LABORERS' AND RETIREMENT BOARD EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO
A COMPONENT UNIT OF THE CITY OF CHICAGO

FINANCIAL STATEMENTS

DECEMBER 31, 2012

LABORERS' AND RETIREMENT BOARD EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION

DECEMBER 31, 2012 AND 2011

CONTENTS

	PAGE
Report of Independent Auditors	1
Statements of Plan Net Position	3
Statements of Changes in Plan Net Position	4
Notes to Financial Statements	5
Required Supplementary Information	
Schedule of Funding Progress for GASB 25	32
Schedule of Employer Contributions	32
Schedule of Funding Progress of OPEB Liabilities for City Retirees	33
Schedule of Employer Contributions of OPEB Liabilities for City Retirees	33
Schedule of Funding Progress of OPEB Liabilities for LABF as Employer	33
Schedule of Employer Contributions of OPEB Liabilities for LABF as Employer	33
Notes to Schedule of Funding Progress and Schedule of Employer Contributions for GASB 25	34
Notes to Schedule of Funding Progress and Schedule of Employer Contributions of OPEB Liabilities	35
Supplemental Information	
Schedules of Invested Assets	37
Performance Summary - Fair Value Returns	38

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of
Laborers' and Retirement Board Employees'
Annuity and Benefit Fund of Chicago

Report on the Financial Statements

We have audited the accompanying statements of plan net position of Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (the Plan) as of December 31, 2012 and 2011, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago at December 31, 2012 and 2011, and the changes in financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress and the Schedule of Employer Contributions, and Notes to the Schedules on pages 32 through 36 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago's basic financial statements. The supplementary information such as the Schedules of Invested Assets Cost and Fair Value and Performance Summary Fair Value Returns are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information on pages 37 and 38 has not been subjected to the auditing procedures applied in the audits of the basic financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

Calibre CPA Group, PLLC

Chicago, Illinois
April 15, 2013

Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago

Statements of Plan Net Position

December 31, 2012 and 2011

	2012	2011
Assets		
Receivables		
Employer	$ 14,905,875	$ 15,635,039
Plan member	597,791	1,248,862
Interest and dividends	2,131,351	2,481,493
Other receivables	15,149	10,399
Total receivables	17,650,166	19,375,793
Investments - at fair value		
Cash and short-term investments	41,872,378	51,778,375
Equities	755,217,549	881,286,838
Fixed income	270,591,752	240,358,591
Private equity	45,730,173	46,943,283
Real estate	39,159,549	37,705,952
Hedge funds	85,299,187	54,310,119
Global asset allocation funds	129,596,815	-
Subtotal	1,367,467,403	1,312,383,158
Securities lending cash collateral	169,286,689	169,013,638
Total investments - fair value	1,536,754,092	1,481,396,796
Property and Equipment	1,179,777	1,751,204
Total assets	1,555,584,035	1,502,523,793
Deferred Outflows		
Accumulated decrease in fair value of hedging derivatives	300,510	8
Liabilities and Net Position		
Liabilities		
Due to brokers - net	9,818,051	14,080,326
Forward currency contracts	300,510	8
Refunds, professional fees payable and other liabilities	3,741,865	4,537,749
OPEB liability	1,660,384	1,288,441
Securities lending cash collateral	169,286,689	169,013,638
Total liabilities	184,807,499	188,920,162
Net position - restricted for pension benefits	$ 1,371,077,046	$ 1,313,603,639

See accompanying notes to financial statements.

Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago

Statements of Changes in Plan Net Position

Years Ended December 31, 2012 and 2011

	2012	2011
Additions		
Contributions		
Employer	$ 14,414,835	$ 15,358,602
Plan member	16,559,017	16,068,655
Total contributions	30,973,852	31,427,257
Investment income		
Net appreciation (depreciation) in fair value of investments	154,082,774	(24,681,491)
Interest	7,027,021	7,894,044
Dividends	16,176,098	14,658,060
Private equity income - net	521,720	2,052,059
Real estate operating income - net	1,612,467	1,281,213
Hedge fund income - net	919,775	1,796,010
Global asset allocation fund income - net	1,177,765	-
	181,517,620	2,999,895
Less investment expenses	(8,908,746)	(8,104,755)
Investment income (loss) - net	172,608,874	(5,104,860)
Securities lending		
Income	415,897	452,275
Lender (borrower) rebates	585,191	250,736
Management fees	(149,886)	(108,866)
Securities lending income - net	851,202	594,145
Total additions	204,433,928	26,916,542
Deductions		
Benefits	139,620,042	133,463,852
Refunds	2,594,960	3,068,902
Administrative and OPEB expenses	4,745,519	3,994,324
Total deductions	146,960,521	140,527,078
Net increase (decrease)	57,473,407	(113,610,536)
Net position - restricted for pension benefits		
Beginning of year	1,313,603,639	1,427,214,175
End of year	$ 1,371,077,046	$ 1,313,603,639

See accompanying notes to financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago is administered in accordance with Chapter 40, Act 5, Article 11 of the Illinois Compiled Statutes. The costs of administering the Plan are financed by employer contributions in conformance with state statutes.

Method of Accounting - The financial statements reflect an accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer, the City of Chicago, has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments - Investments are reported at fair value which generally represents reported market value as of the last business day of the year. Quoted market prices, when available, have been used to value investments. For equities, fair value is determined by using the closing price listed on the national securities exchanges as of December 31. Fair value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. Cash and short-term investments are valued at fair value which approximates cost. Global asset allocation funds and alternative investments, which include real estate, private equity investments and hedge funds, are valued using current estimates of fair value from the investment manager. Such valuations consider variables such as cash flow analysis, recent sales prices of investments, comparison of comparable companies' earnings multiples, withdrawal restrictions, annual audits, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from the values that would have been used had a ready market existed. The reported values of real estate and private equity are current values unless that information was unavailable in which case the reported value will lag one quarter behind the date of these financial statements. The difference between the current value and the lag has been evaluated and determined not to be material.

Unsettled trades as of the end of the year are recorded net as due to broker. At December 31, 2012 and 2011, $12,542,137 and $15,467,454, respectively, were due to broker and $2,724,086 and $1,387,128, respectively, were due from broker for unsettled trades.

Property and Equipment - Property and equipment are carried at cost. Major additions are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed by using the straight line method over an estimated useful life of five years, except for the custom software package development which is depreciated over 10 years.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Administrative Expenses - Administrative expenses are budgeted and approved by the Plan's Board of Trustees. Funding for these expenses is included in the employer contributions as mandated in Chapter 40, Act 5, Article 11 of the Illinois Compiled Statutes.

Subsequent Events Review - Subsequent events have been evaluated through April 15, 2013, which is the date the financial statements were available to be issued. This review and evaluation revealed no new material event or transaction which would require an additional adjustment to or disclosure in the accompanying financial statements.

Reclassifications - Certain reclassifications have been made to prior year amounts to conform to the presentation for the current year. These reclassifications did not change the total net position - restricted for pension benefits or the changes in net position from the totals previously reported.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

New Accounting Pronouncements - GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* was adopted during the year ended December 31, 2012. This statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position. The Plan's deferred outflows have been reflected on the Statements of Plan Net Position.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* was adopted during the year ended December 31, 2011. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement has no impact on the Plan's financial statements.

GASB Statement No. 59, *Financial Instruments Omnibus*, was adopted during the year ended December 31, 2011. This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement has no impact on the Plan's financial statements.

The Plan was established in 1935 and is governed by legislation contained in Illinois Compiled Statutes, particularly Chapter 40, Act 5, Article 11 which specifically and exclusively refers to the Plan. The Plan can be amended only by the Illinois Legislature. The Plan is a single-employer defined benefit pension plan with a defined contribution minimum. The Plan was created for the purpose of providing retirement and disability benefits for employees of the City of Chicago (City) who are employed in a title recognized by the city as labor service and for the dependents of such employees.

NOTE 2. PLAN DESCRIPTION

The Statutes authorize a Board of Trustees of eight members to carry out the provisions of the Article. According to the Article, two members of the Board are ex officio, two are to be elected by the employee members of the Plan, one is to be elected by the retired members of the Plan, one is to be appointed by the local labor union and two are to be appointed by the Department of Human Resources (formerly the Department of Personnel). The two ex officio members are the City Comptroller or someone chosen from the Comptroller's office and the City Treasurer or someone chosen from the Treasurer's office. All members of the Board of Trustees are fiduciaries with respect to the Plan and are statutorily mandated to discharge their duties, as such, solely in the interest of the Plan's participants and beneficiaries.

The Board has the powers and duties required in the Article to collect all contributions due to the Plan, to invest the Plan's reserves, to have an annual audit, to appoint employees, to authorize or suspend payment of any benefit and to have exclusive original jurisdiction in all matters relating to or affecting the Plan. The Board approves its own budget which is prepared by the administrative staff of the Plan. The Board is required annually to submit to the City Council of the City of Chicago a detailed report of the financial affairs and status of the reserves of the Plan. Provisions in other articles of Chapter 40 require the Board to submit its annual audit and actuarial valuation reports to the State of Illinois Department of Financial and Professional Regulation's (IDFPR) Division of Insurance, as well as another detailed annual report, the form and content of which is specified by the IDFPR's Division of Insurance.

Any employee of the City of Chicago or the Board of Education of the City employed under the provisions of the municipal personnel ordinance as labor service or any person employed by a retirement board of any annuity and benefit fund in the City is covered by the Plan. Covered employees are required to contribute 8.5% of their salary to the Plan. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest. The City of Chicago, for its employer's portion, is required by State Statutes to contribute an amount equal to 8% of each individual employee's salary as well as the remaining amounts necessary to finance the requirements of the Plan. The City's total contribution is limited to an amount not more than the total amount of contributions made by the employees to the Plan in the calendar year two years prior to the current year, multiplied by 1.00. The source of funds for the City's contribution has been designated by State Statutes and is derived from the City's annual property tax levy, or from any source legally available for this purpose, including but not limited to, the proceeds of city borrowings. The City of Chicago payroll for employees covered by the Plan for the years ended December 31, 2012 and 2011 was $198,789,741 and $195,238,332, respectively. The Plan is considered by the City to be a component unit of the City of Chicago and is included in the City's financial statements as a pension trust fund.

NOTE 2. PLAN DESCRIPTION (CONTINUED)

At December 31, 2012 and 2011, plan members consisted of the following:

	2012	2011
Retirees and beneficiaries currently receiving benefits	3,976	3,980
Inactive plan members entitled to benefits (or a rerund of contributions) but not yet receiving them	1,408	1,417
Active plan members (including plan members receiving disability benefits)		
Vested	2,226	2,304
Non-Vested	639	548
Total plan members	8,249	8,249

The Plan provides retirement benefits as well as death and disability benefits. In 2010, legislation (Public Act 96-0889) was approved which in effect established two distinct classes of membership with different retirement eligibility conditions and benefit provisions. For convenience, the Plan uses a tier concept to distinguish these groups:

Tier 1 – Employees who first became members prior to January 1, 2011
Tier 2 – Employees who first became members on or after January 1, 2011

Retirement Benefits:

Tier 1: Employees age 55 or more with at least 10 years of service are entitled to receive a money purchase annuity with partial City contributions if under age 60 with less than 20 years of service. Employees age 55 or more with at least 20 years of service or age 50 or more with at least 30 years of service are entitled to receive a minimum formula annuity of 2.4% per year of service, multiplied by the final average salary. Final average salary is calculated using salary from the highest four consecutive years within the last 10 years of service preceding retirement. If the employee retires prior to age 60, the annuity shall be reduced by ¼ of 1% for each month the employee is under age 60, unless the employee is 50 or over with at least 30 year of service or 55 or over with at least 25 years of service. The original annuity is limited to 80% of the highest average annual salary, adjusted for annual Internal Revenue Code (IRS) §401(a)(17) and §415 limitations. There is a 10 year deferred vested benefit payable at age 60. Employees who retire at age 60 or over with at least 10 years of service are entitled to a minimum of $850 per month.

Tier 2: Employees with at least 10 years of service are entitled to receive an unreduced annuity benefit at age 67 or a reduced annuity benefit at age 62 with at least 10 years of service. The annuity shall be reduced by ½ percent for each month that the employee is under age 67. Final average salary is calculated using salary from the eight highest consecutive years within the last 10 years of service preceding retirement. Pensionable salary is limited to $108,883 in 2012, increased each year by the lesser of 3% or ½ of the annual increase in the Consumer Price Index-Urban (CPI-U), but not less than zero.

NOTE 2. PLAN DESCRIPTION (CONTINUED)

Post Retirement Increases:

Tier 1: Employee annuitants are eligible to receive an increase of 3% of the current annuity beginning the January of the year of the first payment date following the earlier of 1) the later of the third anniversary of retirement and age 53 and 2) the later of the first anniversary of retirement and age 60, and each year thereafter.

Tier 2: Employee annuitants are eligible to receive an increase based on the original annuity equal to the lesser of 3% or ½ of the annual unadjusted percentage increase in the CPI-U (but not less than zero) beginning the January of the first payment date following the later of 1) age 67 and 2) the first anniversary of retirement.

Spousal Annuity:

Tier 1: The eligible surviving spouse is entitled to a spousal annuity equal to 50% of the pension the member had earned at the date of death.

Tier 2: The surviving spouse is entitled to a spousal annuity equal to 66 2/3% of the pension the member had earned at the date of death.

Automatic increase in Spousal Annuity:

Tier 1: There is no increase in annuity for spousal annuities.

Tier 2: The spousal annuity increase is either ½ the rate of the CPI-U or 3%, whichever is lower, and is applied to the original spousal annuity amount. If the CPI-U decreases or is zero, no increase is paid. The spouse is eligible for an increase on January 1st occurring on or after the commencement of the member's annuity or occurring after the first anniversary of the commencement of the spousal annuity.

Child's Annuity:

Under Tier 1 and Tier 2, annuities are provided for unmarried children of a deceased member who are under the age of 18, if the child was born, or *in esse*, or legally adopted. The child's annuity is $220 a month when there is an eligible surviving spouse or $250 a month when there is no eligible surviving spouse.

Duty Disability:

Under Tier 1 and Tier 2, an employee who becomes disabled as the result of an injury incurred in the performance of any act of duty, is entitled to receive a duty disability benefit in the amount equal to 75% of annual salary at the time of injury, reduced by any benefits received by the employee under the provisions of the Workers' Compensation Act.

Ordinary Disability:

Under Tier 1 and Tier 2, an employee who becomes disabled as the result of any cause other than an injury incurred in the performance of an act of duty, is entitled to receive an ordinary disability benefit in the amount equal to 50% of annual salary as of the last day worked. An employee can receive ordinary disability for a period equal to ¼ of his service credits up to a maximum of 5 years.

NOTE 2. PLAN DESCRIPTION (CONTINUED)

Refunds:

Tier 1: A member may take a refund if he withdraws from service and is under the age of 55 (with any length of service) or withdraws between the ages of 55 and 60 with less than 10 years of service.

Tier 2: A member may take a refund if he withdraws from service before the age of 62 (with any length of service) or withdraws with less than 10 years of service regardless of age.

NOTE 3. INVESTMENTS

Investment Policies

Investments are governed by Sections 5/1 and 5/11, Chapter 40, of the Illinois Compiled Statutes. The prudent person rule, which establishes a standard of care for all fiduciaries, is an important aspect of the Statutes. The prudent person rule states that fiduciaries must discharge their duties with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. The Plan is authorized to invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks, shares, debentures, or other obligations or securities as set forth in the State Statutes.

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risk and risk associated with changes in interest rates.

NOTE 3. INVESTMENTS (CONTINUED)

Investment Summary

All of the Plan's financial instruments are consistent with the permissible investments outlined in the State Statutes. The composition of investments, by investment type, as of December 31, 2012 and 2011, is as follows:

	2012	2011
Cash and short-term investments	$ 41,872,378	$ 51,778,375
Equities		
U.S. equities	487,211,408	523,602,287
U.S. equity funds	-	104,286,314
Foreign equities	233,874,252	224,592,994
Foreign equity funds	34,131,889	28,805,243
Total equities	755,217,549	881,286,838
Fixed income		
U.S. government obligations and municipal bonds	56,074,530	83,070,761
U.S. corporate bonds	175,092,698	150,977,891
Foreign fixed income	39,424,524	6,309,939
Total fixed income	270,591,752	240,358,591
Private equity	45,730,173	46,943,283
Real estate	39,159,549	37,705,952
Hedge funds	85,288,187	54,310,119
Global asset allocation funds	129,596,815	-
Subtotal	1,367,456,403	1,312,383,158
Securities lending cash collateral	169,286,689	169,013,638
Total investments at fair value	$ 1,536,743,092	$ 1,481,396,796

Short-term investments include commercial paper or notes having maturity of less than 90 days or pooled short-term investment funds managed by the Northern Trust. Under the terms of the investment agreement for these funds, the Northern Trust may invest in a variety of short-term investment securities.

NOTE 3. INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Plan's deposits may not be returned to it. The Plan does not have a formal deposit policy for custodial credit risk. As of December 31, 2012 and 2011, the following investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Plan's name.

	2012	2011
Amount exposed to custodial credit-risk		
Investment in foreign currency	$ 308,028	$ 254,219

Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to pay interest or principal in a timely manner, or that negative perception of the issuer's ability to make payments will cause a decline in the security's price. Some fixed income securities, including obligations of the U.S. Government or those explicitly guaranteed by the U.S. Government, are not considered to have credit risk.

The fixed income portfolio of the Plan is managed by professional investment management firms. These firms are required to maintain diversified portfolios. The Plan does not have a formal policy on concentration of credit risk. Each investment manager complies with risk management guidelines individually assigned to them as part of their Investment Management Agreement. There were no investments from a single issuer that exceeded 5% of the total net assets of the Plan.

A bond's credit quality is a standard used by the investment community to assess the issuer's ability to make interest payments and to ultimately make principal payments. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investor Service (Moody's) or Standard and Poor's (S&P). In the rating agency's opinion, the lower the rating, the greater the chance that the bond issuer will default, or fail to meet its payment obligations. The following table presents the credit risk profile, based on Moody's Investor Service for fixed income securities held by the Plan as of December 31, 2012 and 2011.

NOTE 3. INVESTMENTS (CONTINUED)

Concentration of Credit Risk (continued)

Quality Rating	2012	2011
Aaa	$ 48,061,735	$ 43,156,843
Aa	9,005,731	7,726,183
A	11,146,546	10,277,619
Baa	24,891,110	22,082,367
Ba	3,902,151	1,116,223
B	2,386,464	1,861,306
Caa	3,421,542	2,920,484
Ca	1,049,461	715,339
C	319	5,136
Not rated or unavailable	5,622,955	7,142,772
Total credit risk debt – securities	109,488,014	97,004,272
Explicit:		
Government agencies[1 3]	521,444	1,280,346
Government mortgage backed securities[2 3]	29,306,244	44,889,499
Corporate bond pooled fund – not rated	57,658,367	31,790,861
Global bond pooled fund – not rated	73,617,683	65,393,613
Total fixed income	$270,591,752	$240,358,591

1 Bonds issued by Federal Home Loan Mortgage Corp.
2 Bonds issued by Federal National Mortgage Association, Federal Home Loan Mortgage Corp, and Government National Mortgage Association.
3 These investments are implicitly or explicitly guaranteed by the U.S. government and currently a rating is not provided by the nationally recognized statistical rating organization.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. However, the investment managers have diversified the portfolio to reduce the impact of losses in an individual investment and typically align the portfolio's duration with that of the benchmark.

NOTE 3. INVESTMENTS (CONTINUED)

Interest Rate Risk (continued)

At December 31, 2012, the following table shows the investments by investment type and maturity (expressed in thousands).

Investment Type	Fair Value	Less than I Year	1-5 Years	6 ±10 Years	10 + Years	Variable
Asset backed securities	$ 4,675	$ -	$ 1,066	$ 151	$ 3,458	$ -
Commercial mortgage backed	9,836	-	-	398	9,438	-
Corporate bonds	39,599	664	19,036	12,323	7,576	-
Funds - corporate bonds	57,658	-	-	-	-	57,658
Funds - other fixed income	73,618	-	-	-	-	73,618
Governmen agencies	4,777	-	1,840	2,105	832	-
Government bonds	33,728	2,001	8,929	12,240	10,558	-
Gov't mortgage backed	30,053	-	264	605	18,374	10,810
Index linked gov't bonds	11,026	-	2,397	4,084	4,545	-
Municipal bonds	1,132	-	-	-	1,132	-
Non-government backed CMO's	4,490	-	143	1,453	2,894	-
Total fixed income	$ 270,592	$ 2,665	$ 33,675	$ 33,359	$ 58,807	$ 142,086

Investment Results

During 2012 and 2011, net realized gains (losses) on investments sold, reflecting the difference between the proceeds received and cost value of securities sold, were $96,554,007 and $53,539,227, respectively. These amounts are included in the net appreciation in fair value of investments as reported on the Statement of Changes in Plan Net Position. The calculation of realized gains and losses is independent of the calculation of net appreciation in the fair value of the Plan's investments. Investments purchased in a previous year and sold in the current year results in their realized gains and losses being reported in the current year and their net appreciation in Plan assets being reported in both the current and the previous year(s).

NOTE 3. INVESTMENTS (CONTINUED)

Foreign Currency Risk

The international portfolio is constructed on the principles of diversification, quality, growth and value. Risk of loss arises from changes in currency exchange rates. While not having a formal investment policy governing foreign currency risk, the Plan does manage its exposure to fair value loss by requiring the international securities managers to maintain diversified portfolios to limit foreign currency and security risk. The Plan's exposure to foreign currency risk as of December 31, 2012 and 2011, is presented in the following table.

Currency		2012	%		2011	%
Australian dollar	$	7,164,955	3.8%	$	7,889,698	4.4%
Brazalian dollar		5,448,947	2.9		12,545,622	7.0
Canadian dollar		4,413,316	2.3		6,027,699	3.4
Swiss franc		9,682,669	5.1		10,699,625	6.0
Solumbian peso		725,581	0.4		657,527	0.4
Danish krone		2,661,848	1.4		2,318,645	1.3
Euro		37,322,281	19.7		27,907,861	15.6
British pound sterling		34,337,445	18.1		35,208,511	19.7
Hong Kong dollar		18,602,570	9.8		12,129,034	6.8
Indonesian rupiah		1,743,145	0.9		2,612,836	1.5
New Israeli shekel		982,449	0.5		826,992	0.5
Japanese yen		23,207,923	12.3		23,050,561	12.9
South Korean won		6,725,740	3.6		6,710,644	3.8
Mexican peso		4,746,164	2.5		4,129,699	2.3
Malaysian ringgit		3,410,118	1.8		2,639,392	1.5
Norwegian krone		713,954	0.4		1,816,413	1.0
New Zealand dollar		(324,367)	- 0.2		-	0.0
Pakistan rupee		-	0.0		(400)	0.0
Phillippine peso		400,807	0.2		-	0.0
Swedish krona		7,357,609	3.9		6,242,553	3.5
Singapore dollar		5,621,130	3.0		5,371,581	3.0
Thai baht		2,743,011	1.4		724,672	0.4
Turkish lira		2,099,910	1.1		1,517,213	0.9
South African rand		9,585,455	5.1		7,418,224	4.2
Total	$	189,372,660	100.0%	$	178,444,602	100.0%

NOTE 3. INVESTMENTS (CONTINUED)

Derivatives

The Plan's investment managers may enter into derivative transactions as permitted by their guidelines. A derivative financial instrument is an investment whose payoff depends on the value of an underlying, such as bond or stock prices, a market index, or commodity prices. Derivative financial instruments involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. The Plan's managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake.

During the year, the Plan's derivative investments included foreign currency forward contracts and financial futures. Foreign currency forward contracts are used to hedge against the currency risk in the Plan's foreign stock and fixed income security portfolios. Financial futures are used to improve yield, adjust the duration of the fixed income portfolio, or to hedge changes in interest rates.

The following table summarizes the derivatives held within the Plan's investment portfolio as of December 31, 2012 and 2011:

	2012		2011	
Derivative Type	Notional Amount	Fair Value	Notional Amount	Fair Value
Hedging derivative instruments				
Foreign currency contracts purchased	$ -	$ 240,998,104	$ -	$ 124,040
Foreign currenty contracts sold	-	(241,298,614)	-	(124,032)
Total hedging derivative instruments	-	(300,510)	-	8
Investment derivatitive instruments				
Futures				
Long fixed income	7,148,930	-	-	-
Short fixed income	(10,601,051)	-	-	-
Long cash equivalents	1,893,360	-	-	-
Rights/warrents	-	-	-	100,924
Total investment derivative instruments	(1,558,761)	-	-	100,924
Total	$ (1,558,761)	$ (300,510)	$ -	$ 100,932

Foreign currency forward contracts are agreements to buy or sell a specific amount of a specific currency at a specified delivery or maturity date for an agreed upon price. The gain or loss on forward contracts is recognized as deferred inflows/outflows on the Statements of Net Position until the contract is closed or is sold at which time a gain or loss is recognized in the Statements of Changes in Net Position. The counterparties to the foreign currency forward contracts are banks which are rated A or above by rating agencies.

NOTE 3. INVESTMENTS (CONTINUED)

The fair value of forward contracts outstanding at December 31, 2012 and 2011 is as follows:

Currency	2012 Fair Value	2011 Fair Value
Foreign currency exchange purchases:		
Australian dollar	$ 8,766,534	$ -
Canadian dollar	16,144,538	-
Swiss franc	12,421,345	-
Euro	8,262,866	-
British pound sterling	9,412,419	-
Hong Kong dollar	-	124,040
Japanese yen	10,696,075	-
Norwegian krone	11,423,413	-
New Zealand dollar	15,193,994	-
Swedish krona	13,212,695	-
Turkish lira	3,233	-
United States dollar	135,460,992	-
Total purchases	$ 240,998,104	$ 124,040
Foreign currency exchange sales:		
Australian dollar	$ (12,199,960)	$ -
Canadian dollar	(21,727,630)	-
Swiss franc	(12,871,018)	-
Euro	(20,127,203)	-
British pound sterling	(11,644,594)	-
Japanese yen	(8,319,547)	-
Norwegian krone	(13,057,072)	-
New Zealand dollar	(19,213,599)	-
Swedish krona	(17,234,274)	-
Singapore dollar	(60,799)	-
United States dollar	(104,842,918)	(124,032)
Total sales	$ (241,298,614)	$ (124,032)

Financial futures are similar to forward contracts, except futures contracts are standardized and traded on organized exchanges. As the market value of the underlying assets vary from the original contract price, a gain or loss is recognized in the Statements of Changes in Net Position and is settled through the clearinghouse.

Rights and warrants allow the Plan's investment managers to replicate an underlying security they wish to hold (sell) in the portfolio. Rights and warrants provide the holder with the right, but not the obligation, to buy or sell a company's stock at a predetermined price. Rights usually expire after a few weeks and warrants can expire from one to several years. These investments are reported within the equities classification.

NOTE 3. INVESTMENTS (CONTINUED)

The following table summarizes the changes in fair value, which were recognized as income in the Plan's Statements of Changes in Plan Net Position for the year ended December 31, 2012 and 2011:

Derivative Type	2012 Changes in Fair Value	2011 Changes in Fair Value
Foreign currency contracts	$ (12,492)	$ (8,042)
Futures	(6,615)	-
Rights/Warrants	46,271	63,195
Total	$ 27,164	$ 55,153

NOTE 4. SECURITIES LENDING

State Statutes and the Board of Trustees permit the Plan to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Plan's custodian, acting as the lending agent, lends securities for collateral in the form of cash, U.S. Government obligations and irrevocable letters of credit equal to 102% of the fair value of domestic securities plus accrued interest and 105% of the fair value of foreign securities plus accrued interest.

Effective March 20, 2011, the Plan receives 85% of the net revenue derived from the securities lending activities, and the bank receives the remainder of the net revenue. Prior to March 2011, the Plan received 80% of the net revenue.

The Plan is currently not restricted as to the type of securities it may loan. The Plan does not have the right to sell or pledge securities received as collateral unless the borrower defaults.

The average term of securities loaned was 59 days for 2012 and 86 days for 2011; however, any loan may be terminated on demand by either the Plan or the borrower. Cash collateral may be invested in a short-term investment pool, which had an average weighted maturity of 81 days as of December 31, 2012 and an average weighted maturity of 75 days as of December 31, 2011. Cash collateral may also be invested in term loans, in which the investments (term loans) match the term of the securities loaned. These loans can be terminated on demand by either the lender or the borrower.

At December 31, 2012 and 2011, the Plan had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Plan. At December 31, 2012 and 2011, the fair value of securities loaned was as follows:

	2012	2011
Equities	$155,870,470	$135,945,792
Fixed Income	13,032,798	28,254,856
Total	$168,903,268	$164,200,648

NOTE 4. SECURITIES LENDING (CONTINUED)

At December 31, 2012 and 2011, the securities loaned were collateralized as follows:

	2012	2011
Collateralized by cash	$169,286,689	$169,013,638
Collateralized by other than cash	1,575,450	26,410
Total	$170,862,139	$169,040,048

During 2012 and 2011, there were no losses due to default of a borrower or the lending agent. The contract with the Plan requires the lending agent to indemnify the Plan if borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Plan for income distributions by the issuers of securities while the securities are on loan.

Due to the volatile financial markets of late 2008, the securities lending program had produced significant negative income unlike any year in the history of securities lending. The Plan recorded a corresponding liability and the custodial bank has agreed to continue to carry forward the liability and post future securities lending earnings against the current liability.

NOTE 5. MORTGAGE-BACKED SECURITIES

The Plan invests in mortgage-backed securities, representing interests in pools of mortgage loans, as part of its interest rate risk management strategy. The mortgage-backed securities are not used to leverage investments in fixed income portfolios. The mortgage-backed securities held by the Plan were guaranteed by federally sponsored agencies, such as: Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.

The financial instruments are carried at fair value and are included in investments on the Statement of Plan Net Position. The gain or (loss) on financial instruments is recognized and recorded on the Statement of Changes in Plan Net Position as part of investment income.

NOTE 6. RELATED PARTY TRANSACTIONS

At December 31, 2012, the Plan held securities of its custodial bank and its insurance provider with a fair value of $2,360,878. At December 31, 2011, the Plan held securities of its investment manager's parent company and its insurance provider with a fair value of $2,541,453.

NOTE 7. WHEN-ISSUED TRANSACTIONS

The Plan may purchase securities on a when-issued basis; that is, obligate itself to purchase securities with delivery and payment to occur at a later date. At the time the Plan enters into a commitment to purchase the security, the transaction is recorded at purchase price which equals value. The value of the security, which may vary with market fluctuations, is not reflected in the value of investments. The value at delivery may be more or less than the purchase price. No interest accrues to the Plan until delivery and payment take place. As of December 31, 2012 and 2011, the Plan contracted to acquire securities on a when-issued basis with total principal amounts of $10,165,000 and $12,665,000 and fair values of $10,810,350 and $13,410,021, respectively.

NOTE 8. COMMITTED CASH

The Plan has entered into investment arrangements for real estate and private equity. As of December 31, 2012 and 2011, the Plan had $37,640,822 and $47,621,104, in outstanding capital commitments, respectively.

NOTE 9. SUMMARY OF EMPLOYER FUNDING POLICIES

The City shall levy a tax annually which, when added to the amounts deducted from the salaries of the employees or otherwise contributed by them, will be sufficient for the requirements of the Plan. The tax will produce an amount that does not exceed the amount of contributions by the employees to the Plan made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 1.00 for the year 1999, and each year thereafter.

When the balance of the prior service reserve equals its liabilities (including in addition to all other liabilities, the present value of all annuities, present or prospective, according to applicable mortality tables and rates of interest), the City shall cease to contribute the amounts to provide prior service annuities and other annuities and benefits.

The current actuarial studies of the Plan as of December 31, 2012 (2013 Tax Levy) and as of December 31, 2011 (2012 Tax Levy) indicated that a minimum annual contribution was required by the City to maintain the Plan on a minimum valuation basis. The recommended minimum annual contribution based on an annual payroll of $198,789,741 for 2,865 active members for the 2013 tax levy and $195,238,332 for 2,852 active members for the 2012 tax levy is computed as follows:

NOTE 9. SUMMARY OF EMPLOYER FUNDING POLICIES (CONTINUED)

Currency	2013 Tax Levy	2012 Tax Levy
Normal cost	$ 39,263,431	$ 31,511,172
30 year level dollar amortization of unfunded liability (surplus)	82,631,736	62,328,598
Interest adjustment for semimonthly payment	4,605,994	3,761,192
Total minimum contribution	126,501,161	97,600,962
Less estimated plan member contributions	(17,211,033)	(16,964,543)
Annual required contribution (ARC) to be financed by tax levy*	$ 109,290,128	$ 80,636,419
Required tax levy multiple for Plan	7.48	5.41

NOTE 10. RESERVES FOR ACTUARIAL LIABILITIES

The reserves for actuarial liabilities are based on an annual valuation submitted by the Plan's consulting actuary. The annual actuarial valuation establishes the reserves required for various statutory liabilities which arise from pension benefit schedules that are part of the current pension code legislation. Market value of net assets held in trust for pension benefits as of December 31, 2012 and 2011, were comprised of the following Plan surplus (deficit) balances:

	2012	2011
Prior Service Fund	$ 1,464,473,839	$ 1,300,430,779
City Contribution Fund	240,992,543	238,953,381
Salary Deduction Fund	240,925,654	238,884,403
Annuity Payment Fund and Reserve	428,381,033	412,843,637
Supplementary Payment Service	69,562	69,562
Furn Reserve - (deficit)	(1,003,765,585)	(877,578,123)
Total net assets held in trust for pension benefits	$ 1,371,077,046	$ 1,313,603,639

The Prior Service Fund is a reserve account for the accumulation of City contributions to provide for: 1) employee and spouse annuities that are based on service performed before the Plan's effective date of July 1, 1935, and 2) any excess in minimum annuity formula requirements over the amounts required for age and service annuities and for spouse annuities.

NOTE 10. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

The City Contribution Fund is used to accumulate amounts contributed by the City to provide for annuities based on age and service of each employee and spouse. An individual account is to be kept for each employee and spouse until the employee retires, at which time the individual account balances are transferred to the Annuity Payment Fund.

The Salary Deduction Fund is similarly used to accumulate deductions made from employee salaries for age and service annuities for the employee and spouse. Individual accounts are kept until the employee retires or withdraws from service before qualifying for an annuity. At retirement, account balances are transferred to the Annuity Payment Fund. In case an eligible employee elects to take a refund of contributions instead of an annuity, the contribution refund is charged to this reserve fund.

The Annuity Payment Fund receives the amounts transferred from the individual accounts in the City Contribution Fund and the Salary Deduction Fund when an employee retires and qualifies for an annuity. All age and service annuity payments are charged to this fund.

The Supplementary Payment Reserve was established in 1969 to fund postretirement benefit increases for future and current annuitants who elected to pay into the Plan the amount necessary to receive the postretirement benefit.

The Fund Reserve represents the difference between the actuarially determined present value of all future pension payments and the value of the Plan's present assets plus the present value of future contributions. A surplus indicates that present assets and future contributions exceed the expected requirements for future pension payments, while a deficit indicates that additional assets will be needed to provide for future benefits.

During the years ended December 31, 2012 and 2011, the Plan's actuary has determined that an increase in actuarial reserves of $183,660,869 and $119,795,930, respectively, is required. The excess or shortage of revenue over expenses for the years ended December 31, 2012 and 2011, have been applied to the actuarial reserves as noted above, which has resulted in increases in the Plan deficit of $290,161,621 for the year ended December 31, 2012 and $226,785,093 for the year ended December 31, 2011.

NOTE 10. RESERVES FOR ACTUARIAL LIABILITIES

As reported by the actuary, the changes in the Plan surplus (deficit) during the years ended December 31, 2012 and 2011, consisted of the following:

	2012	2011
Fund surplus (deficit) at the beginning of the year	$ (768,767,413)	$ (541,982,320)
Gains (losses) during the year attributable to:		
Salaries under assumed ate	11,246,150	17,752,499
Investment yield over/under 8.0 assumed	(99,757,018)	(115,961,584)
Annual required contributions from levy and employer contributions	(63,344,488)	(44,792,683)
Miscellaneous actuarial experience	(7,410,741)	(18,062,145)
Gain (loss) from data corrections	(505,176)	(964,087)
Change in assumptions	(130,390,348)	(64,757,093)
Net loss	(290,161,621)	(226,785,093)
Fund deficit at the end of the year	$ (1,058,929,034)	$ (768,767,413)

The above detail denotes the change in the Plan surplus (deficit) based on assets valued using a Five Year Smoothed Average Market, a market related actuarial asset value as required by Governmental Accounting Standards Board Statement No. 25.

The funded status, which excludes the liability for the health insurance supplement of the Plan as of December 31, 2012, the most recent actuarial valuation date, is as follows (in thousands):

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Surplus) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
2012	$1,315,913	$ 2,336,189	$ 1,020,276	56.33%	$198,790	513.24%

NOTE 10. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

The actuarial method used in the valuation was the Entry Age Normal Actuarial Cost Method. Participant life expectancy consists of a post retirement mortality based upon the RP2000 Combined Healthy mortality table, sex distinct, set forward one year for males and setback two years for females and a pre-retirement mortality of 80% of the post-retirement mortality. Disability cost was valued as a term cost of 2.5% of payroll for 2012 and 1.50% of payroll for 2011. For 2012, retirement rates use predominantly service-based rates with higher rates at older ages, and 100% retirement at the earlier of 40 years of service or age 80. For 2011, the retirement age assumptions (based on actual past experience) were that all retire by age 70. The investment rate of return (net of expenses) was 7.5% for 2012 and 8% for 2011, compounded annually and includes a 3% inflation assumption. For 2012, the salary increase assumptions reflect 3.75% wage inflation plus a service-based component for merit, longevity, and promotion, ranging from 0.25% to 6.25% based on years of service. For 2011, the salary increase assumptions were 4.5% compounded annually plus a service based increase in the first five years and included a 3% inflation adjustment.

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI) on page 32 following the notes to the financial statements, presents multi-year trend information about whether the Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 11. EMPLOYER (TAXES) RECEIVABLE (PAYABLE) - NET

	2012	2011
Cmployer contributions	$ 16,433,380	$ 16,877,459
Less allowance for uncollectible acounts	(1,527,505)	(1,242,420)
Total	$ 14,905,875	$ 15,635,039

NOTE 12. LEASE AGREEMENTS

The Plan leases its office facilities under a fifteen year non-cancelable agreement in effect through February 28, 2026. The base rent has an abatement provision of 17 months. The Plan is amortizing the abated rent over the period covered by the agreement. Real estate taxes and maintenance charges are additional costs to the base rent and are subject to annual escalation. Rent expense, net of rent abatements, for the years ended December 31, 2012 an 2011 was $334,197 and $147,830, respectively. Future minimum rental payments required under non-cancelable leases are as follows:

Year ending December 31,	
2013	$ 253,740
2014	257,482
2015	261,224
2016	297,825
2017 through 2026	3,518,902
Total	$ 4,589,173

NOTE 13. DISASTER RECOVERY

The disaster recovery site establishes proactive measures to ensure the continuity of Plan operations during emergencies. Five Chicago pension funds (Laborers', Municipal, Police, Fire, and Cook County) are jointly participating in this project. The goal is to possess the capability to access the Plan's main information technology systems at a remote location within 36 hours of any emergency. Toward that goal, the five funds lease office and storage facilities under an extended non-cancelable agreement in effect through August 31, 2016. Monthly lease payments have been agreed upon for the length of the lease. Disaster recovery expense for the years ended December 31, 2012 and 2011 was $29,625 and $31,521, respectively. The Plan's share of future minimum rental payments, required under non-cancelable operating leases, are as follows:

Year ending December 31,	
2013	$ 12,169
2014	12,492
2015	12,823
2016	8,747
Total	$ 46,231

NOTE 14. INSURANCE COVERAGE

The Plan is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Plan has minimized the risk of loss through private insurance carriers for commercial, business owners, and automobile policies. The deductible for this insurance coverage ranges from $250 to $500 per occurrence. There has been no significant reduction of insurance coverage from the prior year. The Plan has not had any insurance claims filed or paid in the past five fiscal years.

The Plan has elected to self-insure against the risk of loss due to a breach in workmen's compensation claims. There have been no claims or settlements in the last five years.

NOTE 15. PROPERTY AND EQUIPMENT

Property and equipment detail for the years ended December 31, 2012 and 2011, is as follows:

	2012	2011
Office equipment	$ 346,887	$ 333,520
Custom software package	6,318,902	6,217,952
	6,665,789	6,551,472
Accumulated depreciation	(5,486,012)	(4,800,268)
Property and equipment - net	$ 1,179,777	$ 1,751,204

Depreciation expense for the years ended December 31, 2012 and 2011 was $697,025 and $680,114, respectively.

NOTE 16. OTHER POST EMPLOYMENT BENEFIT PLAN - CITY RETIREES

Plan Description – The Plan and the City of Chicago agreed to share in the cost of the Settlement Health Care Plan, a single employer defined benefit plan for city retirees administered by the City of Chicago. This agreement is in effect through June 30, 2013. This plan provides medical and prescription drug benefits to eligible retirees, spouses, and dependent children.

Funding Policy - The Plan's contribution requirement is established by the state legislature and may be amended. Through June 30, 2008, the Plan was allowed, in accordance with State Statutes, to subsidize the cost of monthly group health care premiums up to $85 per month for non-Medicare recipients and $55 per month for Medicare recipients. From July 1, 2008 through June 30, 2013, the amount of Fund paid health care premiums increased to $95 per month for non-Medicare recipients and $65 per month for Medicare recipients. The remaining cost to participate in the Program is borne by the City of Chicago and the annuitant.

Funding Policy (continued)

In this report, the Plan, in accordance with GASB No. 43, *Financial Reporting for Post-employment Benefit Plans other than Pensions*, includes disclosures of a separate annual required contribution (ARC) for Other Postemployment Benefits (OPEB) beginning with the Plan's 2007 fiscal year. It also requires that the investment return assumption (or "discount rate") used to value OPEB liabilities be based on the estimated long-term yield on the investments expected to be used to finance the payment of benefits. The OPEB liabilities are considered to be funded on a pay-as-you-go basis. That is, the health insurance supplement is financed with current contributions, and no separate healthcare asset account exists to pay the health insurance supplement.

Annual Required Contribution - The Plan's annual required contribution, employer contribution, and the percentage of annual required contribution contributed to the Plan since Fiscal Year End 2007, are as follows:

Fiscal Year Ended	Annual Required Contribution (ARC)	Employer Contribution	Percentage of ARC Contributed
12/31/2007	$ 3,567,685	$ 2,202,835	61.7%
12/31/2008	3,564,966	2,347,624	65.9
12/31/2009	3,681,620	2,563,040	69.6
12/31/2010	3,609,337	2,586,866	71.7
12/31/2011	3,542,982	2,579,905	72.8
12/31/2012	3,070,025	2,561,930	83.4

At December 31, 2012, the number of annuitants or surviving spouses whose cost to participate in the program was subsidized, totaled 2,781; at December 31, 2011, the total was 2,800.

Funded Status and Funding Progress - The funded status of the plan as of December 31, 2012, is as follows:

Actuarial accrued liability (AAL)	$ 38,653,355
Net Plan Actuarial Assets	-
Unfunded actuarial accrued liability (UAAL)	$ 38,653,355
Funded ratio	0.0%
Covered payroll	$ 198,789,741
UAAL as a % of covered payroll	19.4%

NOTE 16. OTHER POST EMPLOYMENT BENEFIT PLAN - CITY RETIREES

Funded Status and Funding Progress (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress on page 23, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of 0% due to the fact that the OPEB is a fixed dollar subsidy and trend is not applicable. The assumption includes projected salary increases of 3.75% per year for 2012 and 4.5% for 2011. Both assumptions include an inflation rate of 3.0% per year. The actuarial value of assets is zero (no assets) as the OPEB is on a pay-as-you-go basis. The amortization method is level dollar on an open basis and the remaining amortization period at December 31, 2012 was 30 years.

NOTE 17. OTHER POST EMPLOYMENT BENEFIT PLAN: LABF AS EMPLOYER

Plan Description - The Plan, as an employer, administers a single-employer postemployment healthcare plan ("Retiree Health Plan"). The Retiree Health Plan provides lifetime health and dental care insurance for eligible retirees and their spouses through the Plan's group health insurance plan, which covers both active and retired members. Currently, 6 retirees are in the plan and 19 active employees could be eligible at retirement.

Funding Policy - The contributions requirements of plan members and the Plan are established by the Plan's Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements. For 2012 and 2011, the Plan contributed $42,476 and $51,896, respectively, to the plan. Plan members receiving benefits contributed $11,405 in 2012 or 28.2% of the total premiums for the year, through their required contributions of between $86 and $435 per month based on coverage. In 2011 Plan members contributed $12,132 or 25.0% of the total premiums for the year through their required contributions of between $86 and $435 per month.

NOTE 17. OTHER POST EMPLOYMENT BENEFIT PLAN: LABF AS EMPLOYER (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation - The Plan's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Plan's annual OPEB cost, the amount actually contributed to the plan, and changes in the Plan's net OPEB obligation to the Retiree Health Plan:

	2012	2011
Annual required contribution	$ 432,132	$ 405,187
Interest on net OPEB obligation	57,980	42,668
Adjustment to ARC	(75,693)	(55,704)
Annual OPEB expense	414,419	392,151
Contributions made	(42,476)	(51,896)
Increase in net OPEB obligation	371,943	340,255
Net OPEB obligation - beginning of year	1,288,441	948,186
Net OPEB obligation - end of year	$ 1,660,384	$ 1,288,441

In 2012 and 2011, the Plan contributed 9.8% and 12.8%, respectively, of the annual required OPEB contribution to the plan.

Actuarial Valuation Information

Actuarial Valuation Date*	Value of Plan Net Assets (a)	Accrued Liability (AAL) (b)	Actuarial Liability (UAL) (c)	Funding Ratio (a/b)	Covered Annual Payroll (d)	Percentage of Covered Payroll (c/d)
12/31/2009	$ -	$ 3,661,847	$ 3,661,847	$ -	$ 1,581,218	231.58%

* For a plan the size of the LABF as Employer plan, GASB allows a valuation report to be used for up to 3 years if there are not significant changes in plan design, premiums/claims, or demographics that would materially change the results. The next actuarial valuation will be performed as of December 31, 2012 which will be completed in 2013.

NOTE 17. OTHER POST EMPLOYMENT BENEFIT PLAN: LABF AS EMPLOYER (CONTINUED)

Actuarial Valuation Information (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress on page 33, presented as required supplementary information following the notes to the financial statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2009 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate for medical of 9% per year graded down to 5% per year (ultimate trend in 0.5% increments) and a rate for dental of 6% per year graded down to a 4.5% per year (ultimate trend in 0.5% increments.) The assumption includes projected wage inflation of 4.5% per year. The actuarial value of assets is zero (no assets) as the OPEB is on a pay-as-you-go basis. The amortization method is level dollar on an open basis and the remaining amortization period at December 31, 2009 was 30 years.

NOTE 18. CONTINGENCIES

Lawsuit Regarding Public Act 97-0651

On October 9, 2012, a civil action was commenced in the Circuit Court of Cook County, Illinois, *Carmichael, et al. v. Laborers' Retirement Board Employees' Annuity and Benefit Fund of Chicago, et al.*, Case No. 12 CH 37712, wherein the plaintiffs allege that recent amendments to the Illinois Pension Code violate the U.S. and Illinois Constitution. The recent amendments, enacted in Public Act 97-0651 and effective January 5, 2012, apply to the service and salary calculations for members who take a leave of absence from the City of Chicago to work for a local labor organization. The amendments also provide that the new rules represent a clarification of existing law, meaning that certain annuitants may have been overpaid. The Plaintiffs include eight individuals and four unions. Three of the participants are Plan members. The defendants include the Plan and the Plan's Board of Trustees, along with two other public employee pension funds and their respective boards.

In the event the pertinent portion of P.A. 97-0651 is held to be unconstitutional by an unappealable final court order, the Plan would be required to pay the annuities in effect prior to the passage of P.A. 97-0651. This outcome would have no material actuarial impact since higher annuities were actually used and it is a relatively small group of affected members. Plaintiffs do not make a prayer for monetary relief, but seek attorney's fees. It is premature to determine the likelihood of success on the merits of the plaintiff's complaint. The Plan filed a motion to dismiss the lawsuit on March 18, 2013.

Other Pending Litigation

The Plan is also involved in legal proceedings arising in the normal course of business. In the opinion of management, the ultimate resolution of these matters will not have a material effect on the financial position of the Plan.

REQUIRED SUPPLEMENTARY INFORMATION

LABORERS' AND RETIREMENT BOARD EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012

SCHEDULE OF FUNDING PROGRESS FOR GASB 25
(dollar amounts in thousands)

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Surplus) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/(c)
2007	$1,757,711	$ 1,808,295	$ 50,584	97.20%	$ 192,847	26.23%
2008	1,698,427	1,915,324	216,897	88.68	216,744	100.07
2009	1,601,352	1,975,749	374,397	81.05	208,626	179.46
2010	1,529,404	2,030,025	500,621	75.34	199,863	250.48
2011	1,422,414	2,152,854	730,440	66.07	195,238	374.13
2012	1,315,914	2,336,189	1,020,276	56.33	198,790	513.24

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(dollar amounts in thousands)

Year Ended December 31,	Annual Required Contribution [1,4]	Required Statutory Basis [2]	Actual Contribution [3]	Percentage of ARC Contributed
2007	$ 21,726	$ 12,624	$ 13,256	61.01%
2008	17,652	14,894	15,233	86.30
2009	33,517	14,366	14,627	86.30
2010	46,665	15,003	15,352	43.64
2011	57,259	12,478	12,779	32.89
2012	77,566	11,808	11,853	15.28

[1] Under Normal Cost plus Level Dollar Amortization. Amortization period of 30 years beginning in 2007 and 40 years prior to 2007. Negative ARC values are set to zero, as no contribution is then required.

[2] Tax levy after 4% overall loss.

[3] Net tax levy plus miscellaneous. Includes prior year adjustments for taxes.

[4] ARC excludes amount attributed to health insurance supplement beginning 2006.

LABORERS' AND RETIREMENT BOARD EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012

SCHEDULE OF FUNDING PROGRESS OF OPEB LIABILITIES FOR CITY RETIREES

(dollar amounts in thousands)

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Surplus) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/(c)
2007	$ -	$ 41,411	$ 41,411	0.00%	$ 192,847	21.47%
2008	-	42,064	42,064	0.00	216,744	19.41
2009	-	41,738	41,738	0.00	208,626	20.01
2010	-	41,361	41,361	0.00	199,863	20.69
2011	-	38,328	38,328	0.00	195,238	19.63
2012	-	38,653	38,653	0.00	198,790	19.44

SCHEDULE OF EMPLOYER CONTRIBUTIONS OF OPEB LIABILITIES FOR CITY RETIREES

(dollar amounts in thousands)

Year Ended December 31,	Annual Required Contribution	Percentage of ARC Contributed
2007	$ 3,568	61.74 %
2008	3,565	65.85
2009	3,682	69.62
2010	3,609	71.67
2011	3,543	72.82
2012	3,070	83.45

SCHEDULE OF FUNDING PROGRESS OF OPEB LIABILITIES FOR LABF AS EMPLOYER

(dollar amounts in thousands)

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Surplus) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/(c)
2006	$ -	$ 1,875	$ 1,875	0.00%	$ 1,221	153.62%
2009[2]	-	3,362	3,362	0.00	1,581	231.58

SCHEDULE OF EMPLOYER CONTRIBUTIONS OF OPEB LIABILITIES FOR LABF AS EMPLOYER

(dollar amounts in thousands)

Year Ended December 31,	Annual Required Contribution	Percentage of ARC Contributed
2007	$ 230	10.94%
2008	245	15.06
2009	262	14.42
2010	380	13.64
2011	405	12.81
2012	432	9.80

[2] The next actuarial valuation will be as of December 31, 2012 and completed in 2013.

Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago

Required Supplementary Information

December 31, 2012

Notes to Schedule of Funding Progress and Schedule of Employer Contributions for GASB 25

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuations follows:

Amortization method	Level Dollar; Open
Amortization period	30 Years
Actuarial cost method	Entry Age Normal
Asset valuation method	Five Year Smoothed Average Market
Actuarial assumptions	
Investment rate of return [1]	7.5%
Projected base salary increases[1]	3.75% per year, plus a service based increase in the first fifteen years

Service	Additional Increase	Total Increase
1	6.25%	10.00%
2	4.75	8.50
3	3.75	7.50
4	3.25	7.00
5	2.25	6.00
6	1.25	5.00
7 - 15	0.25	4.00
16 - 30+	0.00	3.75

[1] includes 3.0% inflation assumption

Post retirement benefit increase	3.0% per year for employee annuitants beginning at the earlier of 1) the later of the 1st of January of the year after retirement and age 60 2) the later of 1st of January of the year after the second anniversary of retirement and age 53

LABORERS' AND RETIREMENT BOARD EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012

NOTES TO SCHEDULE OF FUNDING PROGRESS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS OF OPEB LIABILITIES

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuations follows:

Amortization method	Level Dollar; Open
Amortization period	30 Years
Actuarial cost method	Entry Age Normal
Asset valuation method	No Assets (Pay-as-you-go)
Actuarial assumptions	
OPEB investment rate of return[1]	4.5%
Projected base salary increases - City Retirees[1]	3.75% per year, plus a service based increase in the first fifteen years

Service	Additional Increase	Total Increase
1	6.25%	10.00%
2	4.75	8.50
3	3.75	7.50
4	3.25	7.00
5	2.25	6.00
6	1.25	5.00
7-15	0.25	4.00
16-30+	0.00	3.75

Projected base salary increases - Employees[1]	4.5% per year, plus a service based increase in the first five years

Service	Additional Increase	Total Increase
0	4.50%	9.00%
1	3.50	8.00
2	2.50	7.00
3	1.50	6.00
4	0.50	5.00
5 & over	0.00	4.50

[1] includes inflation at 3% per year

NOTES TO SCHEDULE OF FUNDING PROGRESS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS OF OPEB LIABILITIES (CONTINUED)

Healthcare cost trend rate	0.0% (Trend not applicable – Fixed dollar subsidy) OPEB-LABF as employer: Medical: 9% per year graded down to 5% per year; ultimate trend in 0.5% increments Dental: 6% per year graded down to 4.5 % per year; ultimate trend in 0.5% increments

SUPPLEMENTARY INFORMATION

LABORERS' AND RETIREMENT BOARD EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO

SCHEDULES OF INVESTED ASSETS
COST AND FAIR VALUE
(IN THOUSANDS)

	2012				2011			
	Cost Value		Fair Value		Cost Value		Fair Value	
Cash and short-term investments	$ 41,872	3.5%	$ 41,872	3.1%	$ 51,772	4.3%	$ 51,778	3.9%
U.S. equities	405,737	33.5%	487,211	35.6%	453,325	37.4	523,602	39.9
U.S. equity funds	-	0.0%	-	0.0%	98,494	8.1	104,287	8.0
Foreign equities	195,374	16.1%	233,874	17.1%	216,033	17.8	224,593	17.1
Foreign equity funds	29,717	2.5%	34,132	2.5%	29,500	2.4	28,805	2.2
U.S. government obligations and municipal bonds	54,363	4.5%	56,074	4.1%	79,058	6.5	83,071	6.3
U.S. corporate bonds	164,432	13.6%	175,093	12.8%	150,993	12.4	150,978	11.5
Foreign fixed income securities	39,165	3.2%	39,425	2.9%	7,659	0.6	6,310	0.5
Private equity	44,681	3.7%	45,730	3.3%	42,909	3.6	46,943	3.6
Real estate	36,355	3.0%	39,160	2.9%	34,280	2.8	37,706	2.9
Hedge funds	78,423	6.5%	85,299	6.2%	49,653	4.1	54,310	4.1
Global Asset Allocation	120,883	10.0%	129,597	9.5%	-	0.0	-	0.0
Invested assets at cost/fair value	$ 1,211,002	100.0%	$ 1,367,467	100.0%	$ 1,213,676	100.0%	$ 1,312,383	100.0%

LABORERS' AND RETIREMENT BOARD EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO

PERFORMANCE SUMMARY
FAIR VALUE RETURNS

ANNUALIZED PERCENT FOR PERIODS PRESENTED

	2012	2011	2010	2009	2008	3-Yr.	5-Yr.
Cash and short-term investments							
LABF	0.2 %	0.1 %	0.3 %	2.9 %	-4.7 %	0.3 %	0.8 %
90 Day T- Bills	0.1	0.1	0.1	0.2	2.1	0.1	0.4
Fixed income							
LABF	8.6	5.8	9.1	12.1	-5.0	7.9	6.6
BC Aggregate	4.2	7.8	6.5	5.9	5.2	6.2	5.9
Domestic equities							
LABF	17.6	0.6	18.9	29.2	-39.3	12.0	1.9
S&P 500	16.0	2.1	15.1	26.5	-37.0	10.9	1.7
International developed equities							
LABF	17.1	-9.5	15.2	40.1	-46.7	6.9	-1.6
MSCI EAFE Net	17.3	-12.1	7.8	31.8	-43.4	3.6	-3.7
Emerging markets equities[1]							
LABF	21.2	-10.1	28.2	-	-	11.8	n/a
MSCI EMF Net	18.2	-18.4	18.9			4.7	-0.9
Global Asset Allocation[2]							
LABF	-	-	-	-	-	n/a	n/a
Private equity							
LABF	3.4	1.5	14.5	-10.4	-10.8	10.3	2.1
l Cambridge Associates Venture Capital 1 Qtr Lag	7.5	20.9	8.1	-13.1	-0.9	12.2	4.0
Real estate							
LABF	4.6	8.9	3.9	-36.6	-0.7	5.9	-5.7
NCREIF ODCE	10.9	16.0	16.4	-29.7	-10.0	14.4	-1.1
Hedge funds[3]							
LABF	5.0	-3.2	10.0	-	-	4.2	n/a
HFRI FOF	4.7	-5.6	5.7			1.4	-1.8
Combined							
LABF	14.6 %	-0.3 %	15.5 %	21.5 %	-29.2 %	9.8 %	2.6 %

Performance figures provided by NEPC LLC, except for Cash and Short Term Investments which was provided by Northern Trust Company.

Private Equity and Real Estate returns lag by one quarter.

[1]Asset class start date was 09/01/09. No annual return until 2010.

[2]Asset class start date was 05/01/12. No annual return in 2012.

[3]Asset class start date was 07/01/09. No annual return until 2010.