

# PENSION ADVISOR

POLICEMEN'S ANNUITY & BENEFIT FUND OF CHICAGO

Dec 2010/Jan 2011, No. 42

## Happy New Year

Be always at war with your vices, at peace with your neighbors,  
and let each New Year find you a better man.

*Benjamin Franklin*

### RICHARD J. JONES ANNUITANTS ASSISTANT FUND

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 **sixth** year of the "**gift check**". In the future, if funding permits, the goal is to have this gift disbursed each December.

Funding in this account is dependent on Donations and Gifts. Donations to this Fund are one way to honor the hard work of the dedicated officers of the Chicago Police Department. It is an excellent way to recognize or honor a current police officer or a retiree for their service to the citizens of this great City.

### JANUARY PAYMENT DUE 01/31/2011

To assist you in your financial planning needs for 2011, 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 01/31/2011 payment, your net annuity payment should not change in 2011 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.**

### COLA

As provided by statute, a cost of living adjustment for eligible retired employees will be reflected in the annuity payment for January 2011 to be dated January 31, 2011. 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 & 1099R'S

Prior to January 31, 2011, the 2010 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 2010 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.**

## TRUSTEES' CORNER

**By Sgt. Michael Lazzaro, Trustee**

The 2nd annual special seminar was held at the Academy on October. This meeting is a chance to meet the Trustees, Pension staff and address concerns about the Pension. Approximately 90 active and retired members attended. One of my responsibilities as a Trustee is to get information out to all of active and retired members and this meeting does just that. We will do it again in October 2011.

On August 1, 1977, Rich Wrobel began his career at the Chicago Police Pension in the benefits and calculations section of The Fund. What a great hire! He is the most senior member of The Fund's staff. He is courteous in his dealings with pension inquiries and always maintains a professional demeanor no matter how demanding the situation happens to be. A lot of people will tell you he is a wizard with numbers and a walking statute book. He knows the Pension statutes inside out, and has the ability to explain the statutes and how they have been interpreted by Court cases. When Rich began his career all pension calculations were done by hand with an adding machine. In 1993 the Wypen system was created to automate some of the calculations. With a heavy dose of Rich's expertise the Fund is developing a new system to replace Wypen, automating nearly all of the calculations. Many of you have called The Fund and talked with him. Rich is retiring effective December 31st. Thanks for all the assistance you have given to thousands of Police Officers in your long and productive career with The Fund.

### **Retirement Tally for 2010:**

|                        |            |
|------------------------|------------|
| Police Officers* ..... | 421        |
| Sergeants .....        | 72         |
| Lieutenants .....      | 35         |
| Captains .....         | 21         |
| Exempts .....          |            |
| <b>Total.....</b>      | <b>553</b> |

\*Includes Detectives

I received a couple of great Christmas presents recently at the Pension office. Jean, an 84 year old widow called. She was very emotional, stating she was going through some hard times; her furnace had broken and she didn't have the money to pay the repair bill, some other bills and had no money to buy gifts for her grandchildren. Jean went to check the mail and there was the gift check from the Pension Fund. She thanked me and said this "was a godsend"! Jean's husband passed away almost 20 years ago and spent most of his career in Kensington (for all you youngsters that was the name of the 5th District many moons ago). Jean is one of widows that are receiving the minimum widow's pension (gift checks are also sent to all Officers who retired at the minimum annuity). The Fund sent "the 13th check" from the Richard J. Jones gift fund in early December. This is the 6th year the gift check has been sent out. Several widows have called to say "thank you." Dozens of letters have arrived expressing their gratitude. On December 16th, a card from Eileen arrived. She wrote: "Our deceased husbands are smiling down on you for taking such good care of their widows." Thank you Eileen for the kind words, your letter helped to make this a great Christmas!



**By P.O. Michael Shields**

### **EMPLOYER TO EMPLOYEE MULTIPLIER VS. THE EMPLOYER TO EMPLOYEE MULTIPLIER VS. THE ARC**

Currently, 9% of our salary goes into the pension. This is matched by a 2:1 contribution from the City of 18%. ***There is absolutely no correlation between the multiplier and what it costs to operate this pension plan.*** Under the Illinois pension code, the contributions required by law for the City is 2:1 multiplier. This amount has been insufficient to maintain solvency for decades. The City has recklessly ignored the actuaries' requests for

more money every year in our annual report submitted to City Council. The Actuarial Required Contribution (ARC) represents the cost required to amortize the unfunded liability so the fund would be at a 90% funded level over thirty years (under GASB 25 & 43 rules). The actuaries also recommend a multiplier each year. The recommended multiplier from the actuary from the 2009 report was 5.87 to 1 as opposed to our existing 2:1. As stated by the actuary, this [contribution multiplier] ratio “is needed to adequately finance the fund.” Once again, the actuaries request went ignored from the City.

## SB 3538

### Senate Bill 3538

<http://www.ilga.gov/legislation/96/SB/PDF/09600SB3538ham003.pdf>

is sitting on Governor Quinn’s desk to be signed. This legislation includes language creating a two-tiered system to our fund. Here are the major changes for **new employees** hired after January 2011: future hires will have to work longer and receive less of a defined benefit than the current employees. The maximum future employee pension will be 30 years of service at the age of **55**. The average will be computed by the **best 8 year of the last ten years**, compared to actives’ current 48 month computation. The maximum salary will be capped at \$106,800 for future employees.

This Senate Bill changes the funding structure for Chicago Police and Fire Pension Funds. If passed, our funding will be based on the actuarial formula as described above vs. the obsolete and dated multiplier formula. The bill calls for this funding change to take place in 2015. If the City does not comply with the changes, the difference will be sent from the State Comptroller’s Office from the City Income Tax revenue. Unfortunately, there is language allowing for a “trailer bill” for this legislation. Many speculate that, if passed, the City will seek relief from this funding change.

## THE WIDENING GAP OF REVENUES VS. EXPENSES

As these actuarial recommendations fall on deaf ears, the gap between contributions

raised from employer and employee contribution versus the disbursements paid out has widened to alarming levels. In 1990, contributions were *approximately* \$125 million. Disbursements were \$135 million, creating a gap of \$10 million. The \$10 million paid out consumed .7% of the pension fund that year. The 1995 contributions were \$151 million. Disbursements were \$202 million. The gap grew to \$51 million or 2.4% of the fund that year. In the year 2000, contributions were \$196 million. However, disbursements grew to \$323 million, which was 2.9% of the fund size. In 2005, the fund collected \$225 million, yet disbursed \$439 million, widening the gap to nearly \$215 million in that single year, totaling 5.4% of the funds’ assets. Finally, the contributions in 2009 were approximately \$285 million. The fund paid out \$519 million. The gap for in the single year of 2009 was \$242 million which was 7.3% of the entire fund’s assets. This has gone unchecked and unfunded for far too long! This clearly demonstrates how the 2:1 multiplier used by the City does not work.

## THE CHALLENGES OF MANAGING A SHRINKING PENSION PLAN

As the funding gap widens, our assets are reduced. The monies used to pay for that widening gap come directly from our funds’ investment money. The income earned on these shrinking assets thus, becomes reduced. As the assets are reduced, our asset allocation goes out of balance.

Our plan realizes the cash flow necessary for each fiscal year. The fund prepares itself by having liquidity available to meet the obligations. Liquidity constraints come with a hefty price tag. Most investments that allow for liquidity do not have the same returns as those that require a lockup.

We have to consider what funds to sell with the least amount of risk and the best price. This is often a monthly challenge. The portfolio managers are forced to sell positions that they were not expected to sell. Our fund gets hit with extra trading costs while selling the holdings. The Board would not be facing these challenges if we the funding had been structured based on the ARC over the last two decades.

**By Annuitant Trustee, Ken Hauser**

## **CHINA, THE FUTURE PART II**

In my article in the autumn issue, I described China's economy, infrastructure, human rights violations and its' mixture of opportunities and needed improvements. In this part II winter issue, I will discuss natural resources, equities, fixed income and weighing political and economic risks.

China is determined to search for raw materials and commodities to meet future needs, including land, electrical power and water. Building on a series of Five Year Plans that target economic development and using their sizable capital, China has been steadily buying land in Latin America and Africa, purchasing industries that could generate imports or increase consumption over the long term and making deals with Russia, Kazakhstan and Venezuela to secure its future oil supply. China has one-fifth of the world's population, but only about 7% of the globe's farmable land. Of that, only about 33% is believed to be productive and the amount of farmable land is declining because of soil erosion, industrial and agricultural pollution and the demands of a growing population. China's consumption of water already rivals that of the United States and continues to rise. China is the second largest emitter of industrial carbon dioxide pollution. Given those variables, China will become much more dependent on food imports. Even within its own borders, the Chinese government has developed a number of policies with the aim of developing its' rural areas. These include offering subsidies on household appliances and building materials only to residents living well outside its' cities. A major stabilization program enacted in 2008 is helping to expand sewage and waste treatment facilities throughout the country. It remains to be seen how China will respond to pressure to adopt new, stricter environmental guidelines as proposed during the 2009 Copenhagen Climate Conference.

The current state of Chinese equities reflects the central government's recent determination to learn from the past and prosper based on new insights. The global financial crisis has now led China to place more emphasis on internal consumption as a driver of economic growth, rather than relying as heavily on exports as they have in the past. For now,

the best opportunities for Chinese equity investors seem to be in consumer goods, semiconductors, heavy equipment manufacturing and banking as they remain largely unaffected by the downturn in export activity. The automobile industry is another with relatively attractive prospects, given the still low penetration of car ownership. For example, according to the International Road Federation's World Road Statistics 2009, there were only 22 passenger cars per 1,000 people in China in 2007 compared to 451 in the US.

However, foreign direct investment (FDI) activity and ownership is still heavily regulated. According to foreign investment guidelines issued by the National Development and Reform Commission (NDRC), no foreign firm can be the majority owner on any equity in industries such as life insurance, fund management, printing and publishing, construction, movie theaters and many other enterprises. This also extends to the banking industry and there is a 25% limit on overseas ownership in Chinese banks. There is some cause for optimism, however, and the landscape may be liberalizing on an industry-by-industry basis. In 2009, for example, the government announced that foreign investments in domestic travel agencies could now exceed 50%.

Chinese fixed income markets have already come a long way, but many impediments remain. Foreign investors must obtain licenses and place ceilings on foreign holdings and charge withholding taxes. However, they are working to gradually minimize these obstacles to allow increasing foreign ownership. Over time, domestic investors have begun searching for alternative investments and other funding sources than banks and the equity markets. More recently, the government has begun gradually easing regulations, leading to faster development of the overall bond market. Although China is rich in its potential for bonds, the market is primarily domestically focused as foreign investors can earn only relatively low yields in the context of emerging markets. Abundant liquidity and traditional reliance on bank lending for corporates are to blame, rather than lack of interest in capital markets. The Chinese government bond market is the second largest in Asia after Japan.

As with all emerging markets, China carries inherent economic, social and political risks



for investors. Despite having joined the modern age in many respects, determination to keep foreigners at arm's length and the potential for currency and market fluctuations, together with their relentless appetite for raw materials to accommodate population expansion, may well lead to higher inflation as well as boom and bust cycles. At present, the chief risk in China is a potential property bubble, but inflation, excessive monetary tightening and the administrative measures needed to regulate the economy also represent concerns. If the government is too harsh in containing property price increases, for example, it may have a negative impact on raw materials, employment and housing-related industries. Excessive monetary tightening could also squeeze growth in corporate earnings and a further rally in commodity prices would increase China's imports. Additionally, there are many unknowns related to full and accurate financial reporting in China's economy. It is well known that local government entities engage in heavy borrowing that does not appear in any official statistics. Instead, these expenditures are being funded through the use of off-balance-sheet special purpose vehicles.

Due to the difference in the immediate focus of the Chinese economy, including this country in a portfolio would allow an investor to maximize a broader spectrum of opportunities while, at the same time, diversifying underlying political and socioeconomic risks. It is obviously essential to be able to wield the local knowledge, cultural insight and in depth experience to identify and capture the right opportunities at the right time in order to avoid the pitfalls before they make an impact. The picture of China's immediate future is still coming into sharper focus, but the well-learned lessons of the past indicate there is still much more to be gained in the months and years ahead.

*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 advisor on your particular circumstances.*

## UPDATE FROM FUND EXECUTIVE DIRECTOR AND COMPTROLLER

As many of you are aware, the Fund staff has been recalculating disability benefits and pension benefits for those who retired after July 2007. We thank you for your patience while the calculations are being completed. We wish you and your families the best of health for 2011.

## PRE-RETIREMENT SEMINARS

For our members planning for retirement, we recommend that you attend a pre-retirement seminar. The seminars offer a variety of information and resources to aid you in your retirement decisions. The dates for 2011 are Wednesday March 23, Tuesday May 24, Friday July 22 and Wednesday October 19. You may register through the IntraNet at Employee Resources Services Division or calling Personnel at 312-745-5342. Certain qualifications apply for attendance by officers and their spouses.

## ACTIVE MEMBERSHIP Retirement Appointments

To assist you in your retirement for 2011, the Fund asks that you contact the office when you are ready to retire. At that time a counselor will make an appointment for you to complete the paperwork required to transition into retirement.

## BOARD MEETING DATES FOR 2011

|           |           |    |
|-----------|-----------|----|
| Thursday  | January   | 27 |
| Thursday  | February  | 24 |
| Tuesday   | March     | 29 |
| Thursday  | April     | 28 |
| Friday    | May       | 27 |
| Tuesday   | June      | 28 |
| Thursday  | July      | 28 |
| Thursday  | August    | 25 |
| Tuesday   | September | 27 |
| Wednesday | October   | 26 |
| Tuesday   | November  | 29 |
| Thursday  | December  | 22 |

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:

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John J. Gallagher, Jr.  
Executive Director

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Executive Director  
**Regina Tuczak**  
Comptroller

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

**Sonny Panaligan**  
Assistant Comptroller  
**Samuel Kunz**  
Chief Investment Officer

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