



## **Cincinnati Retirement System Pension Fund Task Force Meeting**

**August 10, 2009 - 3PM  
Centennial II – Second Floor - Meeting Room A**

### **Agenda**

#### **Welcome and Introduction of Task Force Members**

- City of Cincinnati Administrative Staff to provide assistance

#### **Presentation of Materials**

1. Purpose / Motion of Reconvening Task Force:
  - a. Study current trends in both public and private retirement programs; and
  - b. Analyze the city's ability to pay for currently provided benefits to current and future retirees; and
  - c. Retain an independent consultant with knowledge and expertise in restructuring public sector pension plans to ensure the long-term stability of the CRS; and
  - d. Report to council on those findings by March 1, 2010.
2. Summary of Task Force Motions passed by Council (June 2009)
3. Impact on Task Force Changes on Unfunded Liability / Funding
4. List of Independent Consultants - with knowledge/expertise in restructuring public sector pension plans.

#### **Suggested Next Steps**

1. Process for selection of Independent Consultant
2. Things to consider
  - a. Scope of Work
  - b. Fees
  - c. Timeline for completion

#### **Next Meeting**



August 12, 2009

### Independent Actuarial Consultant

On June 17, 2009 the City Council moved to reconvene the Retirement Task Force to study further changes to the CRS to insure its long term solvency. Specifically, the Retirement Task Force is charged with:

1. Studying current trends in both public and private retirement programs; and
2. Analyze the city's ability to pay for currently provided benefits to current and future retirees; and
3. Retain an independent consultant with knowledge and expertise in restructuring public sector pension plans to ensure the long-term stability of the CRS; and
4. Report to council on those findings by March 1, 2010.

The City seeks to retain an independent actuarial consultant with knowledge and expertise in restructuring public sector pension plans to ensure the long-term stability of the CRS

Unfortunately, the schedule does not allow for a full-blown RFP process. Therefore, this letter is sent to you and other independent actuarial consultants to elicit your interest in the project.

If interested, the Retirement Task Force would like you to provide estimated fees associated with the project and a timeline for completion. To be considered for the project, your response and letter of interest must be received (hard copy or electronically) - by 5:00 pm, Friday, September 4, 2009 to:

Joe Gray, Finance Director  
801 Plum St., Suite 250  
Cincinnati, OH 45202  
[joe.gray@cincinnati-oh.gov](mailto:joe.gray@cincinnati-oh.gov) and 513-352-3731

The independent actuarial consultants may be asked to attend Retirement Task Force meetings as needed. Please provide estimated fee per meeting.

Please return a, proposed timeline for completion, and a brief proposal with estimated fees by 5:00 pm DATE\_\_\_\_\_ to the contact. Please call contact with questions.

The following electronic documents are attached:

- December 31, 2008 CRS actuarial valuation
- Task Force Recommendations dated September 2008

Thank you for your help with this matter.

Sincerely,

Joe Gray, Finance Director

March 12, 2008

Actuarial Services Provider

Re: Independent Pension and Post-Retirement Benefit Actuarial Review for the Cincinnati Retirement System

Dear Actuarial Services Provider:

On November 15, 2007 the City Council established a task force to make recommendations to City Council to insure the long-term solvency of the Cincinnati Retirement System (CRS). The Task Force is to examine the actuarial assumptions underlying projections of the financial condition of the CRS, the impact of current and future retiree health care benefits on the CRS, and the impact of any changes in health care benefits on the solvency of the CRS.

By June 1, 2008, the Task Force must recommend to the Mayor and the City Council the following:

1. Any administrative and procedural changes that would reduce costs, including opening to bid provision of health care coverage.
2. Any changes in contribution rates, actuarial assumptions, benefit calculations that should be instituted to insure the solvency of the CRS.
3. Any reforms that would protect the City of Cincinnati's General Fund from continuously increasing contribution requirements.
4. The Task Force should examine all possible improvements and changes that would reduce the long-term liabilities of the taxpayers of Cincinnati.
5. Any recommendations should recognize the needs of individuals who retired due to disability, and whose service retirement was not calculated under 2.2%/2.5% upon reaching age 65.

In addition, the Task Force is charged with hiring an actuary independent of Mercer, the CRS actuary.

Unfortunately, the schedule does not allow for a full-blown RFP process. Therefore, this letter is sent to you and other actuarial service providers to elicit your interest in the

project. If interested, the Task Force would like for you to provide estimated fees associated with the project and a timeline for completion. To be considered for the project, your response must be received by the contact- hard copy or electronically- by 5:00 pm, Friday, March 21, 2008.

Contact information:

John K. Boudinot, D.B.A.

Executive Director of the CRS

513-352-6296

[John.boudinot@cincinnati-oh.gov](mailto:John.boudinot@cincinnati-oh.gov)

801 Plum St., Suite 240

Cincinnati, OH 45202

The following is a summary of the actuarial requirements for the project. Additional actuarial services may be requested. Fees for additional services will be negotiated with the actuarial service provider selected by the Task Force.

#### Proposed Requirements for Limited Scope Actuarial Review

- Provide an actuarial opinion and general accuracy of the following items previously determined by the CRS' actuary- Mercer Consulting
  - Estimate a reasonable range for the liabilities for both retirement and medical benefits based on data summary, plan provisions and actuarial assumptions described in the December 31, 2006 valuation report;
  - Estimate a reasonable range for the contributions to the plan for 2007, 2008;
  - Estimate a reasonable range for the change in liabilities for the medical plan under 3 suggested scenarios;
  - Review the actuarial assumptions for reasonableness for both retirement and medical liabilities;
  - Estimate a reasonable range for the change in assets and liabilities due to the change in investment return assumption from 8.75% gross of fees to 8.00% net of fees, effective December 31, 2006
  - Provide a written report summarizing the findings;
  - Provided advice regarding current benefits and potential changes to benefits to enhance future funding levels and lower employer required contributions;
  - Provide responses to all of the 5 questions applicable to actuarial valuations listed above upon which the Task Force must respond;
  - Provide both a retirement actuary and a health actuary to attend aTask Force meetings to answer questions about the results.
  
- Due to time and cost considerations, the selected actuarial service provider will not be required to request complete census data on the individual plan participants and will not be required to program its liability system for every individual

assumption. The actuarial calculations are expected to result in a range of reasonableness within which the liabilities might fall not precise liabilities.

- The actuary may be asked to attend Task Force meetings in addition to the above referenced meeting as needed. Please provide estimated fee per meeting.

Please return a letter of interest, proposed timeline for completion, and a brief proposal with estimated fees by 5:00 pm March 21, 2008 to the contact. Please call contact with questions.

The following electronic documents are attached:

December 31, 2006 CRS actuarial valuation  
Financial data regarding 3 health care scenarios

Thank you for your help with this matter.

Sincerely,

Joe Gray  
Finance Director

# City of Cincinnati



Jeff Berding  
Member of Council

200900902

City Hall, Room 350  
801 Plum Street  
Cincinnati, Ohio 45202-1979  
Phone (513) 352-3283  
Fax (513) 352-3289  
E-Mail: jeff.berding@cincinnati-oh.gov

## COMMITTEES

### CHAIR

Rules and Government Operations

### VICE-CHAIR

Finance

### Member

Law and Public Safety

Economic Development

Health, Environment and Education

June 15, 2009

## **MOTION**

**WE MOVE** that the Cincinnati Retirement System Task Force re-convene with members as follows, with former members of the Task Force considered first to determine their willingness to serve again:

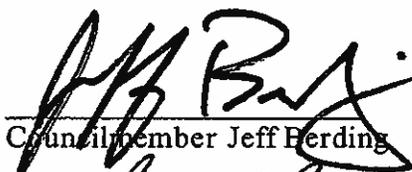
1. The City Manager
2. The Chairperson of the Retirement Board
3. A representative from AFSCME
4. A representative from CODE
5. A City retiree with understanding of the program
6. The Chair (or Vice Chair if the Chair should designate) of City Council's Finance Committee
7. A maximum of six community members appointed by the Mayor with input from Council based upon their expertise in the areas of investment, actuarial projections, and/or pension systems

**WE FURTHER MOVE** that the Task Force be asked to study current trends in both public and private retirement programs, to analyze the City's ability to pay for currently-provided benefits to current and future Retirees, and to report to Council its recommendations on further changes to the Retirement system to resolve the unfunded liability.

**WE FURTHER MOVE** that, given the complexity of pension plans, financing and costs, the Task Force will retain an independent consultant with knowledge and expertise in restructuring public sector pension plans to ensure the long-term stability of the Cincinnati Retirement System. The consultant will be chosen from a list agreed to by members of the Task Force. A super majority of the Task Force will agree to accept the conclusions of the consultant prior to submission to the Mayor and Council. The Task Force will submit its recommendations to the Mayor and City Council by March 1, 2010

## STATEMENT

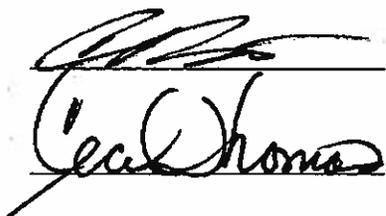
According to the actuarial report submitted to the Cincinnati Retirement System Board of Trustees on May 12, 2009, the Cincinnati Retirement System's unfunded liability will equal the market value of its assets by the year 2012. From that point forward, the value of the unfunded liability will increase, while the assets' market value will continue to decline. This is a system that desperately needs to be restored and the Task Force will give all parties and outside experts a seat at the table in determining the future of the program.

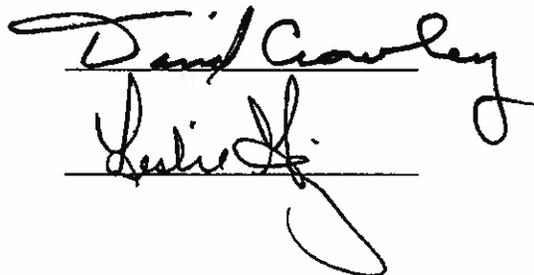
  
Councilmember Jeff Berding

  
Councilmember Laketa Cole

  
Councilmember Greg Harris

  
Councilmember Roxanne Qualls

  
Cecil Thomas

  
David Crowley

***Motion (Document #200801378)- Approved 6/10/09***  
***(Retiree Healthcare Coverage)***

- Replace the Pre-September 2007 retiree medical plan with a Modified PPO for existing retirees.
    - \$1,000 out of pocket limit on prescription drugs
    - \$100 deductible
    - \$1,000 limit on medical out-of-pocket
    - Prescription Drug Tiers: \$5 generic, \$15 brand, \$30 non-formulary
    - Retirees will pay no premiums
  
  - Eliminate the traditional indemnity plan.
  - Establish a carve-out group to mitigate some of the financial stress caused by the Modified PPO for pre-September 2007 retirees.
  - Revise the coordination of benefits paid by the City Retirement System and Medicare for retirees over 65 years old.
  - Retirees since September 2007 will remain on a healthcare plan similar to current employees.
- 

***Motion (Document #200801380) – Approved 6/10/09***  
***(Increased Pension contribution rates)***

Increase the employee contribution rate ½% per year for four years. The employee contribution rate will increase from 7% to 9% from 2009 to 2012

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***Motion (Document #200801381) – Approved 6/10/09***  
***(New Member Retirement Eligibility)***

- For Future employees hired on or after January 1, 2010
    - Increase the age for normal retirement from 60 to 65.
    - Increase the age for early retirement from 55 to 60.
    - Add the minimum age of 55 to retirement with 30 or greater years of service.
    - Decrease the retirement formula factor from 2.5% to 2.2% for new hires.
- 

***Motion (Document #200801382) – Approved 6/10/09***  
***(Actuarial adjustments & coordination with Medicare)***

Change the amortization of actuarial accrued unfunded liability from 15 years to 30 years, Increase the length of the term for actual smoothing of gains and losses from five years to ten years, The City Budget Office should develop a policy that emphasizes and insures a disciplined payment of the Annual Required Contribution to the Cincinnati Retirement System, Research issuance of tax-exempt pension obligation bonds to retire current actuarial accrued unfunded liability, On a periodic systematic schedule review market alternatives for Medicare eligible retirees and dependents for healthcare coverage and prescription drug coverage.

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***Motion (Document #200801413) - Approved 6/10/09***  
***(Retiree Healthcare Carve Out provisions)***

Establish a carve-out group, as recommended by the Task Force for Retirement Security, to mitigate some of the financial stress caused by the Modified PPO for pre-September 2007 retirees. The carve-out would be expanded from the Task Force for Retirement Security's recommendation to include all disability retirees and retirees who are 65 years of age or older, with 30 or more years of service credit with the Cincinnati Retirement System, and an annual benefit of \$30,000 or less. This group will receive the following changes to the modified PPO.

- Reduce the deductible from \$100 to \$0
- Reduce the maximum medical out-of-pocket from \$1000 to \$500
- Reduce the maximum prescription drug out-of-pocket from \$1000 to \$500
- As with all proposed changes to the retiree plan, there would be no premium cost for the retiree.

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***Motion (Document #200801453) – Approved 6/10/09***  
***(Additional Retiree Healthcare Carve Out provisions)***

retirees who are 65 years or older, have less than 30 years of service credit with the Cincinnati Retirement System, and can prove that their annual gross income is less than \$30,000 by submitting a copy of their Federal Income Tax Form 1040.

any current retiree with an annual gross income below 50% of the Median Household Income for one individual as found on the City of Cincinnati's CDBG Income Eligibility Form (\$23,500 for 2008), as verified by a copy of the retirees Federal Income Tax Form 1040, will not be subject to any change in their current retiree health care plan.

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***Motion (#200900902) – Approved 6/17/09***  
***(Task Force Reconvene)***

We move that the Cincinnati Retirement System Task Force re-convene with members as follows, with former members of the Task Force considered first to determine their willingness to serve again:

- The City Manager
- The Chairperson of the Retirement Board
- A representative from AFSCME
- A representative from CODE
- A City retiree with understanding of the program
- The Chair (or Vice Chair if the Chair should designate) of City Council's Finance Committee

- A maximum of six community members appointed by the Mayor with input from Council based upon their expertise in the areas of investment, actuarial projections, and/or pension systems.

The Task Force will be asked to study current trends in both public and private retirement programs, to analyze the City's ability to pay for currently-provided benefits to current and future Retirees, and to report to Council its recommendations on further changes to the Retirement system to resolve the unfunded liability. Given the complexity of pension plans, financing and costs, the Task Force will retain an independent consultant with knowledge and expertise in restructuring public sector pension plans to ensure the long-term stability of the Cincinnati Retirement System. The consultant will be chosen from a list agreed to by members of the Task Force. A super majority of the Task Force will agree to accept the conclusions of the consultant prior to submission to the Mayor and Council. The Task Force will submit its recommendations to the Mayor and City Council by March 1, 2010.

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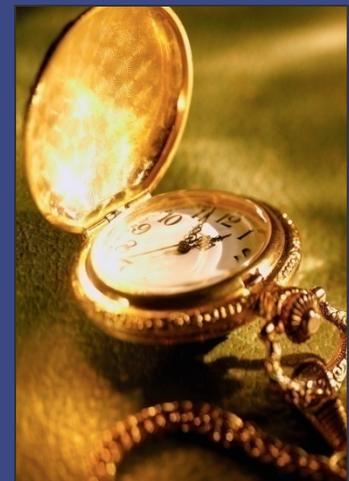
**Cavanaugh Macdonald**  
CONSULTING, LLC  
*The experience and dedication you deserve*

# Retirement System for Employees of the City of Cincinnati



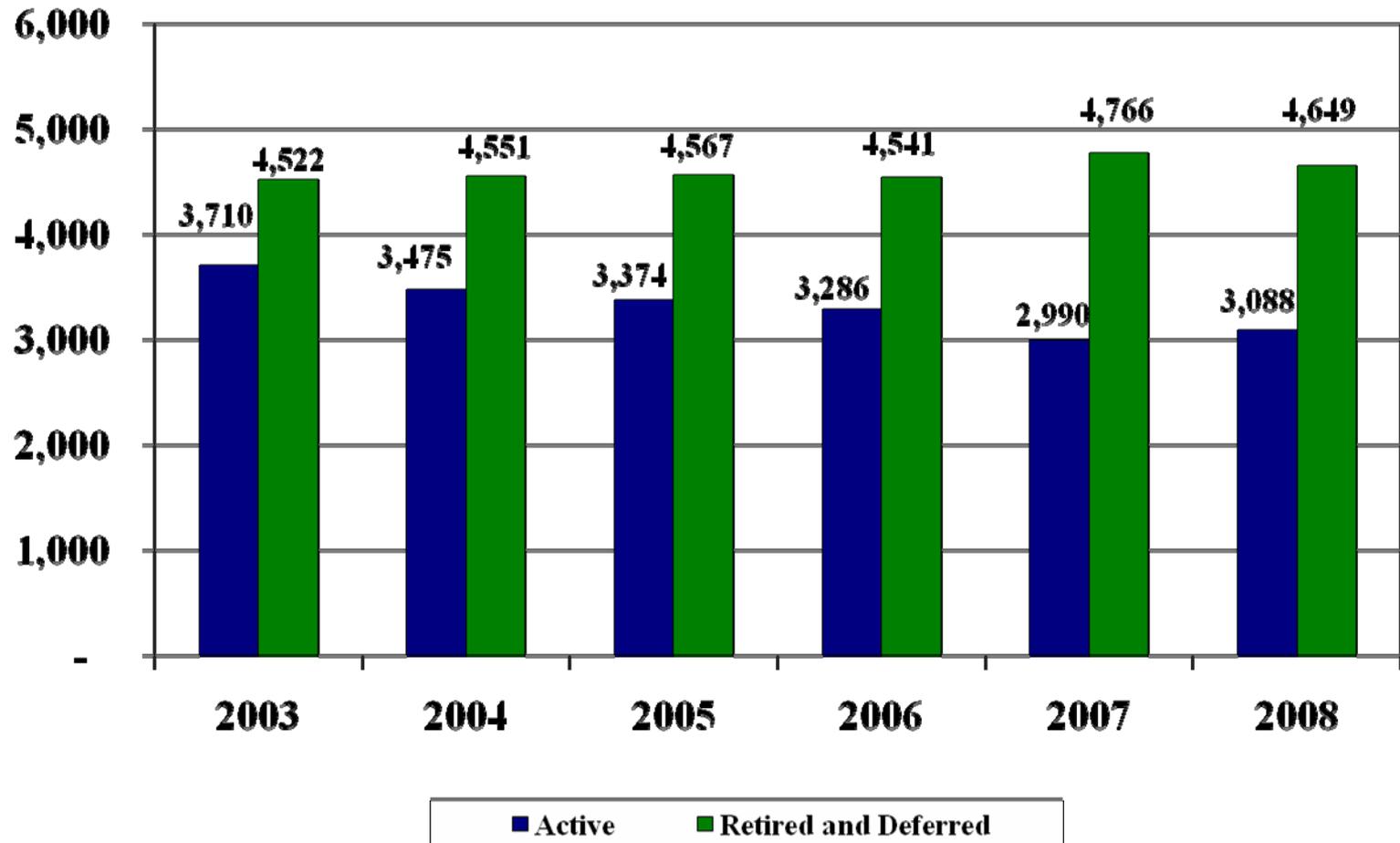
Task Force Meeting  
August 10, 2009

Ed Koebel  
Eric Gary



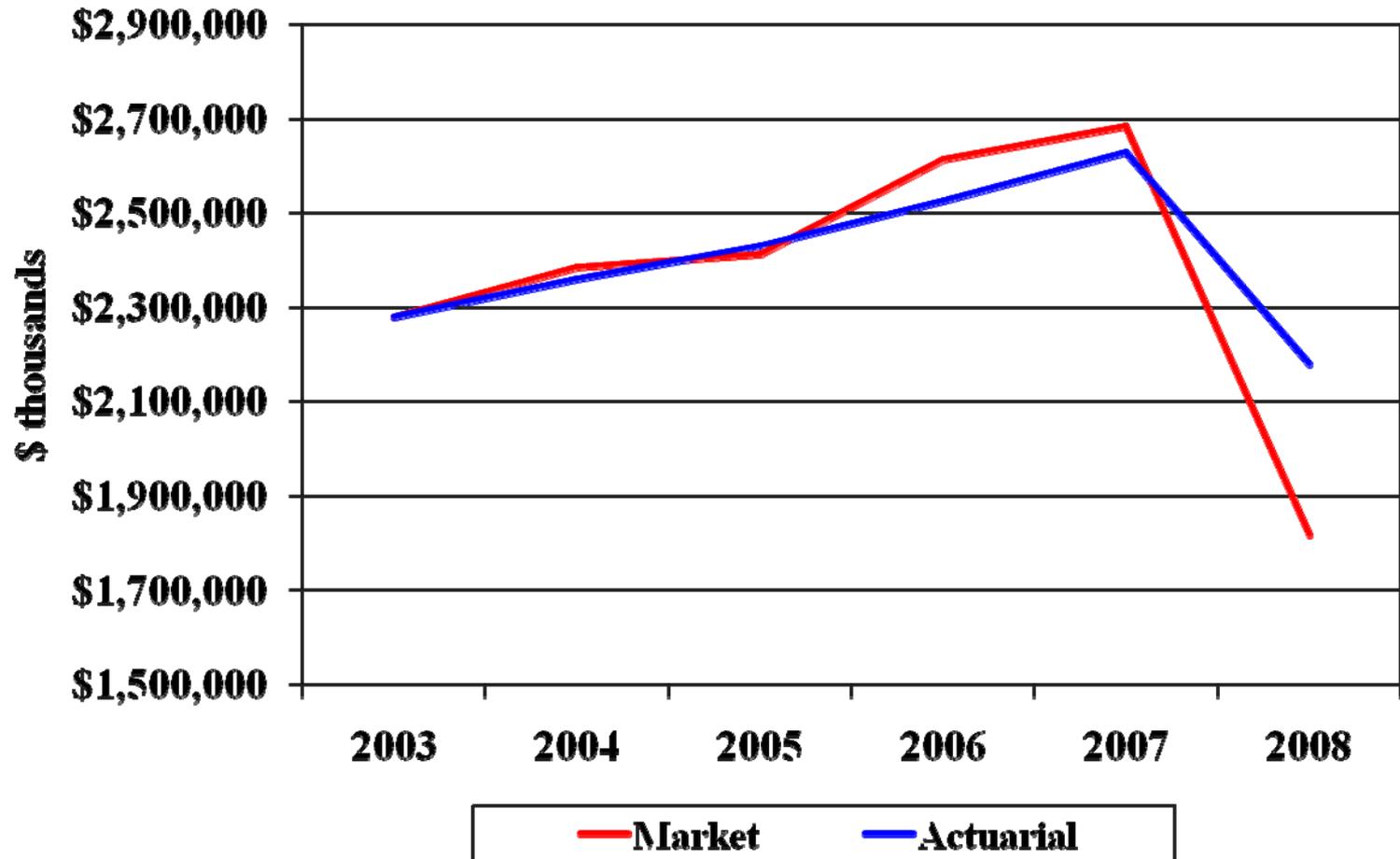


# Census Data





# Asset Values





# Cash Flow

(\$ in thousands)

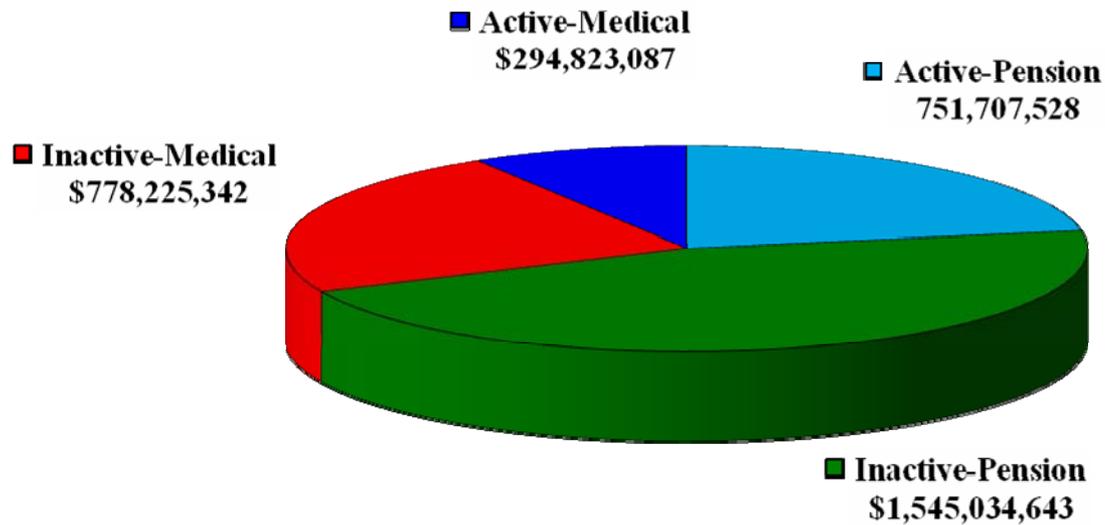


Year	Total Contributions	Total Benefit Payments	Deficit
2008	\$40,088	\$187,494	(\$147,406)
2007	\$46,155	\$168,862	(\$122,707)
2006	\$41,421	\$163,408	(\$121,987)

Assumed Investment Income on \$2.6 billion fund is estimated to be \$210 million.  
Assumed Investment Income on \$1.8 billion fund is estimated to be \$145 million.



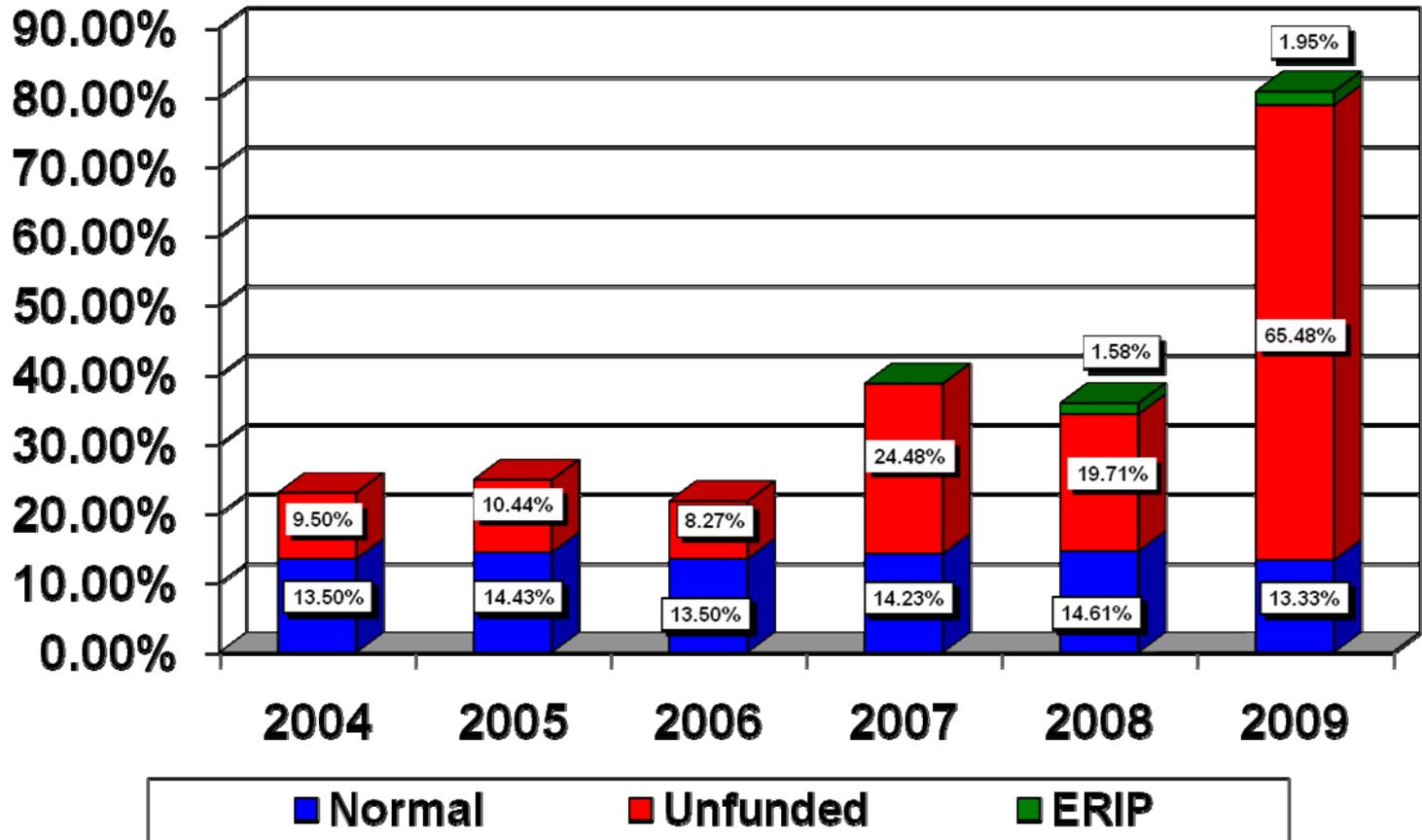
# Present Value of Future Benefits by Participant Type



**Total - \$ 3,369,790,600**

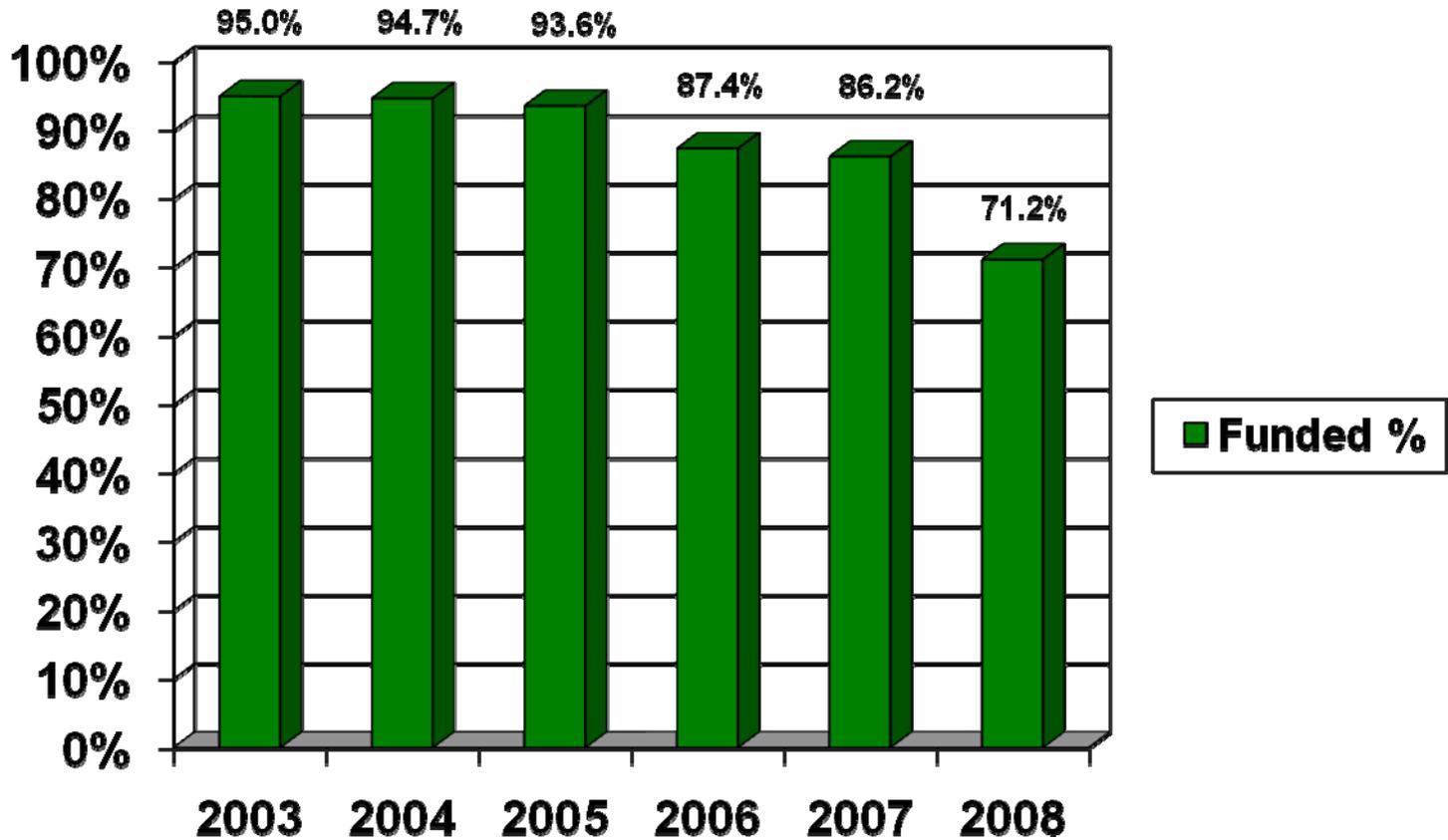


# Type of Contributions



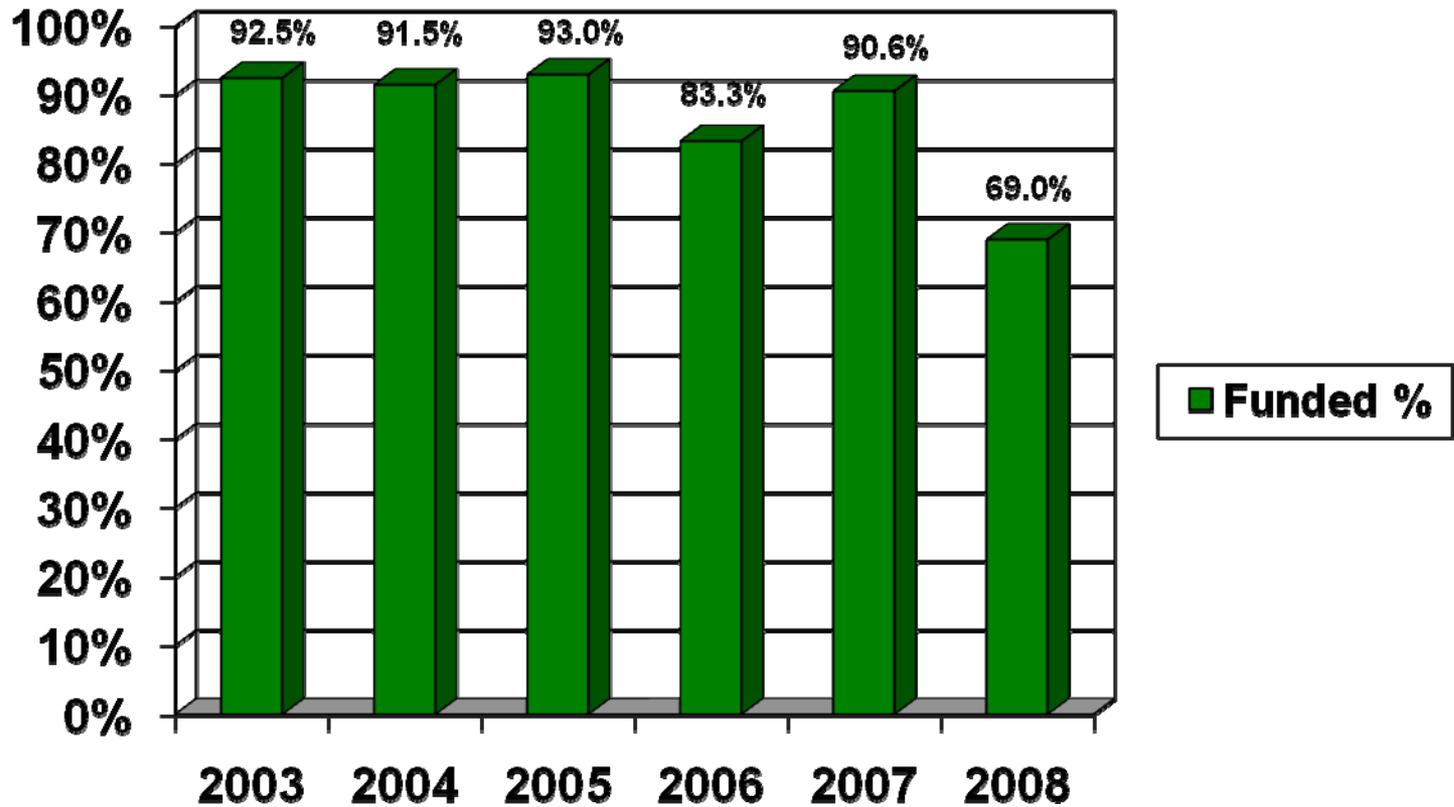


# Pension Funded Percentage





# Medical Funded Percentage





# Summary of Valuation Results based on Recommendations of Task Force



Scenario	Valuation Results as of 12/31/2008	30-Year Unfunded Amortization Period	Modified PPO for Existing Retirees with Carve Out	Employee Contribution to 9% in 2012	Combined Changes
Ultimate Employer Normal Cost	13.33%	13.33%	13.33%	11.39%	11.39%
Unfunded Accrued Liability (UAL) (\$ in thousands)	\$913,887	\$913,887	\$754,523	\$914,408	\$755,044
Annual Required Contribution Rate (ARC)	80.76%	65.07%	55.97%	63.16%	54.06%
Funded Percentage	70.5%	70.5%	74.3%	70.4%	74.3%
Estimated Required Contribution in Dollars	\$125,600	\$101,200	\$87,000	\$98,200	\$84,000

All results include the Early Retirement Incentive Plan (ERIP).  
Estimated Required Contribution based on current payroll of \$155.5M as of Valuation.  
Current Estimated Contribution Planned for 2010 fiscal year is around \$26.4 million.



# Contributions Needed to Preserve the Fund (With Task Force Changes)



Year	Estimated Total Contribution Rate	Estimated Contribution Dollars (\$ in thousands)
2009	28.0%	\$44,800
2010	24.0%	\$39,600
2011	29.0%	\$49,300
2012	32.0%	\$56,000
2013	37.0%	\$66,700
2014	39.0%	\$72,400
2015	42.0%	\$80,300
2016	45.0%	\$88,600
2017	48.0%	\$97,400
2018	49.0%	\$102,400

Current Market Value of Assets (as of 12/31/2008) is \$1.81 billion.

All results include the Early Retirement Incentive Plan (ERIP).

Estimated Required Contribution based on current payroll of \$155.5M as of Valuation.

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# Trends



## ➤ Pension

- Private Sector – Terminating DB Plans
- Public Sector
  - Benefit Changes
    - Reducing Cost of Living Adjustments
    - New Tier with Lower Benefits or Eligibility
      - » Reduced Multiplier
      - » Hybrid Model
  - Asking Legislature for more Funds



# Trends



## ➤ Medical

- Move Rx plan from RDS to PDP
- Indexing of deductibles, copays, and/or out-of-pocket maximums
- Eliminate dependent coverage or increase dependent coverage cost sharing
- Change benefit to a flat dollar contribution per month for new hires
- Reduce out-of-network benefits
- Medicare Supplement plan design
- Vary cost sharing by length of service



# Independent Contractors



- RDS Consulting Services – Mark Manquen
- Gabriel Roeder Smith – Joe Newton
- Aon Consulting – Flick Fornia
- Milliman – Mark Olleman
- EFI – Ed Friend



August 12, 2009

### Independent Actuarial Consultant

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Sincerely,

Joe Gray, Finance Director