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# **Retirement System for Employees of the City of Cincinnati**

Task Force Meeting  
March 30, 2010

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# Objectives

- Provide the financial impact to the pension plan of proposed benefit, eligibility, and funding designs
  - Death benefit reduced to \$2,000
  - Compound COLA vs. Simple COLA
  - 5-year highest average salary benefit formula
  - Employee contributions increase to 10%
  - Revised retirement eligibility conditions for some active employees hired prior to 1/1/2010
  - Increase to City contributions
    - Annual amount
    - Cash infusion



## Scenario #1a

- \$2,000 Death Benefit
- Compound COLA
  - Linked to CPI and capped at 3.00%
  - Assumed level 2.50% for projections
  - Applies to those who retire 1/1/2011 or later
    - Current COLA for others
- 5-year highest average salary benefit formula
  - Applies to those active employees with less than 20 years of service as of 1/1/2011
    - Current formula for others
- Employee contributions increase to 10% over next 6 years
- Annual City contributions increase to 35.13% of pay beginning 1/1/2011 to obtain a funded ratio of 80% by 2038



## Scenario #1b

- \$2,000 Death Benefit
- Compound COLA
  - Linked to CPI and capped at 3.00%
  - Assumed level 2.50% for projections
  - Applies to those who retire 1/1/2011 or later
    - Current COLA for others
- 5-year highest average salary benefit formula
  - Applies to those active employees with less than 20 years of service as of 1/1/2011
    - Current formula for others
- Employee contributions increase to 10% over next 6 years
- Cash infusion of \$149.6 million on 1/1/2011 and annual City contributions increase to 31% of pay beginning 1/1/2012 to obtain a funded ratio of 80% by 2038



## Scenario #2a

- \$2,000 Death Benefit
- Simple COLA
  - Linked to CPI and capped at 3.00%
  - Assumed level 2.50% for projections
  - Applies to those active employees with less than 20 years of service as of 1/1/2011
    - Current COLA for others
- 5-year highest average salary benefit formula
  - Applies to those active employees with less than 20 years of service as of 1/1/2011
    - Current formula for others
- Employee contributions increase to 10% over next 6 years
- Annual City contributions increase to 35.33% of pay beginning 1/1/2011 to obtain a funded ratio of 80% by 2038

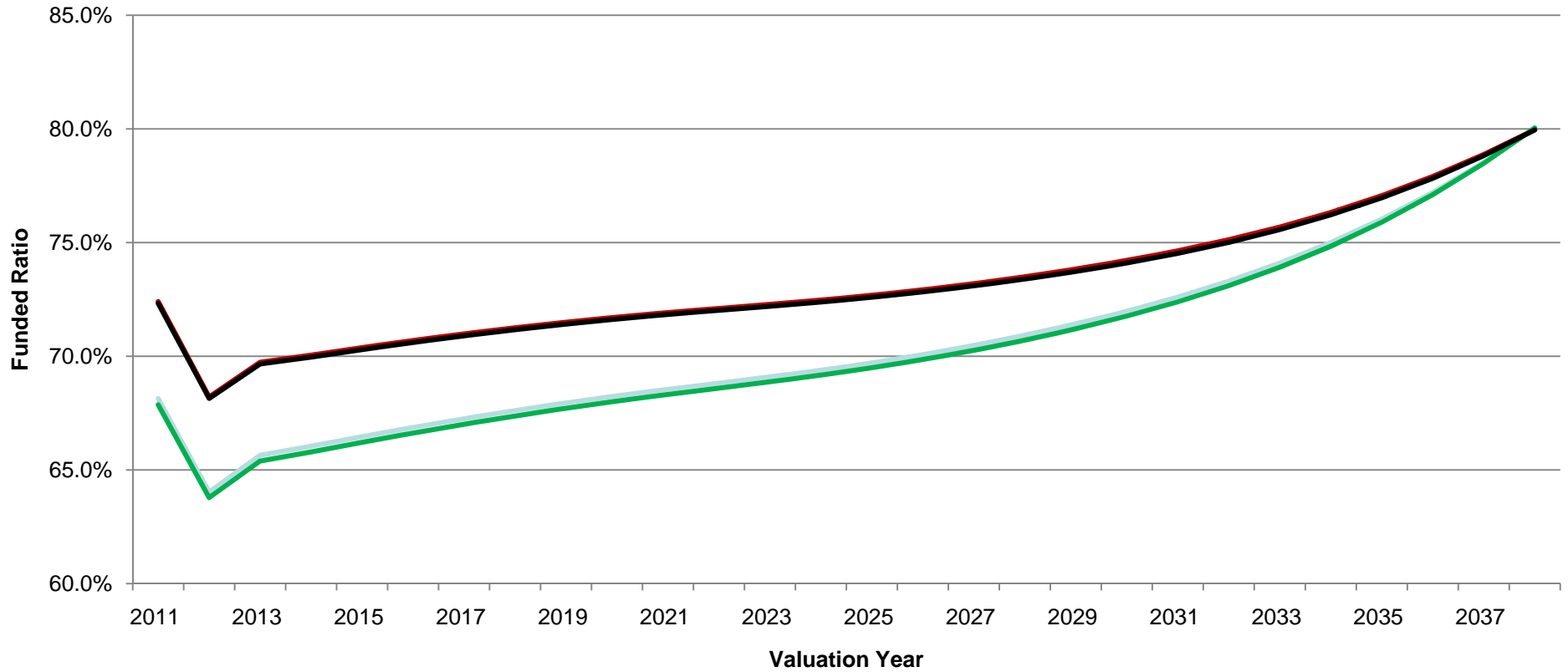


## Scenario #2b

- \$2,000 Death Benefit
- Simple COLA
  - Linked to CPI and capped at 3.00%
  - Assumed level 2.50% for projections
  - Applies to those active employees with less than 20 years of service as of 1/1/2011
    - Current COLA for others
- 5-year highest average salary benefit formula
  - Applies to those active employees with less than 20 years of service as of 1/1/2011
    - Current formula for others
- Employee contributions increase to 10% over next 6 years
- Cash infusion of \$154.2 million on 1/1/2011 and annual City contributions increase to 31% of pay beginning 1/1/2012 to obtain a funded ratio of 80% by 2038

# Cincinnati Retirement System 30-Year Projection of Funded Ratio

*5-Year Highest Avg Salary Benefit Formula & \$2,000 Death Benefit  
Employee Contributions Increase to 10.00%  
Pension Plan Only @ 8.00% Discount Rate*



— Pension Plan Only - Scenario #1a — Pension Plan Only - Scenario #1b  
— Pension Plan Only - Scenario #2a — Pension Plan Only - Scenario #2b



# Impact of Change to 5-Year Highest Average Salary Benefit Formula



- Compare Scenario #1a and Scenario #1b results to a plan using a 3-year highest average salary benefit formula



## Scenario #1c

- \$2,000 Death Benefit
- Compound COLA
  - Linked to CPI and capped at 3.00%
  - Assumed level 2.50% for projections
  - Applies to those active employees who retire 1/1/2011 or later
    - Current COLA for others
- 3-year highest average salary benefit formula
- Employee contributions increase to 10% over next 6 years
- Annual City contributions increase to 35.97% of pay beginning 1/1/2011 to obtain a funded ratio of 80% by 2038

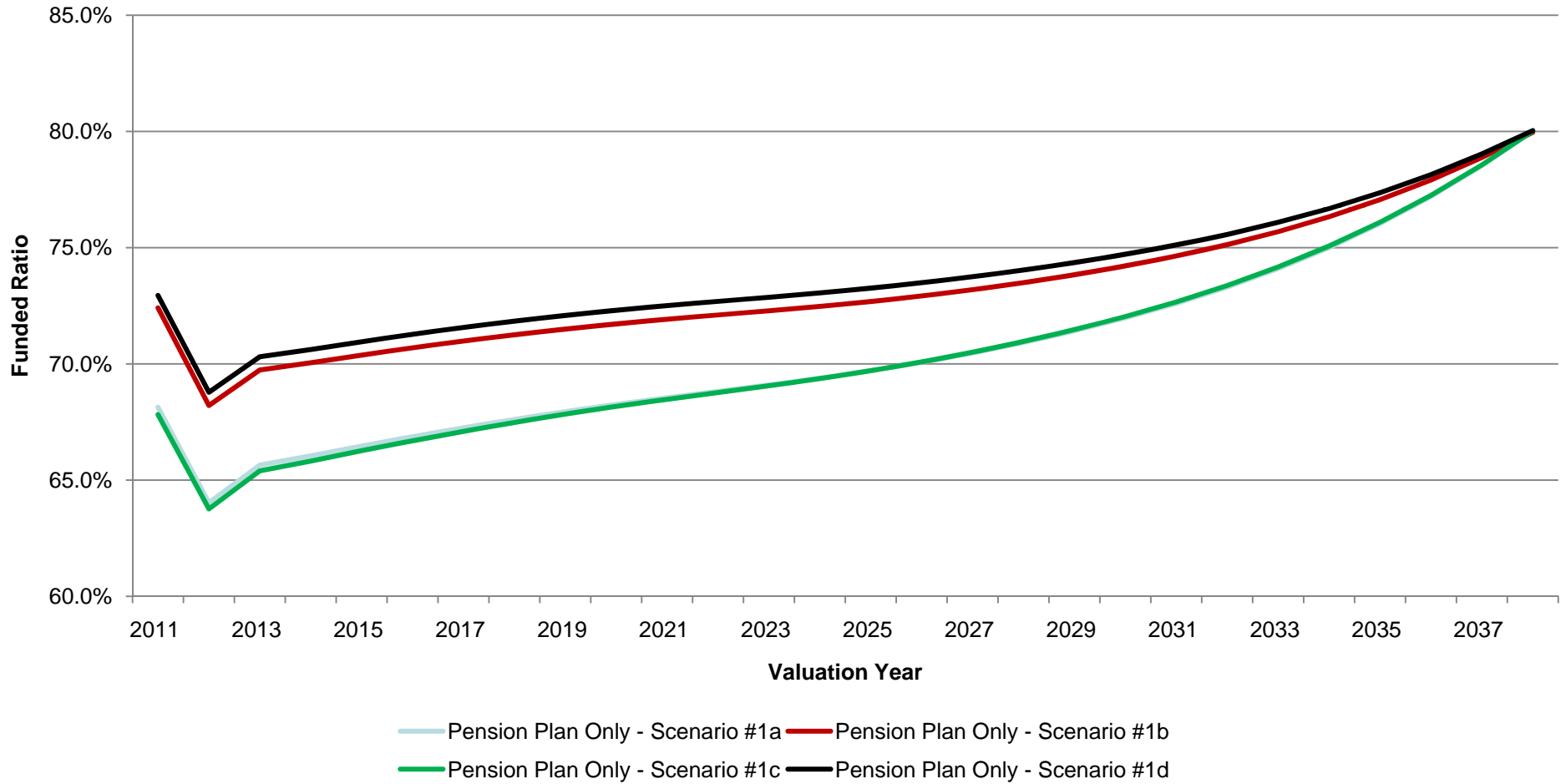


## Scenario #1d

- \$2,000 Death Benefit
- Compound COLA
  - Linked to CPI and capped at 3.00%
  - Assumed level 2.50% for projections
  - Applies to those active employees who retire 1/1/2011 or later
    - Current COLA for others
- 3-year highest average salary benefit formula
- Employee contributions increase to 10% over next 6 years
- Cash infusion of \$169.6 million on 1/1/2011 and annual City contributions increase to 31% of pay beginning 1/1/2012 to obtain a funded ratio of 80% by 2038

# Cincinnati Retirement System 30-Year Projection of Funded Ratio

*5-Year Highest Avg Salary Benefit Formula vs. 3-Year Highest Avg Salary Benefit Formula  
Employee Contributions Increase to 10.00%  
Pension Plan Only @ 8.00% Discount Rate*





# Impact of Proposed Changes to Eligibility Rules



- Like Scenarios #1 and #2, except proposed retirement eligibility conditions apply
  - New eligibility conditions apply to those active employees hired prior to 1/1/2010
    - Eligibility for those hired on or after 1/1/2010 remains the same
  - If, as of 1/1/2011, an active employee has 20 or more years of service, or is 10 years from retirement (under current eligibility rules), then current eligibility requirements apply:
    - Age 60 and 5 years of service (normal)
    - 30 years of service (normal)
    - Age 55 and 25 years of service (early)
  - If not, eligibility requirements change to:
    - Age 62 and 5 years of service (normal)
    - Age 55 and 30 years of service (normal)
    - Age 57 and 25 years of service (early)



## Scenario #3a

- \$2,000 Death Benefit
- Compound COLA
  - Linked to CPI and capped at 3.00%
  - Assumed level 2.50% for projections
  - Applies to those active employees who retire 1/1/2011 or later
    - Current COLA for others
- 5-year highest average salary benefit formula
  - Applies to those active employees with less than 20 years of service as of 1/1/2011
    - Current formula for others
- Proposed changes to retirement eligibility requirements
- Employee contributions increase to 10% over next 6 years
- Annual City contributions increase to 34.86% of pay beginning 1/1/2011 to obtain a funded ratio of 80% by 2038



## Scenario #3b



- \$2,000 Death Benefit
- Compound COLA
  - Linked to CPI and capped at 3.00%
  - Assumed level 2.50% for projections
  - Applies to those active employees who retire 1/1/2011 or later
    - Current COLA for others
- 5-year highest average salary benefit formula
  - Applies to those active employees with less than 20 years of service as of 1/1/2011
    - Current formula for others
- Proposed changes to retirement eligibility requirements
- Employee contributions increase to 10% over next 6 years
- Cash infusion of \$143.3 million on 1/1/2011 and annual City contributions increase to 31% of pay beginning 1/1/2012 to obtain a funded ratio of 80% by 2038



## Scenario #4a

- \$2,000 Death Benefit
- Simple COLA
  - Linked to CPI and capped at 3.00%
  - Assumed level 2.50% for projections
  - Applies to those active employees with less than 20 years of service as of 1/1/2011
    - Current COLA for others
- 5-year highest average salary benefit formula
  - Applies to those active employees with less than 20 years of service as of 1/1/2011
    - Current formula for others
- Proposed changes to retirement eligibility requirements
- Employee contributions increase to 10% over next 6 years
- Annual City contributions increase to 35.01% of pay beginning 1/1/2011 to obtain a funded ratio of 80% by 2038



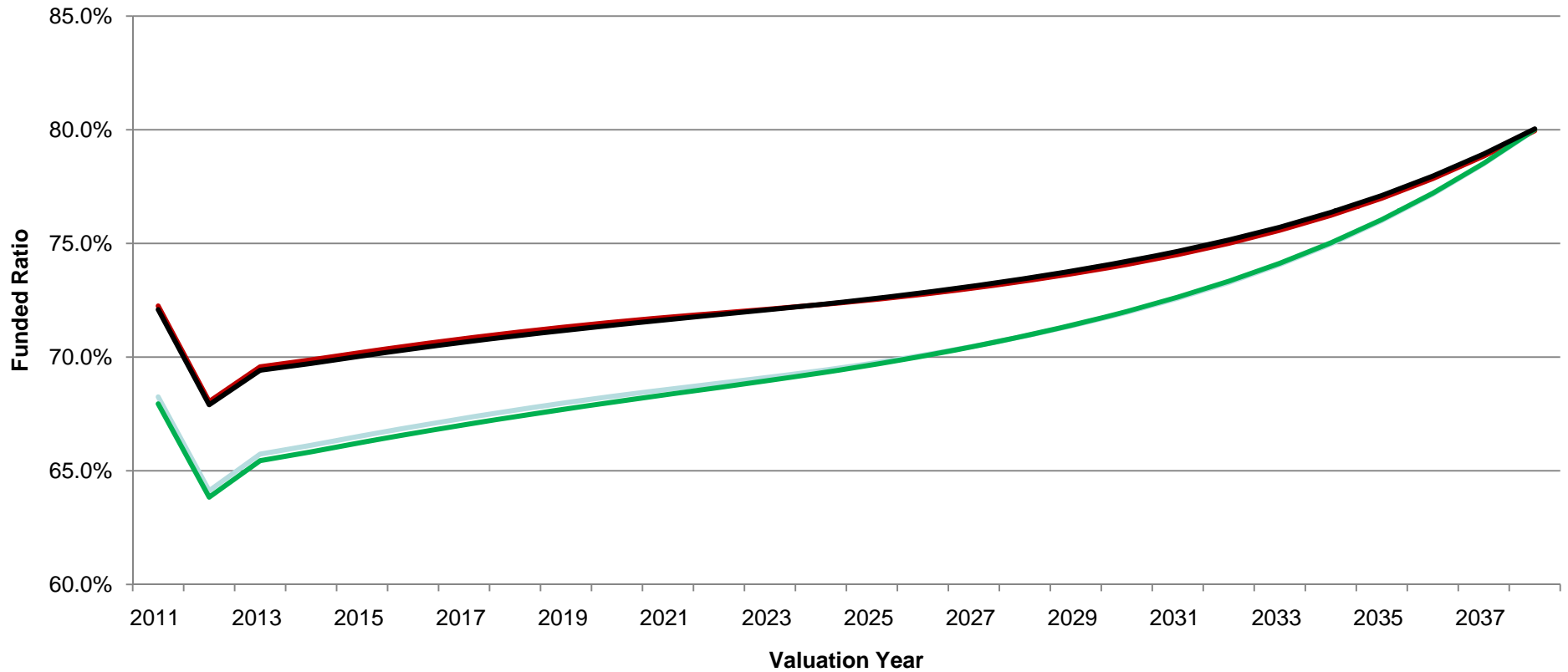
## Scenario #4b



- \$2,000 Death Benefit
- Simple COLA
  - Linked to CPI and capped at 3.00%
  - Assumed level 2.50% for projections
  - Applies to those active employees with less than 20 years of service as of 1/1/2011
    - Current COLA for others
- 5-year highest average salary benefit formula
  - Applies to those active employees with less than 20 years of service as of 1/1/2011
    - Current formula for others
- Proposed changes to retirement eligibility requirements
- Employee contributions increase to 10% over next 6 years
- Cash infusion of \$147.0 million on 1/1/2011 and annual City contributions increase to 31% of pay beginning 1/1/2012 to obtain a funded ratio of 80% by 2038

# Cincinnati Retirement System 30-Year Projection of Funded Ratio

*Impact of Proposed Changes to Eligibility Rules  
Employee Contributions Increase to 10.00%  
Pension Plan Only @ 8.00% Discount Rate*



— Pension Plan Only - Scenario #3a — Pension Plan Only - Scenario #3b  
— Pension Plan Only - Scenario #4a — Pension Plan Only - Scenario #4b

### Summary of Results

Scenario	Death Benefit	COLA	Highest Average Salary Formula	Retirement Eligibility Requirements	City Contribution (% of Pay)	1/1/2011 Cash Infusion Amount (\$ millions)
1a*	\$2,000	Compound	5 Years	Current	35.13%	\$0
1b**	\$2,000	Compound	5 Years	Current	31.00%	\$149.6
1c*	\$2,000	Compound	3 Years	Current	35.97%	\$0.0
1d**	\$2,000	Compound	3 Years	Current	31.00%	\$169.6
2a*	\$2,000	Simple	5 Years	Current	35.33%	\$0.0
2b**	\$2,000	Simple	5 Years	Current	31.00%	\$154.2
3a*	\$2,000	Compound	5 Years	Proposed	34.86%	\$0.0
3b**	\$2,000	Compound	5 Years	Proposed	31.00%	\$143.3
4a*	\$2,000	Simple	5 Years	Proposed	35.01%	\$0.0
4b**	\$2,000	Simple	5 Years	Proposed	31.00%	\$147.0

\*City Contribution (%of Pay) begins 1/1/2011

\*\*City Contribution (%of Pay) begins 1/1/2012



# Projection Assumptions

- 12/31/2008 Valuation Basis
  - 5-yr asset smoothing with a 20% corridor
  - Liabilities valued with 8.00% discount rate
- 2009 Investment Return to Date
  - Positive 2009 – assumed 19.76% return
- First Task Force Changes (effective 1/1/2010)
  - Amortization period changed to 30 years
  - Increase in employee contribution percentages
  - New tier pension changes
    - Reduced benefit formula
    - Increased retirement eligibility