

Cincinnati Retirement System Alternative Benefit Cost Analysis

The Cincinnati Retirement System has requested that Mercer Human Resource Consulting provide a cost analysis of making various changes in the benefits provided under the pension and postretirement medical plans.

The attached charts show the total contribution and the normal cost (cost of accruing one year's worth of benefit) that would be required under various alternative plan designs requested by the City. Please note that the costs for the change in retirement age and the change in the multiplier rate are ultimate costs based on the current demographic makeup of the plan. Because these changes are prospective, the cost changes would develop slowly over time.

We have also shown a chart of normal costs assuming that the medical benefits are to be funded to the 80% level. We have not shown a chart of contributions associated with the 80% medical funding target because all alternatives wind up with a medical contribution of \$0. Therefore, the pension contribution would be the total contribution. The medical contribution is \$0 in this case because the medical plan would be in a surplus position based on 80% of the accrued liability. Once this surplus wears away, the medical contribution would equal 80% of the medical normal cost.

Because the results are as of 12/31/2005, you should concentrate on the difference between the current plan cost and the alternative plan cost. The absolute value of all the alternatives would be affected by whatever demographic and asset gain or loss would be recognized in the 12/31/2006 valuation results. However, the gain/loss should impact all the alternatives comparably.

Alternative Designs Considered

Option	Highlights/Comments
Current Plan	<ul style="list-style-type: none">Costs are shown in total as well as for employee and employer.The employee cost will be the same for all alternatives except the one where the contribution rate is changing.
Revise Coordination of Medicare Benefits for Current Plan	<ul style="list-style-type: none">Medicare eligible retirees will have their medical claims processed on a secondary basis to Medicare on a "carve-out" basis as opposed to the "coordination of benefits" basis currently being utilized.

Option	Highlights/Comments
Provide Active Employee 80/20 Plan to Retirees	<ul style="list-style-type: none"> ▪ This change impacts all current and future retirees. ▪ Results are shown for both Medicare coordination of benefits and carve-out alternatives. ▪ Retirees both pre-65 and post-65 are assumed to make the same monthly contributions for health coverage as active employees (approximately \$156 per person annually). These contributions are assumed to increase on average at medical trend rates each year.
Provide 10% Retiree Cost Share Plan	<ul style="list-style-type: none"> ▪ This alternative was valued assuming a medical program design (as yet undefined) that would have retirees as a group (total Pre-Medicare and Medicare eligible population combined) paying 10% of the total claims cost and the City paying 90% of the total claims cost. This target retiree 10%/City 90% ratio was assumed based on the current Medicare coordination of benefits method (COB approach). ▪ This change impacts all current and future retirees. ▪ Results are shown for both Medicare coordination of benefits and carve-out alternatives. For the Medicare carve-out alternative the savings generated due to the change in Medicare coordination was assumed to offset the necessary program changes to meet the City 90% cost target established under the current Medicare coordination of benefits method.
Provide 15% Retiree Cost Share Plan	<ul style="list-style-type: none"> ▪ This alternative was valued assuming a medical program design (as yet undefined) that would have retirees as a group (total Pre-Medicare and Medicare eligible population combined) paying 15% of the total claims cost and the City paying 85% of the total claims cost. This target retiree 15%/City 85% ratio was assumed based on the current Medicare coordination of benefits method (COB approach). ▪ This change impacts all current and future retirees. ▪ Results are shown for both Medicare coordination of benefits and carve-out alternatives. For the Medicare carve-out alternative the employer savings generated due to the change in Medicare coordination was assumed to offset the necessary program changes to meet the City 85% employer cost target established under the current Medicare coordination of benefits method.
Eliminate Indemnity Plan Option	<ul style="list-style-type: none"> ▪ This change impacts all current and future retirees. ▪ Results are shown for both coordination of benefits and carve-out alternatives.
Revise Retirement Eligibility to add 2 years for new hires	<ul style="list-style-type: none"> ▪ The costs shown here are the ultimate costs based on the current demographic makeup of the plan. ▪ The cost savings will be recognized slowly over time as the current population is replaced by new hires.

Option	Highlights/Comments
Increase Active Employee Contribution Rate from 7% to 9%	<ul style="list-style-type: none"> ▪ The rate of employee contribution would be increased in 0.5% of pay increments over 4 years. ▪ The employee cost shown reflects the full 9% rate. ▪ Savings in the first year would be one-fourth of that shown; second year would be one-half; third year would be three-quarters.
Decrease Formula factor from 2.5% to 2.2% for new hires and nonvested participants	<ul style="list-style-type: none"> ▪ The costs shown here are the ultimate costs based on the current demographic makeup of the plan. ▪ The cost savings will be recognized slowly over time as the current population is replaced by new hires.

Basis of Calculations

Our calculations have been based upon the data and methods used for the 12/31/2005 actuarial valuation. The assumptions used were those used in that valuation except that the changes in assumptions adopted by the Board resulting from the 2006 experience study have been used. We have also shown results at varying interest rates (8.75%, 8.375%, and 8.0%) to reflect sensitivity to the interest rate assumption. The retirement rates used in valuing the retirement eligibility change option were modified from the base retirement rates by assuming that 50% of those reaching first eligibility for retirement at 32 years of service or age 62 would retire. Retirement rates after the first year of eligibility were unchanged.

The plan provisions valued are those described in the 12/31/2005 actuarial valuation report except as described above for each alternative.

The attached Exhibit A provides a summary of the claims basis (starting costs) used in valuing the medical plan alternative designs. Further detail regarding the development of these starting costs is beyond the intended scope of this initial summary document and can be provided as requested/in subsequent correspondence.

Cincinnati Retirement System
Plan Change Alternatives
Total Contribution

(in millions and % of pay)	Pension		8.00% Medical		Total	
Current Plan Design	58.50	35.59%	25.30	15.66%	84.30	51.25%
Employee Portion	12.00	7.30%	0.00	0.00%	12.00	7.30%
Employer Portion	46.50	28.29%	25.30	15.66%	72.30	43.95%
Revise Coordination of Medicare Benefits for Current Plan	58.50	35.59%	20.90	12.69%	79.40	48.28%
Provide Active Employee 80%/20% Coinsurance Medical Plan to Retirees						
Current Coordination of Medicare Benefits	58.50	35.59%	3.10	1.90%	61.60	37.49%
Revise Coordination of Medicare Benefits	58.50	35.59%	0.00	0.00%	58.50	35.59%
Provide Retiree Medical Plan Where Retirees Pay 10% of Eligible Charges						
Current Coordination of Medicare Benefits	58.50	35.59%	20.10	12.24%	78.60	47.83%
Revise Coordination of Medicare Benefits	58.50	35.59%	16.80	10.23%	75.30	45.82%
Provide Retiree Medical Plan Where Retirees Pay 15% of Eligible Charges						
Current Coordination of Medicare Benefits	58.50	35.59%	15.00	9.11%	73.50	44.70%
Revise Coordination of Medicare Benefits	58.50	35.59%	11.30	6.85%	69.80	42.44%
Eliminate Traditional Indemnity Plan Option						
Current Coordination of Medicare Benefits	58.50	35.59%	21.00	12.74%	79.50	48.33%
Revise Coordination of Medicare Benefits	58.50	35.59%	19.80	12.01%	78.30	47.60%
Revise Retirement Eligibility to add 2 years for new hires	50.10	30.49%	24.60	14.93%	74.70	45.42%
Increase Active Employee Contribution Rate from 7% to 9%						
Employee Portion	58.80	35.75%	25.80	15.66%	84.60	51.41%
Employer Portion	15.43	9.38%	0.00	0.00%	15.43	9.38%
	43.37	26.37%	25.80	15.66%	69.17	42.03%
Decrease Formula factor from 2.5% to 2.2% for new hires and nonvested participants	45.90	27.91%	25.80	15.66%	71.70	43.57%

Notes:

- The calculations are based upon the data, assumptions, methods and plan provisions used in the 12/31/2005 actuarial valuation except as follows:
- assumptions reflect the changes adopted by the Board based on the 2006 experience study
 - optional plan changes identified above (and more fully described in the attached memo)
 - claims rates for the various medical plan options are summarized in the attached memo