city of CINCINNATI

The City Council
Task Force II Report

June 2010

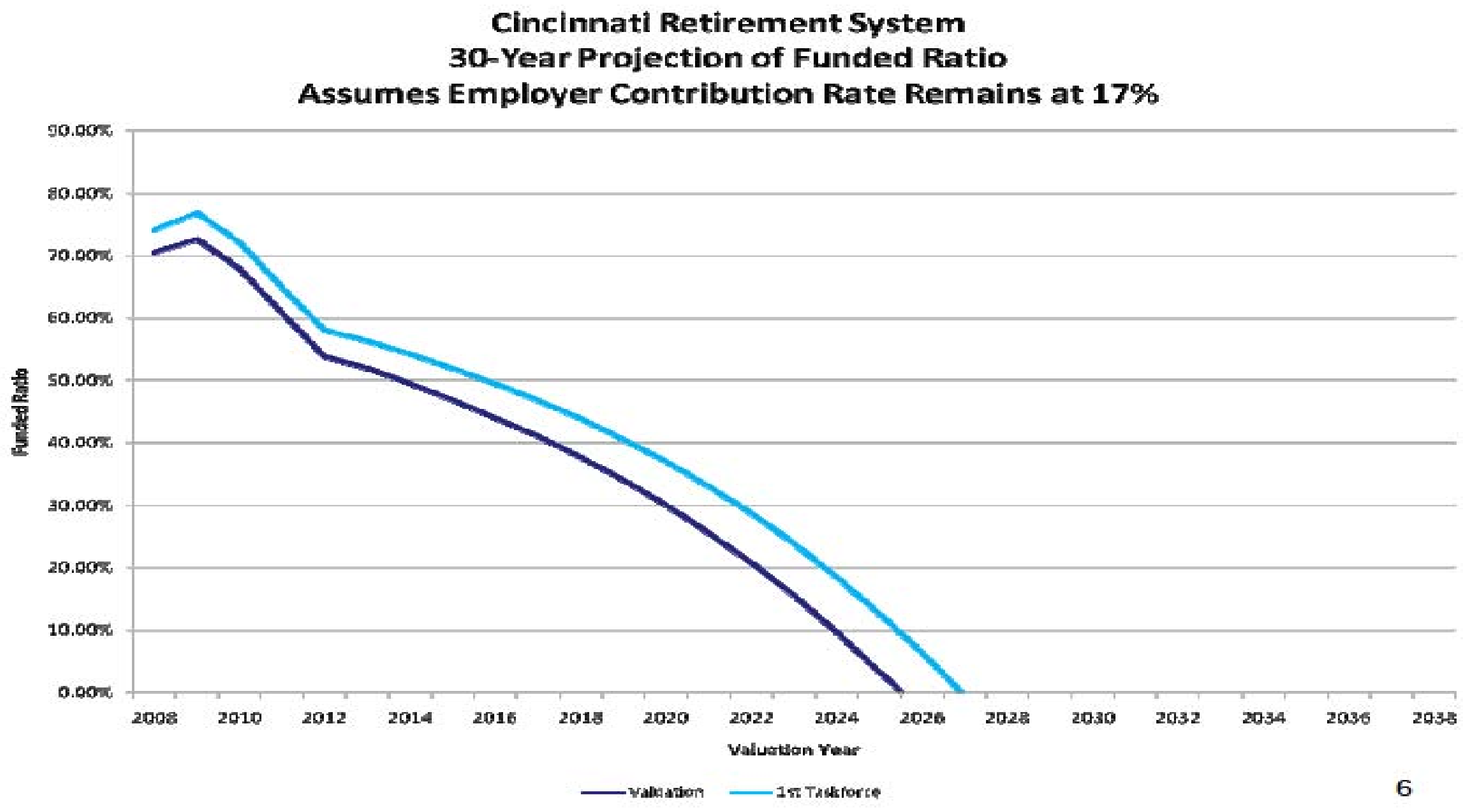
Executive Summary

The Cincinnati Retirement System (CRS) currently has approximately $3 billion in liabilities, $2 billion in assets, resulting in $1 billion in unfunded liabilities. If over the next five years, the City and employees continue to make contributions at the rate provided by the current funding policy (17% and 7% - 9%, respectively) and the retirement plan assets achieve the expected 8% long term rate of return, the plan assets will <u>decrease</u> by $20 - $30 million per year, and the unfunded liability will increase to more than $1.5 billion. In 2009, CRS expenses of $198 million (pension payments, healthcare expenses, and operating costs) exceeded revenues of $46.5 million (employer and employee contributions, and Medicare Rx reimbursements) by $151 million. This is further exaggerated by the impact of the unfunded liability on the City's annual required contribution.

The above figures include both pension benefits and health care benefits combined. However, this report discusses each benefit type separately. This lends clarity to the different challenges of each benefit and helps address the different limitations attached to each benefit. Pension benefits must be examined differently due to certain legal protections. Health care benefits provided by CRS can be changed without limitation. The pension trust and health care trust are accounted for separately. Healthcare trust assets cannot be used to pay pension benefits unless health care benefits are no longer offered through CRS and all outstanding health care claims have been paid.

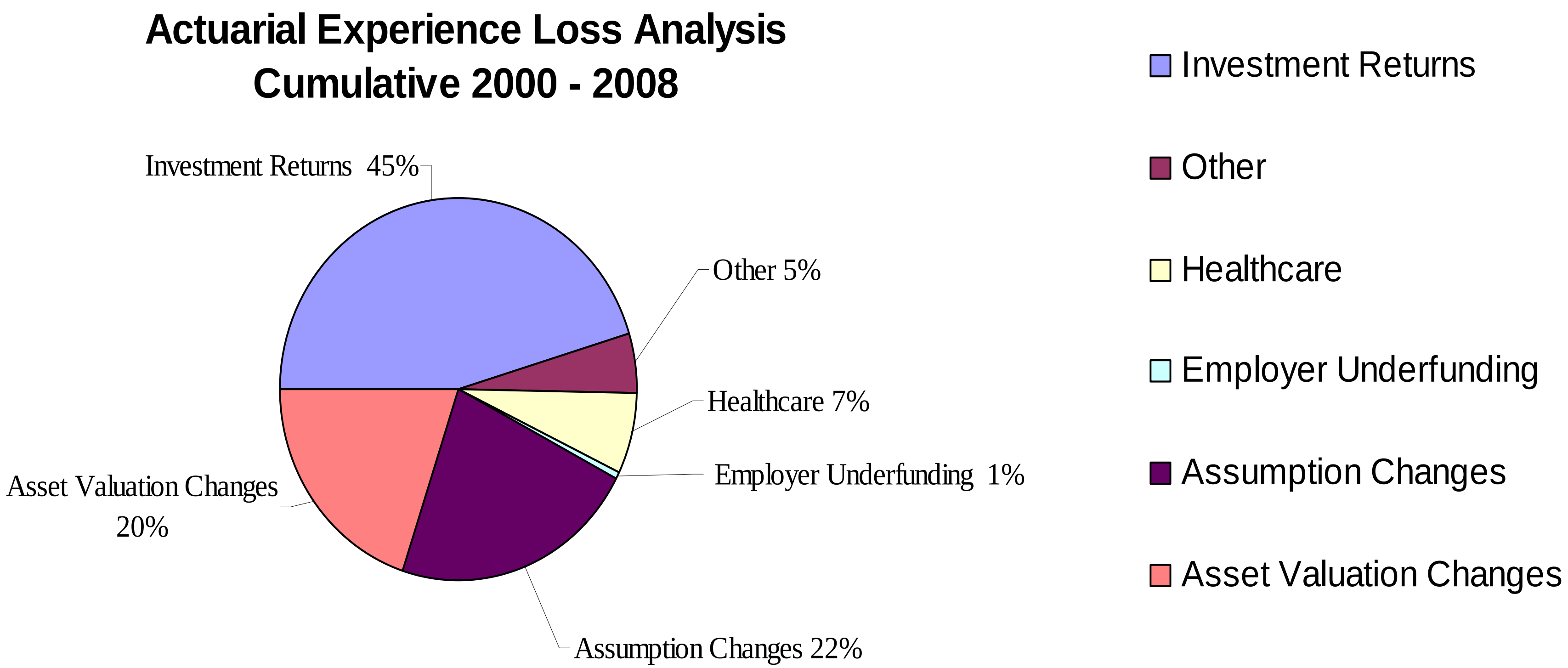
The majority of the report focuses on the pension benefits, first because of the legal protections, and second because of the magnitude of the combined (pension and health care) financial challenge. The most notable recommendation in the report suggests that all employee and employer contributions be applied to the pension trust until such time the pension trust reaches an 80% funded ratio. This could take decades to achieve. In addition to broad health care recommendations, Task Force II suggests that a committee be assigned to develop more detailed recommendations to extend the life of the health care trust, assuming no further employee or employer contributions will occur for an extended period of time.

The funding progress of the pension and health care plans is measured in terms of solvency years, or the number of years that funds are projected to be available to pay pension and health care benefits under the current plan structure. A pension plan is considered fully funded if it reaches a 100% funded ratio over a specific time period (like 30 years). Using the 12/31/08 actuarial valuation figures, updated with investment gains in 2009 of 19.76%, and including the changes effective 1/1/10 recommended by Task Force I (and approved and modified by Council), the pension and health care funds combined are expected to become insolvent in 18 years. This includes 2 years of solvency that were gained by Task Force I changes.

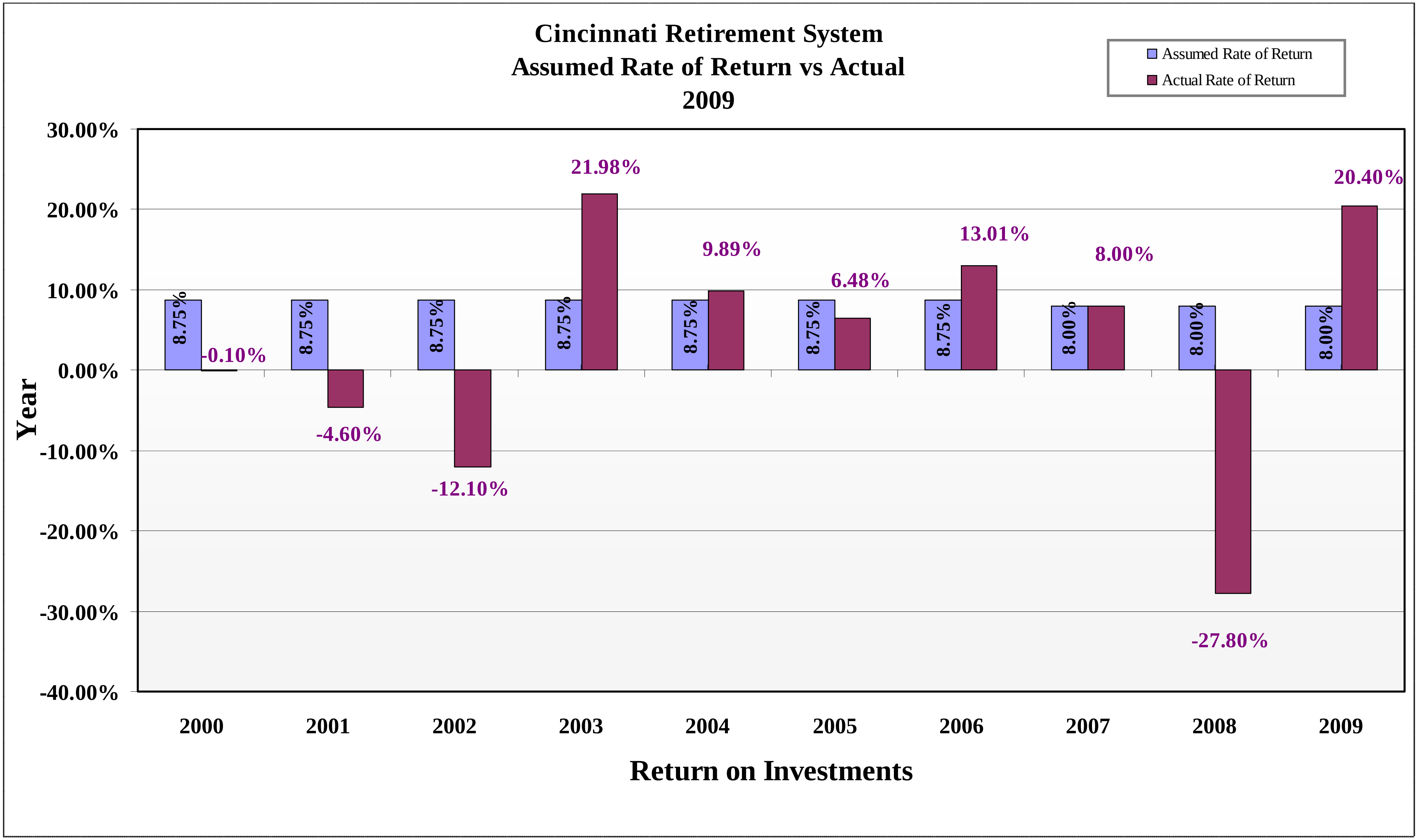


Various events and trends have contributed to the retirement plan situation: two recessionary events in the last ten years leading to significant investment losses; growing retiree population due to the retirement of the baby boom generation; decreasing City workforce (employee to retiree ratio is 1:1.4, decreasing inflow of cash); persistent increases in health care costs; insufficient funding by the City; and increased life expectancies.

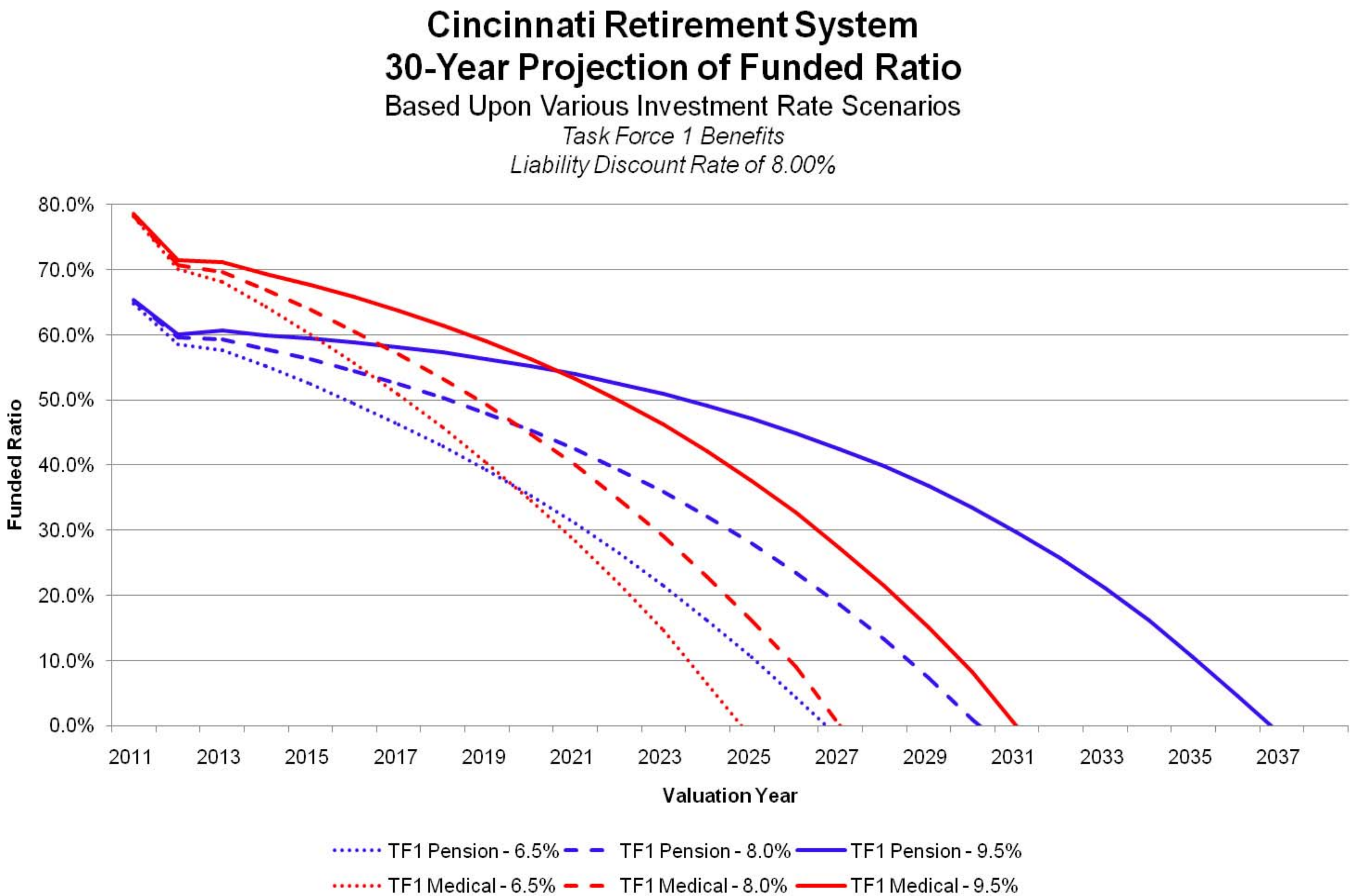
For the years 2000 through 2008, the following graph categorizes the actuarial losses of the trust. The data does not include 2009 experience which was not available for this report. Over this period, the trust experienced $1.278 billion in actuarial losses. Of that, 45% was due to investment losses, 22% was mostly due to the reduction in the rate of return assumption from 8.75% to 8.0% in 2007, and 21% was due to a change in the method of measuring the actuarial value of assets. Less than 1% was due to insufficient funding by the City. Recent years of insufficient funding were offset by earlier years when the City contributed more than the required amount. However, it is expected that the City will have underfunded nearly $110 million for the period from 2000 through 2010 (see Appendix B). During all years, employees have contributed the amount required by the City.



It is highly unlikely that CRS can invest its way out of this situation. For example, if you invested $10,000 on 1/1/09 and lost 20% by year's end, your assets would equal $8,000. Assuming an 8% rate of return, it would take three years to build the assets back to $10,000. And, it would take a 19.4% rate of return for each of those same three years to build the assets to the level they would have reached if the 20% loss never occurred. The annualized performance of the combined pension and health care trusts for the period 2000 through 2009 was 2.4% (Net of Fees).



The following graph shows the impact of various investment return scenarios on the projected funding level of the pension and health care trusts. It shows pessimistic rates at 6.5%, the assumed rate at 8.0%, and optimistic rates of 9.5% over the next 30 years. It also incorporates the benefit changes from Task Force I that became effective January 1, 2010. In the best case scenario, the pension trust is depleted by 2037.



Task Force II considered the following trends and challenges:

- City’s financial and economic challenges;
- Decreasing employee base;
- Legal constraints on certain protected benefits;
- Increasing retiree health care costs;
- Benchmarking analysis with other comparative public pension programs;
- Intergenerational equity issues for employees, retirees and taxpayers;
- And other approaches to providing retirement benefits such as defined contribution plans, or moving the CRS retirement program to the Ohio Public Employees Retirement System (OPERS).

Regarding the last bullet above, is important to note that Task Force II looked closely at the options of closing the current defined benefit plan to new participants, and changing the current plan structure to a defined contribution plan for future years of service. These options were not feasible due to the increased financial burden required to fund the unfunded liability in the defined benefit plan. In addition, the CRS retirement program would need to become financially sound before it could join OPERS. OPERS will not pick up the unfunded liabilities of the CRS. However, Task Force II strongly suggests that the City pursue a long term strategy aimed at moving to OPERS in the future.

It is imperative that the City take immediate and significant action to address the retirement plan situation. It is not feasible to assume we can invest our way out of this situation. Investment scenarios assuming optimistic rates of return over the next 30 years revealed this will not solve the problem. The amount of contributions and the extent of plan changes needed to set the pension and health care trusts on course to achieve full funding in 30 years are so onerous that Task Force II has developed a set of options to achieve 80% funding. The options are a thoroughly deliberated and vetted culmination of sacrifices by all stakeholders including employees, retirees, taxpayers and the City.

Pension Options

As changes to the retirement system are considered, it is important to note that many current and future City retirees are not eligible for a social security pension as a safety net to fall back on. Even if they are eligible to receive social security benefits due to employment outside the City, amounts payable are greatly reduced under the federal government's Windfall Elimination Provision, which reduces social security benefits if a member receives a public retirement pension.

There are four plan options presented below. Each option represents a different combination of benefit changes. The changes are primarily focused on active members who are not yet eligible to retire. <u>The core pension benefits for retirees and those members eligible to retire, are protected by law and should not be changed. This group is impacted only by the proposed changes in the death benefit.</u> The death benefit is not considered a core benefit and can be changed or eliminated for this group.

Each option includes six employer funding approaches. The six approaches include three different percentage contribution rates: 19%, 24% and 31%. The three percentage rates are shown two different ways. The first approach shows the percentage contribution rate without an infusion of cash. The second approach shows the infusion of cash necessary for the Plan to achieve a projected funded ratio of 80% in thirty years. Several of the approaches presented result in pension insolvency and do not support the long-term stability of the Retirement System. The approaches that project a funding ratio less than 80% are not acceptable to Task Force II and should not be considered.

The employer contribution rates could be figured numerous ways. However, Task Force II chose to present 19%, 24% and 31%. Nineteen percent was developed by adding 2% to the City's current 17% contribution rate, and is somewhat parallel to the increase in employee contribution rates, which will increase from 7% to 9% by 1/1/13 under recommendations by Task Force I. Twenty-four percent was selected because it equals the employer contribution rate to the Police and Fire Pension System. (The City also pays debt service on long-term Police and Fire pension obligation bonds.) Thirty-one percent was selected by adding to 19% the amount that would be generated by discontinuing the rollback of the 6.1 mill property tax and allocating the millage to the City's contribution.

Calculating a Retirement Benefit

A member's normal retirement benefit is based on their Final Average Salary (average of their highest three consecutive years of compensation), a Benefit Multiplier, and Years of Service recognized under the Plan. A sample calculation follows:

Highest Average Salary	X	Benefit Multiplier	X	Years of Service	=	Annual Benefit	÷	12	=	Monthly Benefit
$50,000	X	2.50%	X	30	=	$37,500	÷	12	=	$3,125

There are currently three Benefit Multipliers used by CRS, 2.22%, 2.50% and 2.20%.

- Members hired prior to July 7, 1998 were able to choose between two Multipliers.
  - A multiplier of 2.22%, including overtime and lump-sum payments for unused vacation, sick-pay, etc.
  - A multiplier of 2.5% of base pay only, excluding overtime or lump sum payments
- Members hired on or after July 12, 1998 are subject to the 2.5% multiplier of base pay only.
- Members hired on or after January 1, 2010 are subject to a 2.20% multiplier of base pay only. (Task Force I)
- The current Benefit Multipliers are in use as follows:
  - 2.22% → 92 active members (2% of actives)
  - 2.20% → 221 active members (4% of actives)
  - 2.50% → 4,920 active members (94% of actives)

Cost of Living Increase (COLA)

Currently a retired member's monthly benefit increases on each anniversary of their retirement date by a compounded rate of 3%.

Retirement Eligibility Requirements

A member can retire as follows:

- Any age with 30 years of service
- Age 60 with at least 5 years of service
- Age 55 with 25 years of service (benefit is actuarially reduced)

Summary of Results

Scenario	Death Benefit	COLA	Highest Average Salary Formula	Benefit Multiplier	Retirement Elgibility Requirements	Employee Contribution (% of Pay)***	City Contribution (% of Pay)	1/1/2012 Cash Infusion Amount ($ millions)	Projected Funded Ratio (2038)
CURRENT	$7,500	3% Compounded	3 years	2.5% or (2.22% with Lump Sum & O.T.) 2010 Hire: 2.2% (No Lump Sum or O.T.)	Age 60 w/ 5 yrs. 2010 Hire: 65 w/5 yr Age 55 w/25 yrs. 2010 Hire: 60 w/25 yr No Age - 30 yrs. 2010 Hire: 55 w/30 yr	9% by 2013	17%		
1a*	$2,000	Compound - Indexed w/ 3% Cap Applies to those who become eligible to retire on or after 1/1/2016	5 Years Applies to those who become eligible to retire on or after 1/1/2016	Current	**Transition group**: As of 1/1/2011, employees with 23 years of service or 7 years from retirement, are subject to current eligibility rules. **For those who were hired prior to 1/1/2010 and do not qualify for the transition group:** Normal Retirement: Age 62 & 5 years, or age 55 & 30 years Reduced Retirement: Age 57 & 25 years **For those who are hired on of after 1/1/2010:** Normal Retirement: Age 65 & 5 years, or age 55 & 30 years Reduced Retirement: Age 60 & 25 years	10.00%	19.00%	$0.0	0%
1b**								**$439.5**	**80%**
1c*							24.00%	$0.0	0%
1d**								**$330.0**	**80%**
1e*							31.00%	$0.0	42%
1f**								**$177.0**	**80%**
2a*		Simple - Indexed w/ 3% Cap Applies to those who become eligible to retire on or after 1/1/2016					19.00%	$0.0	0%
2b**								**$428.5**	**80%**
2c*							24.00%	$0.0	0%
2d**								**$319.0**	**80%**
2e*							31.00%	$0.0	44%
2f**								**$166.0**	**80%**
3a*	$0	Simple - Level 1.5% Applies to those who become eligible to retire on or after 1/1/2011	5 Years Applies to those who become eligible to retire on or after 1/1/2011				19.00%	$0.0	0%
3b**								**$333.5**	**80%**
3c*							24.00%	$0.0	15%
3d**								**$224.0**	**80%**
3e*							31.00%	$0.0	74%
3f**								**$70.8**	**80%**
4a*				Current, except for those who were hired prior to 1/1/2010 and do not qualify for the transition group (reduced to 2.2%)	Transition group: 23 years of service or 7 years from retirement. For those who do not qualify for the transition group: Normal Retirement: 65&5 or 60&30 Reduced Retirement: 60&25	9.00%	19.00%	$0.0	0%
4b**								**$310.8**	**80%**
4c*							24.00%	$0.0	24%
4d**								**$201.3**	**80%**
4e*							30.76%	**$0.0**	**80%**
4f**								**$53.3**	**80%**

* City Contribution (%of Pay) begins 1/1/2012
** City Contribution (%of Pay) begins 1/1/2013
*** Once phase-in period is complete

Plan Option 1

<table>
<tr><th>Option</th><th>City Contribution (% of Pay)</th><th>1/1/2012 Cash Infusion Amount ($ millions)</th><th>Projected Funded Ratio (2038)</th><th>Death Benefit</th><th>Compound COLA Indexed w/3% Cap</th><th>Highest Average Salary Formula</th><th>Benefit Multiplier</th><th>Retirement Eligibility Requirements</th><th>Employee Contribution (% of Pay)</th></tr>
<tr><td>1a</td><td>19% Begins 1/1/2012</td><td>$0.0</td><td>0%</td><td rowspan="6">$2,000</td><td rowspan="6">Applies to those who become eligible to retire on or after 1/1/2016</td><td rowspan="6">5 Years

Applies to those who become eligible to retire on or after 1/1/2016</td><td rowspan="6">Current</td><td rowspan="6">Transition group:
23 years of service or 7 years from retirement.

For those who were hired prior to 1/1/2010 and do not qualify for the transition group:
Normal Retirement: 62&5 or 55&30
Reduced Retirement: 57&25

For those who are hired on of after 1/1/2010:
Normal Retirement: 65&5 or 55&30
Reduced Retirement: 60&25</td><td rowspan="6">10%
Once Phase-in Period Complete</td></tr>
<tr><td>1b</td><td>19% Begins 1/1/2013</td><td>$439.5</td><td>80%</td></tr>
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<tr><td>1d</td><td>24% Begins 1/1/2013</td><td>$330.0</td><td>80%</td></tr>
<tr><td>1e</td><td>31% Begins 1/1/2012</td><td>$0.0</td><td>42%</td></tr>
<tr><td>1f</td><td>31% Begins 1/1/2013</td><td>$177.0</td><td>80%</td></tr>
</table>

Impact to employee with 30 years of service, 2.5% multiplier, and highest average salary of $50,000

	Death Benefit	Yr. 1 Pension	Yr. 15 Pension	Yr. 25 Pension	Cumulative Impact Over 25 Years
Current Plan	$7,500	$36,593	$55,350	$74,386	No Change
Plan Option 1	$2,000	$35,715	$50,464	$64,598	- 8.5%, or - $114,209

Plan Option 2

Option	City Contribution (% of Pay)	1/1/2012 Cash Infusion Amount ($ millions)	Projected Funded Ratio (2038)	Death Benefit	Simple COLA Indexed w/3% Cap	Highest Average Salary Formula	Benefit Multiplier	Retirement Eligibility Requirements	Employee Contribution (% of Pay)
2a	19% Begins 1/1/2012	$0.0	0%	$2,000	Applies to those who become eligible to retire on or after 1/1/2016	**5 Years** Applies to those who become eligible to retire on or after 1/1/2016	Current	**Transition group**: 23 years of service or 7 years from retirement. **For those who were hired prior to 1/1/2010 and do not qualify for the transition group:** Normal Retirement: 62&5 or 55&30 Reduced Retirement: 57&25 **For those who are hired on of after 1/1/2010:** Normal Retirement: 65&5 or 55&30 Reduced Retirement: 60&25	10% Once Phase-in Period Complete
2b	19% Begins 1/1/2013	$428.5	80%						
2c	24% Begins 1/1/2012	$0.0	0%						
2d	24% Begins 1/1/2013	$319.0	80%						
2e	31% Begins 1/1/2012	$0.0	44%						
2f	31% Begins 1/1/2013	$166.0	80%						

Impact to employee with 30 years of service, 2.5% multiplier, and highest average salary of $50,000

	Death Benefit	Yr. 1 Pension	Yr. 15 Pension	Yr. 25 Pension	Cumulative Impact Over 25 Years
Current Plan	$7,500	$36,593	$55,350	$74,386	No Change
Plan Option 2	$2,000	$35,715	$48,215	$57,144	- 13%, or - $173,416

Plan Option 3

Option	City Contribution (% of Pay)	1/1/2012 Cash Infusion Amount ($ millions)	Projected Funded Ratio (2038)	Death Benefit	Simple COLA Level 1.5%	Highest Average Salary Formula	Benefit Multiplier	Retirement Eligibility Requirements	Employee Contribution (% of Pay)
3a	19% Begins 1/1/2012	$0.0	0%	$0	Applies to those who become eligible to retire on or after 1/1/2011	**5 Years** Applies to those who become eligible to retire on or after 1/1/2011	Current	**Transition group**: 23 years of service or 7 years from retirement. **For those who were hired prior to 1/1/2010 and do not qualify for the transition group:** Normal Retirement: 62&5 or 55&30 Reduced Retirement: 57&25 **For those who are hired on of after 1/1/2010:** Normal Retirement: 65&5 or 55&30 Reduced Retirement: 60&25	10% Once Phase-in Period Complete
3b	19% Begins 1/1/2013	$333.5	80%						
3c	24% Begins 1/1/2012	$0.0	15%						
3d	24% Begins 1/1/2013	$224.0	80%						
3e	31% Begins 1/1/2012	$0.0	74%						
3f	31% Begins 1/1/2013	$70.8	80%						

Impact to employee with 30 years of service, 2.5% multiplier, and highest average salary of $50,000

	Death Benefit	Yr. 1 Pension	Yr. 15 Pension	Yr. 25 Pension	Cumulative Impact Over 25 Years
Current Plan	$7,500	$36,593	$55,350	$74,386	$0
Plan Option 3	$2,000	$35,715	$43,215	$48,572	- 21% or - $280,561

Plan Option 4

Shown to illustrate the level of benefit reductions needed to significantly reduce funding requirements. RETROACTIVELY reduces benefits that were already earned by employees over as many as 20+ years.

Option	City Contribution (% of Pay)	1/1/2012 Cash Infusion Amount ($ millions)	Projected Funded Ratio (2038)	Death Benefit	Simple COLA Level 1.5%	Highest Average Salary Formula	Benefit Multiplier	Retirement Eligibility Requirements	Employee Contribution (% of Pay)
4a	19% Begins 1/1/2012	$0.0	0%	$0	Applies to those who become eligible to retire on or after 1/1/2011	**5 Years** Applies to those who become eligible to retire on or after 1/1/2011	Current, except for those who are hired prior to 1/1/2010 and do not qualify for the transition group (reduced to 2.2%)	**Transition group:** 23 years of service or 7 years from retirement. **For those who do not qualify for the transition group:** Normal Retirement: 65&5 or 60&30 Reduced Retirement: 60&25	9% Once Phase-in Period Complete
4b	19% Begins 1/1/2013	$310.8	80%						
4c	24% Begins 1/1/2012	$0.0	24%						
4d	24% Begins 1/1/2013	$201.3	80%						
4e	30.76% Begins 1/1/2012	$0.0	80%						
4f	30.76% Begins 1/1/2013	$53.3	80%						

Impact to employee with 30 years of service, 2.5% multiplier, and highest average salary of $50,000

	Death Benefit	Yr. 1 Pension	Yr. 15 Pension	Yr. 25 Pension	Cumulative Impact Over 25 Years
Current Plan	$7,500	$36,593	$55,350	$74,386	No Change
Plan Option 4	$2,000	$31,429	$38,029	$42,743	- 30.5%, or - $406,992

Note. The change in multiplier does not affect members hired prior to 7/12/98 who chose the 2.22% formula with lump sum payouts includable in their highest average salary.

Healthcare Options

Retiree healthcare coverage is not a statutorily provided benefit by the Cincinnati Retirement System. However, it is strongly desirable to continue to provide healthcare coverage to current and future retirees. Many retirees were not required to pay Medicare taxes during their City employment and therefore are not eligible for “premium free” Medicare Part A (generally, inpatient hospital expenses). Currently, CRS replaces Medicare Part A for these retirees. Steps must be taken to support the long-term solvency of the healthcare trust.

- No further employee or employer contributions will be allocated to the healthcare trust until the pension trust has achieved a minimum 80% funded level.
- All retirees are to be moved to the same healthcare plan provided to active employees effective 1/1/2011.
- Eliminate reimbursement of Medicare Part B 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 and age, with consideration for low income retirees.
- Implement a minimum age requirement of 55 to be eligible for retiree healthcare coverage. And, consider a higher cost sharing arrangement for retirees before a certain age requirement, such as age 60.
- Develop a separate investment strategy for the healthcare trust assets, balancing the need for capital preservation.
- Assign a committee to focus on developing a comprehensive approach to providing retiree healthcare coverage, with a focus on rewarding smart consumerism, supporting wellness and prevention initiatives, and seeking potential purchasing cooperatives.

Observations and Comments by Members of Task Force II

(All Task Force II members were offered the opportunity to submit observations and comments to this section)

Chris Stenger
Principal, Buck Consultants
As is so painfully understood, the City Retirement Plan as now structured is far too risky a proposition for the City to continue to carry. The risk is asymmetrical. Once set, the benefits are expected forever. But if investment returns do not meet expectations, the City bears the underfunding risk. Of course, the taxpayers ultimately bear the risk for underfunding. How the taxpayers respond to that will be settled in future elections. What seems certain is that no one sees the beneficiaries (retired or active) as anything but victims. Yet an employee can receive more in retirement benefits (while not working) than that same employee earned while working! That's not counting retiree healthcare.

What the City now has is a system of benefits that is far too rich by any corporate standard, made worse by a 3% COLA (cost of living adjustment), and huge unfunded healthcare benefits.

Only a few of the task force recommendations even get the City back to a minimum 80% funding stability, and they include difficult remedies. What is needed is a further restructuring of the retirement package to adjust the benefit to one the City can afford (contributions), and where risks are shared.

Some next steps:
1) Look seriously at a cash balance plan (DB) or one similar to the Federal Thrift Savings Program (DC).
2) Reduce the COLA as far and as soon as possible; discontinue for new hires immediately.
3) Set retirement age at 65, and actuarially adjust anything earlier.
4) Get the City out of the retiree healthcare business to the greatest extent and as soon as possible. There are strategies to do this.

It will take time and perseverance. But it can be done.

Daniel W. Geeding
VP, CFO, Health Foundation of Greater Cincinnati
The 8% assumed long term rate of return and the 8% discount rate are unrealistic. If they are reduced to rates being used today, the magnitude of the problem becomes much worse.

Linda Graviss
Retiree, University of Cincinnati
The Plan Options described in the report are intermediate steps toward plan solvency. Given the structural imbalance of the system, which has 1.4 retirees for every one employee, a condition that is not likely to reverse, it will be difficult if not impossible to achieve full 100% or even 80% plan solvency on a sustainable basis. I therefore recommend that the City with all due haste pursue merging the CRS into the Ohio Public Employees Retirement System, fully funding the unfunded liability with long-term pension obligation bonds. This solution would benefit the City by getting it out of the pension business entirely and would benefit current and future retirees by moving them into a financially more stable retirement system.

Francis Wagner
Retiree, City of Cincinnati
Age & Service Eligibility need to be raised, possibly mirroring OPERS, reflecting the demographic reality that Americans are living longer, thus, their pensions need to continue longer. It is not inconceivable that increasingly City retirees will receive pensions for more years than the 30 years they worked because of today's life expectancies. I suggest there be a two tier eligibility status: one for laborers and a higher level for office and management employees who are not performing in physically demanding positions.

Long term, it has been suggested that the City explore enrolling all future employees in OPERS. I suggest that the City go further and explore the long-term cost savings of enrolling future employees in Social Security, thus phasing the City out of the pension administration activity.

Cathy Crain
Community Representative
The 8 percent expected return for the Retirement Fund needs to be reviewed and it must be determined whether that number is too high. It must be recognized by all that a reduction in the expected return also has a negative impact on the ongoing unfunded liability funding requirements. There is no magic bullet to this very complex and multi party issue. It will take sacrifices from all parties and we should understand that the solutions will come over a long period of time. Ultimately, this plan should be moved into OPERS as we become funded.

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

All pension systems struggle in today's economy, with increasing longevity and skyrocketing medical costs. The city has compounded this problem by eliminating or contracting out hundreds of positions that would otherwise have been making contributions to CRS. Today the system has far more retirees (4649) than active employees (3088). Additionally, the city has failed to make its required contribution to the plan for a number of years. During that time employees have made and even increased their contributions. At the same time the city rolled back a millage that saved tax payers only pennies but made it more difficult for the city to make its required payments to the fund.

Any solution must include the city paying back the more than $100 million dollars it has shorted the fund and reinstating the millage so that it can meet its obligation going forward. At this time AFSCME does not support any one of the taskforce options, but stands ready to work with the city in the appropriate arena to craft a solution that preserves CRS, includes paying back the employer's shortage and reinstating the millage so that the city can meet its obligation to its employees who count on this pension as their only retirement.

The average AFSCME member earns around $35,000 a year. After a 30 year career with the city that entitles them to a $23,100 annual retirement – with no social security. Many of the jobs performed by city employees are physically demanding and difficult. Many are not jobs that someone in their 60s can easily do. Reductions in city employees' pension and additional years of required service will not be easy burdens for AFSCME members to bear.

Appendix A

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 80% funded level.
- It is the established authority of the Cincinnati Retirement System Investment Committee to review and establish the investment rates of return for the pension and the healthcare trusts.

Healthcare is Desirable, but Secondary

- No contributions will be applied to the retiree healthcare trust until the pension program achieves an 80% funded level.
- Modifications should be made to the healthcare benefits to extend the years of financial solvency.
- Length of service and age 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.
- It is expected that the discount rate for the healthcare trust will be adjusted by the actuary as the assets decrease.

Appendix B

<u>Employer</u> Contributions to Cincinnati Retirement System

Plan Year (A)	Normal Cost	Unfunded Liability	Recommended % Contribution	Actual % Contribution	Actual $ Contribution	Contribution Excess / (Shortfall)	Cumulative Difference
2000 (B)	-7.10%	0.00%	-7.10%	7.00%	$12,521,000	$12,521,000	$12,521,000
2001 (B)	-8.30%	0.00%	-8.30%	7.00%	$13,375,000	$13,375,000	$25,896,000
2002 (B)	14.43%	-19.25%	-4.82%	7.00%	$12,756,000	$12,756,000	$38,652,000
2003	13.44%	-10.44%	3.00%	7.00%	$12,620,000	$5,409,000	$44,061,000
2004	13.10%	-1.85%	11.25%	11.00%	$19,336,000	-$439,000	$43,622,000
2005	13.50%	9.50%	23.00%	11.00%	$19,062,000	-$20,795,000	$22,827,000
2006	14.43%	10.44%	24.87%	17.00%	$28,639,000	-$13,259,000	$9,568,000
2007	13.50%	8.27%	21.77%	21.77%	$33,308,000	$0	$9,568,000
2008	14.23%	24.48%	38.71%	17.00%	$26,434,000	-$33,758,000	-$24,190,000
2009	14.61%	19.71%	34.32%	17.00%	$27,900,000	-$28,425,000	-$52,615,000
2010 (C)	11.39%	40.72%	52.11%	17.00%	$27,900,000	-$57,622,000	**-$110,237,000**

Notes:

(A) Contribution for plan year lags the actuarial valuation by two years. For example, contribution for plan year 2009 is based on actuarial valuation for year ending 12/31/2007.

(B) For years with a negative "Recommended Contribution" and a positive "Actual Employer Contribution", the "Contribution Excess" reflects only the amount above $0. The "Contribution Excess" does not include credit for the recommended negative contribution. Retirement law restricts the withdrawal of excess funding amounts from the retirement plan.

(C) Contribution for 2010 incorporates recommendations adopted by City Council from Task Force I. Contributions are projected for the 2010 calendar year based on the 2010 budget.

(D) Contribution rates do not include charges for 2007 ERIP plan. The ERIP costs are paid by the City in addition to the employer rate shown.

Appendix C

Active Members by Age and Service as of 12/31/2009

	Completed Years of Service							
Age	0 – 4	5 – 9	10 – 14	15 – 19	20 – 24	25 – 29	30+	Total
Under 20	15							15
Avg Pay	1,373							1,373
20 - 24	47	2						49
Avg Pay	26,798	40,235						27,347
25 - 29	133	48	1					182
Avg Pay	32,255	42,499	54,467					35,079
30 - 34	98	84	27	1				210
Avg Pay	37,307	45,002	49,619	38,306				41,973
35 - 39	93	109	76	35	1			314
Avg Pay	42,748	48,420	48,782	52,733	43,321			47,292
40 - 44	71	117	78	110	88	2		466
Avg Pay	43,525	46,958	53,090	54,506	55,703	49,920		50,907
45 - 49	66	77	84	147	211	52	3	640
Avg Pay	39,875	45,834	53,112	54,596	58,452	60,402	56,061	53,579
50 - 54	50	67	61	112	171	153	21	635
Avg Pay	52,570	44,430	49,555	51,026	55,117	61,920	58,262	54,276
55 - 59	24	45	47	64	128	82	22	412
Avg Pay	55,995	49,649	52,226	51,616	55,005	59,837	69,654	55,378
60 - 64	12	28	18	38	48	12	12	168
Avg Pay	65,317	54,828	50,741	52,151	52,825	57,426	65,293	54,894
65 - 69		3	7	10	10	7	4	41
Avg Pay		34,781	51,268	56,294	57,099	59,804	61,321	55,148
70 & Over			3		6		7	16
Avg Pay			51,558		39,341		58,845	50,164
Total	609	580	402	517	663	308	69	3,148
Avg Pay	38,883	46,642	51,264	53,130	55,938	60,808	63,258	50,505

Appendix D

Retired Members and Beneficiaries as of 12/31/2009

Pension Plan Only

Attained Age	Number of Members	Total Annual Benefits	Average Annual Benefit
39 & Under	4	61,301	15,325
40 - 44	9	73,467	8,163
45 - 49	36	593,889	16,497
50 - 54	220	8,349,327	37,951
55 - 59	550	22,126,706	40,230
60 - 64	798	28,684,156	35,945
65 - 69	579	18,786,435	32,446
70 - 74	611	17,347,375	28,392
75 - 79	572	15,153,432	26,492
80 - 84	498	11,273,787	22,638
85 - 89	353	7,213,538	20,435
90 - 94	126	2,018,776	16,022
95 - 99	49	813,737	16,607
100 & Over	8	148,576	18,572
Total	**4,413**	**132,644,502**	**30,058**

Appendix E

Comparison of CRS and OPERS Benefits

	CRS Current	CRS Proposed	OPERS Current	OPERS Proposed
Benefit Formula	2.5% of highest avg. salary for most, 2.2% for hires after 12/31/2009	No change for Options 1 to 3. See Option 4.	2.2% of highest avg. salary for first 30 yrs., 2.5% thereafter	2.2% of highest avg. salary for first 35 yrs., 2.5% thereafter
Highest Average Salary	Three highest consecutive yrs. of salary	Five highest consecutive yrs. of salary	Three highest calendar yrs. of salary	Five highest calendar yrs. of salary
Cost of Living Adjustment (COLA)	3% compounded	See Options.	3% simple	Simple tied to CPI with 3% cap
Age & Service Eligibility	See Options.	See Options.	Normal - Any age w/ 30 yrs., - Age 65 w/ 5 yrs. Reduced - Age 55 w/ 25 yrs. - Age 60 w/ 5 yrs.	Normal - Age 55 w/ 32 yrs. - Age 67 w/ 5 yrs. Reduced - Age 57 w/ 25 yrs. - Age 62 w/ 5 yrs.
Employee Contribution Rate	7.5% for 2010, 8.0% for 2011, 8.5% for 2012, 9.0% for 2013 thereafter	Options 1 to 3, increase to 10% by 2015 Option 4, see current	10%	No change
Employer Contribution Rate	17% for 2010	See Options.	14%	No change

Appendix F

Task Force Members	Staff Support
City Administration Milton Dohoney, Jr. City Manager City of Cincinnati	Kathy Creager Interim Finance Director Jack Walsh City Treasurer Lea Eriksen Director, Budget & Evaluation Hilary Bohannon Human Resources Director Paula Tilsley Executive Director, CRS
City Council Representative Laketa Cole Chair, Finance Committee City of Cincinnati	
Retirement Board of Trustees Brian Pickering Chair, Retirement Board	
AFSCME Marianne Steger Director of Health Care and Public Policy Ohio Council 8, AFSCME, AFLCIO	
CODE Diana Frey CODE Representative Metropolitan Sewer District	
Community Representatives Cathy Crain Daniel W. Geeding, VP, CFO Health Foundation of Greater Cincinnati James F. Girton, VP, Director Employee Benefits Fifth Third Bank Linda Graviss, Retiree University of Cincinnati Chris Stenger, Principal, Retirement Consultant Buck Consultants Francis Wagner, Retiree City of Cincinnati	

Appendix G

Projection Assumptions

- 12/31/2008 Valuation Basis
    - 5-yr asset smoothing with a 20% corridor
    - Liabilities valued with 8.00% discount rate

- 2009 Investment Return to Date
    - Positive 2009 – assumed 19.76% return

- 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

- Implementation of Blue Modified and Carve-Out Plan