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

Board's New Plan Design

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# Table of Contents

- Board's New Plan Design
  - Pension
  - Health Care
- Solvency Projections
- Cost of Individual Plan Changes



# Board's New Plan Design (Pension)



- COLA Change
  - No change to existing retirees
  - For Active Groups D, E, F and G
  - No longer be guaranteed at 3%, but indexed to follow the CPI-U and capped at a maximum of 2%
  - Based upon simple interest, not compound
- Final Average Salary Change
  - For Active Groups E, F and G
  - For prospective benefits only
  - Changed from 3 year average to 5 year average
- Benefit Accrual Change
  - For Active Groups E, F and G
  - For prospective benefits only
  - Accrual rate reduced from 2.50% (and 2.22% for closed group) to 2.20% of base pay for service up to 30 years
  - After 30 years of service, accrual rate drops to 2.00% for service



# Board's New Plan Design (Pension)



- Retirement Eligibility Change (For Active Groups E, F and G)
  - Normal Retirement for Groups E and F
    - Age 60 with 30 years of service, or
    - Age 65 with 5 years of service
  - Normal Retirement for Group G
    - Age 62 with 30 years of service, or
    - Age 67 with 5 years of service
  - Early Retirement for Groups E, F and G
    - Age 57 with 15 years of service
    - Actuarial reduction applies on Early Retirement Benefits
  - Group E participants have accrued benefits as of 7/1/2014 protected and the retiree gets the better of:
    - 7/1/2014 actuarially adjusted accrued benefit plus future accruals, or
    - Benefit calculated as if 7/1/2011 changes had always been in effect
  - Group F participants have accrued benefits as of 7/1/2011 protected and the retiree gets the better of:
    - 7/1/2011 actuarially adjusted accrued benefit plus future accruals, or
    - Benefit calculated as if 7/1/2011 changes had always been in effect



# Board's New Plan Design (Pension)



- Pre-Retirement Death Benefits Change
  - For Active Groups D, E, F and G
  - Eliminate 50% salary death benefit of Section 203-45
  - Eliminate all benefits payable under Section 203-49
- Post-Retirement Death Benefits Change
  - For All Retirees and Active Group C
    - Reduce \$7,500 death benefit under Section 203-47 to \$5,000
  - For Active Groups D, E, F and G
    - Eliminate the \$7,500 death benefit under Section 203-47



# Board's New Plan Design (Health Care)



- Change in retirement eligibility ("New Pension Plan Eligibility")
  - Revised pension eligibility requirements
  - Survivor health care benefits under Section 203-49
    - For Active Groups D, E, F and G
- Current and future participants assume 100% of costs for dental and vision benefits
- Spouses are required to pay Medicare Part B premium
- Retirees are required to pay Medicare Part B premium
- All health care benefits provided through the Blue Access 80/20 plan
  - Assume those hired prior to 1/9/1997 pay active premium rate
  - Assume those hired on or after 1/9/1997 pay portion of the retiree premium equivalent
    - Portion is based upon the point system outlined under Section 203-44 (f)
    - Rate based upon Medicare eligibility
  - No "carve-out" benefits assumed
- All of the above changes combined



# Solvency Projections (Pension)

- All Projections assume Market Value of Assets of \$2.11 Billion as of December 31, 2010
  - \$1.46 Billion balance for Pension Plan
  - \$0.65 Billion balance for Health Care Plan
- All Projections assume 8% Return for all years after 2010
- Active Employee Contribution Rates of 7.5% in 2010, growing to 9.0% in 2013 and afterwards.
- City Contribution Rates kept at 17%, though we have run other scenarios for comparisons.
- All contributions are assumed to be made to pension plan.
- New entrant profile based on last 2 years of new entrants
  - Static population growth assumed (i.e. those who leave are replaced)
- Expense assumption growth of 2%.
- New retirement decrements (assumed rates of retirement) were developed that may best match the experience of the new retirement eligibilities.
- Projections also include a New Plan Design using a 3% Simple COLA.



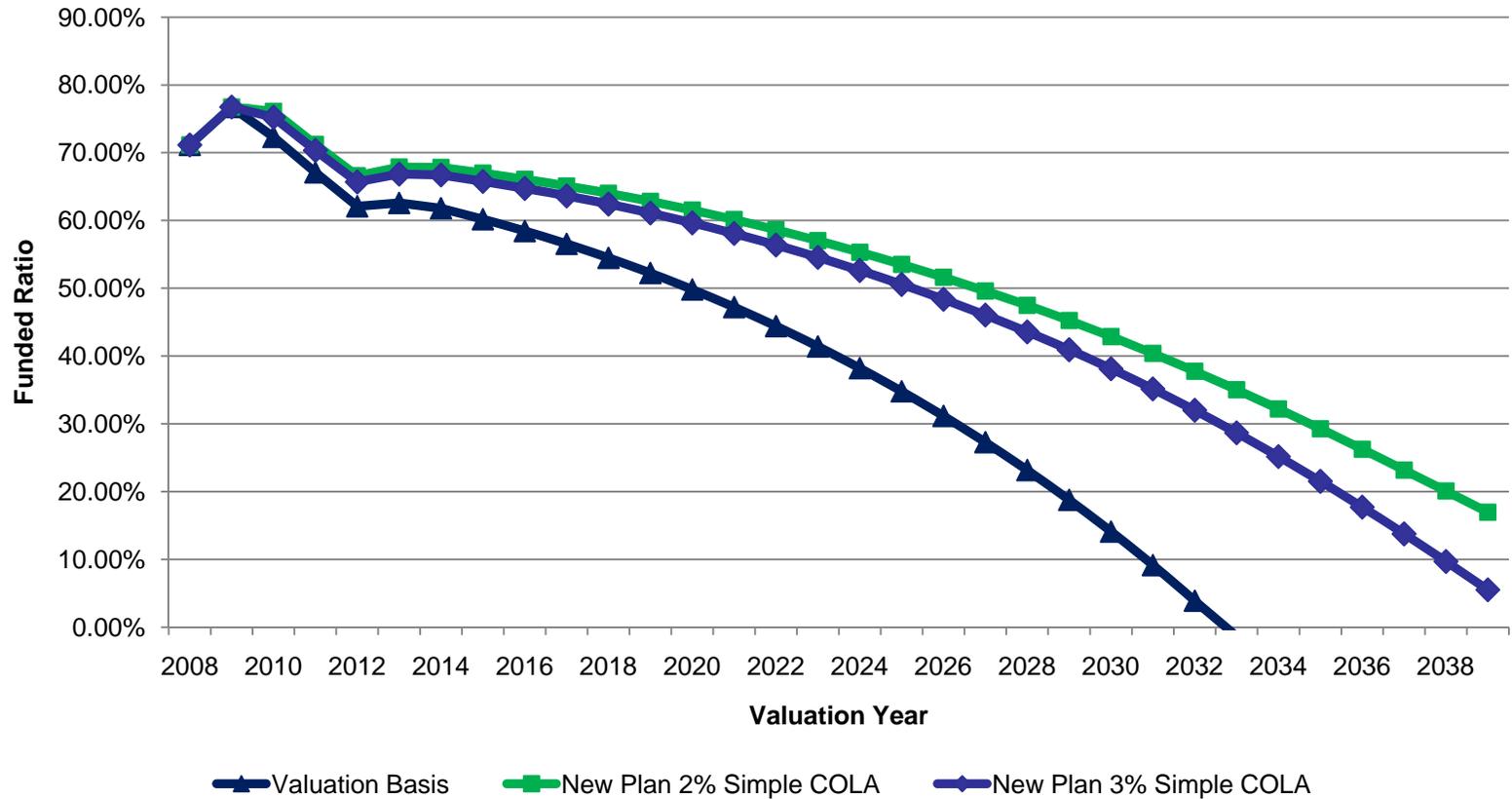
# Solvency Projections (Pension)

- Projected results provided under the following three scenarios
  - Valuation Basis
    - Assumes no changes are made to the plan
    - Baseline from which impact results are developed
  - New Plan 2% Simple COLA
    - Assumes the Board's new plan design is adopted with a simple interest COLA indexed to the CPI-U and capped at a maximum of 2%
  - New Plan 3% Simple COLA
    - Assumes the Board's new plan design is adopted with a simple interest COLA indexed to the CPI-U and capped at a maximum of 3%



# Solvency Projections (Pension)

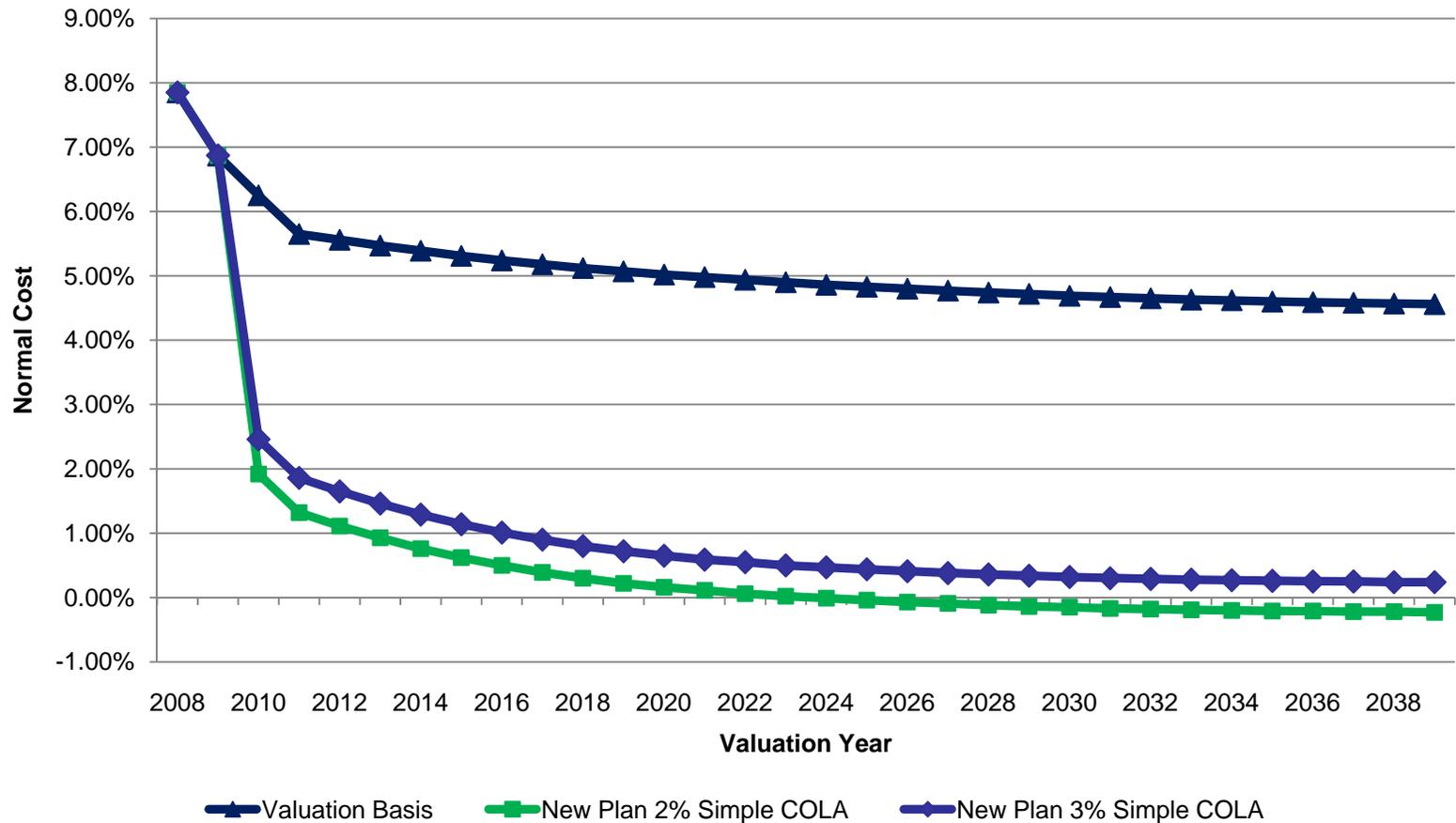
**30-Year Projection of Funded Ratio**  
**City Contribution Rate of 17% for all years**  
*Pension Only*





# Solvency Projections (Pension)

## 30-Year Projection of Employer Normal Cost Rates *Pension Only*





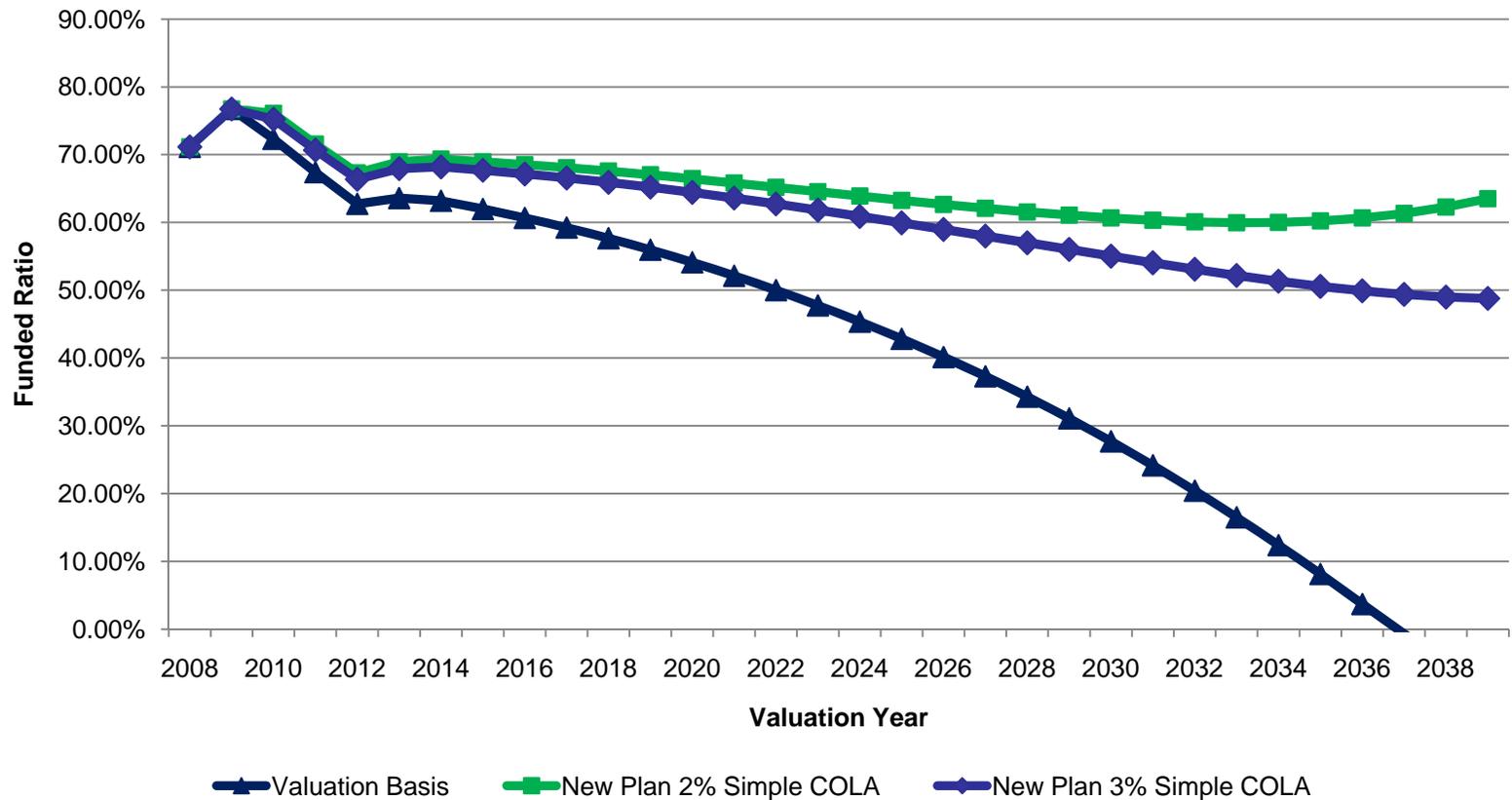
# Solvency Projections (Pension)

- Following two graphs show the funding ratio assuming the City Contribution Rates are increased for each year in the future:
  - City Contribution of 21%
  - City Contribution of 24%
- All other projection assumptions remain the same.



# Solvency Projections (Pension)

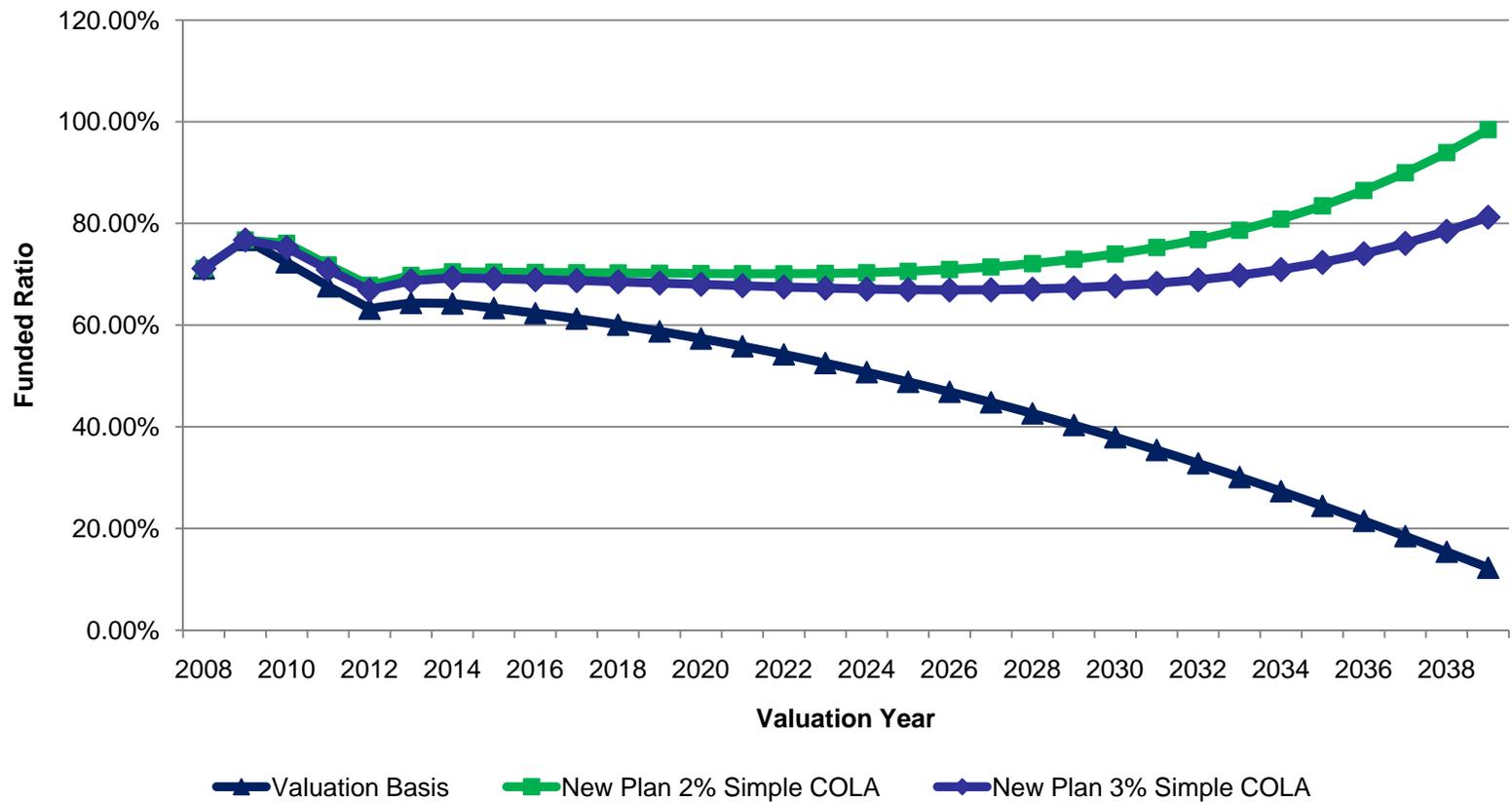
**30-Year Projection of Funded Ratio**  
**City Contribution Rate of 21% for all years after 2010**  
*Pension Only*





# Solvency Projections (Pension)

**30-Year Projection of Funded Ratio**  
**City Contribution Rate of 24% for all years after 2010**  
*Pension Only*





# Solvency Projections (Health Care)



- All Projections assume Market Value of Assets of \$2.11 Billion as of December 31, 2010
  - \$1.46 Billion balance for Pension Plan
  - \$0.65 Billion balance for Health Care Plan
- All Projections assume 8% Return for all years after 2010
- Assumes no future contributions towards health care by the City and active employees
  - All contributions are assumed to be made to pension plan
- New entrant profile based on last 2 years of new entrants
  - Static population growth assumed (i.e. those who leave are replaced)
- Expense assumption growth of 2%
- New retirement decrements (assumed rates of retirement) were developed that may best match the experience of the new retirement eligibilities.



# Solvency Projections (Health Care)



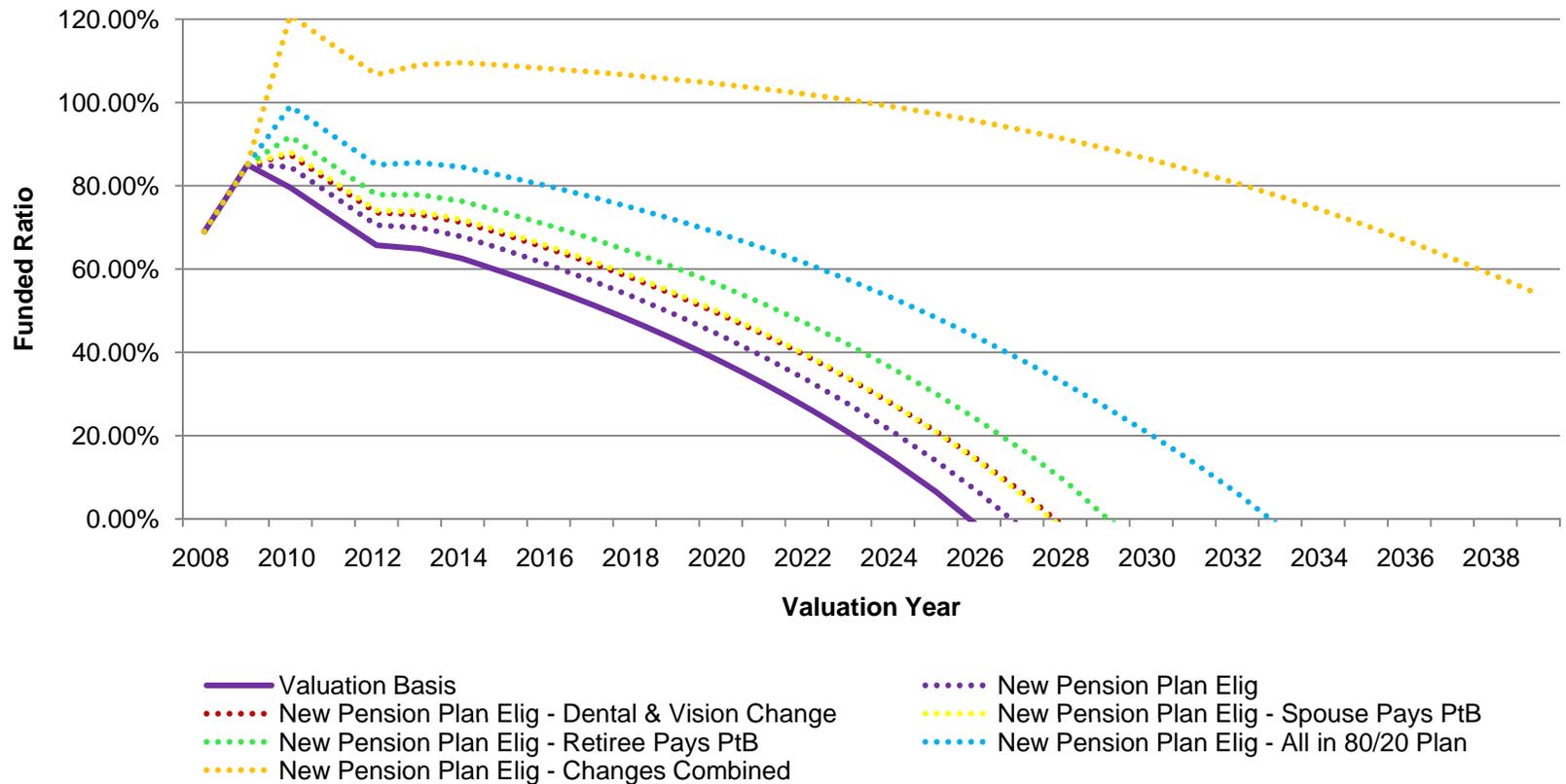
- Projected results provided under the following seven scenarios
  - Valuation Basis
    - Assumes no changes are made to the plan
    - Baseline from which impact results are developed
  - New Pension Plan Elig
    - Reflects retirement eligibility changes to the pension plan
  - New Pension Plan Elig – Dental & Vision Change
    - Assumes current and future participants assume 100% of costs for dental and vision benefits and reflects retirement eligibility changes to the pension plan
  - New Pension Plan Elig – Spouse Pays PtB
    - Assumes spouses are required to pay Medicare Part B premium and reflects retirement eligibility changes to the pension plan
  - New Pension Plan Elig – Retiree Pays PtB
    - Assumes retirees are required to pay Medicare Part B premium and reflects retirement eligibility changes to the pension plan
  - New Pension Plan Elig – All in 80/20 Plan
    - Assumes all health care benefits provided through the Blue Access 80/20 plan and reflects retirement eligibility changes to the pension plan
  - New Pension Plan Elig – Changes Combined
    - Assumes all of the proposed changes are implemented



# Solvency Projections (Health Care)



### 30-Year Projection of Funded Ratio No Future Contributions from City or Active Employees *Health Care Only*





# Individual Cost Figures for New Plan Design (Pension)



- All specific cost savings are based on the 12/31/2009 valuation results
- Value of individual components
  - Each scenario is based on the new plan design as if that one component was not considered in the final Board Design Package.
  - Components may not be additive
    - Impacted by other changes



# Individual Cost Figures for New Plan Design (Pension)



| If Item was not included in Board Redesign Package      | Accrued Liability Increases (\$ in Millions) |
|---|--|
| Change 1 – COLA Change (2% and Simple)                  | \$35.9                                       |
| Change 2 – Final Average Salary Change                  | \$4.9  |
| Change 3 – Benefit Accrual Change                       | \$18.8                                       |
| Change 4 – Retirement Eligibility Change                | \$35.5                                       |
| Change 5 – Elimination of Pre Retirement Death Benefits | \$2.5  |
| Change 6 – Reduction of Post Retirement Death Benefits  | \$4.9  |
| Change 7 – COLA Change (3% and Simple)                  | \$20.8                                       |

As an example, the total reduction to the 12/31/2009 valuation's actuarial accrued liability for the entire plan redesign (Change 1 through Change 6) is estimated to be \$106.3mil. If Change 1 was not included in the new design, the reduction in liability would have only been \$70.4mil (\$106.3mil - \$35.9mil). Therefore, Change 1 is estimated to contribute \$35.9mil to the total liability reduction.



# All Plan Design Changes



|                                | 12/31/2009<br>Valuation Results | 12/31/2009<br>New Plan Changes | Savings       |
|--------------------------------|---------------------------------|--------------------------------|---------------|
| Payroll                        | \$161,874,415                   | \$161,874,415                  | -             |
| Total AAL                      | \$2,125,737,893                 | \$2,019,461,939                | \$106,275,954 |
| Total UAAL                     | \$494,331,387                   | \$388,055,433                  | \$106,275,954 |
| Normal Cost Rate               | 14.87%                          | 10.73%                         | 4.14%         |
| Employee Rate for 2011 FY      | (8.00)%                         | (8.00)%                        | -             |
| Employer Normal Cost Rate      | 6.87%                           | 2.73%                          | 4.14%         |
| UAAL Rate (level \$, 30 years) | 24.75%                          | 18.92%                         | 5.83%         |
| ERIP as a % of payroll         | 2.28%                           | 2.28%                          | -             |
| Estimated ARC Rate             | 33.90%                          | 23.93%                         | 9.97%         |
| In dollars                     | \$54,875,000                    | \$38,737,000                   | \$16,138,000  |



# All Plan Design without Change 1 COLA Change to 2% and Simple



|                           | 12/31/2009<br>Valuation Results | 12/31/2009<br>New Plan Changes | Savings      | Change from<br>Final Package |
|---------------------------|---------------------------------|--------------------------------|--------------|------------------------------|
| Payroll                   | \$161,874,415                   | \$161,874,415                  | -            | -                            |
| Total AAL                 | \$2,125,737,893                 | \$2,055,401,658                | \$70,336,235 | \$35,939,719                 |
| Total UAAL                | \$494,331,387                   | \$423,995,152                  | \$70,336,235 | \$35,939,719                 |
| Normal Cost Rate          | 14.87%                          | 11.66%                         | 3.21%        | 0.93%                        |
| Employee Rate for 2011 FY | (8.00)%                         | (8.00)%                        | -            | -                            |
| Employer Normal Cost Rate | 6.87%                           | 3.66%                          | 3.21%        | 0.93%                        |
| UAAL Rate                 | 24.75%                          | 20.89%                         | 3.86%        | 1.97%                        |
| ERIP as a % of payroll    | 2.28%                           | 2.28%                          | -            | -                            |
| Estimated ARC Rate        | 33.90%                          | 26.83%                         | 7.07%        | 2.90%                        |
| In dollars                | \$54,875,000                    | \$43,431,000                   | \$11,444,000 | \$4,694,000                  |



# All Plan Design without Change 2 – Final Average Salary



|                           | 12/31/2009<br>Valuation Results | 12/31/2009<br>New Plan Changes | Savings       | Change from<br>Final Package |
|---------------------------|---------------------------------|--------------------------------|---------------|------------------------------|
| Payroll                   | \$161,874,415                   | \$161,874,415                  | -             | -                            |
| Total AAL                 | \$2,125,737,893                 | \$2,024,355,280                | \$101,382,613 | \$4,893,341                  |
| Total UAAL                | \$494,331,387                   | \$392,948,774                  | \$101,382,613 | \$4,893,341                  |
| Normal Cost Rate          | 14.87%                          | 11.04%                         | 3.83%         | 0.31%                        |
| Employee Rate for 2011 FY | (8.00)%                         | (8.00)%                        | -             | -                            |
| Employer Normal Cost Rate | 6.87%                           | 3.04%                          | 3.83%         | 0.31%                        |
| UAAL Rate                 | 24.75%                          | 19.19%                         | 5.56%         | 0.27%                        |
| ERIP as a % of payroll    | 2.28%                           | 2.28%                          | -             | -                            |
| Estimated ARC Rate        | 33.90%                          | 24.51%                         | 9.39%         | 0.58%                        |
| In dollars                | \$54,875,000                    | \$39,675,000                   | \$15,200,000  | \$938,000                    |



# All Plan Design without Change 3 – Benefit Accrual



|                           | 12/31/2009<br>Valuation Results | 12/31/2009<br>New Plan Changes | Savings      | Change from<br>Final Package |
|---------------------------|---------------------------------|--------------------------------|--------------|------------------------------|
| Payroll                   | \$161,874,415                   | \$161,874,415                  | -            | -                            |
| Total AAL                 | \$2,125,737,893                 | \$2,038,302,267                | \$87,435,626 | \$18,840,328                 |
| Total UAAL                | \$494,331,387                   | \$406,895,761                  | \$87,435,626 | \$18,840,328                 |
| Normal Cost Rate          | 14.87%                          | 11.40%                         | 3.47%        | 0.67%                        |
| Employee Rate for 2011 FY | (8.00)%                         | (8.00)%                        | -            | -                            |
| Employer Normal Cost Rate | 6.87%                           | 3.40%                          | 3.47%        | 0.67%                        |
| UAAL Rate                 | 24.75%                          | 19.95%                         | 4.80%        | 1.03%                        |
| ERIP as a % of payroll    | 2.28%                           | 2.28%                          | -            | -                            |
| Estimated ARC Rate        | 33.90%                          | 25.63%                         | 8.27%        | 1.70%                        |
| In dollars                | \$54,875,000                    | \$41,488,000                   | \$13,387,000 | \$2,751,000                  |



# All Plan Design without Change 4 – Retirement Eligibility



|                           | 12/31/2009<br>Valuation Results | 12/31/2009<br>New Plan Changes | Savings      | Change from<br>Final Package |
|---------------------------|---------------------------------|--------------------------------|--------------|------------------------------|
| Payroll                   | \$161,874,415                   | \$161,874,415                  | -            | -                            |
| Total AAL                 | \$2,125,737,893                 | \$2,054,941,875                | \$70,796,018 | \$35,479,936                 |
| Total UAAL                | \$494,331,387                   | \$423,535,369                  | \$70,796,018 | \$35,479,936                 |
| Normal Cost Rate          | 14.87%                          | 12.63%                         | 2.24%        | 1.90%                        |
| Employee Rate for 2011 FY | (8.00)%                         | (8.00)%                        | -            | -                            |
| Employer Normal Cost Rate | 6.87%                           | 4.63%                          | 2.24%        | 1.90%                        |
| UAAL Rate                 | 24.75%                          | 20.87%                         | 3.88%        | 1.95%                        |
| ERIP as a % of payroll    | 2.28%                           | 2.28%                          | -            | -                            |
| Estimated ARC Rate        | 33.90%                          | 27.78%                         | 6.12%        | 3.85%                        |
| In dollars                | \$54,875,000                    | \$44,969,000                   | \$9,906,000  | \$6,232,000                  |



# All Plan Design without Change 7 – COLA Change to Simple



|                           | 12/31/2009<br>Valuation Results | 12/31/2009<br>New Plan Changes | Savings      | Change from<br>Final Package |
|---------------------------|---------------------------------|--------------------------------|--------------|------------------------------|
| Payroll                   | \$161,874,415                   | \$161,874,415                  | -            | -                            |
| Total AAL                 | \$2,125,737,893                 | \$2,040,256,396                | \$85,481,497 | \$20,794,457                 |
| Total UAAL                | \$494,331,387                   | \$408,849,890                  | \$85,481,497 | \$20,794,457                 |
| Normal Cost Rate          | 14.87%                          | 11.27%                         | 3.60%        | 0.54%                        |
| Employee Rate for 2011 FY | (8.00)%                         | (8.00)%                        | -            | -                            |
| Employer Normal Cost Rate | 6.87%                           | 3.27%                          | 3.60%        | 0.54%                        |
| UAAL Rate                 | 24.75%                          | 20.06%                         | 4.69%        | 1.14%                        |
| ERIP as a % of payroll    | 2.28%                           | 2.28%                          | -            | -                            |
| Estimated ARC Rate        | 33.90%                          | 25.61%                         | 8.29%        | 1.68%                        |
| In dollars                | \$54,875,000                    | \$41,456,000                   | \$13,419,000 | \$2,719,000                  |



# Individual Cost Figures for New Plan Design (Health Care)



- All specific cost savings are based on the 12/31/2009 valuation results
- Value of individual components
  - Components may not be additive
    - Impacted by other changes



# Individual Cost Figures for New Plan Design (Health Care)



| Potential Changes to Health Care Benefits  | Accrued Liability Decreases<br>(\$ in Millions) |                              |
|--|---|------------------------------|
|  | Valuation Basis                                 | New Pension Plan Eligibility |
| Change 1 – Current and future participants assume 100% of costs for dental and vision benefits | \$29  | \$76                         |
| Change 2 – Current and future spouses are required to pay Medicare Part B premium              | \$34  | \$81                         |
| Change 3 – Current and future retirees are required to pay Medicare Part B premium             | \$68  | \$113                        |
| Change 4 – All health care benefits provided through the Blue Access 80/20 plan                | \$116   | \$164                        |
| Change 5 – All Changes Combined  | \$248   | \$290                        |
| Change 6 – Change in retirement eligibility (“New Pension Plan Eligibility”)                   | \$48  | \$48                         |