

Happy Holidays ! Happy New Year !

RICHARD J. JONES ANNUITANTS ASSISTANT FUND

Recently the Policemen's Annuity & Benefit Fund initiated the creation of a new tax free assistance fund. After much thought and consideration it was decided and voted upon to name the charitable fund the **Richard J. Jones Annuitants Assistance** Fund. [RJJAA Fund]

Richard J. Jones is a retired Chicago Police Sergeant. During his tenure, he served as Executive Director for the Policemen's Annuity & Benefit Fund and later served as a Trustee, Vice President on its pension board. During his career of more than forty years (1958 - 1999) he was very dedicated to the fund and was known for being an advocate for police annuitants and widows. Because of his endless dedication to police officers and their families this Fund has been named in his honor.

The Board members of the RJJAA Fund are delighted to continue the practice the Policemen's A&B Fund began and present this year a **Gift Check** of \$500.00 to widows receiving \$1,000.00 or less per month and all annuitants receiving \$1,050.00 or less per month.

This is the fifth year of the "gift check"; and by creating the Richard J. Jones Annuitants Assistance Fund there are several enhancements. The

RJJAA Fund is an IRS Code Section 501(c) (3) tax exempt body; you do not have to pay taxes on this gift; it is not reported as income, as in previous years. Due to successful fund-raising efforts, this year the gift has been increased to \$500.00. In the future, if funding permits, the goal is to have this gift disbursed each December.

Funding in this account will be dependent on Donations and Gifts. It is an excellent way to recognize or honor an annuitant or to commend our current police force for the work they complete each day. Efforts to support this Fund are just one of the ways to honor the hard work of the dedicated officers of the Chicago Police Department.

JANUARY PAYMENT DUE 01/29/2010

To assist you in your financial planning needs for 2010, the Fund will provide to annuitants using the **Direct Deposit program an annual statement** detailing your monthly gross annuity, any deductions and your net monthly payment for 2010. After the 01/29/2010 payment, your net annuity payment should not change in 2010 unless you change your federal income tax deduction amount and/or your hospitalization premium is adjusted. **IF A CHANGE IS NOT REQUIRED THERE IS NO NEED TO CONTACT OUR OFFICE.**

NEW COMPTROLLER

The Executive Director is pleased to announce the hiring of Regina Tuczak, C.P.A. as the Funds Comptroller, effective January 1, 2010.

Ms. Tuczak recently served as a Director for Deloitte and Touche L.L.P., heading up their Audit and Enterprise Risk Services Group. Ms. Tuczak, very active in the C.P.A. society of Chicago, has also served as a Senior Director of Finance for the American Heart Association as well as an audit manager with Arthur Anderson.

Ms. Tuczak graduated with distinction from the University of Michigan with a Bachelor of Arts in Economics degree (1989) and received her MBA from the University of Chicago's graduate school, with a concentration Finance and Accounting in 2000.

Ms. Tuczak is married with children and has been active as a Girl Scout Leader since 2006. On behalf of the Board of Trustees, staff as well as our membership we want to welcome Gina to the Fund and we look forward to benefiting from her experience in the many years to come.

COLA

As provided by statute, a cost of living adjustment for eligible retired employees will be reflected in the annuity payment for January 2010 to be dated January 29, 2010. This increase is based on a percentage of the original annuity granted at retirement. These increases pertain only to retired employees who have attained age 55 or over and **have been retired for at least 13 months.**

TAXES & 1099's

Prior to January 31, 2010, the 2007 IRS Form 1099R will be mailed to recipients of annuities, ordinary disability benefits, death

benefit payments and lump sum distributions. This form contains the information needed to file the appropriate 2009 tax return.

For those of you living as a permanent resident outside the State of Illinois, you should contact the local State Department of Revenue to determine the taxability of your annuity payments in that State.

IRS NOTICE 2010

The Fund would like to update you on the interpretation released from the IRS, regarding the HELPS provision of the **Pension Protection Act** passed in 2007 that allows for tax deferred deductions of insurance premiums up to a maximum of \$3,000 per year for retired public safety officers.

We, the Pension Fund, may NOT reduce the taxable amount reported on form 1099-R by the amount of premiums paid for health or long-term care insurance.

According to the IRS, public safety officers would account for this non-taxable benefit on their individual tax filing. **The plan recipient makes the reduction on line 16b of Form 1040.**



TRUSTEES' CORNER

By Sgt. Michael Lazzaro, Trustee

The responsibilities of the Fund's Custodial Bank

Who has possession of the funds' billions of dollars of assets? The Northern Trust Bank (NT), the only large custodial bank based in Chicago. The tasks of our custody bank include: keeping track of the Fund's numerous domestic equities (stocks), fixed income positions (bonds- par value), and international equities. Besides safekeeping of the assets, NT is also required to provide us with an electronic means to monitor our holdings, transactions, and performance. This is accomplished by a proprietary system (that is continually enhanced) created by the bank called Passport.

When we talk about one of our investment managers, for example, UBS, a large cap core (U.S. stocks) investment manager, you hear us say that they have \$159 million of the Fund's money. That is not the case in a legal sense. UBS has the authority to make buy and sell decisions in a specified investment portfolio; however, the money (stocks, bonds, and cash) remains in the Fund's name. All transactions by UBS and all other money managers are done by NT through a clearing house. Managing the Fund's investment portfolio through NT is a safeguard to fraud. The Madoff deception, in which billions of dollars of assets were stolen from hundreds of sophisticated investors, is a good example. Madoff had custody of his investors' assets and was able to commit his epic fraud, because, "there was no independent custodian to watch over assets and provide investment statements and other reporting."

There are fewer than 10 banks in the custody business in the U.S. that can handle the demands of a fund of our size. Custodial banks must be very big, with lots of capital,

and make large investments to keep their technology "state of the art." NT was founded in 1889, and its headquarters at 50 S. LaSalle was built in 1906. It is the 8th largest custodial bank in the world. Some (approximate) numbers for NT (as of end of August, 2009):

Total assets under custody by NT	\$3.2 Trillion
Total assets of the Police Fund	\$3.1 Billion
Fund transactions in one year	50,000
Number of Countries where NT Safe-keeps the Fund's assets	53

What would happen to the Fund's assets in the very unlikely scenario of a bank failure at NT? The Fund's assets are held in trust by NT, so they are not considered part of the bank's balance sheet, and would be returned in full.

Second annual CFD & CPD vs. Blackhawks Alumni a big success!

An estimated crowd of over 1,500 people came out on a beautiful sunny Labor Day (Sept 7th) afternoon to watch the charity softball game in Crestwood. The game ended tied, 8 to 8. This is a very family friendly event in a very nice minor league ballpark. Thanks to Peter Hansen and Blackhawk Charities, Trustee Tony Martin, Ken Kaczmarz, Eileen Doherty from Chicago Fire Pension, retired Sgt. Don Januszyk, and Sgt. John Healy for their assistance. This event's proceeds benefit Police and Fire charities. We will do it again in September, 2010; hope to see you there.



By P.O. Michael Shields

December 1st was my one year anniversary as a Trustee on the Policemen's Annuity and Benefit Fund of Chicago. This has truly been a challenging and exciting experience for me. Similar to being a policeman, every single day has been a learning experience. There is not one dull moment down here at the fund. I would like to thank all those who gave me a chance to be their representative by voting for me. I hope that I have exceeded your expectations over the past year.

As I have stated many times throughout the year, I ask that each one of you find the time to get involved in our pension fund. Make it a New Year's resolution to attend at least one pension board meeting or investment meeting in the 2010 year. Your presence is truly noticed and appreciated. Our schedule of meeting dates will appear on our website at .chipabf.org. Remember, this is *our* money. Let's all keep an eye on it.

Numerous changes will take effect on our website after January 1st. Our website will soon show you exactly how much money is held by each money manager. The goal of our website will be total transparency. Investment management fees and brokerage fees will no longer be held on a need to know basis, they will be clearly posted on our site. Please feel free to view our minutes of the board meetings online. Any questions regarding our pension fund, please contact me at @chipabf.org.



By Annuitant Trustee, Ken Hauser

The Real Economy, Part II by Annuitant Trustee, Ken Hauser

The US dollar (USD) is the world's "reserve currency" and considered a "Safe Harbour". Most people don't appreciate its significance. The USD is used by other countries across the globe to back up their own paper currencies. It's as basic as a country stockpiling US dollars in their central bank vaults. When asked what supports their Pesos, Rubles or Yen, the powers that be simply point to their pile of US dollars as proof of value. It's quite obvious how delicate it is to back up one's currency with a pile of paper issued by another country, but that is exactly how the world of international currency has worked for decades. And it has worked very well...until now.

Despite falling 36% since 2001 and record lows in 2009, it is only recently that the US dollar's 'world reserve currency' status has been questioned. Over the last six months there has been a substantial increase in anti-US dollar rhetoric from China, Japan, Russia, France and Brazil. It appears the US dollar hegemony has finally broken, and what happens next will have major consequences for the global economy. Following the collapse of Lehman Brothers, the USD experienced a strong rally as the world flocked to it as a safe haven. Back then, nobody complained about owning US Treasuries – they were the ultimate safe asset for anyone looking to park large amounts of capital. However, the international investment community has begun to question that choice. They have watched the US Government abuse its 'world reserve currency' privilege by printing debt and currency by the truckload. We must fully understand the debt predicament currently faced by the US. Check government

revenues, current outstanding debt (cost of interest on this debt) and unfunded promises that the government has made to its citizens. While there are no bonds, bills or notes issued to support these truckloads, they represent real commitments that will require US dollars to honor them in the future. What is very obvious is that the US' penchant for increasing its 'promises to spend' is directly threatening the future viability of the USD. While politicians approve future spending promises, they forget the real costs those promises imply and there is no feasible way I can see those promises being paid for under foreseeable economic conditions. You may wonder why the world continues to buy US debt at all.

The Chinese Government is the largest foreign investor in US Government debt and they are fully aware of the current situation. Luo Ping, the Director-General at the China Banking Regulatory Commission stated that once the US starts issuing \$1-2 trillion, they know the dollar is going to depreciate and there is nothing they can do. Another Chinese official, Cheng Siwei, stated that "If the US keeps printing money to buy bonds it will lead to inflation and after a year or two the dollar will fall hard. Most of our foreign reserves are in US bonds and this is very difficult to change, so we will diversify incremental reserves into euros, yen, and other currencies." Recently, China has gone so far as to promote the purchase of gold and silver to its citizens. Silver bullion is now being advertised on Chinese television as a prudent investment for the general public. This represents a fundamental change in Chinese policy where the distribution of gold and silver was once strictly controlled.

So how will this US debt crisis ultimately resolve itself? One analysis is that the spending 'promises' are the crux of the

problem now facing the US Government. If there isn't enough new capital in the current environment to fund new Treasury bill issues, then there certainly isn't enough capital to pay for the US's unfunded future obligations. So they only have one option left, to print their way out of their debt crisis. Alan Greenspan believes that the rising budget deficits are "unsustainable". Because the US Government is printing dollars to fund their liabilities, it is highly unlikely that we will ever see a failed bond auction similar to that recently in Poland. The far more likely outcome, therefore, will be a US dollar crisis. It is for this reason that many investment managers have positioned their hedge funds and mutual funds heavily in precious metals. When the world finally realizes what the US has done to the world reserve currency, international investors will shift into an asset that no government can print. In many opinion, the US dollar's status as a 'port' in the financial storm has officially come to an end.

The opinions contained within this report are solely mine and information has been derived from sources believed to be reliable and accurate. I assume no responsibility for any losses or damages, whether direct or indirect, which arise out of this information. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell. Please contact your own personal adviser on your particular circumstances.



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