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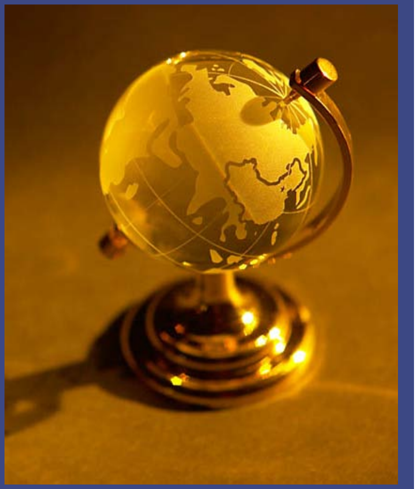
Retirement System for Employees of the City of Cincinnati



Task Force Meeting
September 28, 2009

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Benefit Financing

- Basic Retirement Funding Equation

$$C + I = B + E$$

C	=	Contributions
I	=	Investment Income
B	=	Benefits Paid
E	=	Expenses (administration)

Benefit Financing

$C + I = B + E$

B depends on

- Plan Provisions
- Experience

C depends on

- Short Term: Actuarial Assumptions
Actuarial Cost Method
- Long Term: I, B, E

Current Situation

- Employer contribution levels insufficient to support promised benefits
- Asset losses have added to this stress but even a market recovery will not remove the need for increased contributions and/or benefit reductions
- Find a level of contribution that the employer is willing to make and determine the level of benefit it can support
- Find a level of benefits reduction the employer is willing to make and determine the level of contributions required

Possible Responses

- Possible Benefit Changes
  - Task Force must work with legal department and/or Ice Miller to determine what changes to the benefit structure could be changed (i.e. Contractual Benefits)
  - Keep modifications balanced among members
- Contribution Changes
  - Set up Schedule with Percent of City Contributions needed in order to pay 100% of the Annual Required Contribution in certain timeframe (Kentucky Retirement System just implemented this)

Possible Benefit Changes

- Pension
  - Task Force has already adopted plan changes for all Employees
    - Increased employee contribution from 7% to 9% from 2009 to 2012
  - Task Force has already adopted plan changes for new hires after January 1, 2010
    - Increased Normal Retirement Age from 60 to 65
    - Increased Early Retirement Age from 55 to 60
    - Added Minimum Age of 55 to Retirement with 30 years of service
    - Decreased the benefit multiplier from 2.5% to 2.2%

Possible Benefit Changes

- Pension
  - Ohio Retirement Study Council Recent Study
    - Increase Employee Contributions
    - Increase Early and Normal Retirement Age
    - Change Benefit Multiplier and Final Average Salary Definition
    - Eliminate COLA
    - Delay COLA to start after Age 60 or 65 or 70
    - Reduce COLA to 2% starting 2 years after retirement
    - Reduce COLA to 1.5% starting 3 years after retirement

Possible Benefit Changes

- Pension
  - Other Possible Changes
    - Check with Legal Department to determine if Retirement Eligibility or Multiplier Changes can be adopted for existing actives or some subset of them (i.e. Eligible to Retire after a Certain Date)
    - Check with Legal Department to determine if a Cap can be added to COLA (e.g. 30% Cap on Increases above initial retirement amount)
    - Check with Legal Department to determine if the COLA Holidays can be adopted (Next 1 to 5 years with no Increases)
    - Check with Legal Department to determine if the City can change COLA from Compounding Increases to Simple Increases (COLA Increase is same each year)

Possible Benefit Changes

- Medical
  - Task Force has already adopted plan changes for all Retirees
    - Replaced the pre-2007 retiree medical plan with a modified PPO for existing retirees with a special carve-out group
    - Eliminated the traditional indemnity plan
    - Revised the coordination of benefits paid by CRS and Medicare for retirees over age 65

Possible Benefit Changes

- Medical
  - Other Possible Changes
    - No longer provide healthcare benefits and pay nothing towards retiree health care
    - Require those not yet Medicare eligible to pay the full cost of coverage (access only) or eliminate pre-65 coverage altogether (no access)
    - Require those who are Medicare eligible to pay the full cost of coverage (access only) or eliminate post-65 coverage altogether (no access)
    - Eliminate the prescription drug benefit for those not eligible for Medicare (under age 65)
    - Eliminate the prescription drug benefit for those who are eligible for Medicare (65 and over)

Possible Benefit Changes

- Medical
  - Other Possible Changes
    - Switch the benefit to a flat dollar contribution per month. Flat dollar amount could be “hard capped” (not indexed), or “soft capped” (e.g. indexed at CPI). Level of contribution could be set based upon target (e.g. ARC = 10% of pay). Need to determine if this will include access to plan
    - Increase eligibility requirements (e.g. length of service and/or service based schedule contributions)
    - Implement a PDP for those who are Medicare eligible
    - Eliminate dependent coverage
    - Eliminate Medicare Part B premium subsidy

Possible Benefit Changes

- Medical
  - Other Possible Changes
    - Change Medicare benefit to Medicare Supplement policy

Possible Benefit Changes

- Financial Impact of all the proposals shown can be determined for any combination of members
  - Current Retirees
  - Future Retirees
  - New Hires Only
- Can also phase in any of these proposals over a certain period of time
- Legality of the changes should be assessed up front

Other Alternatives

- Close System to New Members?
  - Fewer terminations, therefore, less non-refunded employer contributions remain to fund benefits for those who retire
  - Payroll decreases, therefore, a higher UAL contribution percentage is required
  - Retiree benefits increase as a percentage of overall assets, requiring re-allocation of portfolio and lowering, over the long term, expected investment assumption
  - OPERS Normal Rate for General State Employees is 14.0% (roughly the same as new members in CRS)

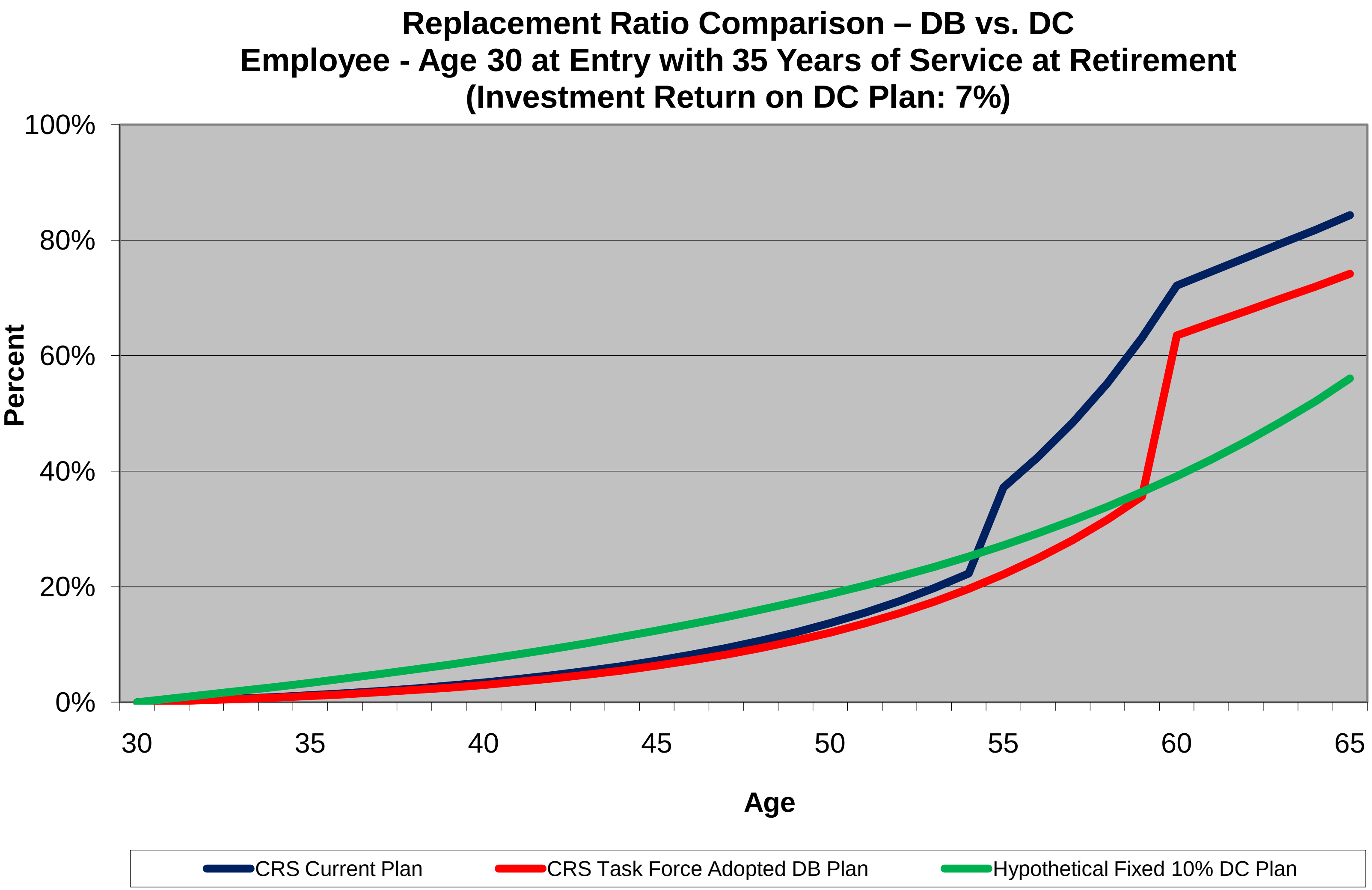
Other Alternatives

- DC Plan for Non-Vested or New Members
  - Advantages
    - Contribution amount is easily determined, easy to understand and usually constant from year to year
    - Provides more to non-career employees
    - Account balances may be transferred from one employer to another
    - Costs are fully funded
    - Employee enjoys investment gains

Other Alternatives

- DC Plan for Non Vested or New Members
  - Disadvantages
    - Provides less income for career employees
    - Benefits bear no relationship to pre-retirement working pay
    - Employee bears financial risk of outliving accumulated assets
    - Employee bears financial risk of poor investment returns
    - Does not motivate employees to continue in service

Other Alternatives



Other Alternatives

- Pension Obligation Bonds
  - Bond issued by pension plan sponsor
  - Proceeds contributed to the pension plan
  - Considered an interest rate arbitrage by IRS so interest payments to investors are taxable
  - Generally exchanging a variable rate obligation (unfunded accrued liability or a portion thereof) for a fixed rate obligation (POB)
  - POB's are studied when the interest rate paid on the bond is lower than the interest rate assumed in the actuarial valuation of the Plan
  - Possibility of reducing costs for the plan sponsor

Other Alternatives

- Pension Obligation Bonds
  - Advantages
    - Lowers cost for Plan Sponsor through the interest rate "swap"
    - Plan receives the proceeds "up front"
  - Disadvantages
    - Lock in a fixed payment in place of a variable payment
    - Limit to future financial flexibility

Other Alternatives

- Pension Obligation Bonds
  - Disadvantages
    - Short term market losses early in the "life" of the POB could result in bond payments and additional plan contributions as a result of leverage
    - Challenge to invest proceeds of POB
    - Potential resistance to future funding increases due to experience losses
    - Increased leverage on future contributions. As the UAL gets smaller, gains/losses represent a bigger piece each year

Other Alternatives

- Pension Obligation Bonds
  - Contribution Rates are with First Task Force Recommendations Adopted (does not include ERIP Contribution)

	Total Employer Contribution Rates
12/31/2008 Valuation	52.11%
$200 Million – POB	40.67%
$500 Million – POB	23.53%
$615 Million – POB	16.97%