

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

Suite 1400
20 South Clark Street Chicago, IL 60603-1899
(312) 726-5823 Fax (312) 726-2316
Marshall Line 9261 <http://www.fabf.org>
(800) 782-7425



ELECTED TRUSTEES

ANTHONY R. MARTIN, Secretary
DAN P. FABRIZIO, Vice President
MICHAEL J. SHANAHAN
WALTER M. CARLSON, Annuitant Member

EX-OFFICIO TRUSTEES

Deputy Fire Commissioner, DERRICK JACKSON, President
City Treasurer, STEPHANIE NEELY
City Comptroller, STEVE LUX
City Clerk, MIGUEL del VALLE

January 4, 2007

Dear Member:

As you may have heard, on August 17, 2006, President Bush signed into law the Pension Protection Act of 2006 ("The Act"). The main focus of the Act, which also referred to as Healthcare Enhancement for Local Public Safety Retirees Act, "HELPS" was to rewrite certain statutory provisions that apply to private-sector defined benefit plans. The Act also included several provisions that positively benefit the participants of state and local governmental plans. The purpose of this letter is to advise you of one such provision and to let you know what the Fund is doing to assist you to take advantage of the change in law.

Prior to the signing of this Pension Protection Act, any distribution from a qualified retirement plan was subject to income tax when distributed. One of the changes brought about by the Act now makes it possible for "public safety officers" that retired at normal retirement age, to elect to have the Fund pay "qualified health insurance premiums" on the participant's behalf and to have that amount excluded from their gross taxable income. The exclusion from gross taxable income is limited to the total amount of actual annual premiums paid, to a maximum of \$3,000.

Current and future retired public safety officers, (widows were not specifically included) who separated from service with the Chicago Fire Department, and are beneficiaries of the Fund age 50 or older in receipt of a non-discounted retirement annuity, may elect to have the Firemen's Annuity and Benefit Fund of Chicago ("Fund") deduct from their monthly retirement distribution, a payment for health insurance that will be considered pre-tax. These Health Insurance payments must be paid directly to an insurer that provides health insurance or long term care insurance for the eligible retired public safety officer, his or her spouse and dependents. The Fund will pay the entire premium for each authorized payment each month, however, the portion that is excludable from taxable income is limited to \$3,000.

This particular change brought about by the Pension Act goes into effect as of January 1, 2007. In order to allow you to take advantage of this provision of The Act, the Fund has developed an election form that you will need to complete and submit to the Fund as part of the procedures developed to implement this new provision and to ensure that accurate records pertaining to a participant's taxable income are maintained.

The Fund will not automatically treat the deduction of the premiums currently paid to the City of Chicago for coverage in the Annuitant Health Care program as a pre-tax payment. You must complete the enclosed election form to take advantage of this provision. The Fund will also consider this election form valid until it is changed.

Several questions concerning actual eligibility for the benefits of this provision have arisen. As stated before, the Act includes public safety officers, who retired at "Normal Retirement Age". As of this date, the Internal Revenue Service has not defined what constitutes "Normal Retirement Age". Because of the differences in language and benefit structures among the many public safety pension funds across the nation, no single definition may ever exist. At this point, the Fund, based on a review of our benefit structure, and input from the National Conference of Public Employee Retirement Systems, believes that "Normal Retirement Age" is the age at which a member, having elected to separate from service, may begin to receive a non-discounted retirement benefit.

While the Fund believes that this specific provision of the Act is intended to benefit a majority of our retired members, the Fund recommends that participants consult their own personal accountant or tax adviser with any questions they might have concerning their eligibility for this provision. The Firemen's Annuity and Benefit Fund of Chicago cannot be responsible for a member's decision to direct the Fund to treat any portion of their retirement annuity as tax exempt.

Additionally, you may direct the Fund to pay other eligible Health Care insurance premiums, in addition to that paid to the City of Chicago for coverage in the Annuitant Health care program, on a pre-tax basis on your behalf (remember the maximum allowable exemption is \$3,000 in payments from all eligible sources). You must provide the Fund with documentation concerning any eligible insurance program, the amount of monthly premium required and the specific remittance address. The Fund cannot make payments to any such carrier on your behalf without sufficient supporting documentation. You will also be required to notify the Fund of any changes in premium no later than the fifteenth day of the month in which the new amount is to be paid. The Fund will continue to pay the entire premium each month on your behalf, after the \$3,000 tax exemption limitation is reached, unless you advise us in writing to do otherwise.

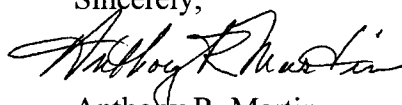
January 4, 2007

Page 3

At the end of each calendar year the Fund will report the total amount of gross distributions and the amount of taxable income net of any eligible health insurance premiums paid on a participant's behalf, up to the maximum allowable \$3,000, on IRS form 1099 as is required. Retired participants may advise the Fund at any time of a desired change to their federal withholding deduction.

Finally, please find enclosed additional information concerning the Pension Protection Act, written in a question and answer format.

Sincerely,



Anthony R. Martin
Fund Secretary



Walter Carlson
Annuitant Trustee

ENCLOSURES