

May 2005

**Retirement System for Employees of  
The City of Cincinnati  
Actuarial Valuation Report as of  
December 31, 2004**

**The City of Cincinnati**

**MERCER**

Human Resource Consulting

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## Highlights

This report has been prepared by Mercer Human Resource Consulting for the City of Cincinnati to:

- Present the results of a valuation of the Retirement System for Employees of the City of Cincinnati as of December 31, 2004;
- Review experience under the Plan for the year ended December 31, 2004;
- Provide to the plan sponsor the recommended level of contributions under the Plan for the year ending December 31, 2006; and
- Provide reporting and disclosure information for financial statements, governmental agencies and other interested parties.

## Comments

The funding method is the Individual Entry Age Normal method. This method spreads the total cost of benefits over each individual's working career as a level percent of pay. The current year's cost, or normal cost, is that level percentage times the expected pay for the year. The accrued liability for an active participant is the accumulated value of their past normal costs. The actuarial accrued liability for an inactive participant is just the present value of benefits payable to them.

The recommended employer contribution is calculated as follows:

	<b>Cost</b>	<b>Percentage of Pay</b>
▪ <i>Amortization of the Unfunded Actuarial Accrued Liability:</i>	\$16,880,461	10.44%
▪ <i>Normal Cost:</i> This is the cost of benefits accruing this year plus estimated expenses:	\$35,187,031	21.75%
▪ <i>Less Expected Employee Contributions this year:</i>	<u>\$11,845,794</u>	<u>7.32%</u>
▪ <i>Net Employer Contribution:</i>	\$40,221,698	24.87%

This method shows both the long-term cost of the plan as well as the short-term cost. The long-term cost is the normal cost rate, which is 14.43% of pay for the employer. The short-term cost is the normal cost rate reduced or increased by the amortization of any surplus or shortfall in the funded status. As of December 31, 2004, a shortfall exists that increases the employer cost to 24.87%. Under the policy adopted by the Board, the net employer contribution rate is applied to the second following year, or 2006 in this case.

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## Highlights (continued)

### Gain/Loss and Other Change Information

The gain/loss analysis is done using the Individual Entry Age Normal funding method which was in effect for both 2003 and 2004. Under this method, we compare actual plan liabilities at December 31, 2004 to the expected liability had all assumptions been exactly realized. The plan experienced a net gain of \$5,374,000 last year, due primarily to asset experience and salary gains offset by demographic changes.

- *Assets experience:* The market value of assets at December 31, 2004 was \$30 million more than the expected value of assets assuming the 8.75% expected return. However, because of the smoothing technique used for the actuarial value of assets, \$24 million of this gain will be deferred and recognized in future years. So a gain of \$6 million is being recognized in this valuation.
- *Salary increases:* Overall, this year's salary increases for participants who were active last year and this year was less than expected. This generated a gain of \$24 million for the plan.
- *New entrants:* Each year's valuation is based solely on the current participants of the plan, with no provision made for new participants in the future. As a result, every year the accrued liability differs from the prior year since there are, in fact, new participants every year. This year, the new participants generated a loss of approximately \$2 million.
- *Demographic considerations:* When participants retire later or earlier than expected or terminate at rates more or less than expected, they generate gains and losses in the liabilities. The net changes in status generated a loss of approximately \$30 million for the year.
- *Post-retirement medical benefits:* Medical claims for the 2004 calendar year were slightly more than expected. Dental and vision claims were below what we expected. As a result, a small gain of approximately \$1 million was generated for the year. However, the use of better information regarding retiree and beneficiary participation generated a gain of \$7 million. This resulted in a net gain of \$8 million.
- *Other Changes:* Assumptions regarding the future rates of increase in medical costs were changed resulting in an increase in liabilities of \$9 million.

### SUMMARY OF VALUATION RESULTS

The summary presented on the following page provides a comparison of the principal valuation results for each of the last five plan years. Its purpose is to provide the Board with a concise summary of past plan operations which - when combined with estimates regarding future economic, legislative and financial factors affecting the plan - can give insight into anticipated future contribution requirements under the plan.

**RETIREMENT SYSTEM OF THE CITY OF CINCINNATI**

**SUMMARY OF VALUATION RESULTS**

	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004	Percentage (Decrease) Increase 2003/2004
Participants						
Active	4,128	3,946	3,846	3,710	3,475	(6.3)%
Inactive	4,334	4,430	4,585	4,522	4,551	0.6%
Total Payroll	\$ 171,555,002	\$ 169,757,733	\$ 168,297,856	\$ 166,037,875	\$ 161,752,655	(2.6)%
Employer Normal Cost Contribution as a Percent of Payroll	14.4%	13.4%	13.1%	13.5%	14.4%	
Employer Contribution as a Percent of Payroll	(4.8)%	3.0%	11.25%	23.00%	24.87%	
Actual Contribution						
Employer	\$ 12,520,902	\$ 13,374,661	\$ 12,755,764	\$ 12,619,671	\$ 19,336,221	53.2%
Members	12,991,882	13,571,803	14,664,620	13,311,001	13,153,510	(1.2)%
Assets						
Market Value	\$ 2,560,804,597	\$ 2,352,508,062	\$ 1,976,125,182	\$ 2,279,721,027	\$ 2,384,920,618	4.6%
Actuarial Value	2,363,697,947	2,475,933,148	2,371,350,218	2,279,721,027	2,360,549,572	3.5%
Return (MV)	0.6%	(4.7)%	(12.1)%	21.8%	10.1%	
Present Value of Benefits	\$ 2,330,890,618	\$ 2,524,215,831	\$ 2,542,172,918	\$ 2,615,230,743	\$ 2,704,181,858	3.4%
Actuarial Accrued Liability	\$ 2,071,566,514	\$ 2,318,801,723	\$ 2,343,748,367	\$ 2,419,503,174	\$ 2,519,582,204	4.1%
Value of Accrued Benefits						
Vested	\$ 1,736,364,291	\$ 2,065,643,564	\$ 2,102,288,315	\$ 2,183,365,541	\$ 2,305,848,283	5.6%
Non-Vested	57,466,242	59,841,623	47,802,603	67,802,198	57,741,942	(14.8)%
Total	1,793,830,533	2,125,485,187	2,150,090,918	2,251,167,739	2,363,590,225	5.0%
Funding Progress (Actuarial Value of Assets/Actuarial Accrued Liability)	114.1%	106.8%	101.2%	94.2%	93.7%	(0.5)%

Note: Percent of payroll numbers are based upon the expected payroll for the following year.

## Summary of Principal Valuation Results

A summary of principal valuation results from the current valuation and the prior valuation follows. Changes in plan provisions, assumptions, and actuarial funding methods between the two valuations are described on the following page.

Summary of Costs	Actuarial Valuation as of	
	December 31, 2004	December 31, 2003
Employer Normal Cost ( <i>Beginning of Year</i> )	\$ 22,310,493	\$ 22,341,044
Employer Normal Cost ( <i>Payable throughout the year</i> )	\$ 23,341,237	\$ 23,373,200
As a percentage of expected payroll	14.43%	13.50%
Employer Contribution ( <i>Payable throughout the year</i> )	\$ 40,221,698	\$ 39,810,425
As a percentage of expected payroll	24.87%	23.00%

Assets and Actuarial Present Values		
Market Value of Assets	\$ 2,384,920,618	\$ 2,279,721,027
Actuarial Value of Assets	\$ 2,360,549,572	\$ 2,279,721,027
Entry Age Actuarial Accrued Liability	\$ 2,519,582,204	\$ 2,419,503,174
Unfunded Actuarial Accrued Liability	\$ 159,032,632	\$ 139,782,147
Actuarial Present Value of Accumulated Plan Benefits	\$ 2,363,590,225	\$ 2,251,167,739
Vested Present Value of Accumulated Plan Benefits	\$ 2,305,848,283	\$ 2,183,365,541

Summary of Data		
<b>Number of Participants in Valuation</b>		
Active Participants - Full Time	3,475	3,710
Active Participants - Part Time	1,576	1,996
Participants with Deferred Benefits	160	153
Participants Receiving Benefits	4,391	4,369
<b>Total</b>	<b>9,602</b>	<b>10,228</b>

Active Participant Statistics		
Total Compensation	\$ 161,752,655	\$ 166,037,875
Average Compensation (limited) *	\$ 46,548	\$ 44,736
Average Age	46.2	45.8

\* Full-time employees

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## Certification

We have prepared an actuarial valuation of the Retirement System for Employees of the City of Cincinnati as of December 31, 2004. The results of the valuation are set forth in this report, which reflects the provisions of the Plan as amended through 2004.

The following changes to assumptions were made since the last valuation of the plan as of December 31, 2003.


### Assumptions

- The medical trend rates were adjusted to reflect higher initial rates of increase and a faster decline to the ultimate level of increase.

The valuation is based on employee and financial data which were provided by the System and which are summarized in this report.

All costs, liabilities and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current federal statutes and regulations issued thereunder, using an actuarial cost method which we believe is appropriate. In our opinion, the actuarial assumptions are reasonable. This report fully and fairly discloses the actuarial position of the Plan on an ongoing basis.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate. We are employed as consultants for Mercer Human Resource Consulting. We are both members of the American Academy of Actuaries and/or the Society of Actuaries and meet the Qualifications Standards of the American Academy of Actuaries to reach the actuarial opinions contained herein.



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## Section 1.1

### Present Value of Benefits and Actuarial Accrued Liability

The Present Value of Benefits is the present value of all benefits current employees are expected to receive. The Actuarial Accrued Liability is the portion of those benefits that have already been earned by virtue of past service. The normal cost is the portion of those benefits that is expected to be earned during the current year. The remaining benefits are expected to be earned by virtue of future service that current employees will provide. For inactive members, all benefits are already earned, so the Present Value of Benefits and the Actuarial Accrued Liability are equal.

<b>Present Value of Benefits - Inactive Members</b>	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Retirees and Beneficiaries	\$1,124,019,302	\$1,018,873,974
Deferred Vested Participants and Survivors	15,469,085	16,062,554
Survivor Benefits	<u>8,880,281</u>	<u>8,677,579</u>
<b>Total Non-medical Care Benefits</b>	<b>\$1,148,368,668</b>	<b>\$1,043,614,107</b>
Medical Care Benefits	\$523,191,323	\$477,620,750
Dental Benefits	13,491,810	13,618,447
Vision Benefits	<u>1,184,705</u>	<u>1,173,966</u>
<b>Total Medical Care Benefits</b>	<b>\$537,867,838</b>	<b>\$492,413,163</b>
<b>Total for Inactive Members</b>	<b>\$1,686,236,506</b>	<b>\$1,536,027,270</b>
<b>Present Value of Benefits - Active Members</b>		
Retirement Benefits	\$579,084,603	\$630,291,634
Vesting Benefits	9,947,420	10,406,180
Survivor's Benefits	7,021,175	7,434,335
Disability Benefits	33,145,419	35,123,977
Return of Contributions	<u>38,276,984</u>	<u>37,345,507</u>
<b>Total Non-medical Care Benefits</b>	<b>\$667,475,601</b>	<b>\$720,601,633</b>
Medical Care Benefits	\$342,720,405	\$349,881,290
Dental Benefits	7,277,901	8,207,952
Vision Benefits	<u>471,445</u>	<u>512,598</u>
<b>Total Medical Care Benefits</b>	<b>\$350,469,751</b>	<b>\$358,601,840</b>
<b>Total for Active Members</b>	<b>\$1,017,945,352</b>	<b>\$1,079,203,473</b>
<b>Total for All Members</b>	<b>\$2,704,181,858</b>	<b>\$2,615,230,743</b>



## Section 1.1

### Present Value of Benefits and Actuarial Accrued Liability

<b>Actuarial Accrued Liability - Inactive Members</b>	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Retirees and Beneficiaries	\$1,124,019,302	\$1,018,873,974
Deferred Vested Participants and Survivors	15,469,085	16,062,554
Survivor Benefits	<u>8,880,281</u>	<u>8,677,579</u>
<b>Total Non-medical Care Benefits</b>	<b>\$1,148,368,668</b>	<b>\$1,043,614,107</b>
Medical Care Benefits	\$523,191,323	\$477,620,750
Dental Benefits	13,491,810	13,618,447
Vision Benefits	<u>1,184,705</u>	<u>1,173,966</u>
<b>Total Medical Care Benefits</b>	<b>\$537,867,838</b>	<b>\$492,413,163</b>
<b>Total for Inactive Members</b>	<b>\$1,686,236,506</b>	<b>\$1,536,027,270</b>
<b>Actuarial Accrued Liability - Active Members</b>		
Retirement Benefits	\$496,494,744	\$542,020,106
Vesting Benefits	7,034,696	7,298,483
Survivor's Benefits	5,017,881	5,239,079
Disability Benefits	21,903,035	23,117,373
Return of Contributions	<u>17,825,594</u>	<u>15,515,559</u>
<b>Total Non-medical Care Benefits</b>	<b>\$548,275,950</b>	<b>\$593,190,600</b>
Medical Care Benefits	\$278,867,906	\$283,346,643
Dental Benefits	5,813,068	6,517,399
Vision Benefits	<u>388,774</u>	<u>421,262</u>
<b>Total Medical Care Benefits</b>	<b>\$285,069,748</b>	<b>\$290,285,304</b>
<b>Total for Active Members</b>	<b>\$833,345,698</b>	<b>\$883,475,904</b>
<b>Total for All Members</b>	<b>\$2,519,582,204</b>	<b>\$2,419,503,174</b>

## Section 1.2

### Normal Cost

The normal cost is annual cost assigned, under the Individual Entry Age Normal Cost Method, to benefits earned during the current year. The components are shown below as of the beginning of the year:

<b>Normal Cost (Individual Entry Age Normal)</b>	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Retirement Benefits	\$11,367,086	\$12,131,457
Vesting Benefits	372,242	397,359
Survivor's Benefits	275,323	289,346
Disability Benefits	1,469,240	1,567,504
Return of Contributions	<u>2,689,801</u>	<u>2,890,379</u>
<b>Total Non-medical Care Benefits</b>	<b>\$16,173,692</b>	<b>\$17,276,045</b>
Medical Care Benefits	\$8,650,237	\$8,940,491
Dental Benefits	196,835	226,051
Vision Benefits	<u>12,415</u>	<u>13,743</u>
<b>Total Medical Care Benefits</b>	<b>\$8,859,487</b>	<b>\$9,180,285</b>
<b>Expected Expenses</b>	<b><u>8,600,000</u></b>	<b><u>8,000,000</u></b>
<b>Total Normal Cost</b>	<b>\$33,633,179</b>	<b>\$34,456,330</b>
<b>Expected Employee Contributions</b>	<b>11,322,686</b>	<b>12,115,286</b>
<b>Employer Normal Cost</b>	<b>\$22,310,493</b>	<b>\$22,341,044</b>

## Section 1.3

### Determination of Contribution

	December 31, 2004	December 31, 2003
1. Present Value of Projected Benefits:		
(a.) Active Participants	\$ 1,017,945,352	\$ 1,079,203,473
(b.) Participants with Deferred Benefits	31,665,030	38,577,073
(c.) Participants Receiving Benefits	1,654,571,476	1,497,450,197
(d.) Total	\$ 2,704,181,858	\$ 2,615,230,743
2. Present Value of Future Employee Contributions	85,078,393	90,861,942
3. Present Value of Future Normal Costs	\$ 99,521,261	\$ 104,865,627
4. Entry Age Accrued Liability (1)(d) – (2) – (3)	2,519,582,204	2,419,503,174
5. Actuarial Value of Assets	2,360,549,572	2,279,721,027
6. Unfunded/(Surplus) (4) – (5)	159,032,632	139,782,147
7. Amortization of Unfunded/(Surplus) Over 15 Years (at the beginning of the year)	16,135,023	15,711,360
8. Amortization of Unfunded/(Surplus) Over 15 Years (assuming monthly payments)	16,880,461	16,437,225
9. Total Normal Cost, including Expenses (at the beginning of the year)	33,633,179	34,456,330
10. Total Normal Cost, including Expenses (assuming monthly payments)	\$ 35,187,031	\$ 36,048,212
11. Employees' Expected Contributions to Normal Cost (assuming monthly payments)	11,845,794	12,675,012
12. Employer Normal Cost (10) – (11)	23,341,237	23,373,200
13. Employer Total Cost (8) + (12)	40,221,698	39,810,425

## Section 1.4

### Actuarial (Gain) / Loss and Other Changes

The actuarial (gain)/loss is the amount by which the surplus exceeds or falls short of expectations. It is developed below.

<b>1. Unfunded Actuarial Accrued Liability as of December 31, 2003</b>	<b>\$139,782,147</b>
2. Normal Cost for 2004, including expenses (at beginning of year)	34,456,330
3. Contributions	(32,489,731)
4. Interest	13,905,170
5. Contribution Variance for 2004	(390,562)
<b>6. Expected Unfunded Actuarial Accrued Liability as of December 31, 2004 (1) + (2) + (3) + (4) + (5)</b>	<b>155,263,354</b>
7. Assumption, Method, and Plan Changes	9,142,893
8. (Gain)/Loss	(5,373,615)
<b>9. Actual Unfunded Actuarial Accrued Liability as of December 31, 2004 (6) + (7) + (8)</b>	<b>159,032,632</b>

The actuarial (gain)/loss affects the plan shortfall, which, amortized over 15 years, increases the contribution rate. Contribution rates are shown before taking into account expected employee contributions.

The actuarial (gain)/loss and other changes are broken down into their component parts below.

Component	Change in Unfunded Liability	Change in Normal Cost Rate	Change in Contribution Rate
Asset experience	\$(30,464,000)	N/A	(2.21)%
Effect of asset smoothing	24,371,000	N/A	1.77%
Total asset impact	(6,093,000)	N/A	0.44%
Salary experience	(23,738,000)	0.52%	(1.20)%
New entrants	2,191,000	(0.08)%	0.08%
Participant demographics	30,456,000	0.82%	3.70%
Medical claims experience	(1,160,000)	(0.07)%	(0.15)%
Medical assumptions	9,143,000	0.52%	1.18%
Medical participation data	(7,421,000)	(0.79)%	(1.33)%
Total medical impact	562,000	(0.34)%	(0.30)%
Employer Contributions	391,000	N/A	0.03%
<b>Total Change</b>	<b>3,769,000</b>	<b>0.93%</b>	<b>1.87%</b>

## Section 1.5

### Amortization Schedule

#### Charges

Date Created	Original Amount	Years Remaining	Outstanding Balance	Beginning of Year Payment	Mid-Year Payment
12/31/2003	\$139,782,147	14	\$134,926,981	\$15,711,360	\$16,437,225
12/31/2004	3,769,278	15	3,769,278	423,663	443,236
<b>Total</b>	<b>\$143,551,425</b>		<b>\$138,696,259</b>	<b>\$16,135,023</b>	<b>\$16,880,461</b>

#### Credits

Date Created	Original Amount	Years Remaining	Outstanding Balance	Beginning of Year Payment	Mid-Year Payment
<b>Total</b>	<b>\$ 0</b>		<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

	Outstanding Balance	Beginning of Year Payment	Mid-Year Payment
Net Outstanding Balance	\$ 138,696,257	\$ 16,135,023	\$ 16,880,461
Contribution Lag Account	\$ 20,336,373		
Unfunded Actuarial Accrued Liability	\$ 159,032,632		

Note: The City's funding policy uses the valuation contribution results to set the contribution rate for the second succeeding year. (E.g., the 12/31/2004 valuation sets the calendar 2006 rate.) The Contribution Lag Account prevents the recognition of contribution differences (if any) as gains or losses as a result of this policy until the end of the applicable calendar year.

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## Section 2

### Accounting Information

#### A. Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of vested and nonvested accumulated plan benefits was computed on an ongoing plan basis in order to provide required accounting information. In this calculation, a determination is made of all benefits earned by current participants as of the valuation date, and the actuarial present value is then computed using demographic assumptions and an assumed interest rate. Assumptions with respect to future salary increases and accrual of future benefit service are not necessary for this purpose.

<b>Accumulated Benefits</b>	<b>December 31, 2004</b>	<b>Number of Vested Participants</b>
Vested Benefits		
Participants Currently Receiving Payments	\$ 1,654,571,476	4,391
Participants with Deferred Benefits	31,665,030	160
Active Participants	619,611,777	2,850
Nonvested Benefits *	\$ 57,741,942	2,201
<b>Total Actuarial Present Value of Accumulated Plan Benefits</b>	<b>\$ 2,363,590,225</b>	
Market Value of Assets	\$ 2,384,920,618	

\* Includes 1,576 part-time employees, and medical benefits for participants with between 5 and 15 years of service.

*We reserve the right to review any materials in which the actuarial calculations shown above are reproduced and credited to Mercer Human Resource Consulting.*

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## Section 2

### B. Statement of Changes in Accumulated Plan Benefits

A statement of changes in the actuarial present value of accumulated plan benefits follows. This statement shows the effect of certain events on the actuarial present value shown on the previous page.

<b>Actuarial Present Value of Accumulated Plan Benefits as of December 31, 2003</b>	<b>\$ 2,251,167,739</b>
Increase (decrease) during the year attributable to:	
Plan amendment	\$ 0
Change in Actuarial Assumptions	9,142,893
Benefits Accumulated and Gains and Losses	55,908,207
Increase for interest due to the decrease in the discount period	190,207,348
Benefits Paid and Transfers to other Systems	(142,835,962)
Net increase (decrease)	\$ 112,422,486
<b>Actuarial Present Value of Accumulated Plan Benefits as of December 31, 2004</b>	<b>\$ 2,363,590,225</b>

The benefits valued include all benefits – retirement, preretirement death, and vested termination and medical benefits – payable from the Plan for employee service prior to the valuation date. Benefits are assumed to accrue (accumulate) in accordance with the plan provisions.

The actuarial present value of accumulated plan benefits shown in this report is calculated using the same actuarial assumptions used for funding purposes.

*We reserve the right to review any materials in which the actuarial calculations shown above are reproduced and credited to Mercer Human Resource Consulting.*

## Section 3.1

### Summary of Assets

	December 31, 2004
<b>Market Value</b>	
Cash, Cash Equivalents, Accounts Receivable and Accounts Payable	\$ 106,867,163
Corporate Bonds	232,371,569
State and Local Obligations	8,706,233
Short Term Bills & Notes Agencies	0
Short Term Bills & Notes Treasuries	2,767,770
Commercial Paper & Short Term Investments	0
Venture Capital	18,121,300
U.S. Government Bonds	419,334,212
Common Stock	1,543,532,717
Other Bonds	32,116,019
Other Assets	398,871
Loans to Members	18,842,176
Accrued Interest on Investments and Dividends Receivable	10,358,800
Equipment	346,351
<b>Total Assets</b>	<b>\$2,393,763,181</b>
Accrued Contributions	0
Less: Advanced Contribution	2,002
Less: Accrued Liabilities	8,840,561
<b>Assets for Valuation</b>	<b>\$2,384,920,618</b>



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**Section 3.2****Reconciliation of Assets**

	<b>Market Value</b>
<b>Assets as of 12/31/2003</b>	<b>\$2,279,721,027</b>
<b>Receipts</b>	
Investment income	64,679,120
Employer contributions	19,336,221
Employee contributions	13,153,510
Net appreciation	159,425,493
Transfers from other systems	220,665
<b>Disbursements</b>	
Benefit payments	142,157,847
Transfers to other systems	898,780
Expenses	8,558,791
<b>Assets as of 12/31/2004</b>	<b>\$2,384,920,618</b>

## Section 3.3

### Development of Actuarial Value of Assets

<b>1. Market Value of Assets 12/31/2003</b>				<b>\$2,279,721,027</b>
2. Contributions during 2004				32,489,731
3. Benefit Payments and transfers out during 2004				(142,835,962)
4. Expenses during 2004				(8,558,791)
5. Expected Return on Assets				193,640,806
6. Expected Market Value of Assets 12/31/2004				2,354,456,811
<b>7. Market Value of Assets 12/31/2004</b>				<b>\$2,384,920,618</b>
8. Asset Gain/(Loss)				30,463,807
<b>9. Year</b>	<b>Gain/(Loss)</b>	<b>Factor</b>	<b>Unrecognized Amount</b>	
a. 2004	\$ 30,463,807	0.8	\$ 24,371,046	
b. 2003	0	0.6	0	
c. 2002	0	0.4	0	
d. 2001	0	0.2	0	
10. Total Adjustment (a+b+c+d)				\$24,371,046
<b>11. Preliminary Actuarial Value of Assets (7-10)</b>				<b>\$2,360,549,572</b>
12.				
a. 120% of Market Value				2,861,904,742
b. 80% of Market Value				1,907,936,494
<b>13. Actuarial Value of Assets (11, but not more than 12.a nor less than 12.b)</b>				<b>\$2,360,549,572</b>

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## Section 4.1

### Plan Participants

#### A. Reconciliation of Participants From December 31, 2003 to December 31, 2004

	Active Full-time Participants	Inactive Participants		Total
		With Deferred Benefits	Receiving Benefits	
<b>Beginning of Year</b>	<b>3,710</b>	<b>153</b>	<b>4,369</b>	<b>8,232</b>
Contribution Refund Cash-outs	(119)	N/A	N/A	(119)
Vested Terminations	(14)	14	N/A	0
Age Retirements	(200)	(11)	211	0
Disabilities	(7)	N/A	7	0
Deaths	(11)	(5)	(216)	(232)
Survivors	N/A	0	44	44
New Entrants	86	N/A	N/A	86
Rehires	16	(2)	0	14
Net Part Time Change	22	N/A	3	25
Data Corrections	(8)	11	(27)	(24)
Net Change	(235)	7	22	(206)
<b>End of Year</b>	<b>3,475</b>	<b>160</b>	<b>4,391</b>	<b>8,026</b>

There were 1,576 part-time employees at December 31, 2004 compared to 1,996 part-time employees at December 31, 2003.

## Section 4.1

### B. Average Compensation for Full-Time Participants

Age	Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40+	
<b>Under 25</b>	27	1								28
	26,708	43,755								27,317
<b>25-29</b>	80	34	1							115
	34,963	40,165	34,023							36,492
<b>30-34</b>	118	83	35	4						240
	34,540	40,302	45,956	41,309						38,311
<b>35-39</b>	120	90	89	102	2					403
	35,592	44,524	44,628	47,371	45,862					42,614
<b>40-44</b>	85	81	151	229	54	11				611
	35,942	43,959	46,966	48,006	50,867	45,358				45,739
<b>45-49</b>	71	72	100	217	130	164	16			770
	37,082	42,857	45,113	47,331	54,118	52,679	56,079			48,146
<b>50-54</b>	48	54	79	148	91	181	89	1		691
	39,731	45,530	45,136	47,260	50,946	55,571	54,047	32,945		49,875
<b>55-59</b>	36	35	62	83	41	91	70	10	2	430
	39,709	48,331	42,628	47,949	50,766	55,829	55,907	54,340	54,367	49,933
<b>60-64</b>	8	18	16	40	12	14	24	5	3	140
	41,275	57,066	58,001	48,128	56,186	49,451	58,816	42,045	64,026	52,793
<b>65-69</b>		4	6	7	3	3	6	2	4	35
		46,712	41,338	35,091	59,809	47,336	55,905	42,493	57,291	47,186
<b>70-74</b>	1		1	2	1	2	2			9
	30,525		35,449	29,161	41,482	34,864	40,432			35,152
<b>75+</b>			1				1		1	3
			30,761				32,052		47,204	36,672
<b>TOTAL</b>	594	472	541	832	334	466	208	18	10	3,475
	35,775	44,009	45,598	47,433	52,355	54,037	55,197	48,420	57,718	46,548

Compensation shown above is 2004 compensation and has been limited to \$205,000. There are also 1,576 part-time participants.

## Section 4.1

### C. Inactive Participants

Age	Participants With Deferred Benefits		Participants Receiving Benefits	
	Count	Total Monthly Benefits	Count	Total Monthly Benefits
Under 40	9	\$ 6,507	10	\$ 6,456
40-44	15	16,845	24	19,811
45-49	23	27,460	53	82,691
50-54	43	59,458	284	746,792
55-59	55	76,583	523	1,423,715
60-64	9	2,434	540	1,288,951
65-69	1	269	607	1,234,396
70-74	3	806	656	1,267,644
75-79	-	-	618	1,011,389
80-84	2	537	585	843,000
85-89	-	-	325	386,671
90-94	-	-	129	138,668
95-104	-	-	37	31,425
<b>Total</b>	<b>160</b>	<b>\$ 190,899</b>	<b>4,391</b>	<b>\$ 8,478,609</b>

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## Section 4.2

### Actuarial Basis

#### A. Individual Entry Age Normal Cost Method

Liabilities and contributions shown in this report are computed using the individual entry age normal method of funding. The objective under this method is to fund each participant's benefits under the plan as payments which are level as a percentage of salary, starting at original participation date (or employment date), and continuing until the assumed retirement, termination, disability or death.

At the time the funding method is introduced, there will be a liability which represents the contributions which would have been accumulated if this method of funding had always been used. The difference between this liability and the assets (if any) which are held in the fund is the unfunded liability, which is typically funded over a chosen period in accordance with an amortization schedule.

A detailed description of the calculation follows:

- The **normal cost** for each active participant under the assumed retirement age is determined by applying to compensation the level percentage of salary which, if contributed each year from date of entry into the plan until the assumed retirement (termination, disability or death) date, is sufficient to provide the full value of the benefits expected to be payable.
- The **present value of future normal costs** is the total of the discounted values of all active participants' normal costs, assuming these to be paid in each case from the valuation date until retirement (termination, disability or death) date.
- The **present value of projected benefits** is calculated as the value of all benefit payments expected to be paid to the plan's current participants, including active and retired members, beneficiaries, and terminated members with vested rights.
- The **accrued liability** is the excess of the present value of projected benefits over the present value of future normal costs.
- The **unfunded liability** is the excess of the accrued liability over the actuarial asset value of the fund, and represents that part of the accrued liability which has not been funded by accumulated past contributions.
- The **past service cost** is the level annual payment over a stipulated number of years which is required to amortize the unfunded liability.

There have been no changes to the cost method.

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## **Section 4.2**

### **B. Asset Valuation Method**

The actuarial value of assets is based on a five-year moving average of gains and losses recognized at 20% per year. The investment gain/(loss) is taken as the excess of the actual return on assets over the expected return on assets. The investment gain/(loss) is then recognized at 20% per year until fully recognized. The actuarial value of assets is the market value minus the sum of the deferred investment gains/(losses) during the preceding five plan years.

In addition, the actuarial value is restricted to be no less than 80% of the market value or no more than 120% of the market value.

The actuarial value of assets was reset to the market value at December 31, 2003.

### **C. Valuation Procedures**

The limitations of Internal Revenue code Section 415(b) have been incorporated into our calculations.

The plan was amended July 1, 1991 to include part-time employees who were previously excluded. These participants do not exhibit the same turnover pattern as full-time employees. Consequently, the liabilities and costs in this valuation are based upon full-time participants only, except to include the accumulated contributions for part-time employees. The city is contributing at a rate of 3.00% of pay based on the 1995 analysis of experience.

For participants who terminate prior to retirement with less than 15 years of service, the liability held is the value of employee contributions with interest. Seventy-five percent of participants who terminate prior to retirement with 15 years of service or more are assumed to elect a return of employee contributions with interest, while 25% are assumed to elect annuity benefits.

There have been no changes to the valuation procedures.

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## Section 4.2

### D. Actuarial Assumptions

- (1) The actuarial assumptions used to determine employer contributions to the plan are as follows:

Investment Return: 8-3/4% per year, net of expenses, compounded annually.

Mortality:

Non-disabled lives: Uninsured Pensioner 1994 Mortality Table projected to 2009.  
Disabled retirees: Pension Benefit Guarantee Corporation Disabled Mortality Table.

Turnover:

2000 City of Cincinnati Rate of Termination Experience Table.  
The turnover assumption during the first three years of service is as follows:

<u>Years of Service</u>	<u>Current Rate</u>
1	.10
2	.10
3	.07

Specimen rates after the first three years of service are as follows:

<u>Attained Age</u>	<u>Current Rate</u>
25	.0675
30	.055
40	.030
50	.035
60	.040

Disability: The 1995 City of Cincinnati Disability Retirement Experience Table. Specimen rates are as follows:

<u>Attained Age</u>	<u>Rate per 1,000 Lives</u>
25	1.2
30	1.4
40	2.8
50	6.6
60	0.0



## Section 4.2

### D. Actuarial Assumptions (Continued)

Salary: Salary increases are assumed to vary by service. Specimen rates are as follows:

Service	Annual Increase
0	.080
5	.055
10	.040
20	.040
30	.045

Other Salary Assumptions: For those participants who had not elected the 2.50% formula an additional 10% increase in average salary is used to reflect final lump sum payments.

Salary for valuation purposes is total pay for year multiplied by:

- (1) 1.0027 if year has 26 pay periods
- (2) 0.9656 if year has 27 pay periods.

Retirement Age: Rates of retirement are assumed to be in accordance with the following table for participants who are age 60 with 5 years of service or are any age with 30 years of service (those eligible for unreduced benefits).

Age	Current Rate
47-50	25%
51-53	30%
54	35%
55-56	35%
57-59	30%
60	30%
61-64	25%
65	30%
66-69	30%
70 and above	100%

Early Retirement: Twelve percent of those eligible for reduced early retirement are assumed to retire.

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## Section 4.2

### D. Actuarial Assumptions (Continued)

Medical Benefits: The City offers medical benefits (including outpatient prescription drug coverage) to retirees before and during Medicare eligibility. Three plan options are offered to current and future retirees: a traditional indemnity plan, a PPO and an HMO.

Starting claim costs were developed based on historical retiree claims and enrollment experience data projected forward to the valuation period with trend and adjusted for the demographics of the historical vs. current retiree population. Historical claims experience was available since 1999, with data split separately by plan and some data available split between medical and prescription drug coverage and also for those prior to and during Medicare eligibility.

The City's plan integrates secondary to Medicare payments (Medicare Parts A & B) for those individuals enrolled in Medicare. Typically retired individuals (and their dependents) age 65 and over are eligible for Medicare Parts A & B. However, the City only began paying into Medicare on March 31, 1986. Therefore, a portion of retirees hired prior to that date are not eligible for Medicare Part A coverage. All City retirees and dependents over age 65 are assumed to be eligible for Medicare Part B. The projected costs take into account the historical and anticipated percentage of retirees and dependents eligible for both Medicare Parts A&B and those eligible for only Part B.

Claims information was analyzed by plan (Traditional, PPO and HMO), and where available, by type of service (medical/prescription drug) and age group (pre 65 and post 65).

Some retirees may have dependent children covered under the retiree health plan. Their cost is included in the historical claims experience used to estimate the adult per capita rate.

Administrative fees (claims administration and management, stop-loss, prescription drug, etc.) charged to the plan are included in the costs developed.

Costs are determined on a per capita basis, adjusted to age 65, and annualized for presentation. Costs are developed by plan (Traditional, PPO and HMO), and blended based on the current and expected enrollment among plans.

For health plan projection/valuation purposes, the City's valuation is split into multiple "Groups". Group 1 refers to current inactive (retiree) participants and active participants hired prior to 1997. Group 2 refers to active participants hired in 1997 or later. The reason for this distinction is that the contribution methodology is materially different for those employees hired after January 8, 1997.

## Section 4.2

### D. Actuarial Assumptions (Continued)

The starting costs have been updated based on the analysis described above. A summary of annual starting costs (including third-party administration expenses) at age 65 is displayed below:

<i>Annual average age 65 adult per capita claims cost</i>				
	<i>2005 Cost Projected in 12/31/04 valuation</i>		<i>2004 Cost Projected in 12/31/03 valuation</i>	
	<u>Group 1</u>	<u>Group 2</u>	<u>Group 1</u>	<u>Group 2</u>
Pre-Medicare	\$12,292	\$12,361	\$10,630	\$10,785
Medicare eligible	\$4,324	\$3,931	\$3,773	\$3,509

For Group 1, there is an adjustment for those hired after March 31, 1986 (when the City began paying into Medicare) to reflect the fact that anyone hired after that date is assumed will be eligible for both Medicare Parts A & B. In addition, there are slight differences (about 2% this year) in the expected costs between Group 1 current retirees vs. Group 1 current actives based on the expected enrollment between plans. (Group 1 costs for current retirees displayed above.)

**Medical Trend Rates:** Starting costs are expected to increase each year with trend. Assumed increases are shown in the table below. Future trend is based on the City's claim history as well as expected trends in the healthcare market and have been updated accordingly. Trends are based on enrollment among plans and the portion of costs associated with medical or prescription drug claims on a pre-Medicare and Medicare eligible basis:

Medical Trend assumed in this valuation:

Year	<u>Group 1</u>		<u>Group 2</u>	
	<u>Pre-Medicare</u>	<u>Medicare Eligible</u>	<u>Pre-Medicare</u>	<u>Medicare Eligible</u>
2005 to 2006	11.5%	11.2%	11.5%	11.2%
2006 to 2007	10.5%	10.3%	10.4%	10.3%
2007 to 2008	9.5%	9.4%	9.4%	9.3%
2008 to 2009	8.4%	8.4%	8.4%	8.3%
2009 to 2010	7.4%	7.5%	7.3%	7.4%
2010 to 2011	6.4%	6.5%	6.3%	6.4%
2011 to 2012	5.3%	5.5%	5.2%	5.4%
2012 to 2013	5.0%	5.0%	5.0%	5.0%
2013 and onward	5.0%	5.0%	5.0%	5.0%

## Section 4.2

### D. Actuarial Assumptions (Continued)

Sample Medical Trends assumed in last year's valuation:

Year	<u>Group 1</u>		<u>Group 2</u>	
	<u>Pre-Medicare</u>	<u>Medicare Eligible</u>	<u>Pre-Medicare</u>	<u>Medicare Eligible</u>
2003 to 2004	11.7%	12.2%	11.7%	12.2%
2005 to 2006	10.7%	11.3%	10.7%	11.3%
2010 to 2011	5.7%	6.3%	5.6%	6.3%
2012 and onward	5.0%	5.0%	5.0%	5.0%

Medical Aging:

Independent of other factors (e.g. Medicare) overall medical costs (blended average of medical, prescription drug and administrative fees) are assumed to increase with age, as follows:

<u>Age</u>	<u>Medical Increase</u>
40 to 42	2.5%
42 to 45	2.6%
45 to 49	3.2%
49 to 52	3.1%
52 to 53	3.0%
53 to 55	2.9%
55 to 65	3.6%
65 to 66	2.7%
66 to 67	2.6%
67 to 68	2.3%
68 to 69	2.2%
69 to 70	2.1%
70 to 72	1.8%
72 to 76	1.2%
76 to 77	1.1%
77 to 80	0.6%
80+	0.0%

Retiree Contributions: Group 1 current and future retirees only contribute towards the cost of coverage in the HMO plan. Contribution amounts are \$64 per year Pre-Medicare and \$62 per year Medicare eligible. For retirees with dependent(s) covered, contributions are double the amounts above. Contributions do not increase with aging, but are assumed to increase with medical trend. (Group 1 retirees in other plans have no retiree contributions.) Group 2 retirees contribute based on a "points system" at retirement (see section 4.3).

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## Section 4.2

### D. Actuarial Assumptions (Continued)

Participation: All eligible retirees and dependents in Group 1 are assumed to elect coverage. Group 2 retirees will have to pay some portion of their medical costs, so assumed participation rates are reduced in line with the level of cost sharing.

<b>Retiree Contribution Percentage</b>	<b>Assumed Participation Rate</b>
25%	80%
50%	60%
75%	40%

Medicare Reform  
Impact:

Beginning in 2006, Medicare eligible participants will be eligible for prescription drug benefits. Based on discussions with the City to date, this valuation assumes that the City's plan will integrate with Medicare on a secondary basis (similar to other Medicare coverage) and the City will contribute towards the Medicare Part D premium based on corresponding retiree contribution requirements for the various active/retiree groups. The resulting impact of Medicare Reform under these assumptions in 2006 is expected to be as follows:

**2006 Annual Savings to the City per Medicare Eligible  
Participant Due to Medicare Reform Provisions**

Group 1 Current Retirees	-\$330
Group 1 Future Retirees	-\$400
Group 2	-\$300

Medicare Reform savings are assumed to increase at prescription drug trend rates. (Prescription drug trend rates start out 0.5%-1% higher per year higher than medical trend and grade down to the same ultimate trend level of 5% as the medical trend rates over almost the same time period.)

Last year a preliminary estimate of impact due to Medicare Reform was projected in the valuation as a percentage reduction in total starting costs. That estimate has been updated as described above.

Other Health Benefits: Medicare Part B: The City reimburses the Medicare Part B premiums for retirees and dependents. Medicare Part B premiums are assumed to increase in accordance with estimates from the 2005 Annual Report of the Board of Trustees Report (2004 report in last year's valuation) until the year 2015 (2013 in last year's valuation) and then increase at 5.0% per year thereafter. 2005 Part B Premiums are \$938.4 (\$799 in 2004).

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## Section 4.2

### D. Actuarial Assumptions (Continued)

Dental: One traditional dental indemnity plan is provided to all current and future retirees. The plan includes a \$1,000 annual maximum on plan benefits. 2005 projected starting cost is \$206 per adult per year (same as 2004 estimate). Costs are assumed to increase at a decreasing rate, starting at 6.00% for 2005, then decreasing by 0.25% per year to 4.25% and remaining there for 18 years, then decreasing gradually over 16 years to no material trend. This takes the \$1,000 annual maximum on annual dental claims into account. (A very similar trend table was utilized last year, with only slight changes.) Dental aging assumptions are a 1.0% increase per year up to age 65, then 0%.

Vision: One indemnity design plan is provided to all current and future retirees. The plan has fixed benefits with a \$100 annual maximum benefit. The 2005 projected starting cost is \$24 per adult per year (same as 2004 estimate). Although the claims benefit level is fixed, we anticipate a 1.0% annual trend increase in costs to account for increases in administrative costs. (The same trend assumption was utilized last year.) No aging impact is assumed in the vision coverage.

Option Electives: 75% of male participants and 25% of female participants will have a spouse who is covered under the medical, dental and vision benefits portions of the plan. Of these participants with a covered spouse, 85% will elect a Joint & Survivor option.

Expenses: Investment and plan administration expenses are assumed to be the prior year's expenses rounded to the next \$100,000.

(2) For computing the value of vested and non-vested benefits, the following modifications were made to the above assumptions:

No future increases in salaries were assumed. Accumulated plan benefits were calculated using estimated Average Monthly Earnings in effect on the valuation date.

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## Section 4.3

### Summary of Plan Provisions

#### Average Compensation:

The average compensation used in the calculation of benefits depends on whether the participant elects the 2.50% formula which uses the average highest base compensation or the 2.22% formula which uses the average highest total compensation.

#### Average Highest Base Compensation:

The term "average highest base compensation" means the average annual compensation earned by a member during his most highly compensated period of three consecutive years of service. It excludes overtime pay, payment for compensatory time, earnings from any additional part-time employment in City service, and lump sum terminal leave pay.

#### Average Highest Total Compensation:

The term "average highest total compensation" means the average annual compensation earned by a member during his most highly compensated period of three consecutive years of service. It includes that portion of lump sum terminal leave pay which could be accumulated in the final three years of active service, except that the payment for unused sick leave shall not exceed an amount equal to the compensation at the hourly rate last earned by a member for 312 hours.

#### Service Retirement Allowance:

Condition for Allowance: Any member in service may retire upon:

- a. attaining age 60, regardless of length of creditable service if he was enrolled prior to January 1, 1969, or with at least 5 years of creditable service if he was enrolled January 1, 1969 or later, or
- b. completing 30 or more years of creditable service at any age, with a retirement allowance commencing immediately; or
- c. completing 5 years of creditable service before age 60 and then may retire with a retirement allowance commencing at age 60, provided, however, at the time of election of the deferred annuity there is no loan outstanding against his contributions.

Amount of Allowance: The annual retirement allowance consists of:

- a. An annuity provided by the number equal in value to his contributions with interest at the time of his retirement; and
- b. A pension which together with his annuity produces a total annual retirement allowance equal to 2.50% of his average highest base compensation or 2.22% of his average highest total compensation multiplied by the number of years of his membership service, whichever is applicable.

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### Section 4.3

- c. For members with credit for service rendered prior to the establishment of the System, an additional pension of 2.50% of his average highest base compensation or 2.22% of his average highest total compensation multiplied by the number of years of such prior service, whichever is applicable.
- d. Annual increases of 3% compounded annually commencing 1 year after retirement.

In no event shall the retirement allowance be less than \$4.00 per month multiplied by his years of credited service not in excess of 25 years.

In no event shall the retirement allowance be greater than that permitted by Section 415 of the Internal Revenue Code.

#### **Advanced Service Retirement Allowance:**

Condition for Allowance: Any member who has attained age 55 and has 25 but less than 30 years of membership service may retire on an advanced service retirement allowance.

Amount of Allowance: The annual retirement allowance consists of:

- a. An annuity provided by the number equal in value to his contributions with interest at the time of his retirement.
- b. A pension which shall be the actuarial equivalent at his age at the date of retirement, of the pension which would have been payable had he attained the age of sixty on said date.

#### **Disability Retirement Allowance:**

Condition for Allowance: Any member in service who (1) is disabled as the result of an accident which occurs in the performance of his duties as an employee regardless of age or length of service, or (2) having completed five years of service, is disabled by reason of either accidental or non-accidental cause, may be retired on a disability retirement allowance, provided he is found to be permanently incapacitated, either mentally or physically, for the further performance of duty.

Amount of Allowance: Upon disability retirement a member receives a service retirement allowance if he has attained age 60 or any age with 30 years of creditable service, otherwise he receives a disability retirement annual allowance which consists of:

- a. An annuity provided by the number equal in value to his contributions with interest at the time of his retirement.



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### Section 4.3

- b. A pension which together with his annuity produces a total annual retirement allowance equal to 90% of the sum of 2.50% of his average highest base compensation or 2.22% of his average highest total compensation, whichever is applicable, multiplied by the number of years of his creditable service, except that such allowance shall not be less than smaller of:
  - (1) 25% of his average highest compensation; or
  - (2) 90% of the service retirement allowance to which he would have become entitled had he continued in service to age 60 without further change in average highest compensation but in any event not less than \$43.20 for each year of his service not in excess of 25.
- c. Annual increases of 3% compounded annually commencing 1 year after retirement.

#### **Ordinary Death Benefit:**

Condition for Benefit: Upon the death of a member in service, a benefit is paid to the designated beneficiary, if living, otherwise to the surviving spouse, children or certain other dependents.

Amount of Benefit: In the event of death, all contributions made by the member with interest are returned to the estate or designated beneficiary. In addition, a lump sum payment is made from the contributions of the City equal to 50% of the compensation received by the member during the year immediately preceding his death provided the member had at least eighteen months of service.

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### Section 4.3

#### Survivor Death Benefits:

Condition for Benefit: Upon the death of a member in service with survivors, including a member on leave of absence without pay for a period of not more than one year, with eighteen months or more of service, a monthly benefit is paid unless the member is in the building crafts. Building crafts participants are not entitled to Survivor Death Benefits.

<u>Amount of Monthly Benefit:</u>	<u>2005</u>	<u>2004</u>
Unmarried widow (or widower) and one child under 18	\$537.32	\$521.67
Unmarried widow (or widower) and two or more unmarried children under 18	\$728.37	\$707.16
Widow (or widower) at age 50 (if spouse had 15 or more years of service)	\$268.67	\$260.84
Widow (or widower) at age 62 (if spouse had less than 15 years of service)	\$268.67	\$260.84
One unmarried orphan under 18	\$268.67	\$260.84
Two unmarried orphans under 18	\$537.32	\$521.67
Three or more unmarried orphans under 18	\$728.37	\$707.16
One dependent parent	\$191.03 Min. \$268.67 Max.	\$185.47 Min. \$260.84 Max.
Two dependent parents	\$268.67 Min. \$537.32 Max.	\$260.84 Min. \$521.67 Max.

Beginning in 2000 the survivor benefits are indexed annually by 3% per year.

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## **Section 4.3**

### **Retirement Death Benefit:**

Upon the death of a retired member, a lump sum benefit of \$7,500 is paid to the designated beneficiary, if living, otherwise to the surviving spouse, children or certain other dependents.

In addition, all contributions made by the member together with interest prior to retirement, in excess of retirement allowance payments received prior to death, are paid to such beneficiary, provided, however, the member has not elected an optional retirement allowance as hereinafter described.

### **Return of Contribution:**

Upon the withdrawal of a member prior to retirement, the entire amount of the employee contributions with interest at 2% per annum is returned to him upon the participant's election.

### **Special Privileges:**

Upon retirement a member may elect to receive the actuarial equivalent of the retirement allowance in any one of the optional forms described below. Effective December 22, 1971 members over age 60 and members who have completed 20 years of service, including members on deferred retirement, may elect, prior to retirement, any one of the optional forms. In the event of death before retirement the person designated shall receive the same benefit as would have been received if the member had retired the day before death. However, in event of such death, the optionee will not be entitled to an optional allowance until the date the deceased member would have reached age 55 with 25 years of service or age 60 with 20 years of service.

**Option 1:** Reduced retirement allowance payment with the provisions that, at death, the amount of the allowance shall be continued throughout the life of the designated beneficiary at the time of this election of the option.

**Option 2:** Reduced retirement allowance payments with the provision that, at death, one-half of the amount of the allowance shall be continued throughout the life of the designated beneficiary at the time of the election of this option.

**Option 3:** Reduced retirement allowance payments with the provision that, at the first death of the member or the designated beneficiary at the time of the election of this option, two-thirds of the amount of the allowance shall be continued throughout the life of the survivor.

**Option 4:** Reduced retirement allowance payments with the provisions that, at the first death of the member or designated beneficiary at the time of the election of this option, 80% of the amount of the allowance shall be continued throughout the life of the survivor.

In the event of the death of a member in service who was eligible to retire and who is survived by a spouse who was designated as sole primary beneficiary, such spouse may elect to receive the Option 1 allowance described above.

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## Section 4.3

### Hospital and Surgical Insurance, including Dental and Vision Benefits:

All retired members and those who are receiving survivor benefits are entitled to have their Anthem Blue Cross-Blue Shield benefits, including dental and vision coverage paid by the System. Upon the death of a retired member for whom an option 1, 2, 3, or 4 is in effect, the designated beneficiary shall continue to be covered for such hospital and surgical benefits. Dental and Vision benefits are subject to a cap of \$1,000 per year for dental benefits and \$100 per year for vision.

Moreover, when benefits under this coverage would be reduced by reason of the retired member's eligibility for hospital and medical benefits under federal Social Security laws, the System will pay the federal Medicare Part B premium.

To be eligible for these benefits, the member must have earned 15 years credited service at the time of termination, or terminate after age 60 with 5 years credited service.

For members who are hired after January 8, 1997, the plan will provide medical benefits in accordance with the following schedule:

- 100% of full cost if age plus service at termination exceeds 90
- 75% of full cost if age plus service at termination exceeds 80 but is less than 90
- 50% of full cost if age plus service at termination exceeds 70 but is less than 80
- 25% of full cost if age plus service at termination exceeds 60 but is less than 70
- 0% of full cost if age plus service at termination is less than 60

### Contributions:

**By Member:** Each member, commencing January 1, 1978, contributes at a rate of 7% of the salary used to compute retirement benefits until his retirement.

**By Employers:** The sponsoring employer makes annual contributions based on member's salaries so that, when members become eligible for benefits, reserves will have been accumulated adequate to provide the pension and other benefits payable by the plan on account of creditable service.

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