Cincinnati Retirement System Changes Being Considered

Community Meetings December 6, 2010

Current CRS Funding Issues

- Under current conditions, if assets achieve 8% investment return, plan assets will decrease by $20 - $30 million per year.
- Plan is at risk of becoming insolvent in 18 years
- As principal erodes, plan is unable to produce the expected dollars from investments.

How did we get here?

- Significant investment losses in 2002 and 2008 totaling $574 million
- Changes in plan assumptions due to macroeconomic factors
- Significant benefit enhancements in 1998
  - Benefit multiplier increased
  - COLA was increased from 3% simple to 3% compounded
    - And retroactively provided to retirees
  - Death benefit was increased from $2,000 to $7,500
  - Vision and dental benefits were added

How did we get here? (Cont.)

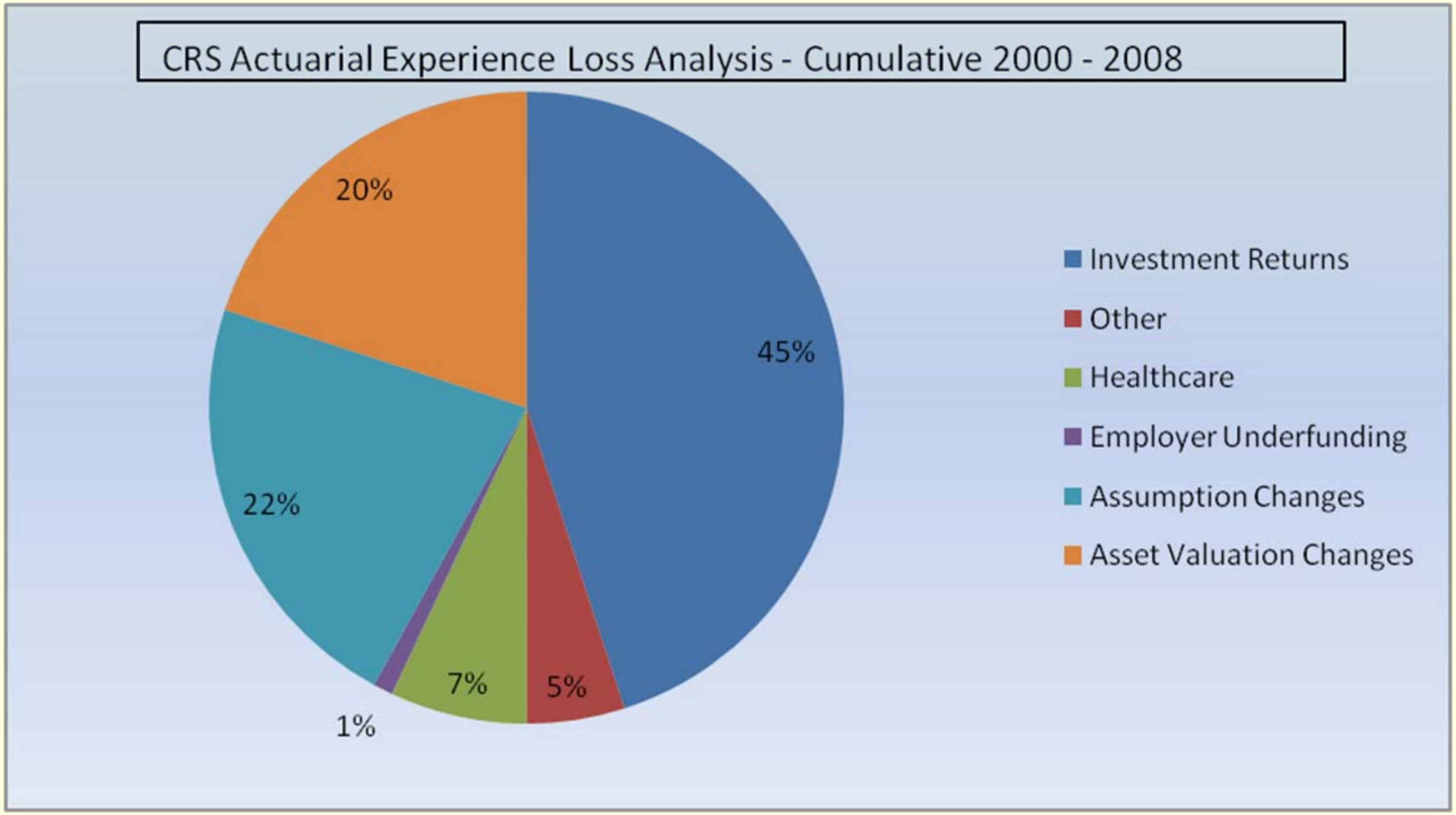
- Rising healthcare costs that persistently exceed assumptions

- Shrinking active employee population
  1.46 retirees : 1.00 active members

- Increasing life expectancies

- Failure to address plan economics timely

What Types of Losses Contributed to Today's Situation?



Any Way You Look at it:
A MOUNTAIN OF DEBT

PENSION PLAN

- Retiree Liability: $ 1,531,388,403 (72%)
- Active Employee Liability: $ 594,349,490 (28%)
- **Total Pension Liability: $ 2,125,737,893**

RETIREE HEALTH CARE PLAN

- Retiree Liability: $ 657,047,822 (75%)
- Active Employee Liability: $ 220,351,671 (25%)
- **Total Health Care Liability: $ 877,399,493**

Note: Liabilities as of December 31, 2009

What About the Assets?

PENSION PLAN

- Total Pension Liability: $ 2,125,737,893
- Total Pension Assets: $ 1,370,133,000
- **Unfunded Pension Liability: $ 755,604,893**

RETIREE HEALTH CARE PLAN

- Total Health Care Liability: $ 877,399,493
- Total Health Care Assets: $ 621,691,000
- **Unfunded Health Care Liability: $ 255,708,493**

Note: Liabilities and Assets as of December 31, 2009; Assets shown at Market Value

Background

- In March, 2008 the City of Cincinnati organized Task Force I to study and recommend approaches about how to best insure the long-term solvency of the pension and retiree health care plans which are together know as the Cincinnati Retirement System or “CRS”.
- Task Force II was organized in August, 2009 with more specific objectives concerning CRS.

Background

- In June 2010 City Council reconstituted the eleven member Board of Trustees that oversees the CRS:
  - Six of the eleven Trustees are individuals with relevant professional backgrounds that could bring a conflict-free perspective to the Board.
  - The new Board was charged with the job of recommending changes to CRS to make it a financially viable and sustainable system.

Toward a Sustainable System

- Task Force II analysis showed that if the City contributes 17% of payroll each year in addition to employee contributions, and assets earn 8% per year, then the trust will run dry during 2028.
- About $200,000,000 of pension and healthcare benefits will be paid to retirees in 2010. If the trusts run dry in 2028, these payments will need to be paid directly from the City’s General Fund and Enterprise Funds. The liability becomes a “second” payroll.

Toward a Sustainable System

- To achieve a sustainable system, changes must be made to both the pension and the health care plans.
- The Board believes that only by making changes to the benefits now being paid to retirees and beneficiaries can a sustainable system be achieved.

Calculating a Pension Benefit Under the CRS Plan

- Highest Avg. Salary X Benefit Multiplier X Years of Service = Annual Benefit

- Uses highest consecutive 3 years of salary

- Benefit multipliers for active employees
  - 2.20% → 221 active members (4% of total)
    - Applies to those hired on or after 1/1/2010
  - 2.50% → 4,920 active members (94% of total)
  - 2.22% → 92 active members (2% of total)

Task Force I Changes

- Implemented medical preferred provider networks for all retirees who retired prior to 9/07. (Those retired after 9/07 have same coverage as actives)

- Changed amortization period from 15 to 30 years

- Increased employee contribution percentages
  - 7% prior to 2010
  - 7.5% in 2010
  - 8.0% in 2011
  - 8.5% in 2012
  - 9.0 % in 2013

Task Force I Changes (Cont.)

- Implemented changes for employees hired on or after 1/1/10
  - Reduced benefit multiplier from 2.50% to 2.20%
  - Increased retirement eligibility
  - These changes extended the plan’s ability to pay benefits by about 2 years.

New Changes Being Considered

- The CRS Board is evaluating the following changes, subject to a comprehensive set of grandfather and transition rules to protect participant benefits earned to date.
  - COLA will be based on simple interest, not compound
  - COLA will no longer be guaranteed at 3% but will be indexed to follow the CPI-U up to a maximum of 2% per year

New Changes Being Considered

- The average salary used in benefit calculations will be changed from a highest consecutive 3 year average to a highest consecutive 5 year average.
- In general, the rate of pension accrual will be reduced from 2.50% of pay to 2.20% of pay.
- In calculating pension benefits, the first 30 years of service will accrue at a 2.20% rate of pay, years beyond 30 will accrue at the rate of 2.00% rate of pay.
- Retirement ages and service requirements will increase as shown on the following two slides.
- Certain pre-retirement death benefits will be modified to better reflect accrued benefits at the time of death.
- The $7,500 death benefit for current retirees will be reduced to $5,000. It will be eliminated for future retirees.

Retirement Age and Service

Current Rules

- Normal Retirement (pre-2010 hires):
  - 30 years of service, any age
  - 5 years of service, age 60
- Normal Retirement (post-2009 hires)
  - 30 years of service, age 55
  - 5 years of service, age 65

Proposed Rules

- Normal Retirement (pre-2011 hires):
  - 30 years of service, age 60
  - 5 years of service, age 65
- Normal Retirement (post 2010 hires)
  - 30 years of service, age 62
  - 5 years of service, age 67

Retirement Age and Service

Current Rules

- Early Retirement (pre-2010 hires):
  - 25 years of service, age 55
- Early Retirement (post-2009 hires)
  - 25 years of service, age 60
- Actuarial reduction applies

Proposed Rules

- Early Retirement (pre-2010 and post-2009 hires):
  - 15 years of service, age 57
- Actuarial reduction applies

Grandfather and Transition Rules

- Group A: Pre-1999 retirees who retired with a 3% simple COLA (enhanced to a 3% compound COLA on 1/1/1999)
- Group B: Post-1998 retirees who retired with a 3% compound COLA
- Group C: Current active employees eligible for normal retirement before 1/1/2011
- Group D: Current active employees eligible for normal retirement after 12/31/2010 and before 1/1/2014 who retire by 1/1/2014
- Group E: Current active employees eligible for normal retirement after 12/31/2010 and before 1/1/2014 who retire after 12/31/2013
- Group F: Current active employees who do not belong to Group C, D or E
- Group G: Employees hired on and after 1/1/2011

Grandfather and Transition Rules

- Change 1: Simple COLA, indexed (non-guaranteed) with maximum of 2%
- Change 2: Highest consecutive 3 year final average salary changed to highest consecutive 5 year final average salary
- Change 3: In general, for benefit calculations, first 30 years of service will accrue at the rate of 2.2% of pay, years beyond 30 will accrue at the rate of 2.00% of pay

Grandfather and Transition Rules

- Change 4: Revised retirement ages –
  - Normal Retirement: 65 & 5 (67 & 5 for post-2010 hires), or 60 & 30 (62 & 30 for post-2010 hires)
  - Early Retirement: 57 & 15 (actuarially reduced).
  - Each participant's accrued benefit as of 1/1/2011 is protected and retiree gets better of:
    - a) 1/1/2011 actuarially adjusted accrued benefit plus post 12/31/2010 accruals, or
    - b) benefit calculated as if 1/1/2011 changes had always been in effect.
- Change 5: Modify pre-retirement death benefit.
- Change 6: Modify death benefit for retirees.

Retirement Changes Being Considered

Groups		Simple 2% Indexed COLA Change # 1	5-Year Final Avg Salary Change # 2	Service Yrs. over 30 @ 2.0% Multiplier Change # 3	Revised Retirement Requirements Change # 4	Modified Pre-Retire. Survivor Benefit Change # 5	Modified Death Benefit Change #6
A	Pre 1998 Retirees	No	N/A	N/A	N/A	N/A	Yes
B	Post 1997 Retirees	No	N/A	N/A	N/A	N/A	Yes
C	Actives Eligible to Retire by 1/1/2011	No	No	No	No	No	Yes
D	Actives Who Retire by 1/1/2014	Yes	No	No	No	Yes	Yes
E	Actives Eligible by 1/1/2014, But Retire Later	Yes	Yes[1]	Yes[1]	Yes[1]	Yes	Yes
F	Actives Hired Pre 2011 & Not In Other Groups	Yes	Yes[2]	Yes[2]	Yes[2]	Yes	Yes
G	Employees Hired Post 2010	Yes	Yes	Yes	Yes	Yes	Yes

1 Benefits earned prior ro 1/1/2014 will be maintained and benefits for subsequent service will be paid under the new basis.

2 Benefits earned prior to 1/1/2011 will be maintained and benefits for subsequent service will be paid under the new basis.

Health Care Changes Being Considered

- Move all retirees to the same medical plan and same premium cost share approach as actives (excluding certain PPA requirements).
- Future premium cost sharing approaches for all retirees will be considered and may be based on years of service, age, or both. (Implementation deferred)
- Increase cost sharing for retirees prior to a age 65. (Implementation deferred)

Health Care Changes Being Considered

- Set 57 as the minimum age requirement for retiree healthcare eligibility. This will correspond to the new Early Retirement Age (age 57 and 15 years of service) within the pension plan. (Implementation deferred)
- Eliminate the Medicare Part B subsidy for all retirees and spouses.
- Require retirees to pay 100% of premiums for dental and vision benefits if they choose to continue coverage.

Questions?

Appendix

- 80/20 PPO Premuims
  - Single $20.90
  - Single + Spouse $41.80
  - Family $57.90
- Medicare Premiums
  - Base premium for benefits that began before 1/1/10 is $96.40/month
  - Base premium for benefits that began during 2010 is $110.50/month
  - Base premium for benefits that begin during 2011 is $115.40/month

Appendix

- Full Dental Premiums
  - Single $27.32/month
  - Family $82.02/month
- Full Vision Premiums
  - Single $3.50/month
  - Family $10.10/month