May 2006

Management Report

Retirement System for Employees
Actuarial Valuation - December 31, 2005

The City of Cincinnati

MERCER

Human Resource Consulting

Contents

Introduction

This actuarial summary provides management with current year information and historical data relative to the Retirement System. While the annual actuarial valuation report primarily develops information for the year ending December 31, 2005 and the 2007 contribution rate, this summary also tracks trends over the last 25 years regarding:

1) contributions as a percent of total payroll, and in dollar amounts, including sources of change from the prior year,

2) plan participation, and

3) the funding progress (last 5 years).

This summary also discusses current issues and considerations relative to the Retirement System.

The results shown in this report are based upon the data, assumptions, methods, and plan provisions stated in the December 31, 2005 valuation report.

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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Summary of Valuation Results

Retirement System of The City of Cincinnati

	12/31/2003	12/31/2004	12/31/2005	Percentage (Decrease) Increase 2004/2005
Participants				
Active - Full Time	3,710	3,475	3,374	(2.9)%
Inactive	4,522	4,551	4,567	0.3%
Total Payroll	$ 166,037,875	$ 161,752,656	$ 164,479,762	1.7%
Total Normal Cost as a Percent of Payroll	20.82%	21.75%	20.82%	
Member Contribution Rate (monthly)	7.32%	7.32%	7.32%	
Developed Employer Normal Cost as a Percent of Payroll	13.50%	14.43%	13.50%	
Total Contribution as a Percent of Payroll	30.32%	32.19%	29.09%	
Member Contribution Rate (monthly)	7.32%	7.32%	7.32%	
Employer Total Contribution as a Percent of Payroll(1)	23.00%	24.87%	21.77%	
Actual Contribution				
Employer	$ 12,619,671	$ 19,336,221	$ 19,062,028	(1.4)%
Members	13,311,001	13,153,510	12,792,674	(2.7)%
Assets				
Market Value	$ 2,279,721,027	$ 2,384,920,618	$ 2,412,211,828	1.1%
Actuarial Value	2,279,721,027	2,360,549,572	2,429,695,503	2.9%
Return (Market Value)	21.80%	10.09%	6.79%	
Return (Actuarial Value)	8.73%(2)	9.00%	8.69%	
Present Value of Benefits(3)	$ 2,615,230,743	$ 2,704,181,858	$ 2,734,779,585	1.1%
Actuarial Accrued Liability(3)	$ 2,419,503,174	$ 2,519,582,204	$ 2,557,099,044	1.5%
Funding Progress(4)	94.2%	93.7%	95.0%	1.4%
Value of Accrued Benefits(3)				
Vested	$ 2,183,365,541	$ 2,305,848,283	$ 2,361,024,940	2.4%
Total	2,251,167,739	2,363,590,225	2,418,832,367	2.3%

(1) Contributions are being made at 7.0% for 1999 through 2003, 11% for 2004 and 2005, and 17% for 2006.
(2) Determined under the prior actuarial asset method.
(3) The Present Value of Benefits is the present value of all future benefits (based on projected pay and service) current participants are expected to receive. The Actuarial Accrued Liability is the allocation of those benefits that are based on past service. The Value of Accrued Benefits is the present value of benefits earned to date based on current pay and current service.
(4) Ratio of Actuarial Value of Assets to Actuarial Accrued Liability. See page 17.

Summary of Valuation Results

Change in Contribution Rate

The contribution is determined by taking the normal cost of the plan (the cost of benefits accruing to participants this year) and increasing it for an amortization payment on the unfunded liability (excess of actuarial accrued liability over actuarial value of assets). The contribution amount is then converted to a contribution rate by dividing it by expected payroll.

Thus, the contribution rate depends on three things: the unfunded actuarial liability, the normal cost, and the expected payroll.

The contribution rate prior to reflecting expected employee contributions decreased from 32.19% of payroll for 2006 to 29.09% for 2007. This is due primarily to the medical plan experience, partially offset by demographic losses.

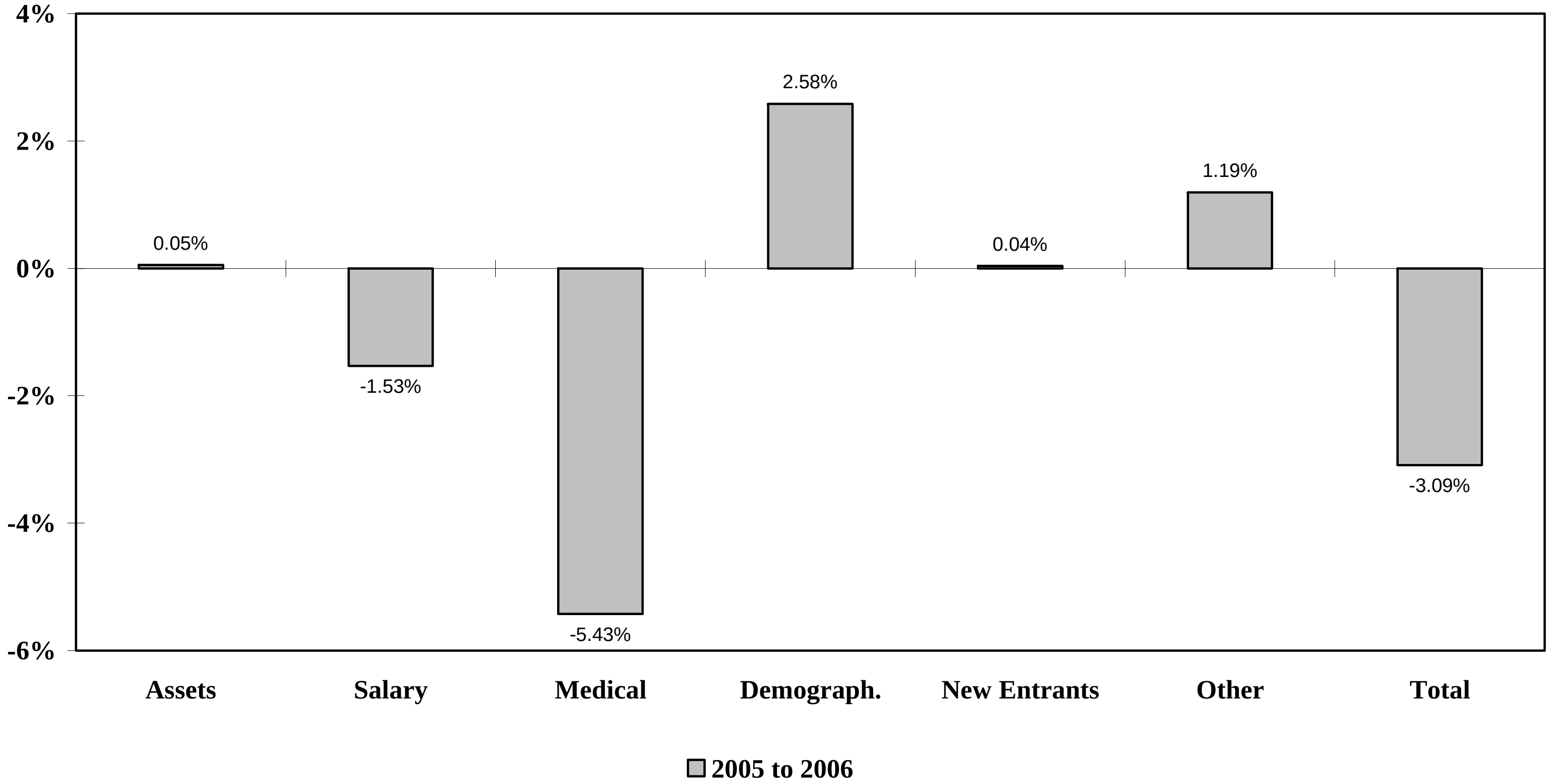
Component	Reduction in Surplus	Change in Normal Cost Rate	Change in Contribution Rate
Asset experience	$44,702,000	N/A	3.20%
Effect of asset smoothing	(43,987,000)	N/A	(3.14)%
Total asset impact	715,000	N/A	0.05%
Salary experience	(9,067,000)	(0.88)%	(1.53)%
New entrants	1,853,000	(0.09)%	0.04%
Participant demographics*	29,626,000	0.63%	2.58%
Medical claims experience	(64,853,000)	(0.38)%	(5.02)%
Medical assumptions	(19,082,000)	(0.20)%	(1.57)%
Medical participation data	16,224,000	0.00%	1.16%
Total medical impact	(67,711,000)	(0.58)%	(5.43)%
Plan Change	0	0.00%	0.00%
Employer Contributions	16,671,000	0.00%	1.19%
Total Change	**(27,913,000)**	**(0.92)%**	**(3.09)%**

* Includes impact of expense amount change and decrease in payroll base.

Gains are shown as negative numbers and losses are shown as positive numbers.

The following exhibit illustrates the changes in the contribution rate.

CHANGE IN CONTRIBUTION RATE
2005



Changes in contribution rate before reflecting expected employee contributions
"Medical" includes the impact of the change in assumptions and the use of actual participant data; "Demograph." includes the impact of the change in the administrative expense amount and the impact of a smaller payroll base; "Other" reflects contribution variance.

Summary of Valuation Results

Impact of Asset Returns

The market value of assets at December 31, 2005 was almost $45 million less than the expected value of assets assuming the 8.75% expected return. The annual return on the market value of assets was 6.79%. The actuarial value of assets smooths the recognition of this gain over 5 years so only $9 million of the loss impacts the determination of the contribution requirement for 2007. The remaining $36 million loss will be reflected in future valuations.

The actuarial value of assets uses a five year smoothing technique to help dampen the asset return volatility of the market value of assets. In this way, a portion of this year's loss will be offset by last year's gain. This works well when the asset returns fluctuate around the assumed investment return. But sometimes a series of losses may occur without an intervening gain. Then the relationship between the actuarial value and market value does not provide reasonable results of the funded position of the plan or the future funding requirements.

Medical, Dental, and Vision Cost Updates

Mercer continues to collect updated actual historical retiree plan experience (claims, enrollment, administrative fees, etc.) for the medical, dental and vision plans to assist in projecting future claims costs. In 2005, Mercer was able to collect updated experience for 2004 and 2005 with medical and prescription drug claims and enrollment split on a pre-Medicare and Medicare eligible basis. (Historical data for 2002 & 2003 was available on this basis as well but data was not available in this format for last year's valuation.) This updated segregation of experience data allowed Mercer to analyze costs separately for pre-Medicare and Medicare eligible groups and separately for medical and prescription drug coverage. This is the preferred method of data splits and analysis.

Also, Mercer was able to collect more accurate retiree medical census data, which we reconciled back to the census data from last year's valuation. Mercer and the City feel that the current census information is a more accurate representation of the covered retiree medical population.

All of this information was used to develop projected per participant claims cost figures.

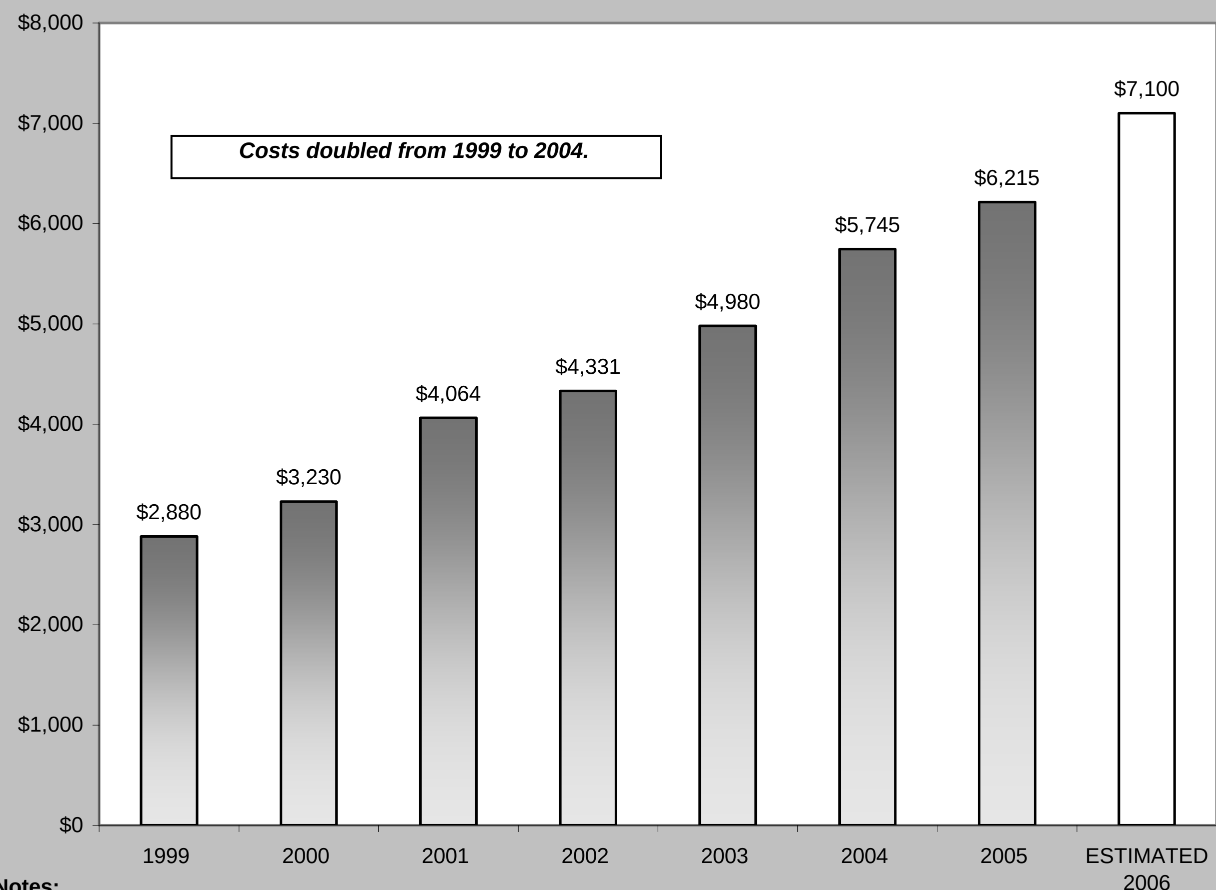
Based on the updated data received and analysis performed for this valuation the following provides highlights of updates/confirmations in the 12/31/05 valuation:

- Medical Costs: 2005 claims experience was better than expected, with actual costs being lower than projected amounts. Projected 2005 costs (pre-Medicare and Medicare eligible and all plans combined) were expected to average about $6,800 per person in 2005. Actual costs were about $600 lower than that amount to approximately $6,200 per person. That difference resulted in a gain to the projected liability results.

- Background on Claims Experience/Projections

  The projected claim cost for 2006 is reflective not only of the historical medical experience but also the continued movement of enrollees between the Traditional, PPO and HMO plans, the number of enrollees pre & post 65 and the availability of segregated pre-Medicare and Medicare eligible data. The following graphs depict historical medical cost experience levels and increases as reported by the City via Anthem billing.

Historical Retiree & Dependent Annual Average Medical Cost per Adult (all ages and plans combined)

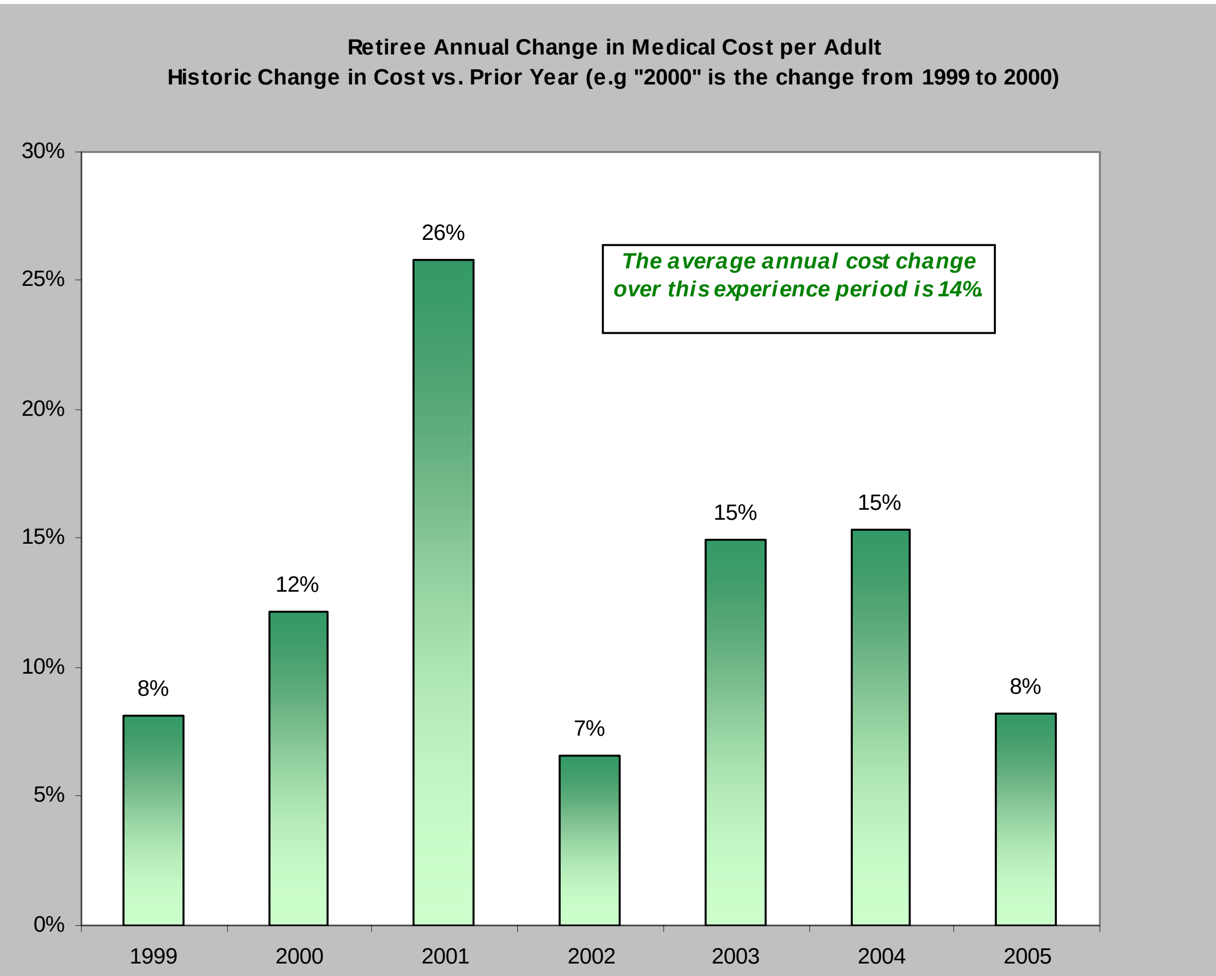


Notes:

- Medical Costs shown include premiums, claims and administrative expenses for indemnity, PPO and HMO plan retiree enrollees.
- Medicare Part B premium reimbursements, dental & vision expenses not included.
- Medical expenses are based on City provided reports that track healthcare dollars billed each calendar year to the City. This data shows a similar pattern but does not directly correlate by date to individual paid medical and presciption drug claims by Anthem for benefits. The paid claims data from Anthem, because it is split by medical and drug expense and segregated pre-Medicare and Medicare eligible, is the basis of the cost projections by Mercer.

Future projections of costs are only estimates. All estimates, based on the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Summary of Valuation Results (Continued)



Notes:

- Medical Costs shown include premiums, claims, and administrative expenses for indemnity, PPO and HMO plan retiree enrollees.
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- Medical Trends: The future medical trend table was updated based on the updated claims experience and enrollment data, projected market trends by Mercer, the carriers and benchmark data and expected future enrollment between plans on a Pre-Medicare and Medicare eligible basis. Independent trends are selected for medical and administrative fees vs. prescription drug portion of costs and also on a pre-Medicare and Medicare eligible basis. The result of the updated analysis is projected future trend rates equal to or less than anticipated in last year's valuation.

Summary of Valuation Results (Continued)

- Medicare Reform Savings: The projected savings estimate due to Medicare Reform Part D coverage being implemented in 2006 was updated based on the final Medicare Part D regulations, the City's final decision with regards to its coordination with Medicare Part D and updated retiree prescription drug experience data. This year we are reflecting that the City has elected to continue providing prescription drug coverage without any changes to the current prescription drug plans and receive the subsidy provided by Medicare. This provides a greater savings to the plan compared to the assumed method of integration used in last year's valuation (e.g., that the City's plan would integrate with Medicare on a secondary basis and the City would reimburse members for the Medicare Part D premium based on the corresponding retiree contribution requirements for each group). Medicare Reform subsidy savings are assumed to increase at prescription drug trend rates.

- Dental Costs & Trend: The inclusion of 2005 retiree dental claims experience into our projection analysis resulted in the projected claims cost for 2006 increasing 10% over the 2005 projection, which is greater than the expected 6% increase anticipated in last year's valuation. The dental future trend table is very similar to the table from last year, with the initial trend rate of 6% reset at 2006 from 2005 and grading downward in almost an identical approach as last year.

- Vision Costs & Trend: The inclusion of 2005 retiree vision claims experience into our projection analysis resulted in the projected claims cost for 2006 increasing by only $1 from $24 in 2005 to $25 in 2006. The vision future trend table is being adjusted to assume annual increases of 3% compared to the prior assumption of 1% per year.

The net effect of these changes was a $67.7 million decrease in the Actuarial Accrued Liability.

Summary of Valuation Results *(continued)*

City of Cincinnati
Comparison of Results to Last Year
December 31, 2005 Results

	12/31/2004		12/31/2005
1. Present Value of Projected Benefits:			
(a) Active Participants	1,017,945,352		989,697,587
(b) Participants with Deferred Benefits	31,665,030		26,632,513
(c) Participants Receiving Benefits	1,654,571,476		1,718,449,485
(d) Total	2,704,181,858		2,734,779,585
2. Present Value of Future Employee Contributions	85,078,393		85,829,257
3. Present Value of Future Normal Costs	99,521,261		91,851,284
4. Entry Age Accrued Liability (1)(d) - (2) - (3)	2,519,582,204		2,557,099,044
5. Actuarial Value of Assets	2,360,549,572		2,429,695,503
6. Unfunded/(Surplus) (4) - (5)	159,032,632		127,403,541

	Dollar Amount	Percent of Proj. Pay	Dollar Amount	Percent of Proj. Pay
7. Amortization of Unfunded/(Surplus) Over 15 Years (assuming monthly payments)	16,880,461	10.44%	13,598,180	8.27%
8. Normal Cost (assuming monthly payments)	26,189,711	16.19%	25,465,891	15.48%
9. Expenses (assuming monthly payments)	8,997,320	5.56%	8,788,080	5.34%
10. Total Normal Cost (assuming monthly payments)	35,187,031	21.75%	34,253,971	20.83%
11. Employees Expected Contributions to Normal Cost (assuming monthly payments)	11,845,794	7.32%	12,045,511	7.32%
12. Employer Normal Cost (10) - (11)	23,341,237	14.43%	22,208,460	13.50%
13. Employer Total Cost (7) + (12)	40,221,698	24.87%	35,806,640	21.77%

	12/31/2004		12/31/2005	
Total Contribution	52,067,492	32.19%	47,852,151	29.09%

Employer Contributions

The graph on page 11 shows employer contributions over the 25 years up through 2006, expressed as a percent of total payroll.

This exhibit shows a total employer contribution which was generally stable from 1980 to 1983. However, more volatility occurred between 1984 and 1994, with a big drop in contribution rate occurring when the unfunded liability became completely paid off in 1998.

Based on the actuarial method used to value liabilities, the employer contribution is broken into two components as shown on page 12:

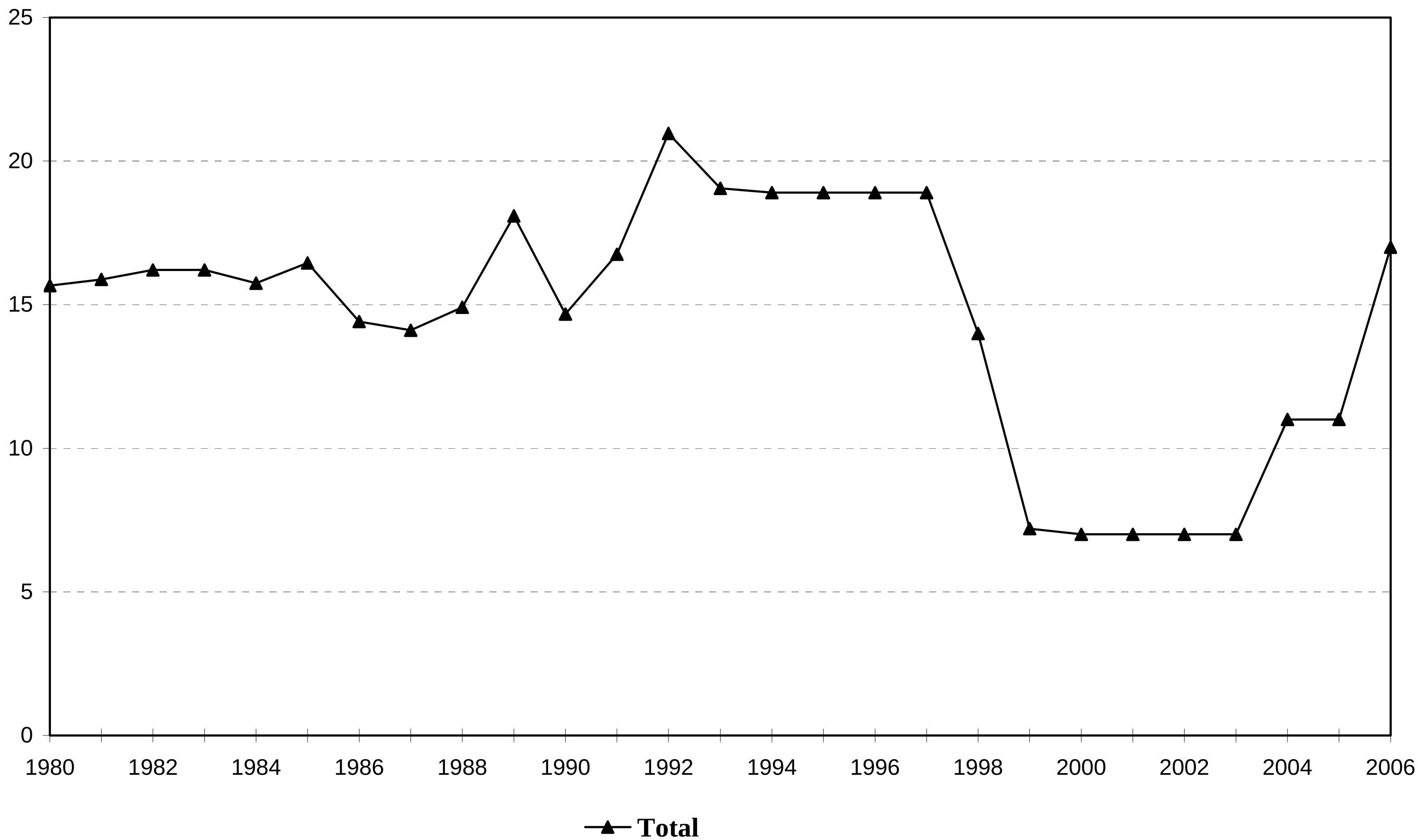
- One to reflect the theoretical current cost (normal cost)
- One to handle unfunded past costs or surplus.

Since this is a split based on theoretical formulas, one component absorbs most of the volatility. In the method used prior to 2001, the normal cost absorbed the volatility. As of the end of 1998 the unfunded past costs had been completely amortized, leaving only the normal cost of the plan.

Beginning with the calculation of the contribution requirements for 2002 and later, the normal cost portion of the contribution will be more stable. The volatility associated with gains and losses and the reflection of the funded status will be made in the amortization portion of the costs.

EMPLOYER CONTRIBUTION

AS A PERCENT OF PAYROLL



Actuarial Summary *(continued)*

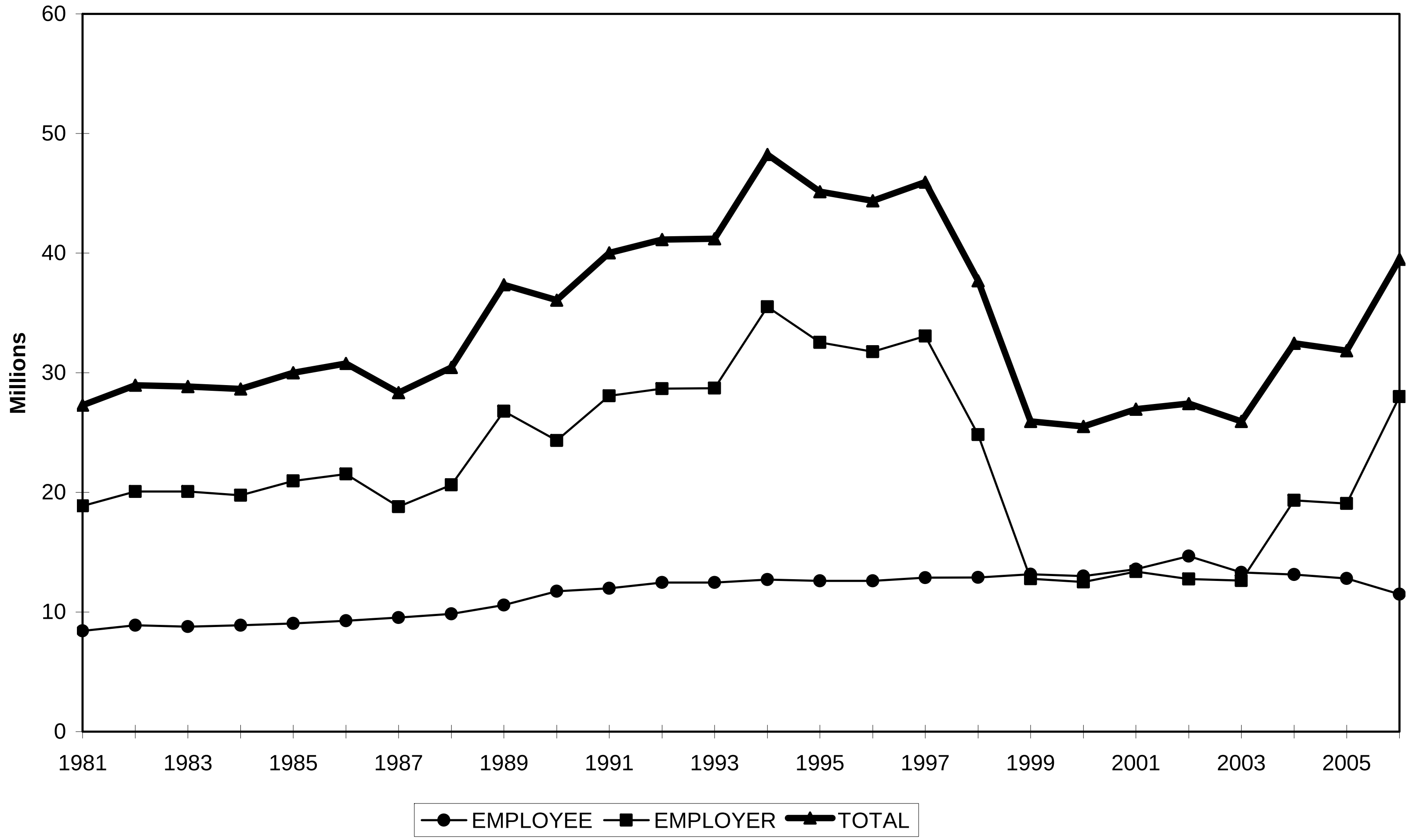
Employer Contributions as a Percent of Payroll

City of Cincinnati Retirement System

Year	Normal Cost	Unfunded Liability	Total
1981	9.95%	5.93%	15.88%
1982	10.24%	5.97%	16.21%
1983	10.24%	5.97%	16.21%
1984	9.78%	5.97%	15.75%
1985	10.26%	6.19%	16.45%
1986	6.42%	7.99%	14.41%
1987	4.55%	9.56%	14.11%
1988	5.08%	9.83%	14.91%
1989	8.29%	9.80%	18.09%
1990	4.02%	10.65%	14.67%
1991	6.61%	10.14%	16.75%
1992	10.94%	10.02%	20.96%*
1993	8.12%	10.93%	19.05%*
1994	7.42%	11.48%	18.90%
1995	13.42%	5.48%	18.90%
1996	5.63%	13.27%	18.90%
1997	(2.30)%	21.20%	18.90%
1998	(8.90)%	22.90%	14.00%
1999	(7.10)%	–	(7.10)%**
2000	(8.30)%	–	(8.30)%**
2001	14.43%	(19.25)%	(4.81)%**
2002	13.44%	(10.44)%	3.00% **
2003	13.10%	(1.85)%	11.25% **
2004	13.50%	9.50%	23.00% ***
2005	14.43%	10.44%	24.87% ***
2006	13.50%	8.27%	21.77%****

* Actual contribution rate was 16.75%
** Actual contribution rate was 7.00%
*** Actual contribution rate was 11.00%
**** Actual contribution rate is 17.00%

CONTRIBUTIONS



25 YEAR HISTORY

Employee and Employer Contributions

City of Cincinnati Retirement System

Year	Employee Contributions	Employer Contributions	Total
1981	8,424,258	18,873,284	27,297,542
1982	8,886,544	20,069,129	28,955,673
1983	8,778,247	20,064,858	28,843,105
1984	8,894,553	19,749,529	28,644,082
1985	9,035,000	20,962,057	29,997,057
1986	9,263,000	21,524,797	30,787,797
1987	9,539,000	18,792,634	28,331,634
1988	9,839,752	20,615,414	30,455,166
1989	10,568,577	26,784,729	37,353,306
1990	11,729,000	24,330,056	36,059,056
1991	11,968,000	28,060,699	40,028,699
1992	12,469,765	28,670,374	41,140,139
1993	12,471,725	28,717,266	41,188,991
1994	12,718,012	35,516,832	48,234,844
1995	12,591,364	32,532,039	45,123,403
1996	12,604,757	31,761,983	44,366,740
1997	12,869,394	33,072,461	45,941,855
1998	12,881,766	24,815,296	37,697,062
1999	13,163,743	12,768,885	25,932,628
2000	12,991,882	12,520,902	25,512,784
2001	13,571,803	13,374,661	26,946,464
2002	14,664,620	12,755,764	27,420,384
2003	13,311,001	12,619,617	25,930,672
2004	13,153,510	19,336,221	32,489,731
2005	12,792,674	19,062,028	31,854,702
2006*	11,500,000	28,000,000	39,500,000

* Expected

Total Contributions to Plan

The graph on page 14 illustrates all contributions to the retirement system during the past 25 years. Employer and employee contributions are shown separately.

Although contributions increased dramatically through 1994, employer contributions had stayed about twice the amount of employee contributions. During the early 1990s, employer contributions increased to an average of 2.4 times the employee contributions. In 1998, the unfunded accrued liability was fully paid off and required contribution levels decreased. For 1998 the employer rate was set at 14.0%, which is 2.0 times the employee rate. For 1999 to 2003, the employer contribution was reduced to the same level as the employee contributions. For 2004 and 2005, the employer contribution was increased to 11.0%.

Expected 2006 Contribution

Shown below is the expected 2006 contribution level.

Expected Contributions at 17% Rate	$28,000,000

The minimum required contribution rate (based on the December 31, 2004 valuation) is 24.87%. Therefore, the required contribution is higher than the current employer contribution rate of 17%. Unless the City's contribution rate changes (assuming no other plan or contribution changes), this lower contribution will result in an increase in the unfunded liability of the plan by about
$13 million. This increase will result in a larger amortization payment which will be reflected in future (2008 and later) contribution requirements.

Expected 2007 Contribution Rate

For 2007, required contributions will be based on the normal cost adjusted for the amortization of the current unfunded actuarial liability. Based on the December 31, 2005 actuarial valuation, the required contribution rate (assuming no other plan or contribution changes), is 21.77% assuming a 7% employee contribution rate.

Plan Participants

This section illustrates changes in both active and retired participants over a 25-year period.

The number of retirees and deferred participants has grown from 2,960 at the end of 1981 to 4,567 at December 31, 2005, a 54% increase.

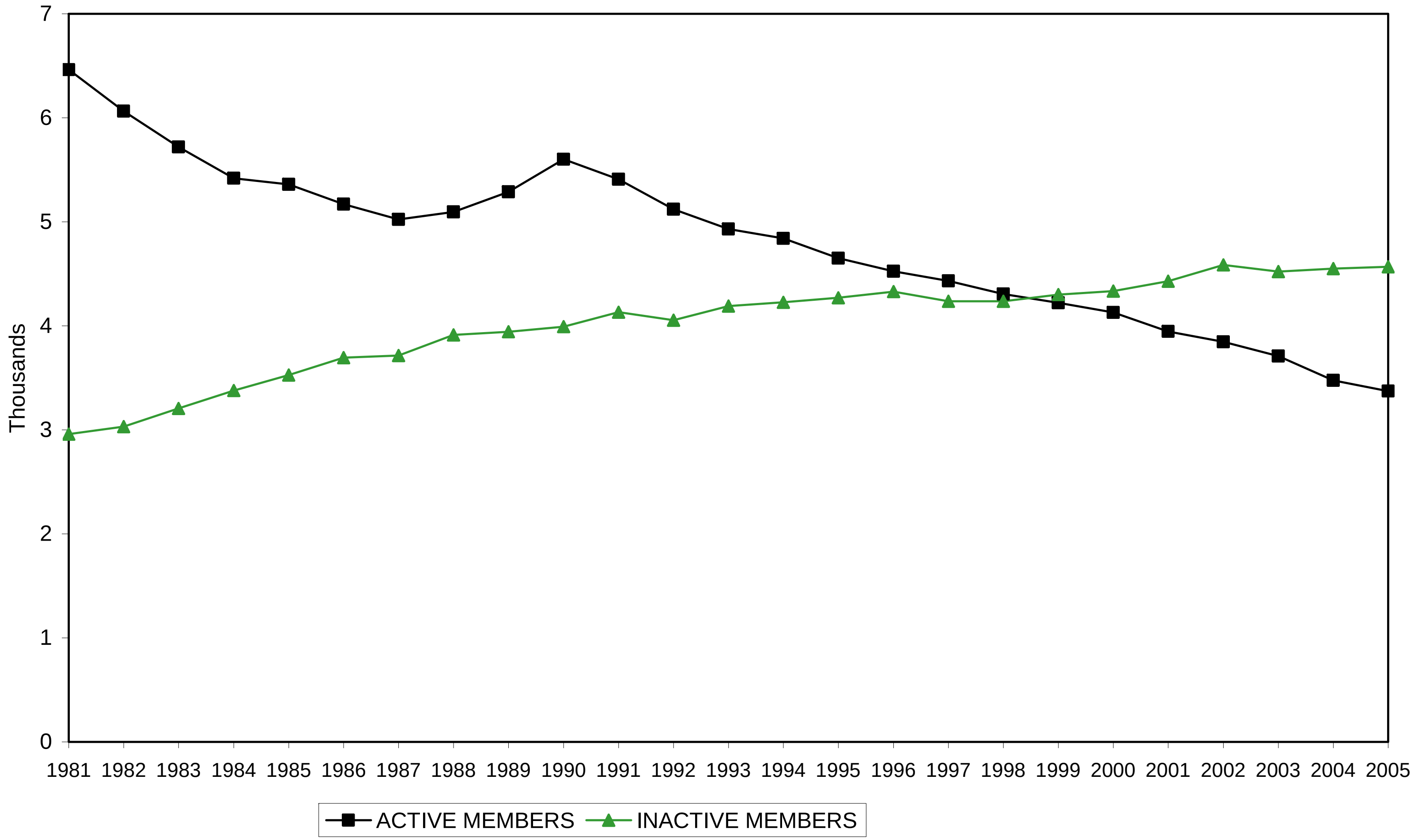
The number of active full-time participants has *decreased* during the 25-year period, beginning at 6,463 in 1981, and declining to 3,374 at December 31, 2005.

During the last 10 years the number of active full-time participants has decreased from 4,650 to 3,374. During this period, the closed group (Hamilton County, University Hospital and University of Cincinnati) decreased from 558 to 91. The City participants decreased from 4,092 to 3,283 during this time period.

The relationship of active to retired employees has changed markedly in 25 years, with 2.18 actives per retiree in 1981, but only .74 actives per retiree in 2005. A significant part of this decline is due to the impact of the closed groups. If City participants are reviewed separately, the ratio of active to retired employees is 1.13. The ratio for the plan as a whole is likely to remain low for the next 10 years or more, and could decrease as Hospital and University participation is gradually eliminated and the number of City participants remains unchanged. If all active participants in the closed groups were to immediately retire, the ratio would drop to .70 active participants per retiree.

While the plan is well funded, a ratio below 1.00 is not a concern, except in one aspect: increased volatility of "required" contributions as a percent of covered payroll. When asset returns exceed expectations or medical experience is better than assumed, the leveraging effect of the retirees produces greater decreases in plan costs. However, this same leveraging will have a negative impact on contribution rates if experience is not as good as assumed.

ACTIVE AND INACTIVE MEMBERS



25 YEAR HISTORY

Active Members and Retirees

City of Cincinnati Retirement System

Year	Full-Time Active Members	Retired and Deferred	Ratio of Active to Retired
1981	6,463	2,960	2.18
1982	6,065	3,031	2.00
1983	5,721	3,206	1.78
1984	5,420	3,378	1.60
1985	5,360	3,527	1.52
1986	5,170	3,694	1.40
1987	5,022	3,715	1.35
1988	5,095	3,913	1.30
1989	5,287	3,944	1.34
1990	5,601	3,992	1.40
1991	5,410	4,131	1.31
1992	5,122	4,053	1.26
1993	4,930	4,189	1.18
1994	4,841	4,226	1.15
1995	4,650	4,270	1.09
1996	4,524	4,329	1.05
1997	4,433	4,236	1.05
1998	4,306	4,236	1.02
1999	4,221	4,300	0.98
2000	4,128	4,334	0.95
2001	3,946	4,430	0.89
2002	3,846	4,585	0.84
2003	3,710	4,522	0.82
2004	3,475	4,551	0.76
2005	3,374	4,567	0.74

Funding Progress

The funding progress of the plan is determined by comparing the entry age normal accrued liability with the actuarial value of assets. This ratio reflects the funding progress relative to the level anticipated by the funding method as required to pay for benefits attributable to the past. This method assumes that the normal cost remains a constant percent of pay for each individual, and assumes an ongoing plan with future employee contributions of 7% of pay. The current year aggregate normal cost rate is 20.83% of pay.

To the extent the funding progress is less than 100%, as is currently the case, contributions greater than normal cost are required in order to catch up to the anticipated level of funding. If the funding progress exceeds 100%, it indicates contributions less than normal cost are required since there is a cushion.

Funding Progress Based on Actuarial Value of Assets

	Pension	Medical	Total
December 31, 2001	115%	92%	107%
December 31, 2002	102%	99%	101%
December 31, 2003	95%	93%	94%
December 31, 2004	95%	92%	94%
December 31, 2005	94%	98%	95%

At December 31, 2005, the ratio of actuarial value of assets to the entry age accrued liability is 95%. This is higher than the previous year ratio. The ratio increased due primarily to a gain in the actuarial accrued liability and an assumption change in the medical trend.

If these ratios are calculated using the market value of assets instead of the smoothed actuarial value, the historical funding progress has declined more rapidly until 2005.

Funding Progress Based on Market Value of Assets

	Pension	Medical	Total
December 31, 2001	109%	87%	101%
December 31, 2002	85%	83%	84%
December 31, 2003	95%	93%	94%
December 31, 2004	96%	93%	95%
December 31, 2005	93%	97%	94%

Current Issues

1. Investment Return Assumption

   Most asset return outlooks continue to show returns below the plan's investment return assumption of 8.75% (before expenses). (The 8.75% before expenses return is approximately equivalent to an 8.4% after expenses return.) This continues to be an aggressive rate relative to current expected returns. It is also at the high end of rates being used by other public plans based on recent survey information.

   Mercer has also calculated the results of the 12/31/2005 valuation using an 8.0% interest rate assumption. These results are shown in the chart on the next page.

   The contribution rate would increase from 29.09% to 45.36% of pay. The funded progress would drop from 95% to 88% (87% pension and 91% medical).

2. Impact of Asset Performance and Contribution Shortfalls

   At current asset levels, each 1% return not achieved represents approximately $24 million of lost asset return. Even though this loss would be recognized over 5 years, it eventually factors into the required contribution as a 15 year amortization payment of $2.8 million (or about 1.7% of pay). If the trust were to consistently under perform by 1% each year, after 15 years the additional annual contribution level would be about $42 million larger (or about 25% of pay based on the current payroll base). This means that the contribution rate would rise to about 54% of payroll assuming all other assumptions are met and the funding investment return assumption remains at 8.75%.

   If contributions are less than the required contribution rate, the unfunded actuarial accrued liability will increase by approximately $1.64 million for each 1% of pay shortfall. This shortfall would translate into about $190,000 additional amortization payment (or about 0.1% of pay) for the next year's contribution. If the shortfalls continue year after year, these shortfalls and contribution increases would compound.

City of Cincinnati
Comparison of Results for Interest Rate Assumption
December 31, 2005 Preliminary Results at 8.00%

	8.75% 12/31/2005		8.00% 12/31/2005
1. Present Value of Projected Benefits:			
(a) Active Participants	989,697,587		1,113,344,678
(b) Participants with Deferred Benefits	26,632,513		29,757,678
(c) Participants Receiving Benefits	1,718,449,485		1,835,076,222
(d) Total	2,734,779,585		2,978,178,578
2. Present Value of Future Employee Contributions	85,829,257		89,243,594
3. Present Value of Future Normal Costs	91,851,284		128,480,733
4. Entry Age Accrued Liability (1)(d) - (2) - (3)	2,557,099,044		2,760,454,251
5. Actuarial Value of Assets	2,429,695,503		2,429,695,503
6. Unfunded/(Surplus) (4) - (5)	127,403,541		330,758,748

	Dollar Amount	Percent of Proj. Pay	Dollar Amount	Percent of Proj. Pay
7. Amortization of Unfunded/(Surplus) Over 15 Years (assuming monthly payments)	13,598,180	8.27%	36,037,892	21.91%
8. Normal Cost (assuming monthly payments)	25,465,891	15.48%	29,814,787	18.13%
9. Expenses (assuming monthly payments)	8,788,080	5.34%	8,755,320	5.32%
10. Total Normal Cost (assuming monthly payments)	34,253,971	20.83%	38,570,107	23.45%
11. Employees Expected Contributions to Normal Cost (assuming monthly payments)	12,045,511	7.32%	12,000,608	7.30%
12. Employer Normal Cost (10) - (11)	22,208,460	13.50%	26,569,499	16.15%
13. Employer Total Cost (7) + (12)	35,806,640	21.77%	62,607,391	38.06%
	12/31/2005		12/31/2005	
Total Contribution	47,852,151	29.09%	74,607,999	45.36%

Current Issues (continued)

3. Medical Liability

   Medical costs have continued to increase consistently over the recent years and are expected to continue to increase faster than general inflation based on projected trends. The City should continue to review claims experience cost drivers, available retiree health plans/programs available and emerging in the market to continue to provide viable plan alternatives and control costs as needed to maintain a program. A strategy can be developed and changes implemented to accomplish the desired goals.

   Medical benefits make up 32.7% of the plan's accrued liabilities. Assets allocated to the 401(h) account (the account which pays medical benefits) represent 31.9% of the actuarial value of assets. The funding progress ratio for medical alone is only 91.5%. IRS regulations limit the amount of contributions that can be allocated to the 401(h) account to less than the amount to fully fund the benefits. The Board should consider whether or not other funding vehicles that have more flexibility for funding are appropriate. One such vehicle is a VEBA (Voluntary Employees' Beneficiary Association) trust. This trust would not have the same funding restrictions that the 401(h) account has.

4. Contribution Stability

   Total "required" contributions have fluctuated in recent years. The most recent year has seen the following factors influence the contribution rate:

Positive Factors	**Negative Factors**
▪ Medical Claims Experience	▪ Demographic Change
▪ Salary Experience	▪ Employer Contribution Level

   Due primarily to the recognition of past asset losses in the 12/31/2004 valuation, the City contribution rate increased significantly to 24.87% of pay. This has now decreased to 21.77% of pay (assuming no plan changes or contribution policy changes). Assuming all future actuarial assumptions are met, this level of contributions would continue for 15 years until the unfunded actuarial accrued liability is fully funded. This contribution level is larger than current City budget levels for the pension plan. If contributions are less than the required contribution rate, the unfunded actuarial accrued liability will increase. In order to avoid the increase in the unfunded liability, either benefits must be reduced (medical or pension) or contribution amounts must be increased (employer and/or employee and/or retiree).

   Retirement experience in 2005 showed more retirements than expected by the assumptions. This was particularly true for participants who first became eligible in 2005 where about 50% retired versus the 30% expected.

5. Actuarial Methods/Plan Changes/Actuarial Assumptions

There were no changes in actuarial methods or plan provisions. The only assumption changes were related to the trend rates regarding future medical cost increases.

Prescription drug coverage under Medicare will become available during 2006. The City has elected to continue to provide drug coverage under their plans and will be able to receive a subsidy back from Medicare.

6. Participating Groups (Full-Time Participants)

						Number Eligible to Retire	
	Number	Total Salary	Average Age	Average Service	Average Salary	Unreduced Benefits	Reduced Benefits
City of Cincinnati	3,125	159,326,407	46.1	14.7	48,531	240	82
University Hospital*	20	1,173,311	56.1	30.6	58,666	7	3
University of Cincinnati*	67	3,765,931	55.4	31.3	56,208	29	9
Hamilton County*	4	214,114	55.0	29.3	53,528	3	0
Total	3,374	164,479,762	46.3	15.1	48,749	279	94

* Closed groups.

As of December 31, 2005, there are 91 active participants in the closed groups. They represent 2.7% of the total active population. In the last five years, the closed groups have declined 69% from 293 participants who represented 7.10% of the active population. The closed groups will continue to exert a smaller effect on the plan as their numbers dwindle.

For the City of Cincinnati, 322 participants are currently eligible for retirement–240 of them on an unreduced basis and 82 on a reduced basis. Over the next five years, 691 additional participants will become eligible for retirement–601 on an unreduced basis. (Plus the 82 now eligible to retire on a reduced basis will also be able to retire with an unreduced benefit in five years.) Thus about 30% of the current City participants will be eligible to retire with unreduced benefits prior to January 1, 2011.

7. Medicare Part B Premiums

   Beginning in 2007, Part B premiums will be income based. Retirees with 2005 income above $80,000 ($160,000 if married) will pay a higher premium in 2007. The City needs to determine whether or not this change in federal law would impact the reimbursements made by the plan.

8. GASB

   The City will need to understand and identify the accounting and financial implications of the upcoming GASB 43 & 45 valuation standards regarding non-pension postretirement plans, which take effect for governmental employers for fiscal years beginning after December 15, 2006. These health benefits fall under those standards.

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