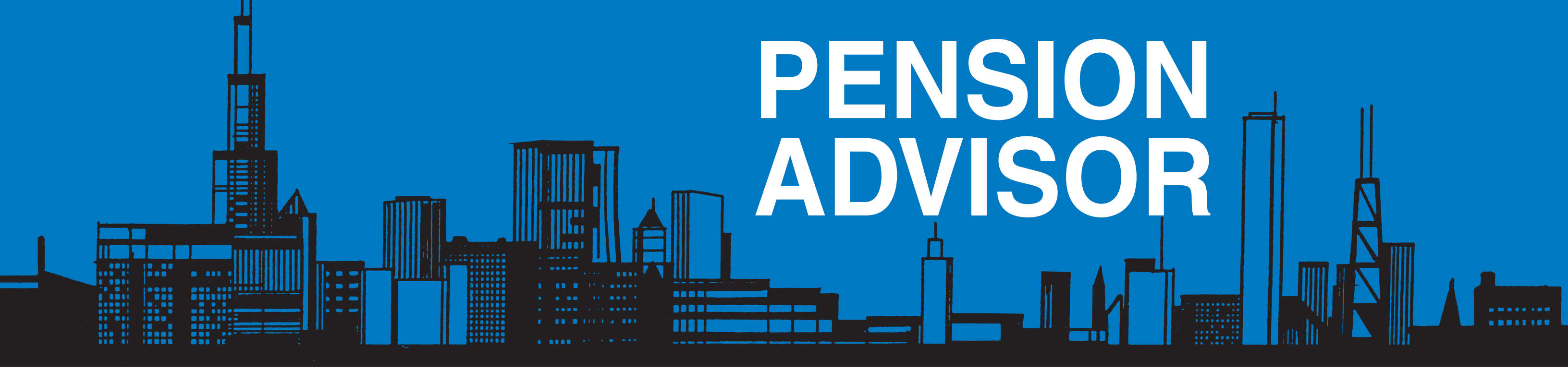

PENSION ADVISOR

POLICEMEN'S ANNUITY & BENEFIT FUND OF CHICAGO March, 2010 No. 39

Spring into 2010

APPOINTMENTS FOR RETIREMENT

Due to the increased number of retirements over the coming years, the Pension Fund is scheduling appointments for members to complete the application process. After you have completed a retirement PAR, make a copy of the electronic form and your exit interview and call the Pension Fund Office at 744-3891 or PAX 0357 to schedule your appointment. Appointments will be Monday through Fridays from 9:00 am to 3:30 pm.

We look forward to hearing from you.

ANNUAL STATEMENTS

The Annual Participant Statements will be mailed to all active members by mid-April 2010. The address used for distribution is the address the City had on file for you for the 02/15/2010 payroll.

Please review the information for any errors. Any married police officer who wants to have her name changed needs to visit our office and produce a certified copy of the marriage certificate and the name will be changed accordingly.

UPDATES FROM COMPTROLLER:

ANNUAL AFFIDAVITS WAIVED FOR 2010

We are delighted to report that the Fund has purchased a new software system which provides timely reporting of social security numbers of those participants that are deceased. The software provider receives frequent information from various Social Security offices, as deaths are reported. As a result, the Fund receives these updates weekly, and the Fund's staff initiates the appropriate action, based upon the information received. Given the new software, **the Fund will not be sending the annual signature affidavits this year.** We do plan to continue sending these signature cards next year and in future years on a rotational basis.

PERSONAL UPDATES

Please remember to keep the Pension Fund aware of any personal changes; Medicare status, new address, change of bank, appointment of guardianship or placement of a power of attorney. All changes must be submitted with the member's signature authorizing the change. Any questions should be directed to the Fund.

TRUSTEES' CORNER

By Sgt. Michael Lazzaro, Trustee

The City of Chicago is self-insured and uses Blue Cross/Blue Shield to administer health care to all of the Approximately 25,000 City retirees. All four pension funds (Fire, Laborers, Municipal and Police) pay a fixed amount toward your health care premium. The City contributes 50% of the costs funds' requiring the retiree to pay the remaining 50%, less the pension fund subsidy. The selected premium is deducted out of your monthly annuity payment. The Department of Benefits and Management (BMO) administers the health care plan, not the pension funds.

Q & A for those retirees soon to be Medicare eligible at age 65.

Q. Your 65th birthday is May 26th. Your Medicare coverage starts on:

A. May 26th
B. June 1st
C. May 1st

C) May 1st - Medicare coverage always begins the 1st day of the month you turn 65. Please start the process 3 months before your 65th birthday and when you get your Medicare card both the Pension Fund and Benefits and Management must have a copy on file. You can use U.S. mail or fax copies to us.

Q. When I retired what is the value of the Death Benefit I paid $1.25 per pay period during my police career?

A. $8,000.00
B. $6,000.00
C. $2,000.00

B) Once you retire, the Death Benefit is $6,000.00. The beneficiaries may be changed at any time by the member only and can be left to a Living Trust, a copy of which must be submitted. This is not a life insurance policy; therefore the portion you paid reduces the taxable portion for your beneficiaries.

Which one are you?

"The pessimist is the man who believes things couldn't possibly be worse, to which the optimist replies, "Oh yes they could."

Vladimir Bukovsky

"An optimist sees an opportunity in every calamity, a pessimist sees a calamity in every opportunity."

Anonymous

"The optimist sees the rose and not its thorns, the pessimist stares at the thorns, oblivious of the rose."

Kahlil Gibran

By P.O. Michael Shields

2010 RETIREES

Congratulations to all of the recent retirees and those that will retire in the next several months. Your retirement date is truly the most important day on this job. The Pension Board staff has kindly requested that officers retiring in the next several months contact the Board 30-45 days in advance of the selected retirement date on the par form. The Pension Board advises scheduling an appointment with one of our benefits counselors.

Based on the numbers submitted by the city, there will 213 patrolmen or detectives retiring between April 1, 2010 and December 31, 2010. This number is reflective of the number of par forms generated for those who wish to take advantage of the city's free insurance for those retiring between the ages of 55 and 59.

Numerous others that do not have to submit the par form well in advance will also be retiring. These include the mandatory age 63 retirees and those that are greater than 60. The breakdown of retirements by month are: January had 36 retirees, February 23, March 18, and in April 107 plan to retire.

CIVIC FEDERATION REPORT

Police Officers work a very long and difficult career in order to obtain their pension. We place our lives on the line on a daily basis to serve the community. Earlier this month, the Civic Federation of Chicago, a government watchdog group, issued a report on the state of public pension funding in Chicago (it can be read at their website, www.civicfed.org). Many of you may recall The Civic Federation as being the same group advocating Defined Contribution programs (401K) vs. the defined benefit plans (pension plans) for public employees. While I don't speak for other public employees, I do know what it's like to have to place ourselves in harms' way as a Chicago Policeman. Whether we had to run into the housing projects or respond to shots fired, nobody can say that we have an easy job. Policing is an occupation that is well deserving of a pension.

The Civic Federation may attempt to sway public opinion against pension participants such as ourselves. We as police officers must remind society that the difficult task of policing a major city such as ours, is more than deserving of a pension. Even after noting that the recession is not the cause of the problems in the fund, but rather chronic underfunding, the Civic Federation's number one item under their recommendations is: "Reduce Pension Benefits." This rationale is similar to blaming the employee for the fiscal mistakes of management.

By Annuitant Trustee, Ken Hauser

BERNARD MADOFF'S INVESTMENT FRAUD PONZI SCHEME

Bernard L. Madoff conducted one of the most extensive Ponzi schemes and sinister frauds in American History. This systematic theft collapsed last year and his investors lost everything. Let's start from the beginning, who is Bernie Madoff? He helped start the NASDAQ Stock Market in the early 1970s and was Chairman of the NASDAQ for three years. He owned the brokerage firm of Bernard L. Madoff Investment Securities LLC that was involved in two primary areas: Market Making and Investment Advisory Services. In the market making area, Madoff Securities was the third largest market maker in the NASDAQ stocks and active in European and Asian equity markets; he had 600 major brokerage clients including Charles Schwab, Fidelity Investments and numerous discount brokers; it was a billion dollar legitimate business. In the investment advisory services area, Madoff managed money for wealthy investors and others directly; managed money for "feeder" hedge funds and funds of funds, this is where the Ponzi scheme occurred.

A Ponzi Scheme is an investment swindle in which some early investors are paid off with money put up by later investors in order to encourage more and bigger risks.

The scheme needs ever increasing amounts of new money flowing in the door to pay off old investors as well as the perpetrators of the scheme. Madoff's scheme attracted investors through direct marketing by himself and his brother, as well as through feeder funds; he attracted and kept investors through reported "incredible" steady return streams with unusually low volatility; he sent investors monthly reports showing securities he "purchased" for their accounts during that month. Between 1990 and 2001, Madoff reported positive returns (11-27%) for every year for his largest feeder fund and only three down months out of 87 months vs. S&P which was down 28 months of the same 87 months.

Madoff used numerous strategies to attract his investors, specifically by dazzling them with smoke and mirrors. He showed his targets incredible steady investment results and claimed the results came from his use of a "Split-Strike Conversion Strategy" which is a "Hedge" strategy: (a) purchase a basket or grouping of stocks for stock appreciation and dividends; (b) sell call options on a comparable # of shares to generate income (an option to buy the shares at a fixed price at a future date); (c) buy put options (a right to sell shares at a fixed price at a future date) to protect stock portfolio from market price decline. "Puts and calls create a floor on losses and a ceiling on possible profits". Madoff marketed this strategy because most people wouldn't understand it and would be embarrassed to admit their ignorance. In fact, a Split-Strategy Conversion as described was not capable of beating the typical percent return on U.S. Treasury bills less fees and expenses. It would have been impossible to employ this strategy with the billions of dollars invested with Madoff. If questioned about his strategy Madoff responded "It's a proprietary strategy, the strategy is the strategy and the returns are the returns, I can't go into great detail" and if pressed further "sorry, you need to invest with someone else". Other strategies he used was playing hard to get, such as creating an aura of exclusivity: he turned away some investors and kicked out others who asked too many questions and a new investor had to know someone to be able to invest with Madoff; he charged no management fees because he made money off of commissions from buying and selling securities for investors' accounts and his final strategy was by creating an aura of trust: he and his brother joined numerous wealthy country/golf clubs in the New York City area and Florida and mingled with members creating familiarity and earning their trust; Madoff was extraordinarily wealthy (nearly a billionaire)- penthouse apartment in Manhattan, shares in two private jets, yachts on the French Riviera and in Palm Beach, multiple homes; preyed on the Jewish Community (i.e. "we're one of you").

Madoff's Ponzi Scheme started in the 1990s and lasted over a decade because he controlled his auditor, Friehling & Horowitz who had only three employees: a secretary, an 80 year old "semi-retired" accountant based in Florida and one full-time auditor (recently indicted). Clients and feeder funds had no online access to their accounts; Madoff claimed to clear his own trades with no external custodian and Madoff Securities was not registered as an "investment advisor" with the SEC until 2006 (only because it agreed to do so after an SEC investigation) meaning its investor advisory services business went unregulated from the 1960s until that time. Ironically, the faltering U.S. / global economy led to Madoff's downfall. The Ponzi Scheme failed when too many investors asked to redeem their money at the same time which brought the house of cards down. In December 2008, Madoff confessed and turned himself in for what some have called the "most complex and sinister fraud in American History".

At the time he turned himself in Madoff believed his scheme caused losses of $50 billion but it is now believed to be approximately $20 billion. The fraudulent scheme reveals that he never used the "split-strike conversion strategy" or any other strategy. He never purchased any securities, the cash he didn't steal stayed in a Chase Manhattan Bank account and the monthly statements he sent to his customers were completely fabricated and showed bogus transactions. On March 12, 2009, Madoff pled guilty to all 11 counts he was charged with including: fraud, perjury, theft from an employee benefit plan and two counts of international money laundering. The 71 year old Madoff was sentenced to 150 years in prison on June 29, 2009.

Victims of Madoff's scheme were: Fairfield Greenwich Advisors, investment firm; Tremont Investment Mgt., fund of funds; Banco Santander SA, Spanish bank; Ascot Partners, Hedge fund firm; Access Intl. Advisors, Investment firm; Fortis Bank Nederland NV, Dutch bank; Union Bancaire Privee, Swiss bank; HSBC, British bank; Natixis SA, French bank; Carl Shapiro of Kay Windsor Inc. apparel company; Stephen Spielberg, Kevin Bacon, Kyra Sedgwick, Elie Weisel Foundation, Columbia University, Children's Medical Fund of N.Y., Howard Hughes Medical Institute, Police Athletic League, many charities wiped out, Employee Profit Sharing Plans, Defined Benefit Plans, Taft Hartley Funds, Public Pension Funds, Elderly Retirees, 100% Life Fortunes of numerous investors and at least two reported suicides.

There are many lessons to be learned from this fraudulent investment Ponzi Scheme, specifically, do not rely on the Government to stop frauds. The regulatory structures, procedures and institutions in place to prevent crimes like the Madoff Ponzi Scheme failed. As early as May 2000, the S.E.C. was provided evidence that should have caused a detailed investigation of Madoff. The SEC was continually provided with information during an eight year period, including a detailed memo setting forth 29 "red flags" of how Madoff had to be running a Ponzi Scheme, from a competitor. The SEC actually investigated Madoff Securities, found certain technical violations, and forced it to register as an investment advisor in 2006. No other penalty. It is now learned that Madoff was very close with several SEC officials as a Wall Street fixture; the former Chairman of the SEC occasionally turned to Madoff for advice as to how the market functioned; Madoff's niece, his firms compliance lawyer, married a former member of the SEC team that had inspected Madoff's market-making division's books in 2003 and Madoff also used multiple sets of books to fool regulators.

In closing, I would hope that the many examples learned from this Madoff scandal teaches numerous lessons to Trustees, Consultants and other fiduciaries who are responsible for investing pension funds. I would also like to thank the Litigation Law Firm of Wolf Popper LLC of New York City for the information provided for this article.

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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