



City of Cincinnati Retirement System Board of Trustees Meeting

Agenda

**November 7, 2024 / 2:00 P.M.
City Hall, Council Chambers and via Zoom**

Members

Bill Moller, Chair
Tom Gamel, Vice Chair
Kathy Rahtz
Mark Menkhaus, Jr.
Monica Morton
Seth Walsh
Aliya Riddle
Sonya Morris
Tom West

CRS Staff

Jon Salstrom

Law

Linda Smith

Call to Order

Public Comment

Approval of Minutes

- October 3, 2024

Report from Investment Committee

Informational – Staff Report

- Marquette Investment Report
- Staff Update
- 115 Subcommittee Memo
- City Stabilization Fund - Waterfall mechanism update
 - IRC 415B overview
- Fiduciary Audit Recommendations Update
- Mayoral Trustee Appointment – Tom West
- Futures Commissions Update

Old Business

- Term Limits Ordinance – new Motion
- Memorandum of Understanding – Funston Recommendations

New Business

- Board and Committee Meeting Agenda for 2025

Adjournment

Next Meeting: Thursday, December 5, 2024, 2:00 P.M. City Hall Council Chambers and via Zoom

**City of Cincinnati Retirement System
Board of Trustees Meeting Minutes
October 3, 2024 / 2:00 P.M.
City Hall – Council Chambers and remote**

Board Members

Bill Moller, Chair
Tom Gamel, Co-Chair
Kathy Rahtz
Mark Menkhaus Jr.
Monica Morton
Tom West
Seth Walsh
Aliya Riddle

Administration

Jon Salstrom

Law

Linda Smith

CALL TO ORDER

Chair Moller called the meeting to order at 2:01 p.m. and a roll call of attendance was taken. Trustees Gamel, Rahtz, Menkhaus, Morton, West, Walsh, Riddle and Morris were present. Trustee Moller was absent.

PUBLIC COMMENT

No Public Comment.

APPROVAL OF MINUTES

Approval of the minutes of the Board meeting of September 12, 2024, was moved by Trustee Rahtz and seconded by Trustee Menkhaus. The minutes were approved by unanimous roll call vote.

Report from Governance Committee

Trustee Menkhaus explained that the Governance Committee discussed the Funston recommendations and a draft of the Governance Bylaws Manual. There were no motions.

Informational – Staff Report

Marquette Investment Report

Director Salstrom explained that he had nothing to add to the report that is included in the packet. The contract with Bain for private credit has been completed so all new private credit managers have been contracted with and will continue to that allocation increase.

Staff Update

Director Salstrom explained that the Accountant started this week, and the IT candidate will start in a week or so. The Division Manager is currently on medical leave and Kyle Brown has stepped in to help in his absence.

115 Subcommittee Update

Director Salstrom explained that he sent an email to the Trustees regarding 2 questions that were answered from outside council. He is not sure if question 1 got a lot of clarity and it might benefit the trustees to go back to outside council to engage further on how OPERS handles their 115 Trust. The second question is the issue with the 115 Trust, that is CRS must have a majority of mayoral appointed officials on the Committee in order not to lose the status for the 115 Trust.

Futures Commissions Motion Update

Director Salstrom explained that he does not have an update at this time.

Fiduciary Audit Recommendations Update

Director Salstrom explained that there is no update at this time and the Governance Committee showcases was CRS has been working on.

Mayoral Trustee Appointments

Director Salstrom explained that there are still a few outstanding questions being worked on with Law around term limits.

Old Business

Term Limits Ordinance

Director Salstrom explained that he included the old Term Limits which was recommended to Council for a new ordinance to be included in the CMC code. Following that is a summary of notes from the Public Safety and Governance Committee discussing this ordinance. That committee did not feel comfortable eliminating term limits, but there were suggestions on how to improve it.

Trustee Morton motioned to request and extension on the timeline of presenting this ordinance to Council and seconded by Trustee Rahtz. The motion was approved by unanimous roll call vote.

Memorandum of Understanding – Funston Recommendations

Director Salstrom explained that this needs to be held until November because CRS is still working on a document that is suitable for Administration and the Trustees.

New Business

Cheiron Training – Actuarial Terms and Concepts

Kevin Woodrich and Janet Cranna were in attendance to present and focused more on the pension system. They gave a high-level overview of the presentation included in the packet explaining what Cheiron does as the actuary for the Retirement System and the Board.

Gaelle Gravot and Beth Mercer were in attendance to present and discuss the 115 Trust. They gave a high-level overview of the presentation in the packet explaining post-employment benefits.

Adjournment

Following a motion to adjourn by Trustee Menkaus and seconded by Trustee Morton. The Board approved the motion by unanimous roll call vote. The meeting was adjourned at 3:10 p.m.

Meeting video link: https://ia804506.us.archive.org/29/items/crs-board-10-3-24/CRS%20Board_10-3-24.mp4

Next Meeting: Thursday, November 7, 2024, at 2:00 p.m. – City Hall Council Chambers and via Zoom

Secretary

DRAFT



Cincinnati Retirement

Monthly Report

Executive Summary
September 30, 2024

Total Fund Composite

Monthly Report
As of September 30, 2024

	Market Value	% of Portfolio	Policy %	Target Allocation	Difference	Last Month
Fixed Income Composite	499,913,480	20.9	22.5	538,931,957	-39,018,477	Total Fund Composite
Private Debt Composite	63,739,929	2.7	6.5	155,691,454	-91,951,525	Beginning Market Value
U.S. Equity Composite	693,185,649	28.9	28.5	682,647,146	10,538,503	Net Cash Flow
Non-U.S. Equity Composite	386,421,992	16.1	16.0	383,240,503	3,181,489	Gain/Loss
Volatility Risk Premium Composite	61,676,777	2.6	2.5	59,881,329	1,795,449	Ending Market Value
Real Estate Composite	152,581,073	6.4	6.0	143,715,189	8,865,884	
Infrastructure Composite	254,868,769	10.6	10.0	239,525,314	15,343,455	
Private Equity Composite	265,635,653	11.1	8.0	191,620,252	74,015,401	
Total Fund Composite	2,395,253,144	100.0	100.0	2,395,253,144		

	1 Mo	3 Mo	YTD	1 Yr	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	SI	Inception Date
Total Fund Composite	1.5	4.6	9.7	17.1	13.9	5.2	8.8	7.6	7.5	8.8	Jun 85
Target Benchmark	1.5	5.0	9.9	17.7	13.9	4.5	8.7	7.7	7.7	-	
Actuarial Rate 7.5%	0.6	1.8	5.6	7.5	7.5	7.5	7.5	7.5	7.5	7.5	
Fixed Income Composite	1.3	5.0	5.1	12.1	7.1	-0.4	2.0	2.6	2.9	5.1	Dec 95
Blmbg. U.S. Aggregate Index	1.3	5.2	4.4	11.6	6.0	-1.4	0.3	1.5	1.8	4.3	
Private Debt Composite	0.0	-0.2	6.7	8.1	10.9	5.9	-	-	-	4.5	Oct 20
Blmbg. U.S. Aggregate Index	1.3	5.2	4.4	11.6	6.0	-1.4	0.3	1.5	1.8	-1.3	
Bloomberg US High Yield TR	1.6	5.3	8.0	15.7	13.0	3.1	4.7	4.7	5.0	5.1	
U.S. Equity Composite	1.9	6.7	19.2	33.7	25.5	9.8	14.1	11.8	11.4	9.8	Mar 89
Russell 3000 Index	2.1	6.2	20.6	35.2	27.6	10.3	15.3	13.7	12.8	11.0	
Non-U.S. Equity Composite	2.7	8.0	14.2	24.9	23.0	4.5	7.7	4.7	5.2	6.1	Jun 93
MSCI AC World ex USA (Net)	2.7	8.1	14.2	25.4	22.8	4.1	7.6	5.4	5.2	-	
Volatility Risk Premium Composite	1.4	2.4	9.8	15.3	16.0	-	-	-	-	6.3	Feb 22
Cboe S&P 500 PutWrite Index	1.5	5.6	13.4	18.6	17.7	8.6	9.2	7.2	7.1	7.9	
Real Estate Composite	0.2	0.5	-2.4	-6.1	-8.4	0.3	3.5	4.4	6.3	4.8	Sep 07
NFI-ODCE	0.0	0.0	-3.2	-8.0	-10.5	-1.0	2.1	3.2	5.2	3.8	
NCREIF Property Index	-	0.8	-0.5	-3.5	-6.0	0.9	3.3	4.2	5.9	5.6	
Infrastructure Composite	1.8	2.2	5.2	8.0	9.1	8.4	8.9	8.0	7.5	8.4	Sep 08
3 Month T-Bill +4%	0.8	2.4	7.1	9.7	9.2	7.6	6.4	6.3	5.7	5.1	
Private Equity Composite	-0.1	-0.1	3.0	5.9	5.6	4.9	13.5	13.4	12.4	8.8	Aug 93
Burgiss Global All Private Equity	0.0	0.0	1.9	5.0	4.1	1.6	14.3	14.4	13.8	15.1	

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October 7, 2024

TO: Members of the Budget and Finance Committee
FROM: Sheryl M. M. Long, City Manager 202402131
SUBJECT: FY 2024 Carryover to FY 2025 Report

The following report provides an overview of the City of Cincinnati’s General Fund FY 2024 year-end balance and application of the Stabilization Funds Policy adopted by the City Council. This report also includes FY 2025 Budget considerations for discussion.

General Fund 2024 Fiscal Year-End Balance and One-Time Uses

As shown in the table below, the City’s General Fund ended FY 2024 with a carryover amount of \$65.0 million including \$7.3 million net FY 2023 carryover.

Utilizing the City’s Stabilization Funds Policy contributions will be made to the Cincinnati Retirement System (CRS) for unfunded pension obligations, Affordable Housing Trust Fund, and an Operating Budget Contingencies Account. There is \$18.4 million available for one-time infrastructure and capital uses.

The following table includes a breakdown of how the carryover will be applied:

Application of FY 2024 Carryover Balance

Cash Basis Carryover Balance FY 2024		\$ 64,974,804
Uses of Carryover Balance		
Application of Stabilization Funds Policy:		
Less General Fund Carryover Balance (1.5% of operating revenue)		\$ 8,414,485
Less Transfers to Reserve Accounts:		
General Fund Contingency Account (2.30% of operating revenue)	\$ 4,241,295	
General Fund Contingency Account for one-time needs	\$ 21,690,000	
Economic Downturn Reserve (5.00% of operating revenue)	\$ 1,128,610	
Working Capital Reserve (8.20% of operating revenue)	\$ 3,591,406	
Total Reserve Transfer from Stabilization Funds Policy		\$ 30,651,311
Carryover Balance Less Total Applied to Stabilization Funds Policy		\$ 25,909,008
Less Modified Waterfall Uses:		
CRS Pension Contribution		\$ 2,000,000
Affordable Housing Trust Fund		\$ 5,000,000
Operating Contingencies Account		\$ 500,000
Balance Available		\$ 18,409,008
Less One-Time Uses:		
Infrastructure and Capital Project Reserve		\$ 18,409,008
Balance Available		\$ -

Uses of Carryover Balances

The Government Finance Officers Association (GFOA) recommends that local governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the General Fund. The City’s Stabilization Funds Policy, approved by the City Council in Ordinance No. 0253-2015 and subsequently amended in Ordinance Nos. 0213-2019 and 0056-2022, incorporates the GFOA’s recommendation of no less than two months of general fund operating revenues, or 16.70% of annual general fund operating revenues.

Per the Stabilization Funds Policy, the following transfers will be requested via ordinance: \$25.9 million to the General Fund Contingency Account, \$1.1 million to the Economic Downturn Reserve, and \$3.6 million to the Working Capital Reserve. Based on the policy, \$8.4 million will remain in the General Fund balance. The transfer to the General Fund Contingency account includes \$21.7 million for one-time needs which are itemized later in this report.

FY 2023 Balances After Close-out Adjustments		
Actual FY 2023 Revenue	\$573,645,786 *	
Working Capital Reserve	\$41,463,006	7.23%
General Fund Contingency Account	\$9,760,916	1.70%
Economic Downturn Reserve	\$26,919,674	4.69%
General Fund Carryover Balance (After Uses)	\$7,320,687	1.28%
Total Stabilization Policy Reserves	\$85,464,283	14.90%
30% Income Tax Reserve for Refunds	\$50,015,389	
Total Combined Reserves	\$135,479,672	

*This amount includes \$85.6M in ARP Revenue utilized in FY2023. The reserve percentage is 17.51% based on GF revenue only (excluding ARP).

Balances June 30, 2024 After Proposed Transfers		
Annual FY 2024 Revenue	\$560,965,684 ¹	
Working Capital Reserve	\$45,999,186	8.20%
General Fund Contingency Account	\$12,902,211 ²	2.30%
Economic Downturn Reserve	\$28,048,284	5.00%
General Fund Carryover Balance (After Uses)	\$8,414,485	1.50%
Total Stabilization Policy Reserves	\$95,364,166	17.00%
Income Tax Reserve for Refunds	\$50,015,389	
Total Combined Reserves	\$145,379,555	

¹ This amount includes \$27,247,831 in ARP revenue. Without ARP revenue included the reserve percentage is 17.87%.

² This amount does not include the \$21,690,000 transferred to the reserve for one-time needs since this amount is planned to be utilized for FY 2025.

To ensure fiscal stability, the Administration is committed to managing the City's operations in a prudent, responsible way through the adherence to management disciplines, including the Stabilization Funds Policy. The City must plan for and be prepared to mitigate fluctuations in demand for services as well as changes in revenues influenced by the economy and budgetary decisions made by the State of Ohio and the federal government. Especially in the face of the uncertainty caused by remote work trends and volatile interest rates, the City must be prepared for unforeseen events that could result in additional expenditure requirements or loss of revenues by maintaining prudent levels of fund balance and reserves as set forth in the Stabilization Funds Policy. The rating agencies have emphasized the importance of maintaining appropriate reserves to ensure financial stability and to retain the current bond ratings.

It should be noted that with these recommended transfers, the City will have reserves of 17.00% which is above the minimum 16.70% of annual General Fund operating revenue set aside in reserves in accordance with the Stabilization Funds Policy. The City's Stabilization Funds Policy is based on the GFOA's guideline that no less than two months of regular general fund operating revenue or regular general fund expenditures (or 16.70%) be maintained in reserves. While ARP revenue was not included in the reserve calculation for FY 2023, the Administration has taken a conservative approach to include it for FY 2024 to ensure fiscal sustainability as ARP dollars expire. The FY 2023 table above reflects the reserve level percentages based on the inclusion of ARP in the revenue total to show a consistent comparison. As detailed in the footnote, if ARP is excluded from the total revenue, the reserve level of 17.51% is achieved.

Stabilization Funds Policy Uses

Based on the Stabilization Funds Policy waterfall mechanism, the following items will be funded:

- \$21,690,000 transferred to the General Fund Contingency Account will be utilized for one-time needs as follows:
 1. Cincinnati Fire Department (CFD): Retroactive Pay and One-Time Lump Sum Payments (\$6.0 million) – The City's bargaining agreement with the International Association of Fire Fighters (IAFF) expired in December 2023 and a new contract was agreed to in September 2024. Funds will be used to cover the retroactive wage increase back to December 2023 as well as two one-time lump sum payments that IAFF members will receive.
 2. Cincinnati Police Department (CPD): Retroactive Pay (\$3.6 million) – The City's bargaining agreement with the Fraternal Order of Police (FOP) expired in April 2024 and a new contract was agreed to in September 2024. Funds will be used to cover the retroactive wage increase back to April 2024.
 3. Cincinnati Fire Department (CFD): FY 2025 Wage Increases (\$1.6 million) – Funds will cover the additional costs related to the newly agreed to bargaining agreement with the International Association of Fire Fighters (IAFF) beyond what was already included in the FY 2025 Approved Budget Update.
 4. Cincinnati Police Department (CPD): FY 2025 Wage Increases (\$4.2 million) – Funds will cover the additional costs related to the newly agreed to bargaining agreement with the Fraternal Order of Police (FOP) beyond what was already included in the FY 2025 Approved Budget Update.
 5. Cincinnati Retirement System (CRS): Internal Revenue Service (IRS) Tax Rule Compliance (\$2.0 million) – Funds will cover benefits received by retirees that exceeded the maximum amount allowable under Internal Revenue Code Section 415(b) from CRS. These funds will cover excess benefits paid since 2001 with one-time reimbursement required from a source other than the CRS Retirement Fund.

6. Cincinnati Fire Department (CFD): LifePak Medical Devices (\$990k) – Funds will be used for the capital acquisition of medical equipment with CFD replacing 22 LifePak medical devices (cardiac monitors) that will be out of warranty as of December 31, 2024.
7. Cincinnati Police Department (CPD): Mobile Data Computers (MDCs) (\$500k) – Funds will be used for the capital acquisition of information technology equipment with CPD replacing outdated MDCs in police vehicles. This is a \$1.0 million project with \$500k already allocated in the Approved FY 2025 Capital Budget. These funds will allow for the completion of the project.
8. City Manager’s Office (CMO): Downtown/Uptown Safety Funds (\$250k) – Funds will be deployed by the City Manager to provide additional public safety measures in the downtown and uptown areas of the City.
9. City Manager’s Office (CMO): Appropriations from FY 2024 that were not encumbered by June 30, 2024 (\$2.45 million) – Several contracts for which funds were appropriated in FY 2024 could not be completed by June 30, 2024. Those funds are included in the FY 2024 Carryover Balance and the contracts are now being completed for a variety of items including the Financial Freedom initiatives and leveraged support for childcare.
10. Department of Transportation and Engineering (DOTE): Lunken Airport Site Assessment (\$100k) – Funds will be utilized to conduct a site assessment for a permanent customs facility at Lunken Airport.
 - \$5.0 million will be allocated to the Affordable Housing Trust Fund, to be deployed through the established partnership with the Cincinnati Development Fund (CDF).
 - \$2.0 million will be contributed to the Cincinnati Retirement System (CRS) to address unfunded pension obligations.
 - \$500,000 will be allocated to the Operating Budget Contingencies Account to cover unforeseen operating expense needs that arise during the remainder of the fiscal year.

Carryover Uses

As part of the Stabilization Funds Policy, \$18,409,008 is available for one-time uses for FY 2025. This amount will be set aside in a Infrastructure and Capital Project Reserve until City Council provides direction on the use of the funds.

2025 Pending Matters

There are several budget concerns for FY 2025 and beyond that are noteworthy. These include the following:

- FY 2025 Approved General Fund Budget Update – The Approved FY 2025 General Fund Budget Update is balanced, and it is structurally balanced for ongoing expenditures. It also includes the use of \$25.2 million in one-time American Rescue Plan (ARP) funds. The Administration will monitor the budget closely and report back to Council during FY 2025 on how actual revenues align with revenues projected in the Approved FY 2025 Budget Update.
- Labor Negotiations – While labor agreements with the International Association of Fire Fighters (IAFF) and the Fraternal Order of Police (FOP) have recently been finalized, all other bargaining unit contracts are set to expire over the next twelve months. The Cincinnati Organized and Dedicated Employees (CODE) contract expires during FY 2025 in March 2025. The remaining bargaining unit contracts expire during FY 2026 including the American Federation of State, County and Municipal Employees (AFSCME) and the AFSCME Municipal Workers contracts which expire in August 2025, the Cincinnati

Building Trades Council contract which expires in August 2025, and the Teamsters contract which expires in October 2025. Any wage increases agreed to above the amounts included in budget projections could increase projected deficits. Budget projections, including updated revenue projections, will be updated in December as part of the Tentative Tax Budget approval.

- FY 2026-2029 Projected General Fund Budget Deficits – The General Fund multi-year forecast for FY 2026-2029 as of June 30, 2024 shows expenditures growing at a faster pace than revenues. The projected General Fund budget deficits for FY 2026-2029 were \$6.5 million, \$11.0 million, \$15.8 million and \$20.9 million respectively. Since June 30, 2024, the City has negotiated labor contracts with the IAFF and FOP with wage increases that will increase expenditures and likely grow the projected FY 2026-2029 deficits. If future labor contracts with other bargaining units include wage increases above the amounts included in budget projections, that could also increase projected deficits. Budget projections, including updated revenue projections, will be updated in December as part of the Tentative Tax Budget approval.
- Ratings Agencies – Moody’s Investors Services’ current assigned rating is Aa2 for the City’s outstanding general obligation unlimited tax (GOULT) debt, and the rating is Aa3 on the City’s outstanding non-tax revenue debt. The outlook is stable. S&P Global (formerly Standard & Poor’s) Ratings Services’ current assigned rating is AA for the City’s long-term unlimited-tax general obligation (GO) bonds and an AA long-term rating on the City’s non-tax revenue bonds. The outlook is stable.
- Income Tax – The FY 2025 Income Tax estimate was based on the forecasted FY 2024 collections as of April, revenue trends, and the University of Cincinnati (UC) Economics Center’s forecast. The UC forecast also projects a compound growth rate of 1.21% in income tax revenue from FY 2024 – FY 2029. Income tax revenue has stabilized as employees are now permanently working remote and hybrid work schedules. However, it should be stressed that the City remains overly reliant on income tax revenue, which makes it susceptible to long-term changes in work trends.

Recommendation

The Administration requests this report be approved and filed and recommends approval of the accompanying Ordinance.

cc: William “Billy” Weber, Assistant City Manager
Karen Alder, Finance Director
Andrew Dudas, Budget Director



Cincinnati Retirement System Board of Trustees

IRC 415B Overview

CINCINNATI RETIREMENT SYSTEM

→ Introduction to IRC 415B

- **What is IRC 415B?**
 - A section of the U.S. Internal Revenue Code that places limits on individual benefits from defined benefit pension plans.
 - Ensures pension plan benefits stay within tax-advantaged limits.
- **Why is it Important?**
 - Maintains equity in tax-deferred retirement savings.
 - Helps manage costs for employers and governments.
 - Maintain Qualified Governmental Plan Status
 - Impact on Highly Compensated Employees (HCEs)
 - Limits ensure HCEs in public pension plans don't receive disproportionately high benefits.

CINCINNATI RETIREMENT SYSTEM

→ Benefit to Plan and Participants

- **Qualified Governmental Plan Status**
 - Retaining **qualified plan status** under IRC 401(a) is critical for CRS and similar systems.
- **Benefits of Qualified Status:**
 - **Tax deferral** on employer contributions until distributions are made.
 - **Tax-free earnings** within the trust.
 - Favorable tax treatment during member distributions, e.g., **rollovers**.
 - **Employer contributions** exempt from employment taxes.

CINCINNATI RETIREMENT SYSTEM

→ Key Provisions to IRC 415B

- **Annual Benefit Limits**

- Maximum annual benefit for 2024 is **\$275,000** (age 65 retirement).
- Subject to annual cost-of-living adjustments (COLAs).

- **Early Retirement**

- Benefit limits are reduced proportionally for retirement before age 65.
- Special provisions for public safety employees retiring before 55.

- **Late Retirement**

- For participants retiring after 65, limits can increase to reflect the additional service and delayed payout.

- **Aggregation of Benefits**

- If a participant is covered by multiple defined benefit plans, the benefits must be combined to apply the limits.

CINCINNATI RETIREMENT SYSTEM

→ Summary of IRC 415B

- **IRC 415(b) Compliance is Essential:**
 - Retaining qualified status brings significant tax advantages to both employers and plan members.
- **Avoiding Disqualification:**
 - Compliance with IRC 415 benefit and contribution limits is mandatory to prevent the risk of disqualification.
- **Correction Opportunities:**
 - New flexibility for correcting overpayments under **SECURE 2.0**.

CINCINNATI RETIREMENT SYSTEM

→ Background of IRC 415b and CRS

- Historically, only a small number of CRS retirees exceed this limit.
- IRC 415B allows the plan sponsor to pay the full benefit but only the Trust can pay up to the 415B limit and exceeding amount must be paid by the plan sponsor (the city) - from a QEBA trust (Qualified Excess Benefit Arrangement).
- The City will inject, through the stabilization fund, money into the trust that refunds the plan for the paid benefit above the 415B limit historically and pay future 415B overage from the QEBA trust.

CINCINNATI RETIREMENT SYSTEM

→Steps for Compliance

- 1) Actuarial work to calculate historical payments
- 2) Set up a QEBA trust
- 3) Ensure operation setup to pay future payments
- 4) Payment to CRS Trust – Stabilization fund payment
- 5) Report to IRS

Via Electronic Mail

July 19, 2024

Mr. Jon Salstrom, CFA
 Executive Director
 Cincinnati Retirement System
 801 Plum Street, Suite 328
 Cincinnati, Ohio 45202

Re: 2024 IRC §415 Limit for In-Pay Participants

Dear Jon:

As requested, we have assessed whether any current in-pay participants in the Cincinnati Retirement System (the System) have benefits expected to exceed the benefit limits imposed under Internal Revenue Code §415 for 2024.

We have identified the three retirees listed in the table below for whom these limits are expected to apply.

Pension Number	Last Name	Age at Retirement ¹	(a) Projected Total Benefits in 2024	(b) Adjusted §415 Limit for 2024	(c) = (a) – (b) Difference (to be paid from QEBA)
!!!!	XXX	60.00	\$ 259,691.22	\$ 238,683.80	\$ 21,007.42
!!!!	XXX	49.67	177,183.39	121,066.75	56,116.64
!!!!	XXX	52.75	175,170.72	147,190.47	27,890.25

¹ Per IRS regulations, age at retirement for purposes of adjusting §415 limits are based on completed years and months as of the annuity start date.

For these members, whose projected benefits are expected to exceed the appropriate dollar limitation amount in 2024, the amount shown in column (b) should be paid from the qualified plan of the System and the amount shown in column (c) should be paid from a Qualified Excess Benefit Arrangement (QEBA). The final amount will depend on the actual amount paid to the participant. The System should monitor the accumulated amount paid to each of these participants during the year and once the limit is reached, the remaining amounts should be paid from a QEBA.

In addition to identifying the members in payment status whose benefits currently exceed their applicable dollar limitation, we also identified seven in-pay participants whose benefits do not currently exceed this limit but are within 15% of the limit. These individuals are listed below along with information about their benefits and limitations. Any portion of the benefit paid in excess of the adjusted IRC §415 limit for 2024, if any, will need to be paid from a QEBA.

Pension Number	Last Name	Age at Retirement ¹	(a) Projected Total Benefits in 2024	(b) Adjusted §415 Limit for 2024	(c) = (a) ÷ (b) Projected Benefit as % of 415 Limit
1		56.42	\$ 168,063.67	\$ 186,802.61	90%
2		49.50	103,663.28	119,828.25	87%
2		50.33	111,517.96	126,177.05	88%
4		48.17	96,320.51	110,428.27	87%
5		48.00	98,088.47	109,311.76	90%
6		49.75	109,723.14	121,691.01	90%
7		49.75	116,184.84	124,564.52	93%

¹ Per IRS regulations, age at retirement for purposes of adjusting §415 limits are based on completed years and months as of the annuity start date.

Background

The Internal Revenue Code §415 provides that a qualified pension plan cannot pay benefits in excess of certain dollar limitations. The limitation in effect for the 2024 calendar year is \$275,000. While this appears to be a very high limit, it is reduced for retirements at ages less than 62, which some members are eligible to do under the System's retirement provisions. For instance, some members are eligible to retire as early as age 55 upon attaining 25 years of service. As an example of the impact of the required reductions to the limit for retirements prior to age 62, the 2024 limit of \$275,000 is reduced to approximately \$172,000 for participants retiring in 2024 at age 55.

For a government plan, no adjustment is made for commencement of benefits before age 62 on account of the participant's becoming disabled by reason of personal injuries or sickness, or as a result of the death of the participant. In addition to any adjustment for a participant's retirement age, the limit may also be adjusted for forms of payment. However, no adjustment is made where the optional form elected has the Qualified Spouse as the beneficiary.

Any adjustments made to the IRC §415 dollar limitation was based on the IRC §417(e)(3) applicable mortality table in effect as of the participant's annuity start date and a 5% interest rate. Per IRS regulations, no adjustment was made to reflect the probability of a participant's death after the annuity start date and before age 62 since the System does not charge participants for providing a qualified preretirement survivor's annuity (QPSA).

Mr. Jon Salstrom

June 19, 2024

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Lastly, IRS regulations state that if the Plan's early retirement factors result in a lower §415 limit for annuity start dates before age 62 than using the IRC §417(e)(3) assumptions, then that lesser amount must be used when testing a member's benefit. The System provided early retirement factors for ages 55 through Normal Retirement Age for retirement periods in effect as far back as 2009. Based on our analysis, for the individuals shown in this letter, the Plan's early retirement factors did not result in a lower IRS §415 limit.

Information Used

The IRC §415 testing was based on the data provided for the December 31, 2023 Actuarial Valuation. We then adjusted the benefits for the simple 3% COLA that is expected to be paid in 2024, effective on the participant's anniversary date of the member's retirement, assuming they are eligible for COLA. If the total benefit amounts actually paid during 2024 are different than the amounts shown in this letter, the results will change.

Disclosures

In preparing our letter, we relied on information, some oral and some written, supplied by the Cincinnati Retirement System (System). This information includes, but is not limited to, the Plan provisions, employee data, and financial information provided for the December 31, 2023 actuarial valuation. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23, Data Quality.

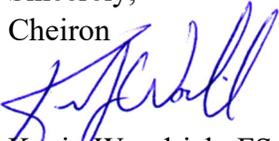
This letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This letter was prepared exclusively for the Cincinnati Retirement System for the specific and limited purpose described herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to such other users.

Please let us know if you have any questions.

Sincerely,

Cheiron


Kevin Woodrich, FSA, EA, MAAA
Principal Consulting Actuary



Janet Cranna, FSA, EA, MAAA
Principal Consulting Actuary

cc: John Dietz



Funston Performance Audit - Summary of Recommendations

Assignment

		Board	Board, Adm.	Priority	Board	Governance	IC	Staff	Performance evaluation	Audit
1. Legal and Regulatory		Status								
1.1	Improve definition and clarity of roles and authorities of:									
	<ul style="list-style-type: none"> The Board of trustees 	Initiated	X		X					
	<ul style="list-style-type: none"> Board chair 	Initiated	X		X					
	<ul style="list-style-type: none"> Individual trustees 	Initiated	X		X					
	<ul style="list-style-type: none"> City Council and Mayor 	Initiated		X						
	<ul style="list-style-type: none"> City Manager and City Finance Director 	Initiated		X						
	<ul style="list-style-type: none"> CRS Director 	Initiated		X						
1.2	The City should expand Board of Trustees personnel authorities to align with the Board's responsibilities, for example, naming the CRS Director as a direct report to the Board, with authority to hire/fire, evaluate, and set compensation.	Initiated		X						
1.3	The City Solicitor should provide the Board of Trustees with independent external legal counsel or establish a policy and process that allows CRS to retain independent external counsel and/or hire internal CRS counsel to address potential conflicts of interest associated with the City Solicitor's representation of other clients on the same matters.	Initiated		X	X					
1.4	Confirm the Board's authority, as the named fiduciary, to contract with actuaries, investment consultants, investment managers, custodial banks, benefit providers, and legal counsel, all of which require unique pension and investment expertise.	Initiated		X	X					
1.5	The City Manager should allow CRS trustees who are not City employees to vote on CRS procurement decisions; the Board, as fiduciaries, should have final authority on those decisions.	Initiated		X	X					
1.6	If the CRS Board is not given authority to hire/fire/evaluate/compensate the Director, work with the City Manager to develop a Memorandum of Understanding that addresses the City Manager's role as a potential fiduciary and formalizes procedures where the Board and City Manager, Finance Director or other officers have overlapping responsibilities (e.g., setting goals for and evaluating the Executive Director); CRS may need to consider options for engagement of independent fiduciary legal counsel to assist with this initiative.	Completed		X	X					
	<p><small>GREEN - SHORTER TERM COMPLETION</small></p> <p><small>RED - LONGER TERM COMPLETION</small></p> <p><small>Board - CRS Board has authority to complete</small></p> <p><small>Board, Adm. - CRS Board and City Administration have shared authority to complete</small></p> <p><small>Priority - CRS Board priority to complete as soon as possible</small></p> <p><small>Note: Some Recommendations may require CSA update.</small></p>									
2. Governance Framework										
2.1	Aggregate and organize the Board policies from all sources into a Board Governance Manual with online access and links to underlying document provisions; include the mission statement, goals, trustee responsibilities, committee charters and the Code of Ethics.	Initiated		X	X					
2.2	Develop new policies or formalize current policies and practices for:									
	<ul style="list-style-type: none"> Trustee personal financial disclosures 	Initiated	X							
	<ul style="list-style-type: none"> Board self-evaluation / Board education policy 	Initiated	X							
	<ul style="list-style-type: none"> Funding 	Initiated		X						
	<ul style="list-style-type: none"> Separate investment policy statement for the 115 trust fund that is tailored to its liabilities 	Reviewed	X							
	<ul style="list-style-type: none"> Strategic planning, in coordination with the City 	Initiated		X						
	<ul style="list-style-type: none"> Collection of claims in securities class actions 	Initiated	X							

		Board	Board_Adm.	Priority	Board	Governance	IC	Staff	Performance evaluation	Audit
	• Succession planning, in cooperation with relevant City appointing authorities	Initiated	X							
	• Business continuity and resumption	Initiated	X							
	• Independent governance and benchmarking reviews	Initiated	X							
	• External communications by Board members	Initiated	X							
	• Due diligence and reporting for referral of service provider candidates by trustees, along with limits on candidate contacts with trustees during an RFP process	Initiated	X							
2.3	Reduce the size of each committee to three or five members to better utilize trustee time.	Reviewed	X							
2.4	Adopt a consent agenda for approval of routine business and reports.	Reviewed	X							
2.5	Conduct periodic board retreats for more in-depth discussion on key topics, conducting board self-evaluations and executive director evaluations, and trustee education.	Not Reviewed Yet	X							
2.6	Following implementation of the recommendations in this report, conduct a biennial self-evaluation process, potentially with external assistance; this process should help to inform educational priorities.	Not Reviewed Yet	X							
2.7	Define ongoing training requirements for Board members, including onboarding plan for new trustees and required fiduciary training; link training to board self-assessment findings and the calendar of Board agenda action items.	Initiated	X	X						
2.8	Formalize a CRS stakeholder communications plan that identifies key stakeholders, communications responsibilities, and messages and objectives.	Initiated	X							
2.9	Issue new system email accounts to be used by trustees for all CRS-related business.	Reviewed	X	X						
2.10	Discuss with the Director and the investment consultant how reporting could be improved and executive summaries better utilized to enhance trustee understanding and insight.	Completed	X	X						
2.11	Appoint a Board Audit Committee with oversight of internal and external audits to commission an independent financial audit and obtain internal audit services from the City Internal Audit Department and/or an independent firm; include oversight of enterprise performance and risk in the committee charter responsibilities.	Initiated	X	X						
3. Investment Program and Operations										
3.1	Develop a separate Statement of Investment Beliefs (SIB) to guide development and implementation of the strategic asset allocation.	Completed	X							
3.2	Develop a liquidity policy as part of the Investment Policy Statement (IPS) to ensure that the cash needs of the organization are effectively and efficiently met.	Completed	X	X						
3.3	Develop a separate IPS for the 115 Trust (Health Care Trust) that reflects the unique liability structure of the 115 Trust.	Reviewed	X	X						
3.4	Extend the time horizon for the strategic asset allocation to 3-5 years and only make changes to the target asset allocation as part of a comprehensive Asset Liability Study.	Completed	X							
3.5	Include a more comprehensive rebalancing policy in the IPS that describes how rebalancing is linked to the Board's investment philosophy and what the process should be.	Completed	X							
3.6	Discuss with Marquette Associates how reporting might be improved through development of an introductory executive summary, with an exception reporting approach, to the quarterly reporting package focused on actual performance compared to the IPS.	Completed	X	X						
4. Pension Operations										
4.1	Clarify the Board's responsibilities and role (or lack thereof) in pension and benefits administration.	Initiated	X	X						
4.2	Consider if pension staffing resources and capabilities should be improved through Implementation of a member contact center telecommunications system.	Initiated	X	X						
4.3	Develop a long-term plan with service, performance, and cost objectives, to ensure that member self-service, website redesign, and other improvements, are all developed and implemented in a coordinated manner and achieve desired results.	Not Reviewed Yet	X							
4.4	Charter a pension administration cost and performance benchmarking report.	Initiated	X							
4.5	Consult with its actuary and determine if an adjustment to the investment assumed rate of return should be recommended.	Reviewed		X						
4.6	Develop and adopt a formal actuarial and funding policy describing responsibilities and frequency of actuarial and asset/liability study processes and addressing investment, demographic and benefit risks.	Reviewed	X	X						

5. Administrative Operations

		<u>Board</u>	<u>Board, Adm.</u>	<u>Priority</u>	<u>Board</u>	<u>Governance</u>	<u>IC</u>	<u>Staff</u>	<u>Performance evaluation</u>	<u>Audit</u>
5.1	Develop succession planning and implement a cross training program for staff to minimize key person risk and enhance staff development.		X							
5.2	Work with the City Administration and the Law Department to delegate authority to the CRS Board to engage external counsel to obtain more timely legal support or unique expertise when appropriate. See also Recommendation 1.3.		X	X						
5.3	Develop a long-term IT plan that identifies future needs.		X							
5.4	Work with the City Enterprise Technology Solutions (ETS) Department to ensure security is adequate and tested.		X	X						
5.5	Update the documented disaster recovery plan.		X	X						

6. Compliance

6.1	Assign leadership, training, and monitoring responsibilities for compliance to ensure compliance with conflict of interest and ethics policies.		X	X						
6.2	Develop a repository of risk-ranked compliance requirements.		X							
6.3	Establish tracking mechanisms to identify and escalate non-compliance.		X							

GREEN - SHORTER TERM COMPLETION
 RED - LONGER TERM COMPLETION

Board - CRS Board has authority to complete
 Board, Adm. - CRS Board and City Administration have shared authority to complete
 Priority - CRS Board priority to complete as soon as possible

Note: Some Recommendations may require CSA update.

CRS Board Term Limit Motion

Introduction

In the interest of having all CRS Board positions filled on an ongoing basis and in the interest of maintaining a quorum of at least six CRS Board Members to ensure that the CRS Board can act in a timely manner, the following motions regarding CRS Board elections and terms are made for CRS Board approval:

Motion 1

I move that the following provisions be adopted by the CRS Board to enhance interest in being an elected CRS Board member:

1. Send a notice of pending vacancies to either active or retiree members, depending on the position up for election, 180 days before a CRS Board term ends. The notice shall include a description of:
 - a. CRS Board fiduciary duty,
 - b. Responsibilities of the CRS Board,
 - c. A description of the CRS Board structure,
 - d. An estimate of time commitment,
 - e. A description of the CRS Board election process. and
 - f. Links to other relevant information such as the CRS Board Governance Manual and Rules.

Such notices may be included in each of the two scheduled member newsletters prior to the end of elected terms.

2. Publicize upcoming openings at staff education sessions with members, e.g., new employee orientation, mid-career education and retirement sessions.
3. Reduce the number of nomination petition signatures from 25 to 15 to expedite the nomination process.
4. Modify the CRS Board Rules to include #1, #2, and #3 above.

Motion 2

I move that the following provisions be recommended for adoption by the City Council for CRS Board Member positions:

1. Each CRS Board member may serve up to three consecutive full terms (4 years).
2. After completing three consecutive terms, a CRS Board member may seek to be elected or appointed only after skipping at least one term. If such a former CRS Board Member is elected or appointed again a new three consecutive terms limit applies.
3. If a term ends prior to a completed election or appointment, the CRS Board Member whose term ends may continue to serve for no more than 180 days or until the election is completed or an appointment is made, whichever occurs first.
4. If a term ends prior to a completed election and an elected CRS Board Member is unable to continue in office for no more than 180 days or until the Member's successor

takes office, the respective active member or retiree members can select an interim qualified replacement, depending on the position up for election. Such interim CRS Board Member shall serve for a period of no more than 180 days or until a successor takes office.

5. Interim terms of no more than 180 days will not count against the term limit limitation.

Motion 3

I move that the Law Department prepare an ordinance to modify the Administrative Code, Article XV, Sec. 1. Board of Trustees, to include the provisions in Motion 2 - #1, #2, #3, #4, and #5.

William E. Moller, CRS Board of Trustees Chair

1. Procurement (1.5)

- Work with CMO to obtain a standing exemption allowing CRS Retiree Trustee to serve on the selection committee as a voting member.

2. Contracting (1.4)

- Write CRS procurement procedures similar to current processes for hiring investment managers where the CRS board selects a vendor and the contract is then negotiated and executed by the City Solicitor and CMO and recommended by the CRS Executive Director and Finance Director.
- Scope of implementation:
 - Investment Managers
 - Investment Consultants
 - Actuaries
 - Custodians
 - Fiduciary audits
 - Benefit Providers

3. Personnel Oversight (1.2 and 1.6)

- Continue with current CRS Board Evaluation process of the ED, which is to be provided to the Finance Director and then incorporated into the annual review of the ED for fiscal year 2023/24.
- Going forward, the CRS ED, Finance Director and Chair of the Performance Evaluation Committee will meet annually to align and discuss the CRS Board's annual strategic goals and objectives with the City's strategic performance metrics for the CRS ED. This will ensure a cohesive set of objectives for the CRS ED to be evaluated each year.
- The CRS Board, in conjunction with the ED, will provide the Finance Director with periodic assessment reports on the CRS Board's annual strategic goals and objectives.
- The Finance Director, in conjunction with the ED, will provide the CRS Board with the annual performance metrics related to the CRS organization.
- The Finance Director, in conjunction with the ED, will provide the Board with the periodic assessment reports on the organization performance metrics.
- Formal complaints about the ED should be brought to the attention of the Board.
- Clarify and define the reporting relationship of the ED to the Finance Director and the CRS Board. Also define the reporting relationships of CRS staff through the ED.
- Confirm that the requirements of the section are reflected in the CRS Governance Manual and agreed to by the CMO and Finance Director.

4. Legal Counsel (1.3 and 5.2)

- Develop a formal agreement with the City Solicitor's office to describe the process for 1) engaging outside counsel and sharing findings with the Board of Trustees, and 2) managing legal representation when the CRS Board and CMO disagree on matters of law.

5. General Admin Roles and Clarity on Roles and Responsibilities (1.1, 2.11, 4.1, 5.1)

- Provide definitions of roles and responsibilities for all stakeholders to be included in the Governance Bylaws.
- Engage the State auditor to include a statement within the City's ACFR highlighting that CRS is part of the financial audit process.
 - Evaluate the need and cost to develop a PAFR
 - Explore the engagement of external auditors to bi/annually review CRS non-financial performance of operations and/or internal controls.
- Develop succession plan guidelines for key CRS positions, and related cross-training. Confirm that such guidelines are reflected in the CRS Governance Manual and agreed to by the CMO and Finance Director.

6. Assure that all that is agreed to in the above categories and memorialized in a Memorandum of Understanding consistent with all existing governing documents and admin/municipal code.

2025 CRS Board and Committee Schedule
City Hall -- Council Chambers



Date	Investment	Governance	Performance Evaluation	Elections	Benefits	BOARD
Jan. 9		1:00 PM				2:00 PM
Feb. 6	12:00 PM					2:00 PM
Mar. 6			12:00 PM		1:00 PM	2:00 PM
Apr. 3		1:00 PM				2:00 PM
May 1	12:00 PM					2:00 PM
Jun. 5			12:00 PM		1:00 PM	2:00 PM
Jul. 10		1:00 PM				2:00 PM
Aug. 7	12:00 PM					2:00 PM
Sept. 4			12:00 PM		1:00 PM	2:00 PM
Oct. 2		1:00 PM				2:00 PM
Nov. 6	12:00 PM					2:00 PM
Dec. 4			12:00 PM		1:00 PM	2:00 PM