



City Of Cincinnati Retirement System Board of Trustees Meeting

Minutes

October 6, 2011 / 2:00 P.M.
City Hall – Committee Room B

Present:

Madelynn Matlock, Chair
Karen Alder
Don Beets
Mike Fehn
Chris Meyer
Mark Berliant
Mike Rachford
Roger Sims

Staff Present:

Paula Tilsley
Don Beresford
Cheryl Volk

Absent

Bill Partridge
Brian Pickering

The meeting was called to order at 2:08 P.M.

APPROVAL OF MINUTES

C. Meyer made a motion to approve the minutes. M. Matlock seconded the motion and the motion passed. Minutes were approved as submitted.

NEW BUSINESS

Asset Allocation Analysis - October 6, 2011

Tim Burdick, CIO and Greg Leonberger, Director of Research from Marquette Associates, attended the meeting via conference call and presented the following report from the Asset Allocation Analysis:

- Simulated Asset Class Characteristics
 - The data represented output from the simulations generated by the software and not deterministic views of future capital market performance. The following data was reviewed for the simulated capital market returns:
 - The Asset Class

- Average 10 year annualized return
 - Average 10 year annualized volatility
 - 25th percentile 10 year annualized return
 - 50th percentile 10 year annualized return
 - 75th percentile 10 year annualized return
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- Summary of Study Assumptions and Data Inputs
 - 1000 runs evaluated for 10-year average returns
 - Monte Carlo Type - 75% 10-year treasury and 25% BBB spread
 - Target rate of return 8%
- Summary of Portfolio Characteristics
 - Average annualized 10-year return
 - Average annualized 10-year volatility
 - Downside probability (return < 8%)
 - Downside Risk (return < 8%)
 - Percent of portfolio in illiquid assets
- Risk Scorecard – quantitatively ranks the current portfolio and proposed portfolios on various risk factors between 0 and 10. The score card calculates and proposes a “Risk Optimal” portfolio based on specific weightings.
- Risk Factors
 - The following eight risk factors are evaluated in the decision process when analyzing different portfolios. The risk factors are aggregated into a proprietary Risk Scorecard using a multi-factor approach to determine the most appropriate portfolio for achieving the fund’s goals.
 1. Volatility-Related Score
 2. Downside Risk-Related Score
 3. Peer Risk-Related Score
 4. Interest Rate-Related Score
 5. Credit Quality-Related Score
 6. Equity Style-Related Score
 7. Equity Valuation-Related Score
 8. Liquidity-Related Score
- Simulated 10 Year Treasury Movement
 - As of June 30, 2011, the yield of the 10 year Treasury was 3%. The Monte Carlo simulates the possible monthly movements of the 10 year Treasury yield over the course of the designated time period.
- Simulate BBB Spread Movement
 - As of June 30, 2011, the BBB spread over Treasuries was 1.87%. The Monte Carlo simulates the possible monthly movements of the BBB spread over Treasuries over the course of the designated time period.
- Current and Past Portfolio Results
 - Results were provided for the various portfolio allocations that have occurred from June 2006 to June 2011.
 - Discussion and Conclusions

The Board reviewed the data and requested Marquette to run additional simulations using a 7.5% target rate of return. Evaluate the impact on the downside risk and downside probability by lowering the rate of return. Consider the ramifications on liability and drawdown when assuming a lower target rate of return.

- Marquette to run a comparison study using 7.5% vs 8% target rate of return. Following a review of the report, the Board will consider if adjustments to the asset allocation are indicated. Board will review the report at the next Board meeting on November 3, 2011.
- Cavanaugh Macdonald to gather additional capital market assumption data from other investment consultants from across the country and present a revised Experience Study for the November 3, 2011 Board meeting.

FINANCE REPORT

The CRS market value as of 12/31/10 was \$2.1 billion. Current value is \$1.94 billion with investment performance down by 1.6%. Monthly liquidity of \$10 - \$12 million is needed to pay benefits.

Marquette recommended a rebalance of the hedge fund and real estate portfolios to raise \$30 million in cash by end of year 2011 to address liquidity needs. The allocation would move the portfolios closer to the target allocations. The following asset allocations were recommended:

- Transfer \$4 million from Common Sense
- Transfer \$18 million from ABS
- Transfer \$8 million from JP Morgan

Board Action

C. Meyer made a motion to approve the administration of the fund in consultation with Marquette Associates. Redeem a portion of fixed income assets to meet end of month liquidity needs. Rebalance hedge fund and real estate portfolios and use proceeds to meet intermediate liquidity needs expected around year end. Approved in principle. M. Fehn seconded the motion and the motion approved.

BENEFITS COMMITTEE

R. Sims and P. Tilsley provided the following reports.

2012 Enrollment Process for Retiree Healthcare:

The Benefits Committee endorsed the 2012 enrollment process and administration of healthcare benefits.

- Beginning January 1, 2012, CRS will provide two medical plans, the 80/20 PPO and the Carve-Out PPO. The Modified PPO will no longer be provided. All pensioners currently participating in the Modified PPO will be enrolled in the 80/20 PPO effective 1/1/12. Members cannot move from the Modified PPO or 80/20 PPO to the Carve-Out PPO.
- A newsletter was mailed to all retirees that outlined the changes in benefits beginning 1/1/12 including removing the Modified PPO, new eligibility requirements for the Carve-Out PPO, new tiers of coverage for healthcare, Dental and Vision premiums, and no reimbursement of Part B Medicare premiums.
- A communication was sent to current Carve-Out PPO members explaining that they needed to submit new financial information for the 2010 tax year to re-qualify for the Carve-Out PPO Plan for 2012. Those who do not qualify or fail to send information will be enrolled in the 80/20 PPO.
- An Enrollment Packet is being sent to all retirees in mid October. Retirees who do not respond will be enrolled in the 80/20 PPO with the same tier of coverage as in 2011. They will not be enrolled in the Dental or Vision Plans.
- The tier structure for premiums has been modified and further adjusted to account for the cost difference between pre-Medicare and Medicare eligible members. The 5% premium share for the 80/20 PPO and the full funding rates for the Dental and Vision plans were reviewed.

Retiree Medical Premium Share (Point System)

The CRS Code currently provides a point system used to determine the premium share for medical coverage for members who were hired on or after January 8, 1997 and retire with at least 15 years of service. The point system consisting of years of service combined with the

member's age at termination will affect certain new retirees (hired on or after 1/8/97) starting in January 2012.

The point system currently provides 100% medical plan premium coverage for those accruing 90+ points. The highest point level of 90+ points would provide for a 0% cost share by the member. This level must be adjusted immediately so it is not more favorable than the cost share that is being implemented for all current CRS retirees on 1/1/12. The Committee discussed a short-term solution by changing the 90+ point level from a retiree cost share of 0% to 5%. The Committee agreed to revisit the full point system at a future date and consider further changes to better align with the other benefit changes that become effective 1/1/12.

Board Action

R. Sims made a motion to make a short-term amendment to the existing retiree medical premium share (point system) for members hired on or after 1/8/97. For new retirees affected by this provision beginning in 2012, the highest level of premium coverage will be changed from a 0% member share to a 5% member share. The Benefits Committee will readdress the point system for possible implementation in 2012. K. Alder seconded the motion and the motion was approved.

Dependent Eligibility

Cincinnati Municipal Code (CMC) §203-48 "Health Insurance Benefits for Eligible Dependent Family Members" provides an opportunity for pensioners to purchase healthcare benefits for eligible spouses and dependents added after the date of retirement. This practice is uncommon in the industry, creates an unplanned liability, and should be discontinued.

Board Action

R. Sims made a motion to change the ordinance for CMC §203-48 "Health Insurance Benefits for Eligible Dependent Family Members." Cancel the practice of providing healthcare benefits to spouses and dependents who are added after a member's retirement date. Current eligible dependents purchasing healthcare benefits could be grandfathered for a period of time, and new additions should be discontinued as of January 1, 2012 if administratively possible. M. Rachford seconded the motion and the motion was approved. CRS will pursue the requirements necessary to implement this action.

INFORMATIONAL ITEMS

M. Fehn requested the floor to share feedback from a group of retirees. They asked that he convey their opinions to the Board about the changes to the medical, dental, and vision benefits. M. Fehn said the benefits were promised to them, and now the benefits have been found to be just a gratuity due to lawyers finding some obscure reason to make changes.

BOARD MEETINGS

The Board agreed that audience members should be allowed to speak at Board meetings. Protocol to be determined.

Motion made by M. Matlock and seconded by M. Rachford to adjourn. Motion approved and meeting was adjourned at 3:20 P.M.