

# FIREMEN'S ANNUITY & BENEFIT FUND OF CHICAGO REPORT TO PARTICIPANTS

For the Year Ended December 31, 2014



OF CHICAGO

A Retirement Fund Dedicated To  
Those Who Are There For Others.

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## BOARD OF TRUSTEES AT DECEMBER 31, 2014

### ELECTED TRUSTEES



**Michael J. Shanahan**  
Fund President



**Anthony R. Martin**  
Fund Secretary



**Timothy J. McPhillips**  
Elected Member



**Walter Carlson**  
Retired Member

### EX-OFFICIO TRUSTEES



**Charles Stewart III**  
First Deputy Fire  
Commissioner  
Vice President



**Susana Mendoza**  
Clerk of the City of  
Chicago



**Daniel Widawsky**  
Comptroller of the  
City of Chicago



**Kurt A. Summers Jr.**  
City of Chicago  
Treasurer

*The information set forth herein is believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Firemen's Annuity and Benefit Fund of Chicago, the Retirement Board (the "Board") or any member of the Board. The information contained herein is as of a certain date and does not necessarily represent the current state of the Fund's affairs. Any expression of opinion, whether or not expressly so stated, is intended merely as such and not as representations of fact. Financial information contained in this report is as of a certain date and is presented in summary form. Interested persons can obtain a copy of the complete audited financial report of the Fund's assets and liabilities on line at [www.fabf.org](http://www.fabf.org) or by contacting the Fund's office.*



## LETTER FROM THE BOARD

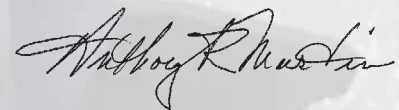
The Firemen's Annuity and Benefit Fund of Chicago is providing this Popular Report for the year ended December 31, 2014 to its active, retired, and disabled members to provide a basic overview of the Fund. A complete copy of the Fund's audited financial statements, as well as other information pertaining to the operation of the Fund is available online at [www.fabf.org](http://www.fabf.org).

Throughout 2014, the Board attended to the many items related to the administration of the Fund including the retirement of 211 active members, 20 applications for duty disability benefits, of which 19 were approved, 12 applications for occupational disability benefits, 11 of which were approved. In 2014, 130 firefighter members (page 7) and 87 widows of former members died. The Fund's major concern continues to be the long term funding of our unfunded liabilities. In the last 15 years, the Fund has paid out more than \$2.8 billion in benefits to eligible firemen, paramedics and their eligible dependents. During that same period, the City of Chicago has contributed \$1.2 billion, leaving approximately \$1.6 billion dollars of benefit payments to be funded through employee contributions and investment returns. An infusion of revenue is critical for the continued viability of our Fund.

On December 30, 2010, the State of Illinois enacted PA 96-1495 which reduced benefits for new employees hired after January 1, 2011 and requires the City of Chicago to begin funding our retirement system on an actuarial basis, to bring us to 90% funding by 2040, beginning with payments to the Fund in 2016. The Fund has communicated to the City that under PA 96 -1495, the statutorily required funding for 2016 is approximately \$246 million dollars. On May 30, 2015, SB 777 was passed by the Illinois legislature in Springfield but as of this writing, has yet to be sent to Governor Rauner for his signature. This amendment requires fixed funding in the first five years, beginning with \$199 million in 2016 and then extends the period in which actuarially based funding brings us to the 90% level in 2055.

To put this into perspective, under the existing 2.26 multiplier method, the City will pay the Fund approximately \$107 million in 2015. Both, the 2010 law PA96-1495 and the current proposed amendment in SB777 represent a commitment for additional funding that will begin to deal with the historical underfunding of our retirement system. The Retirement Board of the Firemen's Annuity and Benefit Fund of Chicago will continue to work with all stakeholders to promote the fiscal integrity of the Fund and protect our participants' retirement security.

In closing, know that the primary commitment of the Retirement Board and Staff of the Firemen's Annuity and Benefit Fund is to you, our members. We continue to dedicate all of our efforts to the prudent oversight of your Fund and are committed to providing the highest possible level of service to our participants. We encourage all members to communicate with the Board and Staff as necessary. Your opinions and suggestions are always welcome.



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Chicago, IL 60603

## FINANCIAL HIGHLIGHTS

### STATEMENTS OF PLAN NET POSITION

ASSETS	2014	2013
Receivables	\$ 116,669,252	\$ 113,741,393
Cash and Investments, at fair value	922,505,115	1,007,046,152
Collateral Held For Securities on Loan	160,968,881	168,963,442
<b>TOTAL ASSETS</b>	<b>1,200,143,248</b>	<b>1,289,750,987</b>
LIABILITIES		
Payables	3,165,966	4,082,688
Securities Lending Collateral	160,968,881	168,963,442
<b>TOTAL LIABILITIES</b>	<b>164,134,847</b>	<b>173,046,130</b>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	<b>\$ 1,036,008,401</b>	<b>\$ 1,116,704,857</b>

The Statement of Plan Net Position presents the Fund's assets and liabilities and the resulting net position, which are held in trust for pension benefits. It reflects a year-end snapshot of the Fund's investments at market value, along with cash and short-term investments, receivables, and other assets and liabilities. Net assets equal the difference between the assets available for payments of future benefits and current liabilities that are owed at the end of the year. The net position decreased 7.2% from 2013 to 2014 with certain categories experiencing meaningful fluctuations. The decrease in plan net position was primarily due to employer contributions and investment returns not exceeding benefit payments. Because of employer contribution shortfalls, the Fund is required to liquidate marketable securities to make monthly benefit payments.

STATEMENTS OF CHANGES IN PLAN NET POSITION	2014	2013
<b>BEGINNING NET ASSETS</b>	<b>\$ 1,116,704,857</b>	<b>\$ 1,032,422,798</b>
REVENUES		
Contributions	157,861,847	148,740,018
Net Investment Income	30,875,282	190,475,801
<b>TOTAL REVENUE</b>	<b>188,737,129</b>	<b>339,215,819</b>
EXPENDITURES		
Retirement Benefits	202,899,248	189,268,400
Survivor and Dependent Benefits	32,914,445	32,487,924
Disability Benefits	24,456,379	24,017,417
Death Benefits	801,600	834,000
Gift Fund Payments	500,000	450,000
<b>TOTAL BENEFIT PAYMENTS</b>	<b>261,571,672</b>	<b>247,057,741</b>
Health Care Benefits	2,471,055	2,550,785
Refund of Contributions	2,321,666	2,210,116
Administrative Expenses	3,066,946	3,101,827
Litigation Settlements	2,246	13,291
<b>TOTAL EXPENDITURES</b>	<b>269,433,585</b>	<b>254,933,760</b>
<b>NET INCREASE (DECREASE)</b>	<b>(80,696,456)</b>	<b>84,282,059</b>
<b>ENDING NET POSITION</b>	<b>\$ 1,036,008,401</b>	<b>\$ 1,116,704,857</b>



The Statement of Changes in Plan Net Position presents the results of Fund operations. During 2014, the Fund's revenue of \$188.7 million was principally comprised of contributions received from the City of Chicago, active members and net investment income. Fund expenditures totaling \$269.4 million was primarily payments to beneficiaries, refund of contributions and administrative expenses.

### HIGHLIGHTS OF SIGNIFICANT CHANGES

**Contributions:** \$157.9 million in contributions consists of \$109.8 million from the City of Chicago and \$48.1 million from Active members of the Chicago Fire Department. Plan member contributions increased \$5.5 million (13%) from 2013 to 2014 due to an additional \$3.3 million in contributions attributable to the retroactive salary payments and increased salaries from the contract settled in 2014.

**Investment Income:** The gain that our Fund experienced on the fair value of investments accounted for \$30 million of total Fund additions. The Fund's market rate of return for 2014 was 3.9% in comparison to 22% in 2013.

**Benefit Payments:** Accounting for \$261.6 million (97.1%) of the Fund's \$269.4 million in total expenditures were the benefits paid to eligible members and their dependents. Contributions from Firemen and the City of Chicago covered 59% of the 2014 benefits paid. The sale of investments and investment income funded the remaining 41% of benefit payments. Benefit payments increased \$14.5 million (5.9%) from 2013 to 2014 due to several factors including the continuation of a program for free retiree healthcare to those age 55 or higher which added annuitants above longer term expectations and cost of living increases.

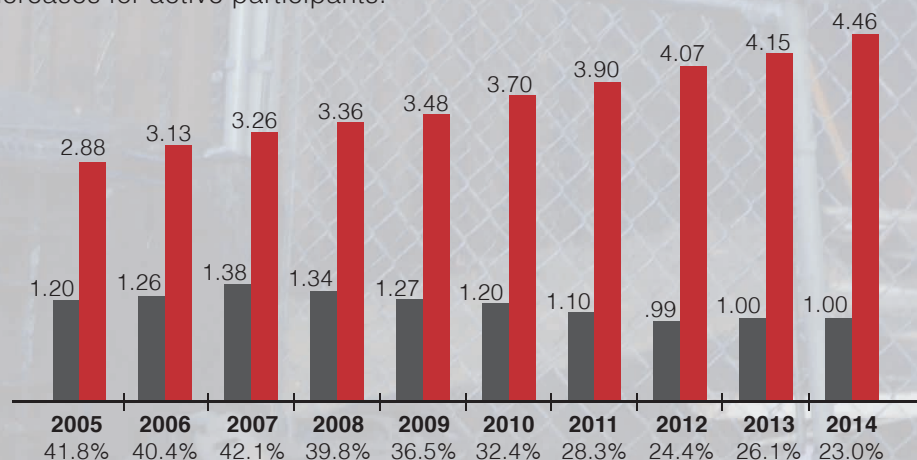
### FUNDING

The primary measure of the health of a defined benefit plan is its funded ratio, which compares assets on hand to the present value of all future liabilities expected to be paid. Each year, the Fund's independent actuarial firm provides an actuarial valuation that includes their estimate of the future actuarial liabilities in comparison to current Assets available to pay those benefits. This valuation is based on Fund membership data and certain underlying assumptions including; the expected return on Fund investments, the rate of increase in future salaries to be paid to active members and longevity assumptions which consider the demographics of the underlying membership. Based on these data and assumptions, the actuary is able to determine the funded ratio and other critical information needed to develop and implement the Fund's long term investment strategies and projections for the future viability of the Plan.

The December 31, 2014 actuarial valuation calculated a present value of \$4.5 billion in future liabilities and recognized the current \$1 billion in Fund assets resulting in an unfunded liability of \$3.5 billion and corresponding 23.0% funded ratio. The funded ratio indicates that at December 31, 2014, the date of the valuation, the Fund has 23.0% of assets needed to cover its future actuarial liabilities and is considered below the level of adequate funding. On December 30, 2010, then Governor Patrick Quinn signed Public Act 96- 1495 into law which requires the City of Chicago to begin making contributions in 2016 sufficient to bring the funded ratio to 90% by the end of 2040.

The graph at the bottom of this page indicates the Fund's actuarial assets, liabilities and corresponding funding ratios for each of the last ten years. As displayed in the graph, the funded ratio decreased 3.1% this year. This decrease in funding is caused by several factors, most notably, insufficient funding from the employer, increased drawdowns from investment portfolios for current benefit payments and increases to future liabilities attributable to contractual salary increases for active participants.

### ACTUARIAL SUMMARY FUNDED RATIO FROM 2005 - 2014 (in billions)



## MEMBERSHIP DATA

As of December 31, 2014 there were 9,512 members in the Fund, consisting of 4,808 active members, 2,977 retired members, 1,315 widows, 82 children, 1 parent and 329 members on disability.

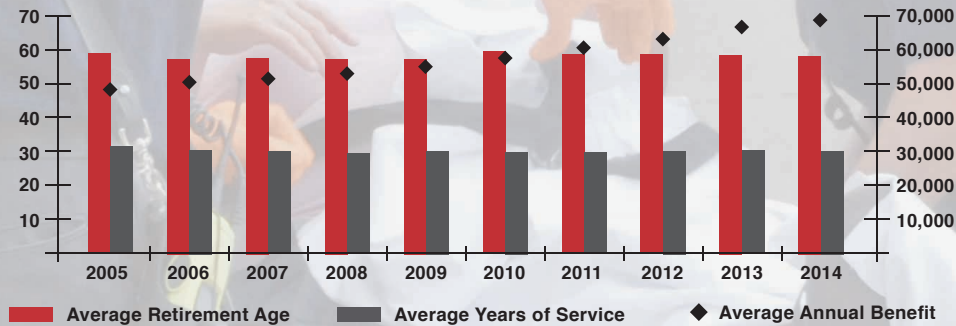
The population of active firefighters reflects a large proportion (70%) that is over the age of 40. This trend also shows of active members, 1,517 (32%) have 20 or more years of service required for a minimum formula annuity. 1,332 (88%) are age 50 or older and can retire at any time. 555 members have the years of service required for the maximum retirement benefit of 75% of final average salary.

### ACTIVE PARTICIPANTS BY AGE AND YEARS OF SERVICE

Years of Service (AS OF DECEMBER 31, 2014)

AGE	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	Over 30	TOTAL
20 - 24	5							5
25 - 29	158	71						229
30 - 34	269	249	1					519
35 - 39	107	258	113	47				525
40 - 44	16	231	262	361	4			874
45 - 49	4	148	195	282	88	93		810
50 - 54		74	98	199	282	420	17	1,090
55 - 59		18	33	63	133	192	178	617
Over 60		5	4	20	28	24	58	139
<b>TOTAL</b>	<b>559</b>	<b>1,054</b>	<b>706</b>	<b>972</b>	<b>559</b>	<b>729</b>	<b>253</b>	<b>4,808</b>

### AVERAGE RETIREMENT BENEFITS



Over the past 10 years, members' age and years of service at the time of retirement have both dropped approximately 3%. The average annual retirement benefit consistently grew each year resulting in an increase of 46% over the last decade. The average annual benefit paid in 2005 was \$47,917 compared to \$69,977 in 2014. The average age at retirement was 57.4 years with an average of 30.5 years of service in 2014.

### NUMBER OF BENEFIT RECIPIENTS BY TYPE & MONTHLY BENEFIT AMOUNT

(AS OF DECEMBER 31, 2014)

MONTHLY BENEFIT AMOUNT	TOTAL NUMBER OF BENEFIT RECIPIENTS	SERVICE	DISABILITY	WIDOWS	CHILDREN/PARENT
UNDER \$1,000	86	29			57
\$1,000 - \$2,000	856	20		810	26
\$2,001 - \$3,000	463	120	2	341	
\$3,001 - \$4,000	367	241	62	64	
\$4,001 - \$5,000	496	396	75	25	
\$5,001 - \$6,000	988	841	110	37	
\$6,001 - \$7,000	775	703	51	21	
\$7,001 - \$8,000	384	347	22	15	
OVER \$8,000	289	280	7	2	
<b>TOTAL</b>	<b>4,704</b>	<b>2,977</b>	<b>329</b>	<b>1,315</b>	<b>83</b>

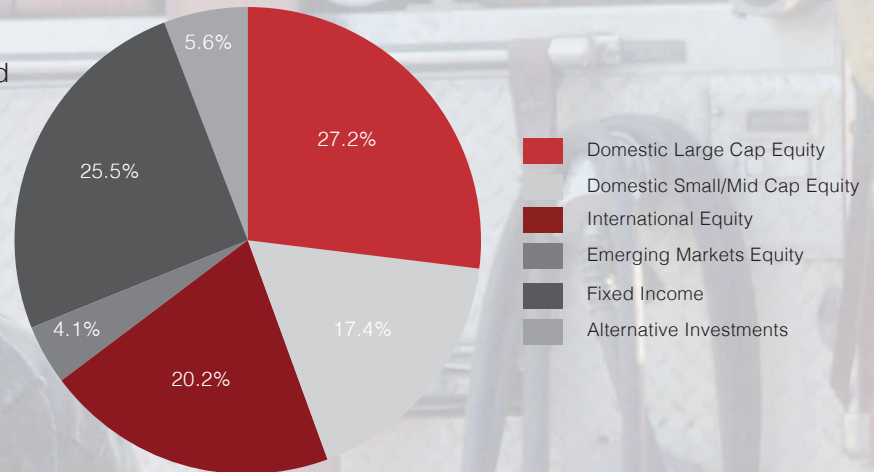
The population of benefit recipients indicates that the majority of the recipients are retired firefighters (63.3%). Over 60% of recipients receive more than \$4,000 monthly. Another large portion (20%) of the population is recipients who collect less than \$2,000 per month. Nearly 86% of these recipients with monthly benefit checks less than \$2,000 are widows of deceased firefighters.



## INVESTMENTS

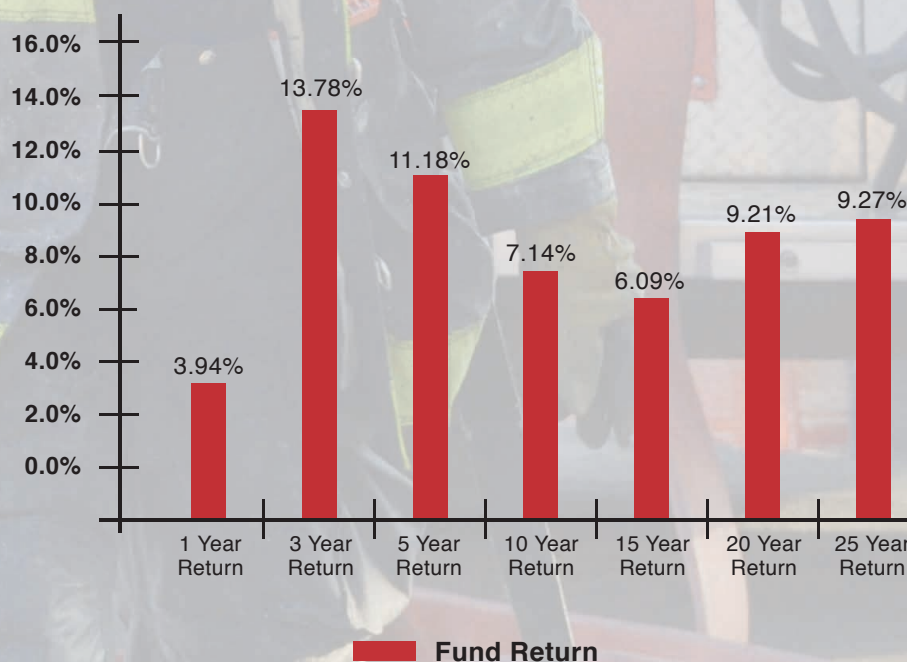
The Firemen's Annuity and Benefit Fund of Chicago's investment portfolio gained 3.94% for the year ended December 31, 2014. U.S. equities posted positive returns (8%) due to moderate gross domestic product (GDP) growth, improving employment trends and rising consumer confidence levels. Fixed income returns performed well (7%), especially treasuries, as interest rates continued to decline. Private equity returns were impressive (10.3%), attributable to a premium for illiquidity, specific investment selection and timely exits among the Fund's private equity managers. International equity returns did not fare as well (-3.7%), due to slower growth prospects in international economies and a strengthening U.S. dollar. Over the 20 and 25 year periods, the Fund has outperformed its actuarially assumed rate of return by approximately 1.25%.

Because of the critical underfunded status, the Fund continues to adhere to its long term investment objectives as stated by the Retirement Board in the Fund's Investment Policy. The purpose of the Fund establishing an investment policy is to obtain the highest return possible, while at the same time managing risk. The asset allocation reflected in the accompanying pie chart corresponds to those policy objectives. It is the Fund's adherence to its investment objectives that has generated the additional returns, thus preventing further acceleration of the total unfunded liability.



We expect that the statutorily required increase in employer funding, scheduled to begin in calendar year 2016 will still occur. The additional funding is a first step towards bringing the Fund back to a more stable funding status. More immediately, the additional funding will relieve some of the liquidity pressure on the current portfolio that is caused by the sale of investments each year to pay current benefits.

## LONG TERM INVESTMENT RETURNS



## IN MEMORIAM: 2014 DECEASED MEMBERS

JOSEPH P. ABRAMS  
 NATHANIEL ANDERSON  
 ERNEST J. AUGUSTINE  
 CURTIS BAINS  
 FRED J. BARBARA  
 ENRIQUE BEAUCHAMP  
 HARVARD C. BIEZE  
 LOUIS A. BLATZ  
 RICHARD W. BONNEFOI  
 JOHN T. BOYLE  
 EDWARD C. BROWN  
 THOMAS W. BURGESS  
 RICHARD M. BUTLER  
 GERALD J. CAPP  
 DOUGLAS CARBOL  
 CHARLES W. CARLSON  
 JOHN E. CERNY  
 MICHAEL V. CLATCH JR.  
 MICHAEL A. COHEN  
 CHARLES A. CONRAD JR.  
 KARL J. DASBACH  
 ROBERT H. DIETZ  
 DONALD C. DREHOBL  
 JOHN J. DRUZIK  
 RICHARD A. EBER  
 HARRY W. EKSTROM  
 CHRISTOPHER FEDRO  
 JOHN P. FINN  
 MICHAEL FLISK  
 CHESTER FREDERICKS  
 FRANCIS E. GAINER JR.  
 LOUIS T. GALANTE  
 MICHAEL J. GALIARDO  
 HERB R. GANT  
 GEORGE GARANT  
 MARTIN GAWENDA  
 TIMOTHY C. GIBSON  
 DREWONE GOLDSMITH  
 DON A. GREGORY  
 WILLIAM J. GREGUS  
 JOSEPH C. HAFFLER  
 JAMES R. HARRINGTON  
 RONALD T. HAYNES  
 MICHAEL E. HEIN

THOMAS L. HEINRICH  
 ARTHUR HENDRICKSON  
 JOHN HERLING  
 ROBERT F. HOEHN  
 DAVID J. HUGHES  
 WALLACE E. JAHNKE  
 CLARENCE C. JANASIEWICZ  
 EDWARD C. KAELIN  
 JOHN KAMMERER  
 JAMES W. KELLY  
 THOMAS F. KING  
 LEE J. KOWALSKI  
 EDWARD W. KREY  
 KENNETH KROENING  
 ROBERT KRUPP  
 EMMETT F. LALLY  
 THOMAS J. LANHAM  
 EDWARD G. LENCKUS  
 OSWALD B. LEWIS  
 VINCENT P. LIBERTO  
 HENRY F. LIENEMANN  
 LOUIS LIMPER  
 EDWARD LISOWSKI  
 RUSSELL LONG JR.  
 JAMES A. LUTKE  
 GERALD A. MAJEWSKI  
 EDWARD C. MAKOWSKI  
 RICHARD N. MATKOVICH  
 LAWRENCE E. McCARTHY JR.  
 MICHAEL A. McCLORY  
 MICHAEL M. McKITTRICK  
 JAMES McMAHON  
 WILLIAM McNAMARA JR.  
 MICHAEL McNICHOLAS  
 FRANK J. MEDINAS  
 DONALD W. MERGLER  
 EDWARD F. MOKOSAK  
 FABIAN MIENTES  
 JAMES E. NASH  
 ALBERT J. NEUMAN  
 RALPH O'CONNELL  
 JAMES P. O'CONNOR  
 DAVID A. O'KEEFE  
 JOHN T. ORR

ARTHUR OWENS III  
 FRED L. PARISE  
 RICHARD G. PEARSON  
 GEORGE A. PHILBIN  
 EDWIN C. PIETROWICZ  
 JOSEPH A. PILS JR.  
 JOSEPH M. PINTER  
 NICK B. PISTELLO  
 JOHN C. RADOSEVICH  
 AUGUST W. RECKWEG  
 MICHAEL T. REED  
 DAVID J. REESE  
 RONALD G. REGNIER  
 CEDRIC W. ROBERTS  
 JAMES T. ROBERTSON  
 JAMES ROCKWELL  
 JOSEPH J. ROMANEK  
 THOMAS RUANE  
 THEODORE E. SCHAEFER  
 THOMAS W. SHEPPARD  
 JIMMIE L. SLAUGHTER  
 PETER J. SOBIESKI  
 JOHN F. SOLCANI  
 STEPHEN M. SPENCE  
 SIDNEY SPRINGS  
 SIDNEY J. STOVER  
 GEORGE H. STRZALA  
 EDWIN P. SULLIVAN JR.  
 CLARENCE J. THOMA  
 CHARLES J. TODTLEBEN  
 CLEOPHAS O. TRIMM  
 GLEN AC TUMA  
 EDWARD L. WENDLING  
 KARL WHITTLETON  
 LARRY WICKS  
 KENNETH R. WILFERT  
 ALBERT R. WODARSKI  
 DONALD J. WOJTAS  
 EDWARD WOLF  
 MIKE J. YERGOVICH  
 MARSHALL YOUNG  
 THADDEUS J. ZAWACKI

**I WILL NOT FOLLOW WHERE THE PATH  
 MAY LEAD, BUT I WILL GO WHERE  
 NONE HAS GONE AND LEAVE A TRAIL.**