



Fall 2022

REPORT TO PARTICIPANTS

ABOUT THE FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

The FABF Fund office is open Monday through Friday 8:00 AM to 4:00 PM excluding holidays. Members and guests are welcome.

Monthly Retirement Board meetings are typically held on the third Wednesday of each month, 8:30 AM at the Fund office. Members and the public are welcome to attend.

Fall elections are underway for one Active Member Trustee and one Annuitant Member Trustee.

Please exercise your right to vote.

ELECTED TRUSTEES

DANIEL A. FORTUNA
Annuitant Trustee, President

WILLIAM B. MURPHY
Active Trustee, Secretary

ROBERT TEBBENS
Active Trustee

ANTHONY MARTIN
Active Trustee

EX-OFFICIO TRUSTEES

ANNA VALENCIA
City Clerk, Vice-President

MELISSA CONYEARS-ERVIN
City Treasurer

RESHMA SONI
City Comptroller

MARY SHERIDAN
First Deputy Fire Commissioner

A MESSAGE FROM THE FUND PRESIDENT:

It has been over 30 months since the world took unprecedented actions to remediate the effects of COVID-19. The Fund Office closed in March of 2020 as staff and the Retirement Board adapted to the mandated shelter-in-place order. Staff returned to in-office July of 2020, and the Fund Office was re-opened to members and guests July of 2021.

Staff rose to the challenge of maintaining the critical functions of benefit disbursement, creating a virtual format for member counseling, a virtual application process, and coordinating virtual Retirement Board meetings. No regular meeting was canceled during this emergency, a testament to the Fund's commitment and mission of retirement security for our members.

With the long-awaited final approval of a Chicago Casino and the shift to actuarial determined employer contributions, we expect continued positive impact on future funding levels. Employer statutory required contributions booked for 2021 (anticipated in 2022) are expected to be \$368.4M, further increases are projected in 2022 and 2023. Employer contributions are projected by the actuary to exceed benefit payments, refunds, and expenses through 2026. This represents a meaningful improvement in employer funding since the passage of Public Act 99-0506 in 2016.

In addition, over the last few years the Legislature passed other bills that impacted the Fund and its members. A few warrant highlighting: Public Act 102-0084 provides that the minimum widow's annuity shall be no less than 150% (rather than 125%) of the Federal Poverty Level. Public Act 102-0091 provides for Occupation Disease recognition in retirement under certain conditions, and Public Act 101-0673 eliminated the birthday requirement for Tier One 3% non-compounded COLAs. Please let staff or me know if you have questions regarding these legislative changes.

As spokesperson for the Board, I want to recognize the efforts of staff, our support professionals, and my fellow Board members, past and present, for their dedication and commitment during this challenging period. Our appreciation to all for a job well done!

Fraternally,

Daniel Fortuna

President and Annuitant Member Trustee

FUND OPERATIONS UPDATE FROM THE SECRETARY:

As the President points out, the last few years have created operational challenges. It is the Secretary's responsibility to act as the Board's liaison regarding operations and staffing. As such, I also want to offer my appreciation for the commitment to maintaining uninterrupted Fund operations.

The Fund employs 16 full time professionals with 2 part-time available support positions. This fall we are working to add a Member Services and Special Projects Coordinator to enhance communication efforts with both active and retired members. This new role will seek to enhance member engagement through electronic media, strengthen our benefit verification process, and support ongoing cyber and member security efforts.

Our Fund supports the retirement security of approximately 10,154 members: 4,735 active, 154 inactive, and 5,265 retirees and beneficiaries. Noted in the Fund Summary for 2021, there were 190 service retirements, 4 ordinary disabilities, 3 occupational disabilities, 25 duty disabilities, and 74 beneficiary annuities granted.

FUND OPERATIONS UPDATE FROM THE SECRETARY (CONTINUED):

Legacy Professional, LLP, completed their annual audit of our financial records, and the results were reviewed and accepted at the June Board meeting. The Fund's actuary, Segal, completed their Actuarial Valuation Report for 2021 and the results were also reviewed and accepted at the June Board meeting. A brief overview of both will follow in this update.

Improvements are underway to existing information technology platforms which will allow the Fund to continue its transition from a desktop application environment to web and cloud-based accessibility. Consultants, programmers, and support professionals have been actively engaged to integrate and deploy new technology, as well as to facilitate a member access portal through our fabf.org website. We are making the investment, but change requires infrastructure upgrades in both our database and benefit administration applications and will occur over subsequent budget cycles.

As your Board Secretary, I and Fund staff are available to address questions or concerns you may have on operations or any future member service enhancements you would like considered.

Fraternally,

William Murphy

Secretary and Active Member Trustee

FIDUCIARY NET POSITION

The Fiduciary Net Position equals a year-end snapshot of the difference between Fund total assets over total liabilities at December 31. The fiduciary net position represents the assets available for future payments to retirees, disability recipients, and their beneficiaries.

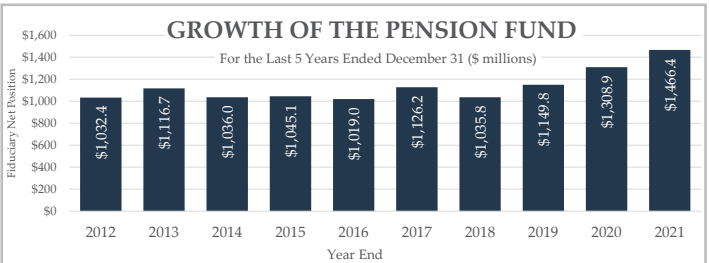
As of December 31, 2021, FABF has approximately \$1.47 billion to pay future pension benefits. Investments, at 68.5% of total assets, and employer contributions, at 23.9% of total assets, make up the largest portion of net position. The Fund's net position increased 12.0% from 2020 to 2021, which was primarily due to FABF's diverse investment strategy producing positive investment performance. Also, 2021 was the first year for the Fund to begin receiving the City's required funding contribution based on actuarial basis sufficient to produce a funding level of 90% by December 31, 2055. Due to this change, the City of Chicago's tax levy received by the Fund increased from \$246.9 million in 2020 to \$372.8 million in 2021, a 51% increase. 2021 is the first year that FABF collected enough money from employee and City of Chicago contributions to pay for all benefit payments for that year.

The Changes in Net Fiduciary Net Position presents the results of Fund Operations for a given year.

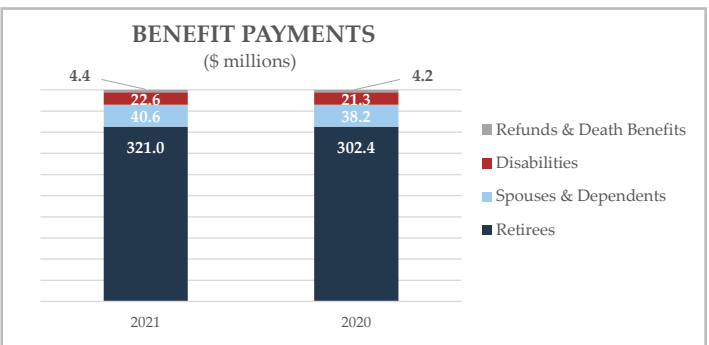
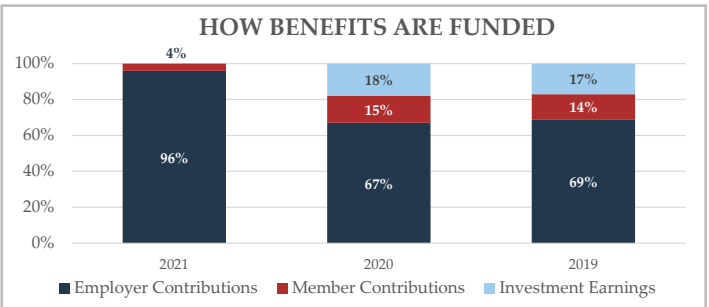
- During 2021, the Fund's total additions (revenues) of \$550.1 million was principally comprised of investment income and the City of Chicago and active member contributions. Compared to fiscal year 2020's total addition of \$529.2 million, there was an increase of \$20.9 million mainly achieved through higher investment returns and FABF contributions were able to pay benefits. In 2021, FABF had a surplus of almost \$20 million in contributions that was able to be invested compared to over \$65 million that was taken from investments in 2020 to cover benefit payments.
- Fund deductions (expenditures) totaling \$392.6 million were primarily payments to members and beneficiaries. Nearly 99 cents of every dollar spent is used to pay benefits. Total deductions increased \$22.5 million from 2020 to 2021 due to the retirement benefit payments. The increase in retiree benefits is due to several factors; Public Act 101-0673 was approved for Tier 1 firefighters born after January 1, 1986, changed the age of first increase to 55 and the cost of living increase to 3%, retroactive payments were paid on the newly ratified contract, cost of living increases, and new annuitants coming on the pension roll at higher rates than the annuitants that are being removed from the pension roll.

CONDENSED SCHEDULES OF FIDUCIARY NET POSITION (\$ millions)

	2021	2020	2019
Total assets	\$1,584.3	\$1,391.7	\$1,236.8
Total liabilities	117.9	82.8	87.0
Ending fiduciary net position	\$ 1,466.4	\$1,308.9	\$1,1149.8



Size of the Fund in 2021: **\$1,466.4 Million** ↑ **42% in 10 Years**



Source for Charts: The Segal Group, Inc. Actuarial Valuation and Review as of December 31, 2021

FUNDING

One measure of the health of a pension fund is its funded ratio, which represents the Fund's assets available as a percentage of the benefits that must be paid. Funding a pension fund is a long-term commitment, and it's important to keep in mind that all benefits are not due and payable immediately. Future benefit payments owed to current and future retirees, disabled recipients, and beneficiaries are estimated and referred to as the actuarial accrued liability. The funds accumulated to meet these future benefit payments are called actuarial value of assets.

FABF has an independent actuary annually perform a valuation to determine the funded ratio, accrued liability, actuarial value of assets, and required employer contributions defined under Public Act 99-0506. May 30, 2016, P.A. 99-0506 changed the City of Chicago's required contribution and funding policy for FABF. P.A. 99-0506 significantly increased the revenue that FABF receives in employer contributions. Beginning in 2021, P.A. 99-0506 required the employer contributions to be actuarially determined resulting in an increase in employer contributions received by the Fund of nearly 51%.

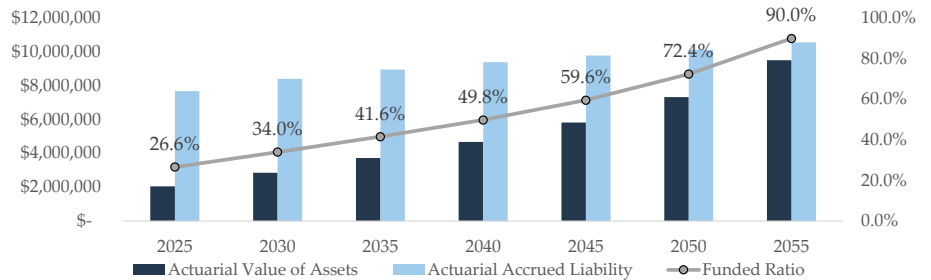
Despite the increases in contributions, the funded ratio, 21.0%, for FABF in 2021 continues to be low because the Fund has not been funded on an actuarially sound basis since its inception in 1931. Public Act 99-0506's plan will slowly increase employer contributions as well as the funded ratio until the Fund reaches its target of 90% funded by 2055. Funding has been and will continue to be a critical issue confronted by the Fund for many years to come.

CONDENSED SCHEDULES OF CHANGES FIDUCIARY IN NET POSITION (\$ millions)

	2021	2020	2019
Additions:			
Employer contributions	\$368.3	\$369.5	\$256.0
Member contributions	52.3	54.4	46.6
Net investment income	129.3	105.0	160.6
Other income	0.2	0.3	1.0
Total additions	550.1	529.2	464.2
Deductions:			
Benefit payments	388.6	366.1	346.4
Administrative expenses	3.1	2.9	3.2
Healthcare subsidy and other expenses	0.9	1.1	0.6
Total deductions	392.6	370.1	350.2
Net increase in fiduciary net position	157.5	159.1	114.0
Beginning of year	1,308.9	1,149.8	1,035.8
End of year	\$1,466.4	\$1,308.9	\$1,149.8

Employer contributions are presented on an accrual basis therefore the amount reflected above in 2021 will be received by FABF in 2022

P.A. 99-0506 PROJECTED FUNDED RATIO



FUNDED RATIO (\$ millions)

	2021	2020	2019
Actuarial Value of Assets	\$1,409.8	\$1,275.9	\$1,137.1
Actuarial Accrued Liability	\$7,004.9	\$6,570.5	\$6,256.1
Funded Ratio	20.1%	19.4%	18.2%

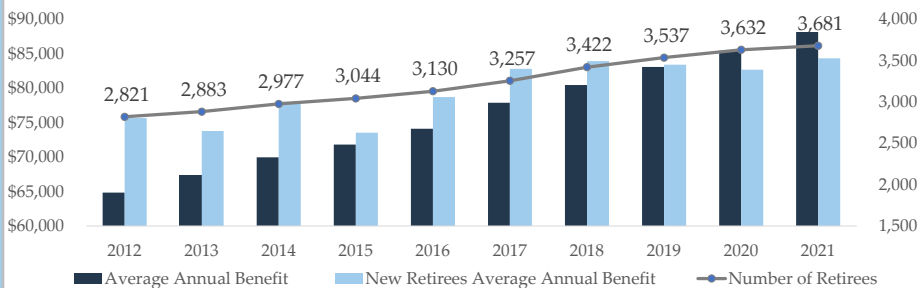
Source: The Segal Group, Inc. Actuarial Valuation and Review as of December 31, 2021

MEMBERSHIP AT A GLANCE

CHANGE IN THE NUMBER OF RETIREES AND BENEFICIARIES BY TYPE OVER THE LAST DECADE

	Retiree	Spouse	Disability	Dependent	Total
2022	3,681	1,221	288	75	5,265
2021	2,821	1,358	350	84	4,613
Increase (Decrease)	860	(137)	(62)	(9)	652
% Increase (Decrease)	30.5%	(10.1%)	(17.7%)	(10.7%)	14.1%

AVERAGE EMPLOYEE RETIREMENT BENEFITS



THE AVERAGE ACTIVE MEMBER:

- Is presently 44.0 years old
- Has 13.1 years of service
- Receives a salary of \$109,830

THE AVERAGE RETIREE WHO RETIRED IN 2021:

- Is presently 59.5 years old
- Receives an annual benefit of \$84,346
- Earned a final average salary of \$134,899

THE AVERAGE RETIREE:

- Is presently 69.2 years old
- Receives an annual benefit of \$88,157
- Lives in Illinois

2021 MEMBERS

Total Membership	10,154
Active Members	4,735
Beneficiaries	5,265
Inactive Members	154

Source: The Segal Group, Inc. Actuarial Valuation and Review as of December 31, 2021



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Firemen's Annuity & Benefit Fund of Chicago**
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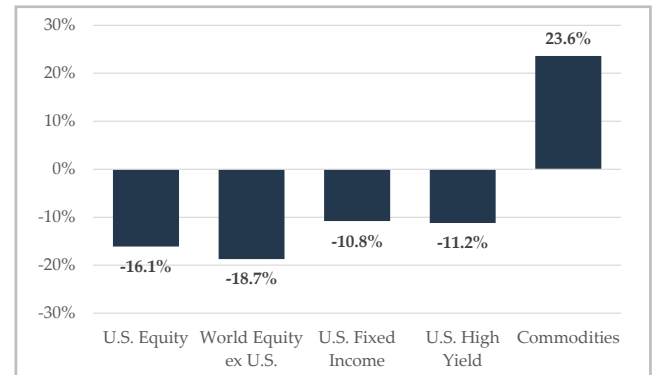
INVESTMENT REVIEW – YTD AS OF AUGUST 31, 2022 – COMMENTS FROM ANTHONY MARTIN INVESTMENT CHAIR

Following positive performance in 2021 (the Fund rose 14.2%), 2022 has been a year marked by general uncertainty in many different areas, leading to negative returns across the asset classes, except for commodities, as illustrated to the right.

Investors have faced, and are continuing to face, uncertainty around inflation and ongoing supply chain issues, the aftereffects of the global pandemic, all of which were further exacerbated by Russia's invasion of Ukraine in late February. As the Russia-Ukraine conflict continued, energy prices have skyrocketed, supporting strong investment returns in commodities, but further stoking inflation. To combat inflation, central banks around the world began raising interest rates, a path that has investors worried as higher interest rates would slow economic growth, possibly leading to a recession. Financial markets will remain turbulent as investors grapple with the uncertainty around the path of interest rates, continued inflationary pressures, and geopolitical turmoil.

Against this backdrop, the Fund was down -13.7%, behind the Policy target which declined -12.5%. The Policy target is the long-term mix of assets that targets the highest return possible while incorporating risk, Fund liquidity needs, and funding legislation. Most of the Fund's underperformance versus the Policy target can be explained by the allocation to growth stocks within the U.S. and International Equity investments of the Fund. Returns remain favorable versus the Policy target over the longer term, with the Fund returning +8.0% vs. +7.5% over the ten-year period.

In addition to monitoring performance, the Board is focused on future returns and remains active in identifying potential opportunities. Following education sessions and an asset allocation review conducted by its investment consultant, Callan, the Board launched two investment searches in 2022, one for core infrastructure and one for private credit. Both searches attracted many responses. From these responses, the Board identified five managers to add to the current investment manager roster. With the addition of these managers, the Board is increasing diversification of the Fund, with the ultimate goal of improving Fund performance and reducing volatility. The Board expects to fund those new managers in 2023.



Year-to-date returns as of 8/31/2022. Index returns: U.S. Equity - S&P500; World Equity ex U.S. - MSCI ACWI ex US IMI net; U.S. Fixed Income - BB US Aggregate; U.S. High Yield - BB US Corp HY; Commodities - BB Commodity Index