Cincinnati Retirement System Pension Fund
Task Force Meeting

April 20, 2010 - 2PM
Centennial II – Second Floor - Meeting Room A

Agenda

Call to Order:

Approval of Minutes

- April 13, 2010

New Business

- Review of draft report

Adjournment

Next Meeting: April 27, 2010 – Centennial II - Meeting Room A

Summary of Results

Scenario	Death Benefit	COLA	Highest Average Salary Formula	Benefit Multiplier	Retirement Elgibility Requirements	City Contribution (% of Pay)	1/1/2012 Cash Infusion Amount ($ millions)	Projected Funded Ratio (2038)
1a*	$2,000	Simple - Indexed w/ 3% Cap	5 Years	Current	Proposed	36.06%	$0.0	80%
1b**	$2,000	Simple - Indexed w/ 3% Cap	5 Years	Current	Proposed	31.00%	$173.4	80%
1c*	$2,000	Simple - Indexed w/ 3% Cap	5 Years	Current	Proposed	24.00%	$0.0	0%
1d**	$2,000	Simple - Indexed w/ 3% Cap	5 Years	Current	Proposed	24.00%	$326.7	80%
2a*	$2,000	Compound - Indexed w/ 3% Cap	5 Years	Current	Proposed	36.55%	$0.0	80%
2b**	$2,000	Compound - Indexed w/ 3% Cap	5 Years	Current	Proposed	31.00%	$185.0	80%
2c*	$2,000	Compound - Indexed w/ 3% Cap	5 Years	Current	Proposed	24.00%	$0.0	0%
2d**	$2,000	Compound - Indexed w/ 3% Cap	5 Years	Current	Proposed	24.00%	$338.0	80%
4a*	$0	Simple - Level 1%	5 Years	Current	Proposed	19.00%	$0.0	0%
4b**	$0	Simple - Level 1%	5 Years	Current	Proposed	19.00%	$312.5	80%
4c*	$0	Simple - Level 1%	5 Years	Current	Proposed	24.00%	$0.0	20%
4d**	$0	Simple - Level 1%	5 Years	Current	Proposed	24.00%	$203.0	80%

*City Contribution (%of Pay) begins 1/1/2012
**City Contribution (%of Pay) begins 1/1/2013

Task Force II Report
To
City Council

April, 2010

Executive Summary

- The Cincinnati Retirement System currently has approximately $3 billion in pension liabilities, $2 billion in assets, and $1 billion in unfunded liabilities.

- If the City and employees continued to contribute 17% and 7% respectively over the next five years, and the pension investments achieved the expected 8% long term rate of return, the pension assets would be projected to decrease by $20 - $30 million per year, and the unfunded liability to increase to $1.5 billion.

- In 2009, CRS expenses of $198 million (pension checks, healthcare claims, administration) exceeded revenues of $46.5 million (employer, employee and Medicare RX reimbursements) by approximately $12.6 million each month, thereby eroding trust assets and increasing the unfunded liability.

- Events that have contributed to the pension plan situation include the following:

    - Investment losses (Two recessionary events in 10 years)
    - Generous benefit enhancements when times were good
    - Provision of premium healthcare coverage for retirees
    - Decreasing workforce (employee to retiree ratio is 1:1.4)
    - Failure of the City to make the required contributions
    - Delays in addressing the challenges sooner

- The amount of contributions and the extent of plan changes needed to set the pension trust on course to achieve full funding in 30 years are so onerous that the Task Force has developed a set of intermediate recommendations.

- Task Force II considered the following trends and challenges as they developed their recommendations:

    - City's financial and economic challenges;
    - Decreasing employee base;
    - Legal constraints on certain protected benefits;
    - Consistently high retiree healthcare utilization and inflation rates;
    - Benchmarking analysis with other comparative public pension programs;
    - Intergenerational equity issues for employees and taxpayers;
    - And, other approaches to providing retirement benefits such as defined contribution plans, or moving the CRS retirement program to OPERS.

- **It is imperative that the City take immediate and significant action to address the pension situation. We cannot invest our way out of this problem! The recommendations are a thoroughly deliberated and vetted culmination of sacrifices by all stakeholders: employees; retirees; taxpayers; and the City.**

Recommendations on Pension Benefits

Death Benefit: Reduce death benefit from $7,500 to $2,000 for all current and future retirees. This benefit does not apply to spouses or other payees. This is considered an "incidental" benefit and can be changed for future and current retirees.

Final Average Salary: Change the definition of Final Average Salary, used to calculate the final pension benefit, from the highest 3 years to the highest 5 years of pay. *Transition Group: Employees who become eligible to retire before 1/1/2016 would be subject to the current highest three years approach.*

Retirement Eligibility Requirements: Expand requirements for certain employees.

- *Transition Group: Employees with 20 or more years of service, or within 10 years of retirement as of 1/1/2011 (under current eligibility rules). No change.*
  - Normal retirement: Age 60 and 5 years of service OR 30 years of service
  - Early retirement: Age 55 and 25 years of service
- **Employees hired prior to 1/1/10. (Task Force II)**
  - **Normal retirement: Age 62 and 5 years of service OR age 55 and 30 years of service**
  - **Early retirement: Age 57 and 25 years of service**
- Employees hired on or after 1/1/10 (Task Force I change). No change.
  - Normal retirement: Age 65 and 5 years of service OR age 55 and 30 years of service
  - Early retirement: Age 55 and 30 years of service

Benefit Multiplier

- Maintain current benefit multipliers.
  - Employees hired on or after 5/1/99 and before 1/1/2010 are subject to 2.5%
  - Employees hired prior to 7/12/98 and retired after 5/1/99 had a one time election to choose either 2.22% or 2.5% depending on their personal election.
  - Employees hired on or after 1/1/2010 are subject to 2.2% of base pay only (Task Force I)

Cost of Living Adjustment (COLA):

- **For future retirees, reduce COLA from a compounded fixed 3% to a compounded adjustable rate not to exceed 3% and linked to a Consumer Price Index (CPI).**
- *Transition Group: Employees eligible to retire before 1/1/2016 remain subject to the compounded fixed rate of 3%.*

Employee Contributions:

- Increase employee contributions an additional percentage by 1/1/15
  - 2010 = 7.5% (Task Force I increased from 7% to 9%)
  - 2011 = 8.0%
  - 2012 = 8.5%
  - 2013 = 9.0%

  - **2014 =   9.5% (Task Force II increases from 9% to 10%)**
  - **2015 = 10.0%**

Employer Contributions:

- Increase employer contributions as necessary to target a minimum 80% funded ratio in 30 years.
- Proposed funding mechanisms include:
  - Significantly higher contribution rates as a percent of payroll
  - Lump sum infusions
  - Combination of both
- See Appendix ??? for detailed contribution requirements

Recommendations on Healthcare Benefits

- **No further employee or employer contributions will be allocated to the healthcare trust until the pension trust is on course to achieve a minimum 80% funded status.**
- **Develop and implement a separate investment strategy for the healthcare trust assets, balancing the need for capital preservation.**
- **Move all retirees to the 80/20 medical plan effective 1/1/2011.**
- **Eliminate reimbursement of Medicare premiums for spouses, and possibly retirees.**
- **Require retirees to pay 100% of premiums for dental and vision benefits, if continued coverage is desirable.**
- **Develop a cost sharing arrangement for all retirees tied to years of service, with consideration for low income retirees.**
- **Implement a minimum age requirement of 55 to be eligible for retiree healthcare.**

Appendix A

Task Force Members

City Council

- Laketa Cole.
  Finance Committee Chair
  City of Cincinnati

City Administration

- Milton Dohoney, Jr.
  City Manager
  City of Cincinnati

Retirement Board Chair

- Brian Pickering
  Retirement Board Chair

AFSCME

- Marianne Steger
  Director of Health Care and Public Policy
  Ohio Council 8, AFSCME, AFLCIO

CODE

- Bryan Schmitt
  Finance/Accounting Department
  City of Cincinnati

Community Representatives

- Cathy Crain

- Dan Geeding
  VP Finance, CFO
  Health Foundation of Greater Cincinnati

- James Girton
  VP, Fifth/Third Bank
  Director, Employee Benefits

- Linda Graviss
  University of Cincinnati – Retiree

- Chris Stenger
  Retirement Consultant
  Buck Consultants

- Francis Wagner
  City of Cincinnati, Treasury - Retiree

Appendix B

Task Force II Guiding Principles

- Pension is primary
  - Long term goal is to achieve a 100% funded level over 30 years.
  - Intermediate goal is to achieve a minimum 80% funded level over 30 years.
  - All employer and employee contributions will be applied to the pension trust until the plan achieves an expected 100% funded level over 30 years.
  - The Task Force accepts the system's current 8% long term investment rate of return and 8% discount rate, <u>assuming a course is chosen supporting an 80% funded status in 30 years.</u>

- Healthcare is desirable, but secondary
  - No contributions will be applied to the retiree healthcare trust until the pension program achieves an expected 100% funded level.

- Healthcare benefits must be scaled back to extend the solvency of the healthcare trust.
- Modifications should be made to the healthcare benefits to extend the years of financial solvency.
- Length of service considerations should be used in the determination of premium cost sharing for all retirees.
- Provisions should be included to moderate the financial impact of changes on lower income retirees.
- The discount rate for the healthcare trust will be adjusted by the actuary as the assets decrease.