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**COMPREHENSIVE  
ANNUAL FINANCIAL REPORT  
OF THE  
METROPOLITAN  
WATER RECLAMATION DISTRICT  
RETIREMENT FUND**

**FOR THE YEAR ENDED  
DECEMBER 31, 2018**



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

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# **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



Government Finance Officers Association

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, 2017**

*Christopher P. Morill*

Executive Director/CEO

**METROPOLITAN WATER RECLAMATION DISTRICT  
RETIREMENT FUND**

RETIREMENT FUND OFFICE  
SUITE 330

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CHICAGO, ILLINOIS 60611-2898  
TELEPHONE 312-751-3222  
FAX 312-751-5699

BOARD OF TRUSTEES  
JOHN P. DALTON, JR.  
ROBERT T. REGAN  
HON. MARIYANA T. SPYROPOULOS  
STEPHEN J. CARMODY  
HON. KIMBERLY DU BUCLET  
JOSEPH F. KENNEDY  
KATHLEEN THERESE MEANY

May 22, 2019

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 year ending December 31, 2018.

Responsibility for the completeness and accuracy of the information presented in this report rests with the management of the Fund. Management has established and maintained a system of internal accounting controls designed to safeguard Fund assets and ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP).

The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management. 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, 2018 have been subject to an audit by independent accountants selected by the Board of Trustees. The unqualified opinion of Legacy Professionals, LLP has been included in the Financial Section of this report.

GAAP require that management provide a narrative introduction, overview and 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, and should be read in conjunction with, the MD&A which can be found in the Financial Section following the report of the independent auditor.

**FUND PROFILE**

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.

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

As of December 31, 2018 the Fund serves 1,832 active members, 2,443 benefit recipients, and 127 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**

Net Position decreased 10.5% in 2018 by \$157.8 million due to negative investment returns that mirrored the market in general. 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, required supplementary information, and other supplementary information.

**Objective and Sources of Funding**

The Fund's funding objective is to meet all obligations to present and future members and retirees, through three sources - earnings on the Fund's investment portfolio, and contributions from the employer (the District) and employees.

The Fund's investment portfolio typically provides the largest portion of total additions in any given year, in the form of investment returns; during 2018 however, this typical pattern of inflows was disrupted by negative returns. During the year, the invested assets of the Fund earned a rate of return of -7.5% net of fees, compared to the Fund's 2018 Policy Index return of -6.9%, and the 2017 rate of return of 15.6%. The ten year annualized rate of return on the Fund's investments is 9.2%, compared to 9.4% for the Policy Index return for the same period.

Employer contributions typically provide a much smaller portion of total additions than investment returns. Due to the passage of PA 97-0894 in 2012 and the establishment of a Funding Policy by the District in 2014, in recent years the Fund has received increased employer contributions that meet or exceed the actuarial requirement. The employer contributions are funded through an annual property tax levy according to a statutory formula.

Employee contributions typically provide the smallest percentage of total additions. The required percentage withheld from employee's salaries is set by state statute. In accordance with PA 97-0894 contributions from Tier I employees increased to 12% in 2015, where they will remain until the funding goal is reached. Contributions from Tier II employees are set at 9% of salaries, with a salary cap for annuity purposes in 2018 of \$113,645.



## Funding Status

An important measure of the long-term financial stability of a pension fund is the funded ratio which is the ratio of the actuarial value of assets to the actuarial accrued liability. The greater the funded ratio, the greater assurance is given to participants that the Fund will meet its obligations to pay their future pension benefits. The Fund engages an independent actuary to perform an annual actuarial valuation of the plan. The December 31, 2018 valuation reports the actuarial value of assets (AVA) at \$1.470 billion, the actuarial accrued liability (AAL) at \$2.601 billion, and the unfunded AAL at \$1.131 billion, resulting in a funded ratio of 56.5%.

The funded ratio is a measure at one point in time, but is best viewed in the context of its historical trend to assess the Fund's progress in relation to its long-term objective. For a more complete understanding of the Fund's funding status, the reader is encouraged to review the Actuarial section of this report which contains a summary of valuation results, schedules that analyze funding, and details about the data used in the valuation. Ten year trend information is available in both the Actuarial and Statistical sections of this CAFR.

## Investments

At year end, the Fund's 15 investment management firms were managing 19 separate mandates that comprise the Fund's \$1.257 billion investment portfolio. The Board employs an investment consultant who provides services including manager search, selection and oversight, performance reporting, attribution analysis, and investment policy development. The Fund's 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 of this CAFR contains details regarding the Fund's investment policy, performance, diversification, investment expenses and a summary of the investment activities that took place in 2018. Also included are the Custodian's report and the Investment Consultant's report.

## MAJOR ACTIVITIES AND HIGHLIGHTS

- In June 2018 the Fund's tax levy request for 2019 was submitted to the District in the gross amount of \$87,319,000, substantially the same as the 2018 levy request of \$87,281,000. The 2019 tax levy is based on a multiple of 4.19 times employee contributions two years prior, and generally fluctuates with the District's active payroll.
- The asset allocation was expanded by the Board in 2018 when it approved an allocation of 5% to core open-end real estate. Funding the new allocations to the UBS Trumbull Property Fund and DWS RREEF America REIT II portfolios began in 2018 and was completed January 2, 2019.
- Board appointments and elections since 12/31/17 include the following:
  - In December 2017 Board officers for 2018 were elected as follows: Joseph F. Kennedy, President; Robert T. Regan, Vice President; and Hon. Mariyana Spyropoulos, Secretary
  - Joseph F. Kennedy stepped down as President in April 2018; John P. Dalton was elected as President at that time
  - In the October 2018 Trustee election, Robert T. Regan was duly re-elected as Trustee for a four-year term beginning December 1, 2018

- Retirement Fund staff achievements and changes include:
  - Susan Boutin, who served as Executive Director from May 2006 through April 2019, retired as of April 30, 2019 after 21 years of service
  - Mary Murphy, Operations Manager and Ksenija Hrvojevic, Benefits Manager both reached 20 years of service at the Fund in 2018
  - Hiring and training of a new Office Services Assistant in January 2018; the position was vacant at year end and filled again in April 2019
- Retirement Fund staff activity in 2018 include:
  - Processing of 96 retirement applications (including 19 reciprocal retirements) and 34 survivor applications
  - 30,600 benefit payments paid to retirees and beneficiaries totaling \$158.6M; 99% paid via electronic funds transfer
  - 99 new retirees and 34 new spouse/child annuitants added to annuity payroll; 60 retirees and 38 spouse/child annuitants removed from payroll due to death or termination
  - Preparation of 841 annuity estimates for active employees
  - Mailing of pension verification forms to 2,440 benefit recipients to confirm that the intended recipients were still alive and therefore eligible to receive benefits
  - 60 meetings with investment managers to discuss current investment offerings
  - Responses prepared and sent to fulfill 30 FOIA requests
- Member communications in 2018 include:
  - New employee orientation provided to 121 new hires of the District throughout the year
  - April mailing of over 1,950 contribution statements to all active and inactive members, listing cumulative pension contributions through December 31, 2017
  - Five days of plant-site individual retirement counseling sessions, presented by the Fund's benefits staff to approximately 123 individual employees at the Stickney, Calumet, O'Brien and Egan plants in February, March and April
  - June and September issues of Vested Interest, the Fund's newsletter, prepared and mailed to all members
  - October Open Enrollment Newsletter, for retiree healthcare benefits offered by the District to take effect January 1, 2019, prepared and sent to 2,354 annuitants, 78% by email and 22% by mail
- Trustees and staff participated in several training sessions during 2018, including:
  - Annual Reciprocal Conference, held in Oak Lawn
  - International Foundation of Employee Benefit Plans Annual Conference
  - IFEBP Certificate of Achievement in Public Pension Plans (CAPPP)
  - Midwest Institutional Investors Forum, sponsored by U.S. Markets Group
  - Generating Returns, Investing in China, and Pension Risk Strategies conferences sponsored by Pension & Investments
  - Marquette Associates 2018 Investment Symposium
  - GFOA Best Practices and GAAP Update

**AWARDS**

The Government Financial Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to our Fund for its CAFR for the fiscal year ended December 31, 2017. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

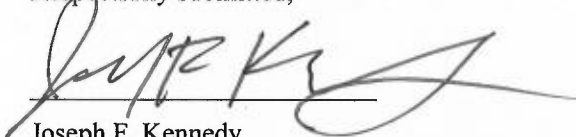
To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents meet or exceed the program standards. This report must satisfy both generally accepted accounting principles and applicable legal 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 25 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 year ending December 31, 2018.

**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,



Joseph F. Kennedy  
Acting Director

**BOARD OF TRUSTEES**

**12/31/18**

**John P. Dalton, Jr., President**

Mr. Dalton began his District employment in 1993. He currently works in the District’s Maintenance & Operations Department as Master Mechanic I at the Calumet Water Reclamation Plant. He was appointed to the MWRD Retirement Fund Board of Trustees in 2005, elected to serve a three-year term on the Board in 2006, and re-elected in 2009, 2013 and in 2017 for a four year term ending in November 2021.

**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, re-elected in 2007, 2010, 2014 and in 2018 for a four year term ending in November 2022.

**Honorable Mariyana T. Spyropoulos, Secretary**

Ms. Spyropoulos has served on the MWRD Board of Commissioners since 2009 and served as President through January 2019. She was appointed to the MWRD Retirement Fund Board of Trustees upon expiration of the term served by the Hon. Cynthia M. Santos, for a three year term starting in January 2013. She was re-appointed in 2016 and 2019 for a three year term ending in January 2022.

**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, re-elected in 2011 and in 2015 for a four year term ending in November 2019.

**Joseph F. Kennedy, Trustee**

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 Managing 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, 2008, 2012 and 2016 for four year terms ending November 2020.

**Honorable Barbara J. McGowan, Trustee**

Ms. McGowan served on the District Board of Commissioners since 1998 and is currently serving as Vice President. She was appointed to the MWRD Retirement Fund Board of Trustees in December 2007, and re-appointed in 2009, 2012, 2015 and in 2018 for a three year term ending in January 2021.

**Kathleen Therese Meany, Trustee**

Ms. Meany served on the District Board of Commissioners since election in 1990; she served as Vice-President for 16 years, and President from 2013 until her retirement in 2014. She was appointed to the MWRD Retirement Fund Board as Retiree Trustee in 2016 to complete the term of Harold G. Downs which expired January 2017, and was re-appointed in 2017 for a three year term ending in January 2020.

**EXECUTIVE STAFF, ADVISORS AND INVESTMENT MANAGERS  
12/31/18**

**EXECUTIVE STAFF**

Susan A. Boutin, Executive Director

**ADVISORS**

- Legal Counsel: Jacobs, Burns, Orlove, and Hernandez, Chicago, IL
- Investment Consultant: Marquette Associates, Chicago, IL
- Consulting Actuary: Foster & Foster, Naperville, IL
- Auditor: Legacy Professionals, LLP, Chicago, IL
- Custodian: The Bank of New York Mellon Co., New York, NY

**INVESTMENT MANAGERS**

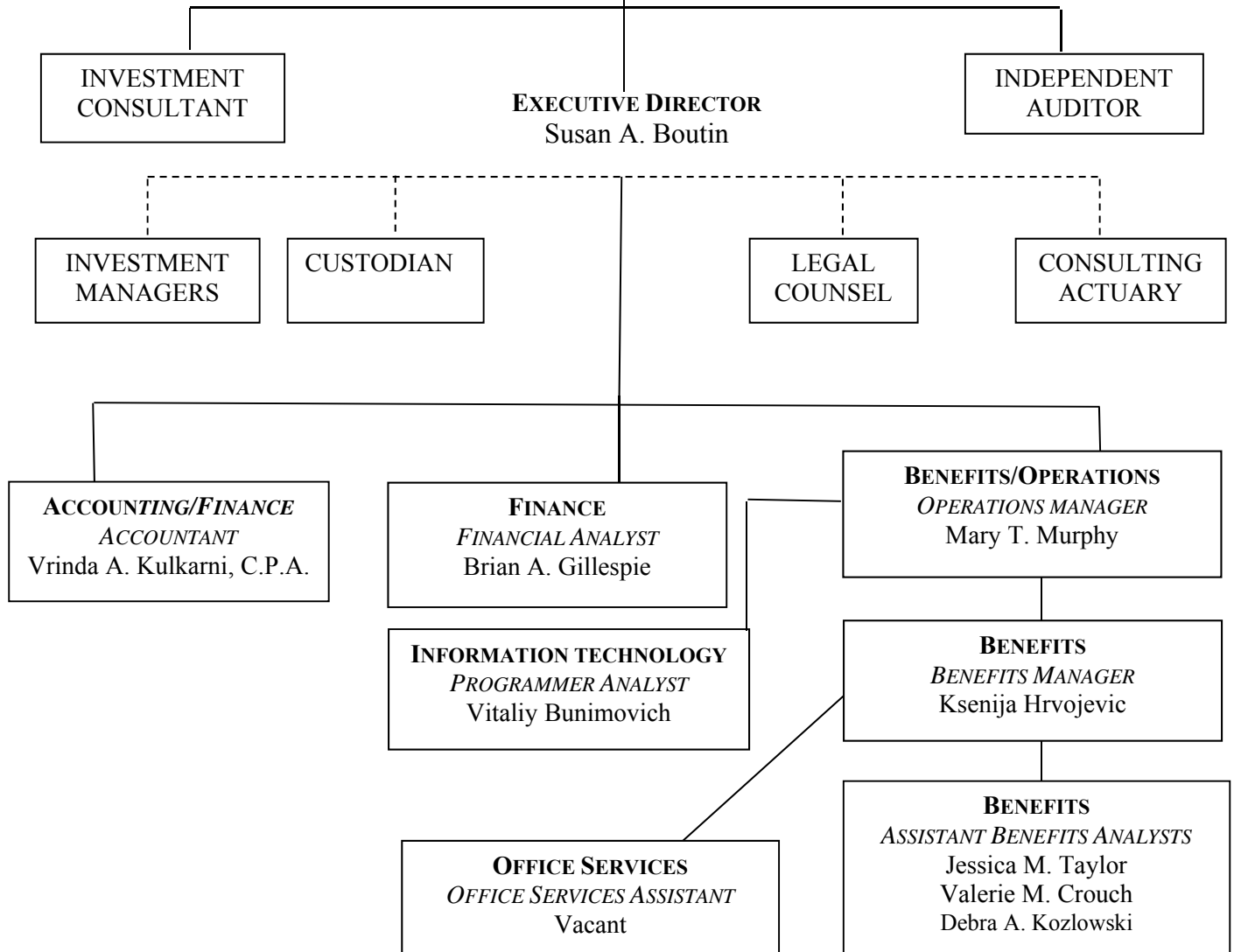
1. Ariel Investments, Chicago, IL
2. DWS, Chicago, IL
3. Decatur Capital Management Inc., Decatur, GA
4. Dimensional Fund Advisors, Austin, TX
5. Garcia Hamilton & Associates, Houston, TX
6. Hexavest Inc., Montreal, Canada
7. LSV Asset Management, Chicago, IL
8. Matarin Capital Management, New York, NY
9. Mesirow Financial, Chicago, IL
10. Neuberger Berman, New York, NY
11. O'Shaughnessy Asset Management, Stamford, CT
12. State Street Global Advisors, Boston, MA
13. Standish Mellon Asset Management, Boston, MA
14. UBS Realty Investors, Chicago, IL
15. Wasatch Advisors, Salt Lake City, UT

Details regarding the investment professionals listed above can be found in the Investment Section of this CAFR, on pages 75 and 76.

# ORGANIZATIONAL CHART

December 31, 2018

**BOARD OF TRUSTEES**  
 John P. Dalton, Jr. (President)  
 Robert T. Regan (Vice President)  
 Hon. Mariyana T. Spyropoulos (Secretary)  
 Stephen J. Carmody (Trustee)  
 Joseph F. Kennedy (Trustee)  
 Hon. Barbara J. McGowan (Trustee)  
 Kathleen T. Meany (Retiree 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. Appointed members serve for terms of three years, and elected members serve for terms of four years on a rotating basis so that each year, one seat on the Board is up for election and another is up for appointment.

The Board has the powers and duties to collect all contributions due to the Plan, to direct the investment of the assets of the Fund in a manner prescribed by State statute and Fund policies, to authorize or suspend payment of any benefits, to make rules and regulations for the proper conduct of the affairs of the Fund, and to appoint employees and consultants. The Board approves its own budget which is prepared by the administrative staff of the Fund, and submits a detailed report of the affairs of the Fund to the State of Illinois Department of Insurance and to the District.

**RESPONSIBILITIES OF THE STAFF**

The Board appoints an Executive Director who is responsible for all administrative functions, supervision of staff, and for the administration and payment of benefits to the members of the Fund under the direction of the Board of Trustees.

The Executive Director is responsible for coordinating efforts with the Fund's various consultants. The Financial Analyst works closely with the Fund's investment consultant, on asset allocation studies, investment manager searches, asset transitions, and investment monitoring. The Board considers recommendations made by the Investment consultant in the development and maintenance of the Fund's investment policy. Every four to five years, the Fund's actuary performs an experience analysis to review the recent experience of the Fund and to recommend actuarial assumptions for use in the annual valuation. The Board also considers recommendation from the Fund's actuary and attorney regarding legislative initiatives. Attorneys are consulted regarding various issues including statutory interpretations, determinations from the Internal Revenue Service, and potential legal actions.

The Benefits Manager supervises a staff of three Benefits Analysts and the Office Services Assistant. Together, the benefits staff's 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, calculation of survivor benefits or refunds to estate, and insurance enrollment and claim administration. Calculations are internally verified and then presented to the Trustees for approval. The staff is responsible for distribution of benefit payments and the associated withholdings for taxes, insurance, credit union deductions, as well as year-end tax reporting (IRS Form 1099-R).

Throughout the year staff prepares retirement estimates, which include calculations of applicable refund repayment and leave of absence payment estimates to qualified individuals to enhance their retirement benefits. In spring, staff travels to District plants to provide on-site individual retirement counseling. In addition, periodic pre-retirement seminars are jointly presented by Fund and District staff at various locations throughout the District, and an informative newsletter is produced twice per year for the membership.

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

The Operations Manager directly supports the Executive Director in the day-to-day running of the Fund and is responsible for technology initiatives. The Fund Programmer Analyst is responsible for the data processing that produces benefits payments and records employee contributions in the Fund's proprietary benefit management software. The Fund Accountant is responsible for the general accounting that serves as the basis for the annual financial statements and for coordinating the annual audit and preparation of the annual CAFR.

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