May 2008

Management Report

Retirement System for Employees
Actuarial Valuation - December 31, 2007

The City of Cincinnati

MERCER

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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, 2007 and the 2009 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, 2007 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. 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

	12/31/2005	12/31/2006	12/31/2007	Percentage (Decrease) Increase 2006/2007
Participants				
Active - Full Time	3,374	3,286	2,990	(9.0)%
Inactive	4,567	4,541	4,766	4.9%
Total Payroll	$ 164,479,762	$ 158,945,909	$ 148,682,892	(6.5)%
Total Normal Cost as a Percent of Payroll	20.82%	21.52%	21.91%	
Member Contribution Rate (monthly)	7.32%	7.30%	7.30%	
Developed Employer Normal Cost as a Percent of Payroll	13.50%	14.23%	14.61%	
Total Contribution as a Percent of Payroll	29.09%	46.01%	41.61%	
Member Contribution Rate (monthly)	7.32%	7.30%	7.30%	
Employer Total Contribution as a Percent of Payroll(1)	21.77%	38.71%	34.32%	
Actual Contribution				
Employer	$ 19,062,028	$ 28,639,830	$ 33,308,046	16.3%
Members	12,792,674	12,781,241	12,847,407	0.5%
Assets				
Market Value	$2,412,211,828	$2,614,618,397	$2,685,339,891	2.7%
Actuarial Value	2,429,695,503	2,526,672,130	2,629,891,707	4.1%
Return (Market Value)	6.79%	14.19%	7.50%	
Return (Actuarial Value)	8.69%	9.62%	9.09%	
Present Value of Benefits(2)	$2,734,779,585	$3,147,525,265	$3,186,954,717	1.3%
Actuarial Accrued Liability(2)	$2,557,099,044	$2,873,098,740	$2,937,345,480	2.3%
Funding Progress(3)	95.0%	87.9%	89.5%	
Value of Accrued Benefits(2)				
Vested	$2,346,062,722	$2,616,590,569	$2,733,656,619	4.5%
Total	2,390,946,373	2,665,172,872	2,774,441,789	4.1%

(1) Contributions are being made at 17% for 2006, 21.77% for 2007, and 17.0% for 2008.

(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 decreased from 46.01% of payroll for 2007 to 41.61% for 2008 excluding the Early Retirement Window contribution. This is due primarily to the medical plan experience, partially offset by demographic losses.

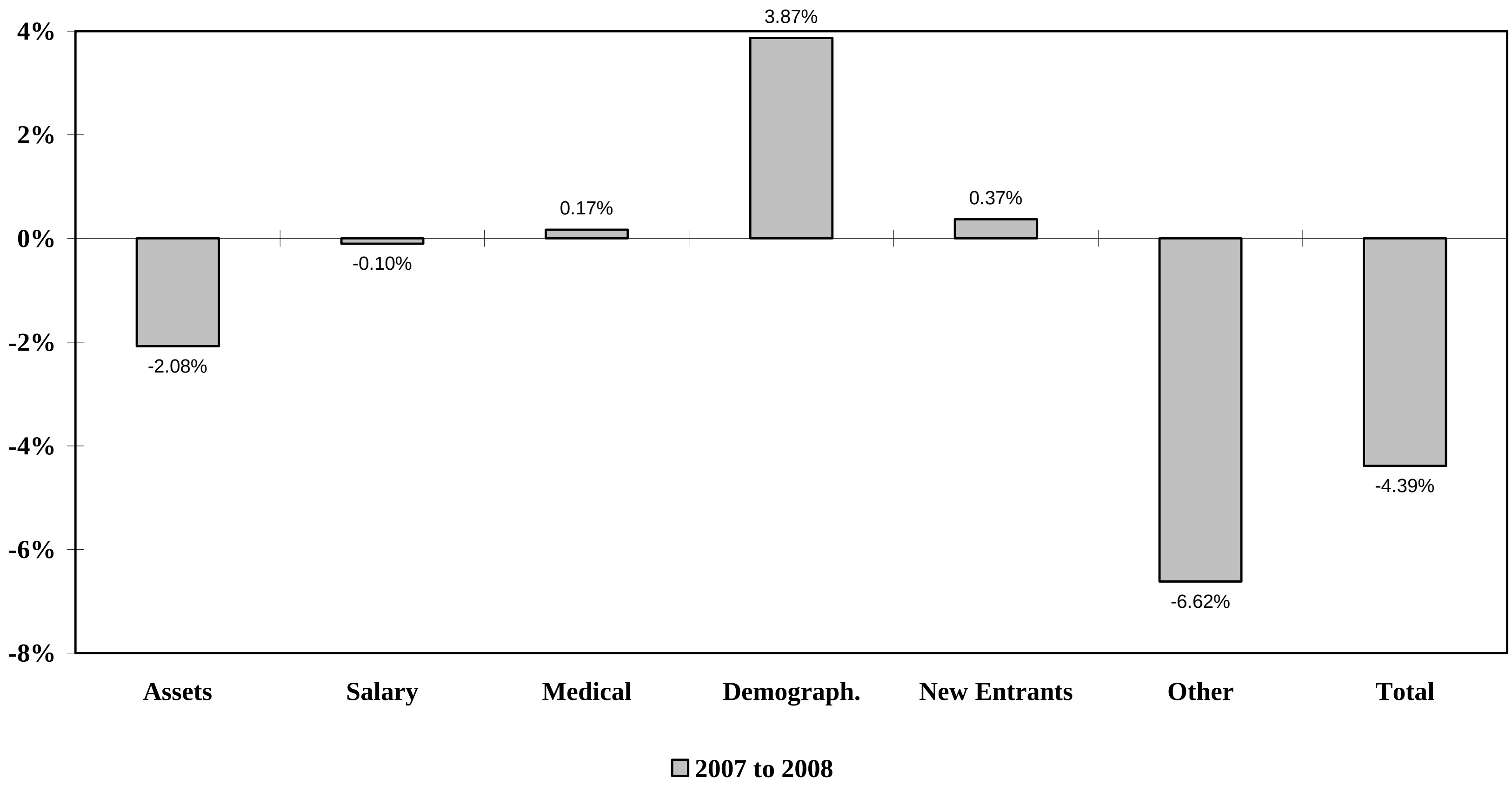
Component	Increase in Unfunded	Change in Normal Cost Rate	Change in Contribution Rate
Asset experience	$12,125,000	N/A	0.92%
Effect of asset smoothing	(39,533,000)	N/A	(3.00)%
Total asset impact	(27,408,000)	N/A	(2.08)%
Salary experience	3,398,000	(0.36)%	(0.10)%
New entrants	4,390,000	0.03%	0.37%
Participant demographics*	(218,000)	1.55%	3.87%
Medical claims experience	(34,622,000)	(0.16)%	(2.78)%
Medical assumptions	34,117,000	0.36%	2.95%
Total medical impact	(505,000)	0.20%	0.17%
Plan Changes	(64,563,000)	(1.69)%	(6.59)%
Employer Contributions	(427,000)	0.00%	(0.03)%
Total Change	**(85,333,000)**	**(0.26)%**	**(4.39)%**

* 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 2007



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, Early Retirement Window, and change in post retirement medical plan.

Change in Assumptions

There were no changes in assumptions except for the trend rates used for the medical liability calculations. (See following pages.)

Impact of Asset Returns

The market value of assets at December 31, 2007 was $12 million less than the expected value of assets assuming the 8.00% expected return. The annual return on the market value of assets was 7.50%. The actuarial value of assets smooths the recognition of this loss over 5 years so only $2.4 million of the loss impacts the determination of the contribution requirement for 2008. The remaining $9.6 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 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.

2007 Early Retirement Window

In 2007, an Early Retirement Window (ERW) was offered to City employees who would have 28 or more years of service by December 31, 2007. Employees who elected the window were granted two additional years of service. The additional actuarial accrued liability associated with the ERW (about $42.3 million) will be funded by separate contributions made by the City over a 15-year time period. The contribution for the first year will be $2,353,816. The contribution will increase each year until the fifth year when it will be $4,766,123.

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. Mercer collects 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.

Based on the updated data received, and analysis performed for this valuation, the following are highlights of the 12/31/07 valuation results:

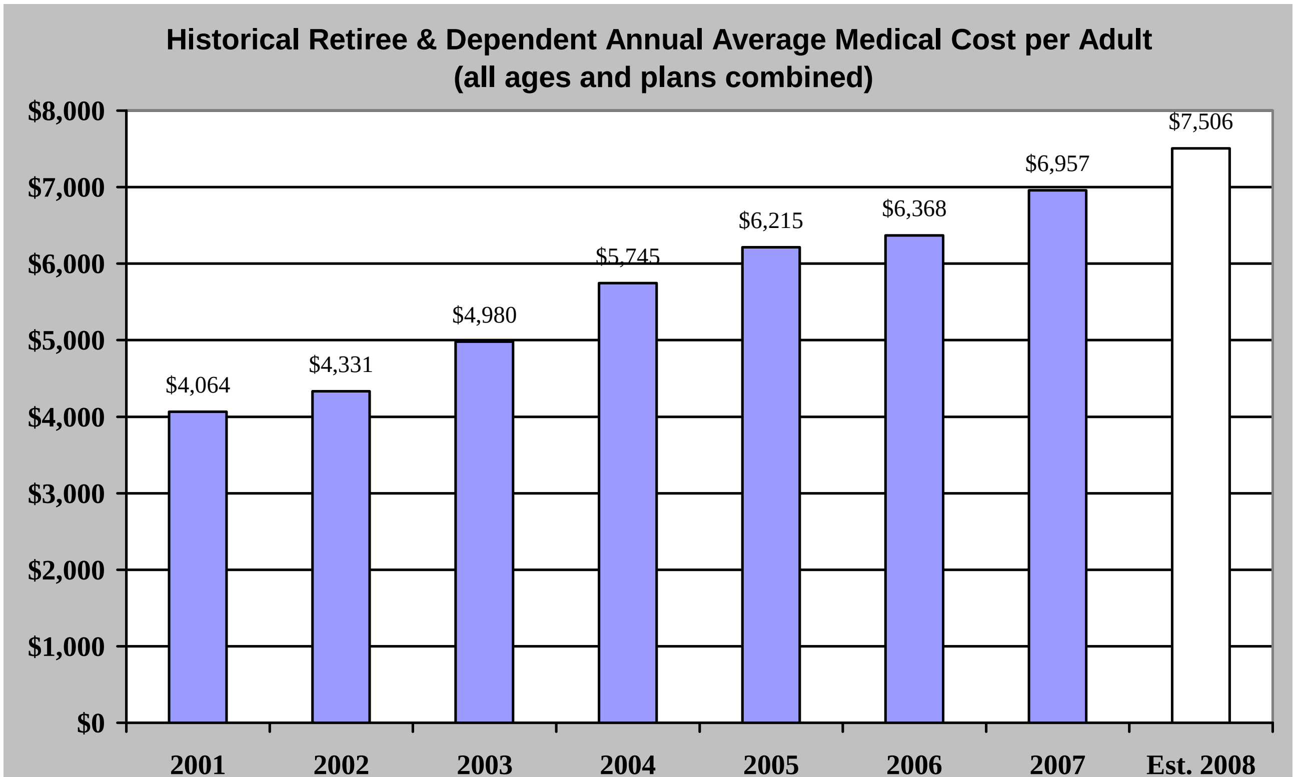
- <u>Plan Change</u>: The gain in projected liability results for 12/31/07 is due primarily to a plan design change. As of January 1, 2008, all future retirees will be covered by the same plan design as the actives, an 80/20 PPO. Retirees who retired prior to 2008 can retain their old coverage (HMO, PPO and Traditional plans) with the exception of a few hundred retirees who retired under the retirement window in 2007 and have coverage under the 80/20 plan. This change to the 80/20 plan results in a gain in the projected liability results for 12/31/07.

- <u>Healthcare (Medical and Prescription Drug) Costs</u>: Actual claims experience under the existing retiree plans has been slightly better than projected over the most recent three years. The most recent three years of experience have averaged in an increase per year of about 6.6% annually. 2007 overall paid expenses (combined for all plans, pre-Medicare and Medicare eligible) were about $6,950 per person in 2007, an increase of 9.2% over the prior year. This recent period of favorable experience contributed to a gain in the projected liability results for 12/31/07.

<u>Note regarding the Claims Experience/Projections</u>: The projected claim cost for 2008 for the old retiree plans (HMO, PPO and Traditional plans) is reflective of the historical experience data as well as the projected medical and prescription drug trends and the number of enrollees pre-Medicare and Medicare eligible. Costs for the 80/20 plan design are based on claim cost for current retirees adjusted for relative value factors developed by Mercer with input from Anthem.

Summary of Valuation Results (Continued)

- The following graphs depict historical healthcare cost as reported by the City based on Anthem billing as well as projected 2008 costs on a corresponding basis.

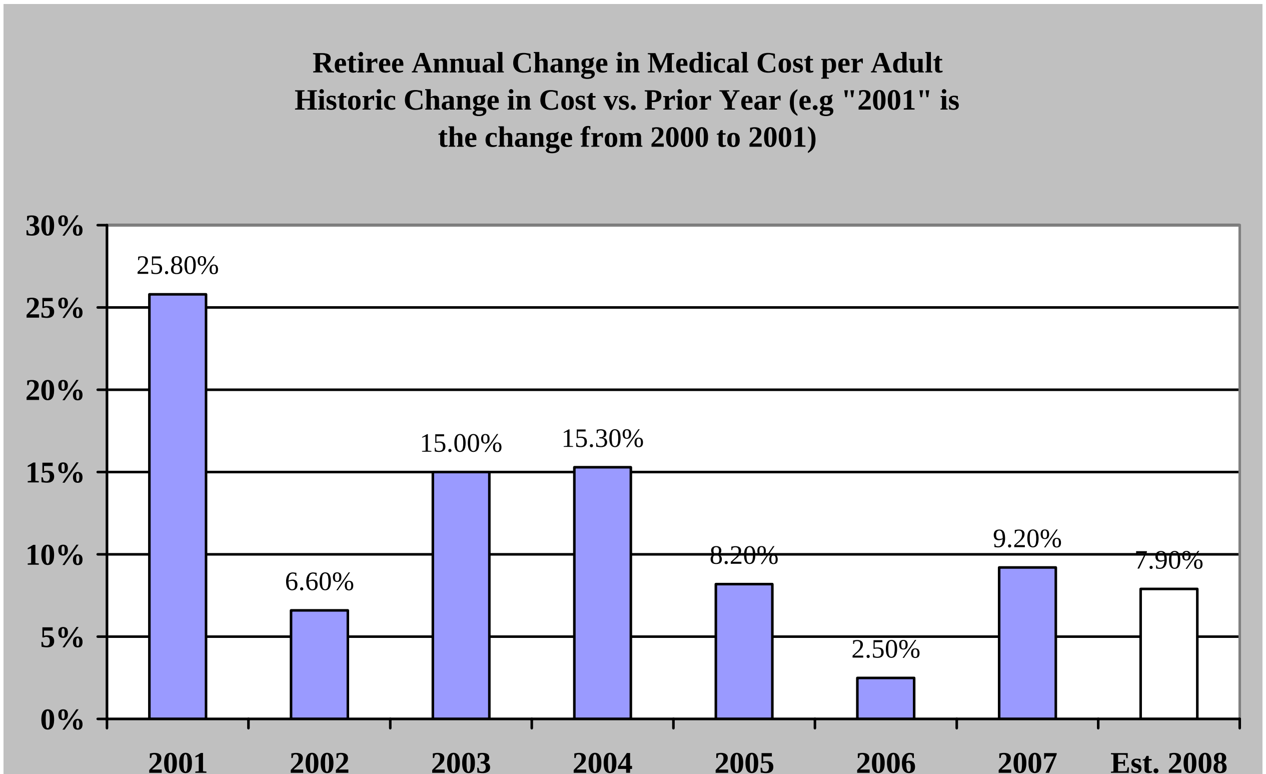


Notes:

- Historical medical costs shown include medical and prescription drug premiums, claims and administrative expenses for Traditional, PPO and HMO plan retiree enrollees.
- Medical costs are based on City provided reports that track healthcare dollars billed each calendar year to the City. Enrollment based on City/Anthem reported enrollment by contract tier (Single, Family, MediGap) 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 not adjusted for subsequent claim payment corrections or enrollment updates.)
- This data shows a similar pattern but does not directly correlate by date to individual paid medical and prescription 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.
- Medicare Part B premium reimbursements, dental & vision expenses not included. Medicare Part D subsidy reimbursements not included.

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 medical and prescription drug premiums, claims and administrative expenses for Traditional, PPO and HMO plan retiree enrollees.
- Medical costs are based on City provided reports that track healthcare dollars billed each calendar year to the City. Enrollment based on City/Anthem reported enrollment by contract tier (Single, Family, MediGap) 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 not adjusted for subsequent claim payment corrections or enrollment updates.)
- This data shows a similar pattern but does not directly correlate by date to individual paid medical and prescription 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.
- Medicare Part B premium reimbursements, dental & vision expenses not included. Medicare Part D subsidy reimbursements not included.

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)

- Medical and Prescription Drug Trends: The future medical and prescription drug trend table was updated based on a review of historical and updated claims experience and enrollment data, projected Mercer, Anthem/survey 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 prior assumptions in 2008-2009 Pre-Medicare and Medicare eligible medical trends, no change in Pre-Medicare prescription drug trend and a slight increase in Medicare eligible prescription drug trend. The ultimate trend assumption of 5% is consistent with the prior valuation. The length of time expected to reach the ultimate rate of 5% has been updated based on market expectations/studies and is expected to take a few more years than expected in last year’s valuation. The updates to the trend table result in a loss to the projected liability results for 12/31/07.

- Medicare Reform Savings: The projected savings estimate due to Medicare Part D in 2008 is based on the updated retiree prescription drug experience data, the City’s projected prescription drug claims and 2008 Medicare Part D regulations/reimbursement levels. The valuation projection assumes that the City will provide prescription drug coverage on a primary basis to Medicare eligibles and will receive the subsidy provided by Medicare. Future Medicare Part D subsidy savings are assumed to increase at prescription drug trend rates. The change in Medicare Reform savings (including the move of the actives to the 80/20 plan) and prescription drug trend rates resulted in virtually no change to the projected Medicare Part D savings liability results for 12/31/07.

- 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 gain in the projected liability results for 12/31/07.

- Dental Costs & Trend: The 2008 projected starting cost is 7% higher than the 2007 cost, which is slightly more than the increase anticipated in last year’s valuation. The dental future trend table is unchanged from last year. The result is a slight loss to the projected liability results for 12/31/07.

- Vision Costs & Trend: There is no change to the projected claims cost for 2008 from 2007, resulting in a slight gain to the projected liability results for 12/31/07. The vision future trend table assumes annual increases of 3%, which is the same as last year’s valuation.

The net effect of all of these items was about a $65 million decrease in the Actuarial Accrued Liability.

Summary of Valuation Results *(continued)*

City of Cincinnati
Comparison of Results to Last Year
December 31, 2007 Results

		12/31/2006		12/31/2007	
1.	Present Value of Projected Benefits:				
	(a) Active Participants	1,213,578,806		991,650,147	
	(b) Participants with Deferred Benefits	32,644,014		34,870,680	
	(c) Participants Receiving Benefits	1,901,302,445		2,160,433,890	
	(d) Total	3,147,525,265		3,186,954,717	
2.	Present Value of Future Employee Contributions	94,627,207		91,854,502	
3.	Present Value of Future Normal Costs	179,799,318		157,754,735	
4.	Entry Age Accrued Liability (1)(d) - (2) - (3)	2,873,098,740		2,937,345,480	
5.	Actuarial Value of Assets	2,526,672,130		2,629,891,707	
6.	Unfunded/(Surplus) (4) - (5)	346,426,610		307,453,773	
6a.	Early Retirement Window Liability	NA		42,271,108	
6b.	Net Unfunded (Surplus) (6) - (6a)	346,426,610		265,182,665	
		Dollar Amount	Percent of Proj. Pay	Dollar Amount	Percent of Proj. Pay
7.	Amortization of Unfunded/(Surplus) Over 15 Years (assuming monthly payments)	38,922,823	24.49%	29,301,420	19.71%
8.	Normal Cost (assuming monthly payments)	34,208,326	21.52%	32,569,388	21.91%
9.	Expenses (assuming monthly payments)	0	0.00%	0	0.00%
10.	Total Normal Cost (assuming monthly payments)	34,208,326	21.52%	32,569,388	21.91%
11.	Employees Expected Contributions to Normal Cost (assuming monthly payments)	11,596,852	7.30%	10,848,052	7.30%
12.	Employer Normal Cost (10) - (11)	22,611,474	14.23%	21,721,336	14.61%
13.	Employer Total Cost (7) + (12)	61,534,297	38.71%	51,022,756	34.32%
		12/31/2006		12/31/2007	
	Total Contribution	73,131,149	46.01%	61,870,808	41.61%
	ERW Contribution			2,353,816	1.58%

Employer Contributions

The graph on page 12 shows employer contributions over the 25 years up through 2008, 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:

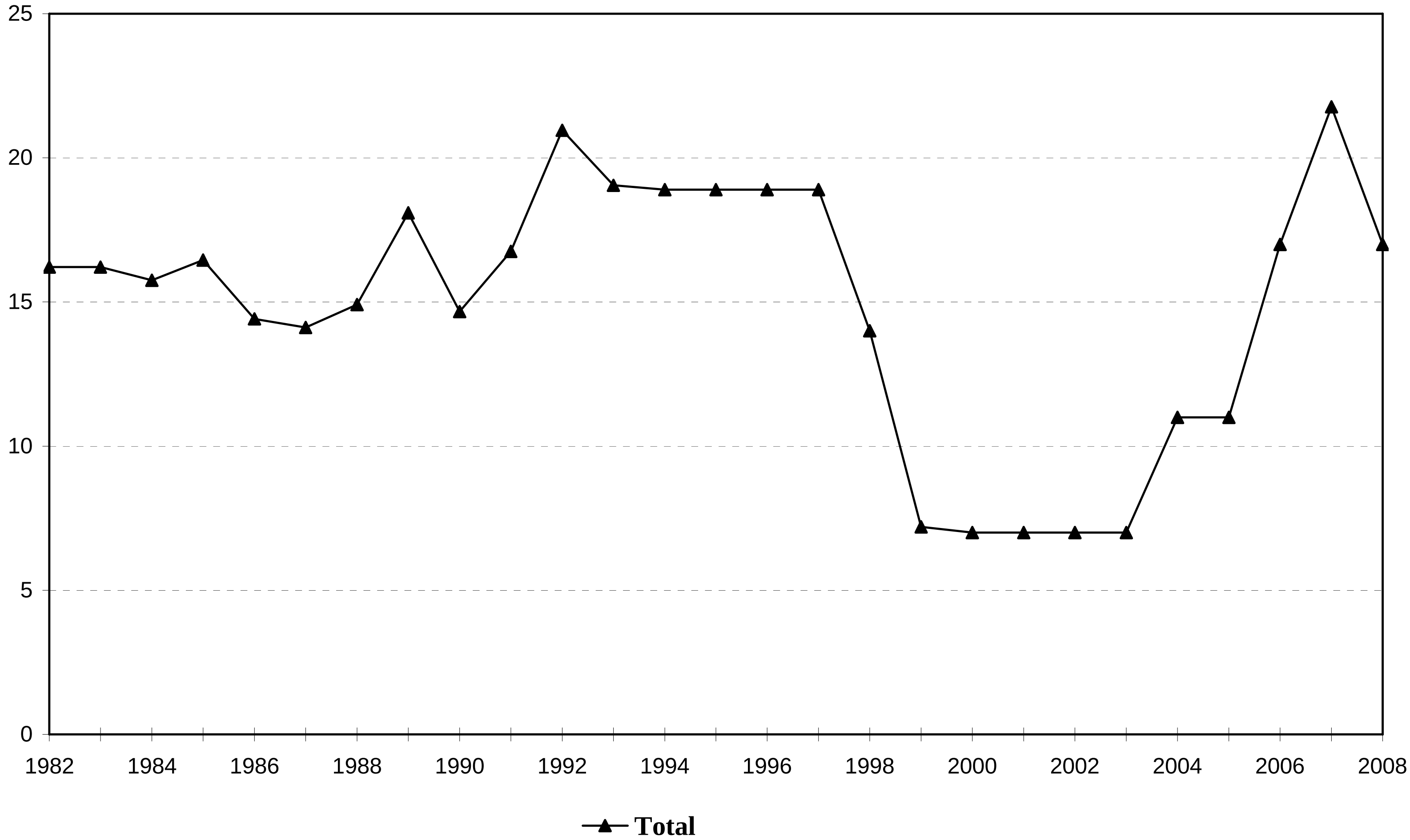
- One to reflect the theoretical current cost (normal cost)
- One to handle unfunded past costs or surplus.

This split is based on theoretical formulas where 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)*

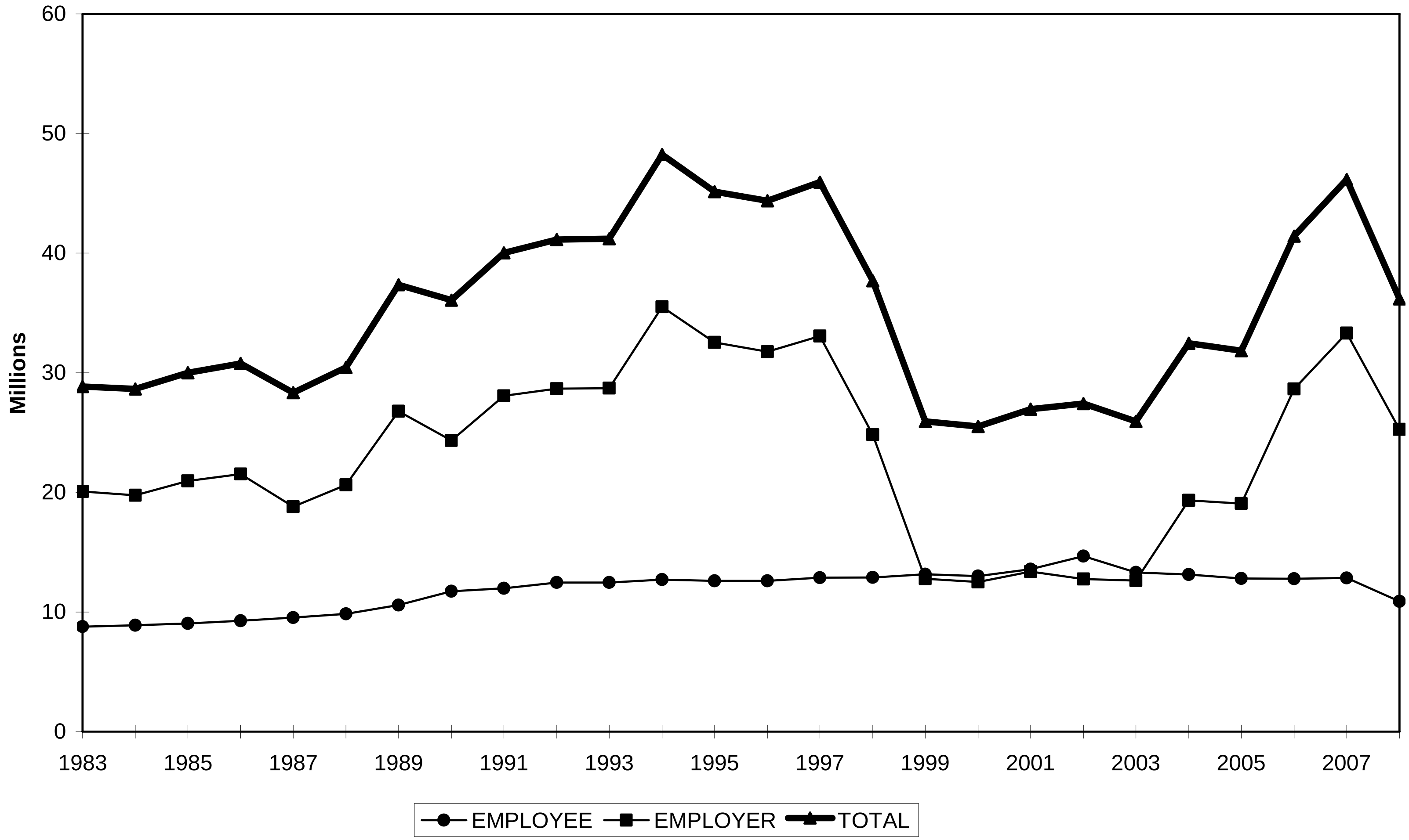
Employer Contributions as a Percent of Payroll

City of Cincinnati Retirement System

Year	Normal Cost	Unfunded Liability	Total
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% *****
2008	14.61%	19.71%	34.32% ******

* 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 was 21.77%
****** Actual contribution rate is 17.0% excluding Early Retirement Window contribution

CONTRIBUTIONS



25 YEAR HISTORY

Employee and Employer Contributions

City of Cincinnati Retirement System

Year	Employee Contributions	Employer Contributions	Total
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	12,781,241	28,639,830	41,421,071
2007	12,847,407	33,308,046	46,155,453
2008*	10,900,000	25,300,000	36,200,000

* 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%, again to 17.0% for 2006, and 21.77% for 2007.

Expected 2008 Contribution

Shown below is the expected 2008 contribution level based on the December 31, 2006 valuation.

Expected Contributions at 38.71% Rate	$61,500,000

The minimum required contribution rate (based on the December 31, 2006 valuation) is 38.71%.

Expected 2009 Contribution Rate

For 2009, required contributions will be based on the normal cost adjusted for the amortization of the current unfunded actuarial liability. Based on the December 31, 2007 actuarial valuation, the required contribution rate (excluding the Early Retirement Window contribution), is 34.32% assuming a 7% employee contribution rate.

The Early Retirement Window contribution is $2,353,816.

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 3,206 at the end of 1983 to 4,766 at December 31, 2007, a 49% increase.

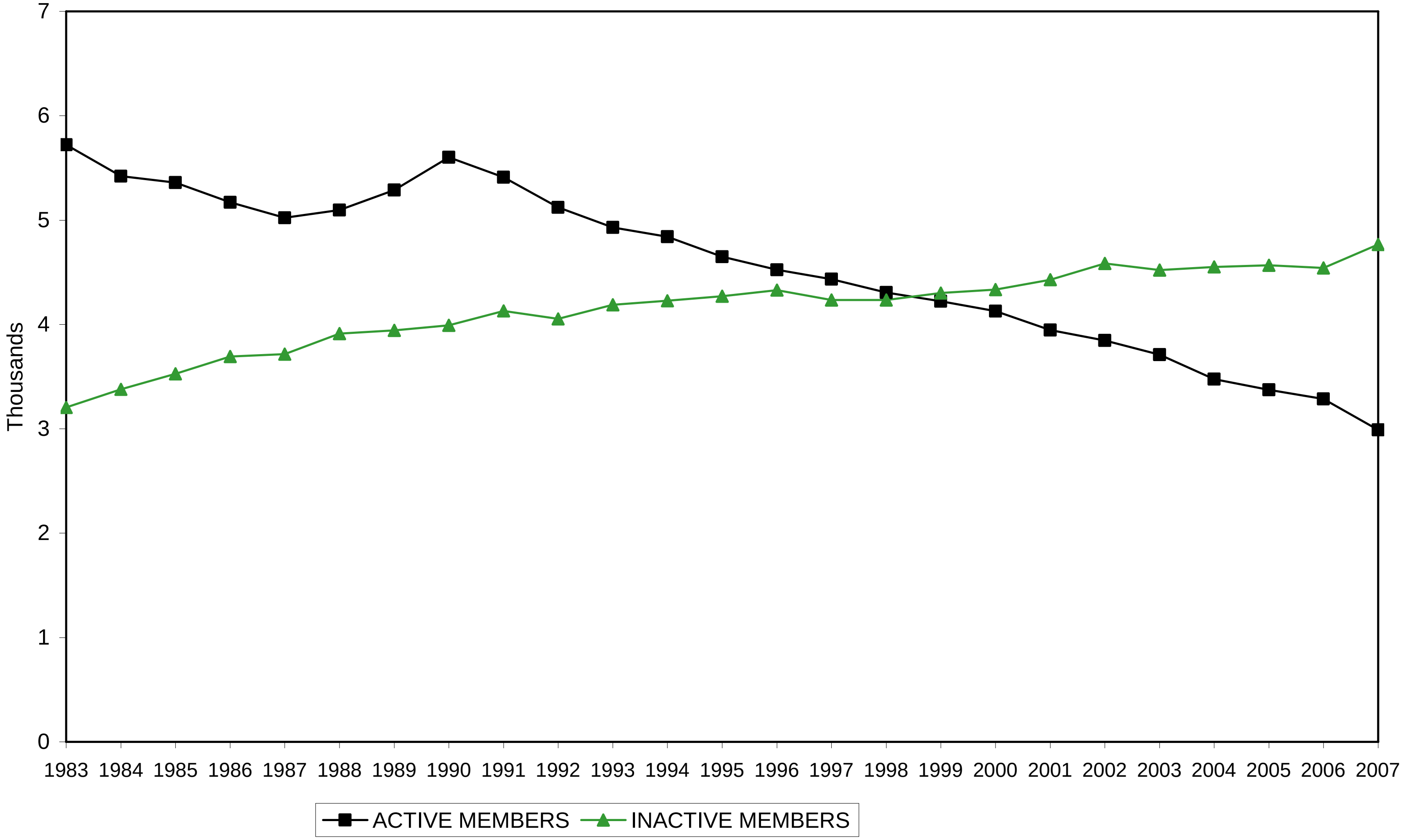
The number of active full-time participants has *decreased* during the 25-year period, beginning at 5,721 in 1983, and declining to 2,990 at December 31, 2007.

During the last 10 years the number of active full-time participants has decreased from 4,433 to 2,990. During this period, the closed group (Hamilton County, University Hospital and University of Cincinnati) decreased from 449 to 34. The City participants decreased from 3,984 to 2,956 during this time period.

The relationship of active to retired employees has changed markedly in 25 years, with 1.78 actives per retiree in 1983, but only .63 actives per retiree in 2007. 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 0.97. 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 .62 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
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
2007	2,990	4,766	0.63

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 20.28% 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, 2003	95%	93%	94%
December 31, 2004	95%	92%	94%
December 31, 2005	94%	98%	95%
December 31, 2006	88%	89%	88%
December 31, 2007	86%	97%	90%

At December 31, 2007, the ratio of actuarial value of assets to the entry age accrued liability is 90%. This is higher than the previous year ratio. The ratio increased due primarily to the change in the post-retirement medical plan change offset by the early retirement window.

If these ratios are calculated using the market value of assets instead of the smoothed actuarial value, the December 31, 2007 status is higher because the 2005 asset gain has not yet been fully recognized in the actuarial value.

Funding Progress Based on Market Value of Assets

	Pension	Medical	Total
December 31, 2003	95%	93%	94%
December 31, 2004	96%	93%	95%
December 31, 2005	93%	97%	94%
December 31, 2006	91%	92%	91%
December 31, 2007	88%	99%	91%

Solvency Test

We have performed a solvency test as of December 31, 2007. The solvency test is a projection of how long benefits can be paid from the trust before the trust runs out of money. This test was conducted assuming no additional contributions (employer or employee) are made to the trust but the plan would continue to credit service to participants and pay benefits in accordance with the current plan provisions. It is assumed that the trust will earn an 8% return after expenses in each and every year.

Under this scenario, the trust is expected to run out of money in 2033. The trust actually increases in value until 2012 at which time benefit payments become greater than the expected investment income. Benefits continue to increase each year until they reach a maximum in 2028 and then begin to decline. The trust then declines to $0 in 2033.

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 1.9% of pay). Currently the plan has net gains of about $55 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 $1.48 million for each 1% of pay shortfall. This shortfall would translate into about $165,000 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

   Overall the City’s increases in medical (and prescription drug) claims experience over the past few years have been near to slightly less than expected trends. Like the market and other employers the prescription drug trend has been higher than the trend on other medical costs. These cost changes have increased faster than general inflation over the past few years, and are expected to continue to do so.

   In addition, the average cost per participant in the City’s current retiree health plans is much higher than the average costs of other retiree groups based on Mercer survey data. The expected cost level of the new retiree 80/20 plan is much lower than the current plans but still clearly higher than the survey benchmarks.

   The retiree medical market continues to evolve and offer new products, especially in the prescription drug area with the evolution of pre-Medicare, Medicare Part D and related products and strategies (retiree health management, funded HRA/HSA plans, Medicare Advantage plans, Medicare eligible alternatives, reimbursement account plans, defined dollar, etc.). It is not uncommon that there may be opportunities to realize cost savings not only through plan design changes but also by offering new products/plans that may offer benefits similar to current programs but under advantageous vendor/pricing arrangements.

   The City should continue to review claims experience, cost drivers, and the available retiree health plans/programs emerging in the market to continue to provide viable plan alternatives and control costs as needed to maintain a program. An assessment and strategy can be developed and changes implemented to accomplish the desired goals both short and long term.

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 97%. 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.

3. Actuarial Methods/Plan Changes/Actuarial Assumptions

There were no changes in actuarial methods.

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.

In 2007, an Early Retirement Window (ERW) was offered to City employees who would have 28 or more years of service by December 31, 2007. Employees who elected the window were granted two additional years of service. The additional actuarial accrued liability associated with the ERW (about $42.3 million) will be funded by separate contributions made by the City.

The post retirement medical plan for participants who retire on or after January 1, 2008 will be the active employees 80/20 medical plan. This change reduced the actuarial accrued liability by $64 million.

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	▪ Prescription Drug and Medical Trend Factors
▪ Medical Claims Experience	
▪ Plan Change for Retiree Medical	

The City’s contribution rate in the prior year was 38.71% of pay. The rate of contribution prior to reflecting either the 2007 Early Retirement Window or the change in the post-retirement medical plan would have been 36.27% of pay.

5. 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	2,956	146,829,852	46.2	14.2	49,672	205	49
University Hospital*	7	384,988	58.7	31.9	54,998	7	0
University of Cincinnati*	25	1,367,507	57.7	34.8	54,700	25	0
Hamilton County*	2	100,548	59.0	29.5	50,274	2	0
Total	2,990	148,682,895	46.3	14.4	49,727	239	49

* Closed groups.

As of December 31, 2007, there are 34 active participants in the closed groups. They represent 1.1% 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.

Current Issues (continued)

For the City of Cincinnati, 254 participants are currently eligible for retirement–205 of them on an unreduced basis and 49 on a reduced basis. Over the next five years, 631 additional participants will become eligible for retirement–481 on an unreduced basis. (Also, the 49 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, 2013.

6. IRS Increased Interest in Governmental Plans

The IRS has announced that it intends to increase its scrutiny of governmental plans. This coincides with the requirement that such plans file for determination letters by January 1, 2009. The intent of the program is to ensure that government plans succeed through proper compliance with the tax rules.

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