



# PENSION ADVISOR

POLICEMEN'S ANNUITY & BENEFIT FUND OF CHICAGO

Dec 2011/Jan 2012, No. 46

## Happy New Year

*Don't be afraid to make a mistake, your readers might like it. ~William Randolph Hearst*

### TRUSTEE ELECTION RESULTS

At the end of October 2011 a Trustee election was conducted for terms expiring for the positions of Sergeant Representative and Lieutenant and rank equivalent thereto Representative on the Retirement Board.

The results of that election were Lieutenant James Maloney ran unopposed and his term is renewed for the period December 1, 2011 through November 30, 2014. Sergeant Brian E. Wright ran against incumbent Sergeant Michael Lazzaro. The voting totals were:

Michael Lazzaro	213
Brian E. Wright	419

Sergeant Brian Wright shall serve as Trustee on the Retirement Board for a term of December 1, 2011 through November 30, 2014.

### RETIREMENT BOARD OFFICERS

At its regular December meeting the Trustees voted the officer positions on the Retirement Board. Kenneth A. Hauser was re-elected as Board President; Mr. Michael A. Conway was elected as Board Vice President; Lieutenant James P. Maloney was elected Recording Secretary. The trustees serve in their officer positions on the Retirement Board until the next regular December meeting of the Board.

### ANNUAL REPORT

The Annual Report for 2010 is now available on the Fund's website, along with other important financial information. Please visit [www.chipabf.org](http://www.chipabf.org), "Financial" tab for the most recent copies of Audited Financial Statements, the Comprehensive Annual Financial Report (CAFR), Actuarial Reports, and most recently, the Annual Report.

As the Fund works diligently to reduce administrative costs, the Annual Report will only be mailed to members upon specific request. If you would like a hard copy of the 2010 Annual Report or any future Annual Reports, please contact the Fund's offices and request that a hard copy be mailed to you.

### JANUARY PAYMENT DUE 01/31/2012

To assist you in your financial planning needs for 2012, 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 2012. After the 01/31/2012 payment, your net annuity payment should not change in 2012 unless you change your federal income tax deduction amount, your vision and dental coverages, 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 2012 to be dated January 31, 2012. 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, and born prior to 1/1/1955.



## FAQ'S: MONEY PURCHASE ANNUITY VS. A FORMULA ANNUITY

The Fund often receives inquiries regarding how Money Purchase Annuities are calculated and how they differ from Formula Annuities. The following is a list of frequently asked questions.

**Q:** How many years of service do I need in to order to retire?

*A: Generally, the word "retire" applies to members who have withdrawn from service having accrued a minimum of 20 years of service, becoming eligible for what is referred to as a "Formula Annuity."*

**Q:** What if I have more than 10 years of service, but less than 20? Am I still eligible to receive a monthly annuity?

*A: Yes, you would be eligible to receive what is referred to as a "Money Purchase Annuity."*

**Q:** How is the Formula Annuity calculated?

*A: The "Formula Annuity" is equal to 2.5% of the average salary for the 4 highest consecutive years of the last 10 years of service for each completed year of service or fraction thereof, not to exceed 75%.*

**Q:** If I have 19 years and 1 day of service, does that round up to 20 years of service, thereby making me eligible for the Formula Annuity?

*A: No. You must have completed 20 years of*

*service; after all lost time is taken into consideration before becoming eligible for a Formula Annuity\*.*

**Q:** How is the Money Purchase Annuity calculated?

*A: The amount of the annuity is determined by taking the sum of accumulated Age and Service contributions (7% out of your pensionable salary) plus 10% of the city Age and Service Contributions for each year or partial year of service in excess of 10. The sum of the contributions are divided by a factor at your date of retirement (or age 50 if you terminated prior to that time) and are then converted into an annuity.*

**Q:** Approximately how much more would I receive if I retired after accruing 20 years, versus 19 years 11 months?

*A: CURRENTLY, APPROXIMATELY \$2,000 PER MONTH (\$3,500 vs \$1,500) PAYABLE FOR LIFE. In addition, if you are only eligible to receive a Money Purchase Annuity, you will NOT be eligible for future cost of living annual increases. You will, however, receive a refund of the amounts contributed for that purpose, which were 1/2% of your total pensionable earnings, without interest, contributed during your period of employment.*

**Q:\*** What if I am being mandatorily retired and have between 10 and 20 years of service?

*A: You are guaranteed a minimum of 30% of average salary for the 4 highest consecutive years of the last 10 years of service, plus 2% for each completed year of service or fraction thereof in excess of 10, not to exceed 48% of average salary.*

*Note: service, as listed above is always calculated after any reductions for lost time. Any lost time you incurred prior to January 1, 1993 may NOT be reflected in your current service. Prior to that date, service and contributions were reported on paper or microfilm records.*

If you are contemplating retirement within the next 90 days, please request that a manual review of your lost time be performed, BEFORE you submit your PAR form to the

Department on the CLEAR system. Once you submit your CLEAR form, you MAY not be able to rescind your retirement.

Please remember –as previously noted, if you fail to satisfy the service requirement by as little as 1 day, your benefit amount may be \$2,000/month lower than you anticipated. These circumstances may be the result of timing your retirement date too close to your anniversary date, only to find you incurred lost time that was not previously reflected in your service history. We recommend, at a minimum, that you work at least one full pay period past your anniversary date.

If you have any questions regarding your lost time, please contact our office.

## TRUSTEES' CORNER

**By Lieutenant Jim Maloney**

**I wish everyone a healthy and prosperous 2012.**

I would like to congratulate our new Trustee, Sgt. Brian Wright, we all look forward to working together. I would also like to thank Sgt. Mike Lazzaro for his many years of service as a Trustee on the Pension Board.

It was another busy year for the staff of the Pension Fund. I would like to thank them for their service to all retirees and for answering all the incoming questions.

Chicago Police retirees for 2011 were 475, for 2010 the total was 553, for 2009 the total was 262. There should be another significant amount of retirees for 2012, I wish you all the best.

Remember to keep in contact with your elected officials and check your association's web sites. The spring legislative session is just around the corner, we all need to keep abreast of what is happening in Springfield.

Thank you for your support.



**By Sgt. Brian E. Wright, Trustee**

**Thank You and Hello**

I am grateful for the opportunity I have been given to serve in the important role of Sergeants' Trustee to the Pension Board. So, I say thank you to my fellow sergeants for choosing me. Let me introduce myself to those who did not receive my campaign flier or e-mails. My name is Brian Wright and I have been on the job for thirteen years. I am currently a Sergeant assigned to the 24th District (21st District soon?). I worked as a Patrolman in the 25th District from May 1999 until February 2007 when I was promoted to Detective. I worked as a Detective in Area 5 SVU from May 2007 through September 2010 when I was promoted to Sergeant. Both of my promotions have been by test, so I am not beholden to anyone on this job.

I come from a police family; my mother and step-father have a combined 55 years of CPD experience. Both of my parents are retired and enjoying their pensions. So I represent them on this Board as well. I am married with three children and reside on the Northwest Side of the City. I have at least 17 years left before retirement and am extremely concerned about the pension situation and am highly motivated to keep the pension benefits that all of us work so hard to earn. I have been a licensed attorney in the State of Illinois for the past six years. I believe my education and experience give me the ability to achieve our collective goals and ask you to help me with this task by giving your support when asked.

**A few updates:**

1. Public Act 97-0651 was passed by the Governor and amends section 214(b) of the Pension Code. This change establishes a requirement that an officer must be on an approved leave of absence from the department to be allowed permission by the board to pay into the pension while on that leave. The average salary shall be based upon the regular salary rate received immediately prior to that leave of absence. This eliminates the ability to increase your pension by receiving a higher salary by an entity outside the depart-

ment such as a union. To my knowledge, the Sergeants' union has never attempted to get increased pension benefits for its Board members.

2. The Department has made it harder to remain on the job if you are injured. The Department issued "Employee Resource E03-01-03" which eliminates "convalescent duty" and replaces it with the "Sworn Limited Duty Program." Please read the order to see the parameters that will be required to participate in the program. And after reading the "eligibility requirements" please contact me with your concerns. This is just another attempt by the City to take injured officers off of their payroll and place them on disability, thus saving them money and further taxing our pension fund.



**By P.O. Michael Shields**

### **Non-IOD Limited Duty**

The Department recently enacted a new policy regarding non-IOD Limited Duty, effective January 1, 2012. Employee Resource E03-01-03 limits the time span that an officer can be on non-IOD limited duty to 365 days, beginning January 1, 2012. Once the 365 days expire, the officer must either return to full duty status or go on the medical roll. Once the medical roll time runs out, officers will then be required to file for ordinary disability, which awards 50% disability benefits without health insurance.

As a trustee, I am concerned that Department leaders may have overlooked the alarming potential for a rush to the gates of the Pension Board to file for ordinary disability. In two years, there may well be a large amount of officers who file for ordinary disability. Once again, the City of Chicago, our

pension plan's sponsor, would rather see a medically restricted employee file for disability than remain on the City's payroll. The Fraternal Order of Police has filed a grievance challenging the City's new directive. The FOP will arbitrate all outstanding light duty issues as soon as the City agrees to a hearing date.

### **Spring Legislative Session**

Chicago Police Officers have been given a promise of a pension in return for their service. There are many politicians that are pushing the Illinois Legislature for "reform" that would diminish or reduce what was promised. I strongly urge every participant of this plan to contact your State Representative and State Senator. Let each one know that you have served honorably as a Chicago Police Officer and were promised pension benefits upon retirement.

The next statewide election is set for March 20, 2012. Many anticipate that very little pension discussion will occur prior to that date. Immediately following the election, please make your voices heard with telephone calls to the Reps. If there is a vote on any pension reform, it will happen quickly, so make your phone calls well in advance. I credit the many phone calls made to the Legislature in 2011 with stopping SB 512 and HB 3827, and I feel confident that our calls can stop any other legislation that will negatively affect our plan participants. Thus, I urge all participants to monitor the FOP website, [www.chicagofop.org](http://www.chicagofop.org), for any pending legislation that we must battle.

### **Pension Board Meeting Dates**

The Pension Board meeting dates for the next three months are January 26th, February 28th and March 29th at 9:00 a.m. All participants should attend at least one meeting in a fiscal year.



**By Annuitant Trustee, Ken Hauser,  
President**

The past year was one packed with market surprises: cultural revolutions, earthquakes and tsunamis, ratings downgrades of major economies and extraordinary political events, all contributing to extreme market volatility. Our pension fund has experienced how volatile the global investment markets really were this year. At the end of August our Fund had an approximate investment return of 12% and at the year's end, we only had a 1.2% return on our investments. There is much discussion by investment professionals and investors in the public sector who have become skeptical of the traditional approaches to investing in domestic equities and fixed income. Sticking with the given asset allocations and specialized managers has proven painful over the past four years. Everywhere one turns you hear consultants, trustees, executive directors, actuaries, accountants and many managers advising public sector funds to invest in "Alternatives."

The traditional asset classes are: U.S. (domestic) equities such as large, small, and mid-cap equities; Non U.S. (international) equities such as European, Japanese or Canadian stocks; emerging equities; Fixed Income bonds such as treasuries, agencies, municipal bonds, core bonds, core+ bonds and high yield bonds; "Cash" are T. bills, money market accounts and Certificates of Deposit.

The alternative asset classes are: private equity, real estate, infrastructure, hedge funds, currencies, timber, farmland and global tactical asset allocation funds (GTAA) which is a strategic allocation that includes mutual funds with a timing strategy. The Pension Fund recently allocated \$270 million to this strategy.

Is there a question? Probably many. Should your fund invest with managers who use "alternative asset classes" and how much should be allocated? As with any such decisions, the key turns on considerations of risk and return, and how the past performance of the product correlates with the goals and risk

characteristics of the overall portfolio. The starting point is to look beneath the labels. For example, whenever you hear or read the term "alternative investing", the first question to ask is whether the focus is on alternative Asset Classes (in which case one can use historical benchmark data on risk and return). If however, the focus is on "alternative strategies," the performance depends on the skill of the particular manager because in many cases there are no meaningful benchmarks.

The Fund Trustees are advised that they should invest in alternatives because there is a greater possibility for a better return on investments than with equities and fixed income. If all the public funds listen to the advice of their consultants and move a large percentage of their equities, fixed income (bonds) and cash into the alternative basket, what happens if that asset class falls out of favor in three years? I assume the Funds will wind up just like we did in 2008, when all the Funds were conservatively invested in traditional equities and fixed income. The Funds can give it a chance and hope for the best. Our main objective is to get higher than the 8% actuarial assumption.



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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Comptroller

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

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

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

**RETIREMENT BOARD**

**Kenneth Hauser**, President  
(Elected Member)

**Michael A. Conway**, Vice  
President (Appointed Member)

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

**Amer Ahmad**, Trustee,  
City Comptroller  
(Appointed Member)

**Stephanie D. Neely**, Trustee  
City Treasurer,  
(Appointed Member)

**Michael K. Shields**, Trustee  
(Elected Member)

**Lois A. Scott**, Trustee  
City Chief Financial Officer  
(Appointed Member)

**Brian E. Wright**, Trustee  
(Elected Member)