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Retirement System for Employees of the City of Cincinnati

Task Force Meeting
January 26, 2010

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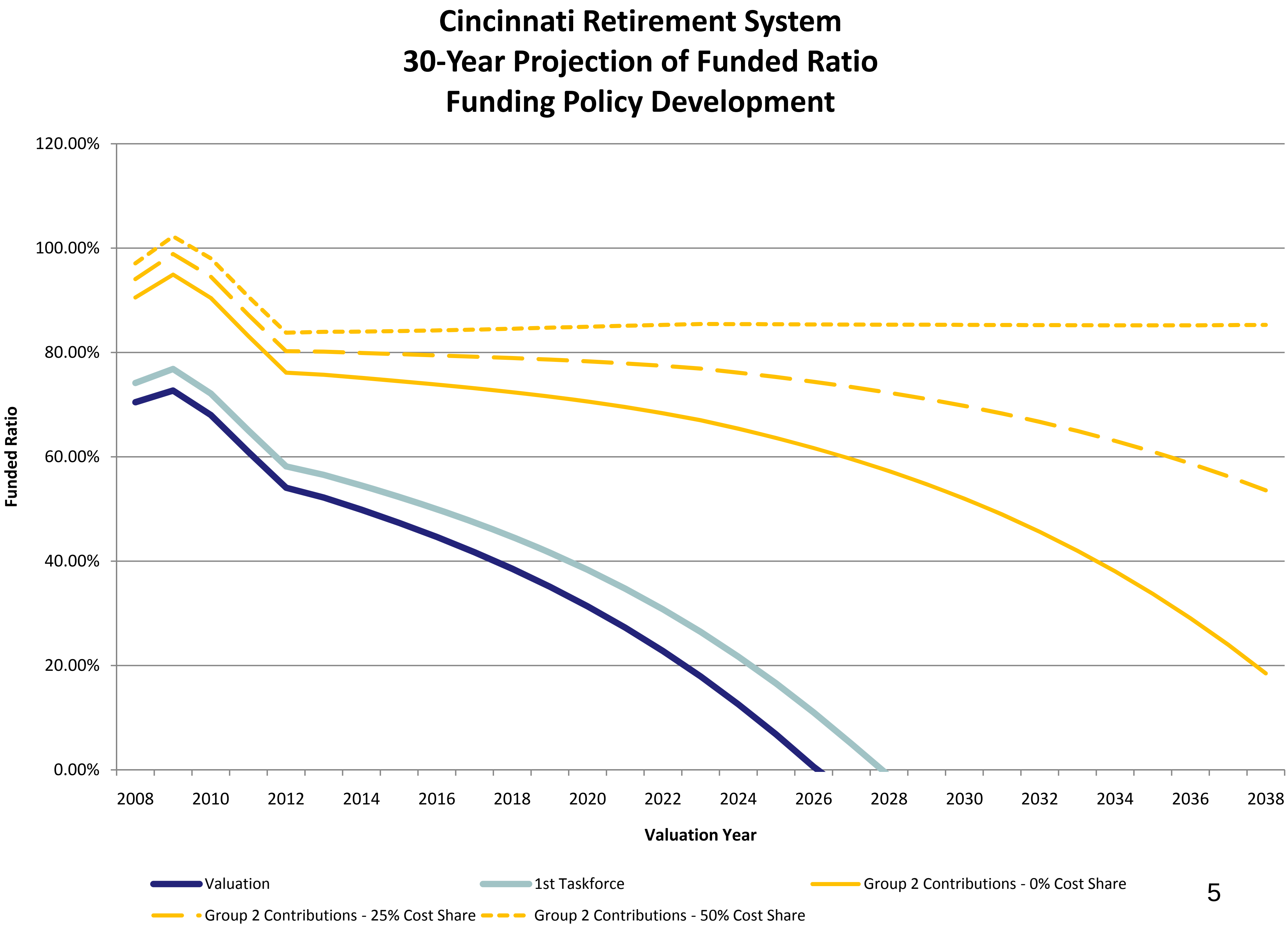
Goals

- Understand the implications of various funding levels
- Determine the level of benefits supported by a given funding policy
- Understand the approach used by other systems
- Establish a funding policy

Funding Policy Development

- Should be based upon coordinated objectives
  - Investment Policy
  - Funding Policy
  - Benefits Policy
- Results are a framework for discussion
  - A high level definition of what can be supported financially
  - Not meant to provide a final benefit plan design


Cincinnati Retirement System
30-Year Projection of Funded Ratio
Funding Policy Development
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
Funded Ratio
2008
2010
2012
2014
2016
2018
2020
2022
2024
2026
2028
2030
2032
2034
2036
2038
Valuation Year
Valuation
1st Taskforce
Group 2 Contributions - 0% Cost Share
Group 2 Contributions - 25% Cost Share
Group 2 Contributions - 50% Cost Share

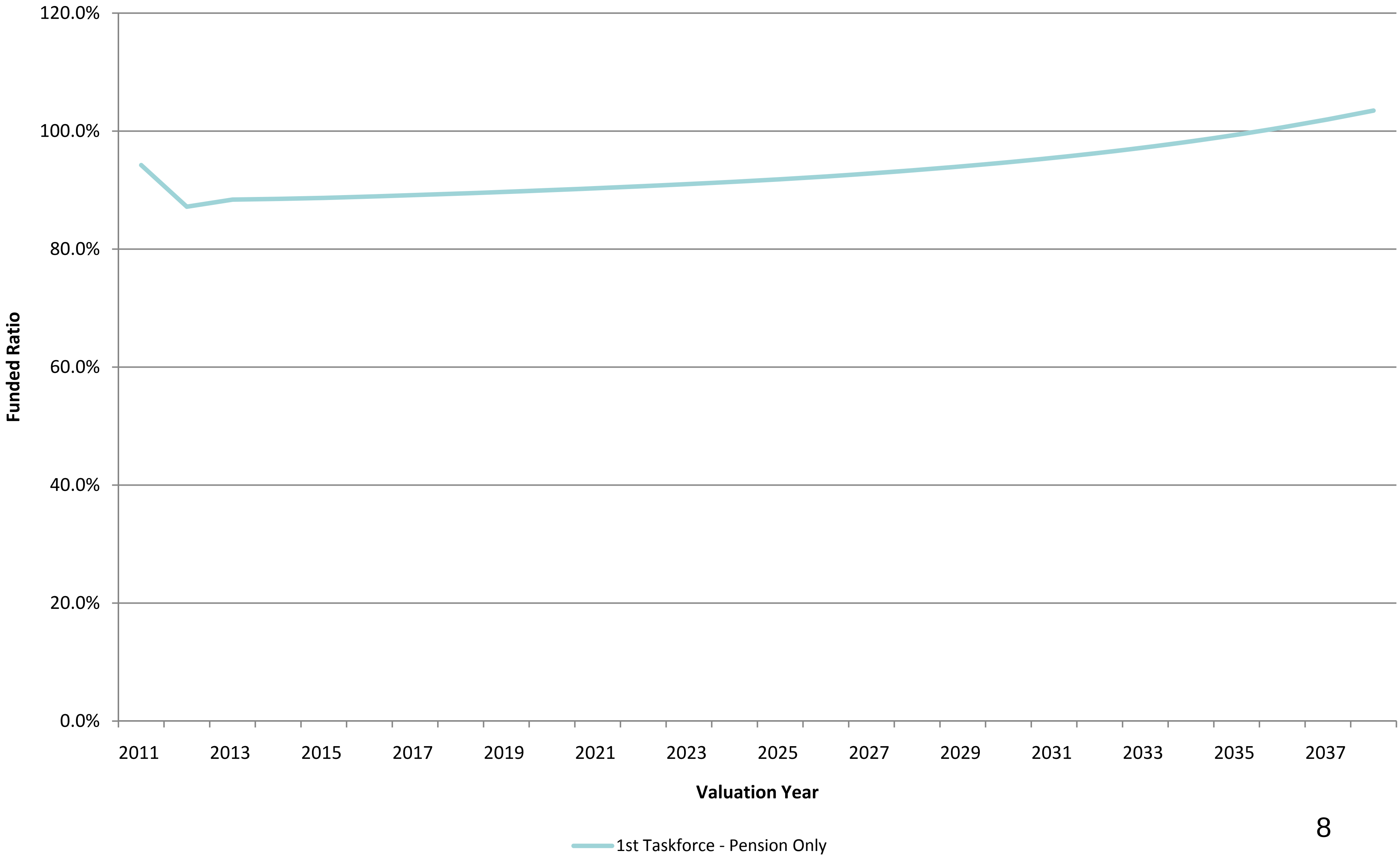
Funding Policy Development

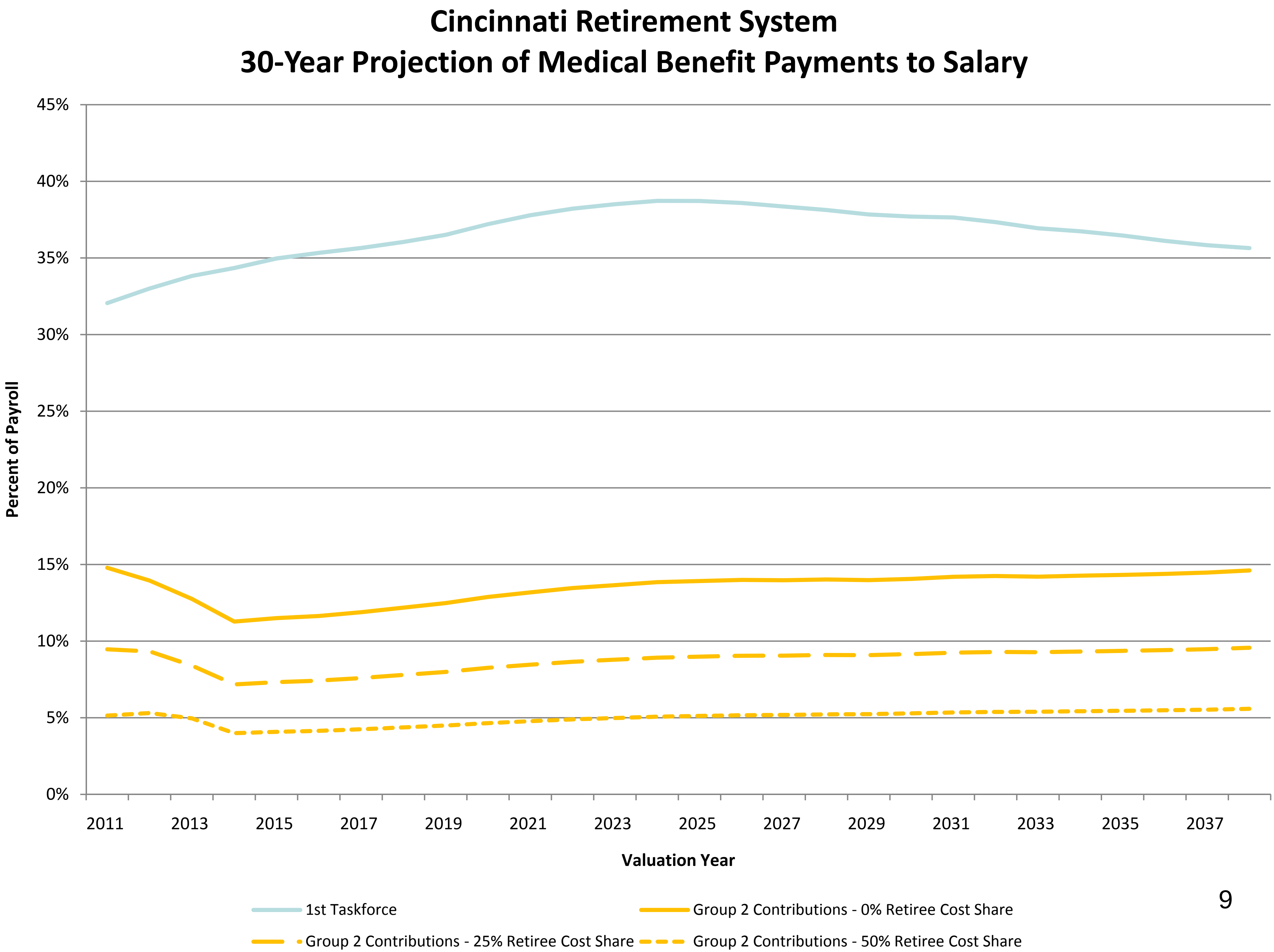
- Stable Funded Ratio should be a goal
  - Funded Ratio = Assets / Accrued Liabilities
  - Should be viewed over a period of years (e.g., 30 years), not just most recent valuation
  - Asset pool is not being eroded
    - Assets, contributions, and benefits are in balance
    - If assets are not available, investment income must be replaced by contributions and/or benefit reductions
  - Most efficient/cost effective use of employer and employee contributions
    - Limitation to how much City and members can contribute

Funding Policy Development

- What is the long-term Funded Ratio for pension benefits?
  - As of 1/1/2011, all assets are allocated to pension plan
  - As of 1/1/2011, all health care benefits are funded on pay-as-you-go basis from alternate source

Cincinnati Retirement System
30-Year Projection of Funded Ratio
1st Task Force Pension Plan Only




Cincinnati Retirement System
30-Year Projection of Medical Benefit Payments to Salary
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
Percent of Payroll
2011
2013
2015
2017
2019
2021
2023
2025
2027
2029
2031
2033
2035
2037
Valuation Year
1st Taskforce
Group 2 Contributions - 0% Retiree Cost Share
Group 2 Contributions - 25% Retiree Cost Share
Group 2 Contributions - 50% Retiree Cost Share

Projected Cash Flows and Assets ($ Millions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Pension Benefit Payments										
12/31/2008 Valuation	137	142	149	154	160	167	173	180	186	193
First Task Force Changes	137	142	148	153	159	165	171	178	184	191
Group 2 Contributions - 0% Retiree Cost Share	135	136	142	147	152	158	164	170	176	182
Group 2 Contributions - 25% Retiree Cost Share	135	136	142	147	152	158	164	170	176	182
Group 2 Contributions - 50% Retiree Cost Share	135	136	142	147	152	158	164	170	176	182
Medical Benefit Payments										
12/31/2008 Valuation	59	63	66	69	72	75	77	79	81	83
First Task Force Changes	51	54	57	60	62	65	66	68	70	71
Group 2 Contributions - 0% Retiree Cost Share	51	25	24	23	20	21	22	23	24	24
Group 2 Contributions - 25% Retiree Cost Share	51	16	16	15	13	14	14	14	15	16
Group 2 Contributions - 50% Retiree Cost Share	51	9	9	9	7	8	8	8	8	9
Total Benefit Payments										
12/31/2008 Valuation	196	205	215	223	232	242	250	259	267	276
First Task Force Changes	188	197	205	213	221	229	237	245	254	262
Group 2 Contributions - 0% Retiree Cost Share	186	161	166	170	173	179	186	192	200	207
Group 2 Contributions - 25% Retiree Cost Share	186	152	158	162	165	172	178	184	191	198
Group 2 Contributions - 50% Retiree Cost Share	186	145	151	156	160	166	172	178	185	191
Contributions										
12/31/2008 Valuation	40	41	42	43	43	44	45	46	46	47
First Task Force Changes	40	42	44	46	47	49	51	52	54	55
Group 2 Contributions - 0% Retiree Cost Share	40	42	44	46	47	49	51	52	54	55
Group 2 Contributions - 25% Retiree Cost Share	40	42	44	46	47	49	51	52	54	55
Group 2 Contributions - 50% Retiree Cost Share	40	42	44	46	47	49	51	52	54	55
Assets - End of Year										
12/31/2008 Valuation	2,213	2,031	1,841	1,832	1,787	1,732	1,667	1,587	1,495	1,385
First Task Force Changes	2,231	2,060	1,884	1,885	1,853	1,811	1,760	1,698	1,625	1,537
Group 2 Contributions - 0% Retiree Cost Share	2,233	2,093	1,955	2,002	2,024	2,042	2,057	2,068	2,073	2,072
Group 2 Contributions - 25% Retiree Cost Share	2,233	2,103	1,973	2,030	2,062	2,091	2,118	2,142	2,162	2,178
Group 2 Contributions - 50% Retiree Cost Share	2,233	2,110	1,989	2,053	2,092	2,131	2,167	2,202	2,234	2,262

Funding Policy Development

- Summary
  - Costs “normalized” to first Task Force changes
    - – Costs per $100 spent by System
  - 30 year average projected costs

Valuation Basis	Combined Funded Ratio	Year of Funded Ratio	Pension Spend	Medical Spend	Total Spend
12/31/2008 Valuation	0%	2027	73.73	31.24	104.97
First Task Force Changes	0%	2028	73.40	26.60	100.00
Group 2 Contributions - 0% Retiree Cost Share	18%	2038	71.87	10.56	82.43
Group 2 Contributions - 25% Retiree Cost Share	54%	2038	71.87	7.25	79.12
Group 2 Contributions - 50% Retiree Cost Share	85%	2038	71.87	4.64	76.51

New Benefit Plan Development

- Contributions
  - City
    - Increases 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, discontinue the Medicare Part B premium subsidy for Medicare eligible dependents

New Benefit Plan Development

- Contributions (continued)
  - 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
    - Three Cost sharing Scenarios
      - 0% retiree cost share is maximum benefit
      - 25% retiree cost share is maximum benefit
      - 50% retiree cost share is maximum benefit

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.

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

Benchmarking

- Fort Worth
  - Resolution Number 3779-08-2009:
    - Employees hired on or after January 1, 2009, upon retirement, may receive continued health coverage under the City's plan by paying the full cost. No City contribution will be made towards that coverage
  - City Council appropriated $5 million in the Fiscal Year 2009 budget to deposit in an irrevocable trust that will be used to fund the City's OPEB liabilities
    - Trust will allow the City to assume a higher yield on investments and therefore lessen the funding requirements of the overall liability
  - An additional $5.1 million to be contributed by the enterprise and internal service fund

Benchmarking

- Fort Worth (continued)
  - Committee to be assembled to study retiree health care
    - Committee will bring a recommendation to the Council for next year's budget consideration
  - As of 9/30/08, the OPEB AAL was $976,135,000
    - UAL as a percent of payroll was 272%.

Benchmarking

- Norfolk
  - Benefits are currently managed on a pay-as-you-go basis rather than use an irrevocable trust and a separate financial report of the OPEB Plan is not issued
  - As of the 7/1/2007, the OPEB AAL was $103,266,000
    - UAL as a percent of payroll was 25.6%.
  - In Fiscal Year 2008, OPEB funding on a pay-as-you-go basis cost the city $1,898,253.

Benchmarking

- Pittsburgh
  - From the Municipalities Financial Recovery Act Amended Recovery Plan Revised and Adopted as of 6/30/2009
    - "While many governments face pension and other post-employment benefit (OPEB) funding challenges, especially after the recent economic decline, the liabilities for Pittsburgh are staggering in scale - far in excess of the comparable burdens for other, similar jurisdictions."
  - FY2009 budget and five-year plan includes a $200,000 annual contribution above the annual OPEB costs
  - Beginning in FY2011, the City shall establish and begin to fund an OPEB trust fund at $2.2 million per year (including the existing $200,000 baseline contribution)

Benchmarking

- Pittsburgh
  - If the state has not created specific trust fund authority by FY2011, the City shall create an appropriate structure for OPEB until such time a state trust is available
  - The City shall explore options for a defined contribution (DC) plan for post-employment health benefits for police and firefighters hired since 2005 and ineligible for City retiree medical coverage
  - Eliminate City contribution to retiree life insurance for new hires
  - As of 1/1/08, the OPEB AAL was $359.1 million
    - UAL as a percent of pay using 12/31/08 payroll was 208.0%

Benchmarking

- OPERS
  - Medicare Part B reimbursement only statutorily guaranteed health care benefit
    - Approximately $104 million paid in 2008
  - Health care funding goal is measured in solvency years
    - Number of years funds are projected to be available to pay benefits under current structure
      - 2004: Adopted Health Care Preservation Plan (HCPP) to achieve 15-25 years of solvency
      - April 2007: Target solvency period increased from 15-25 years to 20-40 year range
      - 2008 market losses expected to reduce solvency period to 10-15 years

Benchmarking

- OPERS
  - Funding sources
    - Employer contributions (2008)
      - 14% for state and local employers
      - 17.4% for law enforcement
      - 7% allocated to health care (excess after pension needs)
    - Employee contributions (2008)
      - 10% for state and local employers
      - 10.1% for law enforcement
      - Cannot be allocated to OPEB benefits
    - Retiree premiums for health care
  - 100% of annual required contribution (ARC) paid for pension and health care in 2006, 2007, and 2008

Benchmarking

- OPERS
  - 12/31/07 AAL
    - Pension = $69.7 billion
    - Health care = $29.8 billion
  - 12/31/07 UAL
    - Pension = 21% of payroll
    - Health care = 135% of payroll
  - 12/31/07 Funded Ratio
    - Pension = 96%
    - Health care = 43%
  - Amortization period
    - Pension = 14 years
    - Health care = 30 years

Benchmarking

- Ohio SERS
  - Like OPERS, health care funding subordinate to pension plan
  - Target funded ratio for pension = 80%
  - Amortization period
    - Should be closed
    - 30 year maximum
  - Target health care solvency period = 20 years
    - Projected to be 4 years (2014) in 6/30/2009 valuation

Benchmarking

- Ohio SERS
  - Funding sources
    - Employer contributions (2009)
      - 14%
      - 4.16% allocated to health care (excess after pension needs)
    - Employee contributions (2009)
      - 10%
      - Cannot be allocated to OPEB benefits
    - Retiree premiums for health care
  - 100% of annual required contribution (ARC) paid for pension and Medicare Part B in 2007 and 2008
  - 58.6% and 50.0% of annual required contribution (ARC) paid for health care in 2007 and 2008, respectively

Benchmarking

- Ohio SERS
  - 6/30/09 AAL
    - Pension and Death Benefit = $14.2 billion
    - Medicare Part B = $0.4 billion
    - Health care = $4.3 billion
  - 6/30/09 UAL
    - Pension and Death Benefit = 161.4% of payroll
    - Medicare Part B = 8.9% of payroll
    - Health care = 140.1% of payroll
  - 6/30/09 Funded Ratio
    - Pension and Death Benefit = 68.4%
    - Medicare Part B = 31.3%
    - Health care = 8.8%

Statement of Funding Policy

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

Next Steps

- Review Investment Policy
  - Target rate of return assumption
  - Coordinates with Funding and Benefits policies
- Develop Benefit Policy
  - Determine impact of alternative plan designs
    - Should be based upon Investment and Funding policies