
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDING
DECEMBER 31, 2008



METROPOLITAN WATER RECLAMATION DISTRICT RETIREMENT FUND

A COMPONENT UNIT OF THE
METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO
CHICAGO, ILLINOIS

PREPARED BY THE MANAGEMENT AND STAFF OF THE METROPOLITAN WATER RECLAMATION
DISTRICT RETIREMENT FUND

SUSAN A. BOUTIN, EXECUTIVE DIRECTOR

ESTABLISHED JULY 7, 1931

FORMERLY THE SANITARY DISTRICT EMPLOYEES' AND TRUSTEES' ANNUITY AND BENEFIT FUND

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TABLE OF CONTENTS

	Page
● INTRODUCTORY SECTION	5
Certificate of Achievement for Excellence in Financial Reporting	6
Letter of Transmittal	7
Organization	
Board of Trustees	12
Executive Staff and Advisors	13
Organizational Chart	14
Responsibilities of Board and Staff	15
● FINANCIAL SECTION	17
Independent Auditor's Report	18
Management's Discussion and Analysis	20
Basic Financial Statements:	
Statement of Plan Net Assets	28
Statement of Changes in Plan Net Assets	29
Notes to Financial Statements	30
Required Supplementary Information	
Schedules of Funding Progress and Employer Contributions	38
Supplementary Information	
Schedule of Administrative Expenses	39
Schedules of Investment Expenses and Payments to Consultants	40
Post Employment Healthcare	40
Internal Control and Compliance	41
● INVESTMENT SECTION	43
Custodian's Report	44
Investment Consultant's Report	45
Investment Preface	
Authority	46
Responsibility	46
Policy & Objectives	46
Allocation	46
Management	47
Performance	48
Investment Assets	
Acquisitions and Dispositions, at Book Value	49
Summaries of Asset Allocation at Book and Market Value	49
History of Investment Yields (with graph)	50
Schedule of Investment Returns	51
Asset Allocation (with graph)	52
Fixed Income & Equity Diversification	53
Top 40 Common Stock Holdings	54
Manager by Type and Assets Managed	55
Investment Manager, Custodian and Investment Consultant Compensation	56
Domestic Brokerage Commissions	57
International Brokerage Commissions	58

TABLE OF CONTENTS (CONTINUED)	Page
● ACTUARIAL SECTION	59
Actuarial Certification	60
Comparative Summary	62
Plan Summary	63
Summary of Actuarial Assumptions and Methods.....	68
Summary of Valuation Results.....	69
Reconciliation of Change in Unfunded Actuarial Liability	70
Net Pension Obligation	71
Historical Actuarial Data	
History of Change in Unfunded Liability	72
Actuarial Accrued and Unfunded Liabilities	73
Assets and Liabilities (graph)	73
Actuarial Accrued Liability Prioritized Solvency Test.....	74
History of Retirees and Beneficiaries	
Added to and Removed from Benefit Payroll.....	75
Schedule of Active Member Valuation (Salary) Data	76
History of Recommended Employer Multiples and Taxes Levied.....	76
● STATISTICAL SECTION	77
Membership Information:	
Participant Statistics	78
Employee Age and Service Distribution (with graph).....	79
Annuitant and Beneficiary Information:	
History of Beneficiaries by Type of Benefit	80
Schedule of Annuitants by Type of Benefit.....	80
History of Annuity Payments.....	81
Annuitants Classified by Age and Gender	82
Annuitants Classified by Age and Gender (graph).....	83
History of Average Annuities at Retirement	83
Schedule of Average Benefit Payments at Retirement	84
Financial Information	
Revenues by Source and Expenses by Type	85
History of Benefit Expenses by Type	86
Employee and Employer Contributions	87
Changes in Plan Net Assets (10 years)	88
● LEGISLATIVE CHANGES SECTION	91

INTRODUCTORY SECTION

Certificate of Achievement for Excellence in Financial Reporting

Letter of Transmittal

Organization

Board of Trustees

Executive Staff and Advisors

Organizational Chart

Responsibilities of Board and Staff

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metropolitan Water Reclamation
District Retirement Fund
Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "M. L. Post".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

**METROPOLITAN WATER RECLAMATION DISTRICT
RETIREMENT FUND**

RETIREMENT FUND OFFICE
SUITE 330
SUSAN A. BOUTIN, EXECUTIVE DIRECTOR

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BOARD OF TRUSTEES
JOSEPH F. KENNEDY
ROBERT T. REGAN
HON. GLORIA ALITTO MAJEWSKI
JOHN P. DALTON, JR.
HON. BARBARA J. MCGOWAN
STEPHEN J. CARMODY
JOSEPH W. ROSE

June 22, 2009

Board of Trustees of the
Metropolitan Water Reclamation
District Retirement Fund
111 E. Erie Street
Chicago, Illinois 60611

Dear Trustees:

Submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the Metropolitan Water Reclamation District Retirement Fund (Fund) for the fiscal year ending December 31, 2008. The Fund's management assumes full responsibility for the completeness and accuracy of the information presented in this report. Management has established and maintained a system of internal accounting controls designed to safeguard Fund assets and provide reasonable assurance of proper recording of financial transactions. To the best of our knowledge and belief, the enclosed financial statements, supporting schedules and statistical tables are accurate in all material respects and are reported in a manner designed to present fairly the financial position and the results of operations of the Fund.

In accordance with the Illinois Pension Code, the Fund's basic financial statements for the fiscal year ended December 31, 2008 have been subject to an audit by independent accountants selected by the Board of Trustees. The unqualified opinion of Bansley & Kiener, LLP has been included in the Financial Section of this report.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and an analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Fund's MD&A can be found immediately following the independent auditor's report.

FUND PROFILE

The Fund is the administrator of a single-employer defined benefit public employee retirement system established by the State of Illinois to provide retirement, death and disability benefits for covered employees of the Metropolitan Water Reclamation District of Greater Chicago (District). The Fund is considered a component unit of the District and as such, is included in the District's financial statements as a pension trust fund.

The Fund was established in 1931 by the State of Illinois legislature and is administered in accordance with Chapter 40, Act 5, Articles 1, 13, and 20 of the Illinois Compiled Statutes.

For the past 77 years the primary goal of the Fund has been to provide continuity of benefits to the members while preserving the fiscal integrity and financial stability of the Fund. The Fund currently serves 2,052 active members, 2,272 benefit recipients, and 159 inactive members.

The plan description is provided within the notes to the financial statements in the Financial Section and within the Actuarial Section of this report.

FINANCIAL CONDITION**Financial Position**

The following table summarizes the financial activities and position for the Fund for 2008 and 2007:

	<u>2008</u> (millions)	<u>2007</u> (millions)	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Additions	\$ (251.0)	\$ 106.2	\$ (357.2)	(336.3) %
Deductions	102.3	97.4	4.9	5.0
Net Change	(353.3)	8.8	(362.1)	(4,114.8)
Beginning Net Assets	1,232.1	1,223.3	8.8	0.7
Ending Net Assets	<u>\$ 878.8</u>	<u>\$ 1,232.1</u>	<u>\$ (353.3)</u>	(28.7)

The significant change in Additions between 2008 and 2007 was primarily a result of a reduction in investment income due to the collapse in the equity markets, starting in the fourth quarter of 2007 and continuing throughout 2008. The increase in Deductions was primarily due to cost of living increases in benefit payments, without a significant change in the number of annuitants receiving benefits.

For a full understanding of the Fund's financial results, the reader is urged to review the Financial Section of this report which contains the Auditor's opinion, management's discussion and analysis, the financial statements and other supplementary information.

Funding Status

The long-term financial stability of a pension fund is measured in terms of the ratio of the actuarial value of assets to the actuarial accrued liability, the funded ratio. The greater the funded ratio, the greater assurance is given to participants that their pension benefits will be met. The Fund engages an independent actuary to perform an actuarial valuation of the plan annually. The December 31, 2008 valuation reports the actuarial value of assets at \$1.212 billion, the actuarial accrued liability (AAL) at \$1.852 billion, and the unfunded AAL at \$640 million, resulting in a funded ratio of 65.4%.

The Fund's funding objective is to meet all expected future obligations to present and future members and retirees, through earnings on its plan assets and future employer and employee contributions. The

amount of the employer contributions in a given year is limited by state statute, and accordingly, may not necessarily meet the annual actuarial requirements of the Fund. For the year ending December 31, 2008, the employer contributions represented 67.1% of the actuarially determined Annual Required Contribution (ARC). Over the last 10 years, employer contributions have ranged from a low of 59.4% to a high of 109.9% of the ARC, in 2007 and 1999, respectively.

In general, it is important to look historically at the funded ratio to assess the Fund's progress in relation to its long-term objective. During the last ten years, the funded ratio has ranged from the current low of 65.4% to a high of 87.6% in 2003, with the 10-year average being 76.3%. The significant variables involved would include the deviation in investment returns, employer contributions less than normal cost plus interest, changes in actuarial assumptions, benefit changes, and changes in fund experience, such as lower/higher rates of retirement. The historical funded ratio is provided in the Actuarial Section's "Actuarial Accrued and Unfunded Liabilities Table" accompanied by a trend graph.

Investments

The Fund's investment portfolio is a major contributor to the Fund. Investment income as a percentage of Additions, has ranged from the current low to as high as 74.1% in 2003 over the last ten years. In 2008, the invested assets of the Fund provided a rate of return of -25.5%, narrowly trailing the Policy Index return of -24.9%, compared to 5.5% in 2007.

At year-end, the Fund's 11 investment management firms were managing 18 separate mandates that comprised the investment portfolio. The Board employs an investment consultant to aid in the selection of investment management firms, to monitor and evaluate the investment management firms' performance, and to assist in the development of investment policy. Our goal is to maximize the long-term total return of the Fund's investments through a policy of diversification within a parameter of prudent risk as measured on the total portfolio.

The Investment Section contains details about the Fund's investment policy and performance, diversification, investment expenses and a summary of the investment activities that took place in 2008. Also included are the Master Custodian's report and the Investment Consultant's report.

MAJOR ACTIVITIES IN 2008

- This year, implementation began on the reallocation of the Fund's portfolio to the target asset allocation approved at the end of 2007, requiring two major transitions shifting investment holdings from fixed income to equities. Implementation will continue into 2009.
- We continued the development and testing of our database conversion from Oracle 9i to Microsoft SQL Server and our system conversion from Microsoft Visual Basic 6.0 to Microsoft Visual Basic.Net. Completion and full implementation of these conversions is expected in 2009.
- In June 2008, a 3-year contract was signed with our investment consultant Gray & Co.
- Legislation was passed in August 2008 that created two new Trustee positions. Joseph W. Rose was appointed as Retiree Trustee, and a special election was held to elect an Employee Member Trustee. Stephen J. Carmody was elected to this position.
- Member communications in 2008 included three published issues of Vested Interest, the Fund's newsletter, and eight full days of plant-site Individual Retirement Counseling sessions.
- Trustees participated in the following training sessions this year:
 1. Investment training, given by our investment consultant Ivory Day of Gray & Co.

2. Fiduciary responsibility training, given by our legal counsel Joseph Burns of Jacobs, Burns, Orlove, Stanton & Hernandez.
 3. Actuarial training, given by our actuary Sandor Goldstein of Goldstein & Associates.
 4. Participation in the Illinois Public Employee Retirement Systems summit.
- Benefit staff member completed CAPP training and certification, given by the International Foundation.

LEGISLATIVE CHANGES

Public Act 95-0923 was signed on August 26, 2008. This legislation adds two additional Trustees to the Retirement Fund Board, one appointed retiree and one elected active employee. The appointed retiree is recommended by the District's Board of Commissioners and approved by the Fund's Board Trustees. Each of the three appointed trustees will serve a term of three years and each of the four elected active employees will now serve a term of four years. The term of one appointed and one elected trustee expires each year.

Complete legislative changes from 1979 can be found in the Legislative Changes section of this CAFR.

ECONOMIC OUTLOOK

As we deal with these economically challenging times, it is important to remember that while the current collapse of the equity markets is not unprecedented, only the government's drastic interventions have prevented a complete collapse of the financial system. The current economic crisis was created by an abundance of easy credit, and asset values were driven down to unsustainable levels through the first quarter of 2009, and only in the second quarter did the economy show signs of stabilizing. Although this rally may not last, the equity markets are poised to generate attractive returns in the future.

Despite the current economic climate, the Fund's long-term economic outlook remains conservatively optimistic. Our income is generated from three sources: employee contributions, employer contributions, and investment income. Income from employee and employer contributions is established by statute and with no significant changes in benefits, would be expected to remain stable subject to membership and salary changes. Fund expenses are expected to increase with inflation, higher final average salaries for new annuitants, and with the compounding of post-retirement cost of living increases.

AWARDS

The Government Financial Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to our Fund for its CAFR for the fiscal year ended December 31, 2007. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents meet or exceed the program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for only one year. The Metropolitan Water Reclamation District Retirement Fund has received a certificate of achievement for the last 15 years. We believe our current report continues to conform to the Certificate of Achievement program requirements. We are, therefore, submitting it to the GFOA to determine its eligibility for a Certificate of Achievement for the fiscal year ending December 31, 2008.

ACKNOWLEDGMENTS

The preparation of this report reflects the combined efforts of the Fund staff under the direction of the Board of Trustees. This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the assets of the Fund.

Respectfully submitted,

Susan A. Boutin
Executive Director

BOARD OF TRUSTEES

Joseph F. Kennedy, President

Mr. Kennedy began his employment at the Metropolitan Water Reclamation District of Greater Chicago (District) in 1988. He currently works in the District's Engineering Department as a Supervising Civil Engineer. He was appointed to the MWRD Retirement Fund Board of Trustees in 1999, was elected to the Board later that same year, and was re-elected in 2002, 2005 and 2008.

Robert T. Regan, Vice President

Mr. Regan began his District employment in 1991. He currently works in the District's Maintenance & Operations Department as a Principal Mechanical Engineer at the Stickney Water Reclamation Plant. He was elected by the employees to serve a three-year term on the MWRD Retirement Fund Board of Trustees in 2004 and was re-elected in 2007.

Hon. Gloria Alitto Majewski, Secretary

Mrs. Majewski has served as a District Commissioner since December 1984 and is currently serving as the Chairman of Finance. She has served for consecutive annual appointments on the MWRD Retirement Fund Board of Trustees since January 1987.

John P. Dalton, Jr., Trustee

Mr. Dalton began his District employment in 1993. He currently works in the District's Maintenance & Operations Department as an Electrical Mechanic Sub-Foreman at the Stickney Water Reclamation Plant. He was appointed to the MWRD Retirement Fund Board of Trustees in 2005 and was elected to serve a three-year term on the Board in 2006.

Hon. Barbara J. McGowan, Trustee

Mrs. McGowan has served as a District Commissioner since 1998. She was appointed to the MWRD Retirement Fund Board of Trustees in December 2007 to fill the vacancy of the retired Hon. Harry "Bus" Yourell, and re-appointed in January 2008.

Stephen J. Carmody, Trustee

Mr. Carmody began his District employment in 1989. He currently works in the District's Maintenance & Operations Department as Engineer of Treatment Plant Operations I at the Stickney Water Reclamation Plant. He was elected in November 2008 by the employees to serve on the MWRD Retirement Fund Board of Trustees through November 30, 2011.

Joseph W. Rose, Trustee

Prior to retirement, Mr. Rose worked as Accounting Manager for the District's Finance Department, from 1999 to 2006. He was appointed to the position of Retiree Trustee in November 2008, as recommended by the District and approved by the MWRD Retirement Fund Board of Trustees to serve through January 31, 2011.

EXECUTIVE STAFF AND ADVISORS

EXECUTIVE STAFF

Susan A. Boutin, Executive Director

ADVISORS

- Legal Counsel: Jacobs, Burns, Orlove, Stanton and Hernandez, Chicago, IL
- Investment Consultant: Gray & Company, Atlanta, GA
- Consulting Actuary: Goldstein & Associates, Chicago, IL
- Auditor: Bansley and Kiener, LLP, Chicago, IL
- Master Custodian: The Bank of New York Mellon Co., New York, NY

INVESTMENT MANAGERS

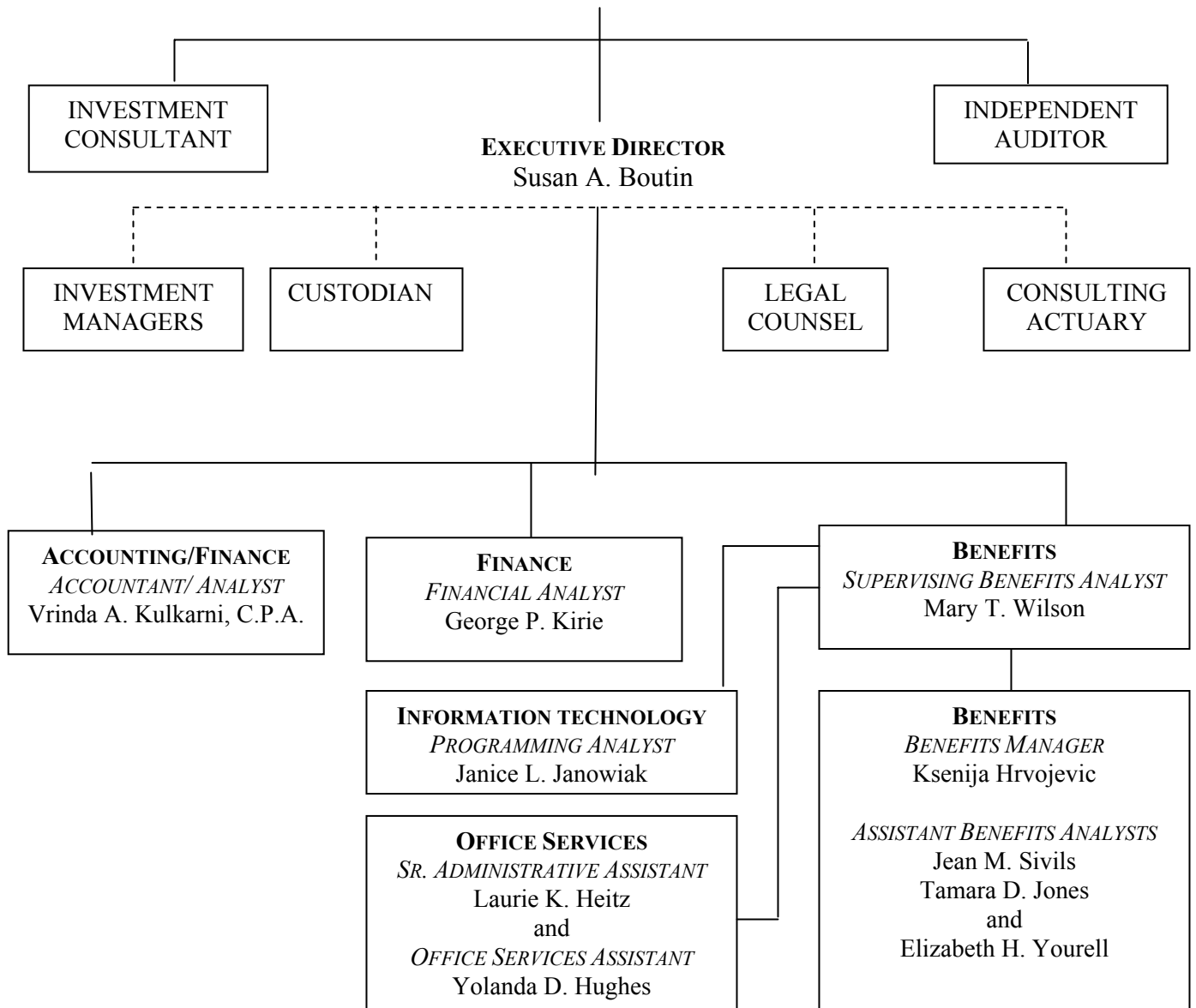
1. Alliance Bernstein LP, Philadelphia, PA
2. Ariel Capital Management LLC, Chicago, IL
3. Chicago Asset Management Co. LLC., Chicago, IL
4. Earnest Partners LLC., Atlanta, GA
5. Lombardia Capital Partners, LLC., Pasadena, CA
6. Northern Trust Global Investments, Inc., Chicago, IL
7. State Street Global Advisors, Boston, MA
8. Systematic Financial Management, Teaneck, NJ
9. UBS Global Asset Management, Chicago, IL
10. Wasatch Advisors, Salt Lake City, UT
11. Wellington Management Co., Boston, MA

ORGANIZATIONAL CHART

December 31, 2008

BOARD OF TRUSTEES

Joseph F. Kennedy (President)
 Robert T. Regan (Vice President)
 Hon. Gloria Alitto Majewski (Secretary)
 John P. Dalton, Jr. (Trustee)
 Hon. Barbara J. McGowan (Trustee)
 Stephen J. Carmody (Trustee)
 Joseph W. Rose (Trustee)



———— Full and direct authority and responsibility.
 - - - - - Appointment by the Board of Trustees, direction and coordination by the Executive Director.

RESPONSIBILITIES OF THE BOARD OF TRUSTEES

The Board of Trustees of the Retirement Fund is composed of seven members. Two Trustees are appointed by the District Board of Commissioners, one is recommended by the District Board of Commissioners and approved by the Retirement Fund Board, and four are District employees elected by the active members of the Fund. Effective August 2008 appointed members will serve for terms of three years, and elected members will serve for terms of four years on a rotating basis so that each year, one seat on the Board is up for election.

Annually, the Board of Trustees elects a President, a Vice President, and a Secretary. Among its duties, the Board authorizes payments of benefits, supervises collections, directs investment of the reserves of the Fund in a manner prescribed by State statute and Fund policies, makes rules and regulations for the proper conduct of the affairs of the Fund, appoints employees and consultants and submits a detailed report of the affairs of the Fund to the State of Illinois Department of Financial and Professional Regulation and to the District. The Board appoints an Executive Director who is responsible for all administrative functions and supervision of staff.

RESPONSIBILITIES OF THE STAFF

The Executive Director and the Fund staff are responsible for the administration and payment of benefits to the members of the Fund, active and retired under the direction of the Board of Trustees.

Staff responsibilities include computation of annuity benefits, certification of reciprocal service credit, refunds of spouse contributions at the time of retirement to unmarried employees, contribution refunds to qualified participants and insurance enrollment and claim administration. In the event of a death of a participant, the staff calculates survivor benefits (spouse and child) or a refund to estate, if applicable. All calculations are verified internally before they are presented to the Trustees for approval. The staff is responsible for distribution of benefit payments and the associated withholding for taxes, insurance, credit union deductions and year-end tax reporting (IRS Form 1099-R).

Prior to retirement, our staff prepares retirement estimates for inquiring employees at any stage of their career and individual retirement counseling is provided. Estimate calculations include applicable refund repayment, military service and leave of absence payment estimates to qualified individuals to enhance their retirement benefits. In a cooperative effort with the District, we periodically present pre-retirement seminars at various locations throughout the District.

The Fund staff is also responsible for the administration of ordinary and duty disability benefits to disabled employees, which includes verification of the disability, calculation and payment of the benefits. The benefit staff also maintains a record of all employee contributions and the associated interest.

The Executive Director is responsible for coordinating efforts with the Fund's various consultants. In conjunction with our investment consultant, the Fund coordinates asset allocation studies, investment manager searches, asset transitions, development and maintenance of the Fund's investment policy and investment monitoring. With the guidance of the Fund's actuary and attorney, the Fund reviews and makes recommendations regarding legislative initiatives. We consult with attorneys regarding any current legal action to which the Fund is a party and for statutory interpretations or to obtain determinations from the Internal Revenue Service.

We are responsible for the general accounting that serves as the basis for the annual financial statements. Financial statements with supporting schedules and statistical tables are prepared in a cooperative effort between staff and auditors. Our auditor also reviews and makes recommendations regarding accounting practices. The annual audit includes limited sampling for compliance with statutory and administrative policy.

The Fund's automated systems provide reporting of additions and changes made to the member data during each processing cycle. Similarly, the actuary performs comparisons relative to historical data in order to identify any anomalies annually. Every four years, our actuary performs an experience analysis to review the recent experience of the Fund and to recommend actuarial assumptions for use in the annual valuation.

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FINANCIAL SECTION

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements:

Statement of Plan Net Assets

Statement of Changes in Plan Net Assets

Notes to Financial Statements

Required Supplementary Information:

Schedule of Funding Progress

Schedule of Employer Contributions

Note to Schedule of Funding Progress and Employer Contributions

Other Supplementary Information:

Schedule of Administrative Expenses

Schedule of Investment Expenses

Schedule of Payments to Consultants

Post Employment Healthcare

Report on Internal Control and Compliance

BANSLEY AND KIENER, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
O'HARE PLAZA
8745 WEST HIGGINS ROAD, SUITE 200
CHICAGO, ILLINOIS 60631
AREA CODE 312 263-2700

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Metropolitan Water Reclamation District
Retirement Fund
Chicago, Illinois

We have audited the statement of plan net assets of Metropolitan Water Reclamation District Retirement Fund, a component unit of the Metropolitan Water Reclamation District of Greater Chicago, as of December 31, 2008, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Fund's financial statements include partial prior-year information. Such information does not include notes to the basic financial statements which are required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with The Fund's financial statements for the year ended December 31, 2007, from which such partial information was derived.

We conducted our audit 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of Metropolitan Water Reclamation District Retirement Fund as of December 31, 2008 and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2009 on our consideration of the Metropolitan Water Reclamation District Retirement Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of

that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 20 thru 27 and the schedules of funding progress and employer contributions on page 38 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying 2008 schedules of administrative expenses, investment expenses, payments to consultants and post employment healthcare on pages 39 and 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 2, the Fund adopted Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures* in 2008.

Bansley and Kilner, L.L.P.

Certified Public Accountants

March 27, 2009

METROPOLITAN WATER RECLAMATION DISTRICT RETIREMENT FUND

(A Component Unit of the Metropolitan Water Reclamation District of Greater Chicago)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Metropolitan Water Reclamation District Retirement Fund (Fund) presents this narrative overview of the financial statements and financial performance of the Fund for the years ended December 31, 2008 and 2007. This Management's Discussion and Analysis (MD&A) is designed to focus on current activities, resulting changes and current known facts. It should be read in conjunction with the letter of transmittal, the financial statements and their accompanying notes, required supplementary information and other supplementary information.

UNDERSTANDING THE FUND'S FINANCIAL STATEMENTS

The Fund prepares its financial statements on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Statement of Plan Net Assets includes all of the Fund's assets and liabilities and provides information about the nature and amount of investments available to satisfy the pension benefits of the plan. The Statement of Changes in Plan Net Assets accounts for all additions to and deductions from the net assets held in trust for pension benefits. This statement measures the Fund's success over the past year to increase the net assets available for pension benefits.

While the Statement of Plan Net Assets and Statement of Changes in Plan Net Assets measure the value of plan net assets and their changes at fair value, important actuarial factors also need to be considered in order to determine the financial health of the Fund. Two primary factors are the funded status and the Annual Required Contribution (ARC), both of which are calculated by the Fund's actuary.

The Fund's funded status is the ratio of the actuarial value of assets to the actuarial liability, and is calculated using the 5-year smoothed market-related value method. The smoothing prevents extreme volatility in the computed Annual Required Contribution rates due to short-term fluctuations in the investment markets. The ARC is a combination of the Employer's normal cost, and the amortization of the unfunded liability over 30 years; this can be compared to the actual contribution from the Employer. Details about both of these indicators can be found in the actuarial section of this CAFR.

In addition to the Independent Auditor's Report and this MD&A, the Financial Section of this CAFR contains the following four components:

1. Basic Financial Statements, which are the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets.
2. Notes to the Financial Statements, which contains information that is an integral part of the financial statements.
3. Required Supplementary Information, presenting important actuarial information, details of which are in the Actuarial Section of this CAFR.
4. Other Supplementary Information, which gives details of administrative, investment and consulting expenses, as well as disclosure regarding post-employment healthcare.

FINANCIAL HIGHLIGHTS

- The Fund's investment portfolio returned -25.5% and 5.5% for the calendar years 2008 and 2007 respectively. The Fund's policy index returned -24.9% and 5.6% for the same years. The actuarial assumed investment rate of return, appropriately based on long-term historical performance of the markets, has been 7.75% since 2002.
- The Fund's net assets available for benefits decreased \$353.3 million or 28.7% to \$878.8 million at December 31, 2008, from \$1.232 billion at December 31, 2007, due primarily to fair value declines of investments held at year end.
- Total additions to plan net assets were -\$251.0 million in 2008, comprised of employer and employee contributions of \$48.2 million, net investment losses of \$299.7 million, and other additions. Net investment losses were the result of realized losses on disposed investments of \$41.8 million, unrealized losses on investments held at year end in the amount of \$269.4 million, offset by income from interest, dividends, and securities lending activities.
- Total deductions from plan net assets were \$102.3 million in 2008, an increase of \$4.8 million or 5.0% from 2007 due to normal increases in benefit payments, offset by an \$184,300 decrease in administrative expenses.
- The Fund's funded ratio as of December 31, 2008 was 65.4%, down from 70.0% in 2007. The decrease was mostly due to lower than expected investment returns. The actuarial value of assets at December 31, 2008 decreased \$45.0 million or 3.6%, while the actuarial liability increased \$57.1 million or 3.2%, over the prior year.
- The Annual Required Contribution (ARC) was calculated to be \$49.8 million and \$47.1 million for 2008 and 2007 respectively. The actual employer contribution for 2008 and 2007 was 67.1% and 59.4% of the ARC, respectively.

- The tax multiple used to determine the tax levy for 2008 was 2.19. It was estimated that a tax multiple of 4.4 would have been required to have employer contributions cover the full actuarially determined contribution requirement (i.e. the ARC) for 2008. For the year 2009 it was estimated that a tax multiple of 4.65 would have been required.
- Total members in the plan increased by 49 members from 2007 to 2008. Active members increased by 50, members receiving benefits decreased by 4, and inactive members increased by 3.

PLAN NET ASSETS

A summary of plan net assets for the pension trust at December 31, 2008 and 2007 is shown below. These financial statements reflect the resources available to pay future benefits to retirees and beneficiaries at the close of the reported years. Details of plan net assets at years ending December 31, 2008 and 2007 are found on page 28.

Condensed Statement of Plan Net Assets

<u>ASSETS:</u>	<u>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>
Cash	\$ 130,703	\$ 112,202	\$ 18,501	16.5%
Receivables	35,177,234	39,266,027	(4,088,793)	-10.4%
Investments	850,451,228	1,195,418,217	(344,966,989)	-28.9%
Lending	20,172,613	171,495,526	(151,322,913)	-88.2%
Total Assets	<u>905,931,778</u>	<u>1,406,291,972</u>	<u>(500,360,194)</u>	<u>-35.6%</u>
<u>LIABILITIES:</u>				
Securities	20,172,613	171,495,526	(151,322,913)	-88.2%
Other	6,961,973	2,728,032	4,233,941	155.2%
Total Liabilities	<u>27,134,586</u>	<u>174,223,558</u>	<u>(147,088,972)</u>	<u>-84.4%</u>
NET ASSETS	<u>\$ 878,797,192</u>	<u>\$ 1,232,068,414</u>	<u>\$ (353,271,222)</u>	<u>-28.7%</u>

Plan net assets for the pension trust decreased \$353.3 million or 28.7% from plan net assets at December 31, 2007. This was the combined result of a decrease in total assets of \$500.4 million, and a decrease in total liabilities of \$147.1 million from 2007.

The primary component in the decrease in total assets was the \$345.0 million decrease in investments from 2007. This decrease was primarily due to significant declines in the financial markets. Another factor was the decrease in receivables related to pending securities sales, accrued interest and accrued dividends.

The \$151.3 million decrease in securities lending capital and collateral from December 31, 2007 resulted from the lack of demand for fixed income and equity securities at year-end. This decrease affected both total assets and total liabilities, but had no effect on plan net assets.

Total liabilities decreased by \$147.1 million from 2007, due in large part to the decrease in securities lending collateral described above. This decrease was partially offset by increases in liabilities related to pending securities purchases at year-end.

Total assets minus total liabilities are equal to net plan assets. Plan net assets at December 31, 2008 are \$878.8 million, representing amounts available to satisfy pension benefits at year-end.

CHANGES IN PLAN NET ASSETS

A summary of changes in plan net assets for the pension trust for the fiscal years ending December 31, 2008 and 2007 is provided below. These financial statements reflect changes in the sources (additions) and uses (deductions) of funds during these years. The net increase or decrease is the change in net assets available for benefits since the end of the previous fiscal year. Details of changes in plan net assets during 2008 and 2007 may be found on page 29.

Condensed Statement of Changes in Plan Net Assets

<u>ADDITIONS:</u>	<u>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>
Employer contributions	\$ 33,406,819	\$ 27,947,096	\$ 5,459,723	19.5%
Employee contributions	14,778,404	15,627,673	(849,269)	-5.4%
Total contributions	48,185,223	43,574,769	4,610,454	10.6%
Investment gain (loss), net of investment expense	(299,744,111)	62,462,784	(362,206,895)	-579.9%
Securities lending income	583,493	154,057	429,436	278.8%
Other	18,089	54,884	(36,795)	-67.0%
Total additions	<u>(250,957,306)</u>	<u>106,246,494</u>	<u>(357,203,800)</u>	-336.2%
<u>DEDUCTIONS:</u>				
Retirement annuities	83,948,187	79,416,735	4,531,452	5.7%
Survivor annuities	15,056,865	14,087,145	969,720	6.9%
Disability benefits	1,063,697	1,342,141	(278,444)	-20.7%
Subtotal annuities and benefits	100,068,749	94,846,021	5,222,728	5.5%
Refunds	964,846	1,164,218	(199,372)	-17.1%
Administrative expense	1,280,321	1,464,635	(184,314)	-12.6%
Total deductions	<u>102,313,916</u>	<u>97,474,874</u>	<u>4,839,042</u>	5.0%
Increase in Plan Net Assets	<u>(353,271,222)</u>	<u>8,771,620</u>	<u>(362,042,842)</u>	-4127.4%
Beginning Plan Net Assets	1,232,068,414	1,223,296,794	8,771,620	0.7%
Ending Plan Net Assets	<u>\$ 878,797,192</u>	<u>\$1,232,068,414</u>	<u>\$ (353,271,222)</u>	-28.7%

Additions

Additions to Plan Net Assets are accumulated through contributions by the employer and employee and returns provided by invested funds.

Total contributions for 2008 were \$48.2 million representing an overall increase of \$4.6 million or 10.6% from 2007. Employer contributions were \$33.4 million, an increase of \$5.5 million or 19.5% over 2007. Employer contributions are collected from an annual tax levy based upon a multiple of employee contributions two years prior. The tax multiple, limited by state statute, has been 2.19 since 1988.

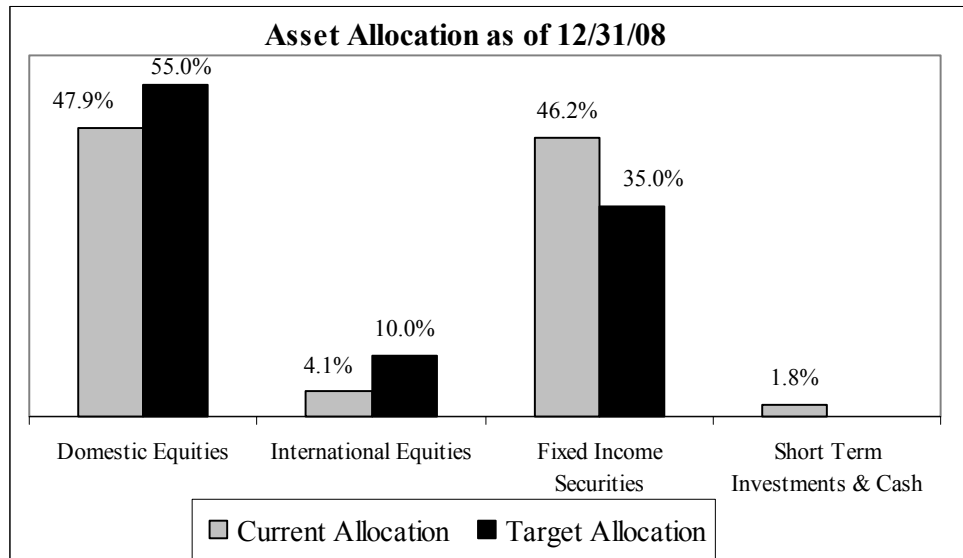
Employee contributions were \$14.8 million, a decrease of \$849,300 or 5.4% from 2007. These include salary deductions of 9%, and in 2007 included \$1.3 million additional optional plan contributions. The optional plan provisions expired on December 31, 2007. Additional factors include a decrease in military service payments of \$242,300 and an increase in regular salary deductions of \$716,100 or 5.1% in 2008. The increase in regular salary deductions corresponds to the approximately 5% increase in employer payroll in 2008. In general, total employee contributions vary with changes in employer payroll and plan modifications.

Investment losses for the year ending December 31, 2008 amounted to \$299.7 million compared to gains of \$62.5 million in 2007. The losses in 2008 were due to the significant declines in the equity markets, starting in the fourth quarter of 2007 and continuing throughout 2008. Investment income is a combination of interest and dividend income, realized gains (losses) on disposed investments, and unrealized gains (losses) on investments held at year end. Investment income is shown net of investment expenses consisting of fees charged by each of the Fund's investment managers.

Interest and dividend income increased \$261,200 over income in 2007, the net result of increased dividend income due to higher equity holdings throughout the year, and lower interest rates on fixed income and short-term investments. In 2008, dispositions of investments resulted in net realized losses of \$41.8 million, a combination of \$10.8 million gains on sales of equity investments and \$52.6 million losses on sales of fixed income investments. Unrealized losses, primarily in the equity holdings at year end, totaled \$269.4 million in 2008. In comparison, dispositions of investments in 2007, primarily fixed income investments, resulted in \$51.6 million realized gains, and unrealized losses of only \$265,500.

The Fund's rate of return on investments in 2008 was -25.5%, versus its Policy index of -24.9%. The Policy index is composed of 55% domestic equities (25% S&P 500 index, 20% Russell mid cap index, 10% Russell 2000 small cap index), 10% international equities (MSCI EAFE Index) and 35% domestic fixed income (Barclays Aggregate Bond Index).

The following chart illustrates the actual vs. target allocation at December 31, 2008:



The Fund’s external investment managers manage risk by keeping a diversified portfolio so that the impact of positive/negative market swings in the various sectors of our portfolio offset each other. Detailed information about the fund’s investment policy and returns can be found in the Investment section of this CAFR.

Since 2007 the Fund has participated in the securities lending program offered by the Bank of New York Mellon, the Fund’s custodian bank, with regards to its actively managed equity and fixed income securities. For the years ended December 31, 2008 and 2007, the Fund generated net securities lending income from the program of \$583,500 and \$154,100, respectively. The Fund also participates in the securities lending programs offered by State Street Global Advisors (SSGA) and Northern Trust Global Investments (NTGI) with regards to their pooled index funds. Securities lending income earned by SSGA serves as a credit to quarterly management fees, and any remainder is used for purchasing additional units in the bond index fund. NTGI’s securities lending income or loss is reflected in the net asset value of the index fund.

Deductions

Deductions to plan net assets are payments made by the Fund for benefits (for retirees, survivors, and disabled employees), refunds and administrative expenses. Total deductions for 2008 were \$102.3 million compared to \$97.5 million in 2007, an increase of \$4.8 million, or 5.0%. The increase in benefits is attributable in part to a 3% cost of living increase granted to annuitants each year. Annuity benefits also increase as long term annuitants with lower benefits die and new retirees with higher benefits are added to annuitant payments. Administrative expenses decreased by \$184,300 due primarily to decreases in software consulting fees, payroll expenses and legal fees from 2007.

ECONOMIC FACTORS IMPACTING 2009

Management's Discussion and Analysis

Financial Section

As of the latest available quarterly data, the Fund's investment return for the period ended March 23, 2009 was -6.2 percent, versus the policy index return of -7.4%. The Fund's total investments at fair value as of March 23, 2009 are approximately \$800.7 million, a decrease of approximately \$49.8 million since year-end. Although investment returns in 2008 were disappointing, the Fund maintains a long-term perspective and hopes to achieve investment returns that outperform our policy index and actuarial assumed rate of return of 7.75% in the long run.

CONTACT INFORMATION

This financial report is intended to provide our members and other interested parties with a general overview of the Metropolitan Water Reclamation District Retirement Fund's finances. Questions concerning this report or requests for additional information should be directed to the Fund at 111 East Erie Street, Suite 330, Chicago, Illinois 60611, or (312) 751-3222.

STATEMENT OF PLAN NET ASSETS
December 31, 2008
(with comparative amounts for prior year)

<u>Assets</u>	2008	2007
Cash	\$ 130,703	\$ 112,202
Receivables:		
Employer Contributions-taxes (net of allowance for uncollectible amounts of \$3,990,730 in 2008; \$5,554,014 in 2007)	31,314,042	30,066,981
Securities sold	2,797,988	7,391,010
Accrued interest and dividends	1,013,595	1,756,798
Accounts receivables	51,609	51,238
Total receivables	35,177,234	39,266,027
Investments at fair value:		
U.S. Treasuries	11,212,427	27,888,287
U.S. Agencies	4,036,474	19,285,180
Corporate bonds and notes	6,566,897	34,590,252
Mortgage backed securities	14,786,636	34,374,631
Asset backed securities	1,793,988	8,274,784
Collateralized mortgage obligations	-	18,725,173
Pooled funds - fixed income	354,790,076	500,038,871
Pooled funds - equities	50,274,377	49,344,250
Common and preferred stocks	392,503,639	488,380,345
Short-term investments	14,486,714	14,516,444
Total investments	850,451,228	1,195,418,217
Securities lending collateral	20,172,613	171,495,526
Total assets	905,931,778	1,406,291,972
<u>Liabilities</u>		
Accounts payable	891,082	713,244
Securities lending collateral	20,172,613	171,495,526
Securities purchased	6,070,891	2,014,788
Total liabilities	27,134,586	174,223,558
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 38)	\$ 878,797,192	\$ 1,232,068,414

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year ended December 31, 2008

(with comparative amounts for prior year)

<u>Additions:</u>	2008	2007
Employer contributions	\$ 33,406,819	\$ 27,947,096
Employee contributions	14,778,404	15,627,673
Total contributions	48,185,223	43,574,769
Investment income		
Net appreciation (depreciation) in fair value of investments	(311,205,254)	51,318,416
Interest on fixed income investments	4,106,340	5,398,891
Interest on short-term investments	670,923	821,893
Dividend income	9,191,366	7,486,606
Total investment income (loss)	(297,236,625)	65,025,806
Less investment expenses	2,507,486	2,563,022
Investment income, net of expenses	(299,744,111)	62,462,784
Security lending activities		
Securities lending income	3,691,075	1,860,212
Borrower rebates	(2,912,737)	(1,654,778)
Bank fees	(194,845)	(51,377)
Net income from securities lending activities	583,493	154,057
Other	18,089	54,884
Total additions	(250,957,306)	106,246,494
<u>Deductions:</u>		
Annuities and benefits		
Employee annuitants	83,948,187	79,416,735
Surviving spouse annuitants	14,934,213	13,960,889
Child annuitants	122,652	126,256
Ordinary disability benefits	846,201	1,099,784
Duty disability benefits	217,496	242,357
Total annuities and benefits	100,068,749	94,846,021
Refunds of employee contributions	964,846	1,164,218
Administrative expense	1,280,321	1,464,635
Total deductions	102,313,916	97,474,874
Net increase (decrease)	(353,271,222)	8,771,620
Net assets held in trust for pension benefits		
Beginning of year	1,232,068,414	1,223,296,794
End of year	\$ 878,797,192	\$ 1,232,068,414

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Plan Description

The Metropolitan Water Reclamation District Retirement Fund (Fund) is the administrator of a single employer defined benefit plan, established by the Illinois State Legislature in 1931 to provide retirement annuities, death and disability benefits for certain employees of the Metropolitan Water Reclamation District of Greater Chicago (District). The Plan is administered in accordance with Chapter 40, Act 5, Article 13 of the Illinois Compiled Statutes.

The Board of Trustees is composed of four member-elected employee Trustees, and three appointed Trustees, one of which is a retiree. State law authorizes the Board to make investments, pay benefits, hire staff and consultants and perform all necessary functions to carry out the provisions of the Illinois Compiled Statutes. The provisions of the plan, including the defined benefits and the employer and employee contribution levels are established by those statutes and may be amended or terminated only by the Illinois State Legislature.

Membership

At December 31, 2008 the plan's membership consisted of:

	<u>2008</u>
Active employees	
Fully vested	1,306
Non-vested	746
Total Active Employees	<u>2,052</u>
Retirees and beneficiaries currently receiving benefits	
Retirees	1,605
Surviving Spouses	647
Children	20
Total Retirees and Beneficiaries	<u>2,272</u>
Inactive members entitled to benefits or a refund of contributions	159
	<u><u>4,483</u></u>

Contributions

Covered employees are required to contribute 9% of their salary to the Fund, which is collected as a payroll withholding over the twenty-six pay periods in most years. The District is required by state statute to contribute the remaining amounts necessary to finance the requirements of the Fund on an actuarially funded basis. The District levies a tax at a rate not to exceed an amount equal to the total amount of contributions by the employees to the Fund made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 2.19. Details pertaining to the actual employer contributions and the actuarially computed funding requirements can be found in the Required Supplementary Information.

Retirement Benefits

Employees age 50 (55 if hired after June 13, 1997) or more with at least 10 years of service are entitled to receive a minimum retirement benefit. The retirement benefit is 2.2% of the final average salary (FAS) for each of the first 20 years of service and 2.4% for each year of service in excess of 20 years. The benefit shall not exceed 80% of FAS. FAS equals the highest average annual earnable salary for any 52 consecutive pay periods within the last 10 years of service immediately preceding the date of retirement. If the employee retires prior to the attainment of age 60, the benefit computed shall be reduced by .5% for each full month of service less than 30 years or age under 60 years. There is no discount if the participant has 30 years of service. Employees with at least 5 years of service at age 60 are eligible to receive an undiscounted retirement benefit.

From July 2003 to July 2013, active employees having at least 10 years of MWRD service credit and meeting other requirements may purchase up to 2 years of active military credit toward their retirement annuity. The employee contribution for military service is calculated based upon the starting salary and includes the employer's normal cost at the time of payment, plus regular interest of 3% per year compounded annually.

The Alternative Plan for District Commissioners provides an enhanced benefit formula for Commissioners age 55 or older with at least 6 years of service. An additional contribution of 3% of salary is required for participation.

Refunds

If an employee leaves covered employment under age 50 (55 if hired after June 13, 1997), or over age 50 (55 if hired after June 13, 1997) and less than 60 with less than 20 years of service, or age 60 with less than 5 years of service, accumulated employee contributions are refunded upon request.

Surviving Spouse Benefits

Upon the death of a member an annuity will be payable to his/her eligible surviving spouse. The surviving spouse benefits are equal to 60% of the employees retirement benefit at the time of death, adjusted by a factor of 1% for each year of total service, with a maximum of 85%.

Disability Benefits

Employees suffering injury or illness arising out of employment with the District may apply for duty disability benefits administered by the Fund. Duty disability benefits combined with Worker's Compensation benefits provide 75% of the salary earned on the date of disability. If an employee is disabled at age 60 or over, the maximum period of disability is five years.

Employees who become disabled due to a non-employment related injury or illness may apply for ordinary disability benefits administered by the Fund. Ordinary disability benefits provide 50% of the employee's earnable salary at the date of disability, for a period of 25% of the employee's service with a maximum period of disability of five years.

Funded Status and Funding Progress

During the year ended December 31, 2008, the Fund has adopted Governmental Accounting Standards Board Statement No. 50, Pension Disclosures-an amendment to GASB No. 25 and No. 27. As a result, the Fund has addressed certain pension disclosures.

The funded status of the Fund as of December 31, 2008 the most recent actuarial valuation date is as follows:

Actuarial value of assets (a)	Actuarial accrued liability (AAL) – Entry Age (b)	Unfunded actuarial accrued liability (UAAL) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL as a percent of covered payroll ((b-a)/c)
\$ 1,211,838,320	\$ 1,852,279,634	\$ 640,441,314	65.4%	\$ 167,865,254	381.52%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation date	12/31/2008
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Amortization period	30 years (open period)
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.00%
Post retirement cost of living	3.00%
Assumed inflation rate	4.00%

Note 2 - Summary of Significant Accounting Policies

Reporting Entity

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either a) the ability to impose will by the primary government or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon these criteria, the Fund is considered a component unit of the Metropolitan Water Reclamation District of Greater Chicago and, as such, is included in the Metropolitan Water Reclamation District's financial statements as a pension trust fund. The Fund has no component units.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Fund member contributions are recognized as additions in the period in which the contributions are due. Employer contributions to the Fund are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and administrative expenditures are recognized when incurred.

Investments

The Fund reports investments at fair value. Fair value for stocks is determined by using the closing price listed on the national securities exchanges as of December 31. Fair value for fixed income securities is determined principally by using quoted market prices provided by independent pricing services. For commingled funds, the net asset value is determined and certified by the commingled fund manager as of December 31. Investments in short-term investments are carried at cost which approximates market value.

Income on all investments is recognized on the accrual basis. Gains and losses on sales and exchanges of investments are recognized on the transaction date. Purchases and sales are recorded net of commissions paid to brokerage firms. Investment management fees are recorded as a reduction of investment income.

Note 3 – Deposits

At December 31, 2008, the Fund's book balance of cash is \$130,403 held at the Amalgamated Bank in Chicago. The actual bank balance is \$195,958 at December 31, 2008. This account from time to time may exceed amounts insured by the Federal Deposit Insurance Corporation.

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by deposit insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution or (c)

collateralized with securities held by the pledging financial institution's trust department or agent but not in the Fund's name. The Fund does not have a formal policy relating to custodial risk for deposits.

Note 4 – Investments

Authorization

The Illinois Statutes prescribe the "prudent person rule" as the Fund's investment authority, effective August 31, 2007. This rule requires the Fund to make investments with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an entity of like character with like aims. Within the "prudent person" framework, the Board of Trustees adopts investment guidelines for the Fund's investment managers which are included within their respective Investment Management Agreements. The Investment Section contains a summary of these guidelines. By statute, all investments are held in the name of the Metropolitan Water Reclamation District Retirement Fund.

Investment Policy

The Fund is expected to exceed the actuarial target return of 7.75% over a complete market cycle of approximately five years. The Fund is expected to exceed the policy index, on average, over rolling four quarter periods. The target allocation is 65% equities and 35% fixed income (since 12/31/07). The composition of the policy index is 25% S&P 500 Index, 20% Russell Mid Cap Index, 10% Russell 2000 Index, 10% MSCI EAFE Index and 35% Barclays Aggregate Index.

Custodian

Certain Fund investments are held by a bank administered trust fund. No single investment represented five percent or more of the Fund's net assets at December 31, 2008. (Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are excluded from this identification requirement.)

The Fund's actively managed investments are registered in electronic book entry form and held in Trust Accounts custodied by The Bank of New York Mellon, the Fund's agent. The Fund's pooled investments are held in trust and custodied by Northern Trust Global Investments (NTGI) and State Street Global Advisors (SSGA).

Interest Rate Risk

Interest rate risk is defined as the risk that the fair value of an investment will be adversely affected by changes in market interest rates. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One strategy to manage exposure to interest rate risk is to purchase a combination of short-term and long-term investments, while considering cash flow needs of the Fund. The Fund does not maintain an investment policy relative to interest rate risk. However, the Board of Trustees recognizes that its investments are subject to short-term volatility and their goal is to maximize total return within prudent risk parameters.

The following table categorizes the Fund's interest bearing investments and presents the weighted average maturities of debt securities held by the Fund as of December 31, 2008.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Avg. Maturities (years)</u>
U S Treasuries	\$ 11,212,427	6.9
U S Agencies	4,036,474	3.0
Corporate bonds and notes	6,566,897	12.6
Mortgage backed securities	14,786,636	1.6
Asset backed	1,793,988	0.8
Pooled funds - long term investments	354,790,076	5.4
Pooled funds - short term investments	14,486,714	0.1
	<u>\$ 407,673,212</u>	

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investments or collateral securities that are in the possession of the outside party. As of December 31, 2008 the Fund had no exposure to custodial credit risk since all investments were insured, registered, and/or held in the Fund's name.

Credit Risk

Credit risk is defined as the risk that the issuer of a debt security will not pay its par value upon maturity. According to the provisions of the Illinois Compiled Statutes, fixed income purchases shall be limited to obligations issued or guaranteed as to principal and interest by the U.S. Government or any agency or instrumentality thereof, or to corporate and municipal issues. All securities shall be of "investment grade" quality, that is, at the time of purchases, rated no lower than "Baa" by Moody's and no lower than "BBB" by Standard and Poor's. The Trustees, at their discretion, may impose a higher standard on an individual investment manager basis as circumstances or investment objectives dictate.

The table below reports the average credit ratings for the Fund's debt securities at December 31, 2008 (excluded are investments in U.S. Government obligations or obligations explicitly guaranteed by the U.S. Government which are classified under the heading U.S. Treasuries)

<u>Credit Rating</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	Mortgage backed securities	\$ 14,786,636	3.8%
AAA	Asset backed securities	1,793,988	0.5%
AAA	Pooled funds - short term investments	14,486,714	3.7%
AAA/Aaa	Pooled funds - long term investments	282,298,272	71.9%
AA/AA-/Aa	Pooled funds - long term investments	15,772,744	4.0%
A	Pooled funds - long term investments	33,857,084	8.6%
BAA/Baa	Pooled funds - long term investments	22,827,037	5.8%
Below Baa/NR	Pooled funds - long term investments	34,939	0.0%
BBB+	Corporate bonds and notes	6,566,897	1.7%
		<u>\$ 392,424,311</u>	<u>100.0%</u>

Foreign Currency Risk

Foreign currency risk is the risk of loss arising from changes in currency exchange rates. All foreign currency-denominated investments held by the Fund are in equities and foreign cash. The Fund does not maintain an investment policy relative to foreign currency risk. The Fund's exposure to foreign currency risk at December 31, 2008 was as follows:

<u>Currency</u>	<u>Fair Value</u>	<u>Percentage</u>
Australian Dollar	\$ 1,627,307	4.6%
Belgium Euro	147,048	0.4%
Danish Krone	363,374	1.0%
Euro	12,513,663	35.6%
Hong Kong Dollar	1,424,516	4.1%
Japanese Yen	8,411,289	23.9%
Norwegian Krone	279,147	0.8%
Swedish Krona	521,139	1.5%
Swiss Franc	3,662,535	10.4%
British Pound Sterling	6,217,960	17.7%
Total	<u>\$ 35,167,978</u>	<u>100.0%</u>

Securities Lending

The Fund lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank of New York Mellon, the Fund's master custodian, lends for collateral in the form of cash, irrevocable letters of credit or other securities worth at least 102% of the lent securities' market value, and international securities for collateral worth at least 105%. Securities lent at year-end for cash collateral are presented as not categorized in the preceding summarization of investment market values; securities lent for securities collateral are classified according to the risk categorization of the collateral received. At year-end, the Fund has no credit risk exposure to borrowers because the exact amount the Fund owes to the borrowers exceeds the amounts the borrowers owe to the Fund. The contract with the Fund's master custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Fund for income distributions by the securities issuers while the securities are out on loan.

All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is one week. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted average maturity of two days.

The relationship between the maturities of the investment pool and the Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine. The Fund cannot pledge or sell collateral securities without borrower default.

The Fund also participates in the securities lending programs offered by State Street Global Advisors (SSGA) and Northern Trust Global Investments (NTGI) with regards to their commingled bond index funds. Securities lending income earned by SSGA serves as a credit to quarterly management fees, and any remainder is used for purchasing additional units in the bond index fund. NTGI's securities lending income or loss are reflected in the net asset value of the index fund. Due to illiquidity in the markets, restrictions have been placed on withdrawal requests based on the Fund's percentage of pooled investments.

A summary of securities loaned at fair value as of December 31, 2008 follows:

Market value of securities loaned for cash collateral	\$19,988,574
Market value of securities loaned for non-cash collateral	<u>-</u>
Total market value of securities loaned	<u><u>\$19,988,574</u></u>
Market value of cash collateral from borrowers	\$20,172,613
Market value of non-cash collateral from borrowers	<u>-</u>
Total market value of collateral from borrowers	<u><u>\$20,172,613</u></u>

Note 5 - Net Assets Available for Benefits

The Fund has reserved a portion of its net assets for future obligations. Employee contributions are distributed to active employee and survivor benefit reserves based on requirements specified in the Illinois State Statutes. After meeting current cash requirements for administrative expenses and disability benefits, employer contributions and investment income are allocated to all reserves based on actuarially calculated requirements. Amounts are transferred between reserves annually based on actuarially calculated requirements.

Net assets reserved for:	
Retirement and survivor benefits for active employees	\$ 544,438,051
Retirement and survivor benefits for retired members	1,009,282,376
Post retirement increase	280,525,134
Payments at withdrawal and for inactive members	<u>18,034,073</u>
	1,852,279,634
Unreserved net assets	<u>(973,482,442)</u>
	<u><u>\$ 878,797,192</u></u>

SCHEDULE OF FUNDING PROGRESS

Actuarial valuation date December 31,	Actuarial value of assets (a)	Actuarial accrued liability (AAL) – Entry Age (b)	Unfunded actuarial liability (UAAL) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL as a percent of covered payroll ((b-a)/c)
2008	\$ 1,211,838,320	\$ 1,852,279,634	\$ 640,441,314	65.4%	\$ 167,865,254	381.52%
2007	1,256,889,942	1,795,176,667	538,286,725	70.0%	158,831,772	338.90%
2006	1,209,601,736	1,724,705,199	515,103,463	70.1%	152,767,396	337.18%
2005	1,171,844,612	1,654,188,382	482,343,770	70.8%	149,246,356	323.19%
2004	1,161,778,511	1,578,366,508	416,587,997	73.6%	146,360,302	284.63%
2003	1,146,520,634	1,517,868,687	371,348,053	75.5%	142,593,596	260.42%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year ended December 31,	Employer Contributions	
	Annual required contribution (ARC)	Percentage contributed
2008	49,758,238	67.14%
2007	47,090,445	59.35%
2006	47,368,878	72.80%
2005	43,164,572	60.60%
2004	40,146,454	77.20%
2003	38,039,355	75.70%

NOTE TO SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

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

Valuation date	12/31/2008
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Amortization period	30 years (open period)
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.00%
Post retirement cost of living	3.00%
Assumed inflation rate	4.00%

SCHEDULE OF ADMINISTRATIVE EXPENSES

Year ended December 31, 2008

(with comparative amounts for prior year)

Expense of Administration	<u>2008</u>	<u>2007</u>
Salaries and wages:		
Regular employees	\$ 841,900	\$ 873,283
Employee benefits	98,996	94,129
Professional services:		
Actuarial	43,200	49,000
Legal & Lobbyist	33,038	43,445
Auditing	32,000	31,000
Public stenographer	10,575	10,818
Medical	8,428	14,102
Investigation	1,287	825
Printing & publication	6,406	8,331
Postage	26,295	24,005
Office supplies & furniture	10,464	9,028
Travel	625	1,553
Maintenance & repair	155	260
Surety bonds / Fiduciary Insurance	28,250	27,950
Consulting services	122,757	254,853
Membership dues, conference fees, subscriptions and publications	4,969	9,667
Computer hardware and software	3,832	6,783
Miscellaneous	7,145	5,603
Total Administrative Expenses	<u><u>\$ 1,280,321</u></u>	<u><u>\$ 1,464,635</u></u>

SCHEDULE OF INVESTMENT EXPENSES**Year ended December 31, 2008****(with comparative amounts for prior year)**

	<u>2008</u>	<u>2007</u>
Investment managers compensation ¹	\$ 2,256,755	\$ 2,383,567
Custodian fees	71,963	72,903
Investment consulting fees	<u>180,000</u>	<u>114,891</u>
Sub-total	2,508,718	2,571,361
Less commission recapture	<u>(1,232)</u>	<u>(8,339)</u>
Net investment expenses	<u><u>\$ 2,507,486</u></u>	<u><u>\$ 2,563,022</u></u>

¹ A detailed schedule of investment managers compensation is included in the Investment Section.

SCHEDULE OF PAYMENTS TO CONSULTANTS**Year ended December 31, 2008****(with comparative amounts for prior year)**

<u>Firm / Individual</u>	<u>Services</u>	<u>2008</u>	<u>2007</u>
JC Consulting Group, Inc.	Information system replacement	\$ 120,567	\$ 253,057
Other	Miscellaneous	<u>2,190</u>	<u>1,796</u>
Total Consulting Services Expense		<u><u>\$ 122,757</u></u>	<u><u>\$ 254,853</u></u>

POST EMPLOYMENT HEALTHCARE

The Fund does not provide any health insurance supplement. Employee and survivor annuitants may elect coverage under the insurance programs offered through the Metropolitan Water Reclamation District of Greater Chicago (District), the former employer of our employee annuitants. The District offers these programs to retirees on a year-by-year basis, and it is understood that retirees are not guaranteed coverage under the District's insurance programs. The Fund withholds the prescribed annuitant portion of the monthly medical premium and forwards them in total to the District, who subsidizes the medical coverage. The District provides full disclosure in its Comprehensive Annual Financial Report.

BANSLEY AND KIENER, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
O'HARE PLAZA
8745 WEST HIGGINS ROAD, SUITE 200
CHICAGO, ILLINOIS 60631
AREA CODE 312 263-2700

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Metropolitan Water Reclamation District Retirement Fund
Chicago, Illinois

We have audited the financial statements of Metropolitan Water Reclamation District Retirement Fund as of and for the year ended December 31, 2008, and have issued our report thereon dated March 27, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metropolitan Water Reclamation District Retirement Fund's, internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metropolitan Water Reclamation District Retirement Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Metropolitan Water Reclamation District Retirement Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not be necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metropolitan Water Reclamation District Retirement Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances on noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bansley and Kiener, L.L.P.

Certified Public Accountants

March 27, 2009

INVESTMENT SECTION

Custodian Report

Investment Consultant Report

Investment Preface:

Authority

Responsibility

Policy & Objectives

Allocation

Management

Performance

Investment Assets:

Acquisitions and Dispositions

Summaries of Asset Allocation, at Book and Market Value

10-Year History of Investment Yields at Market Value (with graph)

Schedule of Investment Returns

Asset Allocation (with graph)

Fixed Income & Equity Diversification

Common Stock Diversification

Top 40 Common Stock Holdings

Manager by Type and Assets Managed

Investment Manager Compensation

Custodial Fees

Investment Consultant Fees

Domestic Brokerage Commissions

International Brokerage Commissions



May 20, 2009

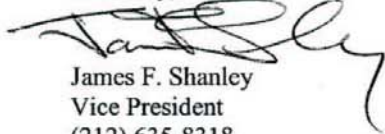
To the Board of Trustees of the Metropolitan Water Reclamation District Retirement Fund:

The Bank of New York Mellon as custodian of the assets of the Metropolitan Water Reclamation District Retirement Fund (Fund) held by it in a custodial account has provided annual accounting statements to the Fund which to the best of its knowledge, provide an accurate reflection of The Bank of New York Mellon's record of investments, receipts, disbursements, purchases and sales of securities and other transactions pertinent to the custody accounts for the period of January 1, 2008 through December 31, 2008.

In addition to the custody of assets in the custody accounts, and pursuant to the Master Global Custody Agreement among the Board of Trustees and the Bank of New York Mellon dated December 8, 2006 and the securities lending contract dated June 27, 2007, The Bank of New York Mellon provides the following services:

- Maintain safe custody of the assets owned by MWRD Retirement Fund.
- Settle trades in accordance with manager instructions.
- Collect dividends and registered interest payments.
- Provide proxy processing and corporate action services
- Invest cash balances of manager accounts in end of day sweep vehicle.
- Provide MWRD with monthly and annual audited investment accounting statements.
- Provide periodic reports summarizing the investment activity of the Fund's assets.
- Administer a securities lending program for MWRD Retirement Fund's assets and invest cash collateral received from such loans.

Sincerely,



James F. Shanley
Vice President
(212) 635-8318

One Wall Street, New York, NY 10286



GRAY & COMPANY

Gray & Company
 7000 Peachtree-Dunwoody Road
 Building 5
 Atlanta, Georgia 30328

May 29, 2009

To the MWRD Retirement Fund Board of Trustees:

Gray & Company has been the investment consultant for the Metropolitan Water Reclamation District Retirement Fund (the Fund) since August, 2007. We are responsible for developing investment policy, risk constraints, asset allocation, investment manager selection and investment performance analysis.

We are pleased to present the Fund's results for fiscal year ended December 31, 2008.

The Fund's policy asset allocation has been specifically designed to achieve the actuarial assumption return of 7.75% return over the long term. The current financial crisis began in 2007 and continues to affect all investment decisions. The market downturn dramatically worsened in mid September when Lehman Brothers had to file for bankruptcy. 2008 turned out to be the worse calendar year for investments since the Great Depression. The meltdown was deep and wide spread and affected every segment of the capital markets.

Consequently we moderated the advance of our investment program to accommodate the market environment. The Policy Index is composed of 35% S&P 500 Index, 20% Russell Mid Cap Index, 10% Russell 2000 Index, 10% MSCI EAFE Index and 35% LB Aggregate Index.

Under-performing investment managers are subjected to a detailed performance review by the Trustees before any decisions are made. Although some managers have under-performed, it is typically expected under-performance that is mitigated by having a diversified investment program.

As of December 31, 2008, the market value of the fund was \$850.5 million which was less than the value at the beginning of the year. The policy asset allocation was 65% equities and 35% fixed income in 2008. Total fund performance was -25.5% during the last year, while the Policy Index returned -24.9%. The equity managers returned 40.7% and the fixed income managers returned 2.1%.

The domestic equity market as represented by the Wilshire 5000 Index returned -37.3% while the domestic fixed income market represented by the Barclays Aggregate Index returned 5.2%. Large company stocks returned -37.0% compared with a loss of -33.8% for small company stocks.

The international equity market represented by the MSCI EAFE (Europe, Australasia and Far East) Index returned -43.4%, while the Emerging Market Index returned -53.3%.

Investment returns are calculated using a time-weighted rate of return based upon market values and in substantial compliance with CFA Institute's Global Investment Performance Standards (GIPS).

The Fund maintains an appropriately diversified investment program designed to maximize returns and minimize risk to achieve the desired investment performance results over the long term.

Sincerely

Ivory Day, Jr.
 Senior Consultant

INVESTMENT PREFACE**INVESTMENT AUTHORITY**

The Metropolitan Water Reclamation District Retirement Fund's (Fund) investment authority is established by and subject to the provisions of the Illinois Compiled Statutes, Chapter 40, Act 5, Articles 1 and 13.

The Retirement Fund Board of Trustees invests the Fund's reserves according to the Prudent Person Rule. This rule requires a fiduciary (trustee) to discharge their duties with the care, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in a similar situation. This change has allowed the Trustees to further diversify the Fund's investments.

INVESTMENT RESPONSIBILITY

The duties of the Board include the appointment and review of investment managers as fiduciaries to manage the investment assets of the Fund. The investment managers are granted discretionary authority to manage stated assets and vote all proxies for the Board. The investment managers must discharge their duties with respect to the Fund solely in the interest of the Fund's contributors and beneficiaries.

INVESTMENT POLICY & OBJECTIVES

The Fund's asset allocation strategy is based on long-term investment expectations balanced by annual benefit and cash expenditure requirements. The investment objective of the total portfolio is to maximize the rate of return within a prudent level of risk.

Based on Gray & Company's review of the Fund's asset allocation and performance objectives, the Fund's investment policy and objective was modified. The Fund is expected to exceed the actuarial target return of 7.75% over a complete market cycle of approximately 5 years. The Fund is expected to exceed the policy index, on average, over rolling four quarter periods. The current policy index is:

25% S&P 500 Index
20% Russell Mid Cap Index
10% Russell 2000 Index
10% MSCI EAFE Index
35% Barclays Aggregate Index.

Individual goals are established for each investment manager and incorporated into the contracts with those managers. The Board hires and reviews investment managers based on an evaluation of their investment philosophy, long-term performance and ability to complement existing portfolio styles. Investment managers must adhere to their stated investment philosophy and strive to attain their performance goals.

INVESTMENT ALLOCATION

The investment policy of the Fund establishes asset allocation targets and ranges for each asset class to achieve risk and return objectives. During fiscal year 2008, the Fund began implementing a new asset allocation model recommended by Gray & Co. and approved by the Board in late 2007. This model increases the Fund's target allocation to international equities, effectively decreasing the fixed income and increasing the equities allocations in the Fund's portfolio. As of December 31, 2008 and 2007, the Fund's asset allocations, at market value, are listed on the following page.

Asset Class	Actual Asset Allocation 2008	Actual Asset Allocation 2007	Target Allocation
Domestic Equity	47.9%	52.9%	55.0%
International Equity	4.1%	2.3%	10.0%
Domestic Fixed Income	46.2%	43.6%	35.0%
Short Term and Cash	1.8%	1.2%	0.0%
Total	100.0%	100.0%	100.0%

INVESTMENT MANAGEMENT

Following approval of a new target asset allocation in 2007, the Board re-evaluated its investment manager mandates and took the following actions in 2008:

1st Quarter

- At the December 2007 Board meeting, the Board made the decision to increase the Fund's international equity portfolio managed by State Street Global Advisors to 5% of total invested assets or an additional \$33 million. The portfolio was funded in 2008 from the Northern Trust US Market Cap equity index.
- The Board awarded State Street Global Advisors \$43 million at the December 2007 Board meeting to manage a mid cap core portfolio. The portfolio was funded in 2008 from the Northern Trust US Market Cap equity index.
- American Century was terminated for performance reasons. Funds were transitioned to the Earnest Partner's small cap value portfolio adding an additional \$16 million to the portfolio.

2nd Quarter

- New Amsterdam Partners was terminated at the April 2008 meeting for performance reasons. Funds were allocated to the new mid cap core manager approved by the trustees.
- At the April 2008 meeting, Earnest Partner's was terminated for compliance reasons. Earnest Partners managed large cap core, small cap value and fixed income portfolios. Due to the size of this portfolio and the volatility of the market in 2008, a portion of this transition was not completed until 2009.
- CAMCo's mandate was changed from a \$38 million large cap value portfolio to a \$62 million large cap growth portfolio. Additional funding came from the Earnest Partners' large cap core portfolios.
- UBS was awarded \$25 million to manage a small cap growth portfolio. The allocation was funded from the Earnest Partners small cap value portfolio. UBS was also awarded an additional allocation to the large cap value portfolio in the amount of \$24.3 million to be funded from the Earnest Partner's large cap core portfolio.
- The Board hired two new investment managers at the April 2008 meeting. Systematic Financial Management was hired to manage a mid cap value portfolio and Wellington Management to manage a mid cap core and mid cap growth mandate.
- A three-year investment consultant contract was approved with Gray & Company in June 2008.

3rd Quarter

- In August 2008, three portfolios were funded, Systematic Financial Management's mid cap value of \$49 million, Wellington Managements Co., mid cap core of \$38 million and mid cap growth of \$41 million. The allocations were funded from the New Amsterdam mid cap core and the Earnest Partners, CAMCo and UBS fixed income portfolios.
- The Board hired two minority-owned emerging investment managers. Atlanta Life Investment Advisors will manage a large cap core portfolio and Opus Capital Management will manage a small cap value portfolio, amounting to 4.2% and 4.6% of the total assets of the fund, respectively.

4th Quarter

- Funding for Atlanta Life and Opus Capital was delayed until fixed income credit markets showed some restoration in liquidity. The portfolios were funded in March of 2009, in the amounts of \$33 million and \$36 million, respectively.

INVESTMENT PERFORMANCE

Gray & Co. evaluates investment manager performance and reports to the Board on a quarterly basis on individual manager performance as well as overall performance. Investment returns are calculated based on a time-weighted rate of return based upon market values and in compliance with industry accepted reporting standards and reported net of investment fees. The Fund's investment managers report performance in compliance with Global Investment Performance standards. This reporting requirement is also included in the manager's contractual agreement with the Fund.

The market value rate of return on invested assets for the years ending December 31, 2008 and 2007 was -25.5 and 5.5%, respectively. In comparison, the Fund's Policy Index returned -24.9% and 5.6%, respectively.

Since allocations vary from year to year and manager styles differ, no comparison of the net results of a group of managers against specific indexes or theoretical asset mixes is truly valid. It is beneficial, however, to study a Fund's performance over the long term against indexes to evaluate trends. The table in this section entitled *History of Investment Yields* provides data for trend analysis, which is illustrated in the accompanying Investment Yield graph.

Investment Analytics

Investment Section

INVESTMENT ASSETS

Year ending December 31, 2008

Acquisitions and Dispositions at Book Value

	as of 12/31/07	2008 Acquisitions	2008 Dispositions	as of 12/31/08
Fixed Income Investments	\$480,577,822	\$458,743,474	\$571,835,514	\$367,485,782
Equity Investments	581,941,563	1,308,042,636	1,270,453,532	619,530,667
Short Term Investments	14,517,885	357,174,483	357,207,339	14,485,029
Total Investments (Book Value)	<u>\$1,077,037,270</u>	<u>\$2,123,960,593</u>	<u>\$2,199,496,385</u>	<u>\$1,001,501,478</u>

Summary at Book Value

	December 31, 2008		December 31, 2007	
Fixed Income Investments				
Bonds and Notes	\$39,891,757	4.0 %	\$142,016,122	13.3 %
Index/Commingled Funds	327,594,025	32.7	338,561,700	31.4
	<u>367,485,782</u>	<u>36.7</u>	<u>480,577,822</u>	<u>44.7</u>
Equity Investments				
Common Stocks	501,672,551	50.1	409,574,695	38.0
Index/Commingled Funds	69,552,301	6.9	146,281,401	13.6
International Equity	48,305,815	4.9	26,085,467	2.4
	<u>619,530,667</u>	<u>61.9</u>	<u>581,941,563</u>	<u>54.0</u>
Short Term Investments	14,485,029	1.4	14,517,885	1.3
Total Investments (Book Value)	<u>\$1,001,501,478</u>	<u>100.0 %</u>	<u>\$1,077,037,270</u>	<u>100.0 %</u>

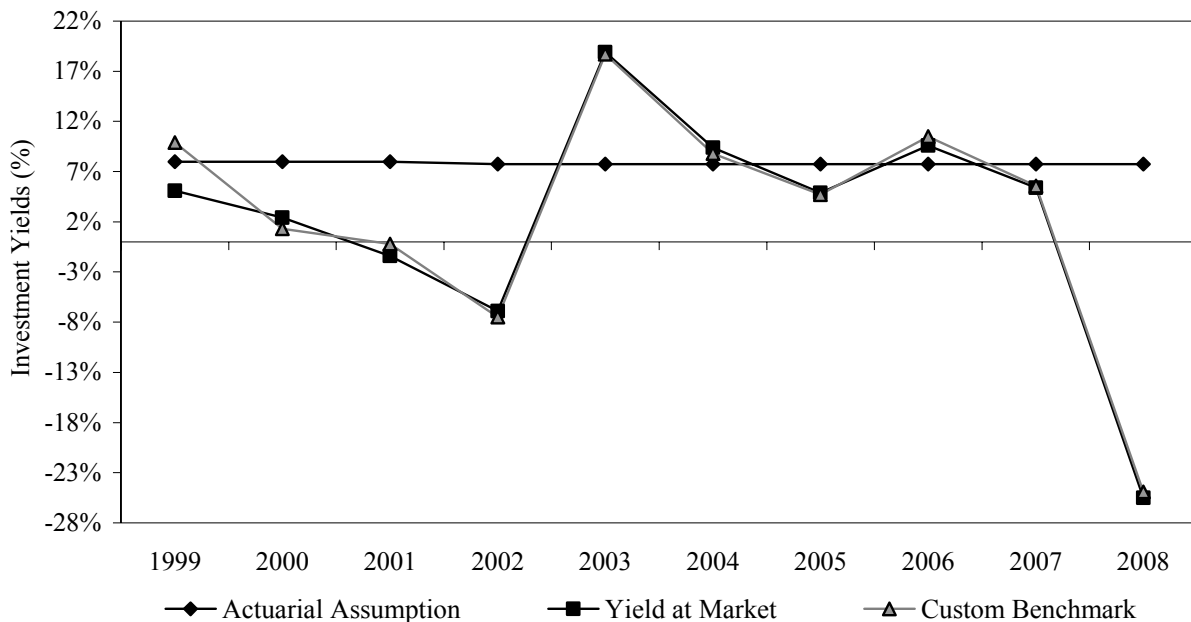
Summary at Market Value

	December 31, 2008		December 31, 2007	
Fixed Income Investments				
Bonds and Notes	\$38,396,422	4.5 %	\$143,138,306	12.0 %
Index/Commingled Funds	354,790,076	41.7	377,440,071	31.6
	<u>393,186,498</u>	<u>46.2</u>	<u>520,578,377</u>	<u>43.6</u>
Equity Investments				
Common Stocks	357,335,661	42.0	460,924,561	38.6
Index/Commingled Funds	50,274,377	5.9	171,943,050	14.3
International Equity	35,167,978	4.1	27,455,785	2.3
	<u>442,778,016</u>	<u>52.0</u>	<u>660,323,396</u>	<u>55.2</u>
Short Term Investments	14,486,714	1.8	14,516,444	1.2
Total Investments (Fair Value)	<u>\$850,451,228</u>	<u>100.0 %</u>	<u>\$1,195,418,217</u>	<u>100.0 %</u>

HISTORY OF INVESTMENT YIELDS AT MARKET VALUE
 Years ending December 31st

Year	Invested Assets	Actuarial Assumption	Yield at Market	Fund's Policy Index ¹
1999	\$ 1,041,687,323	8.00%	5.1%	9.9%
2000	1,054,424,696	8.00%	2.4%	1.3%
2001	1,014,983,960	8.00%	-1.4%	-0.2%
2002	922,177,366	7.75%	-6.9%	-7.5%
2003	1,058,520,788	7.75%	18.9%	18.7%
2004	1,117,540,968	7.75%	9.4%	8.8%
2005	1,136,790,610	7.75%	4.9%	4.7%
2006	1,192,992,050	7.75%	9.6%	10.5%
2007	1,195,418,217	7.75%	5.4%	5.6%
2008	850,451,228	7.75%	-25.5%	-24.9%
5 Year Average ²		7.75%	-0.2%	0.0%
10 Year Average ²		7.75%	1.5%	1.9%

Investment Yields at Market Value

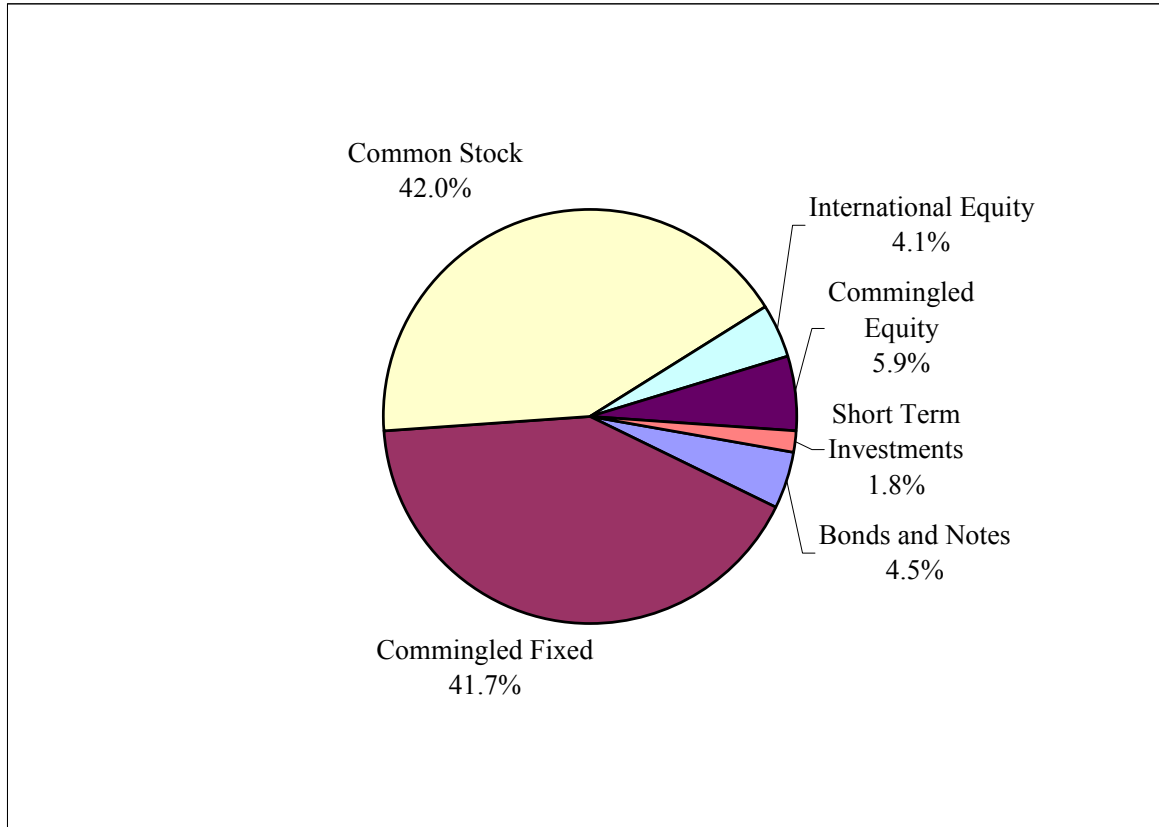


1. The Fund's Policy Index is composed of 25% S&P 500, 20% Russell Mid Cap, 10% Russell 2000, 10% MSCI EAFE and 35% Barclay's Aggregate Index. Prior to 2007, the Fund's custom benchmark consisted of 35% S&P 500 and 65% LBA from 1/96 through 9/97; 45% S&P 500 and 55% LBA from 9/97 through 11/98; and 55% Wilshire 5000 and 45% LBA currently (since 12/98).
2. Prior to 2007, returns are reported net of investment fees. The calculation is based on a time-weighted rate of return at market and in compliance with industry accepted reporting standards. Quarterly Reports can be obtained upon request.

SCHEDULE OF INVESTMENT RETURNS

	Year ending 12/31/08	3-Year Annualized	5-Year Annualized	10-Year Annualized
Fund's Total Portfolio	(25.5) %	(4.9) %	(0.2) %	1.5 %
Fund's Policy Index	(24.9)	(4.3)	(0.0)	1.9
Fund's Equity Composite	(40.7)	(10.7)	(2.9)	-
DJ Wilshire 5000 - composite index	(37.2)	(8.4)	(1.7)	-
Custom index:				
S&P 500 - Large cap index	(37.0)	(8.3)	(2.2)	(1.4)
Russell Mid Cap - Mid cap index	(41.5)	(10.7)	(0.7)	3.2
Russell 2000 - Small cap index	(33.8)	(8.3)	(0.9)	3.0
Fund's International Equities	(42.4)	-	-	-
MSCI EAFE (Net)	(43.4)	-	-	-
Fund's Fixed Income	2.1	4.4	4.0	-
Barclay's Aggregate	5.2	5.5	4.7	-

**Asset Allocation at Market Value
as of December 31, 2008**



ASSET ALLOCATION

	December 31, 2008		December 31, 2007	
Bonds and Notes	\$38,396,421	4.5 %	\$143,138,306	12.0 %
Commingled Fixed	354,790,076	41.7	377,440,071	31.6
Common Stock	357,335,662	42.0	460,924,561	38.6
International Equity	35,167,978	4.1	27,455,785	2.3
Commingled Equity	50,274,377	5.9	171,943,050	14.4
Short Term Investments	14,486,714	1.8	14,516,444	1.1
Total	\$850,451,228	100.0 %	\$1,195,418,217	100.0 %

Investment Analytics

Investment Section

FIXED INCOME DIVERSIFICATION¹ as of December 31, 2008

<u>Bond and Note Classification</u>	<u>Cost</u>	<u>Market Value (MV)</u>	<u>MV as a % of Total Fixed Income</u>
Government Issues			
U S Government Agency	\$13,823,780	\$14,249,133	3.6 %
U S Government Assets	14,174,030	14,528,015	3.7
Total Government Issues	\$27,997,810	\$28,777,148	7.3
Corporate Bonds			
Asset Backed Securities	3,291,610	3,290,286	0.8
Mortgage Backed Securities	10,683,919	5,395,732	1.4
Finance	4,048,926	3,735,047	0.9
Industrial	1,716,000	1,658,877	0.4
Energy	557,008	490,566	0.1
Telephone	364,117	359,067	0.1
Transportation	24,955	28,561	0.0
Gas & Electric Utilities	529,793	502,874	0.1
Total Corporate Bonds	21,216,328	15,461,010	3.9
Total Bonds and Notes	\$49,214,138	\$44,238,158	11.3
Index/Commingled Fixed	317,590,875	349,394,344	88.9
Other Fixed Income	680,769	(446,004)	(0.1)
Total Fixed Income	\$367,485,782	\$393,186,498	100.0

EQUITY DIVERSIFICATION¹ as of December 31, 2008

<u>Stock Classification</u>	<u>Cost</u>	<u>Market Value (MV)</u>	<u>MV as a % of Total Equity</u>
Consumer Non-Durables	\$66,887,352	\$52,593,927	11.9 %
Consumer Durables	14,293,750	9,537,383	2.2
Materials & Services	146,932,523	102,640,761	23.2
Capital Goods & Services	19,184,686	12,004,523	2.7
Technology	56,345,779	40,248,801	9.1
Energy (oil & coal)	58,286,144	37,175,187	8.4
Transportation Products & Services	13,081,504	10,365,162	2.3
Utilities	40,673,787	30,268,402	6.8
Financial	75,892,552	54,934,578	12.4
Miscellaneous Common Stock	2,956,140	1,996,006	0.5
Total Common Stock	494,534,217	351,764,730	79.4
Real Estate Investment Trusts	7,137,225	5,570,120	1.3
Preferred Stock	1,109	812	0.0
International Equity	48,305,815	35,167,978	7.9
Index/Commingled Equity	69,552,301	50,274,377	11.4
Total Equity	\$619,530,667	\$442,778,016	100.0

¹ A complete list of the Fund's portfolio holdings is available for review in the Fund's Administrative Office.

TOP 40 COMMON STOCK HOLDINGS¹
as of December 31, 2008

<u>Asset Description</u>	<u>Sector</u>	<u>Shares</u>	<u>Market Value</u>
General Electric Co.	Materials & Services	314,362	\$ 5,092,664
JP Morgan Chase & Co.	Financial Services	149,318	4,707,997
Aflac Inc.	Financial Services	100,592	4,611,137
Wells Fargo & Co.	Financial Services	148,235	4,369,968
AT&T Inc.	Telecommunications	134,027	3,819,770
Exxon Mobil Corp.	Financial Services	46,234	3,690,860
Illinois Tool Works Inc.	Industrial Goods	100,212	3,512,431
Exelon Corp.	Materials & Services	61,310	3,409,449
Apache Corporation	Energy	45,450	3,387,389
Alliance Data Sys Corp.	Financial Services	68,887	3,205,312
Amgen Inc.	Materials & Services	55,234	3,189,764
Thermo Fisher Scientific Inc.	Electronics	89,784	3,058,941
The Bank Of New York Mellon Corp.	Financial Services	100,506	2,847,335
Johnson & Johnson	Consumer Non-Durables	45,457	2,719,692
Mc Donalds Corporation	Consumer Non-Durables	42,291	2,630,077
Verizon Communications Inc.	Communications	74,676	2,531,516
Chevron Corporation	Energy	33,800	2,500,186
Amazon Com Inc.	Retail Services	46,610	2,390,161
Comcast Corp.	Media Services	139,800	2,359,824
Qualcomm Inc.	Communications	65,800	2,357,614
Conocophillips	Energy	45,371	2,350,218
Abbott Laboratories	Consumer Non-Durables	44,012	2,348,920
Nasdaq Omx Group Inc.	Financial Services	88,850	2,195,484
Intel Corporation	Electronics	147,710	2,165,429
Northeast Utilities	Utilities	89,600	2,155,776
American Electric Power Co. Inc.	Utilities	64,500	2,146,560
Occidental Petroleum Corporation	Energy	35,617	2,136,664
Paccar Inc.	Consumer Goods - Automotive	72,110	2,062,346
Oracle Corporation	Computer & Software Services	114,444	2,029,092
Medco Health Solutions Inc.	Retail Services	48,000	2,011,680
Juniper Networks Inc.	Computer Hardware	111,675	1,955,429
Corning Inc.	Telecommunications	204,085	1,944,930
Borg Warner Inc.	Consumer Goods - Automotive	88,635	1,929,584
Netapp Inc.	Computer Hardware	137,755	1,924,437
Costco Whsl Corp.	Retail Services	35,980	1,888,950
Fedex Corporation	Transportation	29,300	1,879,595
Shaw Group Inc.	Industrial Goods	91,210	1,867,069
Wyeth	Healthcare	49,100	1,841,741
Denbury Resources Inc.	Energy	166,140	1,814,249
AMR Corp.	Transportation	165,290	1,763,644

¹ A complete list of the Fund's portfolio holdings is available for review in the Fund's Administrative Office.

Investment Analytics

Investment Section

MANAGER BY TYPE AND ASSETS MANAGED

Assets Under Management at Market Value

	Year ending December 31, 2008		Year ending December 31, 2007	
	Market Value	% of Total	Market Value	% of Total
Equity and Fixed Income Managers				
Earnest Partners, LLC.	\$ 12,066,258	1.4%	\$ 96,864,382	8.1%
Northern Trust Global Investments	283,372,609	33.3%	399,829,069	33.4%
UBS Global Asset Management, Inc	133,418,672	15.7%	167,005,008	14.0%
Sub-Total	428,857,539	50.4%	\$663,698,459	55.5%
Equity Only Managers				
Alliance Bernstein LP.	61,526,785	7.2%	117,278,351	9.8%
American Century Asset Management	-	0.0%	17,651,202	1.5%
Ariel Capital Management, LLC.	15,631,000	1.8%	25,628,295	2.1%
Chicago Asset Management Co.	43,828,887	5.2%	\$89,165,027	7.5%
Lombardia Capital Partners, LLC.	18,741,280	2.2%	26,267,312	2.2%
New Amstrerdam Partners LLC.	-	0.0%	44,914,803	3.8%
State Street Global Advisors	63,212,828	7.4%	27,583,009	2.3%
Systematic Financial Management	33,432,841	3.9%	-	0.0%
Wasatch Advisors	18,766,020	2.2%	32,108,477	2.7%
Wellington Management Co., LLP.	48,147,547	5.7%	-	0.0%
Sub-Total	303,287,188	35.7%	380,596,476	31.8%
Fixed Income Only Managers				
State Street Global Advisors	116,322,164	13.7%	149,567,486	12.5%
The Illinois Funds ¹	3,041,890	0.4%	1,555,796	0.1%
Sub-Total Investments	851,508,781	100.1%	1,195,418,217	100.0%
BNY Mellon Capital Support	(1,057,553)	-0.1%	-	0.0%
Total Investments	\$ 850,451,228	100.0%	\$ 1,195,418,217	100.0%

¹ The Illinois Funds are periodically used to invest working capital funds.

Investment Analytics

Investment Section

INVESTMENT MANAGER COMPENSATION ¹

<u>Investment Managers:</u>	<u>2008 Fees</u>	<u>2007 Fees</u>
Alliance Bernstein LP.	\$ 207,199	\$ 230,457
American Century Investments	10,857	146,485
Ariel Capital Management LLC.	104,101	130,770
Chicago Asset Management Co. LLC.	350,229	294,110
Earnest Partners LLC	177,371	317,886
Lombardia Capital Partners, LLC.	80,420	77,683
New Amsterdam Partners LLC.	86,211	137,545
Northern Trust Global Investments	50,545	84,835
State Street Global Advisors	365,020	188,091
Systematic Financial Management	81,531	-
UBS Global Asset Management	340,058	442,655
Wasatch Advisors	262,452	333,050
Wellington Management Co., LLP	140,761	-
Total	\$ 2,256,755	\$ 2,383,567

CUSTODIAL FEES ²

<u>Institution</u>	<u>2008 Fees</u>	<u>2007 Fees ³</u>
Bank of New York	\$ 71,963	\$ 72,903

INVESTMENT CONSULTANT FEES

<u>Institution</u>	<u>2008 Fees</u>	<u>2007 Fees</u>
Gray & Co.	\$ 180,000	\$ 75,000
Standard Valuations	-	39,891
Total	\$ 180,000	\$ 114,891

¹ Investment manager compensation is reflected in the financial statements along with other direct investment expenses as an offset to investment income and is so described within the footnotes to the financial statements.

² Custodial fees do not reflect management fees related to the Fund's commingled asset.

³ 2007 fees represent three quarters of service.

SCHEDULE OF 2008 DOMESTIC BROKERAGE COMMISSIONS¹

<u>Broker Name</u>	<u>Total Commission</u>	<u>% of Total</u>
Williams Capital Group ²	\$ 63,843	6.4 %
Lynch, Jones, & Ryan Inc.	62,712	6.3
Gardner Rich & Co. ²	60,132	6.0
Pershing & Co.	53,671	5.4
MR Beal & Co. ²	50,462	5.1
Liquidnet Inc.	47,046	4.7
Merrill Lynch, Pierce, Fenner, Smith	45,639	4.6
Credit Suisse First Boston	41,787	4.2
Loop Capital Markets ²	41,366	4.2
Investment Technology Group	38,345	3.9
Cabrera Capital Markets ²	38,058	3.8
J P Morgan Securities Inc.	31,209	3.1
Melvin Securities LLC ²	30,358	3.0
Citigroup Global Markets	30,234	3.0
UBS Securities LLC.	29,424	3.0
Goldman Sachs & Co.	21,754	2.2
Goldman Sachs Execution & Clearing	19,435	2.0
M. Ramsey King Securities ²	19,105	1.9
Citation Group Chase/BCC Clearing	18,559	1.9
Morgan Keegan & Co.	16,261	1.6
Weeden & Co	14,112	1.4
Morgan Stanley & Co.	13,385	1.3
Podesta & Co. ²	13,072	1.3
Jefferies & Co.	12,145	1.2
Deutsche Banc/Alex Brown	11,045	1.1
Subtotal	<u>823,159</u>	<u>82.7</u>
All Others ³	<u>172,613</u>	<u>17.3</u>
Total Domestic Commissions	<u>\$ 995,772</u>	<u>100.0 %</u>

¹ Investment brokerage commissions are accounted for as an additional cost to a security when the security is purchased, and as a reduction to the cash amount received when the security is sold.

² Directed brokerage for stock trades executed by Minority/Women-Owned Business Enterprises.

³ Brokerage firms that each received less than 1.0% of the total commissions.

SCHEDULE OF 2008 INTERNATIONAL BROKERAGE COMMISSIONS¹

<u>Broker Name</u>	<u>Total Commission</u>	<u>% of Total</u>
CSFB (Europe) Ltd., London	\$ 9,789	12.2 %
Citigroup Global Markets Ltd, London	9,594	12.0
Investment Technology Group, Dublin	8,926	11.2
Merrill Lynch Intl Ltd Equity Settlements	8,366	10.5
Merrill Lynch, Pierce, Fenner, Smith	6,092	7.6
Nomura International (HK) Ltd.	5,053	6.3
Citigroup Global Markets Inc.	4,317	5.4
Lehman Brothers Inc., New York	3,937	4.9
Goldman Sachs Intl, London	3,412	4.3
Goldman Sachs Co., New York	1,856	2.3
UBS Securities Asia, Ltd.	1,844	2.3
Deutsche Banc Securities Inc., New York	1,839	2.3
Credit Suisse First Boston Corp., New York	1,360	1.7
Macquarie Equities Ltd., London	1,255	1.6
Charles Stanley & Co. Ltd, London	1,028	1.3
Deutsche Bank AG, London	812	1.0
Subtotal	<u>69,480</u>	<u>86.9</u>
All others ²	<u>10,523</u>	<u>13.2</u>
Total International Commissions	<u>\$ 80,003</u>	<u>100.1 %</u>

1 Investment brokerage commissions are accounted for as an additional cost to a security when the security is purchased, and as a reduction to the cash amount received when the security is sold.

2 Brokerage firms that each received less than 1.0% of the total commissions.

ACTUARIAL SECTION

Actuarial Certification

Comparative Summary

Plan Summary

Summary of Actuarial Assumptions and Methods:

 Summary of Valuation Results

 Reconciliation of Change in Unfunded Actuarial Liability

 Net Pension Obligation

Historical Actuarial Data:

 History of Change in Unfunded Liability with Analysis

 Actuarial Accrued and Unfunded Liabilities

 Assets and Liabilities (graph)

 Actuarial Accrued Liability Prioritized Solvency Test

 History of Retirees and Beneficiaries

 Added to and Removed from Benefit Payroll

 Schedule of Active Member Valuation (Salary) Data

 History of Recommended Employer Multiples and Taxes Levied

GOLDSTEIN & ASSOCIATES
Actuaries and Consultants

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May 22, 2009

Board of Trustees
Metropolitan Water Reclamation
District Retirement Fund
111 E. Erie Street
Chicago, Illinois 60611

ACTUARIAL CERTIFICATION

We have completed the annual actuarial valuation of the Metropolitan Water Reclamation District Retirement Fund as of December 31, 2008. The purpose of the valuation was to determine the financial condition and funding requirements of the Fund.

There have been no changes in the benefit provisions of the fund during the period between the date of the last actuarial valuation and the date of the current valuation.

Since the last actuarial valuation, we have changed the assumption regarding loading for reciprocal benefits from 5% to 1.5%. The other actuarial assumptions were used for the December 31, 2008 actuarial valuation are the same as the assumptions that were used for the December 31, 2007 valuation. These assumptions were based on our experience analysis of the fund over the period 2003 through 2005.

The funding policy of the Fund is to have contributions sufficient to amortize the unfunded liability over a 30-year period. Employer contributions come from a property tax levied by the District equal to the total amount of contributions made by employees in the calendar year 2 years prior to the year of the levy, multiplied by 2.19. The 2.19 is known as the tax multiple.

For the year beginning January 1, 2009 the net employer contribution to the fund is expected to cover 47.1% of the actuarially determined contribution requirement. We have estimated that a tax multiple of 4.65 would have been required to have employer contributions cover the full actuarially determined contribution requirement for the year 2009.

The entry age normal actuarial cost method was used for the December 31, 2008 actuarial valuation. This is the same actuarial cost method that was used for the December 31, 2007 valuation.

GOLDSTEIN & ASSOCIATES
Actuaries and Consultants

The asset values used for the valuation were based on the asset information contained in the audited financial statements for the Fund for the year ending December 31, 2008. For purposes of the actuarial valuation, a 5-year smoothed market value of assets was used to determine the actuarial value of assets.

The valuation has been based on the membership data, which was supplied by the administrative staff of the Fund. We have made additional tests to ensure its accuracy.

The trend data schedules presented in the financial section of the Comprehensive Annual Financial Report (CAFR) were prepared by the staff of the Fund based on information contained in our actuarial reports. All exhibits, tables, schedules, and appendices included in the accompanying actuarial section were prepared by us based on information provided by the Fund.

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Governmental Accounting Standards Board (GASB) Statement No. 25.

In our opinion, the following valuation results fairly present the financial condition of the Metropolitan Water Reclamation District Retirement Fund as of December 31, 2008.

Respectfully submitted,



Sandor Goldstein, F.S.A.
Consulting Actuary



Carl J. Smedinghoff, A.S.A.
Associate Actuary

Comparative Summary

Actuarial Section

Income		
Gross investment income	(\$297,218,536)	\$65,080,690
Securities Lending Income	583,493	154,057
Employer contributions	33,406,819	27,947,096
Employee contributions	14,778,404	15,627,673
Total income	<u>(248,449,820)</u>	<u>108,809,516</u>
Outgoing		
Refunds, Benefits, Expense ¹	104,821,402	100,037,896
Excess of Income Over Outgoing	(\$353,271,222)	\$8,771,620
Number of Members ²		
Active Members	2,052	2,002
Inactive Members	159	156
Members Receiving Annuity Benefits		
Retirees	1,605	1,600
Spouses	647	654
Children	20	22
Total Members	<u>4,483</u>	<u>4,434</u>
Members Receiving Disability Benefits	47	62
Actuarial Funding - Going Concern		
Accrued Actuarial Liability	\$1,852,279,634	\$1,795,176,667
Actuarial Value of Assets ³	1,211,838,320	1,256,889,942
Unfunded Actuarial Liability	640,441,314	538,286,725
Funded Ratio	65.4%	70.0%
Employer's Actuarially Determined Contribution Requirement ⁴	\$49,758,238	\$47,090,445
Actual Employer Contribution	33,406,819	27,947,096
Actual Employer Contribution Deficiency	<u>16,351,419</u>	<u>19,143,349</u>
Employer's Actuarially Determined Contribution Requirement for the following year ⁴	\$54,790,175	\$49,758,238
Expected Employer Contribution for the following year	<u>25,815,000</u>	<u>24,766,200</u>
Expected Employer Contribution Deficiency for the following year	28,975,175	24,992,038
Required Employer Multiple ⁴	4.65	4.40
Miscellaneous		
Salary Roll	\$167,865,254	\$158,831,772
Average Salary	81,806	79,337
Present Value of Future Benefits	\$2,137,829,252	\$2,074,245,929

¹. Includes investment expense.

². Membership data as of pay period 26 in December 2008

³. Actuarial asset values are calculated using a five-year smoothed market value.

⁴. 30 year amortization of unfunded liability

PLAN SUMMARY

PARTICIPANT

Person employed by the District whose duties indicate service during a calendar year for a minimum of 120 days. A Commissioner who elects to participate within 90 days after becoming a Commissioner. Civil Service Board members hired since June 13, 1997 are excluded from participation in the retirement fund.

RETIREMENT ANNUITY

Money Purchase. Employees who first entered service before January 1, 1992, would be eligible with the following ages and service: age 60 or more with 5 years service; age 50 or more with 10 years of service; for employees under age 50 with 10 or more years of service, annuity is payable upon attainment of age 50 and proper application. Annuity is based on Money Purchase, that is the sums accumulated from salary deductions plus District contributions, combine to purchase annuity.

Formula Minimum Annuity. An employee who withdraws on or after November 19, 1991 and who has attained age 60 or over with 5 or more years of service, or who has attained age 55 (age 50 if the employee first entered service before June 13, 1997) with 10 years of service would receive an annuity equal to 2.2% of final average salary (average annual salary during the 52 consecutive pay periods within the last 10 years of service prior to retirement), for each of the first 20 years of service, and 2.4% of final average salary for each year in excess of 20. This amount is reduced .5% for each full month the employee is less than age 60 or the employee's service is less than 30 years, whichever is less.

Retirement from Disability. An employee having at least 5 years of service who has received an ordinary disability benefit on or after January 1, 1986, (or at least 10 years of service if all ordinary disability benefits were received prior to January 1, 1986) and for the maximum period of time and who continues to be disabled and withdraws from service shall be entitled to a retirement annuity. The age and service conditions prescribed for such allowance for shall be waived as to such member for qualification, but age discount factors shall apply.

Automatic Increase in Employee Annuity. Beginning January 1, 1993, annual increases shall be calculated at 3% of monthly annuity payable at the time of the increase, except for a term annuity. An employee who retires on or after July 12, 2001 shall receive the automatic increase in annuity on the first day of the month in which the first anniversary of the date of retirement occurs.

Minimum Annuity. Beginning August 1, 2001, the minimum monthly annuity shall be \$500 plus \$25 per month for each year of service in excess of 10 years, to a maximum of \$750 per month. \$250 for annuitants with less than 10 years of service.

Reversionary Annuity. An employee, prior to retirement, may elect a lesser amount of annuity and provide a reversionary annuity for a wife, husband, parents, children, brothers or sisters by filing a written designation with the board. An employee shall not reduce his annuity by more than 25% nor elect to provide a reversionary annuity of less than \$100 per month. No reversionary annuity shall be paid if the employee dies before the expiration of 730 days from the date his written designation was filed with the board.

SPOUSE'S ANNUITY

Payable until death or termination of temporary annuity.

For Death in Service (Duty Related): The minimum annuity is equal to 50% of the employee's earnable monthly salary on the date of death.

For Death in Service or After Retirement (Non-Duty): A surviving spouse of an employee is eligible for an annuity for life provided that the employee was in service for more than 36 months if the employee entered service on or after July 13, 1997. There is no service requirement for eligibility for a spouse annuity if the employee entered service prior to July 13, 1997.

Money Purchase. This annuity is based on the amount of accumulated credits for spouse's annuity purposes at the time the annuity is computed, which is then used to purchase an annuity based on the period of service, salary, and age of spouse.

If the annuity provided by Money Purchase gives a greater annuity than the spouse's annuity based on average final salary, the spouse is entitled to the greater amount. The Money Purchase annuity applies to spouses of employees who entered service prior to 1992.

Formula Minimum Annuity. The surviving spouse annuity is equal to an amount determined by multiplication of the employee's annuity earned benefit by a factor equal to 60% plus 1% for each year of total service up to a maximum of 85%.

Annuity for a surviving spouse of employees starting after November 19, 1991, shall be discounted .25% for each full month that the spouse is younger than the employee to a maximum discount of 60%. The discount shall be reduced by 10% for each full year marriage has been in effect.

Automatic Increase in Surviving Spouse Annuity. On each anniversary of the employee date of retirement or date of death, whichever occurs first, the widow(er)'s or surviving spouse allowance or annuity shall be increased by a fixed amount equal to 3% of the annuity as calculated on the date of retirement. Beginning January 1, 1993, annual increases shall be calculated at the rate of 3% of monthly annuity payable at the time of increase.

Minimum Spouse Annuity. Beginning August 1, 2001, the minimum monthly surviving spouse annuity shall be the greater of:

- a) \$500 per month for the surviving spouse of an employee with at least 10 years of District service, plus \$25 per month for each year of service in excess of 10 years, to a maximum of \$750 per month; or
- b) 50% of retirement annuity of the deceased spouse at the time of death.

The minimum annuity shall be \$250 per month for the surviving spouse of an employee with less than 10 years of District service other than for a term or reciprocal annuity.

Child's Annuity.

A child's annuity is provided for each unmarried child under the age of 18 (under the age of 23 years in the case of a full-time student) whose employee parent dies while in service or whose deceased parent is an annuitant or former employee with at least 10 years of service. The amount of the annuity is:

- a) \$500 per month for one child and \$350 per month for each additional child if one parent is living; or
- b) If neither parent is living, \$1,000 per month for one child and \$500 for each additional child.

In either case, the maximum benefit is \$2,500 per month for all children of the employee, to be divided equally among the children.

Family Maximum for Duty & Non-Duty Death Benefits.

85% of annuity earned, plus annuity for children.

DUTY DISABILITY

Duty Disability is payable, if an injury or sickness arises out of employment at the rate of 75% of the salary earned on date of disability less the amount paid by Workers' Compensation. Duty Disability benefits are payable during the period of disability but not beyond attainment of age 65, unless the employee became disabled at age 60 or later, in which case the benefits may be extended for a period of not more than 5 years after disablement.

ORDINARY DISABILITY

Ordinary Disability is payable, if an employee is injured or sick not as a result of the performance of assigned duties, at the rate of 50% of the employee's earnable salary at date of disability. Ordinary Disability benefits are limited to 25% of employee's actual service prior to the date of disability up to a maximum of 5 years where the employee has 20 or more years of service. Benefits are not payable beyond attainment of age 65, unless the employee became disabled at age 60 or later, in which case the benefits may be extended for a period of not more than 5 years after disablement.

For employees hired after June 13, 1997, there is no benefit for the first three days of disability that would otherwise be payable under this section, unless the disability continues for at least 11 additional days; however, an employee who has used sick leave for at least 31 consecutive calendar days may be paid benefits for the first three days upon exhaustion of all sick all.

REFUNDS

To Employee. Upon separation from service, if the employee is under age 50 (age 55 if hired after June 13, 1997), or is between ages 50 (age 55 if hired after June 13, 1997) and 60 with less than 20 years service, or is age 60 or over with less than 5 years of service and upon application for such refund, the employee would be entitled to all amounts contributed from salary, without interest. Upon receipt of such refund, the employee forfeits all rights in the Fund.

To Employee for Spouse Annuity Contributions. Beginning January 1, 1993, if an employee is unmarried at the time of retirement, all amounts contributed for spouse's annuity would be refunded with interest.

To Spouse. If an annuity is temporary rather than for life, the spouse may elect a refund in lieu of an annuity.

Forfeiture of Rights. An employee or surviving spouse who receives a refund forfeits the right to receive an annuity or any other benefit payable by this Fund except that if the refund is to a surviving spouse, any child or children of the employee shall not be deprived of the right to receive a child's annuity as provided above, and the payment of a child's annuity shall not reduce the amount refundable to the surviving spouse.

Remaining Amounts. In the event the employee dies in service without a spouse, a refund of the total sums contributed by employee, together with applicable interest, would be paid first to a spouse, then to beneficiary as designated by the employee, and if there is no beneficiary form, then to the late employee's children in equal parts. If there is no spouse, then payment is made to the designated beneficiary.

If there is no spouse or designated beneficiary, then payment is made to any children of the deceased employee. If there is no spouse, designated beneficiary, or child then distribution is made to the heirs in accordance with the laws of descent and distribution in the State of Illinois.

DEDUCTIONS AND CONTRIBUTIONS

The District levies a tax annually, equal to the total amount of contributions made by employees in the calendar year 2 years prior to the year of levy, multiplied by 2.08 in 1982, 2.21 in 1983 and 2.34 in 1984 to 1987 and 2.19 in 1988 and each year thereafter.

Each employee is required to contribute 9% of pensionable salary towards these future annuity benefits:

<u>Deductions</u>	<u>Designated for</u>
7.0%	Employee Annuity
1.5	Surviving Spouse Annuity
<u>+ 0.5</u>	<u>Annual Annuity Increases</u>
9.0%	Total Pension Contribution

TAX SHELTER OF EMPLOYEE SALARY DEDUCTIONS

Beginning January 1, 1982, the required 9% employee salary deductions were designated, for income tax purposes, to be made by the employer. Beginning with the July 3, 2003 payroll and through the end of 2007, the optional 4% employee salary deductions were also designated, for income tax purposes, to be made by the employer. The W-2 salary is therefore reduced by the amount of those designated contributions. For pension purposes the salary remains unchanged. Income tax will be paid when a refund or annuity is granted. For the purposes of benefits, refunds, or financing, these contributions are treated as employee contributions.

ALTERNATIVE PLAN OF CONTRIBUTIONS AND BENEFITS FOR COMMISSIONERS

Alternative Plan of Additional Benefits and Contributions for District Commissioners allows an additional contribution of 3% of salary. Alternative benefits are payable if the Commissioner is age 55 with at least 6 years of service. Annuities would be computed on the following basis:

1. 3% of average final salary for each of the first 8 years of service credit under the Alternative Plan;
2. 4% of average final salary for each of the next 4 years of service credit under the Alternative Plan; and
3. 5% of average final salary for each additional year thereafter subject to a maximum of 80% of average final salary.

ALTERNATIVE ANNUITY FOR SURVIVORS OF COMMISSIONERS

Annuity is equal to the greater of 66-2/3%, or 60% plus 1% for each year of the Commissioner's total service, to a maximum of 85% of the amount of retirement annuity earned by the Commissioner on the date of death.

A more detailed description of plan provisions can be obtained from the Fund Administration's office. Complete provisions are set forth in the Illinois Compiled Statutes, Chapter 40, Act 5, Article 13.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for the December 31, 2008 actuarial valuation were selected by the actuary based on an experience analysis of the fund for the 3-year period 2003 through 2005. The current assumptions and methods are summarized below.

MORTALITY RATES

The UP-1994 Mortality Table for males, rated down 1 year, for male participants. The UP-1994 Mortality Tables for Females, rated up one year, for participants.

TERMINATION RATES

Termination rates based on the recent experience of the fund were used. The following is a sample of the utilized termination rates:

Attained Age	Age at Entrance					
	Males			Females		
	<u>27</u>	<u>32</u>	<u>37</u>	<u>27</u>	<u>32</u>	<u>37</u>
27	.077			.083		
32	.046	.061		.045	.058	
37	.024	.032	.056	.022	.035	.042
42	.011	.018	.029	.011	.021	.029
47	.003	.010	.016	.005	.011	.016

RETIREMENT RATES

Rates of retirement for each age from 50 to 70 are based on the recent experience of the fund. The following are samples of the proposed rates of retirement:

<u>Attained Age</u>	<u>Rates of Retirement</u>
50	.056
55	.091
60	.154
65	.210
70	1.000

SALARY PROGRESSION

5.0% per year, compounded annually.

INTEREST RATE

7.75% per year compounded annually.

LOADING FOR RECIPROCAL BENEFITS

1.5% of costs and liabilities of active members.

MARITAL STATUS

76% of the participants were assumed to be married.

SPOUSE’S AGE

The spouse of a male employee was assumed to be four years younger than the employee. The spouse of a female employee was assumed to be 4 years older than the age of the employee.

ACTUARIAL COST METHOD

The entry age actuarial cost method was used, with costs allocated on the basis of earnings. Under this cost method, the present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percent of the individual's between entry age and assumed exit age. Actuarial gains and losses are recognized immediately in the unfunded actuarial liability.

ACTUARIAL VALUE OF ASSETS

The actuarial value of assets was determined by smoothing unexpected gains or losses from investment return over a period of 5 years. This method was adopted as of December 31, 1997.

SUMMARY OF VALUATION RESULTS AS OF DECEMBER 31, 2008

Actuarial Liabilities for Active Members

Basic Retirement Annuity	\$ 401,121,911
Automatic Increase in Retirement Annuity	113,105,724
Additional Benefits under Optional Plan	43,351,508
Post-retirement Survivor's Annuity	78,141,331
Pre-retirement Survivor's Annuity	21,823,301
Withdrawal Benefit	7,166,160
Total	<u>664,709,935</u>

Actuarial Liabilities for Members Receiving Benefits

Retirement Annuities	699,621,125
Automatic Increase in Retirement Annuities	167,419,410
Survivor Annuities to Survivors of Current Retirees	170,415,296
Survivor Annuities to Current Survivors	139,245,955
Total	<u>1,176,701,786</u>

Actuarial Liability for Inactive Members

10,867,913

Total Actuarial Liability

\$ 1,852,279,634

Actuarial Value of Assets

1,211,838,320

Unfunded Actuarial Liability

\$ 640,441,314

Funded Ratio

65.4%

**RECONCILIATION OF CHANGE IN UNFUNDED ACTUARIAL LIABILITY
OVER THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2008**

1. Unfunded actuarial liability as of 1/1/08.		\$ 538,286,725
2. Employer contribution requirement of normal cost plus interest on unfunded liability for period 1/1/08 to 12/31/08.	\$ 60,333,430	
3. Actual employer contribution for the year.	<u>33,406,819</u>	
4. Increase in unfunded liability due to employer contribution being less than normal cost plus interest on unfunded liability (line 2 - line 3).		\$ 26,926,611
5. Increase in unfunded liability due to investment return lower than assumed.		86,292,325
6. Increase in unfunded liability due to salary increases higher than assumed.		1,116,908
7. Decrease in unfunded liability due to changes in assumptions.		(22,899,666)
8. Increase in unfunded liability due to other sources.		10,718,411
9. Net increase in unfunded liability for the year (lines 4+5+6+7).		<u>102,154,589</u>
10. Unfunded actuarial liability as of 12/31/08 (lines 1+9).		<u><u>\$ 640,441,314</u></u>

NET PENSION OBLIGATION

The Net Pension Obligation (NPO) is the cumulative difference between the annual pension cost and the employer’s contribution from the first fiscal year after December 31, 1986 through the current year. The NPO as of December 31, 2008 is calculated as follows:

Net Pension Obligation as of December 31, 2008

1. Net Pension Obligation as of December 31, 2007		\$ 2,423,005
2. Annual Required Contribution for 2008	\$ 49,758,238	
3. Interest on Net Pension Obligation	187,783	
4. Adjustment to Annual Required Contribution	<u>(133,301)</u>	
5. Annual Pension Cost (2+3+4)	\$ 49,812,720	
6. Total Employer Contribution	33,406,819	
7. Increase in Net Pension Obligation (5-6)		<u>16,405,901</u>
8. Net Pension Obligation as of December 31, 2008 (1+7)		<u>\$18,828,906</u>

HISTORY OF CHANGE IN UNFUNDED LIABILITY
(Actuarial Funding - Going Concern, Entry Age Normal Method)

Year	Salary Scale	Investment	Contribution ¹	Legislative Amendments	
1999	\$ 3,972,152	\$ (11,029,049)	\$ (4,192,253)	\$ -	
2000	12,554,759	603,469	163,111	-	
2001	7,892,855	21,245,033	(983,275)	3,792,000	HB 0478
2002	2,081,007	85,694,715	1,786,449	10,975,935	HB 5168
2003	(133,857)	44,862,868	15,811,892	-	
2004	(5,428,416)	37,743,856	16,459,733	-	
2005	(4,928,422)	33,019,546	25,174,375	-	
2006	(2,688,379)	8,915,823	22,368,681	-	
2007	4,364,583	(9,436,863)	29,263,081	-	
2008	1,116,908	86,292,325	26,926,611	-	
	<u>\$ 18,803,190</u>	<u>\$ 297,911,723</u>	<u>\$ 132,778,405</u>	<u>\$ 14,767,935</u>	

Year	Changes in Actuarial Assumptions	(see assumption reference key 2)	All Other Miscellaneous Experience	Total Increase (Decrease) in Unfunded Liability
1999	\$ -		\$ 12,776,768	\$ 1,527,618
2000	-		(21,300,789)	(7,979,450)
2001	-		1,609,079	33,555,692
2002	41,662,715	(i)	1,433,096	143,633,917
2003	(38,915,444)	(m)	15,690,765	37,316,224
2004	-		(3,535,229)	45,239,944
2005	-		12,490,274	65,755,773
2006	(4,785,773)	(m, r, p, s, n)	8,949,341	32,759,693
2007	-		(1,007,539)	23,183,262
2008	<u>(22,899,666)</u>	(rb)	<u>10,718,411</u>	<u>102,154,589</u>
	<u>\$ (24,938,168)</u>		<u>\$ 37,824,177</u>	<u>\$ 477,147,262</u>

The table above illustrates that over the last 10 years, the unfunded liability has increased by \$477.1 million. The most significant component of this increase, \$297.9 million, has been due to investment returns being lower than assumed. Other components of this increase were \$132.8 million due to insufficient employer contributions, \$37.8 million in miscellaneous experience (optional retirement, retirement in general, mortality, reciprocal, death, withdrawal), \$18.8 million for overall salary increases more than assumed, and \$14.8 million due to legislative changes. These increases in the unfunded liability were partially offset by decreases of \$24.9 million for changes in actuarial assumptions.

¹ Includes employee and employer contributions variances.

² Key to changes in assumptions:

- i = interest rate assumption
- m = mortality
- n = not married
- p = pension for survivors
- r = retirement rates
- s = salary
- rb = reciprocal benefits

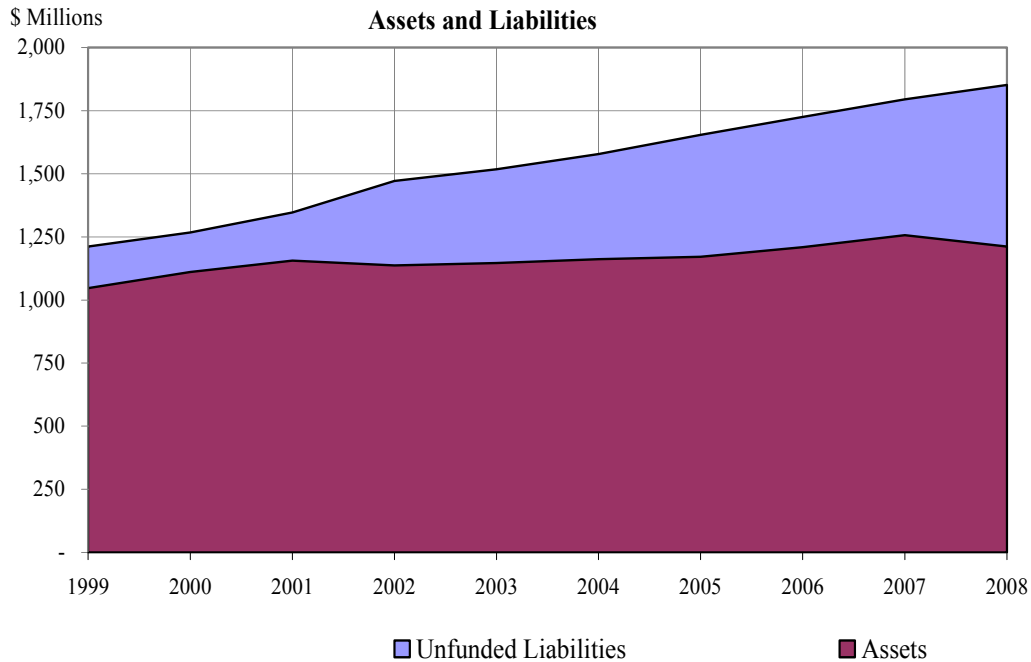
ACTUARIAL ACCRUED AND UNFUNDED LIABILITIES
(Actuarial Funding - Going Concern, Entry Age Normal Method)

Year End	Total Actuarial Liability	Actuarial Value of Assets ¹	Funded Ratio	Unfunded Actuarial Liability (UAL)	Active Member Payroll	UAL as a % of Payroll
1999	\$1,211,787,971	\$1,046,966,301	86.4%	\$164,821,670	\$122,536,313	134.5%
2000	1,267,179,677	1,110,337,457	87.6%	156,842,220	126,929,425	123.6%
2001 ³	1,346,223,065	1,155,825,153	85.9%	190,397,912	136,382,287	139.6%
2002 ^{2,3}	1,470,938,987	1,136,907,158	77.3%	334,031,829	137,679,573	242.6%
2003 ²	1,517,868,687	1,146,520,634	75.5%	371,348,053	142,593,596	260.4%
2004	1,578,366,508	1,161,778,511	73.6%	416,587,997	146,360,302	284.6%
2005	1,654,188,382	1,171,844,612	70.8%	482,343,770	149,246,356	323.2%
2006	1,724,705,199	1,209,601,736	70.1%	515,103,463	152,767,396	337.2%
2007	1,795,176,667	1,256,889,942	70.0%	538,286,725	158,831,772	338.9%
2008	1,852,279,634	1,211,838,320	65.4%	640,441,314	167,865,254	381.5%

¹ Assets are at a 5-year smoothed market value.

² Change in valuation assumptions.

³ Change in benefits.



**ACTUARIAL ACCRUED LIABILITY PRIORITIZED SOLVENCY TEST
RESTATED TO ACTUARIAL ASSET VALUES FOR GASB NO. 25**

The prioritized solvency test is another means of checking a system's progress under its funding program. In a short-term solvency test the plan's present assets (cash and investments) are compared with actuarial accrued liabilities classified into the following categories: (1) liability for active member contributions on deposit; (2) liability for future benefits to present retired lives; and (3) liability for the employer financed portion of service already rendered by active members. In a system that has been following the discipline of level percent of payroll financing the obligation for active member contributions on deposit (present value 1) and the present value of future benefits to present retired lives (present value 2) will be fully covered by present assets (except in rare circumstances). In addition, the present value of credited projected benefits for present active members (present value 3) will be partially covered by the remainder of present assets. Generally, if the system has been using a level cost financing, the funded portion of present value 3 will increase over time.

Valuation Date 12/31	Aggregate Accrued Liabilities for			Actuarial Asset Values for GASB ^b	Portion (%) of Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (ER financed portion) ^a		(1)	(2)	(3)
1999	\$130,913,783	\$676,294,737	\$404,579,451	\$1,046,966,301	100	100	59
2000	136,896,791	712,892,554	417,390,332	1,110,337,457	100	100	62
2001 ^c	146,917,082	760,159,510	439,146,473	1,155,825,153	100	100	57
2002 ^{c, d}	151,994,419	849,968,869	468,975,699	1,136,907,158	100	100	29
2003 ^d	157,910,357	886,174,665	473,783,665	1,146,520,634	100	100	22
2004	163,674,928	929,904,220	484,787,360	1,161,778,511	100	100	14
2005	170,744,447	988,212,377	495,231,558	1,171,844,612	100	100	3
2006 ^d	176,844,639	1,075,659,908	472,200,652	1,209,601,736	100	96	-
2007	181,077,729	1,139,967,612	474,131,326	1,256,889,942	100	94	-
2008 ^d	190,017,921	1,176,701,786	485,559,927	1,211,838,320	100	87	-

^a Active Members (Employer Financed Portion) was based on credited projected value of benefits prior to 1997.

^b Assets are at a 5-year smoothed market value.

^c Change in benefits.

^d Change in actuarial assumptions.

HISTORY OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM BENEFIT PAYROLL

Employee Annuitants (Male and Female)

Year	Added to Payroll		Removed from Payroll		Year-End Payroll		Average Annuity Benefits	Increase to Avg Benefits
	No.	Annuity Benefits ^{1,2}	No.	Annuity Benefits	No.	Annuity Benefits ³		
1999	96	\$5,928,874	72	\$1,491,202	1,448	\$47,601,453	\$32,874	8.5 %
2000	71	3,550,168	65	715,795	1,454	50,435,826	34,688	5.5
2001	62	4,760,736 ⁴	64	1,702,318	1,452	53,494,244	36,842	6.2
2002	103	6,849,206	66	1,773,760	1,489	58,569,690	39,335	6.8
2003	82	6,076,460	76	1,908,130	1,495	62,738,020	41,965	6.7
2004	76	5,740,322	51	1,507,600	1,520	66,970,742	44,060	5.0
2005	75	6,198,085	58	1,550,675	1,537	71,618,152	46,596	5.8
2006	82	6,591,661	46	1,558,184	1,573	76,651,629	48,730	4.6
2007	93	7,256,123	66	2,365,702	1,600	81,542,050	50,964	4.6
2008	63	5,558,865	58	2,202,686	1,605	84,898,229	52,896	3.8

Surviving Spouse Annuitants (Male and Female)

Year	Added to Payroll		Removed from Payroll		Year-End Payroll		Average Annuity Benefits	Increase to Avg Benefits
	No.	Annuity Benefits ¹	No.	Annuity Benefits	No.	Annuity Benefits ³		
1999	41	\$804,595	44	\$323,970	712	\$8,005,831	\$11,244	6.8 %
2000	32	754,739	53	382,740	691	8,377,830	12,124	7.8
2001	48	1,854,401 ⁵	50	430,642	689	9,801,589	14,226	17.3
2002	41	1,266,454	51	591,335	679	10,476,708	15,430	8.5
2003	46	1,533,787	34	353,554	691	11,656,941	16,870	9.3
2004	27	968,530	41	493,286	677	12,132,185	17,921	6.2
2005	32	1,140,791	51	701,298	658	12,571,678	19,106	6.6
2006	28	1,087,341	27	330,415	659	13,328,604	20,225	5.9
2007	35	1,471,837	40	508,665	654	14,291,776	21,853	8.0
2008	34	1,619,387	41	783,014	647	15,128,149	23,382	7.0

¹ Includes 3% annual Cost of Living Adjustments (COLAs) for employee annuitants and (since 1993) for surviving spouse annuitants.

² Beginning in 2001, benefit includes COLA's for reciprocal retirees eligible for alternative formula.

³ End of year payroll represents twelve times the December 31st payable annuities, until 2008 when it represents twelve times the December 1st paid annuities.

⁴ Includes increase in minimum retiree annuities.

⁵ Includes minimum spouse annuity increase to \$500-\$750 range, or 50% of annuitant's benefit at time of death.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Year End	Members in Service	% Change	Annual Payroll	% Change	Average Salary	% Change	Actuarial Salary % Increase	CPI Chicago ¹
1999	2,140	(0.2) %	\$122,536,313	3.8 %	\$57,260	4.0 %	5.5 %	2.1 %
2000	2,084	(2.6)	126,929,425	3.6	60,907	6.4	5.5	3.2
2001	2,137	2.5	136,382,287	7.4	63,820	4.8	5.5	2.6
2002	2,067	(3.3)	137,679,573	1.0	66,608	4.4	5.5	1.6
2003	2,060	(0.3)	142,593,596	3.6	69,220	3.9	5.5	1.8
2004	2,051	(0.4)	146,360,302	2.6	71,360	3.1	5.5	2.2
2005	2,025	(1.3)	149,246,356	2.0	73,702	3.3	5.5	3.0
2006	1,995	(1.5)	152,767,396	2.4	76,575	3.9	5.5	2.1
2007	2,002	0.4	158,831,772	4.0	79,337	3.6	5.0	3.3
2008	2,052	2.5	167,865,254	5.7	81,806	3.1	5.0	3.8

10 year average change: (0.4) % 3.6 % 4.0 % 2.6 %

¹ Consumer Price Index for Chicago per the U.S. Bureau of Labor Statistics, CPI-U for all urban consumers

HISTORY OF RECOMMENDED EMPLOYER MULTIPLES AND TAXES LEVIED

Year of Report and Tax Levy	Statutory Multiple	Recommended Employer Multiple	Total Gross Tax Levy
1999	2.19	2.50	\$34,237,500
2000	2.19	2.30	29,092,000
2001 ¹	2.19	2.68	31,182,000
2002	2.19	2.92	31,388,000
2003 ²	2.19	2.89	31,821,000
2004	2.19	3.64	35,715,000
2005	2.19	3.76	29,837,000
2006	2.19	3.40	31,701,000
2007	2.19	4.40	30,312,000
2008	2.19	4.65	31,314,000
2009	2.19		32,640,000

STATISTICAL SECTION

Membership Information:

Participant Statistics

Employee Age and Service Distribution (with graph)

Annuitant and Beneficiary Information:

History of Beneficiaries by Type of Benefit

Schedule of Annuitants by Type of Benefit

History of Annuity Payments

Annuitants Classified by Age and Gender (with graph)

History of Average Annuities at Retirement

Schedule of Average Benefit Payments at Retirement

Financial Information:

Revenues by Source and Expenses by Type

History of Benefit Expenses by Type

Employee and Employer Contributions

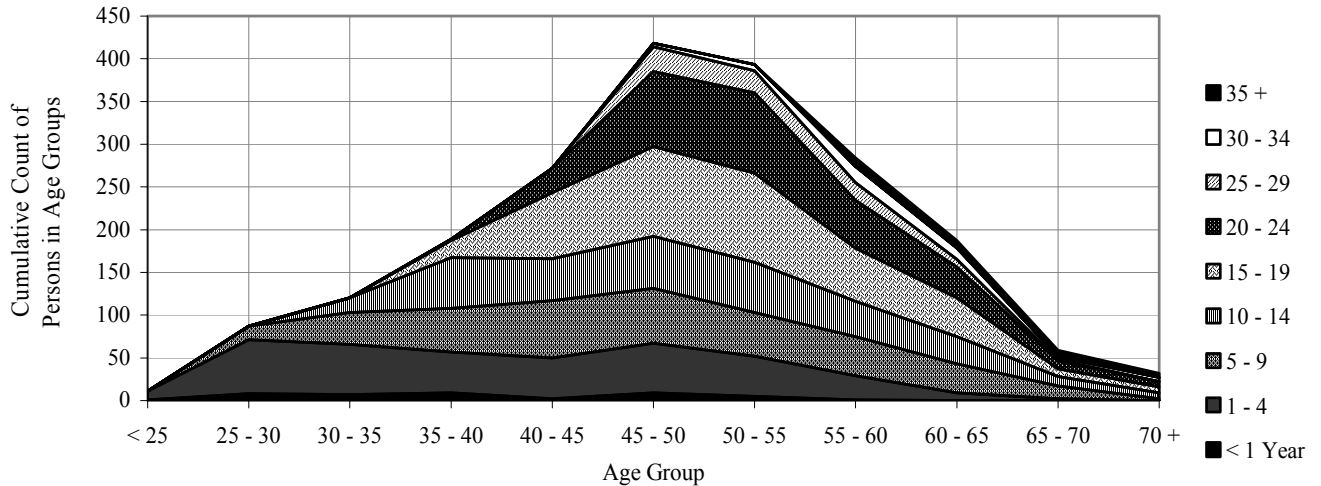
Schedule of Changes in Plan Net Assets

PARTICIPANT STATISTICS

Year 2008

Changes in Active Participants	Number at Beginning of Year	Additions	Decreases	Number at Year End
Male	1,468	92	63	1,497
Female	534	36	15	555
Total	2,002	128	78	2,052
 Changes in Annuitants and Beneficiaries				
Employee Annuitants	1,600	63	58	1,605
Spouse Annuitants	654	34	41	647
Child Annuities	22	3	5	20
Total	2,276	100	104	2,272
 Percentage of Active Participants to Annuitants and Beneficiaries				
	87.96%			90.32%

**EMPLOYEE AGE AND SERVICE DISTRIBUTION
YEAR 2008 - AVERAGE SALARIES BY AGE AND SERVICE GROUPING**



**Distribution of the Number of Active Members and their Average Salaries
(Male and Female Combined)**

AGE	YEARS OF SERVICE									Total
	< 1	1 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 +	
< 25	1	10								11
	\$44,658	\$58,427								\$57,175
25-29	8	63	16							87
	\$55,777	\$60,153	\$70,799							\$61,708
30-34	7	59	37	17						120
	\$69,450	\$69,083	\$77,806	\$87,632						\$74,422
35-39	9	48	51	59	20	2				189
	\$60,701	\$67,993	\$79,992	\$84,016	\$85,753	\$90,377				\$78,002
40-44	2	48	67	49	77	29				272
	\$64,316	\$66,947	\$76,293	\$85,809	\$89,803	\$90,528				\$81,612
45-49	9	58	64	61	105	88	29	4		418
	\$53,687	\$69,358	\$80,345	\$80,717	\$89,604	\$97,730	\$88,343	\$73,004		\$84,771
50-54	5	47	51	59	104	94	26	7		393
	\$48,098	\$66,027	\$77,426	\$88,199	\$86,297	\$92,625	\$95,190	\$91,121		\$84,709
55-59	1	28	46	41	62	56	21	19	10	284
	\$79,661	\$61,329	\$76,839	\$86,331	\$81,619	\$85,111	\$87,596	\$112,292	\$112,089	\$83,773
60-64		9	34	32	45	36	9	13	9	187
		\$68,378	\$75,017	\$84,097	\$84,213	\$81,134	\$74,235	\$101,582	\$111,974	\$83,230
65-69		2	15	11	9	9	2	3	8	59
		\$76,986	\$75,001	\$71,439	\$77,171	\$96,941	\$81,257	\$81,987	\$124,094	\$85,306
70 +			2	7	7	6		5	5	32
			\$78,551	\$88,730	\$72,604	\$89,577		\$62,080	\$149,597	\$90,071
Total										
Number	42	372	383	336	429	320	87	51	32	2,052
Average Salary	\$58,460	\$65,967	\$77,444	\$84,573	\$86,401	\$91,281	\$88,587	\$96,869	\$120,919	\$81,806

HISTORY OF BENEFICIARIES BY TYPE OF BENEFIT

<u>Year</u>	<u>Employee Annuitants</u> ¹	<u>Spouse Annuitants</u> ^{1,2}	<u>Child Annuitants</u>	<u>Total Annuitants</u>	<u>Ordinary Disability</u>	<u>Duty Disability</u>
1999	1,448	712	11	2,171	37	22
2000	1,454	691	13	2,158	35	22
2001	1,452	689	9	2,150	32	19
2002	1,489	679	7	2,175	22	20
2003	1,495	691	7	2,193	31	20
2004	1,520	677	9	2,206	28	21
2005	1,537	658	20	2,215	32	32
2006	1,573	659	16	2,248	35	31
2007	1,600	654	22	2,276	29	33
2008	1,605	647	20	2,272	19	28

¹ Includes reciprocal annuitants.

² Includes reversionary annuitants.

**SCHEDULE OF ANNUITANTS BY TYPE OF BENEFIT
on December 31, 2008**

<u>Amount of Monthly Benefit</u>	<u>Number of Beneficiaries</u>	<u>Type of Benefit *</u>					
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
\$1 - \$500	131	50	39	20	1	3	18
501 - 1,000	262	61	129	68	0	2	2
1,001 - 2,000	284	131	112	41	0	0	0
2,001 - 3,000	320	217	76	27	0	0	0
3,001 - 4,000	354	291	51	12	0	0	0
4,001 - 5,000	332	296	26	10	0	0	0
5,001 - 6,000	237	221	13	3	0	0	0
6,001 - 7,000	119	113	5	1	0	0	0
7,001 - 8,000	106	96	9	1	0	0	0
over - 8,000	127	124	3	0	0	0	0
Totals	2,272	1,600	463	183	1	5	20

* Type of Benefit

- | | |
|--|------------------------------|
| 1. Normal Retirement for Age and Service | 4. Term Annuity (Fixed Term) |
| 2. Normal Survivor Benefit | 5. Disability Annuity |
| 3. Survivor Benefit - Death in Service | 6. Children |

**HISTORY OF ANNUITY PAYMENTS
at Year End**

Year	Employee Annuitants (Male and Female)		Spouse Annuitants (Male and Female)	
	<u>Number of Annuitants</u>	<u>Annuity Payments ¹</u>	<u>Number of Annuitants</u>	<u>Annuity Payments ¹</u>
1999	1,448	\$45,748,773	712	\$7,759,614
2000	1,454	49,492,879	691	8,190,057
2001	1,452	53,494,244	689	9,801,589
2002	1,489	58,569,690	679	10,476,708
2003	1,495	62,738,020	691	11,656,941
2004	1,520	66,970,742	677	12,132,185
2005	1,537	71,618,152	658	12,571,678
2006	1,573	76,651,629	659	13,328,604
2007	1,600	81,542,050	654	14,291,776
2008	1,605	84,898,229	647	15,128,149

¹ Payments are annualized, computed as twelve times the December 1st annuity payment.

**ANNUITANTS CLASSIFIED BY AGE AND GENDER
as of December 31, 2008**

Retirement Annuities

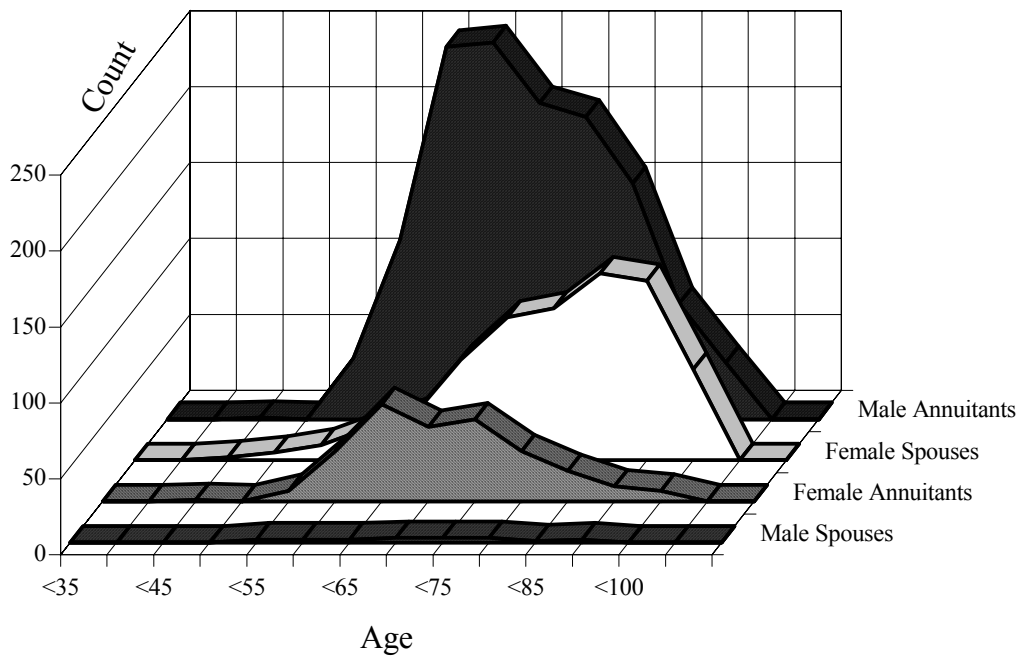
Age	Number of Males	Annual Payments	Average Annual Payments	Number of Females	Annual Payments	Average Annual Payments
40 - 44	1	\$ 3,750	\$ 3,750	1	\$ 6,340	\$ 6,340
45 - 49	0	-	-	0	-	-
50 - 54	40	2,596,473	64,912	7	542,767	77,538
55 - 59	118	7,577,770	64,218	33	1,620,191	49,097
60 - 64	245	17,416,288	71,087	64	3,013,955	47,093
65 - 69	248	14,470,777	58,350	49	1,809,582	36,930
70 - 74	208	11,094,533	53,339	54	1,838,373	34,044
75 - 79	199	10,167,657	51,094	33	1,116,909	33,846
80 - 84	155	7,125,805	45,973	20	519,489	25,974
85 - 89	76	2,729,308	35,912	10	282,550	28,255
90 & up	37	863,871	23,348	7	101,841	14,549
Total	1,327	\$74,046,232	# \$ 55,800	278	\$ 10,851,997	\$ 39,036
Average Age	70.6			68.7		

Spouse Annuities

Age	Number of Males	Annual Payments	Average Annual Payments	Number of Females	Annual Payments	Average Annual Payments
40 - 44	0	\$ -	\$ -	2	\$ 31,722	\$ 15,861
45 - 49	0	-	-	5	143,779	28,756
50 - 54	2	39,532	19,766	10	461,340	46,134
55 - 59	2	83,214	41,607	21	663,985	31,618
60 - 64	2	32,992	16,496	30	922,181	30,739
65 - 69	3	76,303	25,434	66	2,216,360	33,581
70 - 74	3	67,020	22,340	94	2,821,027	30,011
75 - 79	3	58,311	19,437	100	2,901,724	29,017
80 - 84	1	18,264	18,264	123	2,180,831	17,730
85 - 89	2	15,104	7,552	118	1,745,717	14,794
90 & up	0	-	-	60	648,743	10,812
Total	18	\$ 390,740	\$ 21,708	629	\$ 14,737,409	\$ 23,430
Average Age	69.1			77.5		

ANNUITANTS BY AGE AND GENDER

(Reflects the information on the previous page)



HISTORY OF AVERAGE ANNUITIES AT RETIREMENT

<u>Retirement Year</u>	<u>Number of Retirees</u>	<u>Average Retirement Age</u>	<u>Average Years of MWRDGC Service</u>	<u>Average Monthly Annuity</u>
1999	97	58.5	24.85	\$3,939
2000	71	59.2	23.44	3,484
2001	62	59.5	25.49	4,256
2002	103	58.3	24.15	4,276
2003	82	57.9	26.82	4,452
2004	76	58.8	23.41	4,256
2005	75	59.2	24.94	4,690
2006	83	60.0	25.31	4,411
2007	93	59.7	25.13	4,506
2008	63	60.8	21.99	4,207

SCHEDULE OF AVERAGE BENEFIT PAYMENTS AT RETIREMENT¹

	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
Period 1/1/99 to 12/31/99							
Average Pension	-	\$1,045	\$1,696	\$2,435	\$3,117	\$4,806	\$4,760
Average Final Average Salary	-	\$3,709	\$4,263	\$4,771	\$4,757	\$6,250	\$6,238
Number of Retired Members	-	2	9	10	21	34	21
Period 1/1/00 to 12/31/00							
Average Pension	\$163	\$1,345	\$1,832	\$2,291	\$2,823	\$4,978	\$4,068
Average Final Average Salary	\$3,752	\$5,264	\$4,401	\$4,291	\$4,469	\$6,516	\$5,114
Number of Retired Members	1	4	6	5	21	24	10
Period 1/1/01 to 12/31/01							
Average Pension	-	-	\$1,784	\$3,307	\$3,158	\$4,815	\$5,689
Average Final Average Salary	-	-	\$4,779	\$5,171	\$5,199	\$6,284	\$7,137
Number of Retired Members	-	-	8	3	12	23	16
Period 1/1/02 to 12/31/02							
Average Pension	\$218	\$91	\$1,816	\$2,624	\$3,418	\$5,032	\$5,929
Average Final Average Salary	\$4,058	\$2,200	\$5,039	\$5,099	\$5,680	\$6,704	\$7,426
Number of Retired Members	3	1	14	10	15	31	29
Period 1/1/03 to 12/31/03							
Average Pension	\$162	\$485	\$2,008	\$2,711	\$3,452	\$4,749	\$5,942
Average Final Average Salary	\$4,819	\$4,134	\$5,297	\$5,432	\$5,351	\$6,026	\$7,459
Number of Retired Members	1	1	4	9	13	28	26
Period 1/1/04 to 12/31/04							
Average Pension	\$268	\$857	\$2,322	\$2,079	\$3,491	\$5,505	\$6,342
Average Final Average Salary	\$5,715	\$5,853	\$5,610	\$4,879	\$5,692	\$7,353	\$7,967
Number of Retired Members	8	5	7	2	10	23	21
Period 1/1/05 to 12/31/05							
Average Pension	-	\$911	\$1,551	\$2,459	\$3,667	\$5,665	\$6,874
Average Final Average Salary	-	\$5,161	\$5,525	\$5,490	\$5,511	\$7,386	\$8,655
Number of Retired Members	-	5	6	10	9	24	21
Period 1/1/06 to 12/31/06							
Average Pension	-	\$1,548	\$2,167	\$2,764	\$4,114	\$5,728	\$5,697
Average Final Average Salary	-	\$9,521	\$5,766	\$5,560	\$6,702	\$7,699	\$7,179
Number of Retired Members	-	1	8	20	9	23	22
Period 1/1/07 to 12/31/07							
Average Pension	\$643	\$1,181	\$2,303	\$2,955	\$4,594	\$5,267	\$5,793
Average Final Average Salary	\$4,989	\$7,666	\$6,579	\$5,913	\$7,276	\$7,006	\$7,311
Number of Retired Members	1	1	7	16	15	30	23
Period 1/1/08 to 12/31/08							
Average Pension	\$322	\$753	\$1,518	\$3,715	\$4,282	\$6,166	\$6,122
Average Final Average Salary	\$6,382	\$5,521	\$5,570	\$7,646	\$6,896	\$8,113	\$7,652
Number of Retired Members	3	4	9	9	13	13	12

¹ Average Monthly Benefit amount is rounded to the nearest dollar and does not include Survivor Annuities.

Years of Credited Service does not include Reciprocal Service.

REVENUES BY SOURCE AND EXPENSES BY TYPE

(in Thousands of Dollars)

REVENUES BY SOURCE

Year Ending December 31	Employee Contributions	Employer Contributions	as a % of Covered Payroll	Investment Income ^{1,2,3}	Total
1999	\$14,238	\$32,269	25.9	\$50,890	\$97,397
2000	14,332	27,209	21.6	24,848	66,389
2001	14,986	28,141	20.6	(15,217)	27,910
2002	16,308	28,664	20.8	(69,628)	(24,656)
2003	14,230	28,779	20.2	171,023	214,032
2004	15,151	30,982	21.2	96,906	143,039
2005	14,468	26,174	17.5	53,781	94,423
2006	14,955	34,476	22.5	106,514	155,945
2007	15,627	27,947	17.6	62,671	106,246
2008	14,778	33,407	19.9	(299,142)	(250,957)

EXPENSES BY TYPE

Year Ending December 31	Benefits	Administrative Expenses	Refunds	Total
1999	\$54,802	\$1,115	\$892	\$56,809
2000	58,667	1,037	873	60,577
2001	62,542	1,141	702	64,385
2002	67,574	1,166	952	69,692
2003	73,231	1,149	1,042	75,422
2004	78,113	1,243	1,321	80,677
2005	83,293	1,298	1,288	85,879
2006	89,079	1,472	1,411	91,962
2007	94,846	1,465	1,164	97,475
2008	100,069	1,280	965	102,314

¹ Includes miscellaneous income.

² Net of investment expenses.

³ Securities Lending Income.

HISTORY OF BENEFIT EXPENSES BY TYPE (in Thousands of Dollars)

Year	Employee <u>Annuities</u>	Spouse <u>Annuities</u>	Child <u>Annuities</u>	Ordinary <u>Disabilities</u>	Duty <u>Disabilities</u>	Total <u>Benefits</u>
1999	\$45,749	\$7,760	\$37	\$660	\$597 ¹	\$54,801
2000	49,493	8,190	47	766	171 ²	58,667
2001	52,613	9,044	44	714	127	62,542
2002	58,570	10,477	48	630	143	69,868
2003	61,194	11,164	46	722	106	73,232
2004	65,198 ³	11,920	43	810 ³	142	78,113
2005	69,740	12,302	80	992	179	83,293
2006	74,887	12,905	105	988	194	89,079
2007	79,417	13,961	126	1,100	242	94,846
2008	83,948	14,934	123	846	218	100,069

PERCENT OF TOTAL BENEFITS

Year	Employee <u>Annuities</u>	Spouse <u>Annuities</u>	Child <u>Annuities</u>	Ordinary <u>Disabilities</u>	Duty <u>Disabilities</u>
1999	83.48 %	14.16 %	0.07 %	1.20 %	1.09 ¹
2000	84.36	13.96	0.08	1.31	0.29 ²
2001	84.12	14.46	0.07	1.14	0.20
2002	83.83	15.00	0.07	0.90	0.20
2003	83.56	15.24	0.06	0.99	0.15
2004	83.47 ³	15.26	0.06	1.04 ³	0.19
2005	83.73	14.77	0.10	1.19	0.22
2006	84.07	14.49	0.12	1.11	0.23
2007	83.73	14.72	0.13	1.16	0.27
2008	83.89	14.92	0.12	0.85	0.23

PERCENT CHANGE FROM YEAR TO YEAR

Year	Employee <u>Annuities</u>	Spouse <u>Annuities</u>	Child <u>Annuities</u>	Ordinary <u>Disabilities</u>	Duty <u>Disabilities</u>	Total <u>Benefits</u>
1999	9.16 %	6.57 %	4.33 %	5.04 %	326.19 ¹	9.62 %
2000	8.18	5.55	28.69	16.14	-71.36 ²	7.05
2001	6.30	10.43	-6.38	-6.79	-25.73	6.61
2002	11.32	15.84	9.09	-11.76	12.60	11.71
2003	4.48	6.56	-4.17	14.60	-25.87	4.81
2004	6.54 ³	6.77	-6.52	12.19 ³	33.96	6.67
2005	6.97	3.20	86.05 ⁴	22.47	26.06	6.63
2006	7.38	4.90	31.25	-0.40	8.38	6.95
2007	6.05	8.18	20.00	11.34	24.74	6.47
2008	5.71	6.97	-2.38	-23.09	-9.92	5.51

¹ 1999 Duty Disability expense of \$597K included a non-recurring court ordered multi-year benefit payment of \$461K. Without this payment, Duty Disability expenses: \$136K; percentage of total 0.25%; percentage change (2.86%).

² 2000 Duty Disability expense of \$171K reflects a 25.7% increase from the adjusted 1999 expense (\$136K).

³ 2004 Employee Annuities and Ordinary Disability expenses include credits for overpayments of \$49,048 and \$111,128, respectively.

⁴ Beginning 2005, Child Annuities include children 18-23 who are enrolled as a full time student.

**EMPLOYEE AND EMPLOYER CONTRIBUTIONS
(in Thousands of Dollars)**

EMPLOYEE CONTRIBUTIONS

Year	Regular Contributions ¹	Optional Contributions	Early Retirement Contributions (ERC)	Prior Service Payments ²	Alternative Plan ³	Totals ⁴
1999	\$10,708	\$3,095	\$378	\$52	\$5	\$14,238
2000	11,331	2,514	392	89	6	14,332
2001	12,051	2,713	177	36	9	14,986
2002	12,451	3,216	456	177	8	16,308
2003	12,620	1,167	129	298	16	14,230
2004	13,358	1,243	-	539	11	15,151
2005	13,148	1,154	-	155	11	14,468
2006	13,412	1,209	13	288	33	14,955
2007	13,803	1,281	-	528	16	15,628
2008	14,519	49	-	194	16	14,778

EMPLOYER CONTRIBUTIONS

Year	Regular Contributions ⁵	Early Retirement Contributions (ERC)	Totals
1999	\$29,298	\$2,474	\$31,772
2000	25,584	1,806	27,390
2001	27,034	993	28,027
2002	26,627	2,036	28,663
2003	28,187	592	28,779
2004	30,982	-	30,982
2005	26,175	-	26,175
2006	34,438	38	34,476
2007	27,947	-	27,947
2008	33,407	-	33,407

¹ Regular Contributions include Employee contributions towards employee and surviving spouse annuities, and cost of living increases.

² Prior Service Payments include Leave of Absence, Refund Repayment and Military Service.

³ Contributions to the elected Commissioners' Alternative Plan.

⁴ Tax levy based on two years prior employee contributions.

⁵ Includes Commissioner transfer of employer contributions.

STATEMENT OF CHANGES IN PLAN NET ASSETS

For Years ended December 31, 2008, with Comparative Totals for 10 Years

Additions:	2008	2007	2006	2005	2004
Employer contributions	\$33,406,819	\$27,947,096	\$34,476,332	\$26,174,492	\$30,982,232
Employee contributions	14,778,404	15,627,673	14,955,252	14,468,188	15,150,846
Total contributions	48,185,223	43,574,769	49,431,584	40,642,680	46,133,078
Investment income					
Net appreciation (depreciation) in fair value of investments	(311,205,254)	51,318,416	95,848,706	43,439,028	85,939,679
Interest on fixed income investments	4,106,340	5,398,891	5,702,537	6,215,281	7,161,800
Interest on short-term investments	670,923	821,893	1,126,657	713,626	195,788
Dividend income	9,191,366	7,486,606	6,008,651	5,491,961	5,598,181
Total investment income (loss)	(297,236,625)	65,025,806	108,686,551	55,859,896	98,895,448
Less investment expenses	2,507,486	2,563,022	2,175,003	2,083,143	1,993,289
Investment income (loss) net of expenses	(299,744,111)	62,462,784	106,511,548	53,776,753	96,902,159
Security lending activities					
Securities lending income	3,691,075	1,860,212	-	-	-
Borrower rebates	(2,912,737)	(1,654,778)	-	-	-
Bank fees	(194,845)	(51,377)	-	-	-
Net income from securities lending	583,493	154,057			
Other	18,089	54,884	2,609	4,526	3,945
Total additions	(250,957,306)	106,246,494	155,945,741	94,423,959	143,039,182
Deductions:					
Annuities and benefits					
Employee annuitants	83,948,187	79,416,735	74,886,513	69,740,703	65,198,315
Surviving spouse annuitants	14,934,213	13,960,889	12,905,070	12,301,743	11,919,713
Child annuitants	122,652	126,256	104,833	79,801	43,338
Ordinary disability benefits	846,201	1,099,784	988,331	992,020	810,171
Duty disability benefits	217,496	242,357	194,342	178,802	141,722
Total annuities and benefits	100,068,749	94,846,021	89,079,089	83,293,069	78,113,259
Refunds of employee contributions	964,846	1,164,218	1,410,954	1,287,679	1,320,740
Administrative expenses	1,280,321	1,464,635	1,471,957	1,298,604	1,243,182
Total deductions	102,313,916	97,474,874	91,962,000	85,879,352	80,677,181
Net increase (decrease)	(353,271,222)	8,771,620	63,983,741	8,544,607	62,362,001
Net assets held in trust for pension benefits					
Beginning of year	1,232,068,414	1,223,296,794	1,159,313,053	1,150,768,446	1,088,406,445
End of year	\$878,797,192	\$1,232,068,414	\$1,223,296,794	\$1,159,313,053	\$1,150,768,446

STATEMENT OF CHANGES IN PLAN NET ASSETS (Continued)
For Years ended December 31, 2008, with Comparative Totals for 10 Years

<u>Additions:</u>	2003	2002	2001	2000	1999
Employer contributions	\$28,778,648	\$28,662,510	\$28,249,866	\$27,390,683	\$31,771,825
Employee contributions	14,230,224	16,308,414	14,986,546	14,332,384	14,238,418
Total contributions	<u>38,945,992</u>	<u>44,970,924</u>	<u>43,236,412</u>	<u>41,723,067</u>	<u>46,010,243</u>
Investment income					
Net appreciation (depreciation) in					
fair value of investments	152,818,124	(94,520,176)	(43,681,605)	(6,281,461)	14,291,024
Interest on fixed income investments	13,251,196	18,805,575	23,144,345	24,008,016	30,291,302
Interest on short-term investments	152,189	380,345	711,549	1,157,895	1,039,307
Dividend income	6,526,899	7,241,984	6,202,878	7,605,359	7,206,563
Total investment income (loss)	<u>172,748,408</u>	<u>(68,092,272)</u>	<u>(13,622,833)</u>	<u>26,489,809</u>	<u>52,828,196</u>
Less investment expenses	1,736,233	1,535,679	1,592,038	1,641,881	1,937,991
Investment income (loss) net	<u>111,545,790</u>	<u>(69,627,951)</u>	<u>(15,214,871)</u>	<u>24,847,928</u>	<u>50,890,205</u>
of expenses					
Security lending activities					
Securities lending income	-	-	-	-	-
Borrower rebates	-	-	-	-	-
Bank fees	-	-	-	-	-
Net income from securities lending	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other	11,202	1,226	(111,451)	(181,782)	496,635
Total additions	<u>150,502,984</u>	<u>(24,655,801)</u>	<u>27,910,090</u>	<u>66,389,213</u>	<u>97,397,083</u>
<u>Deductions:</u>					
Annuities and benefits					
Employee annuitants	61,193,860	56,544,358	52,612,736	49,492,879	45,748,773
Surviving spouse annuitants	11,164,164	10,208,710	9,044,363	8,190,057	7,759,614
Child annuitants	45,503	47,907	44,228	46,992	36,516
Ordinary disability benefits	721,878	629,764	714,313	766,117	659,649
Duty disability benefits	105,822	143,514	126,516	170,685	596,662
Total annuities and benefits	<u>49,994,286</u>	<u>67,574,253</u>	<u>62,542,156</u>	<u>58,666,730</u>	<u>54,801,214</u>
Refunds of employee contributions	1,041,560	951,614	701,766	872,955	892,443
Administrative expenses	1,149,105	1,165,816	1,141,258	1,037,492	1,115,382
Total deductions	<u>52,111,918</u>	<u>69,691,683</u>	<u>64,385,180</u>	<u>60,577,177</u>	<u>56,809,039</u>
Net increase (decrease)	<u>138,610,357</u>	<u>(94,347,484)</u>	<u>(36,475,090)</u>	<u>5,812,036</u>	<u>40,588,044</u>
Net assets held in trust					
for pension benefits					
Beginning of year	949,796,088	1,044,143,572	1,080,618,662	1,074,806,626	1,034,218,582
End of year	<u>\$1,088,406,445</u>	<u>\$949,796,088</u>	<u>\$1,044,143,572</u>	<u>\$1,080,618,662</u>	<u>\$1,074,806,626</u>

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LEGISLATIVE CHANGES SECTION

Legislative Changes

1979 Session

- PA 81-0634 Disability benefits payable for alcoholism if the employee participates in a rehabilitation program.
- PA 81-0679 Reciprocal Act: changes proportionate pension credits under the "alternate" formula.
- PA 81-1187 Under IRS Code Section 414(h), employer may pick up the employee contributions for all compensation earned after December 31, 1980, by a reduction in the cash salary or an offset to a future salary increase or by a combination of both.

1980 Session

- PA 81-1536 Reversed all changes made by PA 81-1187 and put the pick up section as a new paragraph. They are treated as employee contributions for all purposes, including refunds; and determination of the tax levy.

1981 Spring Session

- PA 82-0690 Effective January 1, 1982, signed November 12, 1981.
Post-retirement increases from 2% to 3% for new retirements only.
Maximum spouse benefit from \$500 to \$600.
Disability benefits payable to age 70 in some cases.
Increase in employee pensions of \$25 per month.
Increase in spouse pension of \$25 per month or up to \$250.
Children's annuities to \$100 and \$140.
Reduction in spouse age discount.
Increase in tax multiple to 2.34 in 1984 and after.
- PA 82-0308 Authorizes investments in conventional mortgage pass-through securities.
- PA 82-0256 Financial statement required by Department of Insurance within 6 months and actuarial statement within 9 months; \$100 per day penalty if late.

1982 Spring Session

- PA 82-0960 Expanded fiduciary standards, prohibited transactions, civil action may be brought by Attorney General or by a participant.
- PA 82-0768 Clarifies compulsory retirement age to 70 rather than 67.

1983 Spring Session

- PA 83-0827 Effective January 1, 1984, signed September 24, 1983.
2% benefit accrual formula.
Maximum spouse benefit from \$600 to \$800.
No reduction for spouse age difference.
Eliminates 30 day wait for refund.

Legislative Changes Section

Interest rate on refund repayments from 6% to 8%.

Eliminates second doctor's report for duty disability under certain conditions.

PA 83-0861 Minimum reporting and actuarial information for 1984.

PA 83-0869 10% prudent person investment category.

PA 83-0970 Delegation of investment authority restrictions.

1984 Session No legislative changes

1985 Spring Session

PA 84-0733 Signed September 21, 1985.

Early Retirement Contribution (ERC) Plan: Elimination of age discount factor with one-time employee and employer contribution for those who retire after July 1, 1985 and before June 30, 1995.

Post-retirement annuity increases to begin upon the first anniversary of retirement for those who retire on or after July 1, 1985.

\$800 maximum on surviving spouse benefit removed.

Remarriage will terminate spouse annuity only for remarriage before July 1, 1985.

Optional term annuity if life annuity less than \$200.

1986 Spring Session

PA 84-1472 Changes the requirement from 10 years to 5 years for allowance after withdrawal while disabled.

Optional Plan of 3% contributions for 1% additional benefit per year of service. Provisions for payment of past service with interest. Provisions expire July 1, 1992. Such plan if elected by a member, would require a 3% of salary contribution (with interest for past service) and would produce an additional 1% per year of service benefit and would increase the employee annuity, post-retirement increase and spouse annuity. Additional optional benefits may not be established for more than 10 years of service. Membership in this plan is optional and as such, it is possible to delay election to just prior to retirement. The effective date of this optional plan is July 31, 1987 the date upon which approval was received from the Internal Revenue Service.

1987 Spring Session

- PA 85-0964 Eligibility for retirement at age 50 instead of age 55.
No discount for age less than 60 with 30 or more years of service.
Accrual rate of 2.15% per year of service instead of 2%.
80% maximum benefit for future retirees instead of 75%.
Annuity based on 2 year final average salary instead of 4 year final average salary.
Ad hoc increases for present retiree, widow(er)'s and children.
Increase in employee contribution to 9%.
Decrease in the multiple to 2.19.
An alternative benefit for District Commissioners effective upon IRS approval (which was approved June 22, 1988).

1988 Session No legislative changes.

1989 Session

- PA 86-0273 Signed August 24, 1989.
Average salary 104 consecutive weeks instead of 24 months.
Accrual rate of 2.2% of average salary for each of the first 20 years of service and 2.4% for each year of service in excess of 20.
Increase for surviving spouse of 3% of the amount of annuity on the date of employee's retirement or death in service.
Alternative annuity for commissioners age 60 with 6 years of service.
Widow(er)'s allowance of 60% plus 1% for each year of service of employee's annuity at the date of employee's death.
Ad hoc increases for widow(er)'s.

1990 Session

- PA 86-0957 Amends Chapter 120, Paragraph 671 of the Revenue Act to provide for a separate listing on the tax bill of the dollar amount of tax due from the person assessed which is allocable to a tax levied under the Illinois Pension Code, or any other tax levied by a municipality or township for public pension or retirement purposes. Effective January 1, 1990.
- PA 86-1488 Clarifies the date of 3% increase for surviving spouse.
Allows any City officer to transfer his MWRD service to the Municipal Fund.

1991 Session

- PA 87-0794 Article 13 rewritten to preserve existing benefits, signed November 20, 1991.
- Average salary 52 consecutive pay periods instead of 104 consecutive weeks.
 - Retirement annuity with 5 years service and age 60 instead of 10 years.
 - Early Retirement Contribution (ERC) Plan extended to June 30, 1997.
 - Age discount .5% for each full month employee is less than age 60 or each full month employee's service is less than 30 years, whichever is less.
 - Optional Plan extended to July 1, 1997.
 - Surviving spouse of employee who withdraws from service not eligible for annuity unless employee had 10 years of service.
 - Dissolution of marriage after retirement shall not divest spouse of an annuity if they had been married 10 years on the date of retirement.
 - For employee with Reciprocal service who retires on or after July 1, 1985 and dies after January 1, 1991 with 15 years in MWRD and service prior to September 5, 1975 spouse annuity shall be calculated as a percentage of total annuity minus amount payable by other fund as of date of death.
 - Surviving spouse annuity shall be discounted .25% for each full month the spouse is younger than the employee, with maximum 60%. The discount shall be reduced 10% for each full year the marriage was in effect as of the date of withdrawal or death in service.
 - Child annuity \$250 with one parent alive or \$350 when neither is alive.

1992 Session

- PA 87-1265 Beginning January 1, 1993, all employee annuity increases are 3% compounded.
- Beginning January 1, 1993, all non-term employee annuitants retiring at age 60 or older with at least 10 years of service get a \$500 minimum annuity.
 - Beginning January 1, 1993, all non-term, non-Reciprocal, non-Disability (Annuity) employees who qualify for an annuity will get a \$250 minimum annuity.
 - Employee may now purchase up to 15 years of optional service (previously 10 years).
 - Beginning January 1, 1993 all surviving spouse annuities are increased annually by 3% compounded if the employee had at least 10 years of service.
 - Starting January 1, 1993 all surviving spouse annuitants of non-term employee annuitants who retired at age 60 or older with at least 10 years of MWRD service get a \$500 minimum annuity.

1992 Session (continued)

Starting January 1, 1993 all surviving spouses of non-term, non-Reciprocal, non-Disability (Annuity) employee annuitants get a \$250 minimum annuity.

Alternative annuity for commissioners at age 55 (previously 60).

"No spouse" refunds include 3% interest (previously without interest).

Signed January 25, 1993.

1993 Session No legislative changes

1994 Session No legislative changes

1995 Session No legislative changes

1996 Session No legislative changes

1997 Session

PA 90-0012 Approved June 13, 1997.

Allows equity investments to be up to 50% of total investments.

Excludes future Civil Service Board members from participation in the retirement fund.

Raises eligibility for retirement for new entrants from age 50 to 55.

Extends the Early Retirement Contribution (ERC) Plan to December 31, 2002 for employees with at least 10 years of MWRD service and raises the age of eligibility for new employees to age 55.

Extends the Optional Plan to December 31, 2002 for employees in service on or before June 30, 1997, limits annual contributions, and allows contributions within 30 days of withdrawal. Any employees entering service after June 30, 1997, are not eligible to participate in this Plan.

Clarifies that a disability annuity is not payable if the employee is able to work.

For all employees hired after June 13, 1997, the early retirement discount requires at least 10 years of District service to be eligible to make the early retirement contribution even if they have 30 years total, including reciprocal service.

Bases calculation of contribution to eliminate the early retirement discount on the highest salary used in the benefit calculation and clarifies that the contribution will be based on a portion of years.

Clarifies that 3% annual compounded cost of living increases apply to employees and spouses whose annuities began under predecessor provisions of the statutes and provides annual cost of living increases to a small group of employees who retired before July, 1985 with at least 10 years of service who previously did not receive these increases.

1997 Session (continued)

Requires that new employees have at least 3 years of service before a surviving spouse benefit is payable, if employee dies in service or 10 years of service if employee withdraws before age 55; minimum service is required for a non-duty related death (no minimum service is required for a duty related death).

Subjects the minimum surviving spouse annuities to the discount for age differential and requires the marriage to have been in continuous effect for 10 years to eliminate the discount for the age differential.

Provides a child's annuity to children of former employees with at least 10 years of service and to children of retired annuitants. Increases the minimum service requirement of new employees from 2 to 3 years before a child's annuity would be payable.

Clarifies that the determination of the amount of a child's annuity is dependent on the life status of the child's parent and not the employee's surviving spouse.

Removes the age limitation for eligibility for duty and ordinary disability benefits and provides that disability for new employees will not be paid for the first 3 days of the disability payment period unless the disability continues for at least 11 more days.

Eliminates benefits for children of employees receiving duty disability benefit.

Allows payment of disability for up to 5 years if disability occurs at age 60 or later.

Clarifies that calculation of the benefit under the alternative annuity plan be based on the final average salary as a commissioner instead of salary at the time of termination of service.

Requires that new employees return to work for at least one year before becoming eligible to make contributions for a period of leave of absence.

Clarifies that a year of service credit for purposes other than an annuity is to be based on 26 pay periods in 12 consecutive months.

1998 Session No legislative changes

1999 Session No legislative changes

2000 Session

PA 91-0887 Signed July 6, 2000

Allows the Fund's Trustees to approve use of the actuarial table recommended by the actuarial consultant for purpose of calculating a reversionary annuity.

In cases where a Workers' Compensation claim is in dispute, clarifies that duty disability benefits are paid only for the period of disability determined by the Illinois Industrial Commission or acknowledged by the employer.

Ordinary and duty disability benefits are terminated if the employee does not provide the Fund with access to medical and/or employment records, or refuses to follow medical advice and treatment to enable the employee to return to work.

No interest is used when calculating retroactive duty disability benefits.

Allows lump-sum payments for optional credit on past service by commissioners electing the Alternative provision.

Refund repayments are calculated using a compound interest rate equal to 8% or the actuarial investment return assumption used in the most recent Annual Actuarial Statement, whichever is greater.

2001 Session

PA 92-0053 Signed July 12, 2001

Provides automatic annual increases of retirement annuities to commence on the first day of the month in which the first anniversary of the date of retirement occurs.

Provides a minimum retirement annuity equal to \$500 per month for an employee with at least 10 years of District service, plus \$25 per month for each year of service in excess of 10 years, to a maximum of \$750 per month.

Provides a minimum surviving spouse annuity equal to the greater of:

- a) \$500 per month for the surviving spouse of an employee with at least 10 years of District service, plus \$25 per month for each year of service in excess of 10 years, to a maximum of \$750 per month; or
- b) 50% of retirement annuity to of the deceased spouse at the time of death.

Provides an increase in a child's annuity to \$500 per month for 1 child and \$350 per month for each additional child if one parent is living. If neither parent is living, provides an increase in a child's annuity to \$1,000 per month for one child and \$500 for each additional child. In either case, the maximum benefit is \$2,500 per month for all children of the employee, to be divided equally among the children.

Allows equity investments to be up 65% of total investments.

2002 Spring Session

PA 92-0599 Signed June 28, 2002

Provides for early retirement without discount for any employee who retires on or after January 1, 2003 but on or before December 31, 2007 if the employee is at least age 50 but less than age 60 and has at least 10 years of service credit exclusive of any reciprocal service and the sum of his years of creditable service and his age equals at least 80.

Provides for a revised Optional plan of additional benefits and contributions for the period from January 1, 2003 to December 31, 2007. The rate of contributions is 4% of pensionable earnings. The additional benefit is 1% per year of Optional contributions. Participation is limited to employees with at least 10 years of creditable service with this Fund. The maximum additional benefit that may be accumulated under this plan, including any additional benefit accumulated under a prior optional benefit plan, is 12%. Participation requires an irrevocable written election. Payment for service prior to the irrevocable election is limited to the same calendar year. The cost of payment to establish Optional credit before the election is 4% of the salary for the applicable period of service, plus interest from the date of service to the date of payment at the higher of 8% per year or the actuarial investment return assumption. The tax levy for Optional contributions is equal to the amount of Optional contributions.

2003 Spring Session

PA 93-0334 Signed July 24, 2003

Provides for active employees having at least ten years of MWRD service credit and meeting other requirements to purchase up to 2 years of active military credit toward their retirement annuity. The employees' contributions are to be calculated based upon the starting salary and are to include the employer's normal cost at the time of payment, plus regular interest of 3% per year compounded annually.

2004 Session No legislative changes

2005 Session

PA 94-0621 Signed 8/18/2005

For all new entrants, requires that disability annuitants have a minimum of five years of service exclusive of disability service to qualify for a benefit.

Provides for the minimum annuity as detailed in HB 478 for all employee and surviving annuitants regardless of whether an age discount applied to the employee's annuity calculation.

Clarifies surviving spouse annuity eligibility for the spouse of an employee who withdraws from service prior to the attainment of the minimum retirement age yet who has enough service to qualify for a future annuity. Changes make reference to a minimum retirement age, which varies dependent on start date, rather than a fixed age. Changes also provide for surviving spouse annuity eligibility for the spouse of a withdrawn employee who was eligible for an annuity at age 62 but died prior to annuity application.

Provides for calculation method for the surviving spouse annuity of a vested employee who separated from service before minimum retirement age and had not yet begun to receive an annuity.

Grants child annuities to children of deceased employees and former annuitants if the child is over age 18 but under age 23 and is a full time student.

Eliminates the three-day wait (for employees hired after June 13, 1997) for duty disability benefits that did not continue 11 additional days.

Provides ordinary disability benefits for employees hired after June 13, 1997 beginning the 31st day after the last day work provided all sick leave is exhausted.

Legislative Changes Section

Allows commissioner alternative contributions to be made pre-tax, pending IRS approval.

Provides an annuity for the surviving spouse of a commissioner who elects the commissioner's alternative plan from a fixed 66 2/3% of the commissioner's annuity at death to the greater of 66 2/3% or 60% plus 1% per year of service up to a maximum of 85% of the annuity earned by the commissioner on the date of death. The number of years used to calculate the commissioner's annuity would also be used to calculate the annuity for the surviving spouse.

Changes refund eligibility to allow for a refund of contributions for a separated employee who was hired on or after June 13, 1997 who is between ages 50 and 55 with over 20 years of service.

Clarifies that interest paid on a refund to estate should be calculated through the date of withdrawal.

Allows for refunds to be repaid within 90 days of withdrawal.

Empowers the Board to assess and collect interest on amounts due the Fund using the current actuarial interest rate assumption.

2006 Session No legislative changes

2007 Session Signed 8/17/2007

PA 95-0279 Modifies child annuity eligibility requirements for adopted children. Removes the stipulation that proceedings to adopt the child must have begun at least one year prior to death.

PA 95-0521 Signed 8/28/2007

Requires the retirement system or pension fund to divest its assets with an Illinois finance entity if the entity does not annually certify that it complies with the requirements of the High Risk Home Loan Act.

PA 95-0586 Signed 8/31/2007

Effective January 1, 2008, the annuity effective date for employee and spouse annuities is the first of the month following retirement. Employee and spouse annuities are payable for the full month if the annuitant was alive on the first day of the month.

The \$10.00 per child monthly duty disability benefit was placed back into legislation for employees who were in service before June 13, 1997. This provision was inadvertently eliminated from the language at the time of the 1991 re-draft of 40 ILCS 5/13.

The contribution definition was revised to clarify that the 7 ½ % contribution for the employee's and child's annuity consisted of a 7% contribution for the retirement annuity and ½ % for the annual retiree cost of living increase.

The method of calculation of refunds after death was amended to clarify that the ½% allocated for the retiree cost of living was not included in a refund payable upon death. Further, to whom payment of a refund after death should be distributed was clarified. Payment is first made to a spouse, then to beneficiary as designated by the employee, and if there is no beneficiary form, then to the late

2007 Session employee's children in equal parts. If there is no spouse, then payment is made to the designated beneficiary.

Legislative Changes Section

If there is no spouse or designated beneficiary, then payment is made to any children of the deceased employee. If there is no spouse, designated beneficiary, or child then distribution is made to the heirs in accordance with the laws of descent and distribution in the State of Illinois.

The Retirement Fund Board of Trustees was granted authority to invest the Fund's reserves according to the Prudent-Person Rule. This rule requires a fiduciary (trustee) to discharge his/her duties with the care, prudence and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with such matters would use in a similar situation.

2008 Session

PA 95-0891 Signed 8/22/2008.

Amends the MWRDGC statutes, 70 ILCS 2605/5.9, to allow the MWRDGC to transfer interest income to the Retirement Fund.

PA 95-0923 Signed 8/26/2008.

Adds two additional Trustees to the Retirement Fund Board, one appointed retiree and one elected active employee. The appointed retiree is recommended by the Board of Commissioners and approved by the Board Trustees of the Fund. Each of the three appointed trustees now serves a term of three years and each of the four elected active employees will now serve a term of four years. The term of one appointed and one elected trustee expires each year.