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Retirement System for Employees of the City of Cincinnati

Task Force Meeting
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Objectives

- Provide liabilities and funding requirements separately for pension and medical plans
 - Pension plan funding is primary
 - Solve for various funding goals
 - Define 401(h) subaccount
- Develop additional ideas for consideration
- Recognize need to develop transition plan
 - Stabilization is first priority, improvement is second



Pension Plan Only

- Pension plan funding is primary
- Ideally, long-term pension plan funding goal is “100% Funded”
- Potential approaches to pension plan funding
 - Funded Ratio = 100% by 2038
 - “Funded Ratio” is the ratio of a plan’s assets to its liabilities



Pension Plan Only

- Potential approaches to funding (continued)
 - Contribute 100% of the Annual Required Contribution (ARC)
 - $ARC = \text{Normal Cost} + \text{Amortized Unfunded Liability}$
 - o 30yr amortization period
 - o Open basis
 - o Level dollar
 - Vulnerable to swings in the ARC from year to year
 - Similar to approach used by other Ohio plans (e.g., OPERS)
 - Stable Funded Ratio
 - Assets are keeping pace with liabilities
 - Possible interim solution



Pension Plan Only

- All “Pension Plan Only” options assume:
 - Task Force 2 – Plan 1 pension benefit changes
 - 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%
 - o Index is CPI-U
 - o For projection purposes, rate is assumed to be 2.50%
 - Rate is compounded
 - Need to determine the impact of moving to simple
 - Pension assets as 12/31/2008
 - Actuarial Value = \$1,490,497,200
 - Market Value = \$1,242,081,000
 - Excludes 401(h) balances
 - 15% return on investments for 2009
 - Employee contributions increase to 9% of pay over four years beginning 1/1/2010



Pension Plan Only

- Option #1
 - Employer contributions increase to 19.00% of payroll for years 2011 and beyond
- Option #2 – 100% Funded Ratio in 2038
 - Employer contributions increase to 41.86% of payroll for years 2011 and beyond
- Option #2b – 100% Funded Ratio in 2038
 - Employer contributions increase to \$571 million for 2011
 - Employer contributions are 19.00% of payroll for years 2012 and beyond

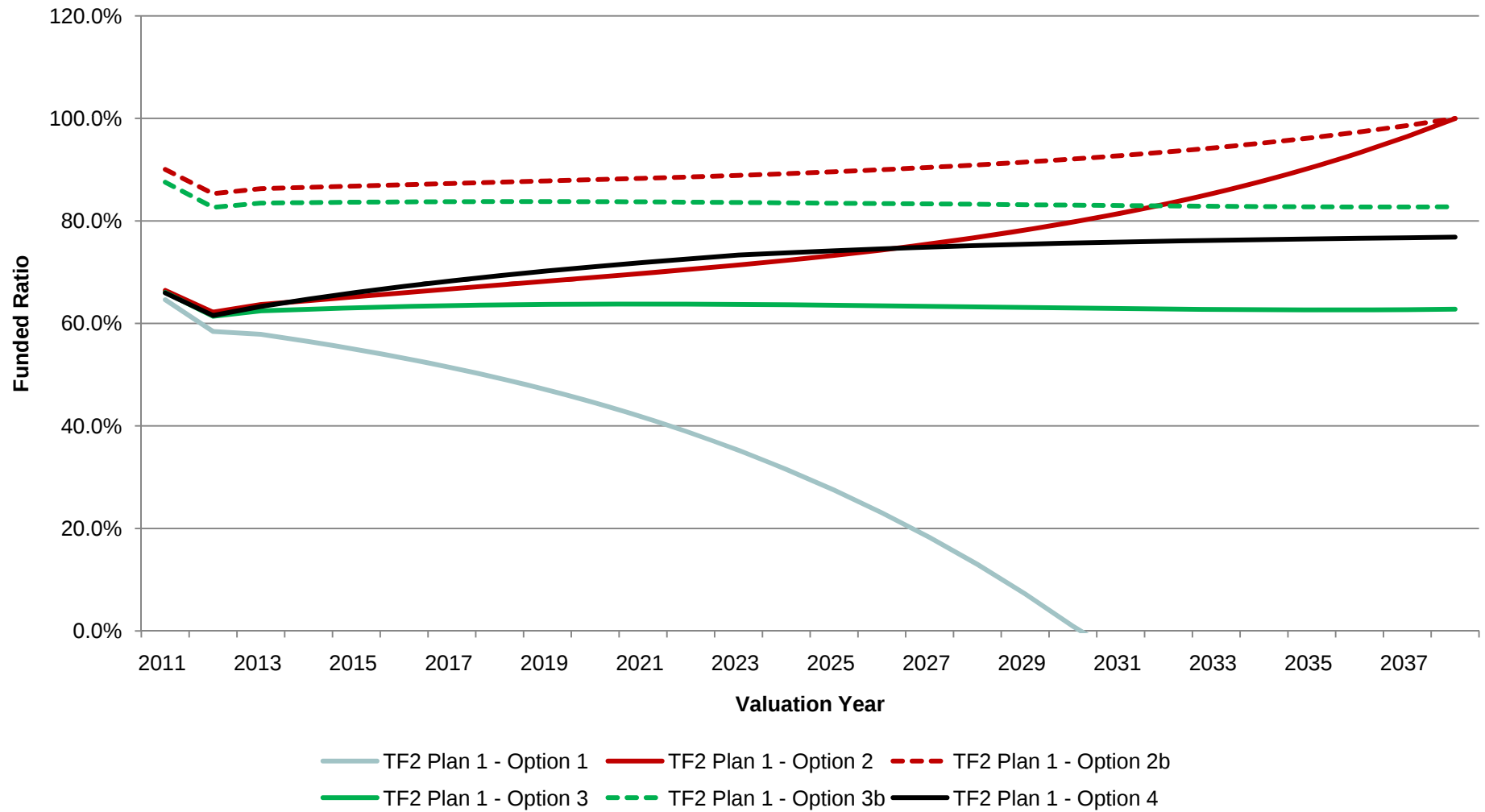


Pension Plan Only

- Option #3 – Stable Funded Ratio
 - Employer contributions increase to 37.00% of payroll for years 2011 and beyond
- Option #3b – Stable Funded Ratio
 - Employer contributions increase to \$518 million in 2011
 - Employer contributions are 19.00% of payroll for years 2012 and beyond
- Option #4 – Pay 100% of ARC
 - Employer contributions equal valuation ARC for years 2011 and beyond
 - Two year lag

Cincinnati Retirement System Projection of Funded Ratio

Pension Plan Only @ 8.00%



Projected Employee + Employer Contributions
Annual (\$ Millions)

Year	Option 1	Option 2	Option 2b	Option 3	Option 3b	Option 4
2011	46	84	584	76	531	74
2012	48	87	48	79	48	85
2013	50	90	50	82	50	97
2014	51	92	51	83	51	108
2015	52	94	52	85	52	106
2016	53	95	53	86	53	104
2017	53	97	53	88	53	103
2018	54	98	54	89	54	102
2019	55	100	55	90	55	101
2020	55	101	55	91	55	100
2021	56	102	56	92	56	99
2022	57	103	57	93	57	98
2023	58	105	58	95	58	98
2024	59	106	59	96	59	91
2025	60	108	60	98	60	91
2026	61	110	61	99	61	90
2027	62	112	62	101	62	90
2028	62	113	62	102	62	89
2029	63	115	63	104	63	88
2030	64	116	64	105	64	88
2031	217	117	65	106	65	87
2032	244	119	65	107	65	87
2033	245	120	66	108	66	86
2034	245	121	67	110	67	86
2035	246	122	67	111	67	86
2036	245	124	68	112	68	85
2037	245	125	69	113	69	85
2038	244	126	69	114	69	84

Projected Employee + Employer Contributions
Cumulative (\$ Millions)

Year	Option 1	Option 2	Option 2b	Option 3	Option 3b	Option 4
2011	46	84	584	76	531	74
2012	93	172	632	155	579	158
2013	143	262	682	237	629	255
2014	194	354	732	320	679	363
2015	245	448	784	405	731	469
2016	298	543	836	491	783	573
2017	351	640	890	579	837	676
2018	405	738	944	667	891	777
2019	460	838	999	757	946	878
2020	515	938	1,054	849	1,001	978
2021	572	1,040	1,110	941	1,057	1,077
2022	628	1,144	1,167	1,034	1,114	1,175
2023	686	1,248	1,225	1,129	1,172	1,273
2024	745	1,355	1,283	1,225	1,230	1,364
2025	804	1,463	1,343	1,323	1,290	1,455
2026	865	1,573	1,404	1,422	1,350	1,545
2027	926	1,685	1,465	1,523	1,412	1,635
2028	989	1,798	1,527	1,626	1,474	1,724
2029	1,052	1,913	1,590	1,730	1,537	1,812
2030	1,116	2,028	1,654	1,834	1,601	1,900
2031	1,333	2,146	1,719	1,940	1,666	1,987
2032	1,576	2,264	1,784	2,048	1,731	2,074
2033	1,821	2,384	1,850	2,156	1,797	2,160
2034	2,066	2,505	1,917	2,266	1,864	2,246
2035	2,312	2,628	1,984	2,376	1,931	2,332
2036	2,557	2,751	2,052	2,488	1,999	2,417
2037	2,802	2,876	2,121	2,601	2,068	2,502
2038	3,046	3,002	2,190	2,715	2,137	2,586



Medical Plan Only

- Medical plan funding is secondary
- Long-term medical plan funding goal is:
 - Solvency through 2038; or
 - Funded ratio = 50% by 2038; or
 - Funded ratio = 100% by 2038



Medical Plan Only

- All “Medical Plan Only” options assume:
 - No employee or employer contributions
 - Investment income is only source of additional funds
 - o May need to consider a more conservative investment policy and resulting lower target rate of return
 - Medical assets as 12/31/2008
 - Actuarial Value = \$688,869,600
 - Market Value = \$574,058,000
 - 15% return on investments for 2009
 - 401(h) subaccount assets cannot be transferred



Medical Plan Only

- Option #1
 - No employee or employer contributions
 - Current benefit levels (1st Task Force)



Medical Plan Only

➤ Option #2

- No employee or employer contributions
- Current benefit levels (1st Task Force), except:
 - Effective 1/1/2011, those who retired prior to 9/1/2007 will move to the 80/20 plan
 - Effective 1/1/2011, discontinue the Medicare Part B premium subsidy for Medicare eligible dependents
 - Effective 1/1/2011, 100% cost share for vision and dental benefits for all participants (retirees and their dependents)



Medical Plan Only

➤ Option #3

- No employee or employer contributions
- Current benefit levels (1st Task Force), except:
 - Effective 1/1/2011, scale back the dependent subsidy for medical and Rx over four years (25% each year)
 - o Dependents still have access to plan
 - o Premium equivalents are based upon retiree costs only (no commingling with actives) and are to be based upon Medicare eligibility
 - Effective 1/1/2011, discontinue the Medicare Part B premium subsidy for Medicare eligible dependents
 - Effective 1/1/2011, 100% cost share for vision and dental benefits for dependents



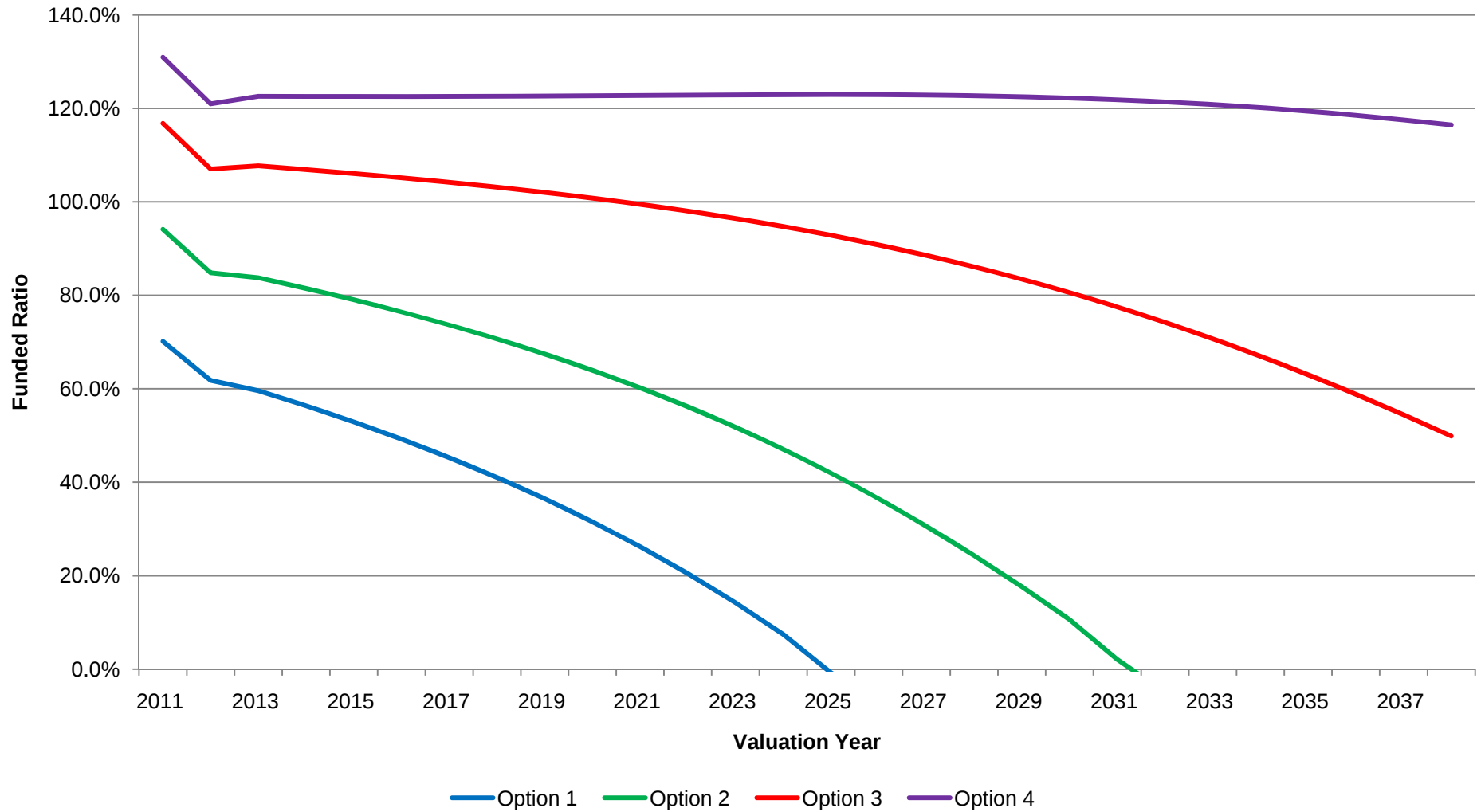
Medical Plan Only

➤ Option #4

- No employee or employer contributions
- Current benefit levels (1st Task Force), except:
 - Effective 1/1/2011, those who retired prior to 9/1/2007 will move to the 80/20 plan
 - Effective 1/1/2011, scale back the dependent subsidy for medical and Rx over four years (25% each year)
 - o Dependents still have access to plan
 - o Premium equivalents are based upon retiree costs only (no commingling with actives) and are to be based upon Medicare eligibility
 - Effective 1/1/2011, discontinue the Medicare Part B premium subsidy for Medicare eligible dependents
 - Effective 1/1/2011, 100% cost share for vision and dental benefits for dependents

Cincinnati Retirement System Projection of Funded Ratio

Medical Plan Only @ 8.00%



Projected Medical Benefit Payments
Annual (\$ Millions)

Year	Option 1	Option 2	Option 3	Option 4
2011	54.2	43.2	48.6	42.0
2012	57.2	45.8	46.9	40.7
2013	60.0	48.1	44.7	38.9
2014	62.2	50.1	41.5	36.3
2015	64.5	52.1	42.6	37.4
2016	66.2	53.7	43.3	38.3
2017	67.9	55.2	44.2	39.3
2018	69.6	56.7	45.3	40.4
2019	71.5	58.2	46.2	41.5
2020	73.7	60.2	47.6	42.9
2021	75.7	62.0	48.5	43.9
2022	77.6	63.6	49.5	44.9
2023	79.3	65.0	50.3	45.8
2024	81.0	66.3	51.1	46.6
2025	82.3	67.4	51.6	47.2
2026	83.4	68.2	52.1	47.8
2027	84.2	68.8	52.3	48.1
2028	84.9	69.3	52.5	48.4
2029	85.3	69.5	52.3	48.4
2030	85.9	70.0	52.5	48.7
2031	86.7	70.7	52.8	49.2
2032	87.0	70.9	52.8	49.4
2033	87.0	71.0	52.6	49.3
2034	87.5	71.6	52.6	49.6
2035	87.8	71.9	52.7	49.8
2036	87.8	72.1	52.7	50.0
2037	88.0	72.5	52.7	50.2
2038	88.2	72.9	52.8	50.5



Projection Assumptions

- 12/31/2008 Valuation Basis
- 2009 Investment Return to Date
 - Positive 2009 – assumed 15.00% return
 - Assume 8.00% thereafter
 - This rate may decline as the portfolio is rebalanced to meet short-term cash needs
- 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



Additional Ideas for Consideration

- Task Force 2 – Plan 1 pension benefit changes currently assume the change to the COLA for future retirees will be compounded
 - Need to determine the impact of moving to simple
- Eliminate the CRS loan provision



Comments

- The Task Force may need to develop a transition approach to stabilize the CRS financial situation
 - It may not be feasible to find an acceptable solution, at this time, that addresses the extent of the problem over a 30 year period
 - Solution may be in the form of phased approaches over a set period of years