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

Task Force Meeting  
January 19, 2010

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# Pension Plan Policies

- Investment Policy
- Funding Policy
- Benefit Policy



# Investment Policy

- What asset classes to invest in?
  - Bonds
  - Equities
- What proportion?
  - e.g., 40% bonds, 60% equities



# Funding Policy

- Funding Goals
- Benchmarks
- Methods and Assumptions
- Sample Funding Policy



# Benefit Policy

- How much benefit should be paid?
- When should benefits be paid?
- To whom should benefits be paid?
- Goal of current analysis given the current Investment Policy and Funding Policy
  - Not likely to invest system's way out of dilemma
  - Limitation to how much City and members can contribute
  - Legal barriers to reduction in short-term pension benefit payments



# Funding Healthcare

- Reasons to fund in advance
  - Reduces contributions if investment income can be generated to replace
  - Promotes intergenerational equity
    - Minimally funded or pay-as-you-go plans may depend on future generations to pay current compensation
  - Ensures promised benefits will be paid
  - Develops stable contribution rates
    - Health care costs outpacing consumer and wage inflation
      - Costs may continue to consume a larger and larger portion of the budget
      - Future costs not determined internally, by the system, but externally, by health care economics



# Funding Healthcare

- Reasons not to fund in advance
  - Volatility/uncertainty of future health care costs
  - Current inability to raise required funds
    - Budget crunch due to economic downturn
  - Not required to fund in advance
  - Unfunded liability may not impair City's credit rating
  - OPEB traditionally funded on pay-as-you-go basis
  - OPEB liability may be the result of timing differences
    - Implicit subsidy
    - Retiree drug subsidy (RDS)



# Funding Healthcare

- Comments regarding GAO survey
  - Relatively recent implementation of GASB 43/45 accounting statements
    - Traditionally, OPEB benefits funded on pay-as-you-go basis
      - Systems may be grappling with the funding issue for the first time
      - Those systems deciding to fund may do so gradually
      - Systems may be making near-term plans to change benefits and/or eligibility
    - A system's current funding status may not reflect where it wants to be, but where circumstances have placed it



# Funding Healthcare

- Comments regarding GAO survey (continued)
  - Funded ratios are likely to be lower at the present time
    - Results prior to the economic downturn
      - Impact to assets
      - Ability to obtain additional revenues
  - Likely that systems comparable to CRS have a lower funded ratio
    - Fewer resources
    - Phasing-in of the GASB OPEB reporting requirements



# Funding Healthcare

- Comments regarding GAO survey (continued)
  - Subjectivity of actuarial assumptions may make comparisons difficult
  - Some liabilities may be the result of timing differences
    - Implicit subsidy
    - Retiree drug subsidy (RDS)



# Closing DB Plan to New Members



- Close System to New Members?
  - Fewer terminations, therefore, less non-refunded employer contributions remain to fund benefits for those who retire
  - Payroll decreases, therefore, a higher UAL contribution percentage is required
  - Retiree benefits increase as a percentage of overall assets, requiring re-allocation of portfolio and lowering, over the long term, expected investment assumption



# Closing DB Plan to New Members



- DC Plan for Non-Vested or New Members
  - Advantages
    - Contribution amount is easily determined, easy to understand and usually constant from year to year
    - Provides more to non-career employees
    - Account balances may be transferred from one employer to another
    - Costs are fully funded
    - Employee enjoys investment gains



# Closing DB Plan to New Members



- DC Plan for Non Vested or New Members
  - Disadvantages
    - Provides less income for career employees
    - Benefits bear no relationship to pre-retirement working pay
    - Employee bears financial risk of outliving accumulated assets
    - Employee bears financial risk of poor investment returns
    - Does not motivate employees to continue in service



# Closing DB Plan to New Members

## Employer Contributions

(\$ in thousands)



Fiscal Year	Open Plan	Closed Plan	Cost/ (Savings)
2010	\$92,179	\$142,402	\$50,223
2011	\$87,206	\$139,945	\$52,739
2012	\$97,088	\$150,337	\$53,249
2013	\$115,410	\$170,989	\$55,579
2014	\$133,005	\$190,111	\$57,106
2015	\$133,434	\$186,471	\$53,037
2020	\$129,870	\$162,809	\$32,939
2025	\$123,802	\$149,916	\$26,114
2030	\$122,559	\$8,177	(\$114,382)
2035	\$122,665	\$4,541	(\$118,124)
2040	\$28,826	\$1,680	(\$27,146)

Assumes investment return for Closed Plan is 6.50%

Assumes no DC Plan for New Members

Assumed Annual Required Contribution of DB Plan is made each year

30-year decreasing amortization period for Open Plan; 20-year decreasing for Closed Plan



# Benchmarking

- Benchmarking provides a basis of measuring the System's level of benefits to other, like employment groups
- Additional systems selected for benchmarking:
  - City of Pittsburgh, PA
  - City of Norfolk, VA
  - City of Fort Worth, TX

**Summary of Pension Benefits (Current)**

	<b>OPERS</b>	<b>OSTRS</b>	<b>OSERS</b>	<b>OP&amp;F</b>	<b>CRS</b>
Number of Actives	374,002	173,327	125,465	28,927	3,088
Compensation (\$ in millions)		9,187.6	2,787.4	1,857.5	155.5
Number of Retirees	161,389	126,506	65,757	25,317	4,501
Annual Benefit Payments (\$ in millions)	3,262.0	4,418.8	693.8	679.8	132.2
Market Value of Assets (MVA) (\$ in millions)	49,312.8	66,837.4	8,134.1	7,757.6	1,242.1
Actuarial Value of Assets (AVA) (\$ in millions)	43,706.0	69,198.0	9,836.2	9,309.2	1,490.5
Funded Ratio Percentage	85.90%	79.10%	68.40%	65.10%	71.20%
AVA Smoothing Methodology	4 year	4 year	4 year	5 year	5 year
Investment Return	8.00%	8.00%	8.00%	8.25%	8.00%
Benefit Multiplier	2.2% for first 30 years 2.5% for years over 30	Table Required	2.2% for first 30 years 2.5% for years over 30	2.5% for first 20 years 2.0% for next 5 years 1.5% for years over 25	2.5% for all service 2.2% for New Hires
Final Average Salary	3 years	3 years	3 years	3 years	3 years
Normal Retirement Eligibility	65 & 5 or 55 & 30	65 & 5 or 30	65 & 5 or 55 & 30	48 & 25 or 62 & 15	60 & 5 or 30
Early Retirement Eligibility	60 & 5 or 55 & 25	60 & 5 or 55 & 25	60 & 5 or 55 & 25	N/A	55 & 25
Early Retirement Reduction	3% from age 55 to 64	3% from age 55 to 64	Actuarially Equivalent	N/A	Actuarially Equivalent
Employee Contribution Percentage	10.00%	10.00%	10.00%	10.00%	Increased from 7% to 9% by 0.5% per year beginning in 2010
COLA Assumption	3.00%	3.00%	3.00%	3.00%	3.00%

**Summary of Pension Benefits (Proposed)**

	<b>OPERS</b>	<b>OSTRS</b>	<b>OSERS</b>	<b>OP&amp;F</b>	<b>CRS</b>
Number of Actives	374,002	173,327	125,465	28,927	3,088
Compensation (\$ in millions)		9,187.6	2,787.4	1,857.5	155.5
Number of Retirees	161,389	126,506	65,757	25,317	4,501
Annual Benefit Payments (\$ in millions)	3,262.0	4,418.8	693.8	679.8	132.2
Market Value of Assets (MVA) (\$ in millions)	49,312.8	66,837.4	8,134.1	7,757.6	1,242.1
Actuarial Value of Assets (AVA) (\$ in millions)	43,706.0	69,198.0	9,836.2	9,309.2	1,490.5
Funded Ratio Percentage	n/a	n/a	n/a	n/a	n/a
AVA Smoothing Methodology	4 year	4 year	4 year	5 year	5 year
Investment Return	8.00%	8.00%	8.00%	8.25%	8.00%
Benefit Multiplier	2.2% for first 35 years 2.5% for years over 35	2.2% for first 30 years 2.5% for years over 30	2.2% for first 30 years 2.5% for years over 30	2.5% for first 20 years 2.0% for next 5 years 1.5% for years over 25	2.5% for all service 2.2% for New Hires
Final Average Salary	5 years	5 years	3 years	5 years	3 years
Normal Retirement Eligibility - Current Ees	65 & 5 or 55 & 30	65 & 5 or 35 or 60 & 30	65 & 10 or 55 & 30	50 & 25 or 60 & 15	60 & 5 or 30
Early Retirement Eligibility - Current Ees	60 & 5 or 55 & 25	60 & 5 or 55 & 30	60 & 10 or 58 & 25	48 & 25	55 & 25
Normal Retirement Eligibility - New Hires	67 & 5 or 55 & 32	65 & 5 or 35 or 60 & 30	67 & 10 or 57 & 30	52 & 25 or 62 & 15	65 & 5 or 55 & 30
Early Retirement Eligibility - New Hires	62 & 5 or 57 & 25	60 & 5 or 55 & 30	62 & 10 or 60 & 25	48 & 25	60 & 25
Early Retirement Reduction	Actuarially Equivalent	Actuarially Equivalent	Actuarially Equivalent	Actuarially Equivalent	Actuarially Equivalent
Employee Contribution Percentage	10.00%	Increased from 10% to 12.5% by 0.5% per year beginning 7/1/2011	10.00%	Increased from 10% to 12% by 0.5% per year beginning in 2010	Increased from 7% to 9% by 0.5% per year beginning in 2010
COLA Assumption - Current Retirees	3.00%	2.00%	3.00%	3.00%	3.00%
COLA Assumption - Future Retirees	Lesser of CPI-W or 3.00%	1.50%	3.00%	3.00%	3.00%

**Summary of Pension Benefits (Municipalities)**

	<b>Pittsburgh, PA</b>	<b>Norfolk, VA</b>	<b>Fort Worth, TX (City Plan)</b>	<b>CRS</b>
Most Recent Valuation Date	<b>1/1/2007</b>	<b>6/30/2008</b>	<b>1/1/2009</b>	<b>12/31/2008</b>
Number of Actives	1,778	3,935	6,379	3,088
Compensation (\$ in millions)	70.2	175.4	372.9	155.5
Number of Retirees	1,634	3,279	3,304	4,501
AVA Smoothing Methodology		3 year	5 year	5 year
Investment Return	8.75%	7.50%	8.50%	8.00%
Funding Ratio	49.60%	92.90%	72.80%	71.20%
Benefit Multiplier	50% of Final Average Salary offset by Social Security at age 65	1.75% for all service up to 35	3.0% for all service (NR) 2.75% for all service (ER)	2.5% for all service 2.2% for new hires
Final Average Salary	4 years	3 years	5 years	3 years
Normal Retirement Eligibility - Current Ees	60 & 20	Age 60 or 30 yrs of svc	Rule of 80 or Age 65	60 & 5 or 30
Early Retirement Eligibility - Current Ees	50 & 8	Within 5 yrs of Norm Ret	50 & 5	55 & 25
Normal Retirement Eligibility - New Hires	60 & 20	Age 60 or 30 yrs of svc	Rule of 80 or Age 65	65 & 5 or 55 & 30
Early Retirement Eligibility - New Hires	50 & 8	Within 5 yrs of Norm Ret	50 & 5	60 & 25
Early Retirement Reduction	6% from Normal Retirement	3% from Normal Retirement	6% from Normal Retirement	Actuarially Equivalent
Employee Contribution Percentage		0.00%	8.25%	Increased from 7% to 9% by 0.5% per year beginning in 2010
COLA Assumption - Current Retirees	3.50%	2.00%	2.00%	3.00%
COLA Assumption - Future Retirees	3.50%	2.00%	Ad Hoc	3.00%

**Summary of Basic Retiree Health Care Plan Provisions**

	<b>OPERS</b>	<b>STRS</b>	<b>SERS</b>	<b>OP&amp;F</b>	<b>CRS</b>
Health care eligibility	10yrs	15yrs	10yrs	Same as pension	15yrs; or 60&5 for Group 1
Open enrollment	Yes	Yes	Age 65 only	3yrs post ret, age 65, qual event	Yes
Re-employment waiver	Yes	Yes	No	Yes	No
Dependent coverage	Yes	Yes	Yes	Yes	Yes
Dependent subsidy	Service based, if spouse 55+	No	Service based	Partial, based upon retire date	Yes
Surviving spouse coverage	Yes	Yes, 5yr subsidy	Service based	Yes	Yes
Medicare Part B subsidy - Retiree	Yes	Partial	Partial	Yes	Yes
Medicare Part B subsidy - Spouse	No	No	No	No	Yes
Retiree Medical Account	Yes	No	No	No	No
Means tested benefits	Yes	Yes	Yes	Yes	Yes for Group 1
Means tested benefit	30% of premium	100% of premium	25% of premium	30% of premium	100% of premium No deductible Reduced OOP limits
Means tested benefit requirement	<=150% of Federal poverty level	total income < \$23,800; and total liquid assets < \$23,800	total household income falls below specified level \$13,538 for single person to \$46,262 for eight people	<=200% of Federal poverty level	Age 65 w/ 30+ YOS and annual benefit < \$30,000; or Age 65 w/ <30 YOS and total income < \$30,000; or Total income < 50% CDBG median household income

	<b>CRS</b>	<b>Fort Worth</b>	<b>Norfolk</b>	<b>Pittsburgh</b>
Health care eligibility	15yrs; or 60&5 for Group 1	Same as pension	15yrs	Hired prior to 1/1/2005
Open enrollment	Yes	No	No	
Re-employment waiver	No	No	Norfolk Consortium	
Dependent coverage	Yes	Yes	Yes	Yes
Dependent subsidy	Yes	Based upon service or hire date	No	Yes
Surviving spouse coverage	Yes	Yes		
Medicare Part B subsidy - Retiree	Yes	No	No	
Medicare Part B subsidy - Spouse	Yes	No	No	
Retiree Medical Account	No	No	Yes	
Means tested benefits	Yes for Group 1	No	No	
Means tested benefit	100% of premium No deductible Reduced OOP limits			
Means tested benefit requirement	Age 65 w/ 30+ YOS and annual benefit < \$30,000; or Age 65 w/ <30 YOS and total income < \$30,000; or Total income < 50% CDBG median household income			

Summary of Current In-Network Health Care Plan Benefits				
Retirement System	OPERS	OPERS	OPERS	OPERS
Plan Name	Enhanced	Intermediate	Basic	Medicare Advantage
Provider	Medical Mutual of Ohio	Medical Mutual of Ohio	Medical Mutual of Ohio	Humana
Plan Type	PPO	PPO	PPO	PPO
Annual Deductible single family	\$500 per covered individual	\$750 per covered individual	\$2,000 per covered individual	\$250 per covered individual
Annual Out-of-Pocket Maximum single family	\$1,000 per covered individual	\$3,000 per covered individual	\$5,000 per covered individual	\$850 per covered individual
Lifetime Maximum	\$3,000,000	\$3,000,000	\$3,000,000	n/a
Outpatient/Physician Coinsurance	20%	20%	30%	4%
Office Visit	\$20 copay	\$25 copay	40% coinsurance	4% coinsurance
Preventive	\$150 annual physical 0% coinsurance	\$150 annual physical 0% coinsurance	\$150 annual physical 0% coinsurance	0% coinsurance
Inpatient/Hospitalization	\$100 deductible per admission 20% coinsurance hospital 0% coinsurance SNF 0% coinsurance hospice	\$100 deductible per admission 20% coinsurance hospital 20% coinsurance SNF 0% coinsurance hospice	\$100 deductible per admission 30% coinsurance hospital 30% coinsurance SNF 0% coinsurance hospice	\$0 deductible per admission 4% coinsurance hospital 0% coinsurance SNF 5% coinsurance hospice
Prescription Drug PBM Retail	Express Scripts	Express Scripts	Express Scripts	Express Scripts
Deductible	n/a	n/a	\$550 per covered individual	n/a
Generic	\$4	\$10	35%	\$4
Formulary Brand	\$20	\$35	35%	\$20
Non-formulary Brand	\$50	\$50	50%	\$50
Mail				
Deductible	n/a	n/a	\$550 per covered individual	n/a
Generic	\$10	\$25	35%	\$10
Formulary Brand	\$50	\$87.50	35%	\$50
Non-formulary Brand	\$125	\$125	50%	\$125
Out-of-Pocket Maximum	n/a	n/a	n/a	n/a
Vision	Optional	Optional	Optional	Optional
Dental	Optional	Optional	Optional	Optional
Eligibility	Non-Medicare Retirees and Medicare Retirees covering non-Medicare dependents Medicare Advantage plan deductible and OOP apply to Medicare eligible retirees	Non-Medicare Retirees and Medicare Retirees covering non-Medicare dependents Medicare Advantage plan deductible and OOP apply to Medicare eligible retirees	Non-Medicare Retirees and Medicare Retirees covering non-Medicare dependents Medicare Advantage plan deductible and OOP apply to Medicare eligible retirees	Medicare eligible (Parts A & B) retirees and dependents only

Summary of Current In-Network Health Care Plan Benefits					
Retirement System	STRS	STRS	STRS	SERS	SERS
Plan Name	Plus	Basic	Medicare Advantage	Aetna Managed Care/MMO PPO	Aetna Medicare Plan
Provider	Medical Mutual of Ohio	Medical Mutual of Ohio	Aetna	Aetna/Medical Mutual of Ohio	Aetna
Plan Type	PPO	PPO	PPO	PPO	PPO
Annual Deductible					
single	\$500	\$1,500	\$500	\$340	n/a
family	per covered individual	per covered individual	per covered individual	\$700	n/a
Annual Out-of-Pocket Maximum					
single	\$1,500	\$2,500	\$1,500	\$1,500	n/a
family	\$3,000	\$5,000	per covered individual	\$3,000	n/a
Lifetime Maximum	\$2,500,000	\$2,500,000	n/a	\$2,500,000	n/a
Outpatient/Physician Coinsurance	20%	20%	4%	0% surgery/20% diagnostic	\$25 copay x-ray/0% other
Office Visit	20%	20%	\$15 copay	\$25 copay	\$25 copay
Preventive	20% coinsurance	0% coinsurance no deductible	0% coinsurance	0% coinsurance	0% coinsurance
Inpatient/Hospitalization	20% coinsurance	20% coinsurance	\$0 deductible per admission 4% coinsurance hospital 0% coinsurance SNF	20% coinsurance hospital 20% coinsurance SNF	\$250 copay per admit 0% coinsurance \$0 copay SNF 1-10 days \$25 copay SNF 11-20 days \$50 copay SNF 21-100 days
Prescription Drug					
PBM	Express Scripts	Express Scripts	Express Scripts	Express Scripts	Express Scripts
Retail					
Deductible	\$150 all Brand	\$150 all Brand	\$150 all Brand	n/a	n/a
Generic	\$10	\$10	\$10	20% coinsurance	20% coinsurance
Formulary Brand	\$30	\$30	\$30	20% coinsurance	20% coinsurance
Non-formulary Brand	50% coins / \$100 max	50% coins / \$100 max	50% coins / \$100 max	35% coinsurance	35% coinsurance
Mail					
Deductible	n/a	n/a	n/a	n/a	n/a
Generic	\$9 low cost / \$25 standard	\$9 low cost / \$25 standard	\$9 low cost / \$25 standard	\$15	\$15
Formulary Brand	\$75	\$75	\$75	\$45	\$45
Non-formulary Brand	50% coins / \$200 max	50% coins / \$200 max	50% coins / \$200 max	\$80	\$80
Out-of-Pocket Maximum	\$3,000	\$3,000	\$3,000	n/a	n/a
Vision	Optional	Optional	annual eye exam	n/a	n/a
Dental	Optional	Optional	Optional	Optional	Optional
Eligibility	Non-Medicare Retirees and Medicare Retirees covering non-Medicare dependents	All retirees eligible with varying premium structure based upon Medicare eligibility	Medicare eligible (Parts A & B) retirees and dependents only	Non-Medicare Retirees (MMO PPO) and non-Medicare dependents of Medicare Retirees (Aetna)	Medicare eligible (Parts A and/or B) retirees and dependents only

Summary of Current In-Network Health Care Plan Benefits					
Retirement System	OP&F	OP&F	CRS	CRS	CRS
Plan Name	2010 UHC Plan	Medicare Supplement Plan L	Blue Access Modified PPO Plan	Blue Access Carveout PPO Plan	Blue Access 80/20 PPO Plan
Provider	UnitedHealthcare	AARP/UnitedHealthcare	Anthem	Anthem	Anthem
Plan Type	PPO	PPO	PPO	PPO	PPO
Annual Deductible					
single	\$500	n/a	\$100	\$0	\$300
family	\$1,000	n/a	\$200	\$0	\$600
Annual Out-of-Pocket Maximum					
single	\$1,500	\$2,310	\$1,000	\$500	\$1,500
family	\$3,000	per covered individual	\$2,000	\$1,000	\$3,000
Lifetime Maximum	n/a	n/a	\$2,000,000	\$2,000,000	\$2,000,000
Outpatient/Physician					
Coinsurance	0% physician/20% other	\$135 deductible, 5% Medicare approved amounts, and all non-Medicare approved amounts	20%	20%	20%
Office Visit	\$30 copay	n/a	n/a	n/a	n/a
Preventive	0% coinsurance \$30 copay	Medicare standard preventive services	0% coinsurance	0% coinsurance	0% coinsurance
Inpatient/Hospitalization	\$250 deductible per admit 20% coinsurance hospital 20% coinsurance SNF	\$267 until all lifetime reserve days plus an additional 365 days have been exhausted, then, all costs \$33.37 copay SNF 21-100 days	20% coinsurance	20% coinsurance	20% coinsurance
Prescription Drug					
PBM	UnitedHealthcare Pharmacy	UnitedHealthcare Pharmacy	Anthem	Anthem	Anthem
Retail					
Deductible	n/a	Standard Medicare Pt D Benefit	n/a	n/a	n/a
Generic	\$5	\$310 Deductible	\$5	\$5	\$10
Formulary Brand	\$20	25% coins on next \$2,520	\$15	\$15	\$20
Non-formulary Brand	\$30	100% coins on next \$3,610	\$30	\$30	\$30
Mail		5% coins on excess			
Deductible	n/a		n/a	n/a	n/a
Generic	\$10		\$10	\$10	\$20
Formulary Brand	\$40		\$30	\$30	\$40
Non-formulary Brand	\$60		\$60	\$60	\$60
Out-of-Pocket Maximum	n/a		\$1,000	\$500	n/a
Vision	Optional	Optional	Included	Included	Included
Dental	Optional	Optional	Included	Included	Included
Eligibility	Retirees without both Medicare Parts A & B, dependents, expatriates	Medicare eligible (Parts A & B) retirees and dependents only. Medicare Supp Plans B and F are optional, but the system's subsidy is based upon Plan L	Retired prior to 9/1/2007	Retired prior to 9/1/2007 and meet means testing requirements	Retired after 9/1/2007

Summary of Current In-Network Health Care Plan Benefits				
Retirement System	Fort Worth	Fort Wort	Fort Worth	Fort Worth
Plan Name	Basic Plan	Basic Plus Plan	Medicare Advantage	Traditional Choice
Provider	Aetna	Aetna	Aetna	Aetna
Plan Type	POS	POS	PPO	PPO
Annual Deductible				
single	\$950	\$750	n/a	n/a
family	\$1,900	\$1,500	n/a	n/a
Annual Out-of-Pocket Maximum				
single	\$2,500	\$2,500	n/a	n/a
family	\$5,000	\$5,000	n/a	n/a
Lifetime Maximum	Unlimited	Unlimited	Unlimited	Unlimited
Outpatient/Physician Coinsurance	20%	15%	0%	0%
Office Visit	\$40 copay	\$35 copay	n/a	10%
Preventive	\$30 annual physical 0% coinsurance	\$25 annual physical 0% coinsurance	0% coinsurance	10% coinsurance
Inpatient/Hospitalization	20% coinsurance	15% coinsurance	0% coinsurance	0% coinsurance
Prescription Drug				
PBM	Aetna	Aetna	Aetna	Aetna
Retail				
Deductible	\$50	\$25	n/a	\$50
Generic	\$10	\$8	\$10	\$10
Formulary Brand	\$30	\$25	\$20	\$30
Non-formulary Brand	\$50	\$45	\$40	\$50
Mail				
Deductible	\$50	\$25	n/a	n/a
Generic	\$25	\$20	\$20	\$25
Formulary Brand	\$75	\$62.50	\$40	\$75
Non-formulary Brand	\$125	\$112.50	\$80	\$125
Out-of-Pocket Maximum	n/a	n/a	n/a	n/a
Vision	Biennial eye exam	Biennial eye exam		
Dental	Optional	Optional	Optional	Optional
Eligibility	Non-Medicare Retirees and Medicare Retirees covering non- Medicare dependents	Non-Medicare Retirees and Medicare Retirees covering non- Medicare dependents	Medicare eligible (Parts A & B) retirees and dependents only	Medicare eligible retirees and dependents only

Summary of Current In-Network Health Care Plan Benefits			
Retirement System	Norfolk	Norfolk	Norfolk
Plan Name	Plus	Value	Medicare Carve Out
Provider	Optima	Optima	Optima
Plan Type	POS	POS	HMO
Annual Deductible			
single	\$100	\$250	n/a
family	\$200	\$500	n/a
Annual Out-of-Pocket Maximum			
single	\$2,500	\$2,500	\$1,000
family	\$5,000	\$5,000	\$2,000
Lifetime Maximum	\$5,000,000	\$5,000,000	Unlimited
Outpatient/Physician Coinsurance	\$150 copay surgery/\$30 copay specialist	20% surgery/\$40 copay specialist	0% surgery/\$10 copay specialist
Office Visit	\$20 copay	\$25 copay	\$5 copay
Preventive	0% coinsurance	0% coinsurance	\$5 copay
Inpatient/Hospitalization	\$350 per admission	20% coinsurance	0% coinsurance
Prescription Drug			
PBM	Optima	Optima	Optima
Retail			
Deductible	n/a	n/a	n/a
Generic	\$10	\$15	\$10
Formulary Brand	\$30	\$30	\$20
Non-formulary Brand	\$60	\$60	\$40
Mail			
Deductible	n/a	n/a	n/a
Generic	\$20	\$30	\$20
Formulary Brand	\$60	\$60	\$40
Non-formulary Brand	\$120	\$120	\$80
Out-of-Pocket Maximum			
Vision	annual eye exam	annual eye exam	annual eye exam
Dental	Optional	Optional	Optional
Eligibility	Non-Medicare Retirees	Non-Medicare Retirees	Medicare eligible Retirees

**Summary of System Contributions and Health Care Premiums**

OPERS	STRS	SERS
<p>Group 1 Retired or are eligible to retire prior to 1/1/2007  Retiree: 100% of allowance  Dependents: 75%-90% of retiree's allowance based upon service  10-15 YOS: 75%  15+ YOS: additional 1% per additional YOS to 90% max</p> <p>Group 2 Eligible to retire after 1/1/2007 and were hired prior to 1/1/2003  Retiree: 50%-100% of allowance based upon service  10-15 YOS: 50%  15+ YOS: additional 3.33% (5% for Law enforcement) per additional YOS to 100% max  Dependents: 25%-90% of retiree's allowance based upon service  10-15 YOS: 25%  20 YOS: 38.89% (43.75% for law enforcement)  30 YOS: 75.00%  40+ YOS: 90.00%</p> <p>Group 3 Hired on or after 1/1/2003  Retiree: 25%-100% of allowance based upon service  10-15 YOS: 25%  15+ YOS: additional 5.0% (7.5% for Law enforcement) per additional YOS to 100% max  Dependents: 12.5%-65.0% of retiree's allowance based upon service  10-15 YOS: 12.5%  20 YOS: 25.00% (31.25% for law enforcement)  30 YOS: 50.00%  40+ YOS: 65.00%</p> <p>Effective 1/1/2011, no spouse allowance will be paid if spouse under age 55</p> <p>Allowance is based upon retiree rate for Enhanced plan.</p>	<p>Benefit Recipient: 37.5%-75.0% of premium based upon service  0-14 YOS*: 0%  15+ YOS: 37.5% plus additional 2.5% per additional YOS to 75% max  *Plan access allowed for those retiring before 1/1/2004  Dependents: 0% of premium</p> <p>Full Monthly Premium Rates for 2010</p> <p><i>Not eligible for Medicare - MMO Plus</i>  Benefit Recipient: \$924  Spouse: \$924  Child: \$231</p> <p><i>Not eligible for Medicare - MMO Basic</i>  Benefit Recipient: \$486  Spouse: \$486  Child: \$139</p> <p><i>Eligible for Medicare, not eligible for Aetna MA - MMO Plus</i>  Individual: \$304</p> <p><i>Eligible for Medicare, not eligible for Aetna MA - MMO Basic</i>  Individual: \$160</p> <p><i>Eligible for Medicare - Aetna Medicare Plan</i>  Individual: \$231</p>	<p>Group 1 Retired prior to 8/1/2008  Member: 0%-82.5% of premium  10-14 YOS: 0% of premium  15-19 YOS: 50% of premium  20-24 YOS: 75% of premium  25+ YOS: 82.5% of premium</p> <p>Group 2 Retired on or after 8/1/2008  Member: 0%-88% of premium  10-19 YOS: 0% of premium  20-24 YOS: 50% of premium  25-29 YOS: 70% of premium  30-34 YOS: 80% of premium  35+ YOS: 85% of premium plus 1% per additional YOS</p> <p>All Groups  Disabled Retirees: 82.5% of the premium  Spouse: 0%-20% of premium  1.5-24 YOS: 0% of premium  25-29 YOS: 10% of premium  30+ YOS: 20% of premium  Child: 30% of premium</p> <p>Full Monthly Premium Rates for 2010</p> <p><i>Not eligible for Medicare - MMO PPO</i>  Member: \$1,155  Spouse: \$919  Child: \$199</p> <p><i>Not eligible for Medicare - Aetna Managed Care</i>  Member: \$1,233  Spouse: \$981  Child: \$213</p> <p><i>Eligible for Medicare A&amp;B - Aetna Medicare</i>  Individual: \$221</p>

**Summary of System Contributions and Health Care Premiums (continued)**

OP&F	CRS
<p>Group 1 Retired on or before 7/24/1986 Benefit Recipient: 75% of health care contribution Dependents: 50% of health care contribution</p> <p>Group 2 Retired on or after 7/25/1986 Benefit Recipient: 75% of health care contribution Dependents: 25% of health care contribution</p> <p>Full Monthly Premium Rates for 2010*</p> <p><i>Not eligible for Medicare</i> Benefit Recipient: \$886.77 Spouse: \$657.55 Child: \$290.20</p> <p><i>Eligible for Medicare, but not eligible for AARP plan</i> Benefit Recipient: \$457.59 Spouse: \$410.67 Child: \$243.97</p> <p><i>Eligible for Medicare and eligible for AARP plan</i> Based on AARP Medicare Supplement Ohio Plan L premium rate and additional charge for prescription drugs. Estimated cost @ age 65: \$335.82</p> <p>*The plan charges separately for medical and prescription drug coverage.</p>	<p>Group 1 Hired prior to 1/9/1997 Blue Access Modified PPO and Blue Access Carveout PPO 100% of Cost Blue Access 80/20 PPO &gt;95% of Cost</p> <p>Group 2 Hired on or after 1/9/1997 90+ Points: 100% of Cost 80-89 Points: 75% of Cost 70-79 Points: 50% of Cost 60-69 Points: 25% of Cost &lt;60 Points: 25% of employee portion of premiums</p> <p>Full Monthly Projected Costs for 2010*</p> <p><i>Not eligible for Medicare</i> Retiree/Spouse: \$877 Child: \$202</p> <p><i>Eligible for Medicare</i> Individual: \$638</p> <p>*Based upon projections supplied by Chuck Haas.</p>

**Summary of System Contributions and Health Care Premiums**

Fort Worth	Norfolk	Pittsburgh
<p>Member monthly premium rates for 2010</p> <p>Hired prior to 10/05/1988 or 25 plus years</p> <p>Basic Retiree: \$0</p> <p>Basic Spouse/Surviving Spouse: \$316</p> <p>Basic Child: \$259</p> <p>Basic Family: \$290</p> <p>Basic Plus Retiree: \$72</p> <p>Basic Plus Spouse/Surviving Spouse: \$426</p> <p>Basic Plus Child: \$356</p> <p>Basic Plus Family: \$311</p> <p>Medicare Advantage Retiree: \$0</p> <p>Medicare Advantage Spouse/Surviving Spouse: \$225</p> <p>Traditional Choice Retiree: \$0</p> <p>Traditional Choice Spouse/Surviving Spouse: \$300</p> <p>Hired on or after 10/05/1988 and 15 to less than 25 years</p> <p>Basic Retiree: \$159</p> <p>Basic Spouse: \$267</p> <p>Basic Child: \$218</p> <p>Basic Family: \$253</p> <p>Basic Plus Retiree: \$231</p> <p>Basic Plus Spouse: \$375</p> <p>Basic Plus Child: \$314</p> <p>Basic Plus Family: \$274</p> <p>Medicare Advantage Retiree: \$112</p> <p>Medicare Advantage Spouse: \$186</p> <p>Traditional Choice Retiree: \$147</p> <p>Traditional Choice Spouse: \$257</p> <p>Hired on or after 10/05/1988 and 5 to less than 15 years</p> <p>Basic Retiree: \$323</p> <p>Basic Spouse: \$218</p> <p>Basic Child: \$177</p> <p>Basic Family: \$215</p> <p>Basic Plus Retiree: \$395</p> <p>Basic Plus Spouse: \$325</p> <p>Basic Plus Child: \$272</p> <p>Basic Plus Family: \$238</p> <p>Medicare Advantage Retiree: \$228</p> <p>Medicare Advantage Spouse: \$130</p> <p>Traditional Choice Retiree: \$299</p> <p>Traditional Choice Spouse: \$214</p> <p><i>Dependent costs are in addition to retiree and/or spouse premiums</i></p>	<p>City pays an explicit subsidy of \$25 per month</p> <p>Full Monthly Premium Rates for 2010</p> <p>Optima POS Value</p> <p>Retiree: \$320</p> <p>Spouse: \$320</p> <p>Child: \$192</p> <p>Family: \$385</p> <p>Optima POS Plus</p> <p>Retiree: \$362</p> <p>Spouse: \$362</p> <p>Child: \$217</p> <p>Family: \$436</p> <p>Optima Medicare Carve Out</p> <p>Retiree: \$410</p> <p>Spouse: \$410</p> <p>Child: \$246</p> <p>Family: \$494</p> <p><i>Dependent costs are in addition to retiree and/or spouse premiums</i></p>	<p>Municipal Employees hired and retired prior to 1/1/2005</p> <p>Not specified</p> <p>Police &amp; Fire Employees hired prior to 1/1/2005 and retired after 1/1/2005</p> <p>Retirees receive full coverage for retiree and spouse up to rate paid at time of retirement; retiree pays any future cost increases</p> <p>All Employees hired on or after 1/1/2005</p> <p>No retiree medical coverage</p>



# Impact of Pension Obligation Bonds



- Pension Obligation Bonds
  - Contribution Rates are with First Task Force Recommendations Adopted (does not include ERIP Contribution)

	Total Employer Contribution Rates
12/31/2008 Valuation	52.11%
\$100 Million - POB	46.39%
\$200 Million – POB	40.67%
\$500 Million – POB	23.53%
\$615 Million – POB	16.97%



# New Benefit Plan Development

- Should be based upon objectives and benefit financing conclusions
  - 30 year funding goal
  - Equity
  - Input from stakeholders
  - Recruit, reward, retain
  - Deliverable
- A framework for discussion
  - Defines what can currently be afforded
  - Needs input from constituency groups
  - Not final by any means



# New Benefit Plan Development

## ➤ Contributions

- City

- Increases from by 0.50% per year over four years starting in the year 2015 (i.e., from 17.00% to 19.00% from 2014 to 2018)

- Employee

- Increases by 0.50% per year over four years starting in the year 2010 (i.e., from 7.00% to 9.00% from 2009 to 2013)



# New Benefit Plan Development

## ➤ Contributions (continued)

### ▪ Retiree

- Effective 1/1/2011, 100% cost share for vision and dental benefits for all participants (retirees and dependents)
- Effective 1/1/2011, scale back the dependent subsidy over four years (25% each year)
  - Premium equivalents are based upon retiree costs only (no commingling with actives) and are to be based upon Medicare eligibility
- Effective 1/1/2011, all retirees will be required to pay a minimum of 60% of the premium equivalent
- Effective 1/1/2011, discontinue the Medicare Part B premium subsidy for Medicare eligible dependents



# New Benefit Plan Development

## ➤ Pension Benefits

- Effective 1/1/2011, discontinue the \$7,500 death benefit
- Effective 1/1/2011, change the COLA for future retirees to be tied to an inflation index that is capped at 3.0%
  - Index is CPI-U
  - For projection purposes, rate is assumed to be 2.50%
  - Rate is compounded

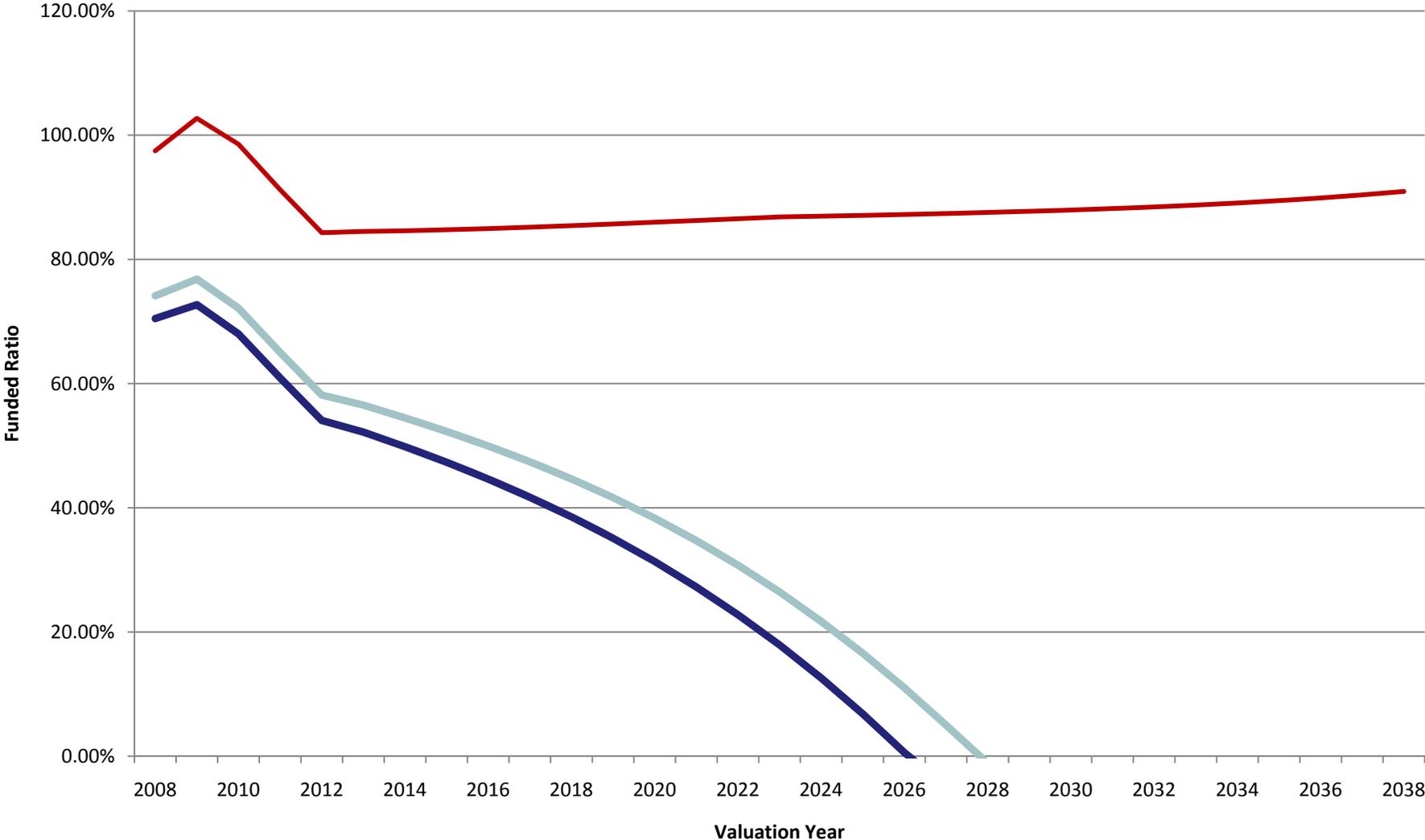


# New Benefit Plan Development

## ➤ Medical

- Effective 1/1/2011, retirees who retired prior to 1/1/2008 will move to the 80/20 plan
- Effective 1/1/2011, assume the health care plan moves to a PDP for the provision of prescription drug benefits to those who are Medicare eligible
- Require “early retirees” eligible for health care coverage under a new employer’s plan to adopt this coverage
  - Once coverage is no longer available under a new employer’s plan, the retiree will be allowed to re-enter the CRS plan
  - Those retirees who do not comply with this policy will forfeit CRS coverage permanently.

# Cincinnati Retirement System 30-Year Projection of Funded Ratio New Benefit Plan Development



Valuation 1st Taskforce New Benefit Plan Development - 60% Cost Share



# New Benefit Plan Development

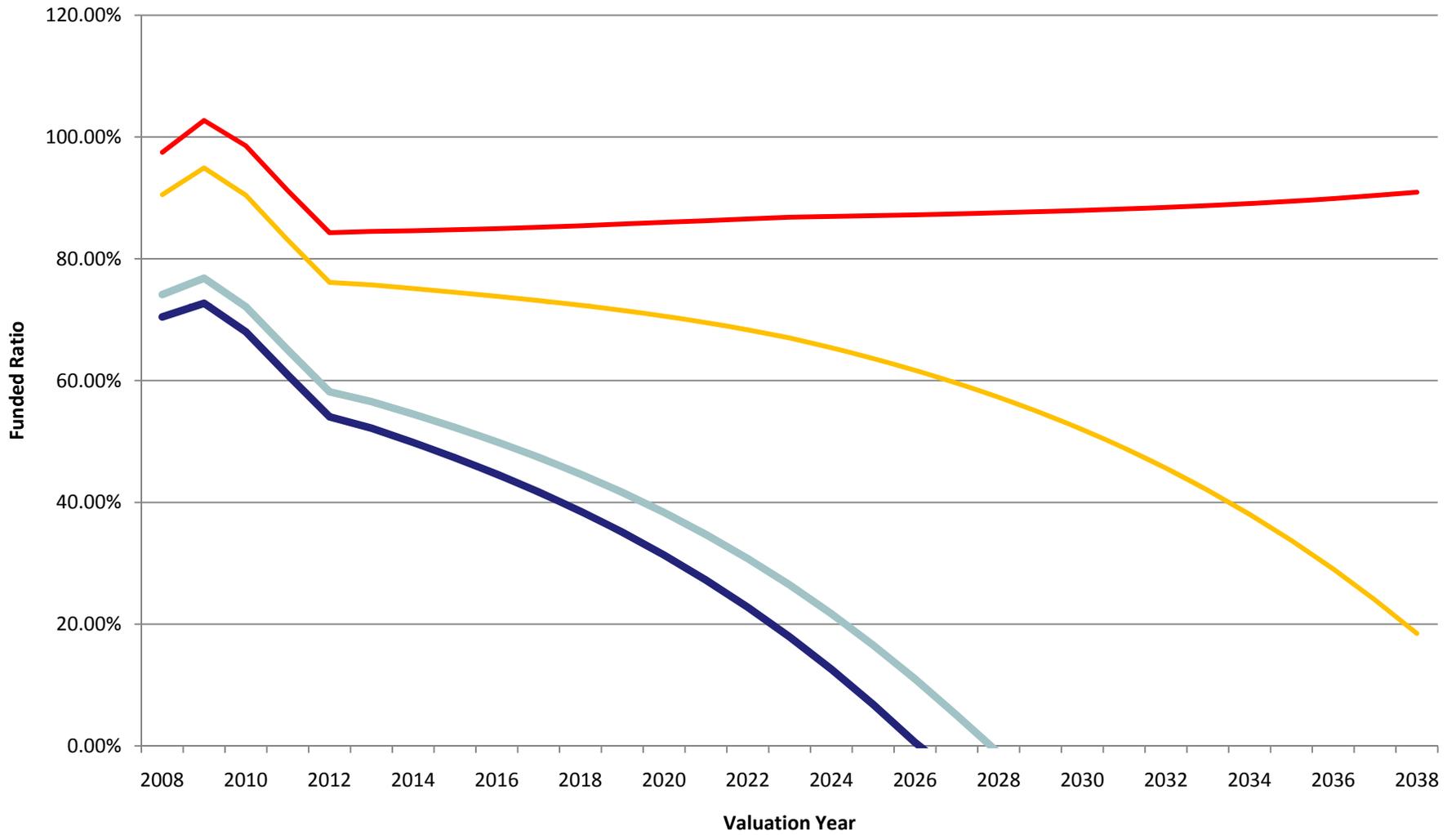
- Assumptions
  - 12/31/2008 Valuation Basis
    - 8.00% Discount Rate
  - 2009 Investment Return to Date
    - Positive 2009 – Assumed 15.00% Return
    - Assume 8.00% Thereafter
  - First Task Force Changes (effective 1/1/2010)
    - Amortization period changed to 30 years
    - Increase in employee contribution percentages
    - New tier pension changes
      - Reduced Benefit Formula
      - Increased Retirement Eligibility
  - Health care participation
    - Participation decreases as cost share increases



# New Benefit Plan Development

- Additional plan design to consider
  - Effective 1/1/2011, Group 1 retirees contribute according to the same schedule as Group 2 retirees
    - Based upon service – point system
    - Applies to all current and future Group 1 retirees
    - Cost sharing based upon premium equivalent
      - 0% cost share is maximum benefit
    - All other design features and assumptions are the same as “60% cost share” design

# Cincinnati Retirement System 30-Year Projection of Funded Ratio New Benefit Plan Development



■ Valuation   
 ■ 1st Taskforce   
 ■ New Benefit Plan Development-Group 2 Point System   
 ■ New Benefit Plan Development - 60% Cost Share



# New Benefit Plan Development

- Value of individual components
  - Reduction to 12/31/2008 liability with first Task Force recommendations
  - Components may not be additive
    - Impacted by other changes

Item	Liability Reduction (\$ millions)
\$7,500 death benefit	10
Indexed future retiree COLA	30
Retiree Medicare Part B Subsidy	112
Dependent Medicare Part B Subsidy	80
Dental & Vision Benefits	33
Scale-back dependent subsidies	288
Move all retirees to 80/20 plan	130



# New Benefit Plan Development

- Additional Considerations
  - Investigate alternate health care plan features and designs to improve cost effectiveness
    - Medicare HMO and Medicare Supplement
      - Potential “no Part A” issue
    - Claims analysis
    - Prescription drug carveout (e.g., Medco, Caremark, Express Scripts)
    - Health management programs
    - Enable members to be better consumers (e.g., Consumer Driven Health Plan)
  - Tiered plan structure
    - Provide option to allow members to “buy-up”



# New Benefit Plan Development

- Additional Considerations (continued)
  - Increase purchasing leverage
    - At a minimum, tie to active employee plan
    - Develop purchasing pool with other systems
  - Alliances with the other Ohio systems and groups (e.g., Ohio Retirement Study Council)
  - Defined contribution designs
    - Pension
    - Health Savings Account
  - Separate Trust Funds
    - Pension
    - Health Care



# New Benefit Plan Development

- Additional Considerations (continued)
  - GASB 43/45 Discount Rate
    - The present value of projected benefits should be discounted at a rate equal to the estimated long-term yield on the investments expected to be used to finance the payment of benefits
    - For unfunded plans, the discount rate is typically lower than that used for funded plans
      - Payment deficiencies assumed to be made from general revenues
      - Investment yield of general revenue funds is typically lower (e.g., 4.00%-5.00%)
    - A lower discount rate typically results in a higher AAL, UAL, and ARC (i.e., lower funded ratio)



## Next Steps

- Meet with stakeholders
  - May include other employers (e.g., Water Works)
- Resolve outstanding legal ambiguities
  - COLA
  - Pension Obligation Bonds
- Determine impact of alternative plan designs