The City Council
Task Force Report
September 2008

Task Force Report

Table of Contents

Task Force Members

As stated in the City Council Motion:
The membership of the Task Force shall include:

1. The City Manager
2. The Chairperson of the Retirement Board
3. A representative from AFSCME
4. A representative from CODE
5. A maximum of six community members based upon their expertise in the areas of investment, actuarial projections, and/or pension systems.

<u>City Administration</u>

Milton Dohoney, Jr.
City Manager
City of Cincinnati

<u>Chair of Retirement Board</u>

Marijane Klug
Manager, Financial Services
Cincinnati Park Board

<u>AFSCME</u>

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

<u>CODE</u>

John Brazina (Proxy for Diana Frey, MSD)
Cincinnati Dept. Transportation/Engineering

<u>Community Representatives</u>

Cathy Crain

Francis Wagner (City of Cincinnati, Treasury retiree)

Linda Graviss (University of Cincinnati retiree)

James Girton VP, 5th 3rd Bank
Director, Employee Benefits

Chris Stenger, Cincinnati Bell
Pension Director

Report of the City Council Task Force for Retirement Security

September 2008

Table of Contents

Report of the City Council's Task Force for Retirement Security Regarding the Cincinnati Retirement System

Executive Summary

1. The City Council Task Force for Retirement Security met 11 times from March 2008 through July 2008 in order to complete the charge given to them by the City Council.
2. After review of 6 proposals, the Task Force hired Buck Consultants as independent actuary.
3. The Task Force members thoroughly reviewed, discussed, and evaluated the current pension and healthcare benefits of the CRS. This included a comprehensive analysis of actuarial data including: Actuarial accrued unfunded liabilities, City and employee contribution rates, funded ratios, pension benefit provisions, and retiree healthcare plans and provisions.
4. Members of the Task Force meticulously analyzed comparison data of the four statewide Ohio public retirement plans. Comparison data reviewed were employer and employee contribution rates, service retirement provisions, benefit calculations, retiree healthcare benefits and, healthcare actuarial funded ratios.
5. Task Force members methodically analyzed, discussed and evaluated the report *Independent Actuarial Review of the Retirement System for Employees of the City of Cincinnati* presented by Buck Consultants. (Attachment E) The report offered 12 recommendations for consideration. In addition, the report expressed four options for reducing or stabilizing the City's expected future contributions. The members of the Task Force carefully deliberated over each option.
6. Actuarial data were presented to the Task Force in the report *Benefit Alternatives for the Cincinnati Retirement System.* (Attachment H) Members of the Task Force painstakingly reviewed, discussed, and deliberated over each benefit alternative. The deliberations included: description of each alternative; basis of actuarial calculations; summary of cost for plan alternatives; and pricing assumption for medical plan considerations.
7. After several weeks of thoroughly scrutinizing and exhaustively reviewing CRS plan provisions, public fund comparisons, actuarial data, and retirement benefits, the Task Force produced a listing of recommendations for the City Council. The recommendations, as a package, provide for the long-term financial security of the CRS. The Task Force carefully constructed the package of benefits with three over-riding considerations: 1) long-term financial security of the CRS; 2) fairness to retirees regarding benefits; and 3) City's ability, long-term, to pay for retirement benefits.

The package of recommendations requires sacrifice from retirees, active employees, and future employees. Further, it requires discipline on the part of the City to pay in entirety the Annual Required Contribution every year. While complete unanimity was not reached on all of the recommendations, a majority of the Task Force strongly urges City Council to consider the listing of recommendations as a package. They hope the council will not pick and choose among them.

8. The recommendations may be found on page 5 of this report. The recommendations are categorized according to immediacy of financial impact on the CRS.

    a. Short-term = financial impact shown on actuarial valuation immediately following implementation
    b. Mid-term = financial impact not fully recognized on actuarial valuation until fully implemented, approximately 4 years
    c. Long-term = financial impact will not be fully recognized on actuarial valuation for approximately 20-30 years

Recommendations of the City Council Task Force for Retirement Security

• Recommendation	Unfunded Liability	Funded Ratio	City Required Contribution	
($ millions)			(Dollars)	(% payroll)
Current plan (2007 Valuation)	**$307.45**	**89.5%**	**$51.022**	**34.32%**
Short-Term Recommendations:				
• Replace Pre-September 2007 retiree medical plan with a Modified PPO for existing retirees: ($1,000 out-of-pocket limit on prescription drugs; $100 deductible, $1,000 limit on medical out-of-pocket; Prescription drug tiers: $5 generic; $15 brand; $30 non-formulary; Eliminate traditional indemnity plan; Revise coordination with Medicare; Change amortization of actuarial accrued unfunded liability from 15 years to 30 years	$169.93 (-$137.52)	93.9%	$28.90 (-$22.12)	19.4%
• For Pre-September 2007 retirees who meet the following criteria: 70 years of age or older; 30 or more years of service credit with the CRS; annual benefit of $20,000 or less- mitigate some of the financial stress caused by the Modified PPO with the following changes: o Reduce deductible from $100 to $0 o Reduce maximum medical out-of pocket from $1,000 to $500 o Reduce maximum prescription drug out-of-pocket from $1,000 to $500	$170.29 (+$.36)	93.9%	28.94 (+$0.04)	19.44%

- The City Budget Office should develop a policy that emphasizes and insures a disciplined payment of the Annual Required Contribution to the CRS

- Increase length of term for actuarial smoothing of gains and losses from 5 years to 10 years. This will allow for a more consistent, less volatile contribution rate and will help the City's Budget Office to plan long-term

- Future retirees (retirements since September 2007) to remain on similar healthcare plans as current employees

Recommendation	**Unfunded Liability**	**Funded Ratio**	**City Required Contribution**	
($ millions)			**(dollars)**	**(% payroll)**
Current plan (2007 Valuation)	**$307.45**	**89.5%**	**$51.022**	**34.32%**
<u>Mid-Term Recommendations:</u>				
• Increase employee contribution rate ½ % per year for 4 years. Employee contribution rate will increase from7% to 9% from 2009 to 2012	(no change)	(no change)	$48.049 ($-2.973)	32.32%

Long-Term Recommendations:

- For new hires after December 21, 2008:
  Increase age for normal retirement from 60 to 65;
  Increase age for early retirement from 55 to 60;
  Add minimum age of 55 to retirement with 30 or greater years of service. Decrease retirement formula factor from 2.5% to 2.2% for new hires (small change in financial, actuarial data for several years)

Recommendation	Unfunded Liability	Funded Ratio	City Required Contribution	
($ millions)			**(dollars)**	**(% payroll)**
Current plan (2007 Valuation)	**$307.45**	**89.5%**	**$51.022**	**34.32%**
Actuarial Totals for implementation of Recommendations:	**$170.29 (-$137.16)**	**93.9%**	**$25.967 (-$25.055)**	**17.46%**

Additional Recommendation Regarding Future Sources of Funding:

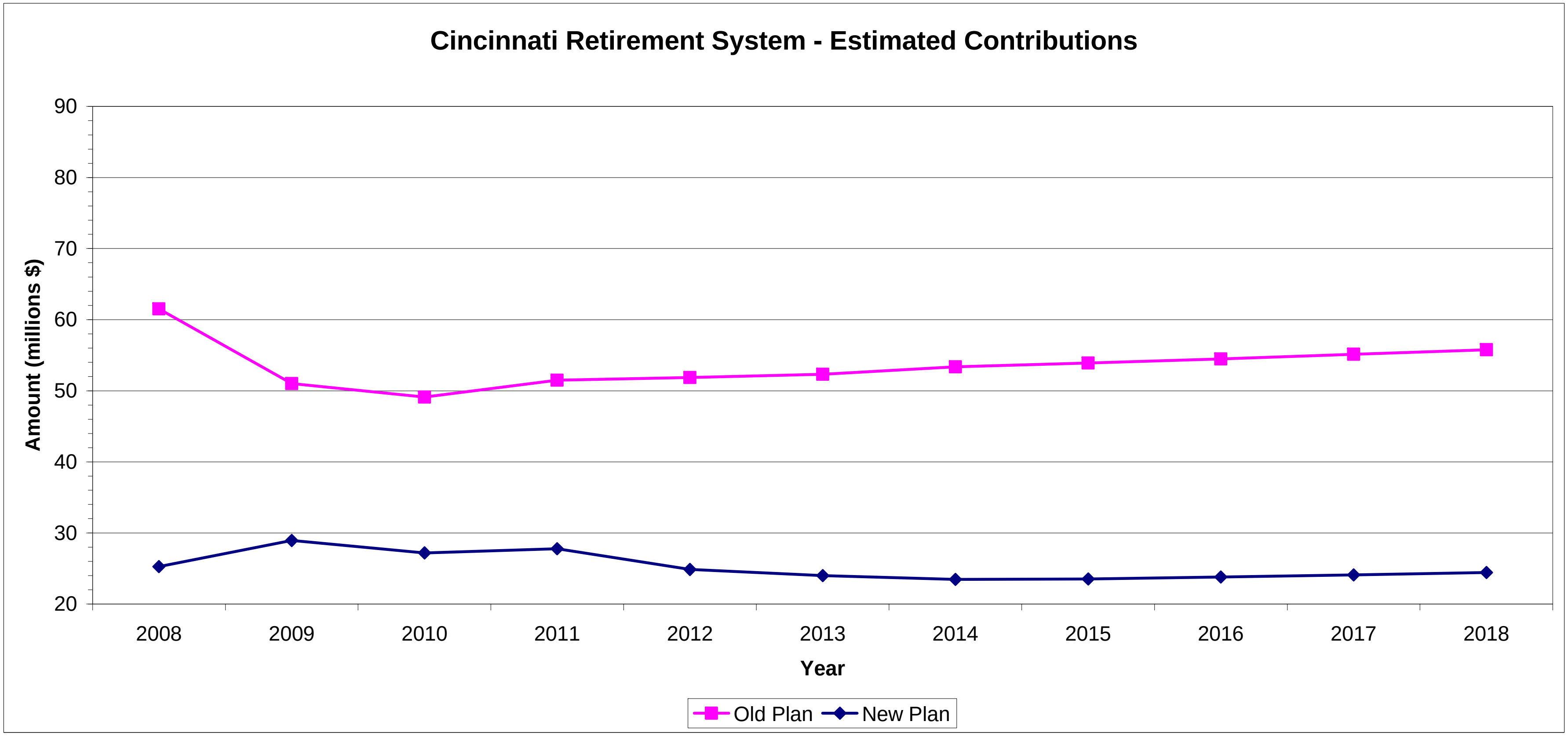
- Research issuance of tax-exempt pension obligation bonds to retire current actuarial accrued unfunded liability
- Restore 6.1 Millage and allocate 1/3 to retirement of actuarial accrued unfunded liability
- On a periodic, systematic schedule, review market alternatives for Medicare eligible retirees and dependents for Healthcare coverage and prescription drug coverage

Ten-year Projections

Estimated Contributions in Dollars (page 9)

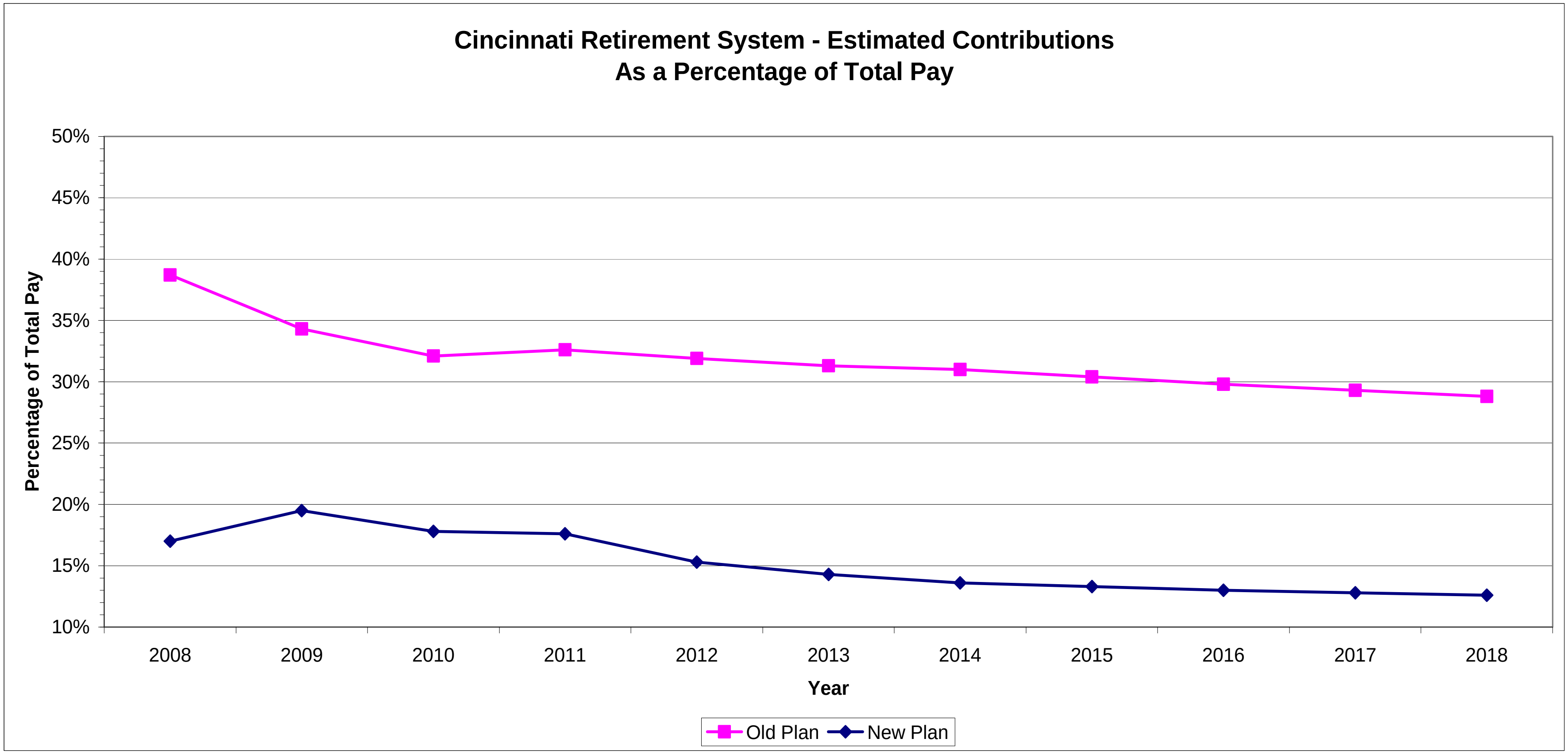
Estimated Contributions as a Percentage of Payroll (page 10)

Estimated Fund Status (page 11)
(Actuarial value of assets/Actuarial value of liabilities)



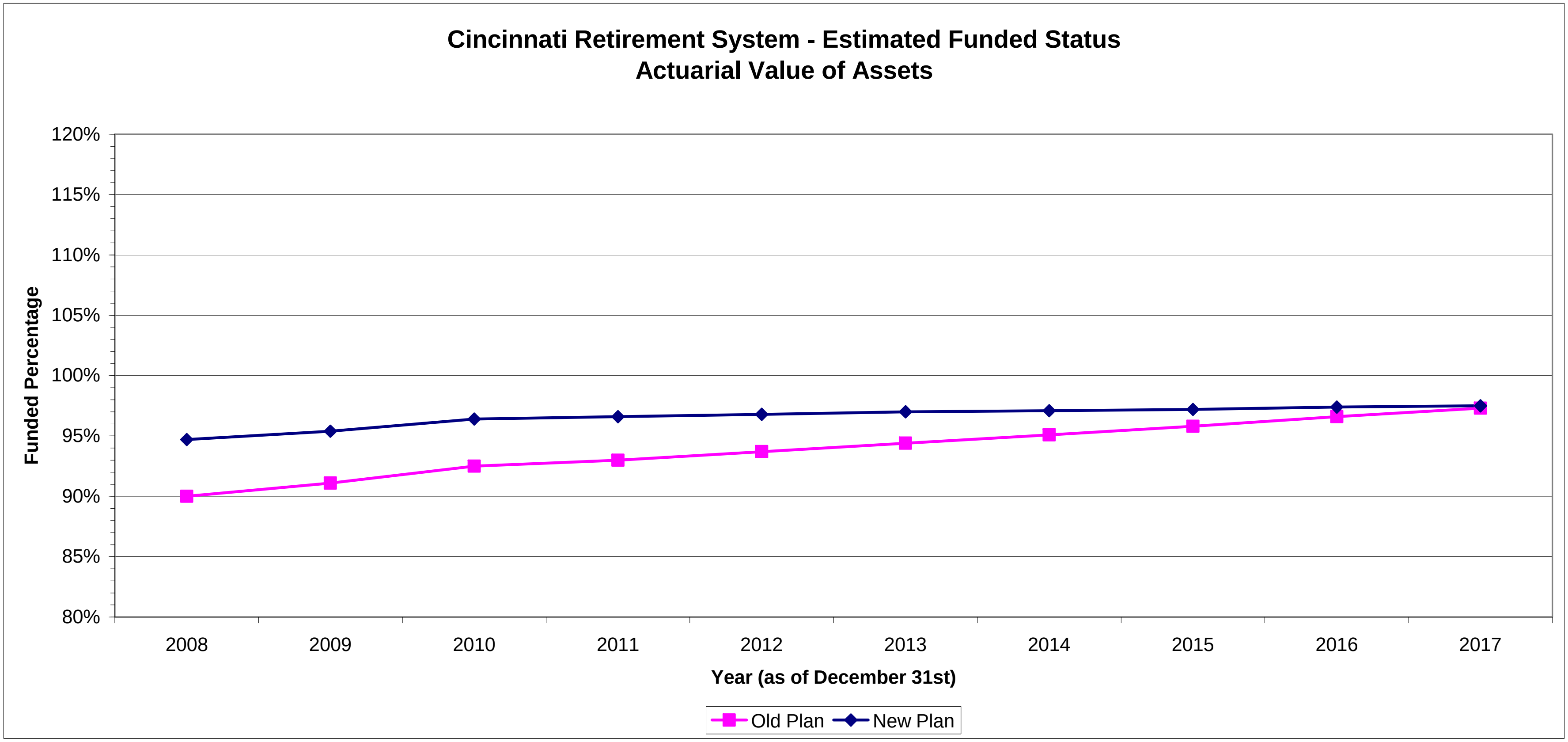
	Year Ending									
	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Actual Asset Return	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%

The New Plan is the CRS including the package of recommendations made by the Task Force. The graph illustrates that if all assumptions are met, including earning 8% on assets and the City making the required contributions, the annual required contribution for the new plan will increase slightly till 2012. The slight increase till 2011 is due to the City's decision to under fund the annual required contribution. Over the ten year period, the annual required contribution will remain relatively constant at approximately $25-29 million.



	Year Ending									
	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Actual Asset Return	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%

The New Plan is the CRS including the package of recommendations made by the Task Force. Over the next ten years, the contribution as a percentage of payroll is projected to decrease from 17.46% in 2008 to approximately 13% in 2017. The projection is based on actuarial assumptions being met, including the CRS earning 8% on assets and the City making the annual required contributions.



	Year Ending									
	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Actual Asset Return	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%

The New Plan is the CRS including the package of recommendations made by the Task Force. The funded ratio of the new plan will begin in 2008 at a healthy 93.9%. In 2017, the funded ratio will improve to approximately 97% if all assumptions are met and the City contributes the annual required contributions.

Objectives of the City Council Task Force for Retirement Security

November 15, 2007 the City Council established a Task Force to make recommendations to City Council to insure the long-term solvency of the Cincinnati Retirement System (CRS). The Task Force was to hire an independent actuary. After hiring the independent actuary, the Task Force was to examine the actuarial assumptions underlying projections of the financial condition of the CRS, the impact of current and future retiree health care benefits on the CRS, and the impact of any changes in health care benefits on the solvency of the CRS.

The Task Force was charged to recommend to the Mayor and the City Council the following:

1. Any administrative and procedural changes that would reduce costs, including opening to bid provision of health care coverage.
2. Any changes in contribution rates, actuarial assumptions, benefit calculations that should be instituted to insure the solvency of the CRS.
3. Any reforms that would protect the City of Cincinnati's General Fund from continuously increasing contribution requirements.
4. The Task Force should examine all possible improvements and changes that would reduce the long-term liabilities of the taxpayers of Cincinnati.
5. Any recommendations should recognize the needs of individuals who retired due to disability, and whose service retirement was not calculated under 2.2%/2.5% upon reaching age 65.

The Task Force was to present to the Mayor and Council alternatives by which the Council can insure the long-term financial solvency of the Cincinnati Retirement System by June 1, 2008. Because the work of the Task Force was dependent upon numerous actuarial calculations and in-depth discussions, the final report, including Task Force recommendations, could not be compiled and submitted until September 2008.

The Decision-making Process of the City Council Task Force for Retirement Security

The initial meeting of the City Council Task Force for Retirement Security was held on March 11, 2008. In this meeting, the Task Force members determined to meet every other Tuesday until the assignment was completed.

The Task Force reviewed and discussed the following reports:

- Description of Benefits for both Active Employees and Retirees *Attachment A*
- Financial Data Regarding Retiree Healthcare Coverage and Contributions *Attachment B*
- Comparison of Healthcare Benefits with other public retirement systems in Ohio *Attachment C*
- Description of 80/20 Health Plan
- Enrollment Data for both Active Employees and Retirees
- Employer Cost of Health Care provided to both Active Employees and Retirees
- Timeline of Health Plan changes for Active Employees (No changes have been made to Retiree Healthcare).

In addition, the Task Force began the request-for-proposal (RFP) process for hiring an independent actuary. The Task Force chose independent actuaries to whom an RFP for an independent pension and post-retirement health actuarial review would be sent. Each actuary was to provide the Task Force with a proposal for:

1. Scope of work:
   a) Actuarial Liability for retirement benefits and post-retirement medical benefits as of January 1, 2007
   b) Respond to the five recommendations from City Council
   c) Address specific questions submitted in advance by Task Force
2. Fees
3. Timeline for completion.

Subsequently, an RFP was sent to the following independent actuaries:

- CBIZ, Inc
- Gabriel, Roeder, Smith & Company
- Watson, Wyatt & Company
- Buck Consultants
- Aon Consulting
- Towers Perrin
- Cuni, Rust & Strenk.

During the City Council Task Force meeting held on March 25, 2008, Task Force members reviewed proposals for independent actuarial services. The Task Force members selected Buck Consultants to conduct independent pension and post-retirement healthcare actuarial reviews. *Attachment D*

The Task Force requested comparative data regarding:

- Current healthcare benefits for retirees
- Coordination of Medicare benefits
- Active healthcare plan on retirees and CRS
- Retiree healthcare plan in which retirees pay 10% of costs
- Retiree healthcare plan in which retirees pay 15% of costs
- Elimination of Traditional indemnity healthcare plan
- Revision of normal retirement eligibility from age 60 to age 62
- Increase of employee contribution from 7% to 9%
- Decrease retirement formula factor from 2.5% to 2.2% for new hire and non-vested employees
- Comparison of Ohio public plans retiree healthcare benefits

The third City Council Task Force meeting was held on April 8, 2008. The Task Force members reviewed a comparison of employer and employee contribution rates, service retirement provisions, benefit calculations, retiree healthcare benefits, and healthcare actuarial funded ratios of:

The Cincinnati Retirement System;
Ohio Public Employees Retirement System;
Ohio State Teachers Retirement System;
Ohio School Employees Retirement System and;
Ohio Police and Fire Retirement System.

Buck consultants Chris Marshall, Director, Health and Productivity, and Jeff Leonard, Managing Principal met with the Task Force to establish Buck's actuarial responsibilities. The Task Force established the scope of Buck Consultants' actuarial responsibilities as:

- Follow City Council's recommendations of November 15, 2007
- Assess Mercer's December 31, 2007 actuarial valuation
- Evaluate reasonableness of Mercer's Alternative Benefit Cost Analyses
- Analyze CRS unfunded actuarial accrued liability

- Identify norms for contributions of public pension plans
- Address three financial scenarios provided to the Task Force in the March 11, 2008 meeting. The three scenarios were:
    - Current plan of grandfathered retirees- 96/4 healthcare plan
    - No change to 96/4 retiree healthcare plan for current/future retirees
    - All CRS retirees, current and future, on healthcare plan similar to active employees
- Ten year funding and contribution rate forecast if no changes made to CRS benefits

Buck consultants determined that Mercer's (current CRS actuary) actuarial calculations were within the standard of reasonableness. Buck consultants suggested data from Mercer for future deliberations would be more complete and accurate than the data Buck Consultants could provide.

The City Council Task Force met for the fourth meeting on May 6, 2008. Buck Consultants presented a report entitled *Independent Actuarial Review of the Retirement System for Employees of the City of Cincinnati.* (Attachment E) The content of the report was:

- Estimated liability for post-retirement healthcare
- Estimated impact to liability for post-retirement healthcare under three scenarios
- Range of contributions to the Plan for 2008 and 2009
- Range of change in Assets/liabilities
- Review of CRS actuarial assumptions and methods
- Projected contributions and funded status
- Benchmarking post-retirement medical
- Potential changes to current healthcare benefits

The members of the Task Force reviewed and discussed each item in the report.

Based on the actuarial analysis, Buck Consultants proposed 12 recommendations:

1. Conduct a request for proposal on retiree healthcare plans
2. Conduct a claims audit on retiree healthcare
3. Conduct a dependent eligibility audit on retiree healthcare
4. Implement tiered prescription drug co-pays in which brand drugs cost 3 times generic
5. Implement mandatory mail-order for "maintenance" prescription drugs- higher utilization of mail order would decrease dispensing fees
6. Introduce more consumerism into retiree healthcare plans- increase deductibles to $1,000

7. Introduce wellness programs for retirees- must increase out-of-pocket costs for financial incentives
8. Conduct a communications audit
9. Switch coordination with Medicare to “exclusion” or “carve-out”
10. Change retiree healthcare plan to mirror current active healthcare plan cost sharing or cost sharing in the range between actives @ 24% of costs and current retirees @ 4% of costs
11. Eliminate indemnity option- no network discounts are currently available
12. Revise retirement eligibility to a minimum age of 55 with 30 years of service credit

After reviewing the recommendations, the Task Force agreed to narrow the scope. In addition, the Task Force requested specific data analyses with results in a format easily understood by the general public. Items for specific analyses:

- Benchmarking with other Ohio public plans
- Consumerism- assess cost savings with judicious usage of healthcare cost sharing
- Conduct market research for comparison of salary levels of public employees
- Express the City’s contribution rate (percentage of covered salaries) in terms of dollars
- Assess scenarios for enforcing generic brand drug utilization. Calculate actuarial savings of increased (average) generic brand utilization- use average generic drug utilization by cost-sharing plans in Ohio
- Linkage with the Drug Purchasing Coalition
- Actuarial data reflecting pension healthcare liability: public vs. CRS

The City Council Task Force met May 20, 2008. Buck consultants Matthew Crouch and Chris Marshall presented revisions to the report entitled *Independent Actuarial Review of the Retirement System for Employees of the City of Cincinnati.* (Attachment E) In addition, the consultants presented a report entitled *Alternatives for Reducing Costs.* (Attachment F)

Four options were presented by the actuarial consultants for reducing the City’s expected future contributions to the CRS:

- Reduce the post-retirement healthcare benefits for either current retirees or current active employees
- Extend amortization schedule for payment of actuarial accrued unfunded liability from 15 years to 30 years
- Reduce the retirement benefits for future hires
- Increase employee contributions and retiree healthcare cost sharing

As part of the discussion, the Task Force requested additional information regarding coordination with Medicare and pre-65 years old retiree data.

The City Council Task Force met June 3, 2008 for further discussion regarding the Buck Consultants' report *Alternatives for Reducing Costs.* (Attachment F) In addition, Scott Bush, Senior Account Manager for Anthem Blue Cross and Blue Shield provided a report regarding coordination of retiree healthcare benefits with Medicare. Mr. Bush shared several examples of cost-sharing. The Task Force requested an outline be provided at the next meeting of drug co-pay and tiered system cost saving.

Because of the schedule and the large amount of data under review, the City Council Task Force decided to meet weekly, when possible, until deliberations were complete. The Task Force met on June 10, 2008.

The Director of Risk Management, Chuck Haas, presented the report *Potential Retiree Medical Plan Savings- Annual Basis* to the Task Force for review. (Attachment G) The report identified annual cost savings for the CRS for each of four recommendations:

- Eliminate the traditional indemnity plan option
- Implementation of tiered prescription drug co-pays
- Revise coordination of benefits with Medicare
- Replace retiree medical plans with Modified PPO plan

The Task Force closely examined and deliberated over the report presented by Mr. Haas.

The Task Force revisited the reports brought by Buck Consultants, the independent actuary. After much discussion and a focused re-examination on the data, the Task Force determined to use the following recommendations by Buck Consultants as a preliminary outline:

1) Dependent Eligibility Audit
   (Currently evaluated by CRS)
2) Revise Grandfathered Prescription drug co-pays
3) Mandatory mail-order for maintenance drugs
4) Consumerism plan replacing 80/20
5) Wellness Programs
6) Communication Audit
7) Change Medicare Coordination Method
8) Change Grandfathered to 80/20 plan
9) Eliminate Grandfathered Indemnity Option
10) Change Eligibility Requirements for Actives

In addition, the Task Force agreed to begin transferring oral discussions to a listing of recommendations. The Task Force members identified the following items requiring additional consideration in order to provide long-term financial strength to the CRS:

1. Vendor efficiencies – specifically drug
2. Drug rebates
3. Drug pricing – spread-pricing issue
4. Drug Purchasing Coalition – consider joining
5. Generic Drugs – increase utilization to industry averages
6. Bid-out medical plans every 5 years (short term and long term)
7. Address the growing actuarial accrued unfunded liability
   a. Consider tax-exempt pension bonds
   b. Amortization schedule- increase term from 15 to 30 years
8) Consider changing eligibility requirements for normal retirement for newly hired, active employees (long-term)
9) Get commitment from City as to how CRS will pay for the growing actuarial accrued unfunded liability
   a. How to pay for the unfunded actuarial accrued liability
      i.e. reduce cost or increase contributions or a combination of both
   b. The city should designate the pension funding level and develop reasonable strategy
   c. No split-out of medical plan and pension plan
10. Look into reducing benefits for new hires (long-term)
11. Consider goal of 100% funding
12. Conduct periodic peer review of benefit package
13. Develop a Wellness Program – (long-term) (up to age 65)
14. Restore the 6.1 Millage and allocate portion to increase funding

The City Council Task Force met June 17, 2008. Chuck Haas, director of risk management for the City provide the following data:

1. The total number of retirees currently enrolled in the Traditional Indemnity plan
   - 4,628 retirees and dependents are covered by the Traditional Plan out of a total of 6,974. That is 66% of the total.
2. The total number of retirees who reach the annual out-of-pocket maximum:
   - A patient must file approximately $10,000 in claims in order to reach a $1000 out of pocket maximum. Based on that information, nearly 95% of retirees would not reach the $1000 out of pocket maximum.
3. Concerning the proposal to replace Indemnity Plan with modified PPO Plan:

- 90% of retirees would experience no disruption in continuity of care. Approximately 10% would eventually need to transfer their care to “in network” providers. Ample time would be provided for the transition.

4. C. Haas acknowledged his intention to bid-out retiree health care administrative services every 5 years.

The Task Force members reviewed and discussed the listing of recommendation from the June 10th meeting. The members refined and repositioned recommendations. The Task Force reached consensus on the following listing:

1. Vendor efficiencies – specifically drug
2. Drug rebates
3. Drug pricing – spread-pricing issue
4. Drug Purchasing Coalition – consider joining
5. Generic Drugs – increase education and utilization
6. Bid-out medical plans every 5 years (short term and long term)
7. Address the accumulating unfunded liability
    a. Consider tax-exempt pension bonds
    b. Amortization schedule- extend from 15 to 30 years
8. Consider changing eligibility requirements for future employees (long-term)
9. Get commitment as to how CRS will pay for the increasing unfunded liability
    a. How to pay for the unfunded actuarial accrued liability
       i.e. reduce cost or increase contributions
    b. The city should designate the pension funding level and develop reasonable strategy
    c. No split-out of medical plan and pension plan
10. Look into reducing benefits for new hires (long-term)
11. Consider goal of 100% funding: Funding level needs be to determined
12. Conduct periodic peer review of benefit package
13. Develop a Wellness Program – (long-term) (up to age 65)
14. Restore the 6.1 Millage and allocate a portion to increase funding

The Task Force discussed the merits of:

- The issuance of pension obligation bonds by the City as a means to fund the actuarial accrued unfunded liability
- Changes to eligibility for new employees
    - There was vigorous debate regarding this item

Subsequent to discussion by the Task Force, the Task Force requested additional actuarial information regarding the following items. The Task Force agreed to incorporate the new actuarial data into the decision-making process for determining the long-term funding level of the CRS.

1) For new hires, increase pension eligibility service time to:
   33 years
   35 years
2) For new hires, raise minimum age for retirement with 30 years of service credit to 55 years
3) For new hires, lower formula factor from 2.5% to 2.2% and 2.0%
4) Eliminate Traditional Indemnity Plan option
5) Revise prescription drug tiers for retiree co-pays
6) Change the coordination of benefits methodology with Medicare
7) Replace the Indemnity Plan with a modified PPO Plan
8) Change amortization of actuarial accrued unfunded liability from 15 to 30 years
9) Increase employee contribution rate over 4 years to 8%
10) Increase employee contribution rate over 4 years to 9%
11) For new hires- Change the compound COLA to 3% simple
12) Additional liability to eliminate point system for health care
13) For new hires- Add 5 years for eligibility for medical care (from 15 to 20 years)

The City Council Task Force met July 1, 2008. Gary Dickson and Tom Hackman from Mercer met with the Task Force members to present and explain the actuarial calculations requested for listing of items requested in the June 17, 2008 meeting. Mr. Dickson and Mr. Hackman presented a report with the following topics:

- Description of Alternatives
- Basis of Calculations
- Summary of costs for plan alternatives
- Pricing Assumptions Regarding Medical Plan Design Considerations

The report is dated July 1, 2008 with a Subject line: *Benefit Alternatives for the Cincinnati Retirement System.* (Attachment H)
The Task Force analyzed, discussed the data, and considered all listed alternatives. After evaluation, the members of the Task Force determined that addition cost studies were necessary regarding additional alternatives. The Task Force requested actuarial calculations for the following:

- For new hires, raise minimum age for normal retirement to age 65
- Beginning 2009, for all current employees, lower the formula factor from 2.5% to 2.0% for future years of credit
- Combination of alternatives:
  - For existing and future retirees- Change coordination of benefits with Medicare
  - Replace pre-September 2007 retiree plan with Modified PPO plan with $1,000 out-of-pocket limit on medical
  - Amortize actuarial accrued unfunded liability over 30 years

At the City Council Task Force meeting of July 15, 2008, Gary Dickson, Mercer actuary, provided actuarial calculations requested in the July 1, 2008 meeting. (Attachment I) Mercer presented analysis of alternatives on the CRS actuarial accrued unfunded liability, normal cost, City's contribution rate, and CRS funded ratio.

The Task Force grouped alternatives into three scenarios:

1. Replace pre-08 retiree plans with a modified PPO for existing retirees ($1,000 OOP limit on Rx); Change coordination of benefits with Medicare for existing and future retirees; Change amortization period to 30 years.
2. Change multiplier to 2.2% effective 1/1/09 for all current active participants.
3. Change Normal Retirement Age to 65; Early Retirement at age 60 with 25 years of service; Add age 55 to 30 and out retirement (new hires).

Tom Hackman, ASA provided the following report:

- Market Alternatives for Medicare eligible retirees and dependents Medical Coverage.
- Components of Medicare Advantage (MA) Plans were outlined.
- Market Considerations for Medicare eligible retirees and dependents Prescription Drug Coverage
- Market Considerations for all retirees and dependents other miscellaneous items.(Attachment J)

The Task Force assessed the data and considered all options available. Members reviewed the short, mid, and long-term alternatives and drafted a list of recommendations:

- Short-Term
  1. Replace pre-08 retiree plans with a modified PPO for existing retirees (pre-September 2007) ($1,000 OOP limit on Rx); Change coordination of benefits with Medicare for existing and future retirees.
  2. Change amortization of unfunded liability period from 15 to 30 years.

3. Develop a policy to insure disciplined payment of obligations.
4. Increase actuarial gain and loss smoothing from 5 years to 10 years.
5. Future retirees to remain on same medical benefit plan as current employees.

- Mid-Term
  6. Increase employee contribution rate ½ % over 4 years to reach 9% of pay. This action would be contingent upon implementation of the modified PPO. (#1 short-term list)
- Long Term
  7. Change the Normal Retirement Age from 60 to 65; Early Retirement to age from 55 to 60 with 25 years of service; Add age 55 minimum to 30-and-out retirement (new hires).
  8. Reduce multiplier from 2.5% to 2.2% (new hires).
- Future Funding Sources
  9. Research issuance of tax-exempt pension obligation bonds as a tool to fund current unfunded liability.
  10. Restore the 6.1 Millage and allocate 1/3 to the unfunded liability.
  11. Periodically review market alternatives for Medicare eligible retirees and dependents for medical coverage (Medicare Advantage Plan) and Prescription Drug Coverage.

The final meeting of the Task Force was July 22, 2008. During the meeting, the Task Force reviewed the listing of recommendations agreed upon in the prior meeting. Task Force members raised concerns for elderly retirees with pension under $20,000 annually. The Task Force members expressed concern that the proposed Modified PPO may be too expensive for these retirees. Therefore, the Task Force agreed to recommend a "carve-out" of the retiree population that would have a more generous Modified PPO. The "carve-out" Modified PPO would have: $0 deductible; reduced medical out-of-pocket from $1,000 to $500 and; reduced prescription drug out-of-pocket from $1,000 to $500 annually.

The population for the "carve-out" would be retirees:

1. 70 years of age or older
2. 30 years of service with the City
3. Annual pension benefit under $20,000 for 2008 (to be adjusted with inflation)

The Task Force members approved the recommendations. The Task Force requested that a report be written that included:

- Executive Summary
- 10 year projection of the CRS actuarial accrued unfunded liability, City contributions per year and, funded status
- Outline of all issues discussed and actions taken previously by the Task Force
- Appendices
    i. Illustration of comparison of the CRS to other Ohio public funds
    ii. Minutes of Task Force meetings
    iii. Reports presented to Task Force

Observations and Comments by Members of the Task Force

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

Chris Stenger
Pension Director
Cincinnati Bell

The City of Cincinnati continues, even after these modest benefits adjustments, to have a retirement and medical plan significantly better than its peers, and much better than most corporate plans. Some Task Force members were, for a variety of reasons, reluctant to reduce benefits beyond the modest package recommended. The question now is: will the City of Cincinnati maintain the fiscal discipline to keep current its contributions that will approximate $25 million annually (under current assumptions), and up to $40 million or more should the current poor investment environment persist through the end of 2008?

This is still a very generous and costly plan, even after implementation of the recommended changes' package <u>in its entirety</u>.

Linda Graviss
Retiree, University of Cincinnati

The package of recommendations requires sacrifice from retirees, active employees, and future employees. Further, it requires discipline on the part of the City to pay in entirety the Annual Required Contribution to the retirement system each and every year. City Council is urged to adopt the package of recommendations as a whole.

Marianne Steger
Director of Health care & Public Policy
AFSCME

The CRS retiree medical liability is extremely well funded at 93% (OPERS is funded at 35%; S&P 500 companies fund on average at 27%). At 88%, the CRS pension liability funding is above the GAO recommended 80% funding level for public pensions. Therefore AFSCME does not support the benefit reductions (e.g. reduce the multiplier, increase retirement age, increase service requirement for health care, change the COLA and increase the employee contribution, etc.) These matters are subject to collective bargaining, and given the high funded status such drastic reductions are unnecessary at this time. They are also not in the best interest of recruitment and retention.

AFSCME believes in partnering with employers to reduce health care costs and has already done so for its active city members. We are supportive of the recommended benefit changes for the retirees (changing to the PPO, the revised drug co-pays and change in Medicare Coordination in the report).

AFSCME also supports the vendor management recommendations (Rx especially) to realize additional savings. We also strongly support the recommended changes to actuarial methods (i.e. increase amortization to 30 years and smoothing to 10 years).

Diana Frey & John Brazina
CODE

We thank City Council for the opportunity to participate. The Task Force consisted of a good blend of people from City service and outside of City service. The Task Force meetings were well organized and efficiently run. All participants, Task Force members and support staff, put in a significant time and effort to reach the goals set forth by City Council. Our work will be considered a success, in the future, with a financially secure retirement system.

Sincerely,
Diana Frey and John Brazina (CODE)