May 2007

Management Report

Retirement System for Employees
Actuarial Valuation - December 31, 2006

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, 2006 and the 2008 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, 2006 valuation report.

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

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

	12/31/2004	12/31/2005	12/31/2006	Percentage (Decrease) Increase 2005/2006
Participants				
Active - Full Time	3,475	3,374	3,286	(2.6)%
Inactive	4,551	4,567	4,541	(0.6)%
Total Payroll	$ 161,752,656	$ 164,479,762	$ 158,945,909	(3.4)%
Total Normal Cost as a Percent of Payroll	21.75%	20.82%	21.52%	
Member Contribution Rate (monthly)	7.32%	7.32%	7.30%	
Developed Employer Normal Cost as a Percent of Payroll	14.43%	13.50%	14.23%	
Total Contribution as a Percent of Payroll	32.19%	29.09%	46.01%	
Member Contribution Rate (monthly)	7.32%	7.32%	7.30%	
Employer Total Contribution as a Percent of Payroll[1]	24.87%	21.77%	38.71%	
Actual Contribution				
Employer	$ 19,336,221	$ 19,062,028	$ 28,639,830	50.2%
Members	13,153,510	12,792,674	12,781,241	(0.01)%
Assets				
Market Value	$ 2,384,920,618	$ 2,412,211,828	$ 2,614,618,397	8.4%
Actuarial Value	2,360,549,572	2,429,695,503	2,526,672,130	4.0%
Return (Market Value)	10.09%	6.79%	14.19%	
Return (Actuarial Value)	9.00%	8.69%	9.62%	
Present Value of Benefits[2]	$ 2,704,181,858	$ 2,734,779,585	$ 3,147,525,265	15.1%
Actuarial Accrued Liability[2]	$ 2,519,582,204	$ 2,557,099,044	$ 2,873,098,740	12.4%
Funding Progress[3]	93.7%	95.0%	87.9%	(7.5)%
Value of Accrued Benefits[2]				
Vested	$ 2,305,848,283	$ 2,346,062,722	$ 2,616,590,569	11.5%
Total	2,363,590,225	2,390,946,373	2,665,172,872	11.5%

(1) Contributions are being made at 7.0% for 1999 through 2003, 11% for 2004 and 2005, 17% for 2006 and 21.77% for 2007.

(2) 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.

(3) Ratio of Actuarial Value of Assets to Actuarial Accrued Liability. See page 10.

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 increased from 29.09% of payroll for 2007 to 46.01% for 2008. This is due primarily to the medical plan experience, partially offset by demographic losses.

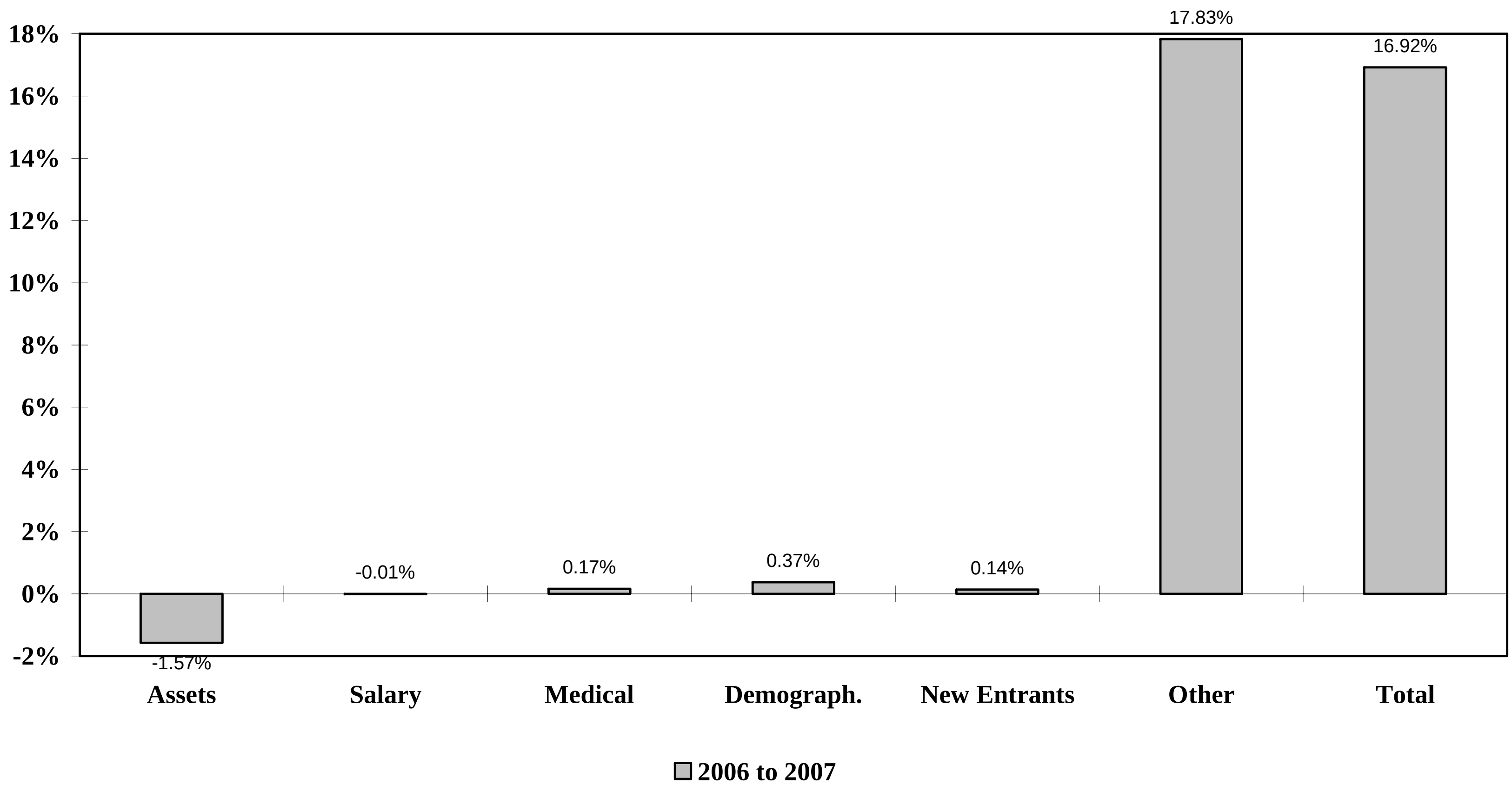
Component	Increase in Unfunded	Change in Normal Cost Rate	Change in Contribution Rate
Asset experience	$(128,228,000)	N/A	(9.49)%
Effect of asset smoothing	106,960,000	N/A	7.92%
Total asset impact	(21,268,000)	N/A	(1.57)%
Salary experience	(19,103,000)	1.40%	(0.01)%
New entrants	3,385,000	(0.11)%	0.14%
Participant demographics*	6,371,000	(0.87)%	(0.45)%
Medical claims experience	(20,043,000)	(0.14)%	(1.62)%
Medical assumptions	21,551,000	0.19%	1.79%
Total medical impact	1,508,000	0.06%	0.17%
Assumption Changes	246,773,000	0.22%	17.83%
Employer Contributions	10,999,000	0.00%	0.81%
Total Change	**228,665,000**	**0.69%**	**16.92%**

* Includes impact of 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
2006



Changes in contribution rate before reflecting expected employee contributions
"Medical" includes the impact of the change in trend assumptions; "Demograph." includes the impact of a smaller payroll base and contribution variation; "Other" reflects contribution variance, change in demographic assumptions, and change in interest rate assumption.

Summary of Valuation Results

Change in Assumptions

An experience study was undertaken in 2006 covering the years 2002 through 2005. The results of that study showed that termination rates and disablement rates were less than the assumptions being used. However, retirement experience was greater than the assumptions would have been predicted. Salary experience showed smaller pay increases than the assumed table. Based upon this experience, Mercer recommended changes in all four of these assumptions. The Board adopted this recommendation. These changes in assumptions increased the contribution amount by about 5.25% of pay.

The Board also adopted a change in the expected investment return assumption. Previously, it was assumed that the long-term expected return would be 8.75% per year prior to recognition of investment and administration expenses. The new assumption is 8.00% per year net of expenses. This change means that there is no longer an explicit expense load on the normal cost. The contribution increased by about 12.59%.

Impact of Asset Returns

The market value of assets at December 31, 2006 was almost $130 million more than the expected value of assets assuming the 8.75% expected return. The annual return on the market value of assets was 14.19%. The actuarial value of assets smooths the recognition of this gain over 5 years so only $26 million of the gain impacts the determination of the contribution requirement for 2007. The remaining $104 million gain 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 gain will be offset by last year's loss. 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.

Summary of Valuation Results (Continued)

Medical, Dental, and Vision Cost Updates

Mercer continues to collect the most up to date historical retiree plan experience (claims, enrollment, administrative fees, etc.) for the healthcare, dental, and vision plans to assist in projecting future costs. As of 2003, Mercer has been able to collect healthcare claims and enrollment split by medical and prescription drug claims and on a pre-Medicare and Medicare eligible basis, allowing us to analyze costs separately by coverage group. This is the preferred method of data splits and analysis. Prior to 2003, data was only available in aggregate.

Based on the updated data received, and analysis performed for this valuation, the following are highlights of the 12/31/06 valuation results:

- <u>Healthcare (Medical and Prescription Drug) Costs</u>: 2006 claims experience was better than projected. 2006 overall paid expenses (combined for all plans, pre-Medicare and Medicare eligible) were about $6,400 per person in 2006, an increase of 2.5% over the prior year. This recent period of favorable experience resulted in a gain to the projected liability results for 12/31/06.

- <u>Background on Claims Experience/Projections</u>: The projected claim cost for 2007 is reflective of the historical experience data as well as the projected medical and prescription drug trends; the continued movement of enrollees between the Traditional, PPO, and HMO plans; and the number of enrollees pre-Medicare and Medicare eligible.

Summary of Valuation Results (Continued)

- Background on Claims Experience/Projections (Continued)

  The following graphs depict historical healthcare cost as reported by the City based on Anthem billing as well as projected 2007 costs on a corresponding basis.

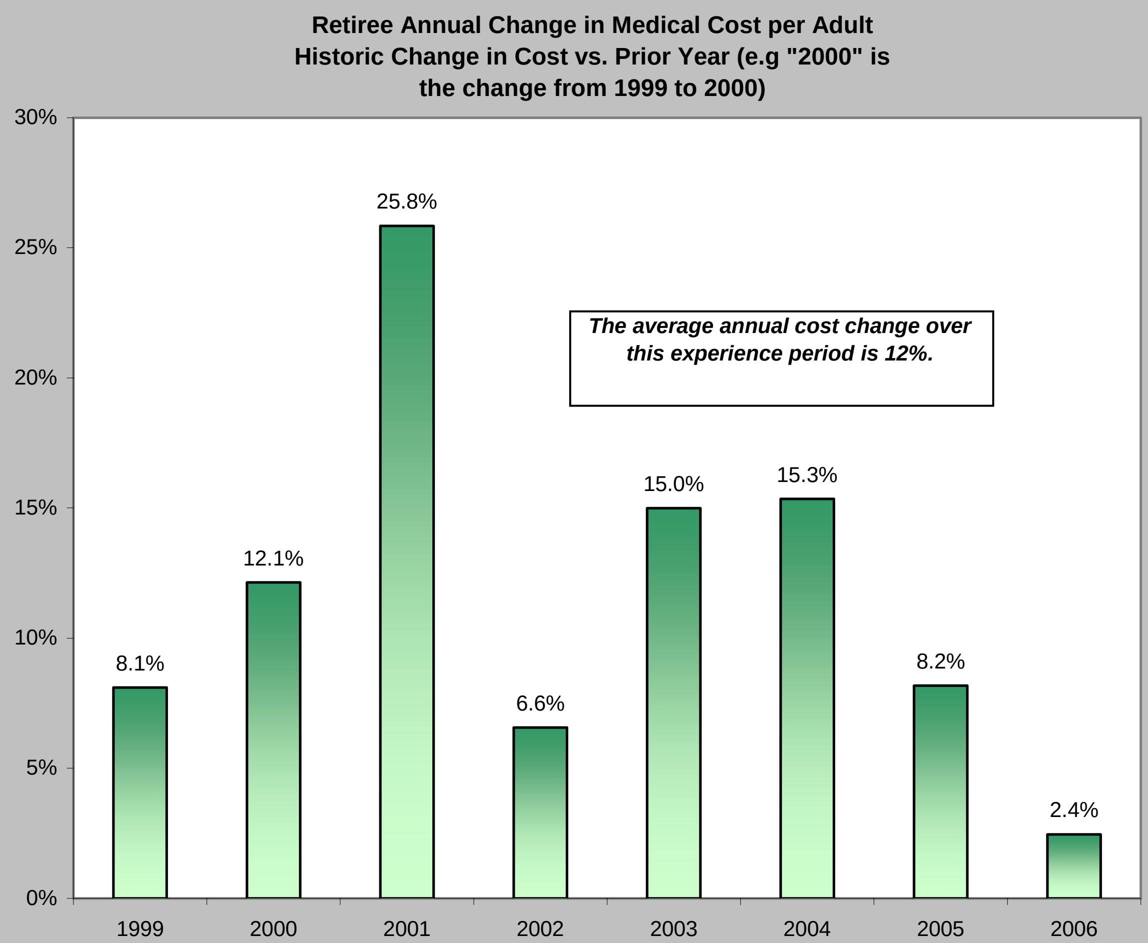
Historical Retiree & Dependent Annual Average Medical Cost per Adult (all ages and plans combined)

Notes:

- Medical costs shown include medical and prescription drug payments and administrative expenses for retirees and dependents enrolled in the indemnity, PPO and HMO plans.
- Medical costs are based on City provided reports that track healthcare dollars billed each calendar year to the City. Enrollment is based on City/Anthem reported enrollment by contract tier (Single/Family) and is adjusted to an estimated number of covered adults for more comparable year over year comparisons. Historical figures displayed remain as estimated in that year (i.e. figures are not adjusted for subsequent claim payment corrections or enrollment updates.)
- This data shows a similar pattern but does not directly correlate to the detailed healthcare claims provided by Anthem. The paid claims data provided by Anthem is the basis of the Mercer cost projections since it is split by medical and prescription drug claims and is provided on a pre-Medicare and Medicare eligible basis.
- The chart does not include Medicare Part B premium reimbursements, dental expenses, vision expenses or the Medicare Part D subsidy.

Future projections of costs are only estimates. All estimates, based on the information available at a point in time, are subject 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 medical and prescription drug payments and administrative expenses for retirees and dependents enrolled in the indemnity, PPO and HMO plans.
- Medical costs are based on City provided reports that track healthcare dollars billed each calendar year to the City. Enrollment is based on City/Anthem reported enrollment by contract tier (Single, Family, MediGap) and is adjusted to an estimated number of covered adults for more comparable year over year comparisons. Historical figures displayed remain as estimated in that year (i.e. figures are not adjusted for subsequent claim payment corrections or enrollment updates.)
- This data shows a similar pattern but does not directly correlate to the detailed healthcare claims provided by Anthem. The paid claims data provided by Anthem is the basis of the Mercer cost projections since it is split by medical and prescription drug claims and is provided on a pre-Medicare and Medicare eligible basis.
- The chart does not include Medicare Part B premium reimbursements, dental expenses, vision expenses or the Medicare Part D subsidy.

Summary of Valuation Results (Continued)

- Medical and Prescription Drug Trends: The future medical and prescription drug trend table was updated based on new claims experience and enrollment data, projected Mercer and Anthem market trends by plan type, and benchmark valuation trend data. Independent trends are selected for medical claims, prescription drug claims, and administrative fees, and on a pre-Medicare and Medicare eligible basis. The result of the updated analysis is a slight increase in pre-Medicare medical trend, a slight decrease in Medicare eligible medical trend, and an increase in prescription drug trend over prior assumed trend. The updates to the trend table result in a loss to the projected liability results for 12/31/06.

- Medicare Reform Savings: The projected savings estimate due to Medicare Part D in 2007 is 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. The valuation projection assumes that the City will provide prescription drug coverage without any changes to the current prescription drug plans and will receive the subsidy provided by Medicare. Medicare Part D subsidy savings are assumed to increase at prescription drug trend rates. The increase in both prescription drug costs and prescription drug trend rates resulted in a gain to the projected Medicare Part D savings liability results for 12/31/06.

- Medicare Part B Premium Reimbursement: Based on the government's update of the Medicare Part B base premium and their forecast of expected changes to that premium into the future, there was a slight loss in the projected liability results for 12/31/06.

- Dental Costs & Trend: The inclusion of 2006 retiree dental claims experience into our projection analysis resulted in the projected claims cost for 2007 increasing 5% over the 2006 projection, which is slightly lower than the increase anticipated in last year's valuation. The dental future trend table is unchanged from last year. The result is a slight gain to the projected liability results for 12/31/06.

- Vision Costs & Trend: The inclusion of 2006 retiree vision claims experience into our projection analysis resulted in no change the projected claims cost for 2007 from 2006, resulting in a slight gain to the projected liability results for 12/31/06. The vision future trend table assumes annual increases of 3%, which is the same as last year's valuation.

The offsetting net effect of all of these items was minimal, resulting in a $1.5 million increase in the Actuarial Accrued Liability.

Summary of Valuation Results *(continued)*

City of Cincinnati
Comparison of Results to Last Year
December 31, 2006 Results

		12/31/2005		12/31/2006	
1.	Present Value of Projected Benefits:				
	(a) Active Participants	989,697,587		1,213,578,806	
	(b) Participants with Deferred Benefits	26,632,513		32,644,014	
	(c) Participants Receiving Benefits	1,718,449,485		1,901,302,445	
	(d) Total	2,734,779,585		3,147,525,265	
2.	Present Value of Future Employee Contributions	85,829,257		94,627,207	
3.	Present Value of Future Normal Costs	91,851,284		179,799,318	
4.	Entry Age Accrued Liability (1)(d) - (2) - (3)	2,557,099,044		2,873,098,740	
5.	Actuarial Value of Assets	2,429,695,503		2,526,672,130	
6.	Unfunded/(Surplus) (4) - (5)	127,403,541		346,426,610	
		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%	38,922,823	24.49%
8.	Normal Cost (assuming monthly payments)	25,465,891	15.48%	34,208,326	21.52%
9.	Expenses (assuming monthly payments)	8,788,080	5.34%	0	0.00%
10.	Total Normal Cost (assuming monthly payments)	34,253,971	20.83%	34,208,326	21.52%
11.	Employees Expected Contributions to Normal Cost (assuming monthly payments)	12,045,511	7.32%	11,596,852	7.30%
12.	Employer Normal Cost (10) - (11)	22,208,460	13.50%	22,611,474	14.23%
13.	Employer Total Cost (7) + (12)	35,806,640	21.77%	61,534,297	38.71%
		12/31/2005		**12/31/2006**	
	Total Contribution	47,852,151	29.10%	73,131,149	46.01%

Actuarial Summary

Employer Contributions

The graph on page 11 shows employer contributions over the 25 years up through 2007, expressed as a percent of total payroll.

This exhibit shows a total employer contribution which was generally stable from 1981 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 13:

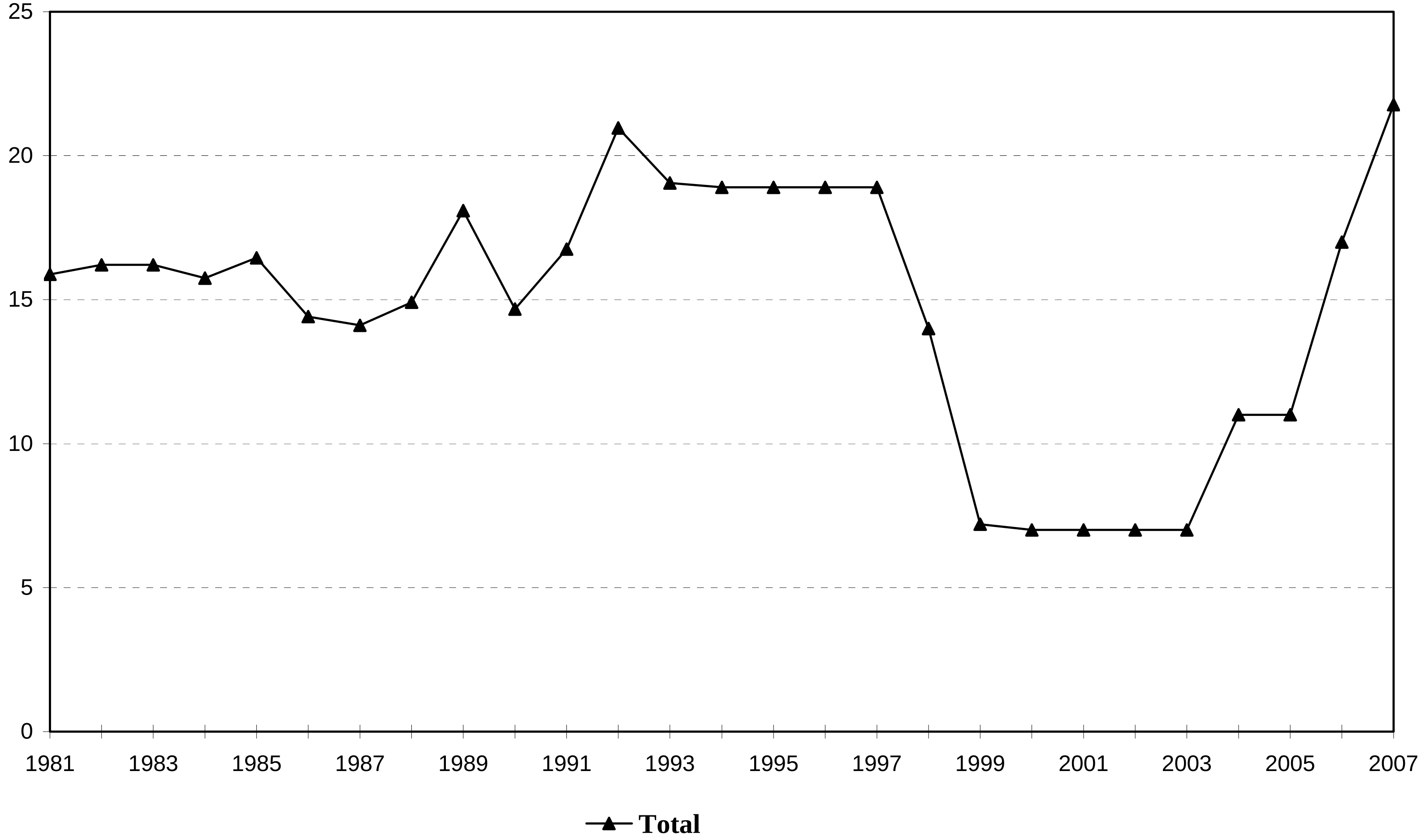
- One to reflect the theoretical current cost (normal cost)
- One to handle unfunded past costs or surplus.

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)*

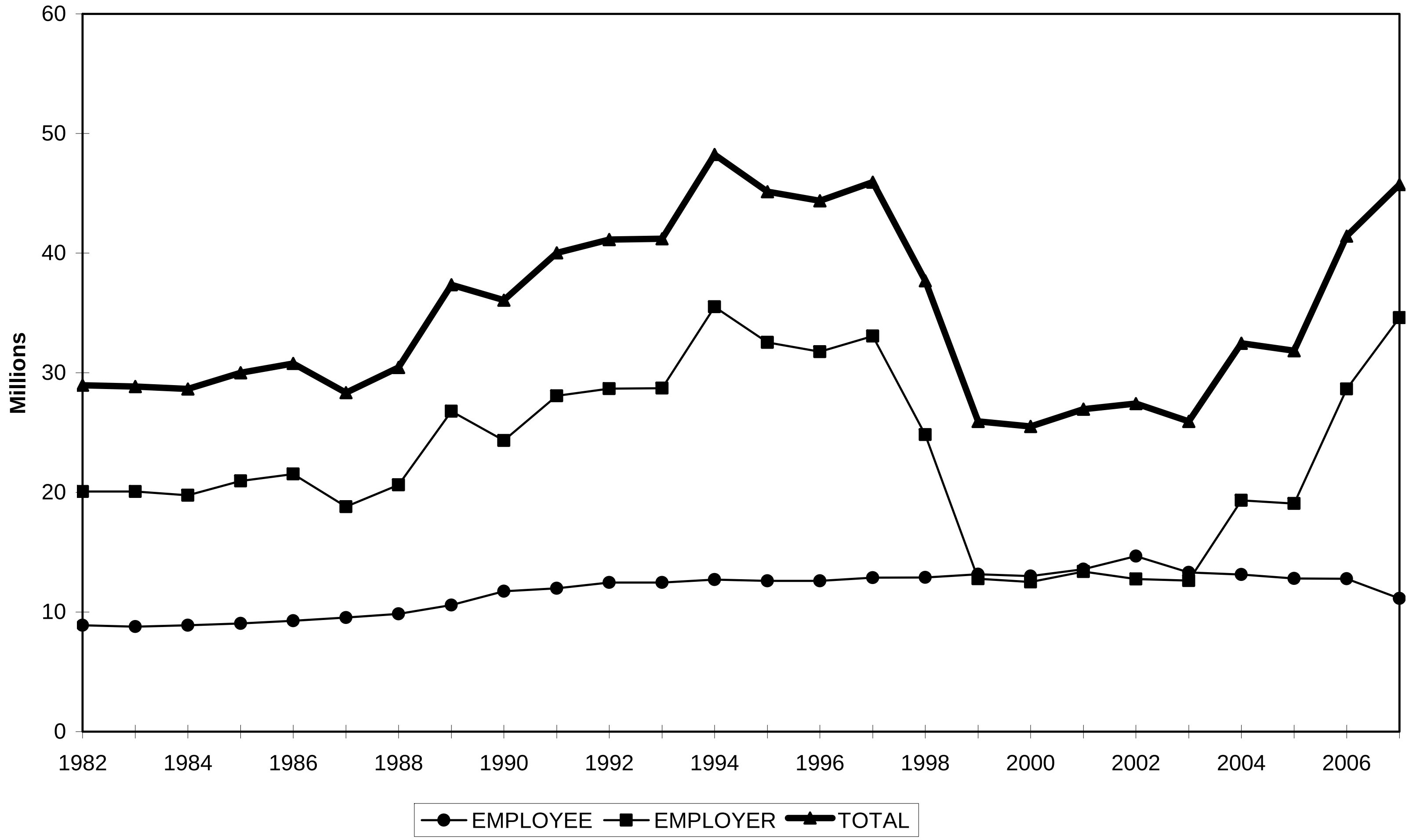
Employer Contributions as a Percent of Payroll

City of Cincinnati Retirement System

Year	Normal Cost	Unfunded Liability	Total
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%****
2007	14.23%	24.48%	38.71%*****

* Actual contribution rate was 16.75%
** Actual contribution rate was 7.00%
*** Actual contribution rate was 11.00%
**** Actual contribution rate was 17.00%
***** Actual contribution rate is 21.77%

CONTRIBUTIONS



25 YEAR HISTORY

Employee and Employer Contributions

City of Cincinnati Retirement System

Year	Employee Contributions	Employer Contributions	Total
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	13,781,241	28,639,830	41,421,071
2007*	11,100,000	34,600,000	45,700,000

* 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% and again to 17.0% for 2006.

Expected 2007 Contribution

Shown below is the expected 2007 contribution level.

Expected Contributions at 21.77% Rate	$34,600,000

The minimum required contribution rate (based on the December 31, 2005 valuation) is 21.77%. The City is scheduled to make this contribution.

Expected 2008 Contribution Rate

For 2008, required contributions will be based on the normal cost adjusted for the amortization of the current unfunded actuarial liability. Based on the December 31, 2006 actuarial valuation, the required contribution rate (assuming no other plan or contribution changes), is 38.71% 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 3,031 at the end of 1982 to 4,541 at December 31, 2006, a 50% increase.

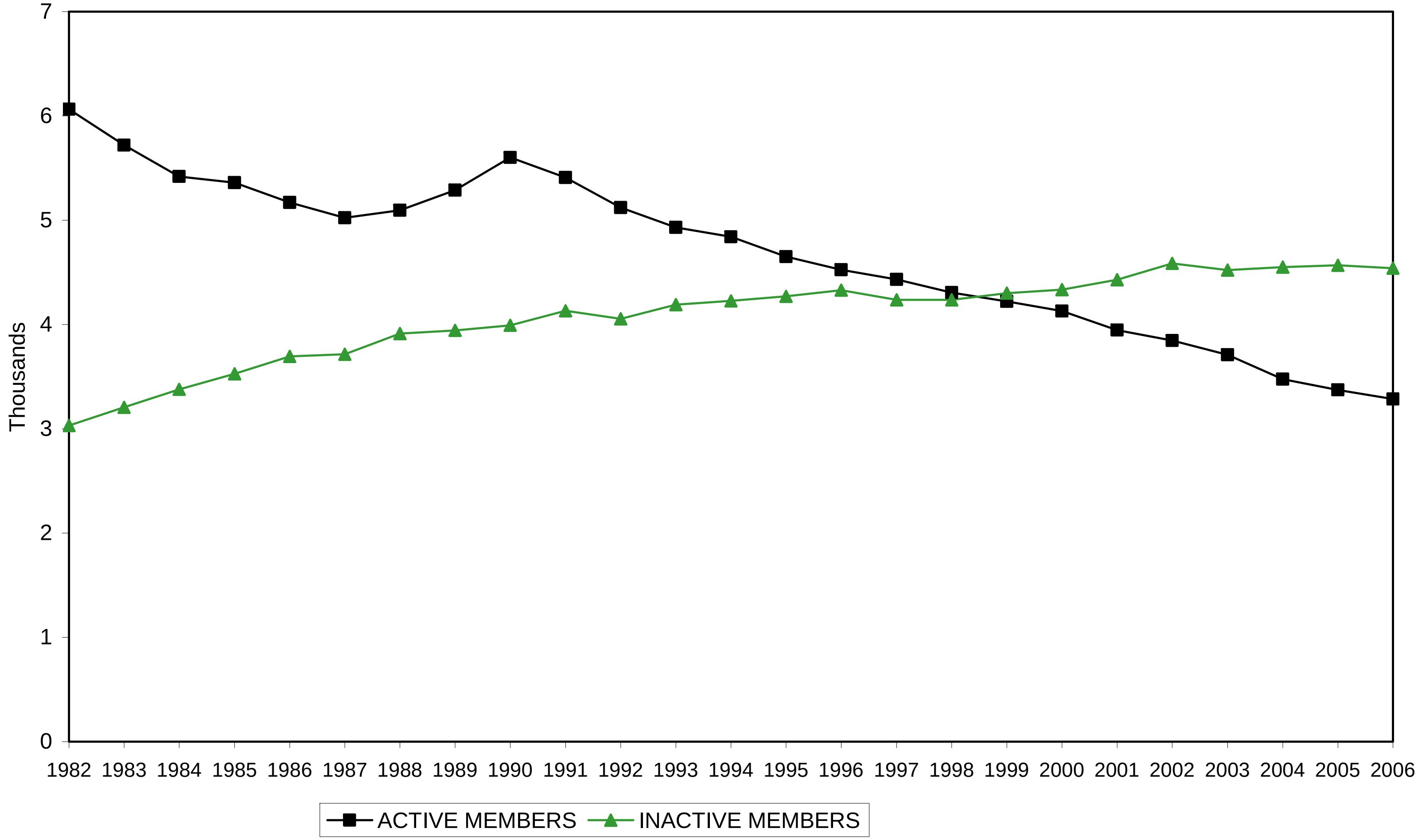
The number of active full-time participants has *decreased* during the 25-year period, beginning at 6,065 in 1982, and declining to 3,286 at December 31, 2006.

During the last 10 years the number of active full-time participants has decreased from 4,524 to 3,286. During this period, the closed group (Hamilton County, University Hospital and University of Cincinnati) decreased from 509 to 64. The City participants decreased from 4,015 to 3,222 during this time period.

The relationship of active to retired employees has changed markedly in 25 years, with 2.00 actives per retiree in 1982, but only .72 actives per retiree in 2006. 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 1.11. 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
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
2006	3,286	4,541	0.72

Actuarial Summary *(continued)*

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 21.52% 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, 2002	102%	99%	101%
December 31, 2003	95%	93%	94%
December 31, 2004	95%	92%	94%
December 31, 2005	94%	98%	95%
December 31, 2006	88%	89%	88%

At December 31, 2006, the ratio of actuarial value of assets to the entry age accrued liability is 88%. This is lower than the previous year ratio. The ratio decreased due primarily to the change in the interest rate assumption. Prior to this change the funding progress was at 95%.

If these ratios are calculated using the market value of assets instead of the smoothed actuarial value, the December 31, 2006 status is higher due to the 2005 asset gain.

Funding Progress Based on Market Value of Assets

	Pension	Medical	Total
December 31, 2002	85%	83%	84%
December 31, 2003	95%	93%	94%
December 31, 2004	96%	93%	95%
December 31, 2005	93%	97%	94%
December 31, 2006	91%	92%	91%

Current Issues

1. Impact of Asset Performance and Contribution Shortfalls

   At current asset levels, each 1% return not achieved represents approximately $26 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 1.8% of pay). Currently the plan has net gains of about $90 million not yet included in the actuarial valuation. This would serve as a “cushion” against a loss next year.

   If contributions are less than the required contribution rate, the unfunded actuarial accrued liability will increase by approximately $1.59 million for each 1% of pay shortfall. This shortfall would translate into about $175,000 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.

2. Medical Liability

   Although the actual increase in paid claims between 2005 and 2006 was less than expected, healthcare costs are expected to continue to increase faster than general inflation in the future. In addition, the average cost per participant in the City’s retiree health plans is considerably higher than costs of other retiree groups based on Mercer survey data. The City should continue to review claims experience cost drivers, 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 28% of the plan’s accrued liabilities. Assets allocated to the 401(h) account (the account which pays medical benefits) represent 32% of the actuarial value of assets. The funding progress ratio for medical alone is only 89%. 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.

Current Issues (continued)

3. Actuarial Methods/Plan Changes/Actuarial Assumptions

   There were no changes in actuarial methods or plan provisions. There were several assumption changes.

   Demographic assumptions were changed with respect to retirement rates, disablement rates, turnover rates, and salary increases. In addition, the interest assumption was changed from 8.75% to 8.00% and the explicit expense assumption was dropped.

   Assumed future annual trend analysis for this valuation resulted in slightly higher initial rates of increase in prescription drug costs than anticipated in last year's valuation. Trend rate adjustments for medical coverage were nominal. There were no changes in dental or vision trend rates versus those anticipated in last year's valuation.

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
▪ Asset Return Experience	▪ Demographic Change
▪ Medical Claims Experience	▪ Prescription Drug Trend Factors
▪ Salary Experience	

   The City's contribution rate in the prior years was 21.77% of pay. Without making changes to the demographic assumptions or the interest assumption, the rate would have decreased slightly to about 21.0% of pay. This decline is largely due to the asset gain.

5. Participating Groups (Full-Time Participants)

	Number	Total Salary	Average Age	Average Service	Average Salary	Number Eligible to Retire: Unreduced Benefits	Number Eligible to Retire: Reduced Benefits
City of Cincinnati	3,222	155,500,671	46.5	15.0	48,262	225	93
University Hospital*	18	946,888	56.3	33.0	52,605	10	2
University of Cincinnati*	42	2,276,354	56.3	31.6	54,199	26	2
Hamilton County*	4	221,995	56.0	30.3	55,499	4	0
Total	3,286	158,945,909	46.7	15.3	48,371	265	97

* Closed groups.

As of December 31, 2006, there are 64 active participants in the closed groups. They represent 1.9% of the total active population. In the last five years, the closed groups have declined 74% from 244 participants who represented 1.95% 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, 319 participants are currently eligible for retirement–225 of them on an unreduced basis and 94 on a reduced basis. Over the next five years, 721 additional participants will become eligible for retirement–619 on an unreduced basis. (Plus the 93 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, 2012.

6. 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.

7. Pension Protection Act of 2006

   Congress passed the Pension Protection Act of 2006 (PPA) last summer, overhauling the funding requirements of ERISA. While these funding requirements do not apply to the CRS, it may be worthwhile to understand the direction that these requirements have taken. First, liabilities must be measured using a bond based yield curve. This essentially recognizes pension liabilities as equivalent to fixed income debt and does not allow plan sponsors to discount their funding liabilities using an equity weighted discount rate. (GAAP accounting has been based on a bond discount rate since 1987.)

   The minimum required contribution for an underfunded plan is basically the normal cost plus a seven year amortization payment on the underfunding amount. If the plan is overfunded by more than the normal cost, no contribution is required.

   The PPA also puts benefit restrictions upon underfunded plans. If a plan is less than 80% funded, lump sum payments are restricted and benefit increases cannot be made to the plan unless the increase is fully prefunded. If a plan is less than 60% funded, benefit accruals are automatically frozen until the plan is funded to 60%. Additionally, these underfunded plans may have to measure their liabilities using "worst" case retirement assumptions.

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