



# PENSION ADVISOR

POLICEMEN'S ANNUITY & BENEFIT FUND OF CHICAGO

August 2017, No. 60

## SUMMER!

### EXECUTIVE DIRECTOR'S REPORT

By Regina Tuczak

#### WELCOME TO TRUSTEE BEYNA

On August 4, 2017, the Pension Fund Special Election for the Trustee position representing the class rank of Investigator, Patrolman, or Rank Equivalent was held, and Officer Tom Beyna was the successful candidate with over 61% of the ballots submitted. Congratulations to Officer Beyna on this very important role representing his fellow officers at the Pension Fund. Trustee Beyna's term begins immediately. Final results are as follows:

Tom Beyna	Votes	<b>1,369</b>
Mike Shields	Votes	<b>453</b>
Steve Robbins	Votes	<b>235</b>
Kathy McCall	Votes	<b>175</b>
Spoiled Ballots	Votes	<b>5</b>
Total Ballots Received		<b>2,237</b>

Thank you to each of the candidates for their participation in this important process. The Fund's staff welcomes Trustee Beyna to the Pension Fund and looks forward to his future participation.

#### TRUSTEE ELECTIONS CONTINUE

The Fund has two more elections approaching very quickly. On Friday, October 6, 2017, two elections will be held. One election is for the Trustee position representing any active member of the class rank of Sergeant and one election is for the Trustee position representing any active

member of the class rank of Lieutenant or rank superior to Lieutenant. Petitions for candidates are available at the Pension Fund office beginning Wednesday, August 23, during Fund office hours from 9am to 4pm. The last day for candidates to file completed petitions is Monday, September 11, at 4pm. Ballots will be mailed beginning Thursday, September 21. Further information is posted on the Fund's website at [www.chipabf.org](http://www.chipabf.org).

#### PUBLIC ACT 099-0905 UPDATE

Public Act 099-0905 (PA 99-0905), which became law on November 29, 2016, contained a few benefit changes that affected many members and surviving spouses of the Fund. Most notably, the Public Act included some changes to the cost-of-living provisions to members born after December 31, 1954, but before January 1, 1966. The Fund had over 1,400 retired members impacted by these provisions. Over the first half of 2017, the Fund's staff worked to ensure that these cost-of-living provisions were calculated appropriately for all of the members impacted, and as of the publishing of this newsletter, all members impacted by these provisions have or will receive any monthly annuity adjustments by August 31, 2017. Individual letters to the members impacted have been sent, indicating the adjustments received and the timing of any retroactive amounts due.

In addition to the cost-of-living adjustments completed, the Fund's staff has processed over 462 retirement applications through July 31, 2017. This is the largest number of retirement applications in a seven-month period in many years. With this volume completed, the Fund's staff is now working on the provisions of PA 99-0905 as applicable to the minimum widow's benefit. PA 99-0905 provides that the minimum widow's

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annuity shall be no less than 125% of the Federal Poverty Level. Effective January 31, 2017, the applicable poverty guideline is \$12,060, with 125% of such amount equal to \$15,075. The Fund has over 1,000 surviving spouses impacted by this benefit change. Calculations have begun and will conclude over the next few months. Any applicable retroactive amounts will be paid shortly after the increase in each annuity is completed. Each surviving spouse impacted by this benefit change will receive a letter indicating the new monthly annuity amount and any retroactive amounts due.

### **2016 FINANCIAL RESULTS**

The Fund's management is pleased to report that the audit of the Fund's financial statements as of and for the year ended December 31, 2016, has been completed. Consistent with prior years, the Fund received an unqualified opinion (also referred to as a "clean" opinion) from the Fund's independent auditors on the 2016 financial statements. These audited financial statements provide the statements of fiduciary net position, statements of changes in fiduciary net position, and the required footnote disclosures relating to the Fund. These 2016 financial statements are posted on the Fund's website at [www.chipabf.org](http://www.chipabf.org). Just click on the "Financial Reports" link to view the most current Audited Financial Statements, Actuarial Reports, and CAFR Reports (CAFR stands for Comprehensive Annual Financial Report). Should you desire a hard copy of any of these financial reports, please contact the Fund's office and such reports will be printed and mailed to you.

### **WITH GRATITUDE**

Officer and former Trustee Mike Lappe retired July 23, 2017. Mike served as Pension Fund Trustee representing his fellow officers from December 1, 2012, until his mandatory retirement on July 23, 2017. Mike worked on many initiatives with the Board and the Fund's staff, and took a special interest in the disability process. His energy, dedication and passion will be sincerely missed. Thank you to Mike and best wishes to him in his retirement and future endeavors!!!

Lieutenant and Trustee Jim Maloney will be retiring soon. Jim has served as a Pension Fund Trustee since December 1, 2005. Jim has served the Fund in many capacities, including Acting Chief Investment Officer for almost eighteen months, and Investment Committee Chair for the past five years. Jim's dedication to his members, professionalism, and insight into the depths of many law enforcement pension issues will be sincerely missed. Thank you to Jim and best wishes to him in his retirement and future endeavors!!!



## **TRUSTEES' CORNER**

### **Lt. James. (Jim) Maloney, Recording Secretary**

I retire after 35½ years on the job. I had a great and fun career. It has been a rewarding experience serving as a Trustee, as Chairman of the Investment Committee and as Acting Chief Investment Officer (CIO) for a period of time.

I want to thank the staff of the Pension Board. They work very hard and are compassionate all the time.

I also want to thank all the Trustees of the Board whom I have served with over the years

I am certain going forward the Board and the Pension staff will continue to serve diligently and with special regard for the interests of Annuitants and survivors.

Thank you all and be safe.

### **CHEVRONS – JULY 2017**

#### **Don't Believe Everything You Read!!**



#### **by Sgt. Brian E. Wright #1575, Vice President**

There was recently an article published regarding our pension on the Chicago City Wire ([link: http://chicagocitywire.com/stories/511130434-projection-chicago-s-police-pension-fund-will-be-broke-in-2021](http://chicagocitywire.com/stories/511130434-projection-chicago-s-police-pension-fund-will-be-broke-in-2021)). The article stated that the pension fund would be broke by 2021. I was emailed and approached by several members and annuitants that had read the article. The article failed to mention over \$560 million that comes into the pension fund in 2017, and more in the years thereafter, through contributions from the active membership's salaries and the City's contribution. Irresponsible reporting is an understatement. This was outright reckless reporting!! So to avoid panic and confusion in the future, I want to give our membership "cliff notes" to how our pension is funded.

We currently have approximately \$2.5 billion in the pension fund. Around \$660 million walks out the door annually through annuity payments, administrative expenses and other fees. This means we have to make up the \$660 million on an annual basis so the principal of \$2.5 billion is not depleted. The membership contributes about \$100 million into the pension fund this year, and the City is required by law to contribute another \$464 million. This total of \$564 million leaves us \$100 million short to ensure the principal is not reduced. The \$100 million needs to be earned by our investment returns for us not to lose any principal. That requires a return on investments of 4% in 2017. 4% is a very conservative percentage and should be easily met.

In 2018, the City is required by law to contribute \$500 million; in 2019: \$557 million; and in 2020: \$579 million. Then starting in 2021, the City is required by law to contribute the Actuarially Required Contribution (or ARC) payment to achieve the pension being funded at 90% by 2055. Also, our contributions will slowly rise as salary and membership increase. We are not going to turn this around in one year, but as long as the needle is rising, year after year, we will not be anywhere near broke in 2021. The pension fund is an aircraft carrier: you do not turn it on a dime, but rather slowly and carefully.

So, please refer back to this if any other irresponsible reports come out about our pension fund and give you cold sweats. The basic formula is: City contributions + membership contributions + investments returns must be greater than expenses on an annual basis. This results in the principal, and thus the funded ratio, rising. Any reports that do not include or address one of the above components is inaccurate, wrong or just fraudulent!

**Have a Happy and Enjoyable Summer!!**



**by P.O. Tom Beyna, Trustee**

To my fellow police officers,

I would like to thank each and every one of you for the support I received during the election. I am very excited and honored to represent us as a pension board trustee. It wouldn't have been possible without your support so thank you very much for entrusting me!

During this election, I dedicated a lot of time and worked tirelessly to reach out to as many officers and units as possible. Although I made it out to every district, I know there are many officers out there I was unable to meet. For those I did not meet, let me provide you a brief introduction. I began my law enforcement career as a police officer in the City of Evanston for 2 years. Since then I have been a police officer in Chicago for the past 17 years working in the 10th District on the 1061 tact team for the majority of my time and the past several years at the Training Academy and Research and Development.

Throughout the years I realized our pension is one of the most important benefits we have on this job. I took a great interest in learning about all pension related issues and prepared myself for this responsibility by returning to school many years after graduating from Illinois State University with a B.S. in Criminal Justice. This year I graduated with an MBA in Finance from Saint Xavier University and also completed the Certified Trustee Program through the IPPFA (Illinois Public Pension Fund Association). I will utilize my education and experience to fulfill my fiduciary responsibility. My mission is to make fair decisions in accordance with the law that are in the best interest of our pension fund and to secure the benefits of our hard working police officers and their beneficiaries.

I believe everyone is well aware our pension fund is significantly underfunded and this is at the forefront of the issues I want to make sure we continue to address long term. As of December

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31, 2016, the pension fund had a market value of assets of \$2.8 billion and a market value of liabilities of \$12.8 billion, resulting in a funding ratio of 22.3%. Our pension fund receives contributions from three sources:

1. 9% of every police officer's salary per year (including Tier 2 officers)
2. Annual returns from our investments
3. Annual contributions from the City of Chicago

While our investment returns have met the actuarial required return, on average, over the last five years our funding level continued to drop. The new Public Act 99-0506 (formerly known as Senate Bill 777) specifies the amount the City of Chicago is required to contribute annually:

- \$464 million in 2017
- \$500 million in 2018
- \$557 million in 2019
- \$579 million in 2020

Furthermore, the city is required to contribute an amount based on an actuarial value beginning in 2021 to increase our funded ratio to 90% by the year 2055. The city made the required contribution for 2016 of \$420 million. It is critical to receive these required annual payments from the city and this legislation provides an enforcement mechanism for the first time in which a mandamus action can be filed in the Circuit Court of Cook County to compel the city to make the required payment. Nonetheless, we are looking at a long-term solution to improve our funded ratio.

Finally, I would like to thank and recognize Officer Mike Lappe. Mike mandatorily retired after serving 37 years as a police officer, and he probably would have continued working if he were allowed. In 1988, Mike experienced a catastrophic event on the job when he survived a gunshot wound to his neck. Although his life forever changed from this incident, I have heard him say "I only had one bad day on this job." Mike miraculously returned to work and honorably served the Chicago Police Department and our pension fund as trustee for many years. Mike, thank you for your service and everything you have done for us. Enjoy your retirement and collect your pension, you certainly deserve it.



## PENSION FUND: THE FACTS



**by Kenneth A. Hauser, President**

There have been a number of inaccurate articles written about the funding/solvency of the pension fund in the past couple of months. I have received numerous inquiries in regards to this matter.

I thought that it was appropriate to try to set the facts straight; therefore I have asked the Fund's Chief Investment Officer (CIO), to compile an article listing the facts.

The passing of Public Act 99 0506, which became effective on May 30, 2016, had a critical impact on the funding provided to the Chicago Police-men's Annuity and Benefit Fund. That piece of legislation provided for five years of fixed contributions from the City to the fund from 2016 to 2020, and thereafter for a contribution level that will put the fund on a path to 90% funding by 2055. Those fixed contributions – in the amounts of \$420 m, \$464 m, \$500 m, \$557 m and \$579 m for the years 2016 – 2020, together with estimates of payroll contributions for the same period, approximately \$100 million yearly and less than 5% of the fund will be met through investment return, go a significant ways toward meeting the expected benefit payments until 2020.

The fund's actuarial return assumption has recently been lowered to 7.25%, which is not an unreasonable target in today's return environment. The fund has returned over 8% for the six months to June 30 of this year – boosted by its well-balanced exposure to global equities. This return is already comfortably ahead of the 5% we need to generate this year in order to meet benefit obligations. Any excess return will grow the fund's base and hopefully contribute to many years of compounding ahead.

It is true that the current market value of assets is only around 23% of the overall accrued liabilities, but the Fund is not forced to meet benefit

obligations only out of the current assets. To suggest that we operate in a vacuum without an eye on both active member contributions and mandated City contributions is to present only a fraction of the true picture. A pension fund is always subject to inflows and outflows, and our focus in the management of the Fund's investments is on forecasting these and managing the assets of the fund accordingly. Our actuarial consultant agrees that this is a severely underfunded plan and the ability to reach 90% funding by 2055 is heavily dependent on City contributions. In light of this, we are well aware that investment returns alone can never meet our sizeable benefit obligations. However, they are an essential piece of the puzzle that we, at the investment office, can seek to control and grow, while the level of City contributions reside in the legislative and political

domain. It is also true that our retired members now outnumber our active members, but it is important to remember that the employee contribution still remains a small percentage of our overall inflows (on average 15%).

As we sit here, mid-way through 2017, I am optimistic regarding the readiness of the fund to meet its investment objectives and grow in the years to come. If City contributions remain on track, and market conditions remain benign, it will be able to meet its benefit obligations. Every pension fund is exposed to market movements, and while the fund is not immune to the effects of a market correction, it is designed to be as resilient as possible.

*Thank you Aoifinn Devitt, the Fund's Chief Investment Officer.*



Pension Advisor is a publication of the Policemen's Annuity and Benefit Fund. You will be receiving a copy to update you on the matters that affect your pension and the concerns of active police officers, retirees and widows that make up our membership. If you have a question about your pension or the Fund, or, if there is a particular issue you would like to see addressed, please feel free to send a note to:

**POLICEMEN'S ANNUITY AND BENEFIT FUND  
PENSION ADVISOR  
221 North LaSalle Street - Suite 1626  
Chicago, IL 60601**

**POLICEMEN'S ANNUITY & BENEFIT FUND  
CITY OF CHICAGO  
221 NORTH LASALLE STREET • SUITE 1626  
CHICAGO, ILLINOIS 60601**

**POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**

221 N. LaSalle St., Suite 1626  
Chicago, IL 60601  
Telephone: 312-744-3891  
(outside 312)  
Toll Free: 1-800-656-6606

**Regina M. Tuczak**  
Executive Director

**Aoifinn Devitt**  
Chief Investment Officer

Visit our website at: [chipabf.org](http://chipabf.org)

**OFFICE HOURS: 8:30 A.M. – 4:30 P.M. MONDAY – FRIDAY**

**RETIREMENT BOARD**

**Kenneth A. Hauser**, President,  
Elected Member

**Brian E. Wright**, Vice President,  
Elected Member

**James P. Maloney**, Recording  
Secretary, Elected Member

**Thomas A. Beyna**, Trustee,  
Elected Member

**Carole L. Brown**, Trustee,  
City Chief Financial Officer,  
Appointed Trustee

**Haydee Caldero**, Trustee,  
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**Carol L. Hamburger**, Trustee,  
Managing Deputy Comptroller,  
Appointed Member

**Kurt A. Summers Jr.**, Trustee,  
City Treasurer,  
Appointed Member