

# City of Cincinnati



*Interdepartmental  
Correspondence Sheet*

February 22, 2011

To: Mayor and Members of City Council

From: Milton Dohoney, Jr., City Manager

Subject: Report to City Council from the Cincinnati Retirement System Board of Trustees

Attached to this transmittal is a Report to City Council from the Cincinnati Retirement System Board of Trustees. The new Board of Trustees was established in the Fall of 2010. It presents this Report to highlight the financial challenges facing the retirement system and to provide a comprehensive set of recommendations for City Council's approval and action.

Representatives of the Board of Trustees will perform a presentation of this Report to the Budget & Finance Committee on February 22, 2011.

c: Paula Tilsley, Executive Director Retirement System

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**Report to City Council  
from the  
Cincinnati Retirement System Board of Trustees**

**Recommendations for a Sustainable  
Retirement System**

**February 22, 2011**

# Our Recommendation

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- Today, the CRS Board is pleased to present a solution to strengthen the financial condition of the Cincinnati Retirement System.
- Our multifaceted recommendations are presented as a comprehensive package. Together they reflect the Board's efforts to involve all stakeholders – actives, retirees, and the City in the solution.
- The new retirement and health care programs we present are more moderate in their benefits but still provide City Workers with a valuable, comprehensive and sustainable program.

# Your New CRS Board

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- In 2010, City Council changed the governance structure of the Cincinnati Retirement System (CRS) Board of Trustees to include member elected trustees and appointed professional trustees. (See Appendix A)
- The new Board's first assignment – Determine a solution to stabilize and sustain the Retirement System for current and future generations.
- The Board's recommendations recognize and build upon the efforts of Task I and Task Force II.
- The Board held three Community Meetings in December 2010 to present our ideas and gather input from various stakeholders.
- Our final recommendations were adjusted based on input from stakeholders.

# Environmental Factors at Play

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- “A bill was introduced ... by three prominent House Republicans to deny states and localities the ability to sell tax-exempt bonds—the lifeblood for many governments—unless they report their pension-fund liabilities to the Treasury Department.” ~ The Wall Street Journal, Dec. 2010

# Environmental Factors at Play

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- “Municipal-debt issuers are grappling with possible rating reductions because of pensions, which would devalue their bonds and raise borrowing costs.... Credit-rating companies have begun to weigh pension liabilities along with other elements when gauging state and local finance for investors.”  
~ Bloomberg, Feb. 2011

# Environmental Factors at Play

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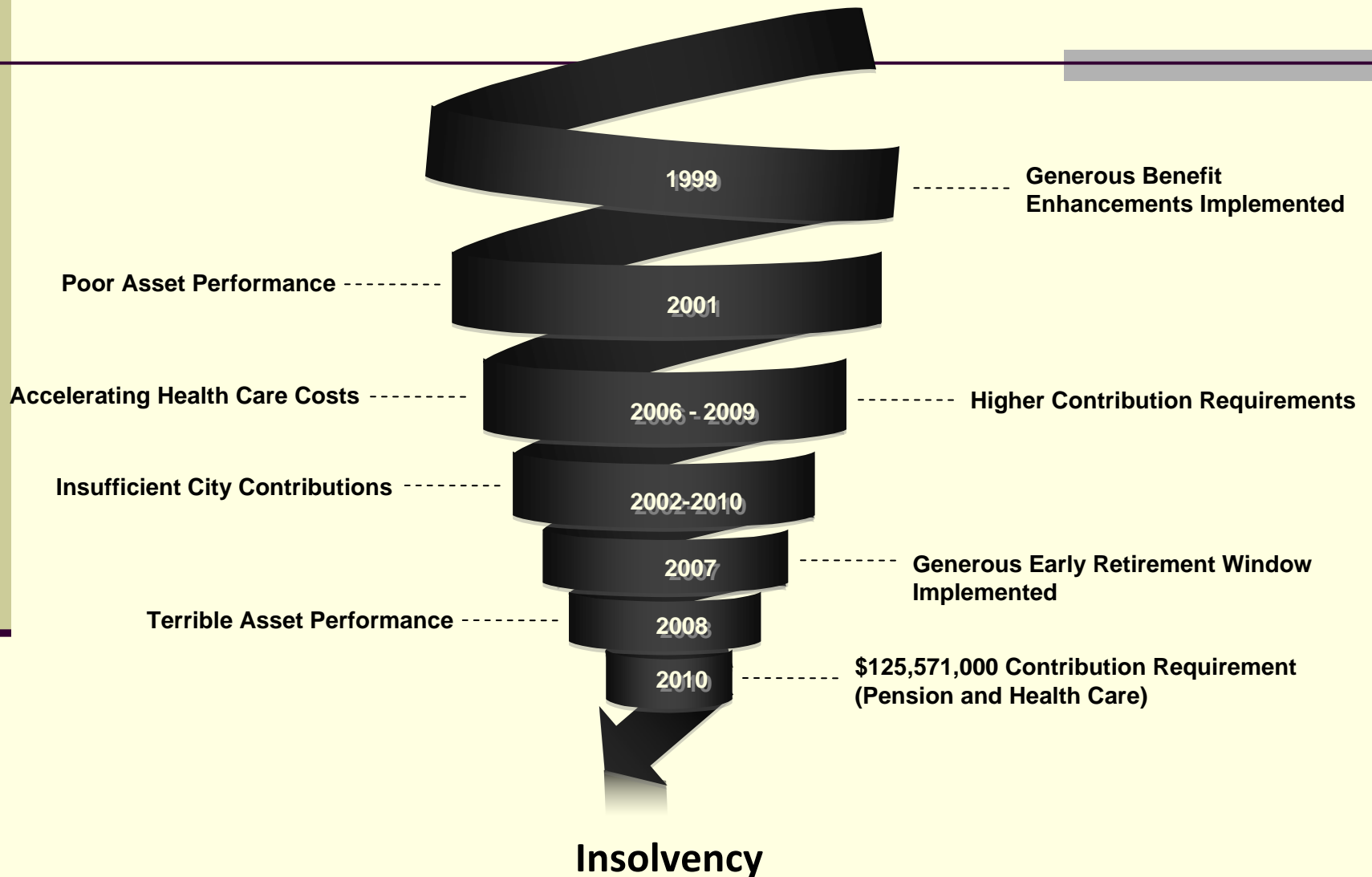
- “Ohio’s five public retirement funds proposed to raise member contributions and cut benefits to ensure their long-term viability... The pension funds were instructed by lawmakers to develop plans that would ensure the pension funds had sufficient assets to cover their obligations for the next 30 years.” ~ Toledo Blade, Jan. 2011

# Current State of Affairs

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- The status quo approach (same benefits and employer contributions of 17%) will fully drain the pension trust in 21 years and the healthcare trust in 15 years.
- In 2010, CRS' expenses (pension, healthcare and operating costs) exceeded revenues (employer and employee contributions, and Medicare Rx reimbursements) by \$145 million.
- City employees currently contribute 8% of salary for 2011, and will contribute 8.5% in 2012, capping at 9.0% in 2013.

# Today, CRS is in a Downward Spiral



# Today, CRS is not Stable, not Sustainable and not Affordable

## Stability?

- The generosity of current CRS provisions, several years of insufficient City contributions, poor market performance and falling market expectations

## Sustainability?

- Without City Council action, the Pension trust will run out of assets within the next 21 years
- In 21 years, today's workers and new generations of Cincinnati workers will come directly to the City for benefits after the CRS trust runs dry

## Affordability?

- By 2013 workers will contribute 9% of pay to CRS
- The City's contribution requirement is huge ~ but without City Council action, funding requirements will only increase

# What's Within the City's Control?

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## Moderating Benefits

- Today we ask that City Council moderate the level of benefits; only then can the City have hope of attaining a stable and sustainable System

## Making Required Contributions

- Once benefits are moderated, the City must begin to make it's annual required contributions
- Without this commitment CRS will fail

# Pension Recommendations

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- The CRS Board of Trustees recommends pension changes, subject to a comprehensive set of grandfather and transition rules.
- The impact of these changes on individual employees depends on their proximity to their Normal Retirement age under the current plan.
- For all employees hired prior to 1/1/2011, their earned pension benefit is protected up to the effective date of the change.
- These employees will also be able to retire under the current age and service rules with adjustments to benefits earned after the change, if applicable.

# Building Blocks of Recommended Pension Benefit Changes

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Change COLA from compound to simple interest

Link COLA to index and lower maximum rate

Increase number of years for average salary calculation

Lower rates of pension accrual

Increase retirement age and service requirements

Moderate pre and post retirement death benefits

# Pension Recommendations

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- Cost of Living Adjustment (COLA) for future retirees will be based on simple interest, not compound.
- COLA will no longer be guaranteed at 3% but will be indexed to the CPI-U to a maximum of 2% per year.
- The salary used for benefit calculations will be changed from the highest consecutive 3 year average to the highest consecutive 5 year average.

# Pension Recommendations (Cont.)

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- Rate of pension accruals will be reduced from 2.50% (and 2.22% for a closed group) to 2.20% of base pay for all employees for future years of service.
- First 30 years of service will accrue at 2.20% rate of pay. Years beyond 30 will accrue at 2.00% rate of pay.

# Recommended Normal Retirement Age and Service Rules

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## Current Rules

- Normal Retirement  
(Hired before 1/1/2010)
  - 30 years of service, any age
  - 5 years of service, age 60
  
- Normal Retirement  
(Hired on or after 1/1/2010)
  - 30 years of service, age 55
  - 5 years of service, age 65

## Proposed Rules

- Normal Retirement  
(Hired before 7/1/2011)
  - 30 years of service, age 60
  - 5 years of service, age 65
  
- Normal Retirement  
(Hired on or after 7/1/2011)
  - 30 years of service, age 62
  - 5 years of service, age 67

# Recommended Early Retirement Age and Service Rules

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## Current Rules

- Early Retirement  
(Hired before 1/1/2010)
  - 25 years of service, age 55
- Early Retirement  
(Hired on or after 1/1/2010)
  - 25 years of service, age 60
- Actuarial reduction applies

## Proposed Rules

- Early Retirement
  - 15 years of service, age 57
- Actuarial reduction applies

# Pre & Post Retirement Death Benefit Recommendations

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- \$7,500 death benefit for current retirees will be reduced to \$5,000. It will be eliminated for future retirees.
- Pre-retirement lump sum death benefit equal to 50% of salary will be eliminated.
  - This type of death benefit is uncommon in DB plans.
  - Usually provided through employer or individual life insurance.
  - Social Security and OPERS do not provide a similar benefit.

## Recommended Pension Plan Changes

<b>Group</b>		<u>5-Year Final Avg Salary</u>	<u>Service Yrs. up to 30 @ 2.2% Multiplier, Service Yrs. over 30 @ 2.0% Multiplier</u>	<u>Revised Retirement Requirements</u>	<u>Simple 2% Indexed COLA</u>	<u>Modified Pre- Retire. Survivor Benefit</u>	<u>Death Benefit</u>
<b>AB</b>	Current Retirees						\$5,000
<b>C</b>	Actives w/30 YOS, or age 60 w/5 YOS before 7/1/2011 (Regardless of Retire. Date)	Changes do not apply					\$0
<b>D</b>	Actives who become eligible for & take Normal Retirement* from 7/1/2011 & before 1/1/2014						\$0
<b>E</b>	Actives who become eligible for Normal Retirement* from 7/1/2011 & before 1/1/2014, but retire later <sup>1</sup>			Changes apply			\$0
<b>F</b>	Actives hired before 2011 & not in other groups <sup>2</sup>						\$0
<b>G</b>	Employees hired after 2010						\$0

\* For describing these groups, Normal Retirement refers to 30 years of service, or age 60 & 5 years of service.

**1** Benefits earned before 1/1/2014 will be maintained and benefits for subsequent service will be paid under the new basis.

**2** Benefits earned before 7/1/2011 will be maintained and benefits for subsequent service will be paid under the new basis.

# How Will Transition Work?

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- Pension benefits earned to the effective date of the change will be protected:
  - All components of the prior formula will apply,
  - The earliest normal retirement age available under the prior plan will continue to be available,
  - At that same date, benefits earned under the new benefit formula will also be payable – in an actuarially reduced amount if applicable, and,
  - Retiree health benefits will be available at the same date.

# How Will Transition Work?

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*The transition rules will cover every current employee in Groups E and F.*

- On the following slides portions of transition calculation examples are shown for two sample participants:
  - Larry Longservice with 25 years of service at 7/1/2011
  - Mary Midcareer with 10 years of service at 7/1/2011

# How Will Transition Work?

## *Calculation Data for Larry*

<b>Event</b>	<b>Date</b>	<b>Age</b>	<b>Service</b>	<b>Av Sal (3)</b>	<b>Ave Sal (5)</b>
Hire	7/1/1986	27	0.0	~	~
Change	7/1/2011	52	25.0	\$60,000	\$58,500
Ret Date #1	7/1/2022	57	30.0	\$69,500	\$68,000
Ret Date #2	7/1/2025	60	33.0	\$70,500	\$69,000

## *Calculation Data for Mary*

<b>Event</b>	<b>Date</b>	<b>Age</b>	<b>Service</b>	<b>Av Sal (3)</b>	<b>Ave Sal (5)</b>
Hire	7/1/2001	39	0.0	~	~
Change	7/1/2011	49	10.0	\$50,000	\$48,500
Ret Date #1	7/1/2016	60	21.0	\$61,500	\$60,000
Ret Date #2	7/1/2019	63	24.0	\$63,000	\$61,500

# Larry Longservice Transition Calculation

## Pension Benefit Transition Calculations for Larry

For Larry, the transition calculation for a benefit commencing at age 57 is shown below:

$$25 \text{ YOS} \times 2.5\% \times \$69,500_{(3)} + 5 \text{ YOS} \times 2.2\% \times \$68,000_{(5)} \times .746_{\text{(reduction factor)}} =$$

**\$49,018 with a 2% simple indexed COLA**

How does this compare with Larry's Current Plan calculation?

Under the Current Plan Larry's benefit commencing at age 57 would have looked like this:

$$30 \text{ YOS} \times 2.5\% \times \$69,500_{(3)} = \mathbf{\$52,125 \text{ with a 3\% compound fixed COLA}}$$

# Larry Longservice Transition Calculation

## Pension Benefit Transition Calculations for Larry

For Larry, the transition calculation for a benefit commencing at age 60 is shown below:

$$25 \text{ YOS} \times 2.5\% \times \$70,500_{(3)} + 5 \times 2.2\% \times \$69,000_{(5)} \times 1.000 + 3 \times 2.0\% \times \$69,000_{(5)} \times 1.000 = \$55,793 \text{ with a 2\% simple indexed COLA}$$

How does this compare with Larry's Current Plan calculation?

Under the Current Plan Larry's benefit commencing at age 60 would have looked like this:

$$33 \text{ YOS} \times 2.5\% \times \$70,500_{(3)} = \$58,163 \text{ with a 3\% compound fixed COLA}$$

# Mary Midcareer Transition Calculation

## Pension Benefit Transition Calculations for Mary

For Mary, the transition calculation for a benefit commencing at age 60 is shown below:

$$10 \text{ YOS} \times 2.5\% \times \$61,500_{(3)} + 11 \text{ YOS} \times 2.2\% \times \$60,000_{(5)} \times 0.593_{\text{(reduction factor)}} =$$

**\$23,985 with a 2% simple indexed COLA**

How does this compare with Mary's Current Plan calculation?

Under the Current Plan Mary's benefit commencing at age 60 would have looked like this:

$$21 \text{ YOS} \times 2.5\% \times \$61,500_{(3)} = \$32,288 \text{ with a 3\% compound fixed COLA}$$

# Mary Midcareer Transition Calculation

## Pension Benefit Transition Calculations for Mary

For Mary, the transition calculation for a benefit commencing at age 63 is shown below:

$$10 \text{ YOS} \times 2.5\% \times \$63,000_{(3)} + 14 \text{ YOS} \times 2.2\% \times \$61,500_{(5)} \times 0.807_{\text{(reduction factor)}} =$$

**\$31,036 with a 2% simple indexed COLA**

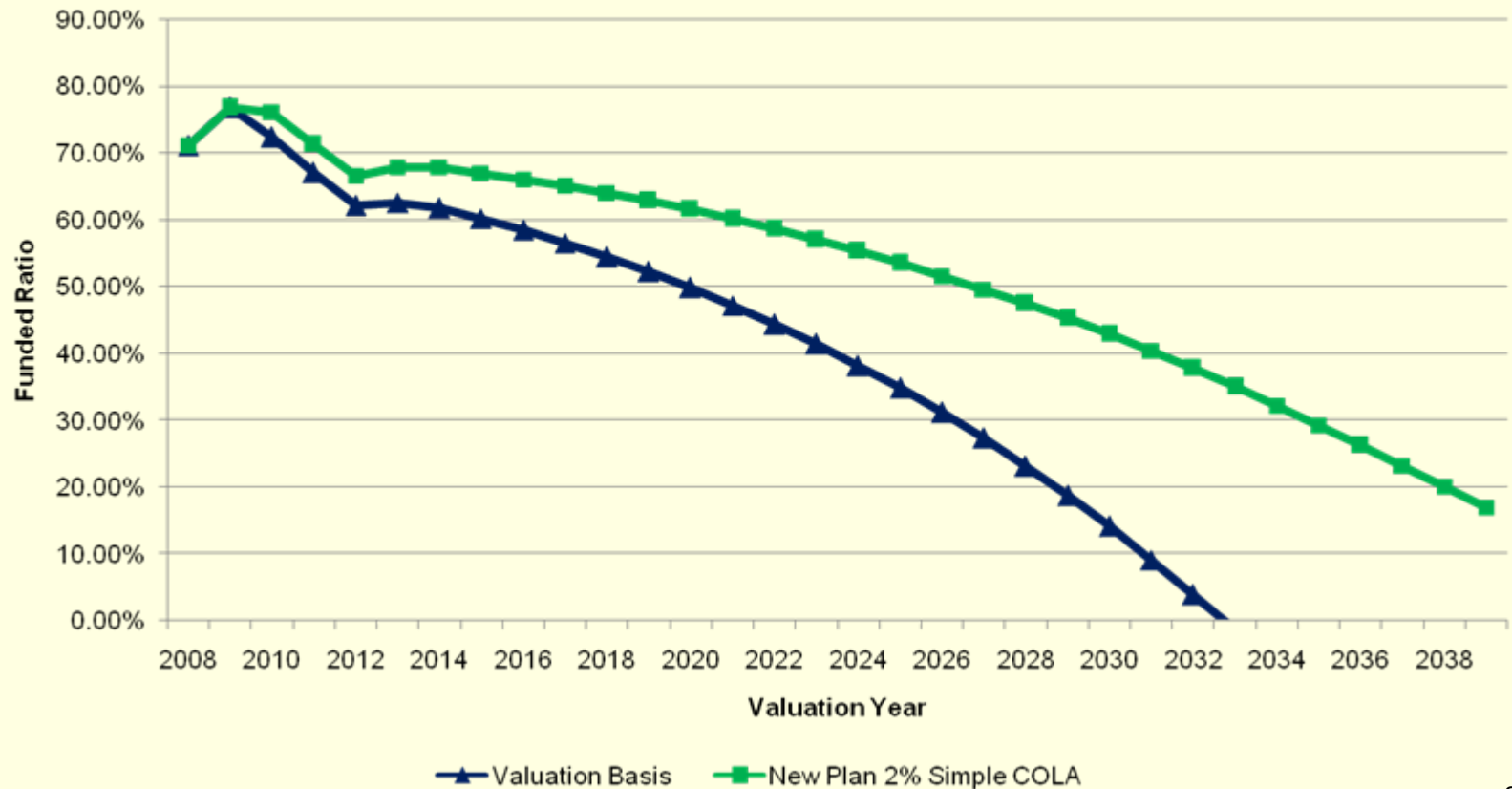
How does this compare with Mary's Current Plan calculation?

Under the Current Plan Mary's benefit commencing at age 63 would have looked like this:

$$24 \text{ YOS} \times 2.5\% \times \$63,000_{(3)} = \mathbf{\$37,800 \text{ with a 3\% compound fixed COLA}}$$

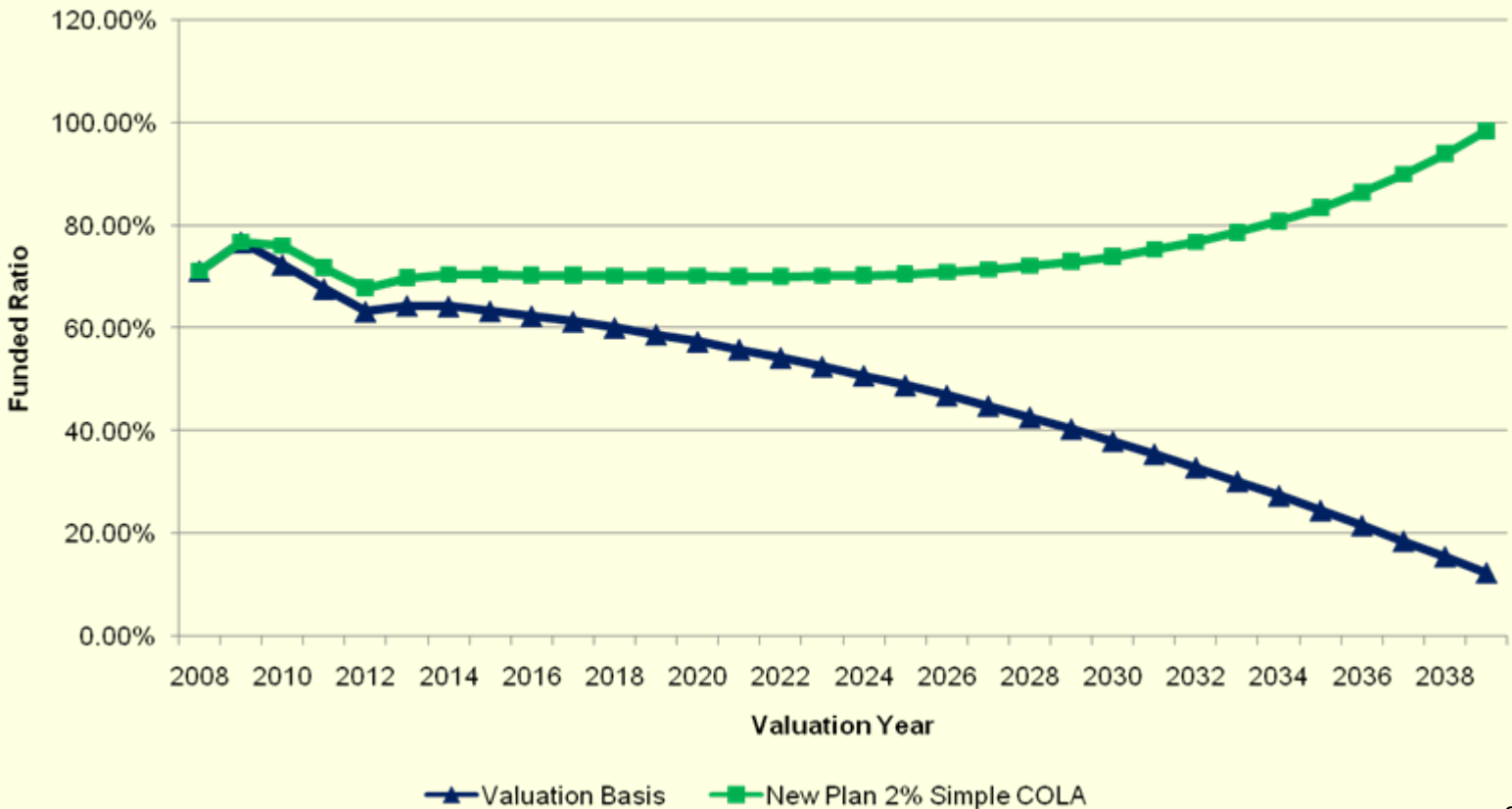
# Solvency Projections (Pension)

30-Year Projection of Funded Ratio  
City Contribution Rate of 17% for all years  
*Pension Only*



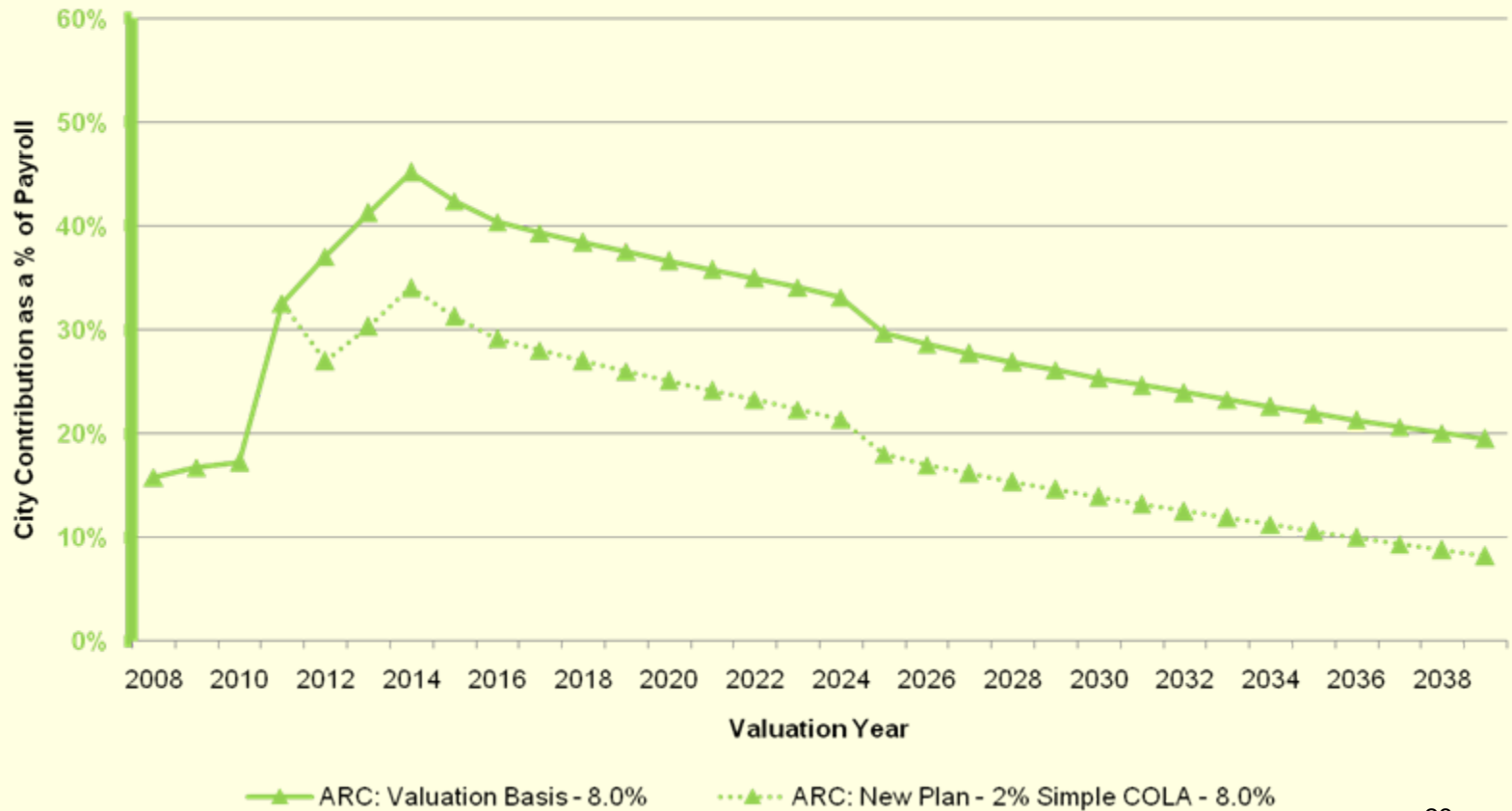
# Solvency Projections (Pension)

30-Year Projection of Funded Ratio  
City Contribution Rate of 24% for all years after 2010  
*Pension Only*



# Contribution Projections (Pension)

**30-Year Projection of Employer Contributions**  
**City Contributes the ARC for Years 2011+**  
*Pension Only - Long Term Discount Rate of 8.0%*



# Pension Plan Actuarial Cost Savings

	12/31/2009 Valuation Results	12/31/2009 Reflecting Plan Changes	Savings
Payroll	\$161,874,415	\$161,874,415	-
Total Unfunded Actuarial Accrued Liability (UAAL)	\$494,331,387	\$388,055,433	\$106,275,954
Normal Cost Rate	14.87%	10.73%	4.14%
Employee Rate for 2011 FY	(8.00)%	(8.00)%	-
Employer Normal Cost Rate	6.87%	2.73%	4.14%
UAAL Rate (30 year amortization)	24.75%	18.92%	5.83%
ERIP (Early Retirement Incentive Plan) as a % of payroll	2.28%	2.28%	-
Estimated ARC in dollars	\$54,875,000	\$38,737,000	\$16,138,000

# Building Blocks of Recommended Retiree Health Care Changes

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Move all retirees to 80/20 PPO, the same as the active plan

Dental and Vision benefits to be entirely retiree funded

Eliminate the Medicare Part B subsidy for retirees

Eliminate the Medicare Part B subsidy for spouses

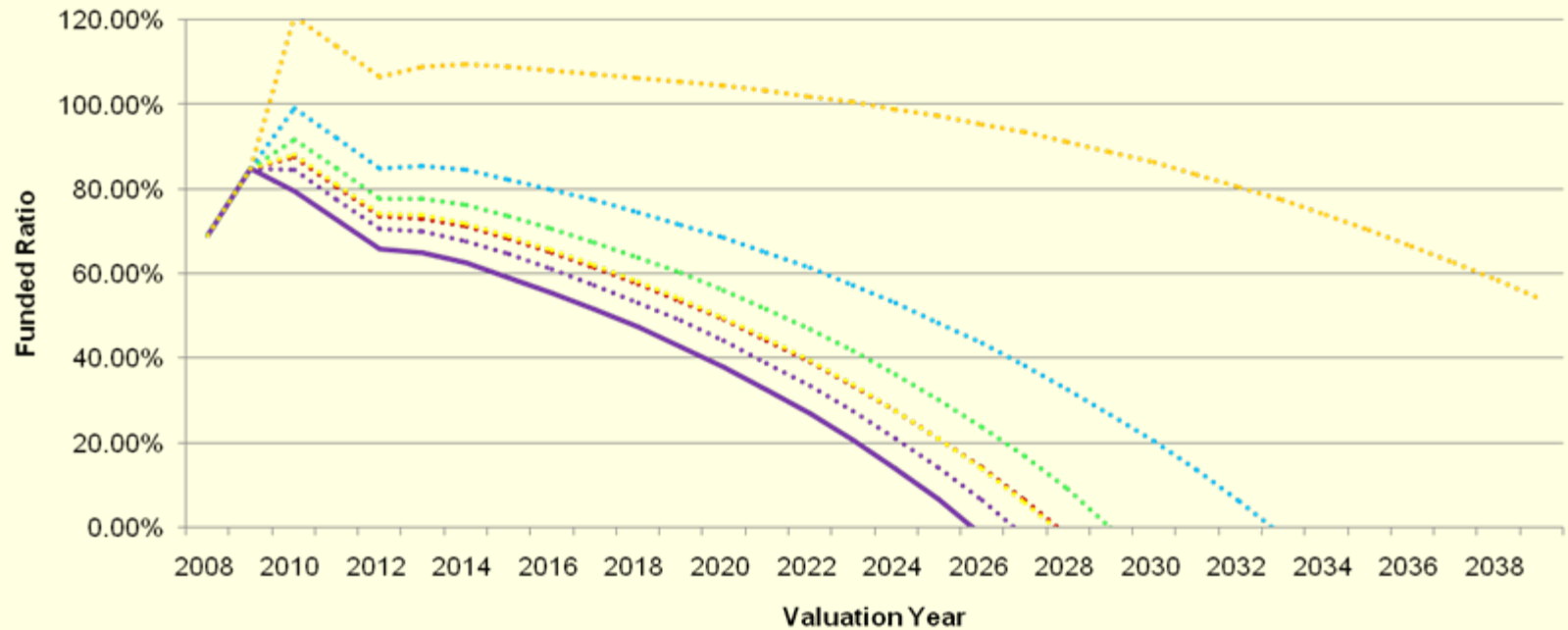
# Recommended Retiree Health Care Changes

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- Move all retirees and other recipients to 80/20 PPO medical plan and pay same percent of “retiree plan” premium as actives.
- Eliminate Medicare Part B subsidy for retirees.
- Eliminate Medicare Part B subsidy for spouses, and other recipients of CRS retiree health care coverage.
- Require retirees to pay 100% of premiums for dental and vision benefits if they choose to continue coverage.

# Solvency Projections (Health Care)

**30-Year Projection of Funded Ratio**  
**No Future Contributions from City or Active Employees**  
*Health Care Only*



- Valuation Basis
- ..... New Pension Plan Elig - Dental & Vision Change
- ..... New Pension Plan Elig - Retiree Pays PtB
- ..... New Pension Plan Elig - Changes Combined
- ..... New Pension Plan Elig
- ..... New Pension Plan Elig - Spouse Pays PtB
- ..... New Pension Plan Elig - All in 80/20 Plan

## CRS Board of Trustees

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### **Appointed**

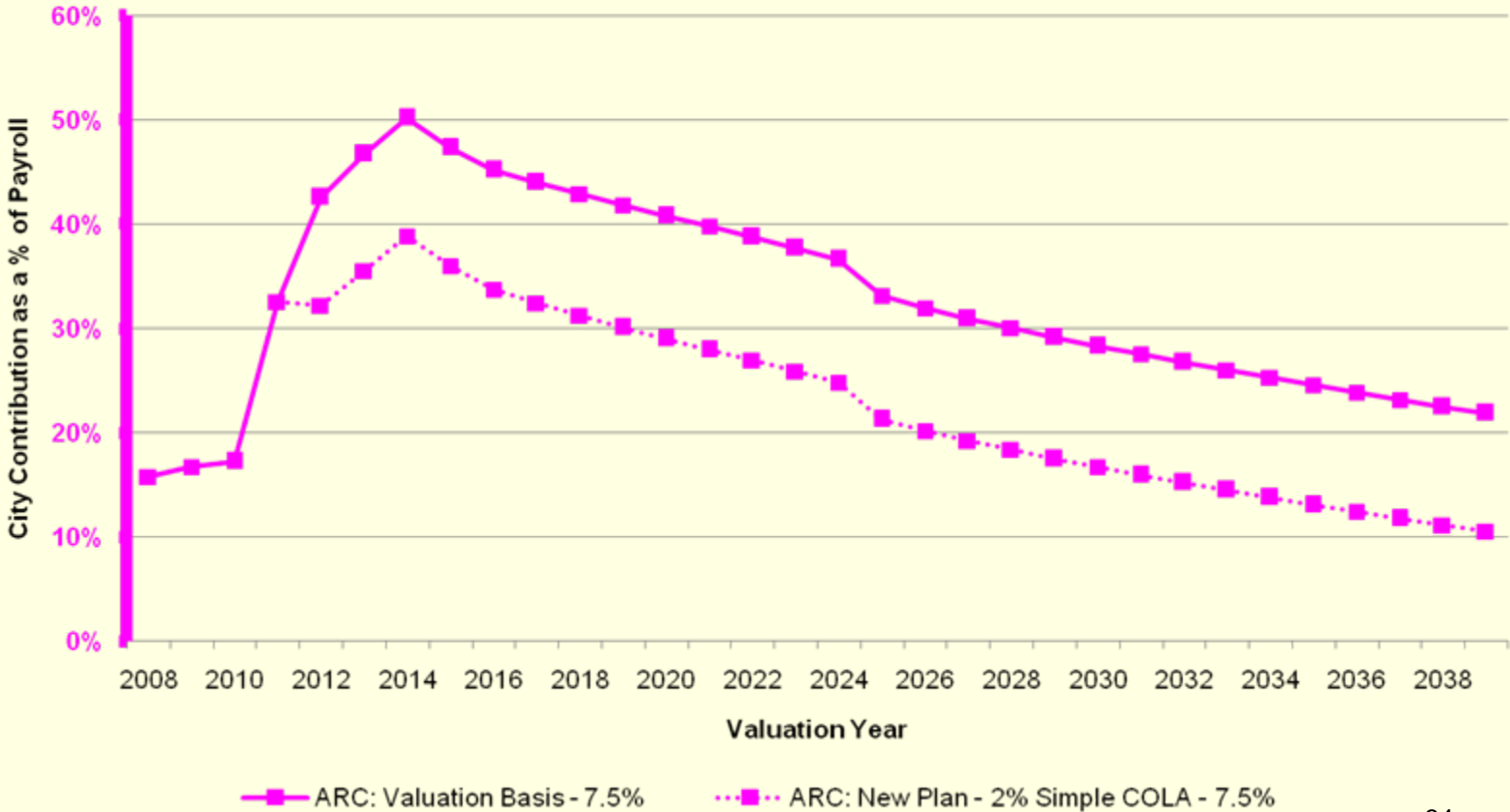
- Madelynn Matlock, Sr. VP Huntington Asset Advisors – CRS Board Chair
- William Partridge, Retired Sr. Consultant & Pension Actuary, Watson Wyatt Worldwide – CRS Vice Chair
- Mark Berliant, Senior Partner, Strauss & Troy, a Legal Professional Association
- Christopher Meyer, CFA, Managing Principal Fund Evaluation Group LLC
- Roger Sims, Retired Corp. Dir., Compensation, Benefits & Employee Health Svcs., Health Alliance
- Constance Cooper, Associate Professor, University of Cincinnati College of Business

### **Elected**

- Karen Alder, Interim Risk Manager, City of Cincinnati
- Don Beets, Retired Supervisor of Field Services, Greater Cincinnati Water Works
- Mike Fehn, Building Inspector II , Dept. of Community Development, City of Cincinnati
- Brian Pickering, Retired Principal Engineer, Greater Cincinnati Water Works
- Mike Rachford, Retired Automotive Crew Chief, City of Cincinnati

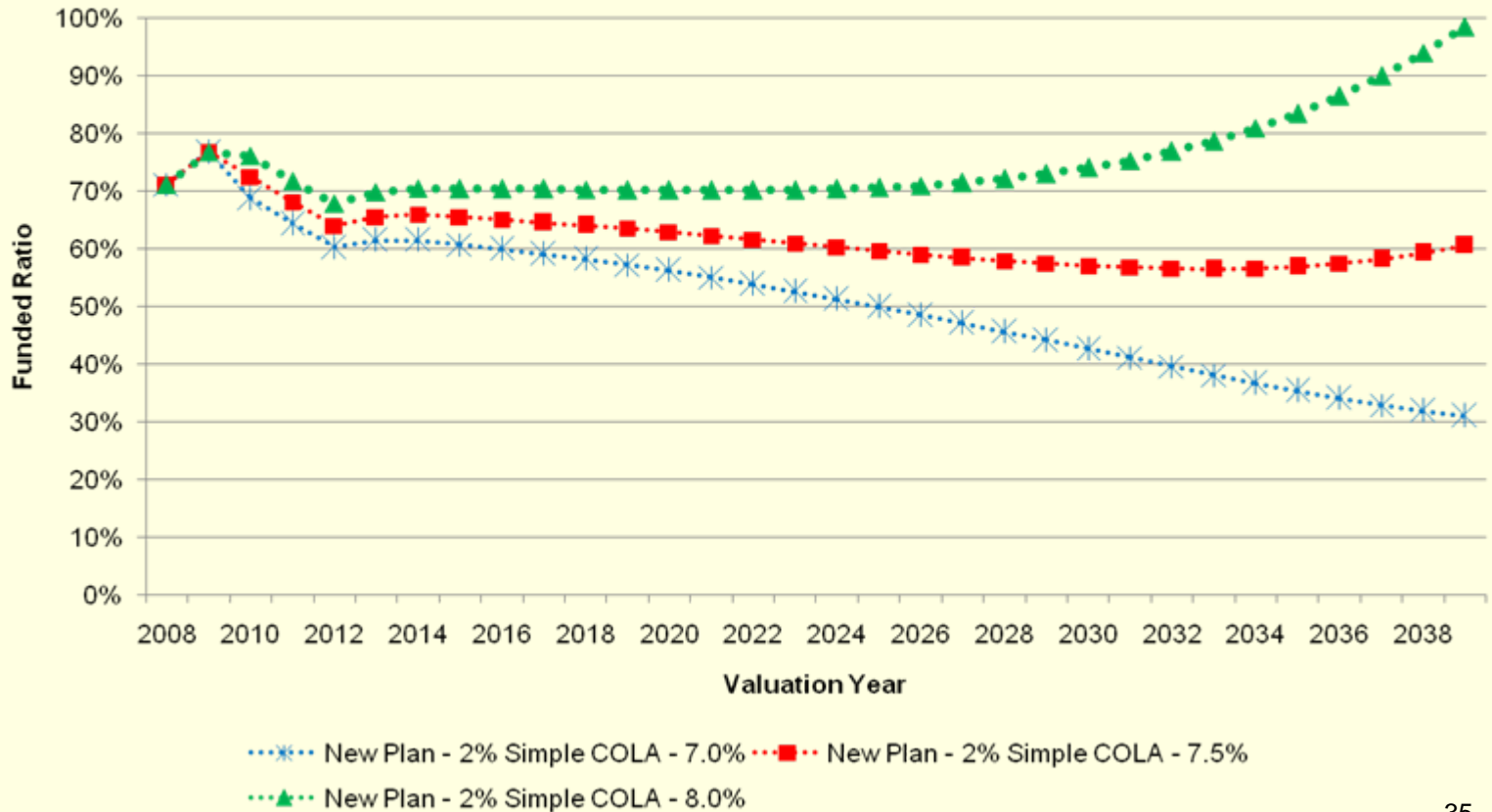
# Solvency Projections (Pension)

**30-Year Projection of Employer Contributions**  
**City Contributes the ARC for Years 2011+**  
*Pension Only - Long Term Discount Rate of 7.5%*



# Solvency Projections (Pension)

30-Year Projection of Funded Ratio  
 City Contribution Rate of 24% for all years  
*Pension Only*



# Pension Liability Change by Component

	Accrued Liability (\$ in Millions)
Change 1 – COLA Change (2% and Simple)	\$35.9
Change 2 – Final Average Salary Change	\$4.9
Change 3 – Benefit Accrual Change	\$18.8
Change 4 – Retirement Eligibility Change	\$35.5
Change 5 – Elimination of Pre Retirement Death Benefits	\$2.5
Change 6 – Reduction of Post Retirement Death Benefits	\$4.9

# Health Care Liability Change by Component

Changes to Health Care Benefits	Accrued Liability Impact (\$ in Millions)
	New Pension Plan Eligibility
Change 1 – Current and future participants assume 100% of costs for dental and vision benefits	\$76
Change 2 – Current and future spouses are required to pay Medicare Part B premium	\$81
Change 3 – Current and future retirees are required to pay Medicare Part B premium	\$113
Change 4 – All health care benefits provided through the Blue Access 80/20 plan	\$164
Change 5 – All Changes Combined	\$290
Change 6 – Change in retirement eligibility (“New Pension Plan Eligibility”)	\$48

# Appendix F

CRS Retiree Medical Plan Designs for 2010 and 2011						
Plan	Blue Modified Carve-Out		Blue Modified		Blue Access 80/20	
Plan Type	PPO		PPO		PPO	
Access	In Network	Out of Network	In Network	Out of Network	In Network	Out of Network
<b>Annual Deductible</b>	\$0	\$0	Single: \$100 Family: \$200	Single: \$200 Family: \$400	Single: \$300 Family: \$600	Single: \$600 Family: \$1,200
<b>Annual Out-of-Pocket Maximum</b>	Single: \$500 Family: \$1,000 (includes copays)	Single: \$1,000 Family: \$2,000 (includes copays)	Single: \$1,000 Family: \$2,000 (includes copays)	Single: \$2,000 Family: \$4,000 (includes copays)	Single: \$1,500 Family: \$3,000	Single: \$3,000 Family: \$6,000
<b>Lifetime Maximum</b>	Unlimited		Unlimited		Unlimited	
<b>Copay/Coinsurance - Physician</b>	20%	50%	20%	50%	20%	50%
<b>Coinsurance - Hospital</b>	20%	50%	20%	50%	20%	50%
<b>Emergency Room</b>	20%	50%	20%	50%	20%	50%
<b>Urgent Care</b>	20%	50%	20%	50%	20%	50%
<b>Medicare Coordination of Benefits</b>	Maintenance of Benefits		Maintenance of Benefits		Maintenance of Benefits	
<b>Monthly Premium</b>	\$0		\$0		Single: \$14.80    Family: \$40.90	
<b>Rx - Retail Copay/Coinsurance</b>	Generic: \$5.00 Brand: \$15.00 NF Brand: \$30.00 \$500 Out-of-Pocket Maximum	50%	Generic: \$5.00 Brand: \$15.00 NF Brand: \$30.00 \$1,000 Out-of-Pocket Maximum	50%	Generic: \$10.00 Brand: \$20.00                    NF Brand: \$30.00 No Limit	50%
<b>Rx - Mail Order Copay/Coinsurance</b>	90 day Generic:\$10.00 90 day Brand: \$30.00 90 day NF Brand: \$60.00 \$500 Out-of-Pocket Maximum	Not Covered	90 day Generic:\$10.00 90 day Brand: \$30.00 90 day NF Brand: \$60.00 \$1,000 Out-of-Pocket Maximum	Not Covered	90 day Generic:\$20.00 90 day Brand: \$40.00 90 day NF Brand: \$60.00 No Limit	Not Covered

## Healthcare Related Premiums

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- 80/20 Plan Premiums for 2011
  - Single                 \$20.90/month
  - S + Spouse         \$41.80/month
  - Family                \$57.90/month
  
- Medicare Part B Premiums
  - Base premium for benefits beginning before 1/1/10 is \$96.40/month
  - Base premium for benefits beginning in 2010 is \$110.50/month
  - Base premium for benefits beginning in 2011 is \$115.40/month
  
- Full Dental Premiums for 2011
  - Single                 \$27.32/month
  - Family                \$82.02/month
  
- Full Vision Premiums for 2011
  - Single                 \$ 3.50/month
  - Family                \$10.10/month

## Number of Payees by Health Care Plan

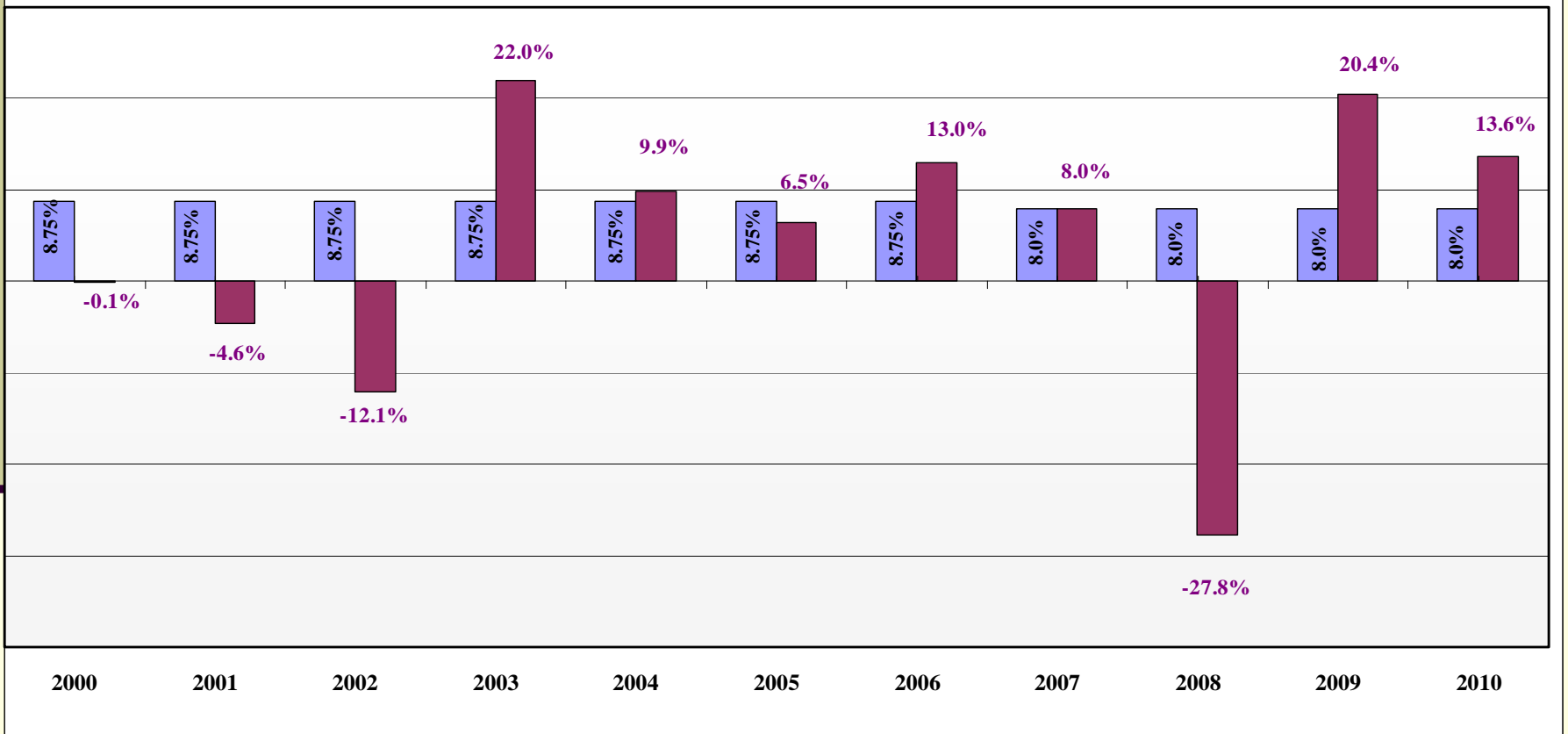
■ 80/20 Plan	545	13%
■ Modified Plan	2,548	60%
■ Carve-Out Plan	1,166	27%
■ CO1: Age 65+ & 30 yrs. & less than \$30K pension		
■ CO2: Age 65+ & less than 30 yrs. & less than \$30K income		
■ CO3: Disabled prior to 9/1/07 & less than \$30k pension		
■ CO4: Total income less than \$24,200		
■ Total all plans	4,259	

Note: Payee is a person receiving a pension check

# Appendix I

**Cincinnati Retirement System  
Assumed Rate of Return vs Actual  
2000 through 2010**

- Assumed Rate of Return
- Actual Rate of Return



# Allocation of Contributions by City Groups

- Allocation of 2010 employer contributions at 17% contribution rate

	<u>Dollars</u>	<u>Percent</u>
■ General Fund	\$12.7 MM	40%
■ Metropolitan Sewer District	\$6.0 MM	19%
■ Cincinnati Water Works	\$5.2 MM	16%
■ Other Funds	\$7.7 MM	25%
<b>TOTAL</b>	<b>\$31.4 MM</b>	<b>100%</b>

## Comparison of CRS , OPERS and STRS

Benefit	Current CRS	Proposed CRS	Current OPERS	Proposed OPERS	Current STRS	Proposed STRS
Age & Service Eligibility	30 years, any age 5 years, age 60	30 years, age 60 5 years, age 65	30 years, any age 5 years, age 65	32 years, age 55 5 years, age 67	30 years, any age 5 years, age 65	30 years, age 60 5 years, age 65
Reduced Retirement Eligibility	25 years, age 55	15 years, age 57	25 years, age 55 5 years, age 60	25 years, age 57 5 years, age 62	25 years, age 55 5 years, age 60	30 years, age 55 5 years, age 60
Benefit Formula	2.50% per year	2.20% for 30 yrs. 2.00% thereafter	2.20% for 30 years 2.50% thereafter	2.20% for 35 years 2.50% thereafter	2.20% for 30 years 2.50% thereafter	2.20% per year
Final Average Salary	Three years	Five years	Three years	Five years	Three years	Five years
COLA	3.0% Compound	Simple tied to CPI-U with 2% cap	3.0% simple	Simple tied to CPI with 3% cap	3.0% simple	2.0% simple starting 5 yrs. after retirement
Employee Contribution Rate	2011 - 8.0% 2012 - 8.5% 2013 - 9.0% and thereafter	2011 - 8.0% 2012 - 8.5% 2013 - 9.0% and thereafter	10%	10%	10%	Up to 12.5% phased in over 5 years
Transition Groups		Generally 2 ½ years from retirement		Generally 5 years, or 20+ yrs. of service, or within 10 years of retirement		Generally 5 years
Initial Retirement Benefit as % of Final Avg. Salary	87% after 35 years	76% after 35 years	78.5% after 35 years	77.0% after 35 years	78.5% after 35 years	77% after 35 years