

THE RETIREMENT BOARD
of the
FIREMEN'S ANNUITY AND BENEFIT FUND
OF CHICAGO

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February 4, 2016

Thomas E. Ryan, Jr.
President
Chicago Fire Fighters Union Local 2
440 W. 43rd Street
Chicago, IL 60609

Re: Solvency of the Firemen's Annuity and Benefit Fund of Chicago (the "Fund")

Dear Mr. Ryan:

At a recent meeting of the Board of Trustees of the Fund, the Fund's investment consultant stated that the uncertainty of the Fund's funding with the current cash flow requirements is unsustainable and of great concern for the solvency of the Fund. As of December 31, 2014, the Fund has a funded ratio of 23%. The Fund anticipates that it will have an operating cash flow deficit in excess of 10% of its total assets through December 2016. This percentage will continue to grow through 2020 without a funding mechanism that provides long-term solvency.

In December 2010, the Illinois General Assembly passed and Governor Quinn signed into legislation Public Act 96-1495. Public Act 96-1495 significantly changed the employer contributions required of the City of Chicago (the "City") to the Fund, as the plan sponsor. The statutory funding schedule under Public Act 96-1495 requires the City to increase its funding beginning in 2016 and requires the City to pay an actuarially required contribution every year over the next twenty-five years in order to get the Fund at a 90% funding level by 2040. In May 2015, the Illinois House introduced House Floor Amendment #4 to Senate Bill 777 which defers certain City pension obligations and puts the City on a longer funding plan with a five-year schedule of steadily increasing payments (often referred to as the "Ramp to the ARC") for a total forty-year funding plan. Senate Bill 777 was passed by the Illinois General Assembly in May 2015 but was put in a procedural "pause" following Senate President John Cullerton's Motion to Reconsider the vote. As such, the Fund is currently making its investment and administrative decisions based on its understanding that the funding mechanism provided in Public Act 96-1495 remains the law during the pending status of Senate Bill 777.

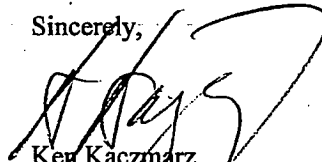
Public Act 96-1495 specifically requires the City to levy an annual tax upon all taxable property that will produce an annual amount that is equal to the normal cost to the Fund plus an annual amount sufficient to bring the total assets of the Fund up to 90% of the total actuarial liabilities of the Fund by 2040. It is our understanding that the City of Chicago has not levied an annual tax in 2015 in an amount equal to that prescribed by Public Act 96-1495. As stated within the Illinois Pension Code, eligible members are entitled to receive a monthly annuity for life. With the current uncertainty in funding from the City, the Fund lacks confidence in its long-term solvency.

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The Illinois Supreme Court in *People ex rel. Sklodowski v. State*, 182 Ill. 2d 220, 228-29 (1998), held that the pension protection clause “served to eliminate any uncertainty as to whether state and local governments were obligated to pay pension benefits to the employees,” and its “plain language” not only makes participation in a public pension plan an enforceable contractual relationship, but also “demands that the ‘benefits’ of that relationship ‘shall not be diminished or impaired.’” The Illinois Supreme Court has also held, and most recently affirmed in *In Re Pension Reform Litigation*, that although the specific mechanisms of funding are left to the other branches of government to work out, a direct action could be brought by pension system members to compel funding if a pension fund were “on the verge of default or imminent bankruptcy.” *In re Pension Reform Litig.*, 2015 IL 118585, 32 N.E. 2d 1, 8; *Sklodowski*, 182 Ill. 2d at 232-33. The Fund believes the current uncertainty regarding funding from the City has created a situation in which Local 2 leaders should discuss a possible direct action being brought by pension system members to compel adequate funding of the Fund.

We thank you and your members for your past and future support of the Fund. The Fund cannot stress more that all stakeholders, including Local 2, must work together to ensure that the Fund receives proper funding to protect the benefits of participants and the long-term solvency of the Fund. Please note that the Fund has sent similar letters to the Office of the Governor, the Speaker of the House, the President of the Senate, the Officer of the Comptroller and the Mayor of the City of Chicago. We urge you to communicate with local stakeholders to address this important funding issue. The Fund stands ready and able to provide any and all information necessary to assist in ensuring that the long-term solvency of the Fund is achieved.

Sincerely,



Ken Kaczmarz
Executive Director

On behalf of the Board of Trustees of the
Firemen's Annuity and Benefit Fund of
Chicago