Japanese yen		23,207,923	12.3		23,050,561	12.9
South Korean won		6,725,740	3.6		6,710,644	3.8
Mexican peso		4,746,164	2.5		4,129,699	2.3
Malaysian ringgit		3,410,118	1.8		2,639,392	1.5
Norwegian krone		713,954	0.4		1,816,413	1.0
New Zealand dollar		(324,367)	- 0.2		-	0.0
Pakistan rupee		-	0.0		(400)	0.0
Philippine peso		400,807	0.2		-	0.0
Swedish krona		7,357,609	3.9		6,242,553	3.5
Singapore dollar		5,621,130	3.0		5,371,581	3.0
Thai baht		2,743,011	1.4		724,672	0.4
Turkish lira		2,099,910	1.1		1,517,213	0.9
South African rand		9,585,455	5.1		7,418,224	4.2
Total	\$	<u>189,372,660</u>	<u>100.0%</u>	\$	<u>178,444,602</u>	<u>100.0%</u>



### NOTE 3. INVESTMENTS (CONTINUED)

#### Derivatives

The Plan's investment managers may enter into derivative transactions as permitted by their guidelines. A derivative financial instrument is an investment whose payoff depends on the value of an underlying, such as bond or stock prices, a market index, or commodity prices. Derivative financial instruments involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. The Plan's managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake.

During the year, the Plan's derivative investments included foreign currency forward contracts and financial futures. Foreign currency forward contracts are used to hedge against the currency risk in the Plan's foreign stock and fixed income security portfolios. Financial futures are used to improve yield, adjust the duration of the fixed income portfolio, or to hedge changes in interest rates.

The following table summarizes the derivatives held within the Plan's investment portfolio as of December 31, 2012 and 2011:

<u>Derivative Type</u>	<u>2012</u>		<u>2011</u>	
	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>
Hedging derivative instruments				
Foreign currency contracts purchased	\$ -	\$ 240,998,104	\$ -	\$ 124,040
Foreign currency contracts sold	-	(241,298,614)	-	(124,032)
Total hedging derivative instruments	-	(300,510)	-	8
Investment derivative instruments				
Futures				
Long fixed income	7,148,930	-	-	-
Short fixed income	(10,601,051)	-	-	-
Long cash equivalents	1,893,360	-	-	-
Rights/warrants	-	-	-	100,924
Total investment derivative instruments	(1,558,761)	-	-	100,924
Total	<u>\$ (1,558,761)</u>	<u>\$ (300,510)</u>	<u>\$ -</u>	<u>\$ 100,932</u>

Foreign currency forward contracts are agreements to buy or sell a specific amount of a specific currency at a specified delivery or maturity date for an agreed upon price. The gain or loss on forward contracts is recognized as deferred inflows/outflows on the Statements of Net Position until the contract is closed or is sold at which time a gain or loss is recognized in the Statements of Changes in Net Position. The counterparties to the foreign currency forward contracts are banks which are rated A or above by rating agencies.

**NOTE 3. INVESTMENTS (CONTINUED)**

The fair value of forward contracts outstanding at December 31, 2012 and 2011 is as follows:

<u>Currency</u>	<u>2012</u> <u>Fair Value</u>	<u>2011</u> <u>Fair Value</u>
Foreign currency exchange purchases:		
Australian dollar	\$ 8,766,534	\$ -
Canadian dollar	16,144,538	-
Swiss franc	12,421,345	-
Euro	8,262,866	-
British pound sterling	9,412,419	-
Hong Kong dollar	-	124,040
Japanese yen	10,696,075	-
Norwegian krone	11,423,413	-
New Zealand dollar	15,193,994	-
Swedish krona	13,212,695	-
Turkish lira	3,233	-
United States dollar	135,460,992	-
Total purchases	<u>\$ 240,998,104</u>	<u>\$ 124,040</u>
Foreign currency exchange sales:		
Australian dollar	\$ (12,199,960)	\$ -
Canadian dollar	(21,727,630)	-
Swiss franc	(12,871,018)	-
Euro	(20,127,203)	-
British pound sterling	(11,644,594)	-
Japanese yen	(8,319,547)	-
Norwegian krone	(13,057,072)	-
New Zealand dollar	(19,213,599)	-
Swedish krona	(17,234,274)	-
Singapore dollar	(60,799)	-
United States dollar	(104,842,918)	(124,032)
Total sales	<u>\$ (241,298,614)</u>	<u>\$ (124,032)</u>

Financial futures are similar to forward contracts, except futures contracts are standardized and traded on organized exchanges. As the market value of the underlying assets vary from the original contract price, a gain or loss is recognized in the Statements of Changes in Net Position and is settled through the clearinghouse.

Rights and warrants allow the Plan's investment managers to replicate an underlying security they wish to hold (sell) in the portfolio. Rights and warrants provide the holder with the right, but not the obligation, to buy or sell a company's stock at a predetermined price. Rights usually expire after a few weeks and warrants can expire from one to several years. These investments are reported within the equities classification.

**NOTE 3. INVESTMENTS (CONTINUED)**

The following table summarizes the changes in fair value, which were recognized as income in the Plan's Statements of Changes in Plan Net Position for the year ended December 31, 2012 and 2011:

<u>Derivative Type</u>	<u>2012</u> <u>Changes in</u> <u>Fair Value</u>	<u>2011</u> <u>Changes in</u> <u>Fair Value</u>
Foreign currency contracts	\$ (12,492)	\$ (8,042)
Futures	(6,615)	-
Rights/Warrants	<u>46,271</u>	<u>63,195</u>
Total	<u>\$ 27,164</u>	<u>\$ 55,153</u>

**NOTE 4. SECURITIES LENDING**

State Statutes and the Board of Trustees permit the Plan to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Plan's custodian, acting as the lending agent, lends securities for collateral in the form of cash, U.S. Government obligations and irrevocable letters of credit equal to 102% of the fair value of domestic securities plus accrued interest and 105% of the fair value of foreign securities plus accrued interest.

Effective March 20, 2011, the Plan receives 85% of the net revenue derived from the securities lending activities, and the bank receives the remainder of the net revenue. Prior to March 2011, the Plan received 80% of the net revenue.

The Plan is currently not restricted as to the type of securities it may loan. The Plan does not have the right to sell or pledge securities received as collateral unless the borrower defaults.

The average term of securities loaned was 59 days for 2012 and 86 days for 2011; however, any loan may be terminated on demand by either the Plan or the borrower. Cash collateral may be invested in a short-term investment pool, which had an average weighted maturity of 81 days as of December 31, 2012 and an average weighted maturity of 75 days as of December 31, 2011. Cash collateral may also be invested in term loans, in which the investments (term loans) match the term of the securities loaned. These loans can be terminated on demand by either the lender or the borrower.

At December 31, 2012 and 2011, the Plan had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Plan. At December 31, 2012 and 2011, the fair value of securities loaned was as follows:

	<u>2012</u>	<u>2011</u>
Equities	\$155,870,470	\$135,945,792
Fixed Income	<u>13,032,798</u>	<u>28,254,856</u>
Total	<u>\$168,903,268</u>	<u>\$164,200,648</u>

**NOTE 4. SECURITIES LENDING (CONTINUED)**

At December 31, 2012 and 2011, the securities loaned were collateralized as follows:

	<u>2012</u>	<u>2011</u>
Collateralized by cash	\$169,286,689	\$169,013,638
Collateralized by other than cash	<u>1,575,450</u>	<u>26,410</u>
Total	<u>\$170,862,139</u>	<u>\$169,040,048</u>

During 2012 and 2011, there were no losses due to default of a borrower or the lending agent. The contract with the Plan requires the lending agent to indemnify the Plan if borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Plan for income distributions by the issuers of securities while the securities are on loan.

Due to the volatile financial markets of late 2008, the securities lending program had produced significant negative income unlike any year in the history of securities lending. The Plan recorded a corresponding liability and the custodial bank has agreed to continue to carry forward the liability and post future securities lending earnings against the current liability.

**NOTE 5. MORTGAGE-BACKED SECURITIES**

The Plan invests in mortgage-backed securities, representing interests in pools of mortgage loans, as part of its interest rate risk management strategy. The mortgage-backed securities are not used to leverage investments in fixed income portfolios. The mortgage-backed securities held by the Plan were guaranteed by federally sponsored agencies, such as: Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.

The financial instruments are carried at fair value and are included in investments on the Statement of Plan Net Position. The gain or (loss) on financial instruments is recognized and recorded on the Statement of Changes in Plan Net Position as part of investment income.

**NOTE 6. RELATED PARTY TRANSACTIONS**

At December 31, 2012, the Plan held securities of its custodial bank and its insurance provider with a fair value of \$2,360,878. At December 31, 2011, the Plan held securities of its investment manager's parent company and its insurance provider with a fair value of \$2,541,453.

#### **NOTE 7. WHEN-ISSUED TRANSACTIONS**

The Plan may purchase securities on a when-issued basis; that is, obligate itself to purchase securities with delivery and payment to occur at a later date. At the time the Plan enters into a commitment to purchase the security, the transaction is recorded at purchase price which equals value. The value of the security, which may vary with market fluctuations, is not reflected in the value of investments. The value at delivery may be more or less than the purchase price. No interest accrues to the Plan until delivery and payment take place. As of December 31, 2012 and 2011, the Plan contracted to acquire securities on a when-issued basis with total principal amounts of \$10,165,000 and \$12,665,000 and fair values of \$10,810,350 and \$13,410,021, respectively.

#### **NOTE 8. COMMITTED CASH**

The Plan has entered into investment arrangements for real estate and private equity. As of December 31, 2012 and 2011, the Plan had \$37,640,822 and \$47,621,104, in outstanding capital commitments, respectively.

#### **NOTE 9. SUMMARY OF EMPLOYER FUNDING POLICIES**

The City shall levy a tax annually 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 1.00 for the year 1999, and each year thereafter.

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 or prospective, according to 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.

The current actuarial studies of the Plan as of December 31, 2012 (2013 Tax Levy) and as of December 31, 2011 (2012 Tax Levy) indicated that a minimum annual contribution was required by the City to maintain the Plan on a minimum valuation basis. The recommended minimum annual contribution based on an annual payroll of \$198,789,741 for 2,865 active members for the 2013 tax levy and \$195,238,332 for 2,852 active members for the 2012 tax levy is computed as follows:

**NOTE 9. SUMMARY OF EMPLOYER FUNDING POLICIES (CONTINUED)**

	2013 <u>Tax Levy</u>	2012 <u>Tax Levy</u>
Normal cost	\$ 39,263,431	\$ 31,511,172
30 year level dollar amortization of unfunded liability (surplus)	82,631,736	62,328,598
Interest adjustment for semimonthly payment	<u>4,605,994</u>	<u>3,761,192</u>
Total minimum contribution	126,501,161	97,600,962
Less estimated plan member contributions	<u>(17,211,033)</u>	<u>(16,964,543)</u>
Annual required contribution (ARC) to be financed by tax levy*	<u>\$ 109,290,128</u>	<u>\$ 80,636,419</u>
Required tax levy multiple for the Plan	<u>7.48</u>	<u>5.41</u>

\* Value for 2013 and 2012 ARC includes GASB No. 43 ARC of \$3,090,718 and \$3,070,025, respectively.

**NOTE 10. RESERVES FOR ACTUARIAL LIABILITIES**

The reserves for actuarial liabilities are based on an annual valuation submitted by the Plan's consulting actuary. The annual actuarial valuation establishes the reserves required for various statutory liabilities which arise from pension benefit schedules that are part of the current pension code legislation. Market value of net assets held in trust for pension benefits as of December 31, 2012 and 2011, were comprised of the following Plan surplus (deficit) balances:

	<u>2012</u>	<u>2011</u>
Prior Service Fund	\$ 1,464,473,839	\$ 1,300,430,779
City Contribution Fund	240,992,543	238,953,381
Salary Deduction Fund	240,925,654	238,884,403
Annuity Payment Fund and Reserve	428,381,033	412,843,637
Supplementary Payment Service	69,562	69,562
Furn Reserve - (deficit)	<u>(1,003,765,585)</u>	<u>(877,578,123)</u>
Total net assets held in trust for pension benefits	<u>\$ 1,371,077,046</u>	<u>\$ 1,313,603,639</u>

The Prior Service Fund is a reserve account for the accumulation of City contributions to provide for: 1) employee and spouse annuities that are based on service performed before the Plan's effective date of July 1, 1935, and 2) any excess in minimum annuity formula requirements over the amounts required for age and service annuities and for spouse annuities.

#### **NOTE 10. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)**

The City Contribution Fund is used to accumulate amounts contributed by the City to provide for annuities based on age and service of each employee and spouse. An individual account is to be kept for each employee and spouse until the employee retires, at which time the individual account balances are transferred to the Annuity Payment Fund.

The Salary Deduction Fund is similarly used to accumulate deductions made from employee salaries for age and service annuities for the employee and spouse. Individual accounts are kept until the employee retires or withdraws from service before qualifying for an annuity. At retirement, account balances are transferred to the Annuity Payment Fund. In case an eligible employee elects to take a refund of contributions instead of an annuity, the contribution refund is charged to this reserve fund.

The Annuity Payment Fund receives the amounts transferred from the individual accounts in the City Contribution Fund and the Salary Deduction Fund when an employee retires and qualifies for an annuity. All age and service annuity payments are charged to this fund.

The Supplementary Payment Reserve was established in 1969 to fund postretirement benefit increases for future and current annuitants who elected to pay into the Plan the amount necessary to receive the postretirement benefit.

The Fund Reserve represents the difference between the actuarially determined present value of all future pension payments and the value of the Plan's present assets plus the present value of future contributions. A surplus indicates that present assets and future contributions exceed the expected requirements for future pension payments, while a deficit indicates that additional assets will be needed to provide for future benefits.

During the years ended December 31, 2012 and 2011, the Plan's actuary has determined that an increase in actuarial reserves of \$183,660,869 and \$119,795,930, respectively, is required. The excess or shortage of revenue over expenses for the years ended December 31, 2012 and 2011, have been applied to the actuarial reserves as noted above, which has resulted in increases in the Plan deficit of \$290,161,621 for the year ended December 31, 2012 and \$226,785,093 for the year ended December 31, 2011.



# **NOTE 10. RESERVES FOR ACTUARIAL LIABILITIES**

As reported by the actuary, the changes in the Plan surplus (deficit) during the years ended December 31, 2012 and 2011, consisted of the following:

	<u>2012</u>	<u>2011</u>
Fund surplus (deficit) at the beginning of the year	\$ (768,767,413)	\$ (541,982,320)
Gains (losses) during the year attributable to:		
Salaries under assumed ate	11,246,150	17,752,499
Investment yield over/under 8.0 assumed	(99,757,018)	(115,961,584)
Annual required contributions from		
levy and employer contributions	(63,344,488)	(44,792,683)
Miscellaneous actuarial experience	(7,410,741)	(18,062,145)
Gain (loss) from data corrections	(505,176)	(964,087)
Change in assumptions	<u>(130,390,348)</u>	<u>(64,757,093)</u>
Net loss	<u>(290,161,621)</u>	<u>(226,785,093)</u>
Fund deficit at the end of the year	<u>\$ (1,058,929,034)</u>	<u>\$ (768,767,413)</u>

The above detail denotes the change in the Plan surplus (deficit) based on assets valued using a Five Year Smoothed Average Market, a market related actuarial asset value as required by Governmental Accounting Standards Board Statement No. 25.

The funded status, which excludes the liability for the health insurance supplement of the Plan as of December 31, 2012, the most recent actuarial valuation date, is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Surplus) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
<u>December 31,</u>	<u>(a)</u>	<u>Entry Age (b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>(b-a)/(c)</u>
2012	\$1,315,913	\$ 2,336,189	\$ 1,020,276	56.33%	\$198,790	513.24%

**NOTE 10. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)**

The actuarial method used in the valuation was the Entry Age Normal Actuarial Cost Method. Participant life expectancy consists of a post retirement mortality based upon the RP2000 Combined Healthy mortality table, sex distinct, set forward one year for males and setback two years for females and a pre-retirement mortality of 80% of the post-retirement mortality. Disability cost was valued as a term cost of 2.5% of payroll for 2012 and 1.50% of payroll for 2011. For 2012, retirement rates use predominantly service-based rates with higher rates at older ages, and 100% retirement at the earlier of 40 years of service or age 80. For 2011, the retirement age assumptions (based on actual past experience) were that all retire by age 70. The investment rate of return (net of expenses) was 7.5% for 2012 and 8% for 2011, compounded annually and includes a 3% inflation assumption. For 2012, the salary increase assumptions reflect 3.75% wage inflation plus a service-based component for merit, longevity, and promotion, ranging from 0.25% to 6.25% based on years of service. For 2011, the salary increase assumptions were 4.5% compounded annually plus a service based increase in the first five years and included a 3% inflation adjustment.

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI) on page 46 following the notes to the financial statements, presents multi-year trend information about whether the Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**NOTE 11. EMPLOYER (TAXES) RECEIVABLE (PAYABLE) - NET**

	<u>2012</u>	<u>2011</u>
Employer contributions	\$ 16,433,380	\$ 16,877,459
Less allowance for uncollectible accounts	<u>(1,527,505)</u>	<u>(1,242,420)</u>
Total	<u>\$ 14,905,875</u>	<u>\$ 15,635,039</u>

**NOTE 12. LEASE AGREEMENTS**

The Plan leases its office facilities under a fifteen year non-cancelable agreement in effect through February 28, 2026. The base rent has an abatement provision of 17 months. The Plan is amortizing the abated rent over the period covered by the agreement. Real estate taxes and maintenance charges are additional costs to the base rent and are subject to annual escalation. Rent expense, net of rent abatements, for the years ended December 31, 2012 and 2011 was \$334,197 and \$147,830, respectively. Future minimum rental payments required under non-cancelable leases are as follows:

Year ending December 31,	
2013	\$ 253,740
2014	257,482
2015	261,224
2016	297,825
2017 through 2026	<u>3,518,902</u>
Total	<u>\$ 4,589,173</u>

**NOTE 13. DISASTER RECOVERY**

The disaster recovery site establishes proactive measures to ensure the continuity of Plan operations during emergencies. Five Chicago pension funds (Laborers', Municipal, Police, Fire, and Cook County) are jointly participating in this project. The goal is to possess the capability to access the Plan's main information technology systems at a remote location within 36 hours of any emergency. Toward that goal, the five funds lease office and storage facilities under an extended non-cancelable agreement in effect through August 31, 2016. Monthly lease payments have been agreed upon for the length of the lease. Disaster recovery expense for the years ended December 31, 2012 and 2011 was \$29,625 and \$31,521, respectively. The Plan's share of future minimum rental payments, required under non-cancelable operating leases, are as follows:

Year ending December 31,	
2013	\$ 12,169
2014	12,492
2015	12,823
2016	<u>8,747</u>
Total	<u>\$ 46,231</u>

#### NOTE 14. INSURANCE COVERAGE

The Plan is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Plan has minimized the risk of loss through private insurance carriers for commercial, business owners, and automobile policies. The deductible for this insurance coverage ranges from \$250 to \$500 per occurrence. There has been no significant reduction of insurance coverage from the prior year. The Plan has not had any insurance claims filed or paid in the past five fiscal years.

The Plan has elected to self-insure against the risk of loss due to a breach in workmen's compensation claims. There have been no claims or settlements in the last five years.

#### NOTE 15. PROPERTY AND EQUIPMENT

Property and equipment detail for the years ended December 31, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Office equipment	\$ 346,887	\$ 333,520
Custom software package	<u>6,318,902</u>	<u>6,217,952</u>
	6,665,789	6,551,472
Accumulated depreciation	<u>(5,486,012)</u>	<u>(4,800,268)</u>
Property and equipment - net	<u>\$ 1,179,777</u>	<u>\$ 1,751,204</u>

Depreciation expense for the years ended December 31, 2012 and 2011 was \$697,025 and \$680,114, respectively.

#### NOTE 16. OTHER POST EMPLOYMENT BENEFIT PLAN - CITY RETIREES

**Plan Description** - The Plan and the City of Chicago agreed to share in the cost of the Settlement Health Care Plan, a single employer defined benefit plan for city retirees administered by the City of Chicago. This agreement is in effect through June 30, 2013. This plan provides medical and prescription drug benefits to eligible retirees, spouses, and dependent children.

**Funding Policy** - The Plan's contribution requirement is established by the state legislature and may be amended. Through June 30, 2008, the Plan was allowed, in accordance with State Statutes, to subsidize the cost of monthly group health care premiums up to \$85 per month for non-Medicare recipients and \$55 per month for Medicare recipients. From July 1, 2008 through June 30, 2013, the amount of Fund paid health care premiums increased to \$95 per month for non-Medicare recipients and \$65 per month for Medicare recipients. The remaining cost to participate in the Program is borne by the City of Chicago and the annuitant.

**NOTE 16. OTHER POST EMPLOYMENT BENEFIT PLAN - CITY RETIREES****Funding Policy (continued)**

In this report, the Plan, in accordance with GASB No. 43, *Financial Reporting for Post-employment Benefit Plans other than Pensions*, includes disclosures of a separate annual required contribution (ARC) for Other Postemployment Benefits (OPEB) beginning with the Plan's 2007 fiscal year. It also 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 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.

**Annual Required Contribution** - The Plan's annual required contribution, employer contribution, and the percentage of annual required contribution contributed to the Plan since Fiscal Year End 2007, are as follows:

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution (ARC)</u>	<u>Employer Contribution</u>	<u>Percentage of ARC Contributed</u>
12/31/2007	\$ 3,567,685	\$ 2,202,835	61.7%
12/31/2008	3,564,966	2,347,624	65.9
12/31/2009	3,681,620	2,563,040	69.6
12/31/2010	3,609,337	2,586,866	71.7
12/31/2011	3,542,982	2,579,905	72.8
12/31/2012	3,070,025	2,561,930	83.4

At December 31, 2012, the number of annuitants or surviving spouses whose cost to participate in the program was subsidized, totaled 2,781; at December 31, 2011, the total was 2,800.

**Funded Status and Funding Progress** - The funded status of the plan as of December 31, 2012, is as follows:

Actuarial accrued liability (AAL)	\$ 38,653,355
Net Plan Actuarial Assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 38,653,355</u>
Funded ratio	0.0%
Covered payroll	\$ 198,789,741
UAAL as a % of covered payroll	19.4%

## **NOTE 16. OTHER POST EMPLOYMENT BENEFIT PLAN - CITY RETIREES**

### **Funded Status and Funding Progress (continued)**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress on page 47, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of 0% due to the fact that the OPEB is a fixed dollar subsidy and trend is not applicable. The assumption includes projected salary increases of 3.75% per year for 2012 and 4.5% for 2011. Both assumptions include an inflation rate of 3.0% per year. The actuarial value of assets is zero (no assets) as the OPEB is on a pay-as-you-go basis. The amortization method is level dollar on an open basis and the remaining amortization period at December 31, 2012 was 30 years.

## **NOTE 17. OTHER POST EMPLOYMENT BENEFIT PLAN: LABF AS EMPLOYER**

**Plan Description** - The Plan, as an employer, administers a single-employer postemployment healthcare plan ("Retiree Health Plan"). The Retiree Health Plan provides lifetime health and dental care insurance for eligible retirees and their spouses through the Plan's group health insurance plan, which covers both active and retired members. Currently, 6 retirees are in the plan and 19 active employees could be eligible at retirement.

**Funding Policy** - The contributions requirements of plan members and the Plan are established by the Plan's Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements. For 2012 and 2011, the Plan contributed \$42,476 and \$51,896, respectively, to the plan. Plan members receiving benefits contributed \$11,405 in 2012 or 28.2% of the total premiums for the year, through their required contributions of between \$86 and \$435 per month based on coverage. In 2011 Plan members contributed \$12,132 or 25.0% of the total premiums for the year through their required contributions of between \$86 and \$435 per month.

**NOTE 17. OTHER POST EMPLOYMENT BENEFIT PLAN: LABF AS EMPLOYER (CONTINUED)**

**Annual OPEB Cost and Net OPEB Obligation** - The Plan's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Plan's annual OPEB cost, the amount actually contributed to the plan, and changes in the Plan's net OPEB obligation to the Retiree Health Plan:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 432,132	\$ 405,187	\$ 379,537
Interest on net OPEB obligation	57,980	42,668	28,308
Adjustment to ARC	<u>(75,693)</u>	<u>(55,704)</u>	<u>(36,956)</u>
Annual OPEB expense	414,419	392,151	370,889
Contributions made	<u>(42,476)</u>	<u>(51,896)</u>	<u>(51,766)</u>
Increase in net OPEB obligation	371,943	340,255	319,123
Net OPEB obligation - beginning of year	<u>1,288,441</u>	<u>948,186</u>	<u>629,063</u>
Net OPEB obligation - end of year	<u>\$ 1,660,384</u>	<u>\$ 1,288,441</u>	<u>\$ 948,186</u>

In 2012, 2011, and 2010, the Plan contributed 9.8%, 12.8%, and 13.6%, respectively, of the annual required OPEB contribution to the plan.

**Actuarial Valuation Information**

Actuarial Valuation <u>Date*</u>	Value of Plan Net Assets <u>(a)</u>	Accrued Liability (AAL) <u>(b)</u>	Actuarial Liability (UAL) <u>(c)</u>	Funding Ratio <u>(a/b)</u>	Covered Annual Payroll <u>(d)</u>	Percentage of Covered Payroll <u>(c/d)</u>
12/31/2009	\$ -	\$ 3,661,847	\$ 3,661,847	\$ -	\$ 1,581,218	231.58%

\* For a plan the size of the LABF as Employer plan, GASB allows a valuation report to be used for up to 3 years if there are not significant changes in plan design, premiums/claims, or demographics that would materially change the results. The next actuarial valuation will be performed as of December 31, 2012 which will be completed in 2013.



## **NOTE 17. OTHER POST EMPLOYMENT BENEFIT PLAN: LABF AS EMPLOYER (CONTINUED)**

### **Actuarial Valuation Information (continued)**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress on page 47, presented as required supplementary information following the notes to the financial statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2009 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate for medical of 9% per year graded down to 5% per year (ultimate trend in 0.5% increments) and a rate for dental of 6% per year graded down to a 4.5% per year (ultimate trend in 0.5% increments.) The assumption includes projected wage inflation of 4.5% per year. The actuarial value of assets is zero (no assets) as the OPEB is on a pay-as-you-go basis. The amortization method is level dollar on an open basis and the remaining amortization period at December 31, 2009 was 30 years.

## **NOTE 18. CONTINGENCIES**

### **Lawsuit Regarding Public Act 97-0651**

On October 9, 2012, a civil action was commenced in the Circuit Court of Cook County, Illinois, *Carmichael, et al. v. Laborers' Retirement Board Employees' Annuity and Benefit Fund of Chicago, et al.*, Case No. 12 CH 37712, wherein the plaintiffs allege that recent amendments to the Illinois Pension Code violate the U.S. and Illinois Constitution. The recent amendments, enacted in Public Act 97-0651 and effective January 5, 2012, apply to the service and salary calculations for members who take a leave of absence from the City of Chicago to work for a local labor organization. The amendments also provide that the new rules represent a clarification of existing law, meaning that certain annuitants may have been overpaid. The Plaintiffs include eight individuals and four unions. Three of the participants are Plan members. The defendants include the Plan and the Plan's Board of Trustees, along with two other public employee pension funds and their respective boards.

**NOTE 18. CONTINGENCIES – (CONTINUED)**

In the event the pertinent portion of P.A. 97-0651 is held to be unconstitutional by an unappealable final court order, the Plan would be required to pay the annuities in effect prior to the passage of P.A. 97-0651. This outcome would have no material actuarial impact since higher annuities were actually used and it is a relatively small group of affected members. Plaintiffs do not make a prayer for monetary relief, but seek attorney's fees. It is premature to determine the likelihood of success on the merits of the plaintiff's complaint. The Plan filed a motion to dismiss the lawsuit on March 18, 2013.

**Other Pending Litigation**

The Plan is also involved in legal proceedings arising in the normal course of business. In the opinion of management, the ultimate resolution of these matters will not have a material effect on the financial position of the Plan.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2012

**SCHEDULE OF FUNDING PROGRESS FOR GASB 25**  
(dollar amounts in thousands)

Actuarial Valuation Date <u>December 31,</u>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Surplus) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/(c)
2007	\$1,757,711	\$ 1,808,295	\$ 50,584	97.20%	\$ 192,847	26.23%
2008	1,698,427	1,915,324	216,897	88.68	216,744	100.07
2009	1,601,352	1,975,749	374,397	81.05	208,626	179.46
2010	1,529,404	2,030,025	500,621	75.34	199,863	250.48
2011	1,422,414	2,152,854	730,440	66.07	195,238	374.13
2012	1,315,914	2,336,189	1,020,276	56.33	198,790	513.24

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(dollar amounts in thousands)

Year Ended <u>December 31,</u>	Annual Required Contribution <sup>1,4</sup>	Required Statutory Basis <sup>2</sup>	Actual Contribution <sup>3</sup>	Percentage of ARC Contributed
2007	\$ 21,726	\$ 12,624	\$ 13,256	61.01%
2008	17,652	14,894	15,233	86.30
2009	33,517	14,366	14,627	86.30
2010	46,665	15,003	15,352	43.64
2011	57,259	12,478	12,779	32.89
2012	77,566	11,808	11,853	15.28

<sup>1</sup> Under Normal Cost plus Level Dollar Amortization. Amortization period of 30 years beginning in 2007 and 40 years prior to 2007. Negative ARC values are set to zero, as no contribution is then required.

<sup>2</sup> Tax levy after 4% overall loss.

<sup>3</sup> Net tax levy plus miscellaneous. Includes prior year adjustments for taxes.

<sup>4</sup> ARC excludes amount attributed to health insurance supplement beginning 2006.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2012

**SCHEDULE OF FUNDING PROGRESS OF OPEB LIABILITIES FOR CITY RETIREES**  
(dollar amounts in thousands)

Actuarial Valuation Date <u>December 31,</u>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Surplus) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/(c)
2007	\$ -	\$ 41,411	\$ 41,411	0.00%	\$ 192,847	21.47%
2008	-	42,064	42,064	0.00	216,744	19.41
2009	-	41,738	41,738	0.00	208,626	20.01
2010	-	41,361	41,361	0.00	199,863	20.69
2011	-	38,328	38,328	0.00	195,238	19.63
2012	-	38,653	38,653	0.00	198,790	19.44

**SCHEDULE OF EMPLOYER CONTRIBUTIONS OF OPEB LIABILITIES FOR CITY RETIREES**  
(dollar amounts in thousands)

Year Ended <u>December 31,</u>	Annual Required Contribution	Percentage of ARC Contributed
2007	\$ 3,568	61.74 %
2008	3,565	65.85
2009	3,682	69.62
2010	3,609	71.67
2011	3,543	72.82
2012	3,070	83.45

**SCHEDULE OF FUNDING PROGRESS OF OPEB LIABILITIES FOR LABF AS EMPLOYER**  
(dollar amounts in thousands)

Actuarial Valuation Date <u>December 31,</u>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Surplus) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/(c)
2006	\$ -	\$ 1,875	\$ 1,875	0.00%	\$ 1,221	153.62%
2009 <sup>2</sup>	-	3,362	3,362	0.00	1,581	231.58

**SCHEDULE OF EMPLOYER CONTRIBUTIONS OF OPEB LIABILITIES FOR LABF AS EMPLOYER**  
(dollar amounts in thousands)

Year Ended <u>December 31,</u>	Annual Required Contribution	Percentage of ARC Contributed
2007	\$ 230	10.94%
2008	245	15.06
2009	262	14.42
2010	380	13.64
2011	405	12.81
2012	432	9.80

<sup>2</sup> The next actuarial valuation will be as of December 31, 2012 and completed in 2013.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2012

**NOTES TO SCHEDULE OF FUNDING PROGRESS  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR GASB 25**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuations follows:

Amortization method	Level Dollar; Open
Amortization period	30 Years
Actuarial cost method	Entry Age Normal
Asset valuation method	Five Year Smoothed Average Market
Actuarial assumptions	
Investment rate of return <sup>1</sup>	7.5%
Projected base salary increases <sup>1</sup>	3.75% per year, plus a service based increase in the first fifteen years

<u>Service</u>	<u>Additional Increase</u>	<u>Total Increase</u>
1	6.25%	10.00%
2	4.75	8.50
3	3.75	7.50
4	3.25	7.00
5	2.25	6.00
6	1.25	5.00
7 - 15	0.25	4.00
16 - 30+	0.00	3.75

<sup>1</sup> includes 3.0% inflation assumption

Post retirement benefit increase	3.0% per year for employee annuitants beginning at the earlier of 1) the later of the 1 <sup>st</sup> of January of the year after retirement and age 60 2) the later of 1 <sup>st</sup> of January of the year after the second anniversary of retirement and age 53
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**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO**

**REQUIRED SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2012

**NOTES TO SCHEDULE OF FUNDING PROGRESS  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS  
OF OPEB LIABILITIES**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuations follows:

Amortization method	Level Dollar; Open
Amortization period	30 Years
Actuarial cost method	Entry Age Normal
Asset valuation method	No Assets (Pay-as-you-go)
Actuarial assumptions	
OPEB investment rate of return <sup>1</sup>	4.5%
Projected base salary increases - City Retirees <sup>1</sup>	3.75% per year, plus a service based increase in the first fifteen years

Service	Additional Increase	Total Increase
1	6.25%	10.00%
2	4.75	8.50
3	3.75	7.50
4	3.25	7.00
5	2.25	6.00
6	1.25	5.00
7-15	0.25	4.00
16-30+	0.00	3.75

Projected base salary increases - Employees <sup>1</sup>	4.5% per year, plus a service based increase in the first five years
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Service	Additional Increase	Total Increase
0	4.50%	9.00%
1	3.50	8.00
2	2.50	7.00
3	1.50	6.00
4	0.50	5.00
5 & over	0.00	4.50

<sup>1</sup> includes inflation at 3% per year



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

**REQUIRED SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2012

**NOTES TO SCHEDULE OF FUNDING PROGRESS  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS  
OF OPEB LIABILITIES (CONTINUED)**

Healthcare cost trend rate

0.0% (Trend not applicable – Fixed dollar subsidy)

OPEB-LABF as employer: Medical: 9% per  
year graded down to 5% per year;  
ultimate trend in 0.5% increments  
Dental: 6% per year graded down to 4.5 %  
per year; ultimate trend in 0.5% increments

## **SUPPLEMENTARY INFORMATION**

LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO

SCHEDULES OF ADMINISTRATIVE EXPENSES,  
INVESTMENT EXPENSES AND PROFESSIONAL SERVICES

YEARS ENDED DECEMBER 31, 2012 AND 2011

SCHEDULE OF ADMINISTRATIVE EXPENSES

	2012	2011
Personnel services	\$ 1,812,520	\$ 1,887,022
Professional services	846,187	464,273
OPEB expense	414,419	392,151
Depreciation	697,025	680,114
Litigation expense	322,826	5,207
Occupancy and utilities	364,018	257,769
Fiduciary liability insurance premiums	127,526	133,405
Document retention	4,010	12,321
Supplies and equipment	33,918	30,352
Printing and technical services	32,961	36,466
Disaster recovery site	29,625	31,521
Telecommunications and internet	16,044	15,643
Postage	16,814	14,208
Miscellaneous	27,626	33,872
Total	<u>\$ 4,745,519</u>	<u>\$ 3,994,324</u>

SCHEDULE OF INVESTMENT EXPENSES\*

	2012	2011
Investment manager fees	\$ 8,535,217	\$ 7,748,784
Custodial management fees	113,135	117,656
Investment consultant fee	260,394	238,315
Total	<u>\$ 8,908,746</u>	<u>\$ 8,104,755</u>

\* A schedule of investment related fees can be found in the Investment Section

SCHEDULE OF PROFESSIONAL SERVICES

	2012	2011
Actuarial valuation	\$ 60,251	\$ 62,816
Actuarial consultation	35,524	34,490
Auditing	37,000	37,000
Benefit check production	96,256	118,529
Custom software development	90,725	97,737
Legal services	471,435	59,641
Legislative consultant	16,800	16,800
Medical consultant	38,196	37,260
Total	<u>\$ 846,187</u>	<u>\$ 464,273</u>

## Investment Section



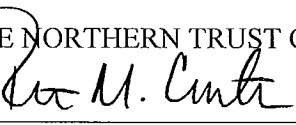
# Northern Trust

To the Board of Trustees and the Executive Director:

The Northern Trust Company as custodian ("Master Custodian") of assets of the Laborers' and Retirement Board 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, 2012 through December 31, 2012.

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 March 17, 2008 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  
Senior Vice President

## INVESTMENT POLICY

The Board of Trustees of the Plan are entrusted with the responsibility of investing the Fund's assets for the sole purpose of providing benefits to the system's participants and their beneficiaries. Historically, the Fund has been guided by the parameters established by the Illinois State Statutes for various investment classes. During 1997 the "Prudent Person Rule" was adopted and signed into law. This rule states that the trustees, as fiduciaries, must discharge their duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time.

The Trustees are responsible for establishing the investment policy that is to guide the investment of the Plan assets. The Plan invests in different types of assets and uses multiple investment managers with specific selection styles and methodologies as a method to ensure overall fund diversification. Over the long term, the investment policy has provided a favorable risk/return profile with returns around the median with risk well below average. The policy is monitored by the Trustees and the asset allocation periodically reviewed to evaluate the targets and ranges for each asset class in order to achieve overall risk and return objectives. The most recent study was completed in early 2011 and resulted in changes in the asset classes so as to enhance both the diversification and performance of the assets. The target asset allocations adopted by the Board of Trustees in March 2011 are shown below.

<b>Asset Category</b>	<b>Target</b>	<b>Actuals at 12/31/12</b>
Domestic Equity	31.0 %	35.6 %
Int'l Developed Equity	12.0	13.8
Emerging Markets	5.0	5.8
Fixed Income	16.0	19.8
Global Asset Allocation	10.0	9.5
Private Equity	7.0	3.3
Real Estate	5.0	2.9
Hedge Funds	8.0	6.2
Real Assets	4.0	0.0
Cash & Short Term Inv.	2.0	3.1
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>

The Plan is steadily working toward reaching the targets that were established in 2011. The cash and short term investment balance includes monies held for benefit payments and committed real estate and private equity investments. The Northern Trust Company, as master custodian, provides the detailed financial reports for all investment activity and transactions related to the Plan's portfolio. Using a time-weighted rate of return based on the fair value of assets, NEPC LLC calculates performance rates of return by portfolio and composite for all respective indices used in this section. The data provided in this section is reported at fair value and was prepared by the Plan's staff in collaboration with NEPC LLC.

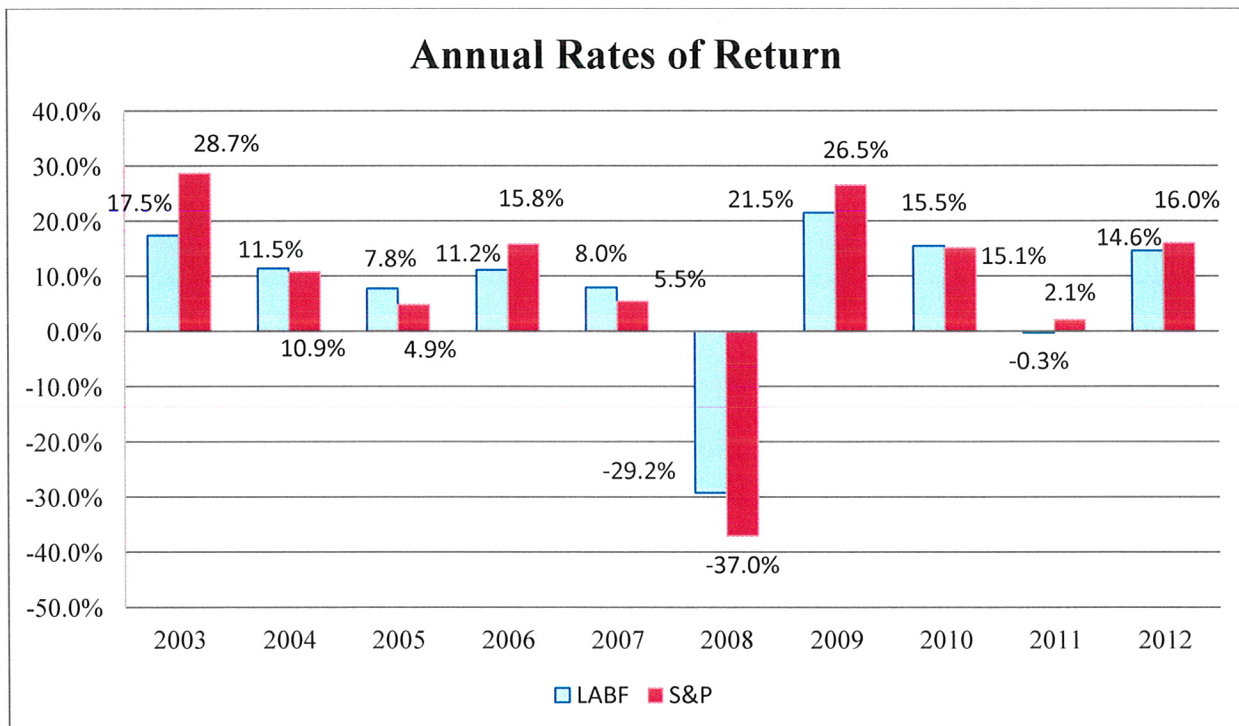
## INVESTMENT RESULTS

Although 2012 was another year of notable volatility for financial markets, global equity markets posted solid returns for the year. The strong performance of global equities reflected improving economic conditions as the Euro zone averted a breakup, the world economy did not fall back into recession, and the U.S. avoided plunging off the fiscal cliff. Economic growth was modest and no geopolitical events significantly impacted the markets. Most equity indices posted double digit returns for 2012. While the overall 2012 return of the Plan was a solid 14.6%, the S&P 500 Index had a gain of 16.0%. In general, large cap stocks lagged small and mid caps, and value stocks lead over growth stocks.

The same factors that benefitted U.S. stocks, further quantitative easing, and progress in the euro zone, positively impacted global stock markets. Both the international developed equity and emerging markets portfolios of the Plan posted strong returns. The 17.1% return for the Plan's international developed markets slightly trailed the MSCI EAFE gain of 17.3%. Meanwhile, the Plan's emerging markets posted a robust return of 21.2% against the MSCI EMF-Net gain of 18.2%.

The global bond markets delivered healthy returns in 2012, with positive performance across the board for the major asset classes. The primary driver of bond market performance was the policy of ultra-low interest rates being pursued by the Federal Reserve which depressed yields of short-term securities and government bonds. The low yields on these safer investments, in turn, caused investors to seek alternatives in the higher risk, higher yielding segments of the market. Emerging market bonds, high yield bonds, and long term corporate bonds led the bond market with double digit returns. The Barclays Capital U.S. Aggregate Index posted 4.2% for 2012, outpaced by the Plan's fixed income return of 8.6%.

Investment measurements and comparisons have been made using standard performance evaluation methods and results are presented in a manner consistent with the investment industry. Rates of return were determined using a time-weighted return calculation. The following graph depicts our Plan total returns, for the last ten years compared with the S & P Index:





## Schedule of Investment Results

(Annualized percentage for periods ending December 31, )

	2012	2011	2010	2009	2008	3 Yr	5 Yr
<b>Cash &amp; Short Term Investments</b>							
LABF	0.2	0.1	0.3	2.9	-4.7	0.3	0.8
90 day T-Bills	0.1	0.1	0.1	0.2	2.1	0.1	0.4
<b>Domestic Equity</b>							
LABF	17.6	0.6	18.9	29.2	-39.3	12.0	1.9
S & P 500	16.0	2.1	15.1	26.5	-37.0	10.9	1.7
<b>Int'l Developed Equity</b>							
LABF	17.1	-9.5	15.2	40.1	-46.7	6.9	-1.6
MSCI EAFE Net	17.3	-12.1	7.8	31.8	-43.4	3.6	-3.7
<b>Emerging Markets Equity<sup>1</sup></b>							
LABF	21.2	-10.1	28.2	-	-	11.8	n/a
MSCI EMF Net	18.2	-18.4	18.9			4.7	-0.9
<b>Fixed Income</b>							
LABF	8.6	5.8	9.1	12.1	-5.0	7.9	6.6
BC Aggregate	4.2	7.8	6.5	5.9	5.2	6.2	5.9
<b>Global Asset Allocation<sup>2</sup></b>							
LABF	-	-	-	-	-	n/a	n/a
<b>Private Equity</b>							
LABF	3.4	1.5	14.5	-10.4	-10.8	10.3	2.1
Cambridge Assoc. Venture Cap	7.5	20.9	8.1	-13.1	-0.9	12.2	4.0
<b>Real Estate</b>							
LABF	4.6	8.9	3.9	-36.6	-0.7	5.9	-5.7
NCREIF ODCE	10.9	16.0	16.4	-29.7	-10.0	14.4	-1.1
<b>Hedge Funds<sup>3</sup></b>							
LABF	5.0	-3.2	10.0	-	-	4.2	n/a
HFRI FOF	4.7	-5.6	5.7			1.4	-1.8
<b>Combined Investments</b>	14.6	-0.3	15.5	21.5	-29.2	9.8	2.6

<sup>1</sup> Asset class start date was 09/01/09. No annual return until 2010.

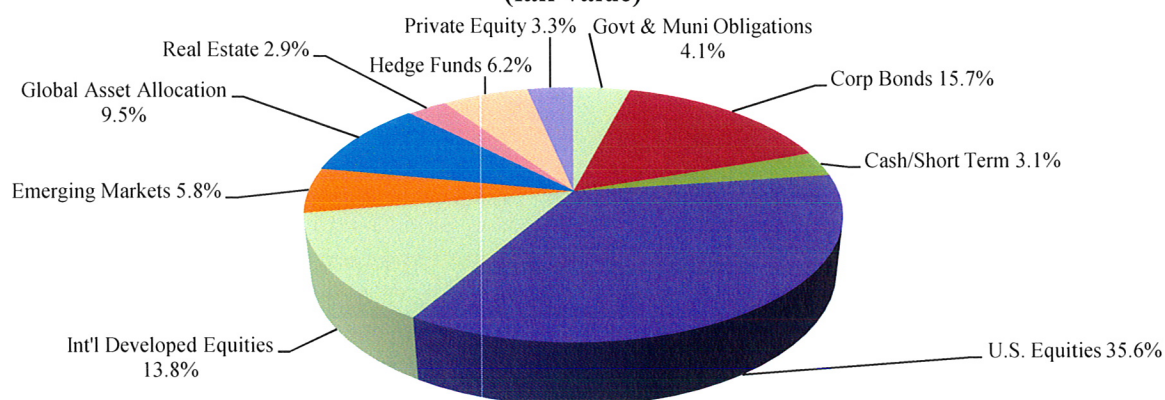
<sup>2</sup> Asset class start date was 05/01/12. No annual return in 2012.

<sup>3</sup> Asset class start date was 07/01/09. No annual return until 2010.

Returns are provided by NEPC LLC, calculated and presented using standard performance evaluation methods in a manner consistent with the investment industry in general and public pension funds in particular. Rate of return were determined using a time-weighted return calculation.

## Asset Allocation at December 31, 2012

(fair value)



## INVESTMENT SUMMARY

Type of Investment	12/31/2012		12/31/2011	
	Fair Value	% of Total	Fair Value	% of Total
Short term investments	\$41,872,378	3.1%	\$51,778,375	3.9%
Domestic equity	487,211,408	35.6%	627,888,601	47.9%
Int'l developed equity	188,903,502	13.8%	182,841,467	13.9%
Emerging markets equity	79,102,639	5.8%	70,556,770	5.4%
<b>Total equities</b>	<b>755,217,549</b>	<b>55.2%</b>	<b>881,286,838</b>	<b>67.2%</b>
Government obligations and municipal bonds	56,074,530	4.1%	83,070,761	6.3%
Corporate bonds	214,517,222	15.7%	157,287,830	12.0%
<b>Total fixed income</b>	<b>270,591,752</b>	<b>19.8%</b>	<b>240,358,591</b>	<b>18.3%</b>
Global Asset Allocation	129,596,815	9.5%	-	0.0%
Private equity	45,730,173	3.3%	46,943,283	3.6%
Real estate	39,159,549	2.9%	37,705,952	2.9%
Hedge funds	85,299,187	6.2%	54,310,119	4.1%
<b>Total alternatives</b>	<b>299,785,724</b>	<b>21.9%</b>	<b>138,959,354</b>	<b>10.6%</b>
<b>Total portfolio</b>	<b>\$1,367,467,403</b>	<b>100.0%</b>	<b>\$1,312,383,158</b>	<b>100.0%</b>

### Top 10 Domestic Equity Holdings

December 31, 2012

Shares	Stock	Fair Value
13,789	Apple Inc	\$7,349,951
65,151	Chevron Corp	7,045,429
79,989	Exxon Mobil Corp	6,923,048
92,576	Qualcomm Inc	5,741,564
276,625	Cisco Systems Inc	5,435,681
49,691	Baidu Inc	4,983,510
199,300	First American Financial Corp	4,801,137
128,421	Wells Fargo & Co	4,389,430
5,981	Google Inc	4,242,742
49,330	Jones Lang LaSalle Inc	4,140,760

### Top 10 Domestic Fixed Income Holdings

December 31, 2012

Par	Fixed Income	Fair Value
5,355,000	Canada (Govt of) 4.0% due 1/06/2016	\$5,862,626
4,465,000	FHLMC Gold Single Fam 30Yr 3.5% settles tba	4,747,898
2,775,000	US Treas Bds Index Linked 2.0% due 1/15/2026	4,241,322
3,815,000	New Zealand (Govt) 6.0% due 5/15/2021	3,746,793
3,000,000	FNMA Single Fam 3.5% 30 Yrs settles tba	3,198,399
2,465,000	Australia (Cmnwlth) 5.25% due 3/15/2019	2,894,029
14	Fut Mar 13 EURX EUR-BND	2,688,165
18	Fut Mar 13 ME 10Y CDN BND	2,450,256
1,775,000	US Treas Bds 4.375% due 2/15/2038	2,303,063
1,475,000	US Treas Bds 5.25% due 11/15/2028	2,037,804

A complete listing of portfolio holdings is available upon request.



## ASSET MANAGEMENT

The Plan retains the services of many professional investment management firms who bring their particular expertise to the selection and retention of investments. The activities of each firm are reviewed by the Plan's staff, consultant and trustees to ensure compliance with guidelines provided by the Illinois statutes, our investment policy, and long term strategic plans. The firms employed by the Plan at December 31, 2012 are:

### **Domestic Equity Managers**

Ariel Investments  
BMO Global Asset Mgmt  
Columbia Partners  
Holland Capital Mgmt  
Keeley Asset Mgmt  
Northern Trust Global Invstmnts  
Rhumbline Advisers  
Zacks Investment Mgmt

### **Int'l Developed Equity Managers**

Baillie Gifford Overseas Ltd  
Baring Asset Mgmt  
Thomas White Int'l Ltd

### **Emerging Markets Managers**

Robeco Investment Mgmt  
Vontobel Asset Mgmt

### **Global Asset Allocation Managers**

PIMCO  
Wellington Mgmt Co.

### **Short Term Manager**

The Northern Trust Company

### **Fixed Income Managers**

AFL-CIO Housing Inv. Trust  
Dearborn Partners  
LM Capital  
Neuberger Berman  
Western Asset Mgmt

### **Real Estate Managers**

ASB Capital Mgmt  
Capri Capital Partners  
John Buck Company  
Mesirow Financial  
Newport Capital  
Shamrock Hostmark Hotel Fd

### **Private Equity Managers**

Hopewell Ventures  
Mesirow Financial  
Midwest Mezzanine Funds  
Pantheon Ventures  
SB Partners

### **Hedge Fund Managers**

Balestra Capital  
Dorchester Capital Advisors  
Entrust Capital Inc.  
Stenham Advisors

## BROKER COMMISSIONS FOR 2012

Name	Total Commissions
Loop Capital	\$68,862
G-Trade Services	55,381
Robert W. Baird & Co	46,921
RBC Dain Rauscher	40,346
Blaylock and Company	29,997
Investment Technology Group	27,476
M Ramsey King Securities	26,455
Merrill Professional Clearing Corp	22,625
All Other	434,330
<b>Total</b>	<u><u>\$752,393</u></u>

## INVESTMENT EXPENSES

	2012 Assets under management*	2012 Fees	2011 Assets under management*	2011 Fees
Equity	\$ 755,217,549	\$ 4,113,928	\$ 881,286,838	\$ 4,245,481
Fixed income	270,591,752	867,855	240,358,591	748,705
Global asset allocation	129,596,815	824,046	-	-
Private equity	45,730,173	1,185,771	46,943,283	1,339,465
Real estate	39,159,549	850,157	37,705,952	768,921
Hedge funds	85,299,187	693,460	54,310,119	646,212
Subtotal	<u>1,325,595,025</u>	<u>8,535,217</u>	<u>1,260,604,783</u>	<u>7,748,784</u>
Custodial management	41,872,378	113,135	51,778,375	117,656
Subtotal	<u>\$ 1,367,467,403</u>	<u>8,648,352</u>	<u>\$ 1,312,383,158</u>	<u>7,866,440</u>
Investment consultant fee		<u>260,394</u>		<u>238,315</u>
Total fees		<u>\$ 8,908,746</u>		<u>\$ 8,104,755</u>

\* Securities lending cash collateral is not included in assets under management

## SECURITIES LENDING

The Plan participates in a securities lending program with our custodian, The Northern Trust Company. The Northern Trust, acting as the lending agent, lends securities for collateral in the form of cash, U.S. Government obligations and irrevocable letters of credit equal to 102% of the fair value of domestic securities plus accrued interest and 105% of the fair value of foreign securities plus accrued interest. The income earned from this program is invested back into the Plan. The Securities Lending Summary table below outlines the 2012 net income from the Plan's securities lending activity, the securities on loan as of December 31, 2012, and the amount of collateral for these securities.

<b>Securities Lending Summary (Net of Borrower Rebates) as of December 31, 2012</b>	
Equity Income Earned	\$978,894
Fixed Income Earned	22,194
Less Custodial Fee	<u>(149,886)</u>
Net Securities Lending Income	\$851,202
 Total Collateral Market Value	 \$170,862,139
Total Market Value of Securities on Loan	\$168,903,268
 Total Collateralized Percentage	 101.2%

## COMMISSION RECAPTURE

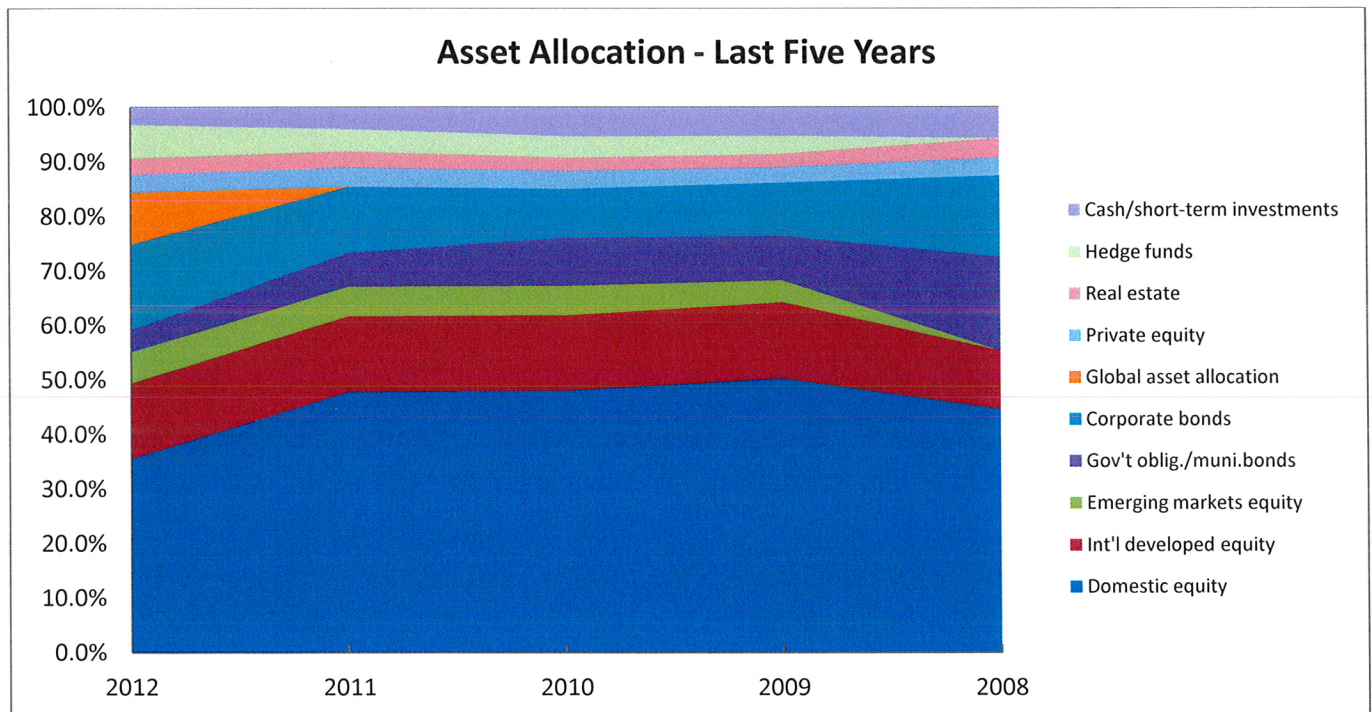
The Plan also utilizes a commission recapture program. Commission recapture is a form of institutional discount brokerage that rebates back a portion of trading commissions directly to the pension fund. This helps to reduce expenses to save money for the Plan. For the year ended December 31, 2012, the Plan recaptured \$43,686 in commissions. These commissions were reinvested back into the Plan. The table below details the brokers we use for this program and their respective income for the year.

<b>Commission Recapture Program For Year Ended December 31, 2012</b>	
<b>Broker</b>	<b>Amount</b>
LJR Recapture Services	\$13,842
Russell Securities	<u>29,844</u>
Total	\$43,686

## ASSET ALLOCATION

Last Five Years

	Fair Value as a Percent of Portfolio				
	2012	2011	2010	2009	2008
Equities:					
Domestic equity	35.6%	47.9%	48.1%	50.3%	44.6%
Int'l developed equity	13.8%	13.9%	13.8%	14.0%	10.7%
Emerging markets equity	5.8%	5.4%	5.4%	4.0%	0.0%
Fixed income:					
Gov't oblig./muni.bonds	4.1%	6.3%	8.9%	8.2%	17.3%
Corporate bonds	15.7%	12.0%	8.9%	9.7%	14.9%
Global asset allocation	9.5%	0.0%	0.0%	0.0%	0.0%
Private equity	3.3%	3.6%	3.3%	2.9%	3.3%
Real estate	2.9%	2.9%	2.4%	2.4%	3.5%
Hedge funds	6.2%	4.1%	3.9%	3.3%	0.0%
Cash/short-term investments	3.1%	3.9%	5.3%	5.2%	5.7%
Total portfolio	100.0%	100.0%	100.0%	100.0%	100.0%



## Actuarial Section



April 5, 2013

The Retirement Board of the  
Laborers' and Retirement Board Employees'  
Annuity and Benefit Fund of Chicago  
321 North Clark Street, Suite 1300  
Chicago, Illinois 60654

**Subject: Actuarial Certification**

Dear Members of the Board:

At your request, we have performed an actuarial valuation of the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago ("the Fund") as of December 31, 2012. An actuarial valuation of the Fund is performed annually. The valuation has been performed to measure the funding status of the Fund. It includes disclosure information required under Governmental Accounting Standards Board (GASB) Statement No. 25, Statement No. 27, Statement No. 43, and Statement No. 45. The assumptions and methods used were recommended by the actuary and approved by the Board. The assumptions and methods 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
- Retirees 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.

- Schedule of Funding Progress
- Schedule of Employer Contributions

This valuation is based upon:

- a. **Data Relative to the Members of the Fund** – Data utilized for active members and persons receiving benefits from the Fund was provided by the Fund's staff. We have tested this data for reasonableness. However, we have not audited the data.

- b. **Asset Values** – The values of assets of the Fund were provided by the Fund'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 Fund is the Entry-Age Normal Actuarial Cost Method. The objective of this method is to recognize the costs of Fund benefits over the entire career of each member as a level 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** – Updated actuarial assumptions have been adopted by the Board beginning with this valuation based on the recommendations of the experience study performed for the period from January 1, 2004, through December 31, 2011.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of the Fund when due. The provision of State Law establishing the Fund constrains employer contributions to be 1.00 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 1:1 relationship. Employer contributions for the plan year cease when all actuarial accrued liabilities of the Fund are fully funded. The most recent actuarial valuation of the Fund on the State reporting basis indicates that a ratio of 7.48 (rather than 1.00) is needed to adequately finance the Fund in Fiscal Year 2013 on an actuarially sound basis under a policy of contributing normal cost plus 30-year level dollar amortization of the unfunded liability. It should be noted that the statutory employer contributions have been less than the Annual Required Contribution (ARC) for the past seven years and are again expected to be less than the ARC for 2013. In order for employer contributions to be increased, the State legislature would first need to amend the statute. Under the current funding policy, if all future assumptions are realized, the funding ratio is projected to deteriorate until assets are depleted within about 15 to 20 years. The current statutory funding policy does not comply with generally accepted actuarial standards for the funding of retirement systems. We recommend that an actuarially sound funding policy be adopted as soon as possible.

The valuation results set forth in this report are based on the data and actuarial techniques described above, and upon the provisions of the Fund as of the valuation date. Based on these items, we certify these results to be true and correct. One or more of the undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Sincerely,



Alex Rivera, F.S.A., E.A., M.A.A.A.  
Senior Consultant



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



Paul T. Wood, A.S.A.  
Senior Analyst

## **Actuarial Methods and Assumptions**

All assumptions are agreed upon by the Fund's actuary and Board of Trustees.

- Method - The actuarial funding method used is the Entry Age Normal Actuarial Cost Method which reflects actuarial gains and losses immediately in the unfunded liability. This cost method assigns to each year of employment a constant percentage of an employee's salary, called the current service cost (sometimes referred to as normal cost), sufficient to accumulate the necessary funds to provide for the full prospective costs of the employee's projected retirement pension. The amount of pension must be estimated using various assumptions as to future compensation levels, employee turnover, mortality and pension fund earnings, since the actual pension can be known only at the time of retirement. These are called actuarial assumptions.

The actuarial accrued liability of the fund at any point in time is the accumulated value of all current service costs that should have been paid in at that time for active employees plus the full prospective cost of pensions for all retired employees. The extent that the actual plan assets are less than the accrued liability is called the unfunded liability. The unfunded liability may be positive (actuarial accrued liability greater than the actuarial value of the assets) or negative (actuarial accrued liability less than the value of assets, or funding excess). The term unfunded actuarial liability refers to either situation. The unfunded liability can be thought of as the amount of assets that will be needed in future years to provide all future benefits payable when added to the future normal costs.

An amount of money is required each year to amortize the unfunded liability over a period of 30 years if all assumptions are realized. This amount is called 30 year level-dollar amortization of the unfunded liability.

The required total annual required contribution to the Fund is equal to the current service costs plus a 30 year level dollar amortization of the unfunded liability. Under the GASB No. 25 standard, a 30 year level dollar amount is provided for amortization of the unfunded liability. Adopted 1997.

<b>ASSUMPTIONS:</b>	<b>2012</b>	<b>2011</b>
Life expectancy of participants	RP2000 Combined Healthy Mortality Table, sex distinct, set forward 1 year for males and set back 2 years for females	RP2000 Combined Healthy Mortality Table, sex distinct, set forward 1 year for males and set back 2 years for females ( <i>adopted 2011</i> )
Retirement age assumptions	Rates are age & service based All retire by age 80 ( <i>adopted 2012</i> )	Rates are age & service based All retire by age 70 ( <i>adopted 2004</i> )
Termination assumptions	Rates are service based ( <i>adopted 2012</i> )	Rates are service based ( <i>adopted 2004</i> )
Disability	Cost valued at a term cost of 2.5% of payroll ( <i>adopted 2012</i> )	Cost valued at a term cost of 1.5% of payroll ( <i>adopted 2004</i> )
Investment rate of return for pensions (net of expenses)	7.5% compounded annually (3% inflation and 4.5% real rate of return) ( <i>adopted 2012</i> )	8% compounded annually (3% inflation and 5% real rate of return) ( <i>adopted 1999</i> )
Investment rate of return for OPEB	4.5% per annum	4.5% per annum ( <i>adopted 2005</i> )
Salary increase	3.75% compounded annually plus a service based increase in the first 15 years ( <i>adopted 2012</i> )	4.5% compounded annually plus a service based increase in the first 5 years ( <i>adopted 2004</i> )

#### **RATES OF RETIREMENT - Tier 1 Members**

##### **Age-and-Service-Based Rates of Retirement**

Attained Age	Years of Service								
	10	11-14	15-19	20-24	25-29	30-32	33-34	35-39	40+
50-54	-	-				24 %	40 %	35 %	100 %
55-59	-	-	-	16 %	24 %	24	40	35	100
60-64	16 %	10 %	10 %	16	24	24	40	35	100
65-69	16	16	24	24	24	24	40	35	100
70-79	24	24	24	24	24	24	40	40	100
80+	100	100	100	100	100	100	100	100	100

#### **RATES OF RETIREMENT - Tier 2 Members**

##### **Age-and-Service-Based Rates of Retirement**

Attained Age	Years of Service	
	10-39	40+
62-66	24 %	100 %
67-69	40	100
70-79	40	100
80+	100	100

- **Rates of Retirement – 2012:** Rates of retirement for Tier 1 members are based on an experience study using census information for the period from December 31, 2004 to December 31, 2011. Adopted 2012. Rates of retirement for Tier 2 members are based on retirement eligibility conditions applicable to Tier 1 members and expected retirement patterns under those eligibility conditions. Adopted 2012.

**RATE OF TERMINATION  
Tier 1 and Tier 2 Members**

Service <sup>1</sup>	Rate
0	8.00%
1	7.00%
2 - 3	5.00%
4 - 9	4.00%
10 - 15	3.00%
16 - 19	2.00%
20 - 29	1.50%
30+	1.00%

<sup>1</sup>*Based on service at beginning of valuation year*

- **Rates of Termination – 2012:** Rates of termination are based on an experience study using census information for the period from December 31, 2004 to December 31, 2011. The rates of termination apply to both Tier 1 and Tier 2 members. Adopted 2012.
- **Investment Return - 2012:** 7.5% per year (net of investment expense) compounded annually. This assumption contains a 3% inflation assumption and a 4.5% real rate of return assumption. Adopted 2012. 4.5% per year for OPEB. Adopted 2005.
- **Salary Increase - 2012:** 3.75% per year plus a service based increase in the first 15 years as shown below. Adopted 2012.

Completed Years of Service <sup>1</sup>	Additional Increase	Total Increase
1	6.25%	10.00%
2	4.75	8.50
3	3.75	7.50
4	3.25	7.00
5	2.25	6.00
6	1.25	5.00
7 – 15	0.25	4.00
16 – 30+	0.00	3.75

<sup>1</sup>*Based on projected service at end of valuation year.*

- Percent Married - It is assumed that 85% of the active members have an eligible spouse.
- Post Retirement Benefit Increases:
  - Tier 1: 3% per year compounded for employee annuitants beginning either three years after retirement or age 60, whichever occurs first. Beginning January 1, 2005, the automatic increases in annuities will take effect in the January of each year in which they are to be provided.
  - Tier 2: The lesser of 3% or  $\frac{1}{2}$  of the annual unadjusted percentage increase in the CPI-U (but not less than zero) as measured in the preceding 12 month period ending with September preceding the increase date. This simple increase begins on the January of the first payment date following the later of 1) age 67 and 2) the first anniversary of retirement.
- Active Membership - It is assumed that the active membership will remain at the present level and that the average age of entrance into the service will be about the same in the future as it has been. The actuarial costs are based on the present group.
- Age of Spouse - The age of the female spouse is assumed four years younger than the employee while the male spouse is assumed four years older than the employee.
- Asset Value - GASB No. 25 requires a market related actuarial asset value. A five year smoothed average fair value is used. The actuarial value is determined by adjusting the fair value of assets to reflect the investment gains and losses (the difference between the actual investment return and the expected investment return) over five years at the rate of 20% per year.
- Group Health Insurance Premiums - It is assumed for valuation purposes that the health insurance supplement in effect prior to June 30, 2013, will continue for life for all employee annuitants (and their future surviving spouses). The amount of the Fund 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, age 65 and older, are assumed to be eligible for Medicare, as well as surviving spouse annuitants that are currently receiving a health insurance supplement. It is assumed that 75 percent of future retirees will elect to receive the health insurance supplement at retirement, first adopted for the valuation as of December 31, 2011.
- Required Ultimate Multiple – Is based on 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 – A 4.0 percent overall loss on tax levy is assumed.

## ANNUITANTS ADDED TO AND REMOVED FROM ROLL

Year	Employee Annuities							
	Added to Rolls		Removed from Rolls		Rolls - End of Yr		Average	% Change in
	Number	Annual Benefits <sup>1</sup>	Number	Annual Benefits	Number	Annual Benefits	Annual Benefit	Avg Annual Benefit
2007	95	\$6,301,188	134	\$3,363,972	2,644	\$87,891,144	\$33,242	5.0%
2008	120	7,756,776	118	2,939,436	2,646	92,708,484	35,037	5.4%
2009	169	9,882,832	132	3,675,336	2,683	98,915,980	36,868	5.2%
2010	163	10,367,852	144	4,008,480	2,702	105,275,352	38,962	5.7%
2011	163	10,624,236	144	4,187,172	2,721	111,712,416	41,056	5.4%
2012	136	9,154,278	120	4,030,908	2,737	116,835,786	42,688	4.0%
<b>Spouse Annuities and Reversionary Annuitants</b>								
2007 <sup>2</sup>	68	\$1,007,856	87	\$846,660	1,316	\$15,164,628	\$11,523	2.5%
2008 <sup>2</sup>	64	972,408	82	855,072	1,298	15,281,964	11,773	2.2%
2009	49	866,592	75	772,740	1,272	15,375,816	12,088	2.7%
2010	57	1,000,668	74	770,808	1,255	15,605,676	12,435	2.9%
2011 <sup>2</sup>	57	1,000,152	91	1,021,908	1,221	15,583,920	12,763	2.6%
2012 <sup>3</sup>	74	1,028,112	91	1,032,372	1,204	15,579,660	12,940	1.4%
<b>Child Annuities</b>								
2007	4	\$10,560	11	\$30,480	45	\$123,120	\$2,736	-0.5%
2008	13	34,320	11	29,400	47	128,040	2,724	-0.4%
2009	9	23,760	15	39,960	41	111,840	2,728	0.1%
2010	4	10,968	6	15,888	39	106,920	2,742	0.5%
2011	5	13,625	6	16,985	38	103,560	2,725	-0.6%
2012	5	13,625	8	21,185	35	96,000	2,743	0.7%

<sup>1</sup> Annual benefits added to payroll include post-retirement increase amounts.

<sup>2</sup> Includes one reversionary annuitant.

<sup>3</sup> Number added in 2012 includes 20 Reversionary Annuitants that are also Surviving Spouses

**SCHEDULE OF  
ACTIVE MEMBER VALUATION DATA**

Valuation Date	# of Members	Annual Payroll	Annual Average Pay	% Increase in Average pay
2007	3,138	\$192,847,482	\$61,456	0.0%
2008	3,325	216,744,211	65,186	6.1%
2009	3,124	208,626,493	66,782	2.5%
2010	2,956	199,863,410	67,613	1.2%
2011	2,852	195,238,332	68,457	1.3%
2012	2,865	198,789,741	69,386	1.4%

**ACTUARIAL RESERVE LIABILITIES  
For Year Ended December 31, 2012**

Accrued Liabilities for Active and Inactive Participants <sup>1</sup>	\$855,066,904
<b>Reserves For:</b>	
Service Retirement Pension	1,245,979,337
Future Widows of Current Retirees	128,151,493
Surviving Spouse Pension	119,500,283
Health Insurance Supplement	25,772,762
Children Annuitants	371,852
<b>Total Accrued Liabilities</b>	<b>2,374,842,631</b>
<b>Unfunded Actuarial Liabilities</b>	<b>1,058,929,034</b>
<b>Actuarial Net Assets</b>	<b>\$1,315,913,597</b>

<sup>1</sup> Accrued liabilities for active participants includes retirement liability for members in ordinary or duty disabled status. Liability for disability benefits is recognized as a one-year term cost of 2.5 percent of pay added to the normal cost.



## HISTORY OF FINANCIAL INFORMATION

### Solvency (Termination) Test

Year	Aggregate Accrued Liabilities For			Actuarial Value of Assets	Portion (%) of Present Value Covered by Assets		
	Active and Inactive Member Contributions	Retirees and Beneficiaries	Active and Inactive Members (ER Financed Portion)		(1)	(2)	(3)
	(1)	(2)	(3)				
2007	\$247,854,869	\$1,074,580,007	\$527,271,642	\$1,757,710,948	100.0 %	100.0 %	82.6 %
2008	254,588,537	1,129,920,171	572,879,125	1,698,427,008	100.0	100.0	54.8
2009	254,604,734	1,203,586,162	559,296,180	1,601,351,633	100.0	100.0	25.6
2010	254,138,112	1,281,511,698	535,736,023	1,529,403,512	100.0	99.5	0.0
2011 <sup>1</sup>	251,243,991	1,403,258,511	536,679,260	1,422,414,349	100.0	83.5	0.0
2012 <sup>1</sup>	253,449,161	1,519,775,727	601,617,743	1,315,913,597	100.0	69.9	0.0

<sup>1</sup> Change in actuarial assumptions

The prioritized solvency test is another means of checking a system'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 system 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) is covered by the remainder of present assets. Generally, if the system has been following a system of amortizing the Unfunded Liability, the funded portion of present value (3) will increase over time. Due to the inadequacy of the current statutory funding policy, the current assets are only sufficient to cover active and inactive member contributions and 70 percent of retiree liabilities. The present value of employer financed benefits for active and inactive members is completely unfunded.

## ANALYSIS OF FINANCIAL EXPERIENCE

### Reconciliation of Unfunded Actuarial Accrued Liability

#### (Gain/Loss Analysis)

Actuarial Gains or (Losses):	2012	2011	2010	2009
Fund surplus (loss) at the beginning of the year	(\$768,767,413)	(\$541,982,320)	(\$416,135,443)	(\$258,960,825)
Gains (losses) during the year attributable to:				
Increases in salaries under assumed rate	11,246,150	17,752,499	19,309,030	13,437,593
Investment yield over (under) 8.0% assumed	(99,757,018)	(115,961,584)	(97,274,017)	(136,557,090)
Employer cost in excess of contributions	(63,344,488)	(44,792,683)	(32,836,243)	(20,908,058)
Miscellaneous actuarial experience	(7,410,741)	(18,062,145)	(14,391,903)	(13,067,408)
Data Corrections & Unexpected Service Changes	(505,176)	(964,087)	(653,744)	(79,655)
Change in Active Member Definition	-	-	-	-
Change in Methodology	-	-	-	-
Change in actuarial assumptions:	(130,390,348)	(64,757,093)		
Retirement Rates	-	-	-	-
Net gain (losses)	(290,161,621)	(226,785,093)	(125,846,877)	(157,174,618)
Fund surplus (loss) at the end of the year	(\$1,058,929,034)	(\$768,767,413)	(\$541,982,320)	(\$416,135,443)

**SUMMARY OF  
PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS  
AS OF DECEMBER 31, 2012**

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**PLAN DESCRIPTION**

Any employee of the City of Chicago or the Board of Education employed under the provisions of the municipal personnel ordinance as labor service or any person employed by a retirement board of any annuity and benefit fund in the city is covered by the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (Laborers' Plan) which is a defined benefit single employer pension plan with a money purchase minimum. Although this is a single employer plan, the defined benefits, as well as the employer and employee contribution levels, are mandated in Illinois Compiled Statutes (Chapter 40, Pensions, Article 5/11) and may be amended only by the Illinois legislature. The City of Chicago accounts for the plan as a pension trust fund. The City of Chicago payroll for employees covered by the Laborers' Plan for the year ended December 31, 2012, was \$198,789,741. At December 31, 2012, the Laborers' Plan membership consisted of:

Retiree, surviving spouse, reversionary annuitant, and child annuitants currently receiving benefits	3,976
Terminated inactive employees entitled to benefits or a refund of contributions but not yet receiving them	1,408
Current employees (includes 255 disabilities)	2,865

The Laborers' Fund 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 money 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 percent 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  $\frac{1}{4}$  of 1.00 percent for each month the employee is under age 60, unless the employee is 50 or over with at least 30 years of service or 55 or over with at least 25 years of service. The original annuity is limited to 80 percent of the highest average annual salary. Beginning January 1, 1999, there is a 10-year deferred vested benefit payable at age 60. Employees who retire at age 60 or over with at least 10 years of service are entitled to a minimum of \$850 per month.

The monthly annuity is increased by 3.00 percent in January of the year of the first payment date following the later of age 60 or the first anniversary of retirement, and by 3.00 percent annually thereafter; except that for an employee retiring prior to age 60 the first increase will occur no 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.

*Participants that first became members on or after January 1, 2011, are subject to different retirement eligibility conditions and benefit provisions as described on the following pages.*

**SUMMARY OF  
PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS  
AS OF DECEMBER 31, 2012 (CONT'D)**

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**PLAN DESCRIPTION (CONT'D)**

Covered employees are required to contribute 8.50 percent of their salary to the Laborers' Plan. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with 3.00 percent interest.

The City of Chicago is required by state statutes to contribute the remaining amounts necessary to finance the requirements of the Fund. 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 Fund made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 1.00 annually. The total amount of contributions by the employees for purposes of establishing the tax levy amount shall not include contributions for service credit purchases under the Early Retirement Incentive provided for in Section 11-133.3 of the Illinois Pension Code.

*Participants that first became members on or after January 1, 2011, are subject to a cap on pensionable salary upon which contributions are made as described on the following pages.*

**DEFINITIONS**

These terms are defined in Article 1A of the Illinois Pension Code *Regulation of Public Pensions*.

"Accrued liability" means the actuarial present value of future benefit payments and appropriate administrative expenses under a plan, reduced by the actuarial present value of all future normal costs (including any participant contributions) with respect to the participant included in the actuarial valuation of the plan.

"Actuarial present value" means the single amount, as of a given valuation date, that results from applying actuarial assumptions to an amount or series of amounts payable or receivable at various times.

"Actuarial value of assets" means the value assigned by the actuary to the assets of a plan for the purposes of an actuarial valuation.

"Beneficiary" means a person eligible for or receiving benefits from the pension fund.

"Credited projected benefit" means that portion of a participant's projected benefit based on an allocation taking into account service to date determined in accordance with the terms of the plan based on anticipated future compensation.

"Current value" means the fair market value when available; otherwise, the fair value as determined in good faith by a trustee, assuming an orderly liquidation at the time of the determination.

"Normal cost" means that part of the actuarial present value of all future benefit payments and appropriate administrative expenses assigned to the current year under the actuarial valuation method used by the plan (excluding any amortization of the unfunded accrued liability).

"Participant" means a participating member or deferred pensioner or annuitant of the pension fund, or a beneficiary thereof.

**SUMMARY OF  
PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS  
AS OF DECEMBER 31, 2012 (CONT'D)**

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“Pension Fund” or “Fund” means the Laborers’ and Retirement Board Employees’ Annuity and Benefit Fund of Chicago established under Article 11 of the Illinois Pension Code.

“Plan year” means the calendar year for which the records of a given plan are kept.

“Projected benefits” means benefit amounts which are expected to be paid at various future times under a particular set of actuarial assumptions, taking into account, as applicable, the effect of advancement in age and past and anticipated future compensation and service credits.

“Supplemental annual cost” means that a portion of the unfunded accrued liability is assigned to the current year under one of the following bases:

1. interest only on the unfunded accrued liability;
2. the level annual amount required to amortize the unfunded accrued liability over a period not exceeding 30 years (40 years for pension unfunded accrued liability prior to 2007);
3. the amount required for the current year to amortize the unfunded accrued liability over a period not exceeding 30 years as a level percentage of payroll (40 years for pension unfunded accrued liability prior to 2007).

“Total annual cost” means the sum of the normal cost plus the supplemental annual cost.

“Unfunded accrued liability” means the excess of the accrued liability over the actuarial value of the assets of a plan.

“Vested pension benefit” means an interest obtained by a participant or beneficiary in that part of an immediate or deferred benefit under a plan which arises from the participant’s service and is not conditional upon the participant’s continued service for an employer any of whose employees are covered under the plan, and which has been forfeited under the terms of the plan.

## **PARTICIPANTS**

Any person employed by the City or the Board of Education in a position classified as labor service of the employer, any person employed by the Board, and any person employed by the Retirement Board of any other Annuity and Benefit Fund which is in operation for the employer.

## **SERVICE**

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 money purchase annuity, 700 hours of service in any calendar year constitutes one year of service credit. For Ordinary Disability credit, the exact number of days, months and years is used.

**SUMMARY OF  
PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS  
AS OF DECEMBER 31, 2012 (CONT'D)**

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**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.

*Participants that first became members on or after January 1, 2011, are eligible for benefits under the money purchase formula upon attainment of eligibility for retirement benefits at age 62 with 10 years of service.*

***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 30 years of service and is age 50 or over, or has at least 25 years of service and is age 55 or over.

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

*Participants that first became members on or after January 1, 2011, are first eligible for an unreduced annuity benefit upon attainment of age 67 with 10 years of service. Members are first eligible to begin receiving a reduced annuity benefit upon attainment of age 62 with 10 years of service. The annuity is discounted 0.50 percent for each full month the employee is younger than age 67. Final average salary is calculated using salary from the eight highest consecutive years within the last 10 years of service prior to retirement. Pensionable salary is limited to \$106,800 in 2011, increased by the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12-month period ending with the September preceding the November 1, which is the date that the new amount will be calculated and made available to the pension funds.*

***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

**SUMMARY OF  
PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS  
AS OF DECEMBER 31, 2012 (CONT'D)**

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requirement is waived if the beneficiary is the employee's spouse. The death of the employee before retirement voids this election. The reversionary 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.

***Automatic Increase in Annuity***

An employee annuitant is entitled to receive an increase of 3.00 percent of the currently payable annuity (compound). This increase begins in January of the year of the first payment date following the earlier of:

- 1.) the later of the third anniversary of retirement and age 53, and
- 2.) the later of the first anniversary of retirement and age 60.

Increases apply only to life annuities.

*An employee annuitant that first became a member on or after January 1, 2011, that is eligible to receive an increase in annuity benefit, shall receive an annual increase equal to the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12-month period ending with the September preceding the increase. The increase is based on the amount of the originally granted benefit (simple). This increase begins on January 1 of the year of the first payment date following the later of:*

- 1.) attainment of age 67, and
- 2.) the first anniversary of the annuity start date.

**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 spouse's annuity is fixed, based on employee deductions and City contributions 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

## SUMMARY OF PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS AS OF DECEMBER 31, 2012 (CONT'D)

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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.

*For participants that first became members on or after January 1, 2011, the annuity payable to the surviving spouse is equal to 66 2/3 percent of the participant's earned retirement annuity at the date of death without a reduction due to age.*

### ***Automatic Increase in Annuity***

*The widow or survivor of a participant that first became a member on or after January 1, 2011, shall receive an annual increase equal to the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12-month period ending with the September preceding the date of the increase. The increase is based on the amount of the originally granted survivor's benefit (simple). This annual increase begins on January 1 following the commencement of the widow's or survivor's annuity if the deceased member died while receiving an annuity benefit and on January 1 following the first anniversary of the commencement of the annuity otherwise.*

### ***Child's Annuity***

A child's annuity is provided for unmarried children of a deceased employee who are under the age of 18, if the child was conceived or born before the withdrawal from service. 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.

**SUMMARY OF  
PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS  
AS OF DECEMBER 31, 2012 (CONT'D)**

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**DISABILITIES**

***Duty Disability Benefits***

Any employee who becomes disabled as the result of an injury incurred in the performance of any act of duty shall have 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 (the issue of the employee) 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 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 1<sup>st</sup> 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, 1983, while the employee is receiving duty disability benefits, are not refundable to the employee and will be used for annuity purposes only.

***Ordinary Disability Benefit***

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. Disability is payable until age 65 and limited to a maximum of 25 percent of the employee's total service or five years, whichever occurs first.

For ordinary disability benefits paid on or after January 1, 2001, the Fund credits amounts equal to the amounts ordinarily contributed by an employee for annuity purposes for any period during which the employee receives ordinary disability. These amounts are used for annuity purposes but are not credited for refund purposes.

**GROUP HEALTH HOSPITAL AND SURGICAL INSURANCE PREMIUMS**

The pension fund shall provide payments in the amount of \$95 per month for non-Medicare eligible city annuitants (defined in section 160.1 of Article 11 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 \$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 pension fund'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.



## SUMMARY OF PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS AS OF DECEMBER 31, 2012 (CONT'D)

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Should the Board of Education continue to sponsor a retiree health plan, the pension fund 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 pension fund'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 for retirement annuity and spouse annuity accumulated with interest to date of resignation, plus the 0.50 percent deducted for annuity increase purposes without interest.

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

Spouse's annuity deductions are payable to the employee if not married when he retires.

#### *To Spouses*

The spouse may choose a refund in lieu of annuity if the annuity would be less than \$800 per month.

#### *Remaining Amounts*

Amounts contributed by the employee excluding 0.50 percent deductions for annuity increases, and which have not yet been paid out as annuity, are refundable to his estate with interest to his retirement or death if the employee died in service.

### DEDUCTIONS AND CONTRIBUTIONS

Members are required to contribute 8.50 percent of their salary to the pension fund.

*For participants that first became members on or after January 1, 2011, pensionable salary, upon which member contributions are made, is limited to \$106,800 in 2011, increased by the lesser of 3 percent and one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12-month period ending with the September preceding the November 1, which is the date that the new amount will be calculated and made available to the pension funds.*

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 Fund. The tax will produce an amount that does not exceed the amount of contributions by the employees to the Fund made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 1.00 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 11-133.3 for purposes of establishing the tax levy amount.

## SUMMARY OF PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS AS OF DECEMBER 31, 2012 (CONT'D)

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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 or 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. All liabilities attributable to the cost of the Early Retirement Incentive created by Public Act 93-0654 are to be excluded from the determination of a required City contribution.

### **TAX SHELTER OF EMPLOYEE SALARY DEDUCTIONS**

Beginning January 1, 1982, the City employee salary deductions were designated for income tax purposes to be made by the employer. The W-2 salary is therefore reduced by the amount of contributions. For pension purposes the salary remains 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. 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.

Beginning September 1, 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 1, 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.

### **RECENT LEGISLATIVE CHANGES**

The following legislation was approved in the 2012 session:

#### ***Public Act 97-0651 (HB 3813)***

- Approved and effective January 5, 2012.
- Requires any reasonable suspicion of fraud against the Fund to be reported to the State's Attorney for investigation.
- Changes provisions for Union Leaves of Absence as follows:
  - Service credit can be accrued only for union leaves that begin before the effective date of this amendatory Act.
  - "Any pension plan established by the local labor organization" is defined as any pension plan in which the member can receive credit as a result of his membership in the local labor organization. This is a declaration of existing law.
  - Salary used for calculation of final average salary must be a salary paid by an employer, not by the union. This is a declaration of existing law.
  - Minimum annuity section 11-134 is changed to add to the final average salary the product of (1) final average salary, (2) the average percentage increase in the CPI during the leave of absence, and (3) the number of years of leave of absence. This does not seem to deal with a situation

**SUMMARY OF  
PRINCIPAL ELIGIBILITY AND BENEFIT PROVISIONS  
AS OF DECEMBER 31, 2012 (CONT'D)**

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where the employee may have been on leave within the last 10 years but is last with Laborers. It also only amends paragraph (f-1) which applies to those members who go on annuity on or after the attainment of age 60.

- Does not change that contributions are based current salary with the union.

***Public Act 97-0967 (HB 3969)***

- Approved and effective August 16, 2012.
- Applies if the member retired after the effective date with less than 2 years of service in a participating system under the Reciprocal Act after General Assembly service.
- Requires that if the final average salary in a participating system is used to calculate the annuity, the employer must pay the General Assembly Retirement System for any increased cost of the General Assembly annuity that is attributable to the higher salary under the participating system.

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## Statistical Section

# Statistical Section

This section of the comprehensive annual financial report contains relevant data on revenue, expenses and benefit payments. This detailed information, in conjunction with the financial statements, note to financial statements and required supplementary information is presented in order for the reader to analyze financial trends and to evaluate the economic condition of the Plan.

**Financial Trends – The following schedules show trend information about the Plan's growth over the past 10 years.**

- Schedule of Additions by Source
- Schedule of Deductions by Type
- History of Changes in Net Position
- Schedule of Benefit Expenses by Type
- Schedule of Refunds by Type
- Retirees and Beneficiaries by Type of Benefit<sup>1</sup>
- Average Employee Retirement Benefits<sup>1</sup>
- 10 Year Growth of Employee Annuitants
- Analysis of Initial Retirement Benefits for Employees
- Average Age at Retirement<sup>1</sup>
- Average Years of Service at Retirement<sup>1</sup>
- History of New Annuities Granted<sup>1</sup>
- History of Active Members Classified by Age<sup>1</sup>
- History of Active Members by Gender

**Demographic Information – The following schedules provide information about the Plan's membership population.**

- Age and Gender of Annuitants
- Changes in Annuitant and Beneficiaries<sup>1</sup>
- Schedule of Monthly Benefit by Type<sup>1</sup>
- Annuitants Classified by Age<sup>1</sup>
- Active Members Classified by Service<sup>1</sup>
- Inactive Members Classified by Service<sup>1</sup>
- Number of Active Members by Department
- Members Receiving Disability Benefits<sup>1</sup>
- Number of Refunds Payments Made During 2012<sup>1</sup>

Schedule information was derived from LABF internal sources unless otherwise noted.

<sup>1</sup>Schedules or data are provided by the consulting actuary, Gabriel, Roeder, Smith & Co.

## LABORERS' ANNUITY AND BENEFIT FUND OF CHICAGO

### SCHEDULE OF ADDITIONS BY SOURCE

Year	Employee Contributions	Employer Contributions	Employer Contributions as a % of Payroll	Investment Income Less Fees	Total
2003	\$19,798,759	\$344,821	0.18	\$231,606,021	\$251,749,601
2004	22,591,435	197,034	0.10	171,049,929	193,838,398
2005	16,256,802	40,435	0.02	117,785,265	134,082,502
2006	18,791,442	106,270	0.06	174,535,356	193,433,068
2007	18,413,407	15,458,982	8.02	125,204,334	159,076,723
2008	19,418,435	17,580,428	8.11	(510,462,568)	(473,463,705)
2009	17,538,297	17,189,811	8.24	237,102,597	271,830,705
2010	16,319,992	17,938,810	8.98	193,187,014	227,445,816
2011	16,068,655	15,358,602	7.87	(4,510,715)	26,916,542
2012	16,559,017	14,414,835	7.25	173,460,076	204,433,928

### SCHEDULE OF DEDUCTIONS BY TYPE

Year	Benefits	Refunds	Administrative and OPEB Expenses	Total	HISTORY OF CHANGES IN NET POSITION
2003	\$82,740,302	\$2,826,928	\$1,910,350	\$87,477,580	\$164,272,021
2004	99,260,643	6,697,268	2,872,450	108,830,361	85,008,037
2005	105,164,827	4,240,024	2,985,293	112,390,144	21,692,358
2006	106,862,912	3,139,938	2,830,920	112,833,770	80,599,298
2007	108,806,307	3,761,121	3,352,421	115,919,849	43,156,874
2008	113,652,844	3,494,107	3,626,393	120,773,344	(594,237,049)
2009	120,998,446	2,818,420	3,664,916	127,481,782	144,348,923
2010	127,028,997	2,267,769	3,864,287	133,161,053	94,284,763
2011	133,463,852	3,068,902	3,994,324	140,527,078	(113,610,536)
2012	139,620,042	2,594,960	4,745,519	146,960,521	57,473,407



## LABORERS' ANNUITY & BENEFIT FUND OF CHICAGO

### SCHEDULE OF BENEFIT EXPENSES BY TYPE

Year	Employee Annuities*	Spouse/Child Annuities	Ordinary Disabilities	Duty Disabilities	Total
2003	\$63,925,164	\$14,792,914	\$2,272,328	\$1,749,896	\$82,740,302
2004	80,932,747	14,883,844	2,044,621	1,399,431	99,260,643
2005	86,125,245	15,164,982	2,278,159	1,596,441	105,164,827
2006	87,443,420	15,136,986	1,974,345	2,308,161	106,862,912
2007	89,874,659	15,194,447	2,014,351	1,722,850	108,806,307
2008	93,905,852	15,399,578	2,271,492	2,075,922	113,652,844
2009	100,619,114	15,539,189	2,206,838	2,633,305	120,998,446
2010	106,119,018	15,713,080	2,226,536	2,970,364	127,028,997
2011	112,288,198	15,640,453	2,373,069	3,162,133	133,463,853
2012	118,035,435	15,762,173	2,579,003	3,243,431	139,620,042

\* Includes retiree healthcare

### SCHEDULE OF REFUNDS BY TYPE

Year	Separation	Due to Death or In Lieu of Annuity	No Spouse	Errors in Deduction	Transfers to Other Funds	ERI Lump Sum Payout	Total
2003	\$1,378,240	\$400,670	\$643,733	\$14,359	\$389,926	\$0	\$2,826,928
2004	2,059,216	769,258	2,606,456	63,365	144,445	1,054,528	6,697,268
2005	3,551,426	272,874	348,580	47,922	19,222	0	4,240,024
2006	2,091,136	528,521	481,812	13,804	24,665	0	3,139,938
2007	2,864,337	400,482	473,674	11,266	11,362	0	3,761,121
2008	1,818,013	639,231	912,153	14,151	110,559	0	3,494,107
2009	841,784	887,609	992,571	17,438	79,018	0	2,818,420
2010	905,289	208,929	1,057,525	41,199	54,827	0	2,267,769
2011	1,181,316	645,489	1,147,077	22,440	72,580	0	3,068,902
2012	928,420	434,434	1,133,253	15,408	83,445	0	2,594,960

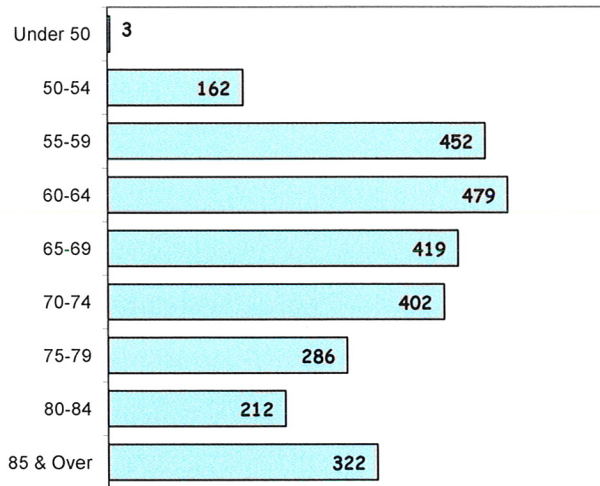


## AGE AND GENDER OF ANNUITANTS

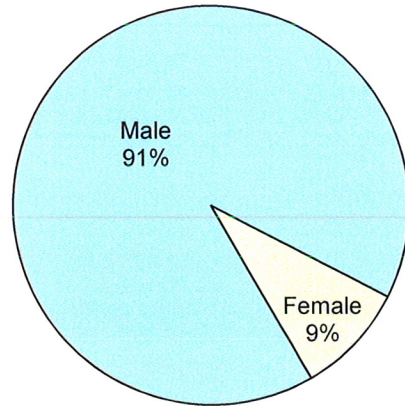
December 31, 2012

### Employee Annuitants

By Age

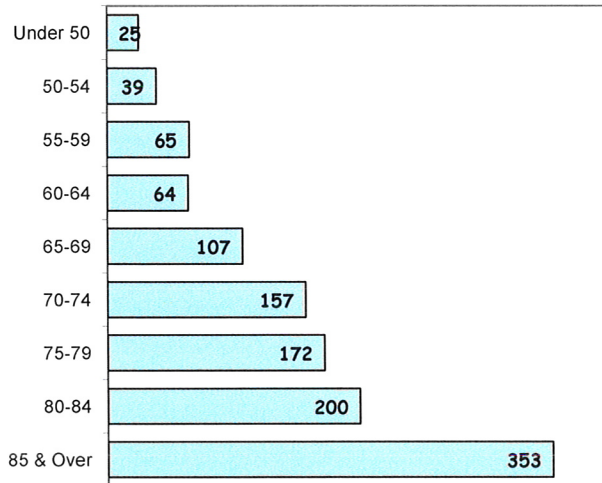


By Gender

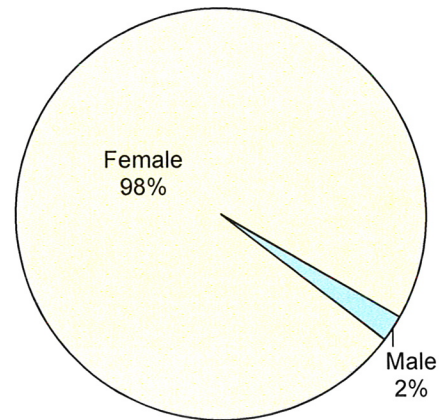


### Spouse Annuitants

By Age

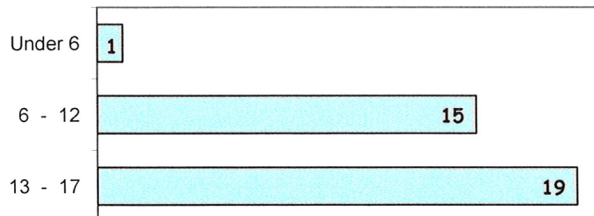


By Gender

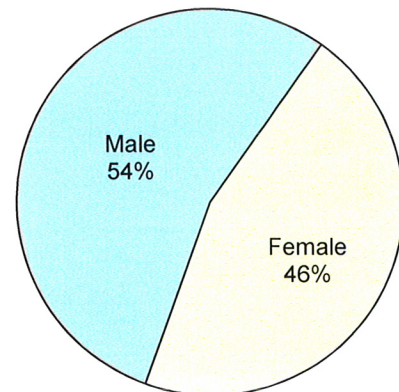


### Child Annuitants

By Age



By Gender



## RETIREES AND BENEFICIARIES BY TYPE OF BENEFIT

At Year End:	<u>Retirees &amp; Beneficiaries</u>			<u>Actives Receiving Benefits</u>		Total
	Employee Annuities	Spouse & Reversionary Annuities	Child Annuities	Ordinary Disabilities	Duty Disabilities	
2003	2,472	1,395	67	74	106	4,114
2004	2,836	1,379	62	63	92	4,432
2005	2,737	1,367	52	56	120	4,332
2006	2,683	1,335	52	42	129	4,241
2007	2,644	1,316	45	58	118	4,181
2008	2,646	1,298	47	61	145	4,197
2009	2,683	1,272	41	62	188	4,246
2010	2,702	1,255	39	44	184	4,224
2011	2,721	1,240	38	54	190	4,243
2012	2,737	1,204	35	60	195	4,231

## CHANGES IN ANNUITANTS AND BENEFICIARIES

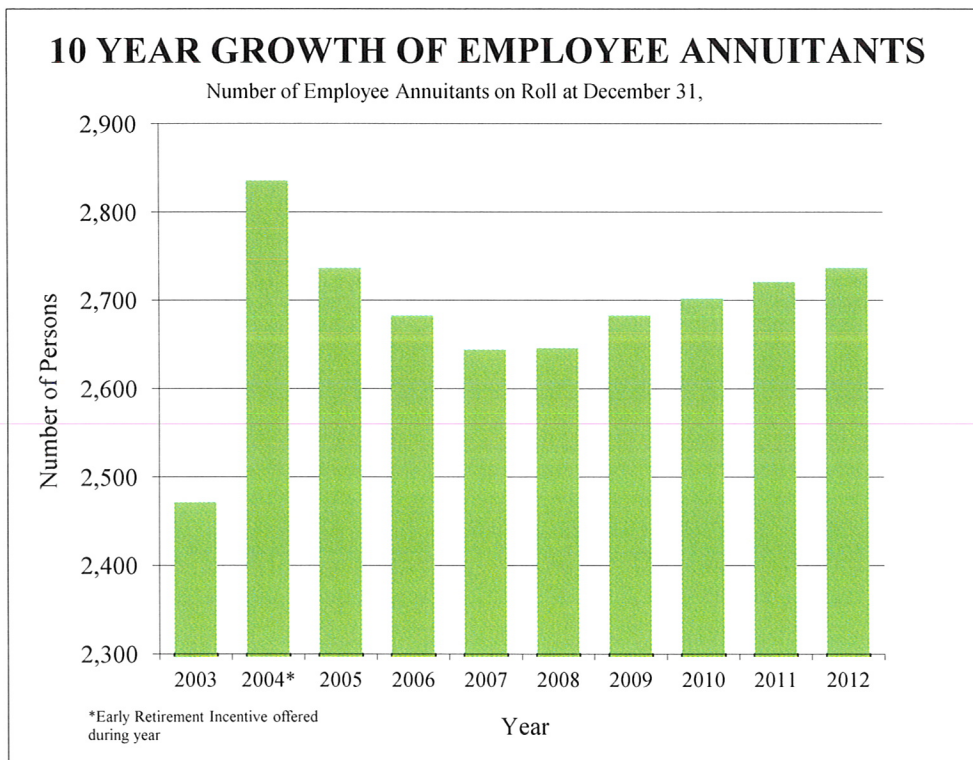
Benefit	Number at Start of 2012	Increases	Decreases	Number at End of 2012
Employee Annuitants	2,721	136	120	2,737
Spouse & Reversionary Annuitants*	1,240	55	91	1,204
Child Annuitants	38	5	8	35
Ordinary Disabilities	54	108	102	60
Duty Disabilities	190	287	282	195
Total	4,243	591	603	4,231

\* 20 Reversionary annuitants are also surviving spouses

## AVERAGE EMPLOYEE RETIREMENT BENEFITS

Year	Average Annual Retirement Benefit	Percent Increase	Average Annual Benefit at Retirement Current Year	Percent Increase (Decrease)	Average Current Age of Retirees	Average Age at Retirement Current Year	Average Years of Service at Retirement Current Year
2003	\$25,576	6.2%	\$34,201	7.3%	73	58.6	25.2
2004*	29,177	14.1	40,825	19.4	70.6	57.3	30.9
2005	30,492	4.5	39,105	(4.2)	70.8	57.0	30.4
2006	31,664	3.8	38,015	(2.8)	70.9	56.6	28.9
2007	33,242	5.0	42,234	11.1	70.9	57.0	29.8
2008	35,037	5.4	44,496	5.4	70.7	56.3	30.1
2009	36,868	5.2	44,581	0.0	70.3	57.8	29.3
2010	38,962	5.7	48,489	8.8	70.0	58.2	29.1
2011	41,056	5.4	49,135	1.3	69.6	58.0	29.5
2012	42,688	4.0	46,231	(5.9)	69.6	58.6	28.2

\* Early Retirement Incentive Program

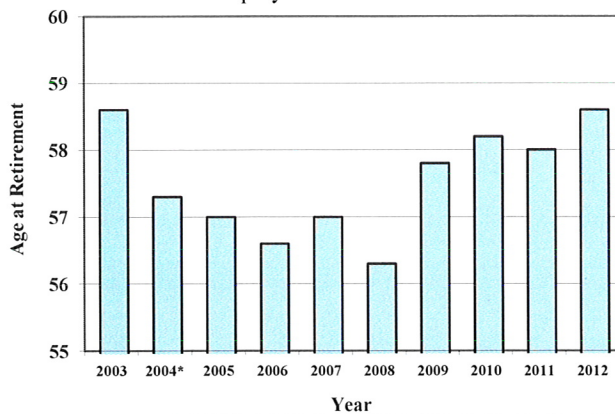


## ANALYSIS OF INITIAL RETIREMENT BENEFITS FOR EMPLOYEES

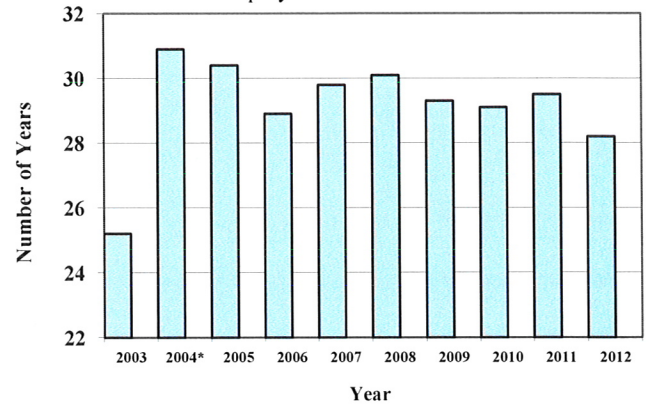
	Years of Credited Service								Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35+	
<b>2007</b>									
Avg Monthly Annuity	\$ 361	\$ 1,378	\$ 1,480	\$ 2,498	\$ 2,690	\$ 2,474	\$ 4,180	\$ 4,799	\$3,515
Avg Monthly FAS	\$ 5,451	\$ 7,168	\$ 4,921	\$ 5,641	\$ 5,339	\$ 3,873	\$ 5,520	\$ 6,048	\$5,444
Number of Retirees	3	2	10	2	9	5	54	10	95
<b>2008</b>									
Avg Monthly Annuity	\$ 325	\$ 975	\$ 1,241	\$ 1,390	\$ 2,803	\$ 3,283	\$ 4,433	\$ 4,819	\$3,707
Avg Monthly FAS	\$ 6,033	\$ 5,700	\$ 4,048	\$ 2,883	\$ 5,291	\$ 5,146	\$ 5,773	\$ 6,012	\$5,538
Number of Retirees	5	4	6	3	7	14	73	8	120
<b>2009</b>									
Avg Monthly Annuity	\$ 431	\$ 1,081	\$ 1,366	\$ 1,905	\$ 2,653	\$ 3,429	\$ 4,384	\$ 5,005	\$3,707
Avg Monthly FAS	\$ 5,981	\$ 6,697	\$ 4,922	\$ 4,487	\$ 5,284	\$ 5,286	\$ 5,718	\$ 6,257	\$5,553
Number of Retirees	1	3	10	16	12	26	77	24	169
<b>2010</b>									
Avg Monthly Annuity	\$ 497	\$ 794	\$ 1,293	\$ 1,819	\$ 2,684	\$ 3,995	\$ 4,865	\$ 5,895	\$4,002
Avg Monthly FAS	\$ 6,094	\$ 5,592	\$ 4,409	\$ 5,153	\$ 5,499	\$ 6,089	\$ 6,347	\$ 7,369	\$6,113
Number of Retirees	4	4	7	14	18	19	81	16	163
<b>2011</b>									
Avg Monthly Annuity	\$ 355	\$ -	\$ 1,701	\$ 1,941	\$ 2,790	\$ 3,665	\$ 5,013	\$ 5,411	\$4,107
Avg Monthly FAS	\$ 7,085	\$ -	\$ 5,923	\$ 5,048	\$ 5,397	\$ 5,734	\$ 6,609	\$ 6,772	\$6,326
Number of Retirees	8	-	12	6	13	22	86	16	163
<b>2012</b>									
Avg Monthly Annuity	\$ 258	\$ 636	\$ 1,256	\$ 2,512	\$ 2,705	\$ 3,833	\$ 5,013	\$ 5,730	\$3,824
Avg Monthly FAS	\$ 4,613	\$ 5,519	\$ 4,895	\$ 5,716	\$ 5,258	\$ 6,004	\$ 6,580	\$ 7,162	\$6,085
Number of Retirees	4	6	9	9	22	17	54	15	136



**Average Age at Retirement**  
For Employee Annuitants



**Average Years of Service at Retirement**  
For Employee Annuitants



\*Early Retirement Incentive offered during the year

### SCHEDULE OF MONTHLY BENEFIT

#### BY TYPE

AT DECEMBER 31, 2012

Amount of Monthly Benefit	Employee Annuitants	Spouse Annuitants	Reversionary Annuitants <sup>1</sup>	Child Annuitants	Total
\$1 - 250	39	17	5	35	96
251 - 500	33	5	9	-	47
501 - 750	29	11	5	-	45
751 - 1,000	37	714	1	-	752
1,001 - 1,250	36	123	1	-	160
1,251 - 1,500	216	108	-	-	324
1,501 - 1,750	79	62	-	-	141
1,751 - 2,000	85	67	1	-	153
2,001 - 2,250	89	34	-	-	123
2,251 - 2,500	95	21	-	-	116
2,501 - 2,750	102	9	-	-	111
2,751 - 3,000	85	2	-	-	87
3,001 - 3,250	123	5	-	-	128
3,251 - 3,500	124	1	-	-	125
3,501 - 3,750	185	2	-	-	187
3,751 - 4,000	219	-	-	-	219
4,001 - 4,250	224	1	-	-	225
4,251 - 4,500	221	0	-	-	221
4,501 - 4,750	174	-	-	-	174
4,751 - 5,000	114	-	-	-	114
5,001 - 5,250	77	-	-	-	77
5,251 - 5,500	72	-	-	-	72
5,501 - 5,750	74	-	-	-	74
5,751 - 6,000	47	-	-	-	47
Over \$6,000	158	-	-	-	158
Totals	2,737	1,182	22	35	3,976

<sup>1</sup> Includes 20 Reversionary annuitants that are also spouse annuitants

**HISTORY OF NEW ANNUITIES GRANTED**  
Male Employees

	2012 <sup>3</sup>	2011 <sup>1</sup>	2010 <sup>1</sup>	2009 <sup>2</sup>	2008	2007 <sup>3</sup>	2006	2005 <sup>3</sup>	2004*	2003
Number retired	125	153	152	156	117	90	78	51	505	145
Average Age	58.3	57.9	58.1	57.5	56.1	56.8	56.6	56.6	57.3	58.6
Average Length of Service	28.9	29.9	29.6	29.7	30.3	30.1	28.9	30.3	31.1	27
Average Annual Final Salary	\$74,561	\$76,749	\$76,846	\$70,563	\$70,000	\$67,250	\$63,800	\$60,828	\$53,378	\$60,516
Total Annual Annuity	\$5,950,922	\$7,621,560	\$7,534,716	\$7,119,948	\$5,284,872	\$3,824,304	\$2,961,828	\$2,073,032	\$20,871,228	\$5,060,484
Average Annual Annuity	\$47,607	\$49,814	\$49,571	\$45,641	\$45,170	\$42,492	\$37,972	\$40,648	\$41,329	\$34,900
Total Actuarial Liability	\$81,763,750	\$106,258,652	\$102,774,022	\$97,468,212	\$73,140,350	\$53,384,184	\$40,009,917	\$28,251,758	\$281,030,404	\$66,126,137
Average Actuarial Liability	\$654,110	\$694,501	\$676,145	\$624,796	\$625,131	\$593,158	\$512,948	\$553,956	\$556,496	\$456,042
Total Contributed by EE	\$17,471,768	\$15,184,803	\$14,552,292	\$13,335,347	\$9,653,770	\$6,954,680	\$5,548,293	\$3,840,240	\$46,273,925	\$9,702,986
Expected Future Lifetime (years)	22.52	22.98	22.09	22.52	23.73	23.10	23.25	23.24	22.69	19.02
Payback Period (years)	2.94	1.99	1.93	1.87	1.83	1.82	1.87	1.85	2.22	1.92
Replacement Ratio	63.9%	64.9%	64.5%	64.7%	64.5%	63.2%	59.5%	66.8%	77.4%	57.7%

\* Early Retirement Incentive offered during the year

<sup>1</sup> Does not include two employees who were no longer on annuity at the end of the year

<sup>2</sup> Does not include three employees who were no longer on annuity at the end of the year

<sup>3</sup> Does not include one employee who was no longer on annuity at the end of the year

# HISTORY OF NEW ANNUITIES GRANTED

Female Employees

	2012	2011	2010	2009	2008	2007	2006	2005	2004*	2003
Number retired	10	8	9	10	3	4	1	3	15	5
Average Age	62	59.6	61.6	61.6	65.2	60.8	59.3	63.8	60.1	60.6
Average Length of Service	19.5	21.9	20.8	22.1	22.2	24.5	28	32.3	21.9	13.3
Average Annual Final Salary	\$62,496	\$72,541	\$66,217	\$56,156	\$46,745	\$66,176	\$62,962	\$31,903	\$43,782	\$45,347
Total Annual Annuity	\$290,316	\$289,164	\$271,968	\$280,476	\$54,588	\$145,704	\$41,352	\$38,622	\$357,600	\$69,661
Average Annual Annuity	\$29,032	\$36,146	\$30,219	\$28,048	\$18,196	\$36,426	\$41,352	\$12,874	\$23,840	\$13,932
Total Actuarial Liability	\$4,322,057	\$4,157,705	\$3,660,697	\$3,678,207	\$558,684	\$1,975,124	\$582,267	\$461,446	\$4,875,554	\$880,560
Average Actuarial Liability	\$432,206	\$519,713	\$406,744	\$367,821	\$186,228	\$493,781	\$582,267	\$153,815	\$325,037	\$176,112
Total Contributed by EE	\$916,551	\$531,923	\$552,673	\$545,313	\$75,948	\$246,235	\$69,508	\$83,554	\$853,199	\$146,561
Expected Future Lifetime (years)	24.56	26.37	22.49	22.74	20.49	23.31	24.74	20.97	24.00	22.15
Payback Period (years)	3.16	1.84	2.03	1.94	1.39	1.69	1.68	2.16	2.39	2.10
Replacement Ratio	46.5%	49.8%	45.6%	50.0%	38.9%	55.0%	65.7%	40.4%	54.5%	30.7%

\* Early Retirement Incentive offered during the year

# ANNUITANTS CLASSIFIED BY AGE

AS OF DECEMBER 31, 2012

## Employee Annuities

Age	MALES			FEMALES		
	Count	Annual Payments	Average Annual Payments	Count	Annual Payments	Average Annual Payments
Under 50	3	\$ 17,676	\$ 5,892	-	\$ -	\$ -
50 - 54	162	9,248,942	57,092	-	-	-
55 - 59	437	22,477,512	51,436	15	484,404	32,294
60 - 64	459	21,963,500	47,851	20	699,408	34,970
65 - 69	402	17,715,759	44,069	17	419,460	24,674
70 - 74	379	16,429,116	43,349	23	572,688	24,899
75 - 79	265	10,286,628	38,817	21	547,812	26,086
80 - 84	177	6,634,241	37,482	35	771,444	22,041
85 - 89	141	4,877,484	34,592	40	682,380	17,060
90 - 94	59	1,652,004	28,000	43	722,172	16,795
95 & Over	4	93,492	23,373	35	539,664	15,419
Total	2,488	\$ 111,396,354	\$ 44,773	249	\$ 5,439,432	\$ 21,845
		Average Age is 68			Average Age is 82	

## Spouse Annuities (not including compensation)

Age	MALES			FEMALES		
	Count	Annual Payments	Average Annual Payments	Count	Annual Payments	Average Annual Payments
30 - 34	-	\$ -	\$ -	1	\$ 9,600	\$ 9,600
35 - 39	-	-	-	2	19,200	9,600
40 - 44	1	14,232	14,232	2	19,200	9,600
45 - 49	-	-	-	19	268,728	14,144
50 - 54	4	37,884	9,471	35	499,128	14,261
55 - 59	2	12,936	6,468	63	963,525	15,294
60 - 64	1	9,600	9,600	63	1,039,329	16,497
65 - 69	1	10,068	10,068	106	1,524,548	14,383
70 - 74	1	9,600	9,600	156	2,214,105	14,193
75 - 79	-	-	-	172	2,461,392	14,310
80 - 84	3	28,800	9,600	197	2,409,847	12,233
85 - 89	7	73,008	10,430	195	2,275,164	11,668
90 - 94	3	34,080	11,360	104	1,098,237	10,560
95 & Over	2	19,200	9,600	42	399,420	9,510
Total	25	\$ 249,408	\$ 9,976	1,157	\$ 15,201,423	\$ 13,139
		Average Age is 76			Average Age is 77	



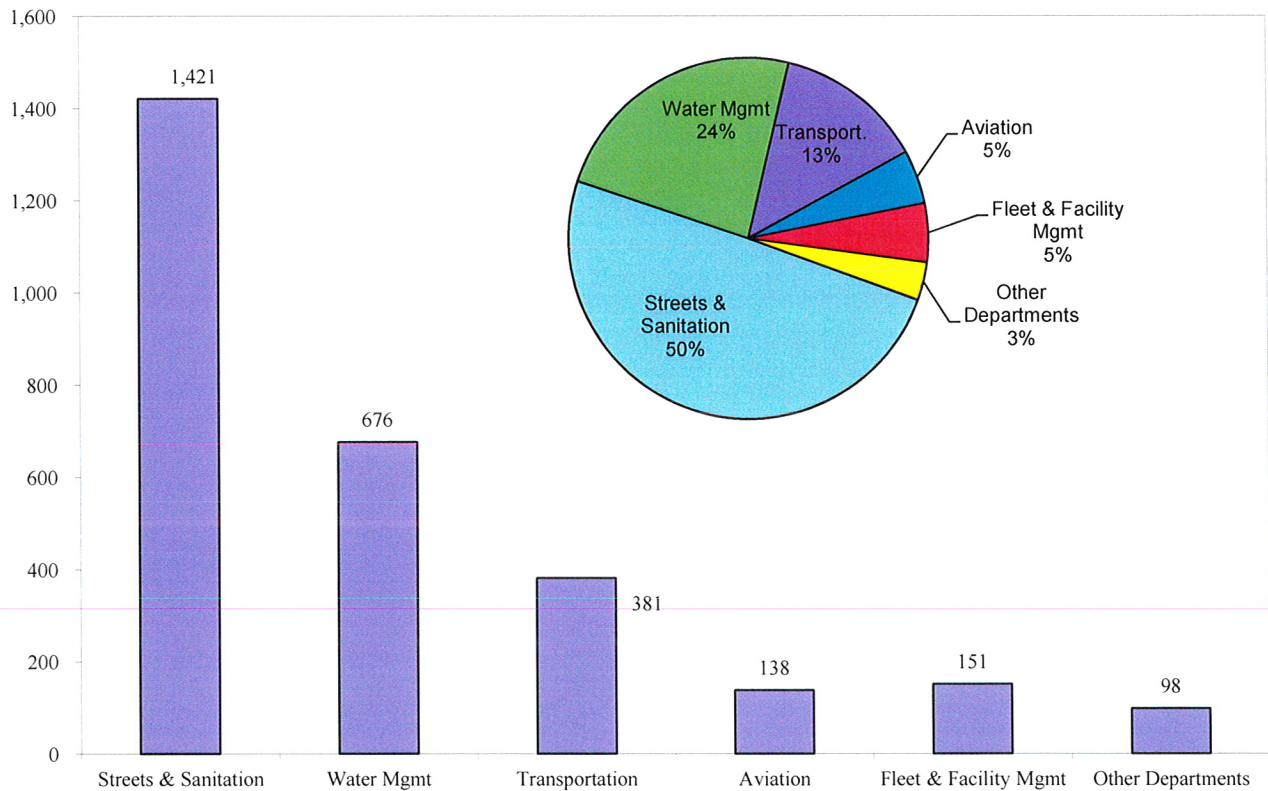
**ACTIVE MEMBERS**  
AS OF DECEMBER 31, 2012

Years of Service	Males	Females	Total
Under 1	53	15	68
1 - 4	198	53	251
5 - 9	223	97	320
10 - 14	633	148	781
15 - 19	546	113	659
20 - 24	326	58	384
25 - 29	167	34	201
30 - 34	157	1	158
35 & Up	43	-	43
Total	2,346	519	2,865

**INACTIVE MEMBERS**  
AS OF DECEMBER 31, 2012

Years of Service	Males	Females	Total
Under 1	791	71	862
1 - 4	314	55	369
5 - 9	62	11	73
10 - 14	36	11	47
15 - 19	22	2	24
20 - 24	17	1	18
25 - 29	12	-	12
30 - 34	2	-	2
35 & Up	-	1	1
Total	1,256	152	1,408

**NUMBER OF ACTIVE MEMBERS BY DEPARTMENT**  
AS OF DECEMBER 31, 2012



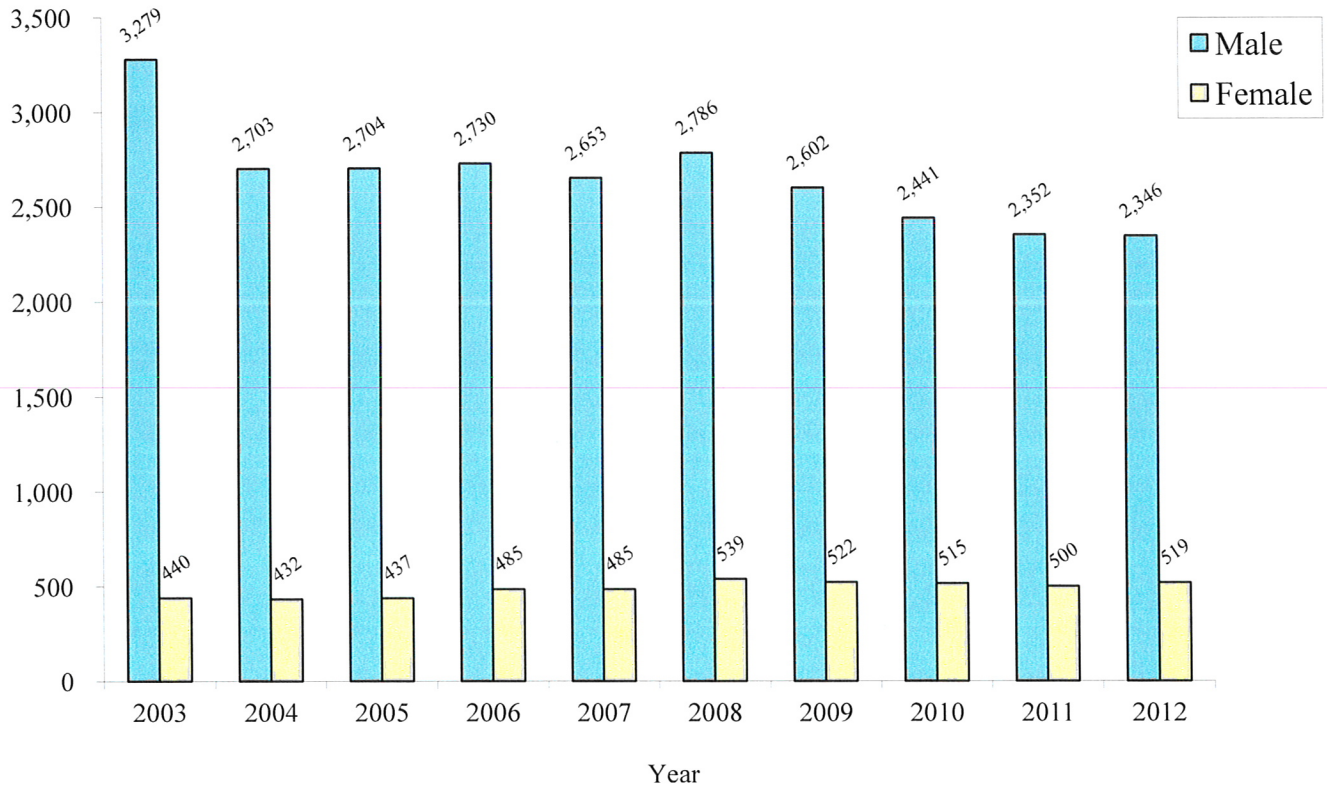
## HISTORY OF ACTIVE MEMBERS BY AGE

AS OF DECEMBER 31,

Age	Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Under 20	3	1	0	0	0	1	3	0	0	0
20 - 24	42	15	11	23	36	20	31	13	19	45
25 - 29	91	74	73	89	138	133	159	149	186	214
30 - 34	217	214	230	267	285	266	295	298	300	329
35 - 39	314	337	347	380	395	406	413	422	413	460
40 - 44	456	451	473	479	509	465	505	559	607	653
45 - 49	518	529	597	653	693	707	749	747	775	832
50 - 54	572	600	609	638	681	626	593	520	443	598
55 - 59	391	370	351	329	324	299	264	241	227	333
60 - 64	173	174	171	173	167	138	128	126	110	174
65 - 69	62	58	67	65	66	51	54	47	41	59
70 & over	26	29	27	28	31	26	21	19	14	22
	2,865	2,852	2,956	3,124	3,325	3,138	3,215	3,141	3,135	3,719

## HISTORY OF ACTIVE MEMBERS

BY GENDER



**MEMBERS RECEIVING DISABILITY BENEFITS**  
AS OF DECEMBER 31, 2012

<b>Duty Disability</b>						
Years of Service	Males		Females		Totals	
	Count	Annual Payments*	Count	Annual Payments*	Count	Annual Payments*
Under 1	-	\$ -	-	\$ -	-	\$ -
1 - 4	3	143,099	3	145,626	6	288,725
5 - 9	7	345,524	9	441,277	16	786,801
10 - 14	58	2,918,936	12	581,442	70	3,500,378
15 - 19	45	2,324,523	10	479,714	55	2,804,237
20 & Over	42	2,271,672	6	274,356	48	2,546,028
Total	155	\$ 8,003,754	40	\$ 1,922,415	195	\$ 9,926,169

<b>Ordinary Disability</b>						
Years of Service	Males		Females		Totals	
	Count	Annual Payments	Count	Annual Payments	Count	Annual Payments
Under 1	-	\$ -	-	\$ -	-	\$ -
1 - 4	2	71,531	-	-	2	71,531
5 - 9	3	76,897	6	192,265	9	269,162
10 - 14	9	279,189	5	146,010	14	425,199
15 - 19	10	313,519	3	90,981	13	404,500
20 & Over	21	730,755	1	27,936	22	758,691
Total	45	\$ 1,471,891	15	\$ 457,192	60	\$ 1,929,083

\* Benefit payments are annual amounts before workers' compensation offset.

<b>NUMBER OF REFUND PAYMENTS MADE DURING 2012</b>							
Age at Date of Refund	Length of Service at Date of Refund						Total
	Under 1 Year	Between 1 and 2	Between 2 and 3	Between 3 and 4	Between 4 and 5	5 and Over	
Under 20	-	-	-	-	-	-	-
20 to 24	-	-	-	-	-	-	-
25 to 29	-	-	-	-	-	-	-
30 to 34	-	-	1	-	-	3	4
35 to 39	-	-	1	-	-	1	2
40 to 44	-	2	-	-	-	4	6
45 to 49	-	-	-	-	-	5	5
50 to 54	-	1	-	-	-	2	3
55 to 59	1	1	-	-	-	1	3
60 & Over	-	-	-	-	-	-	-
Totals	1	4	2	-	-	16	23