

# The Retirement Report



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**Financial Health of the Cincinnati Retirement System (CRS)**

At the May 4, 2006 CRS board meeting, the actuarial consultant presented the annual actuarial valuation for the year ending December 31, 2005 to assess the System's financial health, as well as identify potential issues facing the CRS. The actuary reported that the funding level of the CRS, (total CRS assets/total projected benefit costs) improved in 2005 from 94% to 95%. (This means that the CRS held \$0.95 of assets for every \$1.00 of projected costs.) The major factor contributing to this funding improvement was lower than expected medical claims for 2005. The healthcare costs for 2005 were expected to be \$6,800 per person, but actual costs averaged about \$6,200 per person.

Investment return for the total fund in 2005 was 6.79%, more than the 6.26% return of the benchmark index, but well short of the 8.75% investment return assumption. As a group, the CRS investment managers within each major asset class (U.S. equities, international equities, and U.S. fixed income) all exceeded their respective benchmarks. Although the CRS is well-funded compared to most pension plans, there are some issues that must be addressed in order to ensure that the CRS maintains its long-term financial health. The major issues facing the CRS are the rapidly increasing costs of providing comprehensive healthcare benefits and the utilization of an optimistic investment return assumption of 8.75%.

The average cost of providing medical benefits has increased steadily from \$2,880 per person in 1999 to \$6,215 per person in 2005 (a 19.3% annual increase), and expected medical costs for 2006 are \$7,100 per person. The actuary projects that healthcare benefits represent 31% of total future CRS costs, while monthly pension benefits account for only 69% of total future costs.

The most critical factor in calculating the funding level of a pension plan is the "investment return assumption" an estimate of long-term investment returns that the fund will achieve. The investment return assumption used by the CRS is 8.75%, which most investment professionals would consider very aggressive in the current investment environment. In fact, a survey of 104 municipal pension plans conducted by Wilshire Investment Consulting indicates that the CRS investment return assumption is the 3rd highest in the survey. The median return assumption in the Wilshire survey was 8.0%, which many investment professionals would still consider very optimistic. The actuary reported that if the CRS used the more reasonable investment return assumption of 8.0%, the funding level of the CRS would be calculated as 88% instead of 95% and the total contribution rate (employee contribution + employer contribution) would increase from about 29% of payroll to more than 45%.

Using an aggressive investment return assumption results in lower contribution rates in the near term because it is expected that strong investment returns will provide the assets needed to fund the pension plan. However, if actual investment returns fall short of the investment return assumption, the funding level of the pension plan deteriorates and future contribution rates will have to increase.

**PENSION PLAN COMPARISONS**

<i>as of July 2006</i>	<b>Cincinnati (CRS)</b>	<b>Ohio Public Employees (OPERS)</b>	<b>State Teachers (STRS)</b>	<b>School Employees (SERS)</b>	<b>Police &amp; Fire (OPFP)</b>
<b>2006 Employee Contribution Rate</b>	7.00%	9.00%	9.65%	9.00%	10.00%
<b>2007 Employee Contribution Rate</b>	7.00%	9.50%	9.65%	9.00%	10.00%
<b>Service Retirement</b>	30 years	30 years	30 years	30 years	25 years
<b>Benefit calculation</b>	2.5 x years of service x avg. 3 highest years salary	2.2 (30 years or less)/2.5 (30 years or more) x years of service x avg. 3 highest years salary	2.2 x years of service x avg. 3 highest years salary	2.2 x years of service x avg. 3 highest years salary	2.4 x years of service x avg. 3 highest years salary

A hearty welcome to our newest Board member, Mike Fehn, who was elected on June 6, 2006 as an employee representative for a four-year term. Mike is a graduate of the University of Cincinnati where he earned a Bachelor's degree in Business Administration Finance. He is a 15-year employee of the Department of Buildings and Inspections and a member of AFSCME Local 223, currently serving as Trustee. Mike will be sworn in at the regular CRS Board meeting August 3rd 2006.

Welcome also to the new Civil Service Commission representative on the Board of Trustees, Ms. Margaret Allen, who was appointed on May 1, 2006.



### IN THIS ISSUE

- Financial Health of the Cincinnati Retirement System (CRS)
- Pension Plan Comparisons
- Online Information
- Twenty Year Option
- City of Cincinnati Retirement Calendar of Events
- FAQ: Deferred Compensation
- Not Over the Hill, Just at the Top and Enjoying the View
- Welcome to New Board Members

### We're Now Online!

#### Twenty Year Option

You should consider selecting an option. If you have at least 20 years of service, or are otherwise eligible to retire, you can pick an option. In the event of your death before retirement, the optionee will be entitled to a benefit when you would have attained age 60 or would have attained 30 years of service, whichever comes first. For example, if you pick an option when you are age 50 with 25 years of service, and you die the next day, the optionee will receive a benefit in five years, when you would have had 30 years of service, since this is before you would have reached age 60.

**Is your designated beneficiary up to date?**

Information about the Cincinnati Retirement System is now online at [www.cincinnati-oh.gov](http://www.cincinnati-oh.gov). Once you reach the City's web site, select the "Departments" tab, then select the "Finance Department", then click the "Retirement" button. You can find information on your retirement options, how service time is determined, employee loans, Board minutes and meeting schedules, and a number of other topics. There is also a Benefit Calculator link, which allows you to estimate the amount of your pension based on the age at which you wish to retire, an estimate of your highest average compensation, and various payment options.

We will be making a number of improvements to the CRS webpage during the coming months and welcome your suggestions. You can email your suggestion to: [retirement@cincinnati-oh.gov](mailto:retirement@cincinnati-oh.gov) or send written comments to the Retirement Office.



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*It is very important that you notify your agency payroll clerk of a change of address so that you can receive important City of Cincinnati information*

#### Deferred Compensation FAQ's

- A supplemental retirement savings program
- Contributions are pre-tax and reduce current income tax liability
- Two approved Deferred Compensation plans for City employees – ICMA Retirement Corporation (ICMA-RC) and the Ohio Public Employees Deferred Compensation (OPEDC) Program.
  - ICMA-RC  
[www.icmarc.org](http://www.icmarc.org)  
Toll-free number 1-800- 669-7400  
or contact the Retirement Office
  - OPEDC  
[www.ohio457.org](http://www.ohio457.org)  
Toll-free number 1-877-644-6457
  - 2006 contributions limits:  
Normal \$15,000.  
Age 50 and over \$20,000  
Within 3 years of retirement \$30,000

#### CALENDAR OF EVENTS

**Save the date!**

Pre-Retirement Seminar:	October 11, 2006
City Retirement System Overview:	September 20, 2006 October 8, 2006
New Employee Orientation:	October 19th & 20th, 2006 December 21st & 22nd, 2006

For more information and registration contact your Department's Training Registrar.

#### "Feeling Hot! Hot! Hot!"

Summer time is here. Please be aware of high temperatures and heat indexes. When temperatures are excessively high, the Health Department will issue a "Heat Alert" and extra precautions should be taken to reduce the risk of heat related illness. In addition, the Cincinnati Recreation Centers serve as "cool centers" for those in need.

#### Not Over the Hill, Just at the Top & Enjoying the View

Active and aware lifestyles are the emphasis at CRC Senior Centers. Centers are open to individuals 50 years and older. Yearly membership fees range from \$3.00 to \$8.00 per person. Centers offer a variety of classes at no cost. Minimal fees are charged for some classes and trips are competitively priced. For more information about CRC Senior Centers please check out our web site [www.cincyrec.org](http://www.cincyrec.org) or call 352-4000